



TALKING POINTS

Dubai's Emergence as an
Economic Hub

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June 2008

RSM! International

The Worldwide Audit, Tax & Consulting Network

TALKING Points

Dubai's Emergence as an Economic Hub

- Lacking the hydrocarbon resources of countries in the Persian Gulf, Dubai has become a major international player in financial services, real estate, tourism, shipping, and logistics.
- The liberalisation of Dubai's foreign investment laws in the early 2000s precipitated large capital inflows, which along with sizeable inflows of foreign labour have fed Dubai's construction boom.
- The appreciation of real estate prices resulting from Dubai's construction boom has prompted local authorities to strengthen the Emirates' regulatory system.
- Dubai's economic successes have generated significant spillover to the other members of the United Arab Emirates.
- Dubai's growth path has produced a sharp increase in domestic liquidity and funded the Emirate's expansion in global capital markets, including the recent acquisition of the OMX Nordic Exchange.
- Dubai's rise to economic prominence reflects the Emirate's competitive advantages: (1) a favourable strategic locale, (2) relative political stability in a turbulent region (3) business-friendly economic environment, (4) world-class infrastructure, and (5) robust services sector.
- Anticipating a spike in international tourism in coming years, Dubai is building large theme parks and other tourist attractions.
- Universal Studios and other Western entertainment companies are also launching major projects in Dubai, signalling the Emirate's emergence as an international tourism destination.

Dubai's Emergence as an Economic Hub

Aided by visionary leadership and a determined citizenry, Dubai has become a prominent player in the global economy.

Dubai is not oil rich as Abu Dhabi (its sister emirate and capital of the United Arab Emirates), or neighbouring countries in the Arabian Gulf like Qatar and Saudi Arabia. Realising the need for sustained development, Dubai has established itself as a trading hub connecting East and West. Dubai has also positioned itself as a leading tourist destination and heavily promoted real estate development. By embracing the philosophy, "If you build it, they will come", Dubai has become a genuine "Field of Dreams" for many architectural designers.

Expansion of Dubai's Property Market

In 2002 Dubai opened its property market to foreign investors, who were previously allowed only to rent and not buy local property. The right to purchase marked the beginning of a mega boom in the construction and real estate markets, which was aided by abundant local capital as well as fresh inflows of foreign capital.

Across skylines that just a few years ago were sand, scattered palms and empty beachfronts, a forest of cranes is building luxurious hotels, surreal leisure complexes, towers and state-of-art business zones. Thanks to ambitious projects such as the Palms, the World, the Universe and Dubai Waterfront, the Dubai coastline will stretch from 73 kms to around 1500 kms.

Because of the unprecedented demand for properties resulting from the growing population and abundant liquidity, real estate prices in Dubai have appreciated between 40 to 100% over the past two years. More recently, the market has shown some signs of maturity including a lower rate of appreciation, fewer new project launches, and improvements in the regulatory framework governing the property sector. In May, Dubai's real estate watchdog, (Real Estate Regulatory Agency), began investigating developers suspected of non-delivery of projects and other regulatory infractions.

Spillover of Construction Boom

The effects of the construction boom are visible across the entire UAE economy. The country has achieved a compound annual growth rate (CAGR) of 9.3% over the past five years. Oil is likely to continue to play a crucial role in the UAE's growth, accounting for 35% of the GDP in 2007. However, non-oil sectors such as manufacturing and real estate also generate significant shares of the Emirates' GDP (13 and 8 per cent respectively).

The inflows of capital and labour feeding the construction boom are in turn fuelling local demand for housing and services. In 2006, Dubai's population increased by 24,000 people per month while some 5 million tourists visited the Emirate.

Financial Sector Development

Dubai's growth path has raised concerns over excess liquidity. The small size of Dubai's stock market encouraged most of this liquidity to go into real estate. But local financial institutions are now looking for investment opportunities outside the UAE.

Borse Dubai, (parent company of the Dubai International Financial Exchange and Dubai Financial Market) competed last year with NASDAQ to acquire the OMX Nordic Exchange. The fierce competition ended with an agreement in which Borse Dubai would acquire OMX and then transfer ownership to NASDAQ in return for a 19.9% stake in a newly combined NSDAQ-OMX group along with NASDAQ's 28% stake in the London Stock Exchange. Borse Dubai also persuaded NASDAQ to become a strategic investor in the DIFX, and plans for co-branding are under way.

Dubai's Competitive Advantages

In a politically troubled region, Dubai is becoming the "Green Zone" for Middle Eastern investments.

