

Dubai – the Tiger of the Gulf

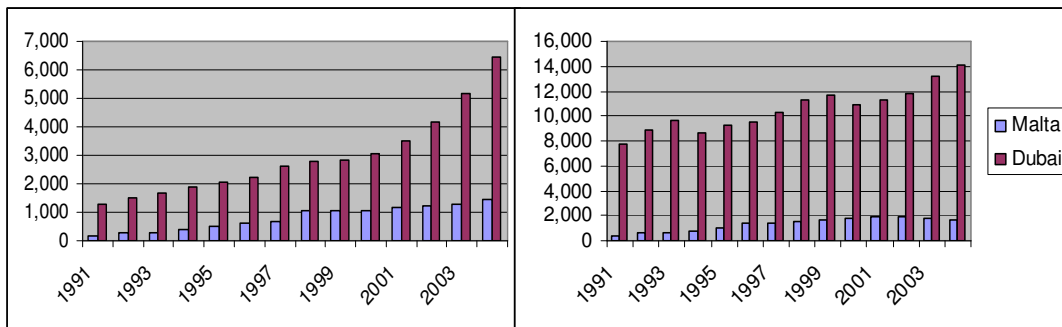
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Over the past forty years, Dubai has transformed itself from a backwater village into one of the world's pre-eminent commercial hubs. The expansion of service exports has been a major part of that transformation. Transshipment has always been an important activity in Dubai, but the construction of large, modern ports in the 1970s raised the city's profile to a whole new level. Passengers and air cargo were later added to the mix. More recently, the city has been developing clusters in other service industries, such as ICT, multimedia and financial services.

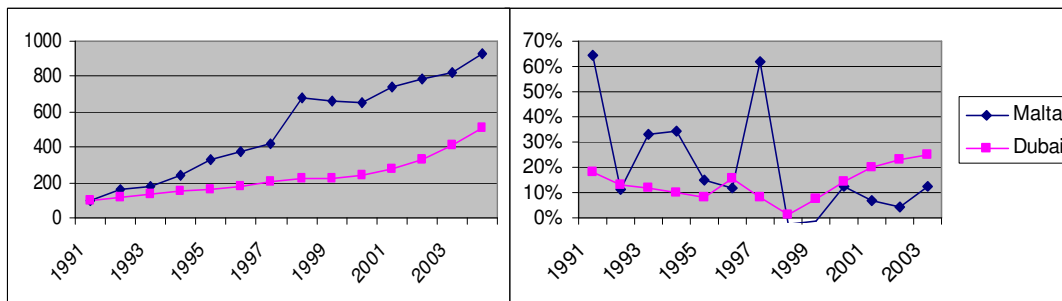
The port at Dubai is a symbol of the city-state's success in international trading. The port is relatively close to the major Europe-Sinai-Asia shipping lane. With minimal diversion, cargo for the Gulf region, Pakistan and Western India can be loaded and unloaded.

The port's success is impressive. According to the Dubai Ports Authority, Dubai is now the 10th largest port in the world measured by TEU throughputs. In 2004 total throughput reached 6,400 TEU, quite a feat given that the 9 ports above Dubai are all linked to a nearby major manufacturing zone.

Cargo Traffic (thousands of TEU) and Ship Calls in Malta and Dubai



Cargo Traffic Growth in Malta and Dubai



Source: Malta Freeport, Dubai Ports Authority

The above charts tell an interesting story. Due to its earlier establishment, the Port of Dubai was already fairly large by 1991 when the Malta Freeport was still in its early days. Cargo volume and total number of ships calling at Dubai were much larger than Malta in 1991 and remain so today. Throughout the 1990s, Malta Freeport grew much more quickly than Dubai. By indexing cargo volumes to 100, we can see that total growth over the past dozen years has been much higher in Malta than Dubai. Year-over-year growth rates, however, show that over the past 5 years Dubai has regained the upper hand. After growth at both ports bottomed-out in 1999, Dubai quickly recovered and has been experiencing steadily climbing growth rates. The Freeport, on the other hand, has struggled with growth rates half of Dubai's.

Dubai's success has been built on a number of foundations. First, the city-state has invested heavily in cluster development. High-skill industries tend to develop in clusters around the world. Clusters are relatively small geographical areas where there are a large number of similar firms in the same industry. The concentration, as well as the variety, of knowledge and skills provides an excellent environment for technological advancement. New firms are also attracted to the location because of the existing skills base, further deepening the capabilities of the cluster.

As mentioned above, clusters have been developed in transport and logistics, ICT, tourism and multimedia. Financial services and healthcare clusters are currently under development. Investment has been concentrated in infrastructure, both physical and institutional. Global passenger, cargo and data connections are excellent. Much of this investment, though not all, was state financed. The government has been successful at using its funds and participation to encourage private sector investment. Private sector investment has also effectively been subsidised by the absence of taxes. In stark contrast to its past, Dubai has established a strong rule of law and regulatory environment. The financial system is strong and robust.

The trade, investment and operating environment has been remarkably free and open. Tariffs and trade barriers are low. There are no restrictions on foreign ownership in the free zones, and foreigners are allowed to own property. The government has encouraged competition in most sectors. Qualified foreigners are encouraged to move to the city, building a pool of highly skilled labour that acts as a further attraction for companies.

Overall, Dubai's approach to economic development has been remarkably similar to that used in many Asian countries, including Singapore. There is a pragmatic balance between the role of the state and the market. The state is very active in the economy – a large proportion of GDP is generated by state-controlled enterprises – but it also recognises its limits. The public sector's responsibility is to provide an attractive enabling environment and promote private investment. The market provides discipline. The private sector provides jobs, entrepreneurship and innovation.

The government has set-out a vision of what Dubai should look like by 2010. A dynamic 'knowledge' economy has been identified as the ultimate objective, and initial steps are being taken to achieve that goal. The list includes targets for GDP, incomes and FDI, and plans for the shape and design of the economy. Dubai has been engaged in such long-term scenario-building and planning for decades, and has demonstrated that, for a small and focussed country, an economic development plan can be an important contributor to success. The purpose of the plan is two-fold: first, the plan allows the public sector to identify specific steps that need to be taken.

In many countries, the public sector lacks direction; it is uncertain exactly what it is supposed to achieve; there is often a vague notion of increasing incomes and economic growth. A plan can provide more focus to public sector activities. Second, the plan provides the private sector with an outline of what the economic landscape is going to look like in the future. Uncertainty can be a major obstacle to investment, and efforts to remove uncertainty should be rewarded.

The government has put in place a number of specific initiatives to enhance the returns from the public-market-private triangle. State-controlled enterprises, whilst stacked with Dubai nationals, are encouraged to be efficient, and, where applicable, profitable. Certificates are periodically issued to public enterprises that have demonstrated excellence in government performance. A programme has been set-up to promote and assist young entrepreneurs. By law, at least 5% of government procurement has to take place through companies participating in the programme. The programme also assists with access to capital and business services, including office premises and mentoring.

The Dubai Development and Investment Authority has a specific programme to promote Dubai as a hub for sales and marketing activities in the region. There are several reasons that multinationals locate their regional sales activities in Dubai. First, there are a large number of other traders in Dubai, making the activity more convivial and less complicated. Second, the lifestyle is relatively good. Although Dubai is no tropical paradise, it has significant advantages over other countries in the region, including a large number of expatriates. Third, the transportation connections are excellent. Traders based in Dubai can easily travel around and outside the region. Goods can similarly be shipped, by sea or air, to a large number of destinations.

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