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The role of infrastructural investments in attracting FDIs: the case of Dubai

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OVERVIEW OF THE PRESENTATION

- Introduction to the Topic
- Literature Review
- The Case of Dubai
- The attractiveness of FDI
- Conclusion

Aim

1. Analyze the role of **infrastructure investments** in attracting inward FDIs in Dubai, with specific attention to **special economic zones** and specifically **free trade zones**.
2. Focus on the Jebel Ali Free Trade Zone, developing as an ancillary infrastructure for the adjacent (maritime and air) ports

Filling the gap in the literature

Scanty literature on:

- the fast growing oil-based countries of the Middle East, that are heavily investing on infrastructure development such as maritime/air ports and FTZs
- the typologies of FTZs in developing countries, and specifically in the Arabian oil-based countries (such as United Arabic Emirates- UAE)

FDIs' location factors

| Categories | Factors |
|---|---|
| Traditional location factors | <p>LABOR labor costs and availability labor skills and labor unionization</p> <p>MARKET market size and market potential competitiveness level and density</p> <p>LAND land costs and availability</p> <p>AGGLOMERATION ECONOMIES localisation economies urbanisation economies</p> <p>TRANSPORTATION COSTS OTHER COSTS taxes and financing</p> |
| Infrastructures, services and intangible assets | <p>Presence of and accessibility to infrastructures</p> <p>Utilities' quality</p> <p>Business services (banking and financial services)</p> <p>Scientific and technological assets</p> |
| Environmental and social context | <p>Social cohesion and sense of legality</p> <p>Economic, political and social stability</p> <p>Legal system</p> <p>Intellectual property right protection</p> <p>Bureaucratic efficiency</p> |
| Policy framework | <p>Competition policy</p> <p>Trade policy</p> <p>Tax policy</p> <p>Environmental policy</p> |
| Information costs | <p>Geographical distance from the core (of city, region, nation)</p> <p>Geographical proximity to the home country</p> <p>Cultural proximity between the home and the host countries</p> <p>FDI penetration</p> |

Source: Mariotti (2015)

Special Economic Zones typologies

- ✓ **Economic and technological development zones (ETDZs):** aim at attracting FDIs in harmony with local firms in order to introduce and diffuse advanced technologies and managerial techniques.
- ✓ **Hightech development zones (HTDZs):** they aim at increasing the value added of products by supporting specialized service firms that help local firms to adopt new technologies and processes.
- ✓ **Export processing zones (EPZs):** were created to develop export-oriented production and to increase foreign exchange earnings.
- ✓ **Free trade zones (FTZs):** deal mainly with the management of export processing, foreign trade and logistics and bonded warehousing.

(Pollio et al. 2015; Di Tommaso et al., 2013)

The Case Dubai (UAE)

- UAE the **fast developing country** in the Middle East: GDP growth rate around 900% (1980-2013), from US\$ 40,415 billion to US\$402,340 billion.
- Dubai is the **second (out of seven) largest federal of the UAE**, counting for around a quarter of the national UAE population.
- Dubai is **strategically located** at the cross roads of the major trading routes.
- Since the 1960s, **Oil revenues** invested heavily on developing **massive maritime/air port infrastructures**.
- Dubai hosts the 'Jebel Ali Port': since 2000s has marked itself among the **top ten world containers**; the main container port of the region.
- Dubai's **transportation model split** shows that more than **90% of freight** is transported via seaports.
- Dubai is the only '**Alfa+**' **world city** in Middle East (GaWC, 2012).

