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DEPARTMENT OF ECONOMIC DEVELOPMENT

FDI | dubai.
مكتب الاستثمار الأجنبي
Foreign Investment Office

DUBAI

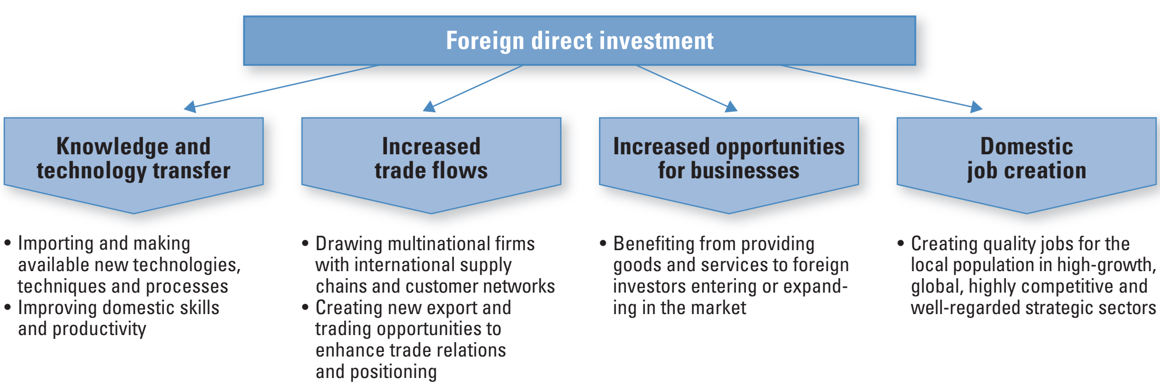
The FDI Destination of Choice

The confidence of global investors is instrumental in assessing the current and future competitiveness of destinations that attract foreign direct investment—as is investor perception. In order to ascertain the effects of the recent economic crisis on investor perspectives, The Foreign Investment Office, part of Dubai's Department of Economic Development, commissioned a survey of a subset of the Global 1000 companies, asking key executives about their future investment plans in the region and specifically their perceptions of Dubai.

Most investors view Dubai as an access point, thanks to its central location, business-friendly policies, advances in various sectors, and critical mass of foreign and regional businesses *(see sidebar: About the Study on page 3)*. According to investors, Dubai has become the regional hub that companies use to support operations to reach more than 1.7 billion consumers in the Middle East and North Africa (MENA) region, Pakistan and India totaling $3.5 trillion in GDP in 2009. Furthermore, investors are confident that Dubai will be among the first to rebound and lead the region out of the crisis.

These findings are encouraging for the Middle East in general and for Dubai in particular. After all, foreign direct investment (FDI) is the lifeblood of any economy. It drives reform, improves quality of life and ultimately brings prosperity. Attracting FDI is one of the cornerstones of a country's further economic development. Apart from the inflow of foreign currency into a country, FDI also has other advantages, most notably knowledge and technology transfer, increased trade flows, job creation and increased opportunities for local businesses *(see figure 1)*.

Figure 1
The advantages of foreign direct investment



Dubai: Leading the Middle East in Investor Confidence

According to executives interviewed for this survey, the United Arab Emirates leads the Middle East region in terms of investor confidence, with Dubai seen as the major hub. When asked about their top destination for investments in the region over the next three years, 28 percent of executives choose Dubai. This is a strong vote of confidence for Dubai as an attractive investment destination. The lead is clear; the Emirate has a 10 percent advantage over the second most popular destination, neighboring Abu Dhabi *(see figure 2)*.

