

Dubai Economic Outlook: Dubai & The World

Why Dubai? The Safe haven Aspect - Dubai remains the safest investor and business haven in the Middle East irrespective of the political unrest in parts of the GCC/ MENA region. Key indicators - trade & logistics, tourism & investment point to the resilience of the emirate to regional events and underscore its role as a safe haven for conducting business in the region/ role as a regional hub for trade, tourism, business and logistics.

Dubai's infrastructure assets are mostly directed towards Emerging Market Economies (EMEs). Two primary examples of this are Emirates Airlines (strong connectivity with India, China, Africa) & Dubai Ports World (more than half its operations are based out of the emerging markets including India & China of a total 49 terminals; Additionally, in H1 2010, the company spent \$411 million in projects such as Callao, Peru with new terminals opening up in Vallarpadam, India and Karachi, Pakistan).

Shift in global economic geography: EMEs have contributed more than two-thirds of global economic growth since 2002, as well as a similar share of both the growth in world trade and foreign direct investment. The rise of EMEs has profoundly changed the global financial geography and in the aftermath of the crisis will reshape the international financial architecture. For more than 100 years, a hub and spoke model-with London & New York being the hubs- dominated and defined global capital markets. The crisis will contribute to the demise of the hub-spoke model centred on London and New York and give impetus to a transition to a multi-polar model. There is a definite move towards the East, and Dubai with its direct links to EMEs stands to benefit from the increase in south-South economic and financial links. (Dubai is centrally located between Europe & Asia, hence highlighting its potential as a "connecting" hub between Europe / North America & Asia!)

This shift in economic geography is visible in the operation of businesses in Dubai.

- (a) Large **international companies have their regional hub in Dubai**. The companies are mostly located in the Free zones - like Microsoft, Oracle in Dubai Internet City; CNN, Reuters, Bloomberg in Dubai Media City; DIFC is home to 16 of the world's top 20 banks, 8 of the world's largest asset managers and 4 of the world's 5 largest insurers.
- (b) There is increasing evidence that many home-grown companies are going international. **International expansion plans of many Dubai-based local companies – including Emaar, Etisalat, Dubaal are well-documented. Emirates NBD has also started expanding their operations at the regional & international (Singapore) level.** This heralds a new era for Dubai-based organisations to establish their international footprint and expand further.

Trade: Dubai's non-oil direct trade, which excludes free trade zones, reached AED 576bn in 2010, up 18% from the previous year. Dubai's direct exports surged to record AED68bn, an increase of 30% yoy.

India maintained its position as the biggest **trade partner** with Dubai during the last year, valued at AED146bn, or 25% of the total trade (40% of the total exports and 36% of the total re-export operations). China secured the second rank in respect of Dubai imports - constituting 12% of Dubai total imports, while USA came third with 8% of these total imports. Switzerland came second in the list of Dubai direct exports worldwide with 20% of Dubai total exports, while Saudi Arabia took the

third position with a share of 4% of Dubai total exports. As for re-exports, Iran ranked second within the list of top re-exporting countries with 17%, followed by Iraq with 5%.

Companies in the Jebel Ali Free Zone generated trade worth more than \$60bn in 2010, more than a quarter of Dubai's total trade value, new data show. Though this was higher compared to the 2009 number, it still fell short of the 2008 trade figure - \$88.65bn (Mar 2011).

Dubai Direct Trade, 2010

	Q1	Q2	Q3	Q4	2010
Imports	87,483	89,918	91,464	94,806	363,671
Exports	14,937	17,906	17,495	17,624	67,962
Re-Exports	34,140	34,885	36,763	38,235	144,023

Free Zone & Custom Warehouse Trade (Value in Million AED)

	Q1	Q2	Q3	Q4	2010
Imports	43,959	43,789	45,747	49,669	183,164
Exports	34,447	34,192	34,132	40,592	143,363

Source: DSC, Dubai Customs

Trade data, as reported by Dubai Customs/ DSC are **grossly underestimated** as these record only trade in goods; the **trade in services are not captured**. If the trade in invisibles are calculated, the total trade (goods + services) would be substantially higher.

Investment: Latest available data from the central bank shows that in 2009 direct investment into the UAE as a whole plummeted to AED 14.7bn from AED 50.4bn in 2008. The data does not give a breakdown for Dubai.

