

# Topic #1 - The Challenge of Oil - Diversifying the Economy

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Vast oil and natural gas reserves have utterly transformed the United Arab Emirates (UAE) from an impoverished group of desert sultanates to an extremely wealthy, cosmopolitan nation. With nearly 98 billion barrels of oil reserves—about 10% of the world's supply—the UAE has acquired vast sums of money, which it has invested in state-of-the-art infrastructure along with public health care and education for all citizens. Such investments also have made Emiratis content to be ruled by a monarchy of sultans, with no democratic participation. At the same time, however, the oil boom that began in the 1970s has fueled massive construction projects and population growth rates of close to 4%—severely taxing the desert nation's resources. Water supplies in particular have been affected, as freshwater needs vastly exceed renewable water sources. Like the economy, the desalination plants that provide enough potable water for domestic, industrial, and agricultural use rely on oil. At current rates, the UAE's oil reserves are expected to last another 150 years, but the government still is trying to diversify to protect itself from relying too heavily on one industry. Such sectors as tourism and fishing have grown in recent years, and overseas investments of approximately \$600 billion are major income earners as well. However, nearly 40% of gross domestic product still comes directly from oil and natural gas production; even such sectors as the construction industry and government enterprises are highly dependent on oil revenues, and the nation's investments also come from oil money.

"United Arab Emirates: Contemporary Issues." *World Geography: Understanding a Changing World*. ABC-CLIO, 2015. Web. 21 May 2015.

# Free zone trade accounts for a third of UAE's non-oil economy

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Trade through the free zones represented 33 per cent of the UAE's non-oil trade in 2014, according to Sultan Al Mansouri, UAE Minister of Economy.

"Free zones play a key role in globalising and diversifying the UAE's economies, that adopt the principles of free trade. They help stimulate trade and investment, and facilitate the transfer of skills, knowledge and technology," he said yesterday at the opening session of the first annual International World Free Zone Conference and Exhibition, which was attended by Shaikh Mohammad Bin Rashid Al Maktoum, Vice-President and Prime Minister of the UAE and Ruler of Dubai.

During 2014, free zone trade grew by 16 per cent over the previous year, Al Mansouri said. The UAE today boasts 36 free zones with specialised sectors for trade, clean energy, industry, ICT, media, finance, gold and metals, and health care, he said.

The UAE has driven its economy with a focus on the foreign trade, investment and industry sectors.

These efforts have resulted in strengthening diversification and boosting the UAE's trade status globally by increasing its competitiveness, according to Al Mansouri.

The UAE has also become the leading Arab country for attracting foreign direct investment. FDI flows increased from \$4 billion in 2009 to \$11.85 billion in 2014, he said.

Juma Mohammad Al Kait, Assistant Undersecretary Foreign Trade Affairs at the UAE Ministry of Economy, attributed the successful economic model of the UAE to the strength of the structural component and the policy of economic diversification pursued by the country.

"Back in 2000, the UAE had a small oil-dependent economy with a gross domestic product (GDP) of Dh383 billion, which progressively climbed up, growing by 286 per cent to Dh1.4 trillion in 2013," he said.

He is expecting steady economic growth of five per cent in the coming five years.

"Understanding their importance in ensuring sustained global growth, the UAE government has assigned special focus to ensuring the success of free zones operating within the country," Al Kait said.

He attributed this success to the country's ability to provide investors and businesses with advanced infrastructure and enabling services as part of its business-friendly landscape and transparent regulatory environment.

UAE free zones allow 100 per cent ownership, allow the transfer of all profits outside the country, while providing exemptions on customs and tax, he said.

Al Mansouri said that free zones will undoubtedly emerge as an essential and integral part of the national strategy for future economic development and will certainly play a more significant role in global trade in general.

“However, to be truly successful free zones have to offer more than just a place for business with relaxed regulation,” he said.

