



# Dubai's Growth Drivers

Presentation at the Dubai Economic Outlook 2012

**Dr. Nasser Saidi,**  
**Chief Economist, DIFC**  
**15<sup>th</sup> February, 2012**



## **1. BACKGROUND**

## **2. MACROECONOMIC & STRUCTURAL DRIVERS**

## **3. BUILDING BLOCKS & GROWTH DRIVERS**

3 sets of conditioning factors for Dubai growth drivers:

- Shift in Economic & Financial Geography towards EMEs, Asia, China
- Great Financial Crisis & Eurozone Sovereign & Banking Crises
- Arab Firestorm & its unfolding consequences

**1. BACKGROUND**

**2. MACROECONOMIC & STRUCTURAL DRIVERS**

**3. BUILDING BLOCKS & GROWTH DRIVERS**

# Macro-economic growth drivers

---

- Need to distinguish structural and long-term growth drivers from macroeconomic & short-term drivers of growth
  - Long-term factors:
    - Institutions, Governance & Rule of Law
    - Physical capital, Technology & Innovation
    - Human capital & Demographics
  - Short-term factors:
    - Macroeconomic policies
- Distinguish between UAE & Dubai growth drivers & policy space

# Dubai's Economic Performance: 2010-2011



- Growth recovers in 2010, from the dip in 2009 & improved in 2011
- More uncertainties in 2012: Global slowdown, EU crisis, Arab Firestorm => affecting growth prospects: FDI, trade and credit markets

	GDP growth (%)		
	2009	2010	2011p
World	-0.7	5.1	4.0
Developed countries	-3.7	3.1	1.6
Developing countries	2.8	7.3	6.4
Middle East	2.6	4.4	4.0
GCC	0.3	5.4	7.2
UAE	-3.2	3.2	3.3
EU	-4.3	1.6	1.8
China	9.2	9.5	10.3
India	6.8	7.8	10.1
Dubai	-2.4	2.8	

(Source: IMF, Dubai Economic Council)

# Economic growth: Quality or Pace?

---

- **UAE has a higher GDP per capita than many developed countries**, occupying 6th position in the ranking for 2011 compiled by the IMF
- **Gaps and mismatches create threats for the long-run economic development of the UAE:**
  - **Human vs. physical capital:** investment in quality and quantity of human capital is required for sustainable growth
  - **Need to address disparities in economic development across different Emirates:** policies required to reduce regional gaps; infrastructure should be fully integrated and be a Federal responsibility; greater fiscal federalism
  - **Move to reduce socio-educational gaps:** high unemployment rates among nationals; foreign professionals on average have attained 4 more years of formal education than nationals (IMF Article IV country report)
  - **New economic paradigm is required!** Focus on Education, Institutions, Rule of Law and Governance, Science & Technology

Measures to improve Investment Climate & Improve Competitiveness:

- **Bankruptcy Law/ Insolvency & Creditor Rights:** Draft law will (?) allow for reorganisation/ restructuring as an alternative to liquidation. Speed of recovery & recovery rate can be improved with the establishment of a Special Financial Court.
- **Company Law** reform to:
  - Focus on strengthening corporate governance;
  - Increase foreign ownership limits from the current 51%-49% rule

## Labour rights

- **Labour Law, Residence & Pension Funds:** (a) Retain human capital by offering expatriates long-term residence based on their occupation and investor status (Singapore or Switzerland models); (b) establish a UAE-wide Pension Fund for all.
- **Property Law/ residence rights:** improve transparency & predictability of relationship between investment and right to residency; encourage investments by expatriates



# Structural Reforms II: Improve Economic Performance

---

## Financial Market Development

- **Stock market integration/ Market access to foreigners:** Three stock markets should be merged to overcome fragmentation, leading to improved volumes and liquidity
- **Laws on Securitisation & Central Securities Depository**
- **Debt & Sukuk Market Development:** Development of a local currency debt market will provide Central Bank with a market to conduct OMOs & control liquidity, reduce corporates' dependence on bank finance, diminish macroeconomic and financial vulnerability of government finances to oil price fluctuations and finance infrastructure and development projects in the region
- **Focus on Housing Finance:** Mortgage Market & Mortgage Guarantee agency

**Strengthen Economic Policy Making Capacity: (a) Council of Economic Advisers; (b) Statistics Law**

## **1. BACKGROUND**

## **2. MACROECONOMIC & STRUCTURAL DRIVERS**

## **3. BUILDING BLOCKS & GROWTH DRIVERS**

3 sets of conditioning factors for Dubai growth drivers:

- Shift in Economic & Financial Geography towards EMEs, Asia, China => Aerotropolis; develop strategic links with Asia/China: FTAs; Renewable energy & Clean Tech; DXB as RMB clearing hub
- Great Financial Crisis & Eurozone Sovereign & Banking Crises => Restricted access to credit markets & higher borrowing costs affecting both sovereigns & local banks; need to restructure banking relations towards Asia/ EMEs; Prioritise Financial Market Development
- Arab Firestorm & its unfolding consequences => Regional Economic Integration, Arab Bank for Reconstruction & Development