*"If we compare it to 2010, we could see a **jump of 30%** of foreign direct investments in Dubai," Fahad Al Gergawi, Chief Executive of the Foreign Investment Office, which is part of Dubai's Department of Economic Development, told Reuters in an interview (Feb 2011).*

*There is anecdotal evidence of newcomer companies establishing in Dubai from **South America, especially Brazil and Chile, China, Korea**, some from the United States and Europe. Also, these companies are active in the **food industry, retail, logistics, financial services and information technology** sectors. Gergawi said the **government was pooling information to establish a database that would give precise numbers on foreign companies present in Dubai and FDI flows.***

According to **A.T. Kearney**, one of the world's leading management consulting companies, the recent FDI Confidence Index ranked the UAE as the 11th preferred FDI country destination globally, supported by the city rankings of Dubai which ranked 1st place in the Middle East closely followed by Abu Dhabi at 2nd place (Feb 2010). Some 81% of those with investments in Dubai plan to either maintain or raise them by 2013, the AT Kearney survey showed.

As per the Prospectus issued by the DoF during the bond issue last year, JAFZA and DAFZ have more than 6400 and 1450 companies.

The Department of Economic Development (DED) recorded a growth in the **number of licenses issued in 2010 by 17% over 2009**, with **13,817 licenses issued in all**. The professional sector accounted for most number of licenses at 20% followed by the commercial sector (17%), industry (12%), and tourism (10%). **Breakdown by foreign/ national companies unavailable**. The Intraq scheme, an initiative by DED to encourage more UAE nationals to set up businesses from home, recorded strong performance with 1,793 licences issued in 2010, a 6% increase compared to 2009. The largest growth was recorded in the trade category, at 9%.

* الاستثمار الأجنبي المباشر حسب المنطقة *

المنطقة	2008		2007		النمو (%)
	النسبة المئوية (%)	القيمة	النسبة المئوية (%)	القيمة	
أوروبا	47.9	30,208	43.8	22,313	35.4
آسيا	31.5	19,904	34.2	17,420	14.3
شمال أمريكا	7.7	4,848	7.3	3,728	30.1
الشرق الأوسط وشمال أفريقيا	5.9	3,752	6.5	3,327	12.8
دول الخليج	5.6	3,503	6.6	3,349	4.6
أمريكا الوسطى ومنطقة البحر الكاريبي	0.5	293	0.4	204	44.1
أفريقيا	0.3	217	0.5	245	(11.2)
أمريكا الجنوبية	0.2	140	0.2	126	11.2
أستراليا والمحيط الهادئ	0.1	71	0.1	68	4.1
أخرى	0.3	170	0.2	108	57.5
المجموع	100	63,107	100	50,887	24.0

* البيانات لا تشمل مبيعات الوحدات العقارية

الاستثمار الأجنبي المباشر حسب النشاط الاقتصادي

النشاط الاقتصادي	2008		2007		نسب النمو (%)
	نسبة المساهمة (%)	القيمة	نسبة المساهمة (%)	القيمة	
الخدمات المالية	38.2	28,994	32.7	20,615	40.6
المقارنات وخدمات الأعمال*	24.6	18,698	19.1	12,056	55.1
تجارة الجملة والتجزئة	18.2	13,835	17.8	11,248	23.0
الإقراضات	16.1	12,194	19.2	12,138	0.5
الصناعة التحويلية	2.4	1,823	2.7	1,729	5.4
الصناعات الاستخراجية	1.7	1,275	2.0	1,275	0.0
النقل والتخزين والاتصالات	1.7	1,257	1.3	847	48.4
المطاعم والفنادق	1.4	1,029	2.0	1,275	-19.3
الخدمات الإحصائية والشخصية	0.5	399	0.6	384	4.1
المجموع	100	79,503	100	61,566	29.1

* قطاع المقارنات وخدمات الأعمال يضم
 أ- مبيعات الوحدات العقارية للمقيمين
 ب- الاستثمار الأجنبي المباشر في الشركات المقارنات