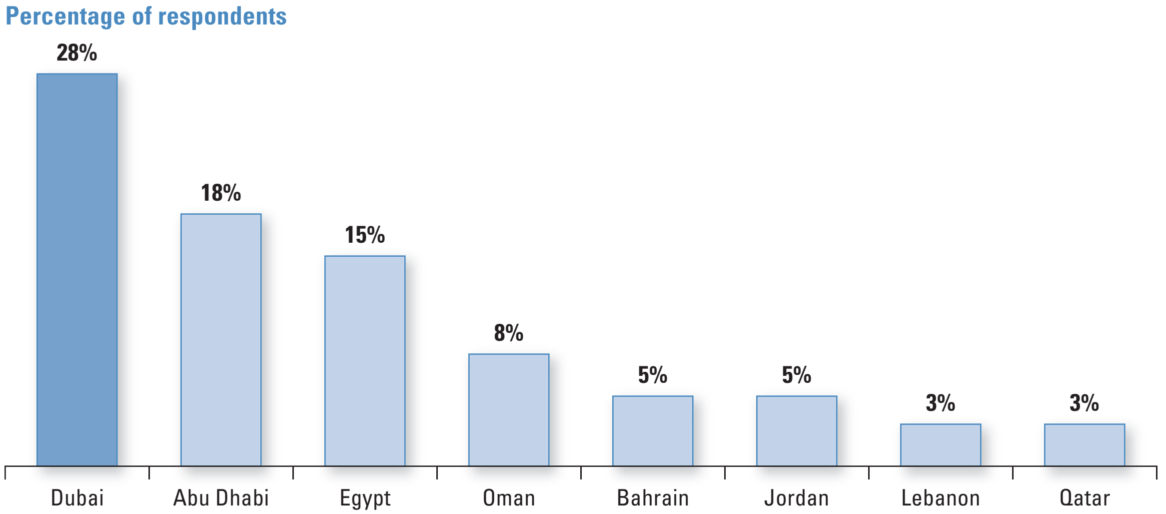
This is an especially encouraging sign of future investment flows and the likelihood that investors will continue to flock to Dubai for the foreseeable future. While a top ranking does not necessarily mean that Dubai will attract the largest dollar amount of investments in the region over the next three years, it does indicate that those who have investments in Dubai are committed and will continue to expand based on their positive experience and performance, and that new investors are considering investing in Dubai. This will continue to broaden the investor base present in Dubai going forward. These findings compare well with the A.T. Kearney 2010 Foreign Direct Investment Confidence Index, which ranks the United Arab Emirates as the 11th-most-cited investment location globally for the next three years and the top destination in the Middle East *(see sidebar: A Look to the Future of Global FDI Flows on page 5)*.

Dubai as Regional Access Point for FDI

Dubai has emerged as a major access point for foreign investments, with many companies using it as a platform to enter the wider region. Among respondents with investments in the Middle East, less than one-third have no investments in Dubai or no future plans for FDI in Dubai. An overwhelming majority of investors

Figure 2

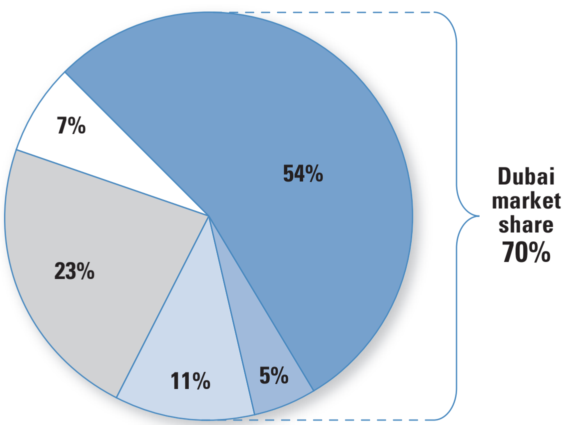
Top future Middle East investment destinations among investors in the region



Sources: UNCTAD, 2010 Foreign Investment Office Study

Figure 3
Most Middle East investors are in Dubai or planning to enter it

Percent of respondents



Investors in Dubai

Investors in the Middle East planning to be in Dubai in the next three years

Investors not in the Middle East but planning to be in Dubai in the next three years

Investors in the Middle East but not in Dubai

Investors not in the Middle East and not planning to be in Dubai for the next three years

Source: 2010 Foreign Investment Office Study

planning to enter the region say they will settle in Dubai. Most of these global companies use Dubai as part of their total value chain to acces the region, keeping their most vital and strategic activities there *(see figure 3)*.