They need to be established carefully in strategic locations. At the same time, governments have to provide them with the right infrastructure, and implement appropriate regulations for their growth, he said.

The number and scope of free zones that should exist in any country for best results is still debatable. Even if there is such a desired limit, markets in Asia, Europe and the Middle East are still to reach that point, he said.

Bitar, Zaher. "Free Zone Trade Accounts for a Third of UAE's Non-oil Economy." *Free Zone Trade Accounts for a Third of UAE's Non-oil Economy*. Gulf News, 12 May 2015. Web. 21 May 2015.

# Made in the UAE: New champions of UAE industry

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An increasing flow of locally produced goods is positive news for the UAE's energy dependent economy, but increasing the nation's manufactured exports will require overcoming some significant obstacles.

Oil and gas, which accounts for 40 per cent of the country's GDP, has long held the banner for the 'made in the UAE' label, but plunging oil prices have once again exposed the perils of having an economy driven by a single powerful industry.

"We have diversified the economy in the last 42 years, and while it will not have any immediate effect on the federal budget, it will eventually in the next two to three years," said Sultan Al Mansouri, the Minister of Economy, earlier this year amid tumbling oil prices.

Apart from petroleum based products, the country has long had a handful champion industries contributing heavily to exports.

After 25 years of operations, RAK Ceramics is posting US\$1 billion in global sales annually, and date conglomerate Al Foah ships 80,000 tonnes of their products around the world.

Companies exporting foodstuffs, metals, textiles, chemicals and other industrial goods add to the list.

As exports steadily climb, efforts from political and business leaders, along with academia, hope to continue furthering manufacturing's contribution to the economy.

Although in its "infancy", Dr Yehya Mohamed Al Marzouqi — an Emirati business leader with experience in the oil and gas industry, banking, and now manufacturing — sees the potential for growth in the sector.

"I am certain that with the economic diversification plan which is in place, with clear vision and commitment from the top, the future of the manufacturing sector will grow," said Dr Al Marzouqi, who now works as an executive director with manufacturing and technology investment firm Tawazun. "The contribution to GDP will be bigger.

"The main driver for realising such a vision is the development of human capital Emirati at all levels within the sector. Additionally as part of creating a knowledge-based economy in the country, it is vital to develop a conducive environment for small and medium enterprises to flourish."

In 2000, UAE-manufactured exports were calculated at Dh30.5 billion by the Dubai Chamber of Commerce and Industry.

Fourteen years later, the Chamber's members reported over Dh290 billion in exports for 2014, a Dh5bn increase from 2013, and more than an 8 per cent increase from 2012.

An earlier report from the DCCI in 2013 said manufacturing accounted for 53 per cent of the UAE's total non-oil exports in 2012, and 22 per cent of total exports including oil — with the GCC nations representing the largest export market, predominately Saudi Arabia.

Other major export partners include Japan, India, and Iran.

Increasing exports with the 'Made in the UAE' label means local producers will have to compete in a globalised world, said Mr Al Marzouqi.

"More and more organisations are becoming efficient and operating with best practices to penetrate different markets," he said. "The UAE, under the wise leadership, has made much progress and advancement, but it is work in progress and we need to tirelessly continue in this path."

Growing the sector means overcoming challenges unique to the UAE.

Leaders will also have to continue to entice younger generations to pursue an education in science, technology, engineering, and maths, all necessary skills for working in the field.

On a structural level, Mr Al Marzouqi said following through on plans for new legislation that will allow full foreign ownership of companies outside free zones could see increases in foreign direct investment, often seen as necessary for growth in the sector.

Fernando Zanella, an associate professor of economics at UAEU, said sector growth is imperative as the energy sector is not generating enough jobs.

"(The) manufacturing sector is a strategic sector to move away from oil and gas, to promote long term development, and generate high paying jobs to compete with the public sector in terms of pay," said Mr Zanella. "But for that to happen, nationals need to have the necessary skills."

