

Emerging Markets Spotlight



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UAE Success in Economic Diversification

Discover how the UAE's strategic diversification and robust economic policies are positioning it as a leader amongst GCC nations.

KEY POINTS

- Gulf Cooperation Council (GCC) nations identify a need for economic diversification reducing reliance on hydrocarbon exports.
- The UAE has been the most successful among the Gulf Cooperation Council (GCC) nations in achieving economic diversification.
- Economic policy, including good political and trade relations with other countries, pragmatic reforms, and a golden visa scheme, has contributed to the UAE's success.
- The country's aspirations for its cities, especially its 'smart cities,' puts the UAE at the forefront of GCC countries' development plans.

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The Gulf Cooperation Council (GCC) comprises a group of wealthy Arab Gulf nations with similar historical economic development that has been built around hydrocarbon exports. Each of their rulers and policymakers also recognises that the future of their economic development must involve diversification into other industries. Among the GCC nations, we consider the UAE to have been the most successful and find that the basis of that success continues to make the UAE our preferred market in the region.

The UAE has been by far the most successful at achieving economic diversification. In 2012, the gross contribution to the UAE trade balance from services was USD 15bn, compared with USD 359bn from goods (of which USD 126bn was hydrocarbon exports). By 2021, the services contribution had risen to USD 102bn, while the goods contribution was USD 324bn (of which USD 63bn was hydrocarbons). The UAE is the only GCC economy that has seen this level of success in services. This success has been mirrored at the corporate level. For instance, the Emirati port operator DP World handles roughly 10% of all global shipping-container traffic, the country has two major full-service airlines, and many Emirati businesses, from banks to telecoms to renewable energy, have much larger international footprints than their GCC peers. Additionally, the country's Falcon AI project is a regional leader with the potential to significantly advance the UAE as a technology centre.

This success has been substantially driven by economic policy. The country has an external policy of good political and trade relations with the US, the EU, India, China, Russia, the Middle East (including Israel), and Africa and an internal policy of pragmatic reforms to support growth. This has included a golden visa scheme set up in 2019 that offers foreign professionals long-term residency. This scheme was recently liberalised further, removing the USD 270k minimum deposit required for people to qualify for a golden visa through real estate investment.

The UAE's edge over its regional peers can also be seen in aspirations for its cities. Given high levels of urbanisation, 'smart cities' are central to each GCC country's development plan, but the target dates reveal the UAE's lead. The UAE's original Vision 2021 plan, announced in 2010, has been largely completed and superseded by Vision 2030, but still puts UAE at the forefront compared to target dates of 2030 in Saudi, Bahrain, and Qatar; 2035 in Kuwait and 2040 in Oman.

This is supportive of a real estate sector that is doing exceptionally well (and to which the portfolio has substantial exposure). Last year, the UAE attracted more inward foreign investment for greenfield projects than anywhere except the US, the UK and India. Within the region, real estate contract awards in 2022 reached a record USD 205bn, 88% higher than 2012, and dominated by USD 92bn of contracts in Saudi Arabia and USD 78bn in awards in the UAE. Population growth, particularly in Dubai, is driving residential development volumes alongside price and rent growth, while visitors and inward investment support the commercial real estate sector. Dubai real estate prices rose 18.7% per square meter in the year to October 2023.

Other key sectors are also flourishing. Oil exports are estimated to be running at 3.7mbpd, which is around the record level. Foreign visitors to Dubai in December 2023 were 1.8m, again near record levels, reflecting a full recovery from the Covid downturn. The equity market valuation has derated in the last two years as the market has not kept pace with strong corporate earnings growth. We are overweight the UAE and alert to further opportunities there.

Source: Bloomberg/JOHCM.

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