The area's population is young and vibrant. Today, the region that ranges from the Mediterranean to the borders of India encompasses around 1.7 billion consumers. In many countries, the majority of the population is younger than 25 years of age, meaning expanding labor forces and consumer markets with strong purchasing power in the years ahead *(see figure 4 on page 4)*. The broader MENA population is growing by 28 million people every year, with the population estimated to reach over 2 billion by 2018, of which more than 300 million will be in the Middle East. If the MENA market is important today, it will be even more important in the coming decades. Dubai's favorable business environment and central location gives it a competitive edge to continue to be the preferred regional FDI destination.

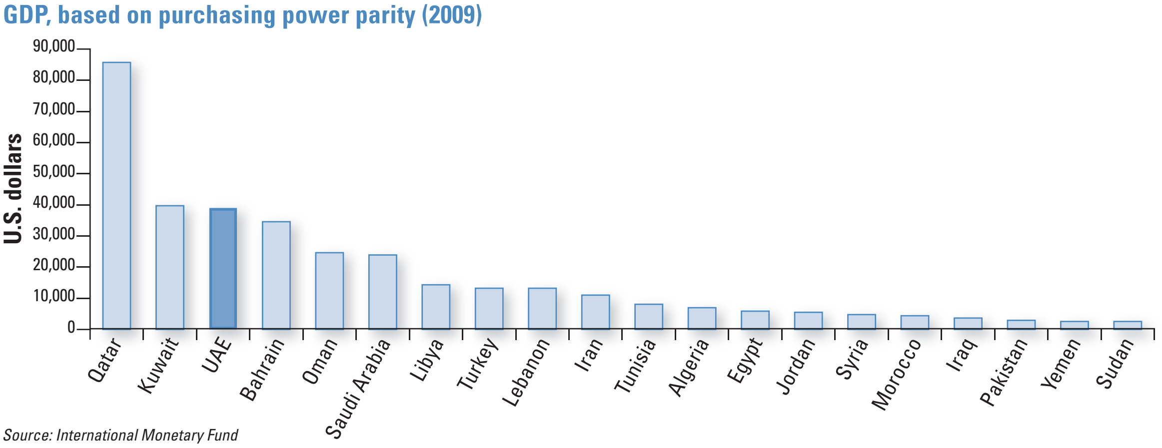
About the Study

The survey was constructed using primary data from a proprietary survey administered to senior executives of the world's leading corporations. The respondents were selected from the largest corporations in emerging economies. Participating companies represent 44 countries and span 17 industry sectors across all six inhabited continents. Together, the companies comprise more than $2 trillion in annual global sales. Respondents included not only C-level executives, but also regional and business heads. The survey was conducted in October through December 2009.

The secondary sources used in this analysis are the A.T. Kearney 2010 FDI Confidence Index, United Nations (UN) World Population Prospects, United Nations Conference on Trade and Development (UNCTAD) World Investment Report, the International Monetary Fund (IMF), FDI Intelligence and periodicals and media.

Figure 4

UAE purchasing power ranks highly in the Middle East

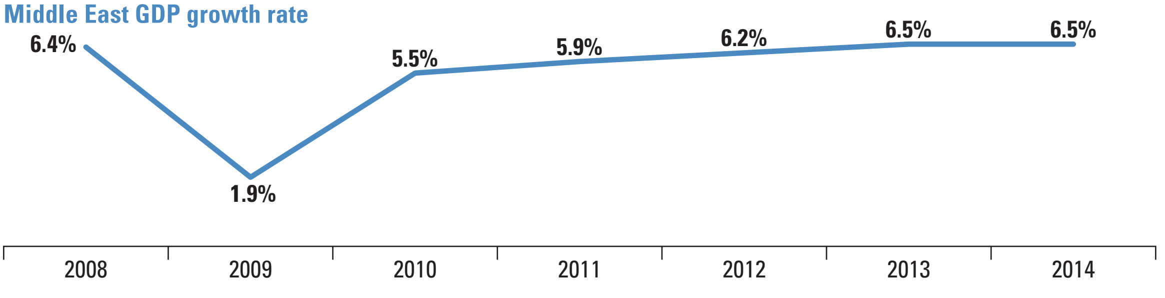


Source: International Monetary Fund

In a time of global economic crisis and bleak growth prospects for the developed world, the Middle East has become even more relevant. The International Monetary Fund (IMF) predicts that the region will rebound sharply in 2010 with a regional gross domestic product (GDP) growth rate of 5.5 percent. For the subsequent four years, growth rates are estimated to be more than 6 percent *(see figure 5)*. As a result, the region will add $1.5 trillion to its GDP over five years, moving from $3.5 trillion at the end of 2009 to more than $5 trillion by the end of 2014.