Dubai is largely insulated from the geopolitical turmoil of its neighbourhood, conferring a competitive advantage in attracting international businesses. The Emirate has become a major venue for industrial exhibitions, international conferences, art forums, and musical concerts. It has also become a leading regional host of corporate headquarters and distribution and logistics centres. Dubai's emergence as a regional hub illustrates the following competitive advantages:

Strategic location: Dubai is a time zone bridge between the Far East and Europe and America on the east-west axis and the CIS and Africa on the north-south axis. It is a gateway to 1.5 billion consumers in the surrounding countries who are growing in number and prosperity. Dubai is also well linked to the world with 120 shipping lines and 124 airlines connecting it to all destinations of the world.

Political and economic stability: Dubai is a part of the UAE, which is a low-crime and politically stable country. The UAE has traditionally struck a delicate balance between (1) maintaining strong ties with the United States and other Western allies, and (2) appeasing national, regional, and Islamist sentiments. While Abu Dhabi is the dominant political force, (courtesy of its oil wealth) Dubai plays an increasingly important role in federal affairs. Like all seven member of the UAE, Dubai maintains complete autonomy over decision-making within the Emirate.

Open and free economic system: Government control and regulation of private sector activities have been kept to a minimum. There are no direct taxes and custom duties are low at 5% with total exemptions on re-export. Full repatriation of profits is allowed and there are no foreign exchange controls, trade quotas or barriers. The exchange rate is pegged to the US Dollar to provide stability. Liberal visa policies permit easy importation of skilled workforce from around the world.

World-class infrastructure and service sector: Oil prices above US\$100 a barrel have created an astonishing revenue stream. In contrast to previous oil booms, the UAE is investing new petrodollars in its own infrastructure. The IMF estimates that infrastructural investment in the UAE will reach US\$800 billion by 2010. Dubai's heavy investments in infrastructure have created excellent transport, energy and telecommunications facilities. Dubai features a network of seven industrial areas, three specialized free zones, two world-class seaports, a major international airport and cargo village and a modern highway network.

Complementing Dubai's world-class infrastructure is a sophisticated service sector that features leading regional and international freight forwarders, shipping companies and insurers as well as major international hotels, banks and financial service firms.

Dubai's vehicular traffic scene is appalling at present moment, burdened with the highest per capita cars in the world at 541 cars for every 1000 people. To mitigate this situation, the Emirate has begun constructing a US\$4.5 billion metro system (the most ambitious transportation project in the Middle East) and initiated a range of tram services.

International Tourism

Dubai is preparing to accommodate more than 15 million tourists by the year 2010, To achieve that, goal, the Emirate has launched a number of large tourist projects valued at US\$220 billion: Dubailand (a three billion square foot theme park), Hydropolis (the world's first underwater hotel), Burj Dubai (the world's tallest tower), and The World (comprised of 300 man-made islands shaped like the world). Global entertainment companies such as Universal Studios and DreamWorks Animation have granted franchise rights to open Hollywood based theme parks and resorts in Dubai. Six Flags, Marvel Theme Park and LegoLand are also coming to Dubai.

Together with the development of Dubai's financial services and transportation/logistics sectors, the expansion of international tourism will help the Emirate to achieve the critical mass needed for sustainable growth in coming years.

The author is Dahman Awadh Dahman, Managing Partner, Dahman & Company, the United Arab Emirates member firm of RSM International.

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Biography

Dahman Awadh Dahman, FCCA

Dahman, who is a fellow of the Chartered Association of Certified Accountants in the UK, has wide experience in the accounting and consultancy profession which goes back to more than four decades and stretches over a number of countries including; Yemen, Kuwait, Jordan and the UAE.

Prior to forming Dahman & Co, Dahman was a senior partner within Ernst & Young Middle East. He represented Ernst & Young International (EYI) Committee on Insurance, which introduced the training used in training audit staff and the audit methodology currently used in the audit of insurance companies. From 1985 to 1990, he was the Middle East Firm representative on the EYI Committee on Banking and Other Financial Services during the critical time of the "Big Bang" in the UK and the failure of many savings and credit institutions.

In addition to his extensive local knowledge of the banking and insurance industry as an audit partner, he also served as the coordinating partner on a number of management consulting assignments to some of the major banks in Kuwait.

Dahman is currently the Managing Partner of Dahman & Co which is ranked among the top twelve accounting firms in the UAE which are accredited by international and national banks to audit corporate entities. The firm offers a full range of advisory and consulting services, supported by in-depth industry knowledge and national and international experience. Dahman & Co. has two offices in Yemen where they audit three of the major banks, oil and gas companies and is considered as one of the top two firms in Yemen.

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