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# GREATER THAN THE SUM OF ITS PARTS

HARMONIZING AND CONSOLIDATING THE UAE'S  
MARKETS AND INFRASTRUCTURE WILL  
ENSURE THE UNITED ARAB EMIRATES RETAINS  
ITS POSITION AS THE GATEWAY TO THE REGION

BY RUPERT YOUNG, ALEX BLAKE-MILTON AND  
ASSHETON SPIEGELBERG IN THE UNITED ARAB EMIRATES

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From the shacks of the pearl divers huddled beside the creek in Dubai to skyscrapers soaring from the scorching desert – in less than 40 years, the United Arab Emirates has transformed itself into the Arabian Gulf's powerhouse.

Today, these seven emirates, with Abu Dhabi as their capital, are increasingly recognizing the benefits of unity envisioned by the UAE's founding President, the late Sheikh Zayed bin Sultan Al Nahyan. The UAE is one of the world's foremost tourist destinations, a financial hub for the Middle East and a beacon of stability in a turbulent region. As the UAE's President and ruler of Abu Dhabi, Sheikh Khalifa bin Zayed Al Nahyan, said at the height of the economic crisis in March 2009: "We are members in one entity and parts in one strong, coherent body."

The UAE's growth was fuelled in the early 1960s by the discovery of oil and gas, but its rulers have long been planning for the day when the wells run dry. Already the country is thought to earn more from managing money, in the form of its sovereign wealth funds, than from hydrocarbons.

The emirate of Dubai, with only a tiny percentage of the country's oil and gas, initiated an ambitious plan to build a long-term, sustainable economy by encouraging the development of diversified industries. Foreign companies, particularly in the knowledge and services sectors, have been enticed to its economic free zones, such as the Dubai Multi Commodities Center and Dubai International

Financial Center, encouraged by tax breaks and other incentives. With them came a building boom, leading to projects such as the Palm Jumeirah and the world's tallest tower, Burj Khalifa.

Cushioned by its ownership of more than 90 per cent of the UAE's energy reserves, Abu Dhabi was late in adopting diversification. But it too has opened economic free zones and developed impressive buildings, including the Yas Marina Circuit, home to the season's final Formula One race, and Capital Gate, the building that looks as if it has vertigo.

Following the economic downturn, the UAE, for so long the region's leader in economic growth, is lagging behind the recovery. Questions remain over its long-term economic model, especially around population growth and Sheikh Mohammed bin Rashid Al Maktoum's belief that "if you build it, people will come." The domestic credit squeeze looks likely to continue in the short term, as loan-to-deposit ratios remain over 100 per cent, and foreign direct investment fell 70 per cent in 2009, according to HSBC.

Meanwhile, competition from other Gulf markets is increasing. Many are developing their infrastructure and have good locations and political stability, and Qatar and Bahrain retain aspirations to challenge the status quo.

But the assets that made the UAE attractive in the first place – oil, political stability, highly developed infrastructure and ease of doing business – are still in place, and they remain positive indicators 

for future trade and investment. Recognizing this advantage, Britain is stepping up its interest in the UAE. Priti Patel, treasurer of the UK's All Party Parliamentary Group to the UAE, says: "Our countries have a prosperous and cooperative relationship. Britain's long established economic and trading ties with the United Arab Emirates will go from strength to strength as the British government seeks to elevate links with the Gulf and boost relations that have not been maximized in recent years."

But more unity between the emirates themselves will be key in capitalizing on these new opportunities. Dubai is the region's hub with its well-developed infrastructure, while Abu Dhabi remains underpinned by its hydrocarbon wealth. But both emirates must grapple with economies of scale and a small domestic market. The population of the UAE is only just over 8m, about 80 per cent of whom are expatriates. As a result, there is a need for rationalization in some areas, as competing bodies vie for slices of a small pie.

In the financial services sector, for example, there are three small securities exchanges serviced by 80 brokerages, and about 50 banks, of which 22 are local. Combining the Dubai Financial Market and Abu Dhabi Securities Exchange to create a greater liquidity pool would increase international equity portfolio inflows and might persuade Morgan Stanley Capital International (MSCI) to lift the UAE to "emerging market" status.

Sultan Sooud Al Qassemi, a prominent Emirati commentator, believes such a merger could create a regional powerhouse to dominate Middle East capital markets. "There is no doubt the new entity would have a good shot at taking over the number one position as the leading capital market in the Arab world," he said. "Trading volumes would also increase, as investors are currently deterred by the amount of paperwork needed to invest in companies listed on different exchanges." With no debt capital markets and limited bank lending, equity markets represent an important catalyst for recovery.

An integrated development strategy could accelerate the UAE's recovery. A focused approach would benefit the country as a whole, increasing market scale, spreading wealth to poorer emirates, and reducing costs as well as simplifying and streamlining the market.

In some areas this is happening. In April, the federal government announced plans to set up a Federal Credit Bureau, to collect credit information across the country, and a National Bureau of Statistics. In recent years, the Federal Customs Authority was established to align the customs authority of each of the seven emirates.