Figure 5

Middle East GDP growth is expected to rise



Note: Growth rates for 2009 through 2014 are estimates.

Source: International Monetary Fund

The past decade has brought dramatic growth in FDI flows into the Middle East. FDI in the Gulf Cooperation Council region has grown from $3 billion in 2000 to $62 billion in 2008, according to the United Nations Conference on Trade and Development (UNCTAD). Dubai has served as a major hub for much of the FDI activity to the region, and total inflows to the UAE peaked

A Look to the Future of Global FDI Flows

The A.T. Kearney FDI Confidence Index® tracks investors' likelihood of investing in countries in the next three years, thus assessing the future direction of FDI flows. The 2010 edition indicates that the largest emerging markets have remained attractive to foreign investors through the downturn. China, India and Brazil are in the Index top five, while emerging markets with large consumer bases, such as Indonesia and Vietnam, also rank highly *(see figure)*.

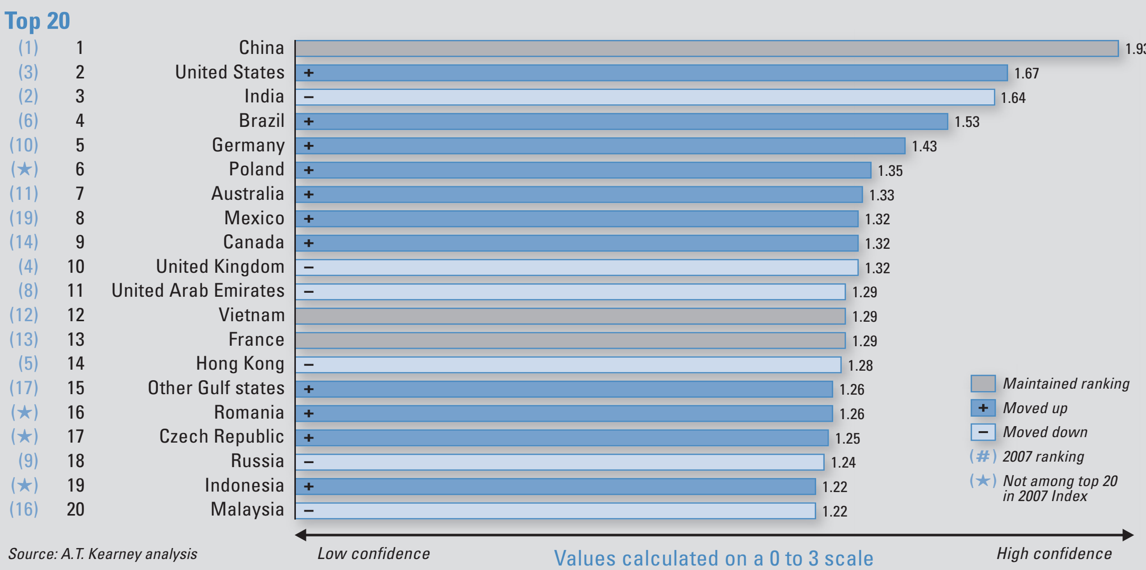
Countries in the Middle East also do well in this year's study. The top Middle East destination according to the executives surveyed as part of the FDI Confidence Index is the United Arab Emirates, which ranks in 11th place, just behind the United Kingdom. It is also the sixth highest-ranked emerging market in the world, after giants such as China, India, Brazil, Poland, and Mexico. Although the 11th-place position represents a fall by three places compared to the last edition of the Index in 2007, this is a strong showing in the middle of the worst global economic crisis since World War II. Asian investors in particular express interest in the UAE, and among industry sectors, financial services and telecom and utilities show express investment intentions over the next three years.