The location of UAE in the Middle East

Turkey

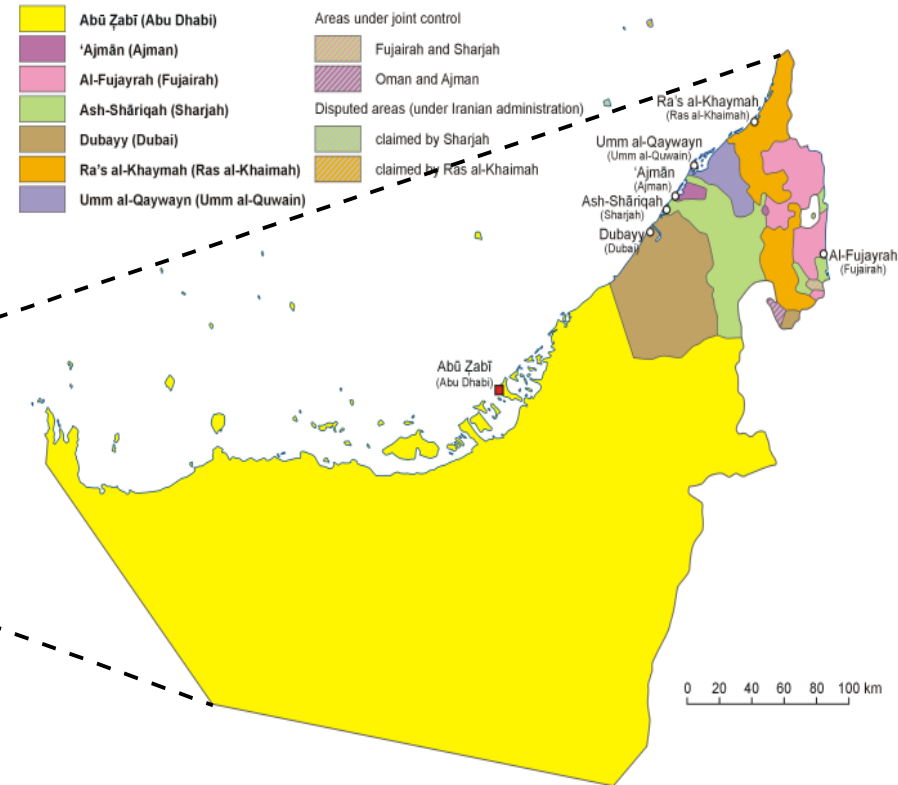
Iraq

Kuwait

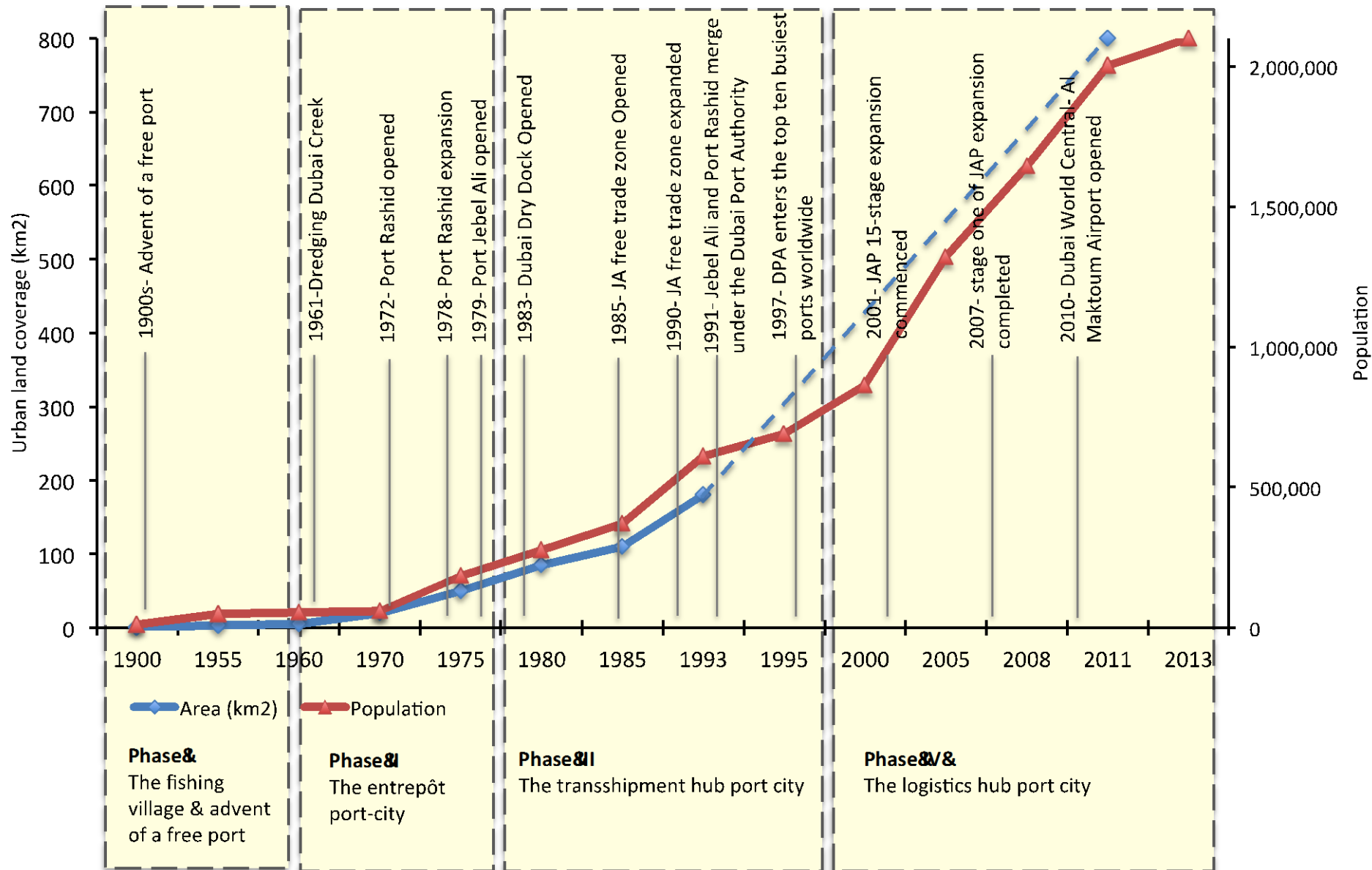
Qatar

UAE

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Dubai Four-Phase Infrastructural Development



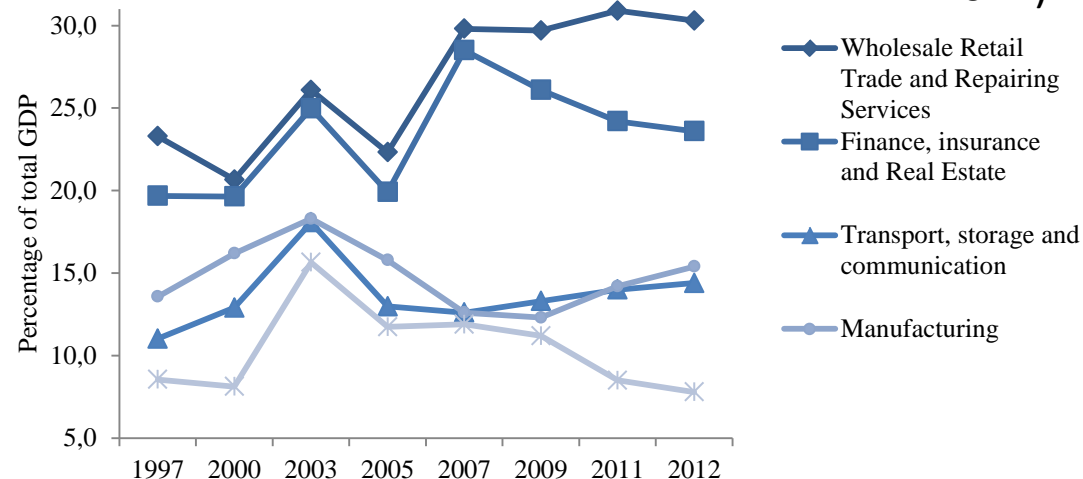
Economic Diversification in Dubai

The percentage share of UAE and Dubai's main economic sectors to GDP (2012)

| Main sectors | % of UAE GDP | % of Dubai GDP | % of employment in Dubai |
|------------------------------------|--------------|----------------|--------------------------|
| Mining and Quarrying (oil and gas) | 40.4 | 1.5 | - |
| Finance, insurance and Real estate | 15.2 | 23.6 | 9.0 |
| Manufacturing | 9.0 | 15.4 | 15.2 |
| Wholesale Trade and etc. | 8.9 | 30.3 | 14.2 |
| Transport and Logistics | 8.0 | 14.4 | 8.1 |
| Construction | 8.9 | 7.8 | 28.7 |

- Dubai is the only emirate with a **diversified economic structure**;
- the **oil contributes** less than 10% to the total GDP, since the 2000s

Share of key economic sectors in Dubai's GDP (1997-2012)