"Human capital, along with physical and financial capital, is the basis for higher productivity and therefore for sustainable economic development."

In an effort to develop the future executives for the sector, United Arab Emirates University, in conjunction with Tawazun, began offering an MBA in manufacturing excellence in 2012.

Mr Zanella, a professor with the programme, says it will play a role in Abu Dhabi's Economic Vision 2030, which outlines plans to diversify the economy and support emerging areas of the economy such as manufacturing.

"The manufacturing sector is considered a strategically important sector in that vision," he said. "A right mix of capital — the UAE has it, technology — it is acquiring it, and human skills — which are developing rapidly, will create the conditions to produce locally without future financial support from the government," he said.

Samoglou, Emmanuel. "Made in the UAE: New Champions of UAE Industry | The National." *Made in the UAE: New Champions of UAE Industry | The National*. The National UAE, 9 May 2015. Web. 21 May 2015.

# Dubai ranked world's second hottest shopping magnet – again

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Dubai has retained its position as the world's second most important international shopping destination for the fourth consecutive year, closely behind London, according to the 2015 edition of the CBRE report: 'How Global is the Business of Retail?'.

According to the latest edition of the report by the leading global property advisor, Dubai has a presence of 55.7 per cent of international retailers. Last year saw new international retail brands enter the Dubai market almost on a weekly basis, with 45 global brands entering the emirate's already bustling retail mix.

Some of the high profile retailers that entered the Dubai market in 2014 included Hollister, Cavalli Caffe and McQ Alexander McQueen opening outlets in the emirate.

The findings of the report confirm that despite a drop in global oil prices, Dubai's retail sector – one of its primary economic growth engines – has continued to dominate the global rankings thanks to the emirate's competitive shopping offerings for its residents and tourists alike.

"Dubai's retail sector has remained resilient over the past few years, with major retail centres recording occupancies of over 95 per cent and rising footfall figures," the CBRE report states.

The report highlights the factors that continue to propel Dubai among the very top in the global retail standing.

"Dubai's success has been driven in part by the overall quality of its developed infrastructure, and a combination of factors ranging from the ease of travel, visa availability, air flight connections and hotel quality," it notes.

"Dubai Chamber welcomes news that the city has retained its position as the second most important international shopping destination globally for the fourth consecutive year. Dubai's retail sector is vibrant and continues to be driven by strong economic growth, increased consumer spending and tourist arrivals, which hit a record high of 13.2 million last year," said Hamad Buamim, President and CEO, Dubai Chamber of Commerce & Industry.

"Dubai provides a wide range of opportunities for foreign retailers and brands, whether that is individual stores or franchise options. The quality of available retail space is an added incentive for global retailers looking for expansion and key projects, such as Mall of the World promise a healthy future outlook. Dubai Chamber supports the retail sector through various initiatives and activities and as the voice of the business community we will continue to facilitate growth and developments in this important sector," Buamim added.

"Middle East shows no signs of abating with focus on Abu Dhabi and Dubai. With some of the biggest shopping malls on the planet, the environment for expansion in the Middle East remains attractive with

well-established franchise partners and templates for how to proceed being in place,” the report says, suggesting that growth will continue.

Retailer globalisation remained a key theme with half of the 164 cities surveyed attracting at least five new retailers. Markedly, Abu Dhabi featured prominently on the list of target cities with 55 new brands, ranking the emirate in third place for new retail entrants during 2014. Tokyo took the coveted top spot with 63 new retailers entering the market followed by Singapore.

International retailers continue to flock to Dubai as customers – both residents and tourists - see value in Dubai’s shopping, which is among the cheapest in the world. “Sustained consumer demand from both the local population and visitors from across the Middle East, Europe, Asia and beyond has been instrumental in the growth of the retail sector,” the report confirms.

Overall, the report highlights that even as Dubai has retained the Number 2 spot as a magnet for international retailers for four consecutive years, this year is going to be even better with more international brands making a beeline to add to the emirate’s retail offerings.