In Asia, investors are confident about China and India, the 1st- and 3rd-ranked countries respectively, but the more advanced economies, Japan and South Korea, fell out of the Index for the first time since its inception in 1998. Meanwhile, Brazil, the largest economy in Latin America, now ranks as the 4th most attractive destination for FDI. To the north, Mexico rises to 8th place as it remains a top destination for light industry and American companies seeking lower costs. In Europe, Poland and Romania moved up to 6th and 16th, respectively, while Russia slipped to 18th amid concerns that its pre-crisis boom times are now over.

Meanwhile, the developed world has benefited as investors seek cover during the worst recession since World War II. In particular, a flight to safety has drawn investors to the United States, which moves from 3rd to 2nd place in the Index. Other developed nations drawing inves-tors during the downturn include Germany, which rises to 5th place (from 10th), and France, which remains in 13th. Canada and Australia, whose abundance of resources have helped them weather the recession, move into the top 10. In contrast, the United Kingdom has faced an erosion of confidence, due to the severity of the financial crisis and increased fiscal deficits, and fell to 10th place from 4th in 2007.

Overall, the Index results indicate a return to market fundamentals such as market size, growth and stability, and a flight to quality by investors.

Figure: 2010 FDI Confidence Index®



Source: A.T. Kearney analysis

at $21 billion in 2008, according to FDI Intelligence.

Several factors have contributed to Dubai's status as a regional hub. Investors perceive that Dubai's competitive advantage is founded on its safety and security; global investors indicated that they fear terrorism and other security-related concerns, which they perceive to be of lower risk in Dubai than in neighboring countries. In addition, bureaucracy is seen as less problematic in Dubai than in other Middle Eastern countries. Poor infrastructure is often cited as a limitation in the region, but Dubai has the advantage of sustained high levels of investments made in road and rail infrastructure to keep pace with the breakneck speed of its economic development and rapid population growth.

Dubai Remains a Strong Regional Player

The global economic crisis has affected most aspects of economic activity, and FDI is no exception. UNCTAD estimates that global FDI flows were 50 percent lower in 2009 than in 2007 *(see sidebar: FDI During the Crisis on page 9).* The Middle East was not spared the effects of the crisis, and small, open economies were especially exposed. Dubai was no exception, as it experienced economic difficulties in 2009 that led to media speculation in the international business press that investors were planning to leave.

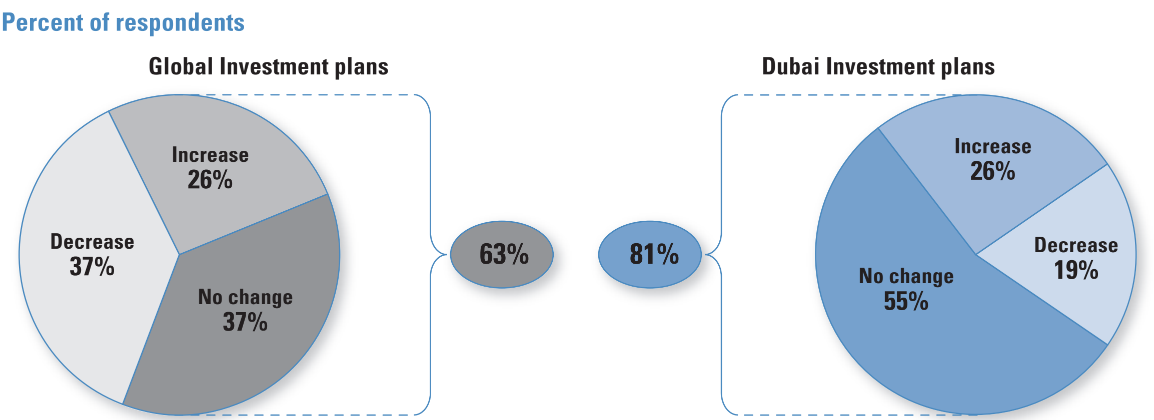
However, the survey finds that fears of an investor exodus from Dubai are unjustified. Despite finding that 12 percent of investors have a more negative perception of Dubai compared to 2007, the majority of investors will not consider relocating unless there are fundamental changes to the growth prospects of Dubai and the region.

In fact, the only factor that most investors agree would make them search for alternative locations is better conditions for market growth. Therefore, as long as Dubai manages to continue its positive long-range trajectory, it should not expect an exodus of investors to other countries in the region.

