

Dubai economy

Economics



Dubai's strive to global recognition and acclaim and the effect of the global economic crisis of 08 on this city-state. Globalization is a term that has sparked lots of excitement, change, and interest in the global economies. It is a phenomenon that has brought the world closer through exchange of goods, products, information, knowledge, and culture. This movement was spurred by the developing nations seeking foreign investment through opening up to international trade and rapid advancements in technology and communication over the past few years have triggered the pace of globalization.

The developed countries adopted trade liberalization policies towards economic growth and cooperation. The Gulf countries too participated in the economic boom period and owing to their vast reserves of oil. Dubai is a city located in the United Arab Emirates, along the Persian Gulf. It represents a cosmopolitan population that striving to make an international presence with resounding success. Dubai presents tremendous business opportunities for investors due to its booming economy and increasing wealth reserves. It is a modern city with skyscrapers filling the landscape and portraying wealth on all fronts.

The growth and emergence of this city-state is spectacular setting an example for other economies across the globe. The city boasts of unique facilities in terms of business, infrastructural facilities, information center, and financial hub for many companies across the globe. Dubai has become popular owing to its rising wealth and increasing prominence in trade and service sector. Businesses and entrepreneurs are investing in Dubai owing to

the high economic growth and development that has been observed in the past decade.

Multinational banks and financial institutions are establishing their presence in Dubai in search of new markets and wealthy clientele base in this wealth dominated city. Dubai: Economic Indicators of growth Dubai has witnessed phenomenal growth in the past 20 years and it has become a role model for growth and economic prosperity in the Middle Eastern region. The city-state has become an international commercial and economic hub and a leading tourist destination. The real gross domestic product of Dubai has been growing at a compounded annual growth rate of 13 percent since the year 2000.

The Khaleej Times reports " Dubai's real GDP, which surged to a record Dh 198 billion in 2007, is predicted to sustain an annual growth rate of 11 percent in the next eight years. " The McKinsey Company Middle East reports " In 2020, the nominal GDP of GCC is projected to soar three-fold from \$773 billion to roughly \$2. 3 trillion in 2020 at an average oil price of \$70 per barrel. " The principal driving force behind the economy of Dubai is its huge reserves of oil and the increasing amount foreign direct investment that the city has attracted over the past few years.

The proportion of people from foreign origin is more in comparison to the natives in this country. This is largely accountable to the large number of migrants coming into the city in pursuit of wealth. Hence the city presents diverse culture. The combination of urban life and the desert mystic attracts many tourists every year to Dubai and as such the tourism industry is one of the mainstays of the economy. Globalization of economies and liberalization

of markets has resulted in increased consumerism that has attracted many businesses to move to Dubai to extend their market share.

This has not only opened new opportunities for earning but also enhanced the scope for increased moneymaking potential. The economic scenario is favorable to wealth creation and according to International Monetary Fund estimates the Middle Eastern countries have one of the largest pools of private wealth with US\$ 1.5 trillion held in real estate, offshore securities and bank deposits. Dubai has witnessed a huge influx of capital inflows that led to a booming economy and a rising stock market.

Survey reports by Merrill Lynch and Capgemini claims that the market capitalization rate of Dubai financial market has increased by 700 percent since the year 2001. This coupled with the rising GDP growth rate has attracted large amounts of foreign direct investment into the country over the past few years. The report by Merrill Lynch and Capgemini also states that nearly 1.22 percent of Dubai's population consists of millionaires and the economy is experiencing an annual growth of 12.3 percent in the number of high net worth individuals. The non-oil sector has played a significant role in the growth and economic development in Dubai.

The contribution of this sector has increased to 95 percent to the annual GDP in the year 2005 as compared to 90 percent in the year 2000. The reduced dependence on oil revenues is largely accountable to the government policies that are boosting the other economic sectors. Currently the tourism industry and international trade contributes significantly to the GDP of Dubai followed by other sectors such as transportation, financial services, real

estate, and construction. The tourism industry is thriving in Dubai owing to its landscape and impressive growth. Dubai received 6.

5 million visitors in the year 2006 generating revenue of nearly US\$ 3 billion. It is estimated that the tourism industry contributes nearly 30 percent to the annual GDP. The city has a five to one ratio of natives and tourists as per current statistics. (Source: Gulf News, 2007) The banking and financesector is another prime contributor to the economic development and growth in Dubai. It has attracted foreign investors, multinational banks, and financial institutions. Wealth management and financial services have gained prominence in this economy owing to increasing number of wealthy individuals.

Wealth management services in Dubai and other Arabian countries greatly differs from their global counterparts owing to its strict adherence to the Sharia laws constituting Islamic finance that regulates the investment habits of the locals. The banking sector is prominent with nearly 51 banks licensed by the UAE Central Bank that comprises of 23 national banks and 28 foreign banks. The establishment of the Dubai International Finance Center (DIFC) in the year 2004 marked a significant achievement in the economic history of Dubai.

It is the world's fastest growing financial hub that has played a pivotal role in bridging the gap between the existing financial structures in London and New York in the West and Hong Kong and Tokyo in the East. The vision of the DIFC “ is to shape tomorrow's financial map as a global gateway for capital and investment” and its mission statement “ is to be a catalyst for regional

economic growth, development and diversification by positioning the DIFC as a globally recognized financial center” (DIFC).

The DIFC has attracted increased liquidity and created new investment opportunities that has increased the pace of economic growth in the region. The center has greatly assisted in deregulation of financial services market and liberalization policy implementation in Dubai. It has facilitated the privatization in the region enabling initial public offerings by privately owned companies. Trade scenario in Dubai International trade stimulates a country’s development and economic growth, creating additional job opportunities and ensuring better standards of living.

