



News

From Desert Sands to Investment Oasis

A Closer Look at how One Sheikh's Reforms Transformed the UAE



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For years, the United Arab Emirates (UAE) was the building site of the Middle East. Originally largely desert, the cranes took over a few decades ago and today, the country boasts some of the most exciting architecture in the world. Sophisticated transport networks and sprawling shopping malls put the UAE firmly on the tourist map, but it's taken the country a little longer to win over investors. A recent boom following a series of economic reforms and a powerful recovery in oil production has caught the attention of emerging market (EM) investors. Now, the UAE looks almost as bright and shiny as the Burj Khalifa after dark.

The return of oil and tourists

The UAE was hit badly by Covid, confirming the highest confirmed cases compared to its neighbouring countries in the Arabian Gulf States. Transportation revenues fell and aviation plummeted, leading to a variety of issues including a tumble in the profitability of their real estate market and a rise in unemployment. The travel ban, which stopped flights from flying into and out of the UAE, saw visitor numbers fall by 83% (compared to pre-Covid).¹

But the country has made a powerful recovery since then. The tourists are back and in 2022, the country welcomed almost 14.4 million overnight visitors, a 97% increase from 2021. The numbers we've had so far for 2023 are also extremely encouraging.² Both Dubai and Abu Dhabi revised some tax policies, including those related to alcohol, in a successful effort to boost tourism for both business and leisure.

There's also been a full recovery in oil production, which took a significant tumble during Covid. The country has the seventh-largest oil and natural gas reserves globally, equivalent to 97.8 billion barrels per year, which represents roughly 30% of their GDP.³ Covid caused huge delays in production and output fell below expectations, which took a toll on the economy. But supportive government policies and increasing investment have boosted the industry which now expects compound annualised growth of 8.4% in daily barrel numbers over the next five years.⁴

Structural changes for good

But it's the structural changes implemented by the current president, Abu Dhabi's Sheikh Mohamed bin Zayed Al Nahyan, that have lent the region the greatest support. Although this Sheikh does not operate a democracy, he is leading with sensitivity to the needs of his citizens and in a way that's supportive of growth.

His many reforms include the creation of a new visa category for non-nationals which allows residency for up to 10 years, whereas before the visas offered were relatively short-term. Plus, Abu Dhabi has also introduced a new freehold law which allows foreign investors to buy property, whereas previously, this was restricted to UAE and GCC nationals.⁵ If foreign nationals can now live and work in the country for a decade and buy property there, they'll really start to take a stake in the country, rather than just move transiently through. This is really helping support the movement of foreign nationals into the region.

Further successful reforms have targeted the development of Abu Dhabi and Dubai as financial centres, and in 2022, the region saw roughly a quarter of all global IPO volume. This boost has subsequently driven a rise in financial services firms opening local offices, which has firmly put it on the industry's map. Geography does help too as the UAE works in a similar time zone to London, with a working day that overlaps with both Asia and the US. Strong travel and transport links seal the deal.

Overweight UAE

In the Global Emerging Markets Opportunities strategy, we follow a top-down, country-level approach, believing that analysis of the asset class should always start at a national level. After taking a thorough look at the UAE's recovering tourism, trade and oil sectors in the context of the Sheikh's deep structural reforms, we moved our position to overweight. Our strategy is now exposed to domestic sectors in retail, commercial and residential real estate, and the commodity side of the economy in both Dubai and Abu Dhabi.

Despite all the bright lights, we think the region has perhaps previously flown under the radar, and the significance of the structural reforms has been underestimated. We'll keep the region under our active search as we aim to continue to deliver above-benchmark performance to our investors.

Source: JOHCM/Bloomberg

¹<https://www.scirp.org/journal/paperinformation.aspx?paperid=116672>

²<https://www.trusty.com/blog/research/the-latest-middle-east-north-africa-tourism-statistics#:~:text=%235%20United%20Arab%20Emirates%20Tourism%20Statistics,-When%20thinking%20about&text=In%202022%2C%20the%20iconic%20destination,2021%20to%2073%25%20in%202022.>

³<https://www.trade.gov/energy-resource-guide-united-arab-emirates-oil-and-gas>

⁴<https://www.mordorintelligence.com/industry-reports/united-arab-emirates-oil-and-gas-market>

⁵<https://www.roberthalf.co.uk/advice/career-development/thinking-relocating-dubai-here-are-latest-uk-visa-regulations-uae>

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