Overall, investor confidence in Dubai fared well when evaluating their intentions to either continue or increase their investments, indicating a positive position in times of turbulence. Asked about their future plans in Dubai, 81 percent of investors surveyed that have investments in Dubai

Figure 6

More investors plan to maintain or increase investment in Dubai than the global average



Note: Global investment plans are for all investors surveyed; Dubai investments are for those investors already in the Middle East
Source: 2010 Foreign Investment Office Study

plan to either maintain or increase their presence in the next three years.

These findings are especially striking when compared to equivalent global figures. When asked about their global investment budgets, 37 percent of investors indicated that they plan to decrease their investments. Compared to the global outlook on investments, 18 percent more investors in the UAE plan to maintain their investments, and 26 percent plan to expand *(see figure 6)*.

Almost half of the investors who are planning to increase their investments in Dubai plan to reinvest in their current businesses. The general rule that the current investor is key to future investment flows appears to hold true in Dubai. This is especially important in times of economic crisis, when a plethora of investors seek new opportunities. Approximately 29 percent of the bullish investors plan to enter into new joint ventures with local partners, and 14 percent plan to acquire equity in local companies in order to grow their presence in the market *(see figure 7)*. Investors who are opting not to grow their investments in Dubai are mainly concerned with limited market growth, indicating a wait-and-see approach for the many who are retrenching during the economic crisis and waiting for the economy to turn before committing to new investments.

What is the nature of future investments in Dubai. A number of industries stand out as more positively inclined than others to invest. The industry that is the most bullish on future prospects in Dubai is telecom and utilities, which ranks Dubai as its third choice globally. The only countries that score higher in terms of confidence are the fast-growing East Asian countries China and Vietnam, both with very large consumer markets and huge modernization needs.

Dubai, a top choice among executives from the financial services industry, is cited as the sixth most important destination globally for future investments, ranked right behind Hong Kong and ahead of prominent financial centers such as Switzerland and Singapore.

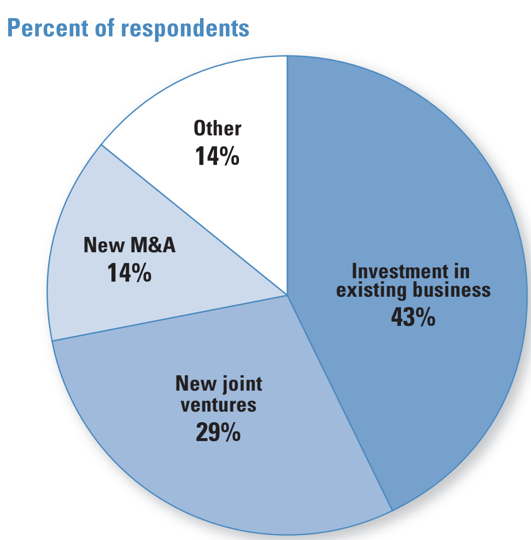
Among non-financial services executives (representing companies from fields such as transportation, business services, health care, legal services and education) Dubai ranks among the global top 20 with Canada and Spain. While primary industry companies rank Dubai above the global median, manufacturing industries are more bearish about Dubai's prospects, with representatives from both heavy and light manufacturing industries ranking Dubai below the global median.

Trust in Dubai's Ability to Rebound

According to the investors interviewed, Dubai has reached the next level of economic maturity and represents a key access point for businesses planning to expand within and beyond the Middle East. While Dubai fulfills key basic criteria for

Figure 7

Growth strategies for Dubai investors



Source: 2010 Foreign Investment Office Study

FDI, investors with regional experience point to several challenges for further FDI growth in Dubai, such as transparency and availability of business data, ease of doing business, corporate governance and regional integration.

These challenges are common to more mature FDI destinations, indicating a maturing investor market in Dubai. To take FDI growth to the next level, FDI policies will have to consider how to overcome these issues.

Investors express strong confidence in the underlying strength of the economic fundamentals in Dubai and in the Emirate's ability to rebound from the current economic crisis. It is cited as one of the top reasons to invest in Dubai.

