News

The Emirati Edge

The UAE has made major strides in diversifying its economy away from hydrocarbons, leveraging astute diplomacy to develop global services and property sectors

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The group of rich Arab Gulf nations that form the Gulf Cooperation Council (GCC) share the traits that their historical economic development has been built around hydrocarbon exports, and that their rulers and policymakers recognise that the future of their economic development must involve diversification into other industries. We consider the UAE to have been by far the most successful of these 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 of the GCC states at achieving economic diversification. In 2012, the gross contribution to the UAE trade balance from services was USD15bn, compared with USD359bn from goods (of which USD126bn was hydrocarbon exports); by 2021, the services contribution had risen to USD102bn, compared with USD324bn from goods (of which USD63bn was hydrocarbons). No other GCC economy has seen anything like this level of success in services. This success has been mirrored at the corporate level: 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. The country's Falcon AI project is also a regional leader with the potential to significantly advance the UAE as a technology centre.

This success has been substantially driven by economic policy, both an external policy of having good political and trade relations with the US, the EU, India, China, Russia and across the Middle East (including Israel) and Africa and by 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. It was recently liberalised further, removing the USD270k 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 its 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 lead that the UAE has. 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 USD205bn, 88% higher than 2012, and dominated by USD92bn of contracts in Saudi Arabia and USD78bn 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 in the year to October 2023 rose 18.7% per square meter.

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 around the record level and 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.

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