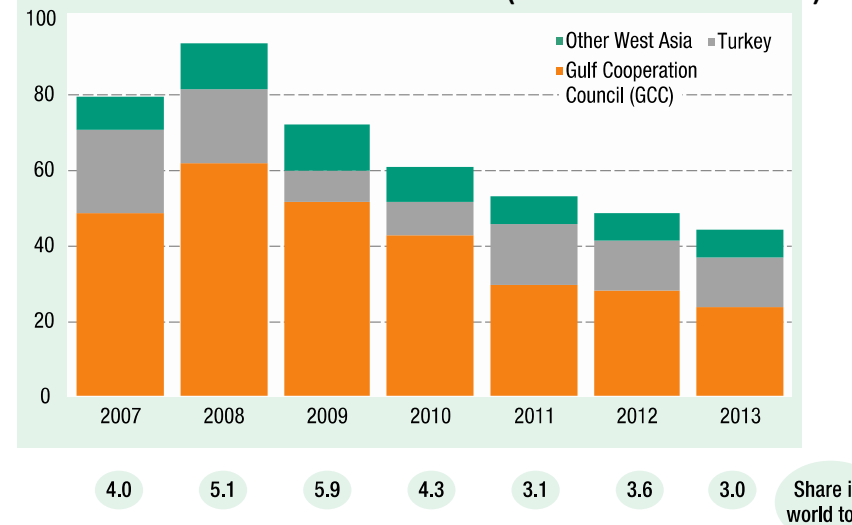


- Since 1990s, **trade** has been the dominant sector and currently marks **30.3%** of the total GDP;
- **Finance, insurance and Real Estate 23.6%** share of GDP;
- **The transportation and manufacturing: 15%** of GDP

The FDI Inflows into the Middle Eastern Region

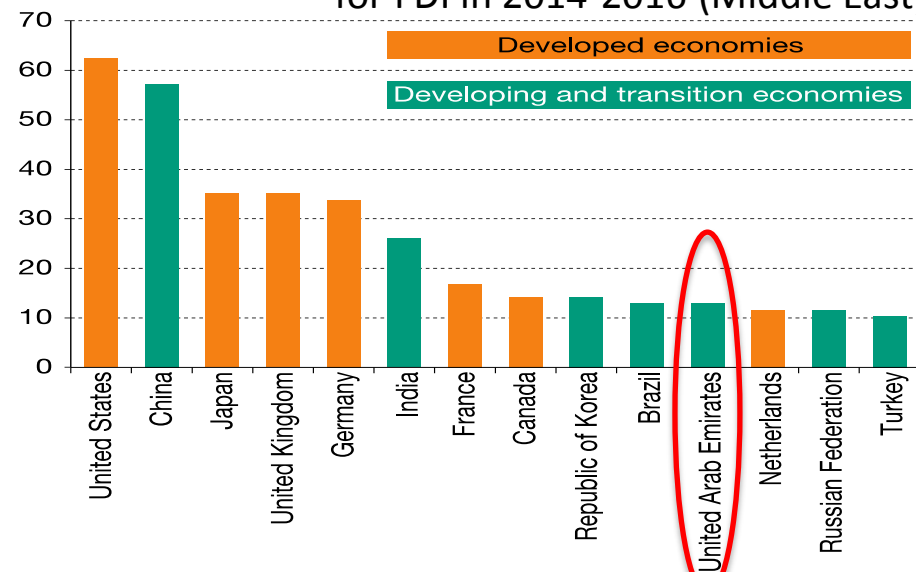
- The continuing tensions and political uncertainty...the level of **FDI flows decreasing**: %9 to \$44 billion (in 2013);
- **GCC countries** attracts more **than 50% of the FDI inflows** into the region

FDI inflows in to the Middle East, 2007-2013
(Billions of dollars)



Despite the continuing reduction in the level of FDI flows in to the Middle East, **UAE becomes the most promising developing economy investor in this region.**

selection of most promising investor home economies for FDI in 2014-2016 (Middle East)