- Dubai Aerotropolis: Infrastructure, logistics and international connectivity
- Renewable Energy & Clean Tech
- Financial Market Development & RMB Clearing
- Regional Economic Integration: UAE, GCC, Arab region
- Arab Bank for Reconstruction & Development
- DXB: centre for investment into region & for reconstruction and development of countries in transition
- Defining moment for the region: grasp strategic opportunities

- Aerotropolis: an **airport city at its core** and is **surrounded by clusters** of aviation-related enterprises.
- Airports evolved as **drivers of business location and urban development**
- Aerotropolis plays crucial role in: **Enhancing interconnectedness, Enabling entry into the global supply chain & Integrates logistics and facilitates trade**
- Infrastructure & logistics facilities, key factors for connectivity, contribute to growth
- Investment in Infrastructure:
  - Improves productivity and returns on human capital investments
  - Preserves environment: waste management, water, sewage etc. with positive spillover effects on tourism, health and overall quality of life
  - Network economics and Externality effects
  - Lowers costs of adjustment to economic & financial shocks

**Facts:** (a) UAE ranks 24 among 155 nations survey as per the Logistics Performance Index (World Bank)

(b) The UNCTAD Liner Connectivity Index, a measure of sea-based trade connectivity, ranks Dubai the highest in the region

- **Integrate into the Asia/Global Supply Chain**

- Drivers of Renewable Energy & Clean Tech sector:
  - Governments are under pressure to meet that demand without increasing pollution or environmental impact, while **fossil fuel subsidies** are a growing burden on budgets
  - Development of a major new industry-particularly solar- leading to job creation, manufacturing, investment and exports
  - Growing requirement for desalination as water source
  - Energy source diversification & security
  - Growing export value of hydrocarbon stocks
  - Concerns over carbon footprint and pollution levels
  - UAE/DXB have significant clean energy resources in Solar, Wind and CCS
- Clean Energy sector is in very early stages but **fast growing: Dubai's Strategy** is for renewable energy to supply 1% of Dubai's energy by 2020 and 5% by 2030.
- **Develop a Clean Energy & Clean Tech Finance Cluster and establish a Carbon Exchange** which will (a) allow new alliances to emerge: China, Germany (cooperation on solar power & clean tech); (b) force a rethink of education strategy with focus on science, R&D

- MENA capital markets are dominated by bank assets: close to 54% (IMF GFSR)
- There is fragmentation of equity markets => low volumes; lack of liquidity
- **Financial Sector Development should be a priority: focus on SMEs, FOEs**
- **Build local debt markets** to partially offset bank deleveraging, liquidity constraints & fill funding gaps
- **DIFC Economic Note on Market Reclassification:** (a) Date of announcement of potential market upgrade has a positive effect on the markets but the evidence also shows a negative effect on the market on the event of actual classification: “overshooting” (b) Reclassifications are best viewed as signalling a confirmation of policy reforms (e.g. improvements in market infrastructure) & changes in market conditions.
- **Dubai as RMB clearing hub:** Given the recent currency swap agreement, Dubai should build on strategic opportunity to **expand the scope of the DIFC RAPID payment system** to include the RMB. This would be a very important step allowing the UAE to become a **clearing centre for the RMB** for the Middle East, Africa and Central and South Asia

**Greater Regional Economic Integration** across UAE, GCC, Arab region requires:

- **Investment in Integrated Regional Infrastructure:**

- **Transport:** rail, road, air
- **Energy:** oil & gas pipelines, electricity
- **Telecommunications & Infostructure** (broadband+)
- **Payment Networks:** facilitate trade & markets payments & settlements
- **Financial Market Infrastructure:** integrated capital markets

**Regional cooperation** on trade facilitation, streamlining & simplifying international trade procedures, customs and standards

- **Greater Regional Economic Integration / Network Economies:** Strategic & Economic interest of the GCC to invest in infrastructure & integrate non-GCC countries into its soft & hard infrastructure
- GCC should be the core countries for a **regional currency swap agreement** , similar to the Chiang Mai initiative



- Arab region faces growing challenge to invest in infrastructure & development projects to provide capital for its fast growing labour force & population
- Banks continue to deleverage & remain largely funded by short-term deposits. Banks faced with maturity mismatching, risk exposures & balance sheet constraints thereby limiting their ability to provide medium- and long- term loans. Such constraints may limit the development of industries and sectors that require long-term funding and are capital intensive.
- Arab region only one without a dedicated bank for reconstruction & development: need to finance countries destroyed by war & violence & assist countries in transition; finance regional economic integration
- Set-up an **Arab Bank for Reconstruction & Development (ABRD) to assist in addressing the multiple challenges uncovered by the Arab Firestorm**
- **Dubai** can host the ABRD and become the centre for reconstruction & development of Libya, Iraq, Sudan, Egypt, Tunisia, Morocco, Lebanon, Palestine, Jordan and countries in transition

***Thank You!***  
***nasser.saidi@difc.ae***