Although investors are facing challenging times, their confidence in Dubai is rooted in its ability to rebound and bring back regional investment opportunities. Their outlook is based on Dubai's ability to foster strong infrastructure mixed with its business savvy approach and innovation. It is important to note that a large portion of investor confidence in the rebound is based on Dubai's history to deliver strong economic performance across several sectors.

Final Thoughts

The study demonstrates that Dubai is regarded as a catalyst for the region. While there are still opportunities for other areas to excel, the study's significant results indicate that Dubai is the destination of choice for future regional FDI and has the strength and talent to rebound against the international economic downturn.

FDI During the Crisis

The world is undergoing a modest economic recovery from the worst recession since World War II. The economic crisis hit developed and developing countries alike. In developed economic regions, growth turned negative in 2009, to minus-2.5 percent in the United States, minus-3.9 percent in the euro area and minus-5.3 percent in Japan. In developing regions, growth was slowed significantly; for example, developing Asia's growth rate was reduced to 6.5 percent, while Africa's was slashed to 1.9 percent. Overall, the International Monetary Fund estimates global GDP contraction of minus-2.5 percent in 2009 compared to growth of 1.8 percent in 2008.

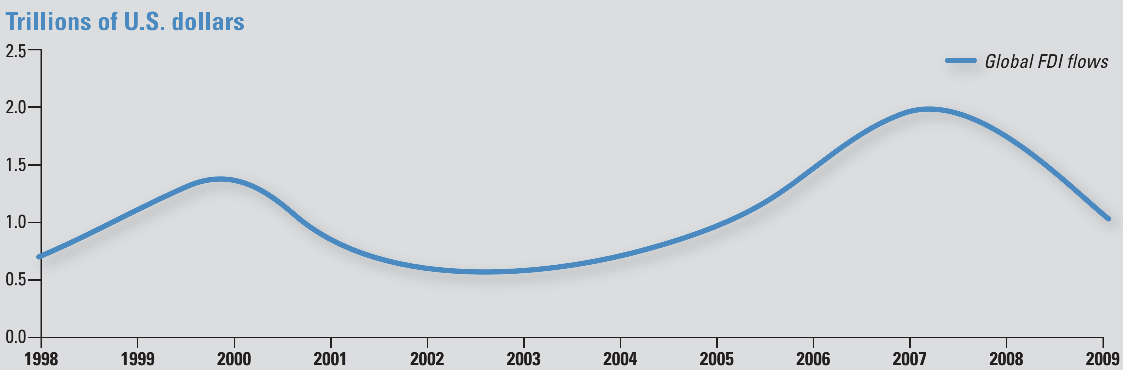
Not surprisingly, world trade has also suffered severely, with global exports slowing more than 10 percent from 2008 to 2009. Prices for international shipping of various dry bulk cargoes are well below recent historical highs and indicate a more restrained economic recovery.

In the wake of the global economic crisis, global FDI flows have declined sharply. After 20 years of almost uninterrupted growth—interrupted only by the recession of 2001 to 2003—global FDI reached a peak of almost $2 trillion in 2007. In 2008, that number dropped to $1.7 trillion, and UNCTAD estimates a 39 percent drop in 2009, to about $1 trillion *(see figure)*.

Interestingly, developed economies lost shares in the 2008 downturn, attracting only 57 percent of global FDI inflows in 2008 as opposed to 69 percent in 2007. The United States remains the top FDI recipient, attracting $316 billion in 2008, more than double the amount of the second largest destination, France. Half of the top 20 FDI locations in 2008 were developing countries, led by China. This clearly indicates the increasing importance of developing nations in the attraction of investors' attention. However, developed economies still make up the top 10 FDI investors, led by the United States, France and Germany. Overall, the amount invested by the top 10 FDI outflow countries is on par with the amount the top 25 countries received in 2008.

Whether FDI will recover soon is closely associated with the expectations about the future global economic growth trajectory. UNCTAD expect slow recovery through 2011, creating a challenging environment for all countries, particularly smaller economies that serve as regional investment hubs. For Dubai, it is vital to know what investors are thinking and seeking, and to be more effective at capturing those scarce investment dollars.

Figure: Global FDI flows dipped during the downturn



Source: UNCTAD, World Investment Report, 2009

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