“The rise in tourist numbers along with the planned festive activities for 2015 will see another strong year for the retail sector. With strong fundamentals, the sector is expected to see further growth with the addition of new retail brands waiting to enter the market,” it states.

Globally, only London (57.9 per cent global retailers present in the city) is ranked above Dubai (55.7 per cent global retailer presence), with the other, more established cities following the emirate in terms of international retailer presence. Shanghai (53.4 per cent) and New York (46.3 per cent) are next in line, with jointly ranked Singapore and Moscow (46 per cent each) making up the rest of the top five international cities for retail representation.

These cities are followed by Hong Kong (44.7 per cent), Paris (44 per cent), Tokyo (43.4 per cent) and Beijing (41.7 per cent) make up the remaining Top 10.

The traditional retail triumvirate of London, Paris and New York continue to be challenged and in some cases overtaken by cities from Asia Pacific and the Middle East, the report notes, adding that this trend is likely to continue and there will be a day when we see a new number one atop the overall retail penetration rankings.

“The growth of Dubai’s tourism sector over the past decade has been nothing short of phenomenal as visitor numbers have increased exponentially from around 5.4 million in 2004 to over 11.6 million in 2014,” it states.

“The role of the retail market has been pivotal in this success with the Emirates becoming synonymous with high-end retailing, offering unrivalled exposure to luxury products and placed second only to London in overall brand coverage globally,” the report notes.

“Dubai’s global air connectivity and its growing stature as a hub for trade between the East and West has clearly given an added impetus to the retail sector. Dubai continues to remain the clear destination of choice for the majority of the brands looking to enter the region for the first time, frequently using the

emirate as a stepping stone to wider regional expansion programs,” said Nick Maclean, Managing Director, CBRE Middle East.

“Whilst Dubai has maintained its position for overall retail representation in 2014, the increased number of new retailer brands entering Abu Dhabi has been driven in part by a significant increase in supply in the capital amidst the opening of a number of new malls, most notably Yas Mall which opened in November 2014,” added Maclean.

Mid-range fashion retailers remained the most active sector globally and focused on targeting the European market. Whilst luxury and business fashion retailers continue to target the Americas and Asia Pacific region with 26 per cent of expansion into the Americas and 24 per cent in Asia, coming from this sector. Luxury retailers contributed more than one-fifth of new retail entrants to Asia Pacific last year.

“Dubai’s economic growth remains strong and it retains its position as a leading leisure and shopping destination in the world. The UAE retail sector will continue to see strong growth in 2015, driven by robust inbound tourist numbers and demand for new brands in the region, with almost all retailers using the UAE as a hub for their entry into the GCC. In addition, the UAE’s free-market economy, which makes it easy to do business in the country, will be a key driver of this growth,” said Ahmed Galal Ismail, CEO, Majid Al Futtain Ventures.

Majid Al Futtain owns and operates 17 shopping malls, 11 hotels and three mixed-use communities in the region. Its malls portfolio includes Mall of the Emirates and City Centre malls.

“We have witnessed high growth last year, and with our regional expansion plans, we remain committed to growing this further,” said Ismail.

"Dubai Ranked World's Second Hottest Shopping Magnet – Again." *Emirates* 24/7. *Emirates* 24/7, 19 May 2015. Web. 21 May 2015.

# Partnering to achieve the UAE's vision of an innovative future

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The leadership of the UAE has set ambitious and exciting targets with the UAE Innovation Strategy. This initiative will touch on far ranging issues from renewable energy to health and technology with an eye on transforming the UAE into an innovation first society.

Achieving such a far-reaching transformation cannot be done quickly or by one party alone for it requires collaborative participation across the key sectors that drive its social, economic and academic growth. Public-private partnerships are a key element of the UAE innovation strategy as they can play a critical role in achieving our mutual benefits, with private institutions or entities working together with government and semi-government organizations to pursue shared goals. Masdar Institute is pleased to be leading in some of these key collaborations, partnering with local government and industry to help solve problems and achieve results.