Tourism: Dubai's hotel guests **were** up to 8.6m in 2010 from 7.8m in 2009. In Jan, Dubai hotels witnessed an increase of 7.9% yoy in occupancy to reach 76.6%. Dubai also witnessed an increase of 2.6% in Revenue per Available Room. (Data source: STR Global; Mar 17, 2011)

Visa revealed that the total amount spent on internationally issued Visa cards in the UAE recorded a 37% rise to \$75mn during the first week of DSF, compared to \$55.7mn spent during the same period last year. The lead sponsor of the festival also announced that **US, UK and China revealed as top three spending countries during the first week while 171% yoy growth witnessed from Kazakhstan visitors.** Visitors from the UK and US spent \$9.2mn and \$6.2mn respectively, while China reported a total spend of \$5.4 mn, up 155% from 2010 to represent the highest growth among the top three markets, according to Visa.

Logistics - Dubai Aerotropolis & Air traffic: Dubai International Airport ranks as the **fourth busiest** in the world behind London, Paris & Hong Kong. After doubling in the last six years, Dubai International now services 220 destinations as a tourist, business and transit hub. It shows no signs of waning passenger traffic in spite of regional turmoil that has disrupted air travel – evident from the **data released for Feb:** Dubai International's passenger traffic increased 5.2% yoy to 3.83mn up from 3.64mn in Feb 2010. **In 2010, Dubai International recorded 15.5% passenger growth handling close to 46.3mn passengers.**

Dubai International also witnessed **strong cargo traffic growth** in 2010 following a surge in air freight volumes during Q1-Q3 2010 as the global economy recovered and companies worldwide cleared inventories. Annual cargo traffic rose to 2.27 mn tonnes, **a robust 17.7% rise** over the 1.93 mn tonnes recorded in 2009.

Dubai: Air Transport

	Q1	Q2	Q3	Q4	2010
Air Flights at Dubai International Airport	74,541	75,554	76,414	80,774	307,283
Passenger Movement at Dubai International Airport (000)	11,471	11,085	12,284	12,342	47,182
Arrivals (000)	5,612	5,296	6,053	6,049	23,010
Departures (000)	5,662	5,582	5,981	6,079	23,304
Transit (000)	197	207	250	214	868

Source: DSC.

The **Logistics Performance Index** by the World Bank ranks countries based on their ability to facilitate the global trade smoothly and efficiently & **ranked UAE 24th globally. This report came out in Jan 2010, before the opening of the DWC.**

Dubai has thrived in its role as a regional hub reaching a position of prominence in the global logistics network and today it is one of the critical nodes in the global supply chain. The **opening of the Al Maktoum International Airport in June 2010** has strengthened and expanded this role. The new airport is linked seamlessly through a **Logistics Corridor to Jebel Ali Port** — including its Free Zone — and provides immediate access to a highway network extending from the Indian Ocean and the Arabian Gulf all the way to the Mediterranean, (and in the not so distant future to an Arabian Railroad System). Containers will be moved from ships to cargo planes in less than one hour, faster than anywhere else in the world. Actually there is **no other sea-air logistic hub, with comparable performance, size and available surrounding space, nor is there planned in the foreseeable future.**

With global trade acquiring an even more strategic importance in the world economy, Dubai will reinforce its position at a time when Asia is supplanting the West as the main engine of growth.

The **benefits of Dubai World Central (DWC)** for Dubai and the wider region will not be confined merely to its transport capabilities however impressive they might be: will be spurred by **the connectivity multiplier**. Trade liberalization and globalization have fundamentally transformed the business model and the intrinsic nature of many multinationals. Companies such as Nike, Nokia, Apple, Dell, Benetton, are essentially focusing on managing their brand and their logistics network, decentralising and synchronising production around the world. **DWC will be a natural magnet for multinationals delivering time-sensitive items and customized products. They in fact must locate in close proximity to logistics hubs because connectivity, speed and reliable delivery represent their fundamental competitive edge: having the right thing, at the right place, at the right time.**

Logistics comes under the umbrella of “Transportation, Storage and Communication” sub-sector in **Dubai’s GDP calculation**. As per the latest data (2009), this sector contributed close to 13.3% of overall GDP, growing 7.4% when the economy registered a decline in growth by 2.4%.