Global trade induces growth in all sectors since producers’ benefit from selling goods in international markets generating higher revenue and consumers benefit from expanded choice of products available in the market. International trade is instrumental in eradicating poverty levels and reducing income inequalities in developing economies promising improved standards of living. Dubai has scarce natural resources and as such its production and manufacturing capacity is limited. It mainly thrives on the imports of goods and services as well as human resources skill from outside.

It is a consumer market having a large population base with purchasing power. Under such circumstances global trade plays a significant role in Dubai’s economic growth. Its growth is largely accountable to the tax free zone for foreigners and multinational companies. The Dubai government is now encouraging industrial growth through regulatory policies that has greatly helped in establishing a conducive business environment and financial

assistance. The growth and prominence of trading in non-oil sector has played a significant role in Dubai.

According to Hisham Abdullah Al Shirawi, Second Vice Chairman of the Dubai Chamber of Commerce and Industry, “ the key sectors fuelling the growth include tourism, retail, infrastructure, knowledge industry, transportation, logistics, manufacturing, professional and government services. Dubai’s non-oil foreign trade that surged 33 percent to US\$ 185 billion in 2007 from US\$ 139 billion in 2006, also was poised for a sustained growth. ” The non-oil foreign trade accounts for nearly 80 percent of the total trade volume in United Arab Emirates. The total exports in Dubai have been increasing by nearly 28 percent annually in the last five years.

In the year 2007 the city’s non-oil exports surged to 43 percent to Dh 167. 9 billion. (Source: Khaleej times, 2008) Role of Information Technology in development of Dubai Information and communication technology has gripped the global economies in an all-pervasive manner contributing to exceptional growth and development opportunities. Most of the countries today are striving to excel in this arena in order to compete with advanced nations across the globe in acquiring the expertise and knowledge that can push the economies to greater sustenance and development models.

The role of information technology in the process of globalization cannot be ignored since it is one of the triggers that have led to the emergence of a closely integrated world defying geographical boundaries and cultures. One of the crucial aspects of this sector is its ability to create opportunities for individuals and businesses alike. The Internet has become a key medium for conducting business, communicating and exchanging information, and ideas.

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It is also being increasingly used in training and education processes within corporate establishments and educational institutions.

The political leaders in Dubai envisioned the scope and role of information technology in economic growth and development. E-commerce and Internet have rapidly gained popularity in Dubai that is largely accountable to the improved infrastructure and telecommunication links made available. High-speed accessibility over the Internet has been made possible through broadband cables and enhanced telecommunication services. The global economic crisis and its impact on Dubai The global financial crisis that has been lurking around for the last one year has made a strong impact on economies worldwide.

The floundering of United States economy has sent aftershocks on the rest of the world leading to stumbling of the stock markets and collapsing of large financial institutions owing to rapid fall in currency exchange rates. The United States sub-prime mortgage market collapse has had rippling effects on the other economies across the globe. The effect of this financial crisis has been summed up by the United Nation's Conference on Trade and Development in its Trade and Development Report 2008 as " the global economy is teetering on the brink of recession.

The downturn after four years of relatively fast growth is due to a number of factors: the global fallout from the financial crisis in the United States, the bursting of the housing bubbles in the US and in other large economies, soaring commodity prices, increasingly restrictive monetary policies in a number of countries, and stock market volatility. " The global economic crisis

has impaired a lot of financial institutions and the impact is felt in rising food prices, high fuel costs, and soaring prices of commodities.

Dubai has not suffered major losses on account of this financial crisis yet but there are some rippling effects that might disturb the economic growth rate. A news report by Miami Herald states “ the global environment, the fact that core Dubai trading partners such as the UK, Russia and parts of Asia are either in recession, close to recession or at least contracting substantially, all this is going to be felt in Dubai without a doubt. ” Market analysts feel that the high level of debt of Dubai is a source of concern.

“ State-backed firms have borrowed huge sums to meet a seemingly endless demand for property and now carry a total debt of nearly \$50 billion, more than the value of Dubai’s entire economy in 2006” (Miami Herald, 2008). However, the Dubai government is assured that there will not be any hitches in meeting these debt obligations. The real crunch of the global economic crisis will be felt in the real estate sector in Dubai and signs have already started showing in the slowing down of the markets. But these rippling effects in the economy of Dubai are not as grim as situation in other parts of the world.

According to the Miami Herald news reports “ property values still rose 16 percent in the second quarter this year, a sharp decline from the 46 percent increase of the first three months of 2008 but far outpacing nearly everywhere else in the world. ” Hence it is felt that the economic growth and development of Dubai may face a little slowdown owing to the financial crisis that has taken the world by storm and some rippling effects of the other economies will definitely be felt but the overall situation will not be as grim.

Aamir A. Rehman, an expert in global corporate strategy and the Gulf region and author of “Dubai & Co: global strategies for doing business in the Gulf states” observes “Fundamental economic indicators remain positive in the Gulf, with substantial surpluses and savings, strong corporate profits, attractive demographic shifts, and ongoing de-regulation. In the current environment, however, the underlying strength of Gulf economies is obscured by turbulent financial markets.” Conclusion

It is true that the current financial crisis has made a big impact on the major economies across the world causing the stock markets and financial institutions to stumble and with such volatility in the equity and commodity markets the Gulf region is not immune to these shocks. Dubai is largely dependent on international trade and this is bound to make an impact on the economy. The real estate market too is experiencing a slump with prices of commodities soaring and the capital crunch being more visible than ever.

However, market analysts and experts believe that this is a passing phase and the economy of Dubai will regain its stronghold very soon. The AMEInfo news reports states “though the market is undeniably slowing, witnessed by the falling trend amongst spectators looking to flip off plan properties, there has been no sign of a halt in buying by end users. If recent past precedent is any guide then Dubai will be a winner from the current global financial crisis.

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