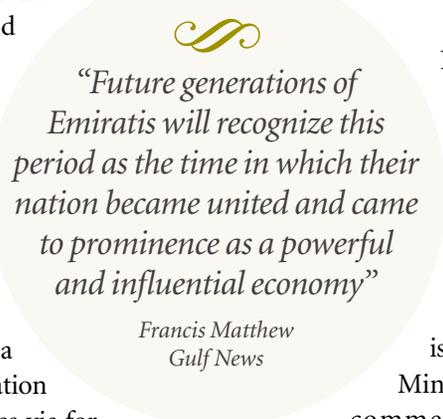
Tourism is now handled by the National Council for Tourism & Antiquities, which promotes the whole country. The hope is that this approach will showcase attractions outside the big cities, broadening the country's appeal and boosting tourism.

Federal economic regulation is also being tightened. In April, the Ministry of Finance issued a unified commercial licensing system for trademarks and registration across the UAE; revised federal company, industry and investment laws are expected before year-end; and an independent federal body in charge of safety standards for food and drugs is being established.

The UAE plans to set up a debt management office under the federal Ministry of Finance this year after the promulgation of a law on public debt. In the course of this reform, fiscal offices will also be set up in every emirate. The public debt law will limit each emirate's borrowing to 15 per cent of GDP; and total emirate and federal debt will not be allowed to exceed 60 per cent of the country's GDP.

Planners also need to ask tough questions about the UAE's airlines. Dubai's Emirates and Abu Dhabi's Etihad are both global flag carriers, but does one small country need two big airlines with similar aspirations flying to the same locations?

Centralization could also help reduce legal costs. Al Qassemi suggests that more emphasis on federal laws is needed to replace bewildering local legislation. "Dubai and Ras Al Khaimah are not part of the federal



judicial system implemented in the other five emirates,” he says. “Dubai has two different local laws – there is the local law of the emirate of Dubai, and then there is separate legislation for companies registered in the Dubai International Financial Center. This is not the most efficient way of doing things in a small country.”

Dubai is overhauling its rules for real estate development, known as strata law, but this will not be valid in Abu Dhabi, which is developing its own version. As a result, real estate businesses need to maintain offices in both jurisdictions, an extra expense.

In terms of infrastructure, the UAE has embarked on an ambitious rail program. An \$11bn project is under way to build a 930-mile high-speed passenger and cargo railway network linking all seven emirates together. Its first phase will be a 170-mile freight line, from Abu Dhabi’s Shah gas field with oil and gas facilities at Habshan to Ruwais on the Arabian Gulf, to transport granulated sulfur for export.

Al Qassemi believes a rail network linking all emirates would be a major step in uniting them. “Emiratis would like to see projects like this that bring the UAE closer together and that encourage alternative transport options and better communication.” However, he adds, until the National Transport Authority is given the power to pull such strategic projects together, it will be a challenge to get the project implemented.

In addition to economic considerations, however, there is a major cultural issue facing the UAE and that is the preservation of its national identity. Francis Matthew, Editor At Large of *Gulf News*, the UAE’s largest circulation English daily, explains: “The global financial crisis has brought Abu Dhabi and Dubai much closer together, and the long-term investment case remains intact and strong: service-based economies, young talent pool, a decade of heavy investment in infrastructure and a favorable geographic location. The UAE is still less than 40 years old, and already it is ranked by the International Monetary Fund as the world’s eighth wealthiest country, with a per capita GDP of more than \$46,000. The UAE has achieved a great deal since its formation. It is still a young country that continues to evolve and develop as the union of seven emirates.

**The United Arab Emirates officially came into existence in 1971 when they gained independence from Britain.**

Previously, the seven independent emirates – Abu Dhabi, Dubai, Sharjah, Fujairah, Ajman, Ras Al Khaimah and Umm Al Quwain – strung along the Arabian Gulf coast had been known as the Trucial States after a 19th-century treaty signed with the British Empire.

**Bahrain and Qatar were also part of the Trucial States,** but their rulers decided to go it alone, rather than join the new federation.

**Abu Dhabi and Dubai are the UAE’s largest cities,** with more than 3m residents out of a total population of just over 8m.

**The ruler of Abu Dhabi is the President of the UAE,** and the ruler of Dubai is the UAE Vice-President and Prime Minister.

**The Federal Supreme Council is the highest body in the UAE government,** consisting of the seven rulers who come together to discuss the broad direction of government.

**The UAE has a shared constitution and single defense force;** it is also united politically and diplomatically.

**The UAE has a seat on the United Nations General Assembly and is a member of the Arab League.** It has considerable influence in the region as a prominent advocate for a liberal Arabia that is open, globally-connected and tolerant.

**If you are sitting in a traffic jam** in one of the 1,025,169 cars registered in Dubai, you might like to ponder the fact that in 1968 there were reportedly only 13 gasoline-powered vehicles in the entire city.

“The federal government is keen to address the challenge of preserving national identity in a population so heavily skewed towards expatriates. Future generations of Emiratis will recognize this period as the time in which their nation became united and came to prominence as a powerful and influential economy.”

Harmonizing and consolidating the UAE’s markets in an increasingly global and competitive world with uniform legislation could attract greater foreign investment. This will ensure that the United Arab Emirates remains the gateway to the region. ☺

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