The Dubai World Resolution, creation of the Supreme Fiscal Committee & the announcement of the upcoming Dubai Debt Management Office – all point towards improvements in the **financial soundness & financial management** of Dubai. While this can eventually lead to a better credit rating, immediate benefits are already visible: **Dubai CDS rates have come down from previous highs** of 656 (Nov 09) to 491 (Nov 10) to 390 as of today (it declined close to 20 points after the signing of the DW agreement last week); **Markets have re-opened** - the successful launch of the Dubai bonds was followed by DEWA, ADCB, NBAD and Emirates Bank which successfully tested investor appetite & there are more in the pipeline. All this will result in lower costs of capital and borrowing costs.

Dubai World resolution: Dubai World signed a final agreement with its creditors to restructure \$24.9 bn in debt in the 3rd week of Mar.

The DW agreement in Sep 2010 had involved actions from both banks and the Government of Dubai:

- Banks accepted to extend maturities to 2015 and 2018 at below market rates on their loans of \$14.4bn to DW. Nakheel’s loans would be rolled over at market rates.
- Debt-Equity Conversion: Government of Dubai will inject \$9.5bn new cash (into DW and Nakheel) and convert this, and its preexisting loans of \$10bn, into equity.
- Bondholders are paid in full (\$1.8bn) and on time.
- Trade creditors will have their arrears progressively reimbursed by Nakheel.
- Domestic & Foreign Creditors receive equal treatment.

DIFC data

DIFC registered a total of 1025 companies since inception 786 are active as of end-Feb 2011 (303 regulated entities – 39% & 483 non-regulated entities – 61%).

113 Companies registered in 2010, with **52% of new companies registered coming from North America and Europe while 45% from Middle East and Asia**, confirming DIFC’s position as the

gateway connecting East and West. There are more companies registering in the DIFC from the countries like India, China and Turkey to tap into Dubai's connectivity & regional hub nature. India's biggest banks like State Bank of India, ICICI, Bank of Baroda, China's biggest Industrial & Commercial Bank of China Ltd (ICBC) are some examples.

The DIFC has been involved in improving co-operations with other international financial centres and local organisations. This would lead to knowledge transfer, networking and opportunity creation. The MoUs promote industry development and regulatory cooperation, as well as promote and strengthen links between financial markets, including the provisions for cross-listing on its exchanges. It is expected that additional MoUs will be signed with centres including China, India, Singapore & Turkey in this year and the next. The below MoUs have been signed by the DIFC recently.

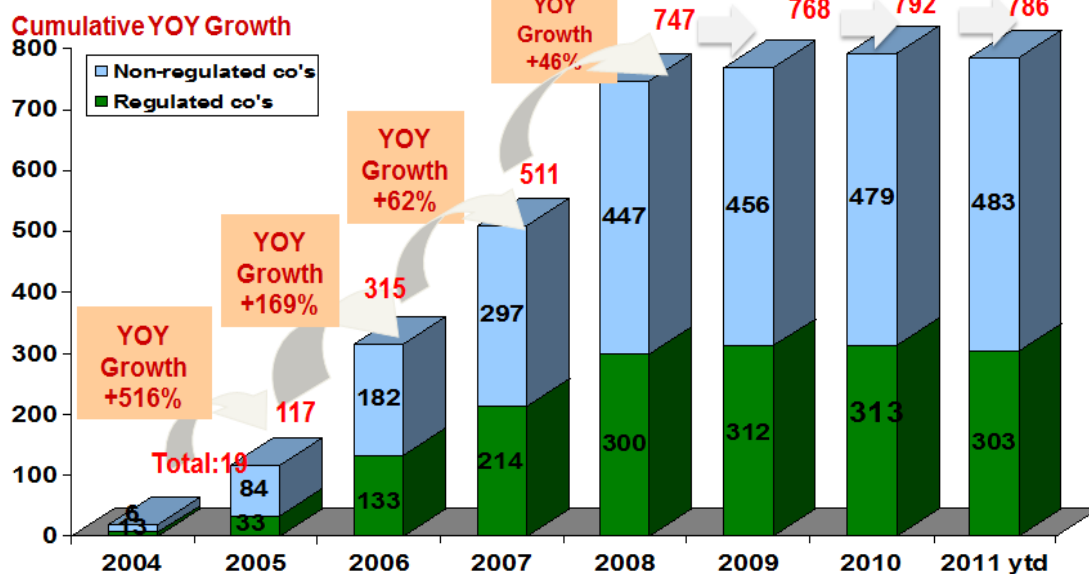
International

- **Sept 2010** Madrid Centro Financiero
- **Jan 2009** Paris Europlace
- **Jan 2009** Luxembourg for Finance
- **May 2008** Hong Kong Monetary Authority
- **Dec 2010** Jebel Ali Free Zone Authority (JAFZA)