With renewable energy and sustainability part of Masdar Institute's very fabric, it is probably no surprise that many of our collaborations are linked to energy. But what may surprise some is how closely we work with the UAE's other priority economic sectors. That is because we recognize them to be partners in the UAE's transformation; they are the pillars that have and will carry the weight of the UAE economy and should be helped to transition to the country's next phase of growth.

The UAE's oil and gas sector is focused on optimizing the extraction and utilization of the precious resources that have brought the UAE great prosperity and so Masdar Institute is working with the Abu Dhabi National Oil Company (Adnoc), Total and the Petroleum Institute to map the complex behavior of the region's carbonate reserves with a view to maximizing oil recovery. The 'Digital Rock Physics' (DRP) project pools our technical resources and expertise, alongside that of the Petroleum Institute, to produce an extensive archive of rock images in microscopic detail, as well as to digitally simulate and test the behavior of oil and gas reservoirs. Masdar Institute's state-of-the-art microscopy facility is examining local rock samples at the nano-scale to generate 3D images of the pore network and pore morphology of typical Abu Dhabi reservoir rock cores.

The metal industry was one of the critical sectors targeted in the Abu Dhabi Vision 2030 and aluminum in particular is one of the Gulf region's hottest industries, with investment tipped to reach US\$55 billion in 2020. Aluminum is also a feedstock of two of the sectors targeted in the UAE Innovation Strategy — transport and space — and the UAE aluminum manufacturing sector has a significant effect on energy as one of the country's largest consumers of electricity. To secure a continuing competitive edge, Abu Dhabi's aluminum giant —Emirates Aluminum Company (EMAL), now part of Emirate Global Aluminum (EGA), sought the expertise of Masdar Institute's mechanical and materials engineering faculty. The results of this collaboration can help Emal reduce its energy consumption and thus improve operational cost while supporting preservation of the UAE's natural gas resources. The results of the

project can be applied to fine-tuning of existing Emal plants and in the design of new plants. This kind of collaboration benefits Abu Dhabi by helping improve the competitiveness of its industrial entities.

Another research area that is critical to Abu Dhabi's strategic ambitions relates to water. It is estimated that desalination technology – which converts seawater to freshwater – produces about 40% of the UAE's water supply. As part of Masdar's broader renewable energy water desalination program, Masdar Institute is currently working with a number of international companies to develop and improve renewable energy-powered desalination technology, so that renewable resources, particularly solar, can be used to turn seawater into freshwater.

With collaborations like these, Masdar Institute is offering the best of its minds and facilities to help solve some of the UAE's most pressing needs — whether they are that of an individual manufacturer or a government agency. With the UAE Innovation Strategy moving UAE government entities to increasingly dedicate resources to research and innovation projects, we are confident more research collaborations will be in the offing in 2015, helping draw the UAE closer to its ambitious but critical national development goals, and making the UAE brighter for us all.

*Dr. Steve Griffiths is the Executive Director of the Office of Institute Initiatives at Masdar Institute of Science and Technology in Abu Dhabi.*

Griffiths, Steve. "Partnering to Achieve the UAE's Vision of an Innovative Future." Partnering to Achieve the UAE's Vision of an Innovative Future. *Masdar Institute*. Web. 21 May 2015.

# The future of the UAE, according to Mohammed bin Rashid

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The United Arab Emirates' goal is to achieve the Number 1 rank on all global indices, according to His Highness Sheikh Mohammed bin Rashid Al Maktoum, Vice-President and Prime Minister of the UAE and Ruler of Dubai.

This is "an unwavering strategic goal and rank that we are keen to accomplish," said His Highness giving his 'inside perspective' in the business year: Dubai 2013 magazine.

