

Dubai's Expo 2020 Could Herald Regional Transformation – Opinion piece in Gulf Business, May 2014

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Dubai emerged victorious in November 2013, beating rival bids from Brazil, Turkey and Russia, to host the World Expo 2020 and sending the emirate and wider UAE into a sense of intense anticipation and euphoria.

THE UAE STORY: COMPARATIVE ADVANTAGE AND ECONOMIC POTENTIAL OF DUBAI EXPO

So why is the UAE, the first Arab country to have been selected, venturing into these internationally challenging waters?

The UAE has a distinct geographical comparative advantage, located between Europe/Americas on one side and Asia on the other, while opening doors to adjacent Africa and Central Asia in addition to its GCC counterparts and the Arab world. Some two thirds of the world's population lives within eight hours flight from Dubai and one third lives within four hours.

The fundamental enabler is that Dubai has invested in infrastructure and logistics assets that are tourism and trade-oriented. The international connectedness of Dubai has

transformed into a hub that links the region internationally. Dubai's strategy of investing in economic diversification is paying off.

EXPO WILL BOOST GROWTH AND THE SERVICES SECTOR

Dubai Expo will generate 277,149 jobs from 2013 to 2021, 40 per cent of which will be within the hotel and restaurant sector, as per estimates from Oxford Economics. The report estimates that 90 per cent of the projected employment opportunities will occur from 2018 to 2021 with the ramp up to Expo 2020 and the demand generated by the 25 million expected visitors.

Of the 90 per cent, 147,000 jobs would be created in the travel and tourism sector, indicating the significant potential to convert a high percentage into permanent jobs to serve the expanded economy in the post-Expo period.

The Expo bid document projects a gross value added of about \$24 billion from the Expo to Dubai's economy and that every dollar spent by Dubai towards the Expo would result in six times the value in Dubai's economy.

Bank of America Merrill Lynch projects a boost in the Emirate's GDP by 24.4 per cent, from 2015 to 2021. The Expo 2020 is expected to add 0.5 per cent to GDP growth from 2016 to 2019 and two per cent during the event in 2020 to 2021, before growth reverts.

BUILDING THE "DUBAI BRAND"

One of the largest gains for Dubai will come from its "brand valuation". According to Brand Finance, a brand valuation and marketing consultancy, Dubai's hosting of World Expo 2020 increases the "brand value of the city" by \$8 billion to \$257 billion.

The Dubai brand benefits will spill- over to the UAE and the wider region. The “mobility, sustainability and opportunity” theme of the Expo implies that Dubai will seek greater UAE economic integration and regional connectedness.

AVOIDING AN “EXPOPHORIA” BURDEN THROUGH PUBLIC- PRIVATE PARTNERSHIPS AND RISK MITIGATION

So how will Dubai Expo 2020 be financed? How Dubai government plans to finance Expo 2020 matters for ‘fiscal sustainability’, given Dubai’s outstanding debt and repayment pipeline.

The IMF estimates that GREs (government related enterprises) have an estimated \$78 billion worth of debt maturing from 2014 to 2017.

To alleviate these concerns Dubai should ensure local and international private sector participation through Public-Private Partnerships in building infrastructure and facilities (issuing a PPP Law would facilitate and provide increased confidence to potential investors) and the development of a local bond and Sukuk market that could finance the Expo through a series of bond/Sukuk issuances.

The potential for budget overruns is a major risk. While no studies have yet tracked Expo expenditures, a study of the Olympic Games by Oxford University researchers concluded that, over the past 50 years, the Games have gone over budget by 179 per cent on average.

Even including just the 2000 to 2010 Games (when governments became more fiscally aware), the average overrun was 47 per cent, and that does not include the recent splurge at the Sochi Olympics.

World Cups, Olympics and Expos all face the major risk of a

post-event slowdown: you invest in infrastructure and facilities to accommodate millions of users that may subsequently lie empty or under-utilised.

Typically, this is reflected in lower post-event tourist arrivals, hotel occupancy and retail spending.

Hotel occupancy during the 2010 World Cup in South Africa surged to 84 per cent and then fell to 55.4 per cent, given fewer visitors coupled with greater supply. Dubai will need to plan post-Expo use of infrastructure and facilities.

What can be done to mitigate risk and create new opportunities?

DUBAI EXPO 2020 CAN BE TRANSFORMATIONAL FOR THE REGION

That Dubai will undoubtedly make a mark for itself hosting the Expo is evident, cementing its reputation as a successful builder, but it is equally important to be known as the nation that generates opportunities both for itself and its regional counterparts even beyond the Expo.

Given Arab demographics, with a region home to a young and fast growing population, Dubai Expo 2020 can act as the beacon, the equivalent of the forgotten American motto of the “land of opportunity”.

With the dying “Arab firestorm”, and regional inequalities and tensions at an all-time high, the UAE and Dubai by supporting policies that encourage regional labour mobility, female labour force participation and reducing barriers to entry, can become a game-changer for the region as a whole.

Economic transformation is made by people. To facilitate this adaptive transformation, the UAE’s schools and universities should morph themselves to produce qualified and trained graduates that can be absorbed into key sectors that enable

and are linked to the Expo and its aftermath.

WHY NOT MERGE JAFZA AND DWC TO MULTIPLY OPPORTUNITIES?

With participation from some 182 countries, the time is opportune for the UAE to cement multilateral and bilateral cooperation agreements with respect to trade, investment, and business.

While Chinese companies (and people) are already present in significant numbers in the emirate, Dubai Expo 2020 can become an opportunity and framework to engage Asia, China and the neighbouring COMESA countries through free trade and investment agreements.

The UAE and Dubai are the easiest for doing business in the Middle East, South Asia region. The run-up to the Dubai Expo should be the opportunity for additional legal and regulatory reforms to improve the investment climate.

Given the proximity of the Jebel Ali Free Zone (JAFZA) and Dubai World Central (DWC) to the Expo, one can envision the creation of a larger Free Zone through the merger of JAFZA and DWC, with incentives provided to regional companies (including their SMEs) to set- up businesses here.

The infrastructure that is built for the Expo can pave the way for an arts/ culture hub and a research & development hub. There is a huge potential in the establishment of a Logistics & Supply Chain Management Institute, since the expansion of the Dubai Aerotropolis will require planning, infrastructure and logistics, resources and specialised personnel & management.

Last, but not the least, the development of a local currency bond & Sukuk market would not only support financing the Expo but also leave a legacy of financial deepening.

Dubai's hosting of Expo 2020 is both a consecration of the UAE's spectacular achievements and a potential transformational moment, but also a potential harbinger of a veritable Arab transformation.