Local

- **Oct 2010** UAE Ministry of Finance
- **April 2009** Dubai Statistics Center

Yearly Growth in Number of DIFC Registered Companies



Source: RoC, DFSA (data as of Feb 2011)

List of DFSA MoUs – in total 51 bilateral MoUs & 4 multilateral MoUs

- | | | |
|---|-----------|---|
| 1 | Australia | Australian Securities and Investments Commission (ASIC) |
| 2 | Belgium | Banking, Finance and Insurance Commission (CBFA) |
| 3 | Canada | Office of the Superintendent of Financial Institutions of Canada (OSFI) |
| 4 | China | China Banking Regulatory Commission (CBRC) |
| 5 | China | China Securities Regulatory Commission (CRSC) |

6	Cyprus	Securities and Exchange Commission (SEC)
7	Denmark	Finanstilsynet, the Danish Financial Supervisory Authority
8	Dubai	Dubai Police
9	Dubai	Public Prosecution Department
10	Egypt	Capital Markets Authority (CMA)
11	France	Banque de France
12	France	Autorité des marchés financiers of France (AMF)
13	Germany	Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)
14	Greece	Hellenic Capital Market Commission (HCMC)
15	Guernsey	Financial Services Commission (FSC)
16	Hong Kong	Securities and Futures Commission (SFC)
17	Iceland	The Financial Supervisory Authority (FME)
18	India	Securities and Exchange Board of India (SEBI)
19	Ireland	Irish Financial Services Regulatory Authority
20	Isle of Man	Financial Supervision Commission (FSC)
21	Isle of Man	Insurance and Pensions Authority (IPA)
22	Japan	Japan Financial Services Authority (JFSA)
23	Jersey	Financial Services Commission (JFSC)
24	Jordan	Insurance Commission (IC)
25	Jordan	Central Bank of Jordan
26	Korea	Financial Supervisory Commission (FSC)
26	Luxembourg	Commission de Surveillance du Secteur Financier (CSSF)
27	Malaysia	Securities Commission (SC)
28	Malaysia	Bank Negara/the Central Bank
29	Malta	Malta Financial Services Authority
30	Netherlands	Authority for the Financial Markets (AFM)
31	Netherlands	De Nederlandsche Bank (DNB)
32	New Zealand	Securities Commission (SC)
33	Oman	Capital Market Authority (CMA)
34	Singapore	Monetary Authority of Singapore (MAS)
35	South Africa	Financial Services Board (FSB)
36	South Africa	Reserve Bank
37	Switzerland	Swiss Federal Banking Commission (SFBC)
38	Sweden	Finansinspektionen (FI)
39	Thailand	Securities and Exchange Commission (SEC)
40	Taiwan	Financial Supervisory Commission of Chinese Taipei (FSC)
41	Turkey	Capital Markets Board (CMB)
42	Turkey	Banking Regulation and Supervision Board (BDDK)
43	UAE	Emirates Securities and Commodities Authority (ESCA)
44	UAE	Central Bank of the United Arab Emirates (CBUAE)
45	UAE	Anti-Money Laundering Suspicious Cases Unit of the Central Bank (AMLSCU)
46	UK	Financial Services Authority (FSA)
47	United States	Commodity Futures Trading Commission (CFTC)
48	United States	The Federal Reserve, the Office of the Comptroller of the Currency (OCC), the Federal Deposit Insurance Corporation (FDIC), the Office of Thrift Supervision (OTS).

4 Multilateral MoUs signed by the DFSA are:

1. IOSCO
2. The BOCA Declaration
3. The Asian-Oceanian Standard-Setters Group
4. International Association of Insurance Supervisors (IAIS)