## **Global Trade Hub**

Sheikh Mohammed pointed out that the UAE enjoys a "distinguished geographical location" at the centre of the world.

"We have chosen to strategically invest in building sustainable infrastructure that would establish our country as the main gate for trade in the region and beyond.

"Today, we feel proud of our world-class and highly-ranked sea and air ports, which have strongly positioned the UAE as a main hub for trade and travel worldwide," His Highness said.

## **Tourism Leader**

Another goal set for the nation by Sheikh Mohammed is for the UAE to be the world leader in family tourism.

"The UAE [has] fulfilled all necessary requirements, especially those catering to family tourism, which we seek to lead globally."

He said the UAE possesses the necessary constituents to attract tourism. "We gave this vital sector significant attention; especially in the light of emerging global trends such as the growth of the middle class in the Far East region and the remarkable increase in its travel budgets."

Sheikh Mohammed pointed out that the emergence of China as one of the new tourism exporting countries will definitely have an impact on the global tourism industry.

"Scrupulously monitoring and measuring these fast-paced changes, we are prepared to handle their global implications.

"Our reliable and state-of-the-art infrastructure underlines our capability to meet the growing demand for our country as the preferred tourist destination in the Middle East," His Highness said.

## **Strongly Pro-Business**

Sheikh Mohammed explained that since the early stages of the country's development journey, the leadership has been very keen to pursue the diversification of our national economy.

"The improvement of all economic sectors was emphasised, and global trends were closely monitored to identify opportunities that we could utilise towards achieving desired progress.

"Determined to create a healthy, inviting environment attractive to investment and supportive of the private sector, we embarked on setting a comprehensive and solid framework for our relations with the local and international business community based on the principle of partnership toward success."

## **Leveraging Opportunities**

Sheikh Mohammed said he has no doubt that the fast changing global political, economic and cultural trends have a greater and deeper impact on the future of nations.

"Economic growth has become chiefly dependent on the extent of a nation's pursuit of those trends, the level of flexibility in handling their implications, and the necessary actions take to cope with them.

"Our country has shown the utmost flexibility in coping with surrounding variables.

"Due to its precise goal-bound economic strategies and solid policies, the UAE has achieved outstanding progress on global economic indices," he said while explaining that "progress was obtained through strong emphasis on the human factor, which is the foundation of the development system that enables the UAE to achieve its goal of ranking Number 1 on all global indices.

"Under the leadership and directives of His Highness Sheikh Khalifa bin Zayed Al Nahyan, President of the UAE, our country recently ranked 19th overall on the Global Competitiveness Index (GCI), which was a five-rank improvement compared to 2012 - an achievement we are proud of and that gives us an incentive to work harder to obtain further progress and top the world in this and other indices," Sheikh Mohammed said.

## **Remarkable Transformation**

Sheikh Mohammed pointed out that since inception of the UAE four decades ago, the country has exemplified the true definition of success and rightfully claimed stature as a symbol of growth and prosperity.

"Perhaps the UAE's barren desert climate gave birth to unequivocal will and an unparalleled purpose to overcome every challenge it encountered.

"Hence, it remarkably transformed itself in a very short period of time into a beacon of success and development in the region."

## **Building a Better Future**

Sheikh Mohammed said he looks to the future with hope and faith.

"We have placed our trust in the capabilities of our citizens and their ability to achieve further success in various sectors, equipping them with all the necessary tools to sail into new horizons and build a better future for the coming generations.

"We shall continue to invest in developing our human resources, updating our legal and regulatory frameworks,

upgrading and further strengthen our infrastructure, and pursuing new levels of development and seeking to further establish ourselves as key partners in forming the future of humanity," Sheikh Mohammed concluded.

Chand, Eudore. "Exclusive: The Future of the UAE, According to Mohammed Bin Rashid." Emirates 24|7. Emirates 24|7, 1 Feb. 2014. Web. 21 May 2015.