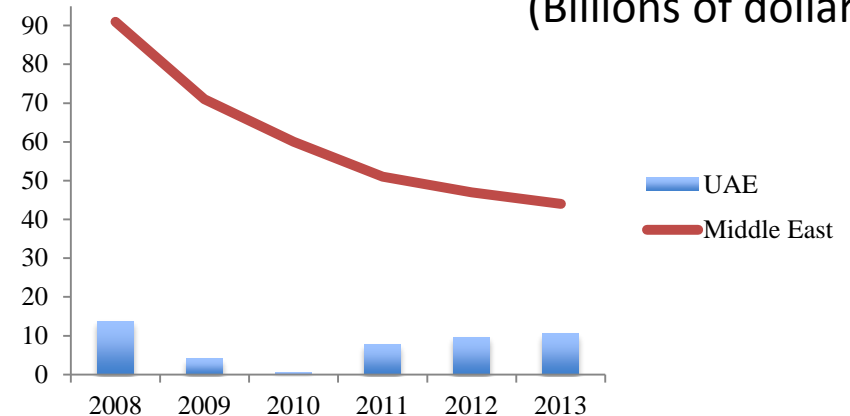
The FDI inflows into the Middle East and UAE

FDI flows, top 5 host and home economies, 2012-2013
(Billions of dollars)

- Turkey and UAE are the most important economies with more than \$10 billion of inflow FDI (in 2013).
- the increasing FDI flows to the UAE (in 2013) for the fourth successive year
- Despite the decreasing FDI in the region, UAE is recovering from the 2009 financial crisis.
- UAE attracts 25% of the FDI flows to the region (in 2013).



FDI Inflows into Middle East and UAE, 2008-2013
(Billions of dollars)



The inward FDIs flows in UAE

The three sectors: (i) **Real estate, renting and business activities**; (ii) **Wholesale and retail trade**; and (iii) **financial intermediation**, each **attract about 20% of the total FDIs in 2012**. **Manufacturing** attracts **10%** of the total FDIs, which shows a growing industrialization of the country.

FDI in UAE by economic activity (Million AED)

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---------|---------|---------|---------|---------|---------|
| Agriculture, forestry and fishing | 194 | 184 | 145 | 297 | 293 | 306 |
| Mining and quarrying | 8,747 | 10,099 | 9,997 | 9,171 | 7,971 | 13,618 |
| Manufacturing | 11,836 | 12,794 | 13,793 | 21,829 | 24,907 | 26,409 |
| Electricity, gas and etc | 16,960 | 5,381 | 5,915 | 6,278 | 6,565 | 6,896 |
| Construction | 17,654 | 17,225 | 12,498 | 11,078 | 10,621 | 12,221 |
| Wholesale and retail trade | 13,846 | 15,805 | 21,747 | 25,246 | 53,393 | 58,687 |
| Transportation and storage | 1,165 | 4,576 | 5,791 | 3,840 | 6,942 | 5,891 |
| Accommodation and food service activities | 1,278 | 1,033 | 1,033 | 2,138 | 1,251 | 1,325 |
| Information and communication | * | * | * | 1,317 | 1,853 | 2,176 |
| Financial intermediation | 31,395 | 46,137 | 42,890 | 54,897 | 55,317 | 57,717 |
| Real estate, renting and business activities | 30,460 | 39,780 | 46,242 | 54,347 | 59,852 | 71,340 |
| Professional, scientific and technical activities | ** | ** | ** | 1,978 | 7,920 | 8,298 |
| Administrative and support service activities | ** | ** | ** | 42 | 2,167 | 1,990 |
| Education | 3 | 7 | 34 | 235 | 245 | 334 |
| Human health and social work activities | 19 | 26 | 36 | 74 | 935 | 1,065 |
| Other community, social and personal service activities | 459 | 500 | 1,479 | 40 | 52 | 30 |
| Total | 134,017 | 153,546 | 161,600 | 192,807 | 240,284 | 268,303 |

Inward FDI flows in Dubai

construction and Financial activities attracted the most share of investments (around **35%** each);

wholesale and retail trade 20% share;

The FDI in **manufacturing** shows a 44% increase (in 2006), however still the whole picture reveals a small share for this sector (**2.5%**).

FDI by economic activities in Dubai (value in million AED)

| | 2005 | 2006 | % change |
|--------------------------------------|--------|--------|----------|
| Agriculture | 16 | 13 | -20.00% |
| Mining | 1,098 | 1,302 | 18.60% |
| Manufacturing | 737 | 1,061 | 43.90% |
| Electricity And Water | 39 | 46 | 19.90% |
| Construction | 13,239 | 14,652 | 10.70% |
| Wholesale and Retail Trade | 7,939 | 8,696 | 9.50% |
| Hotels and Restaurants | 3 | 38 | 1054.70% |
| Transportation and Communication | 603 | 851 | 41.00% |
| Financial Intermediation & Insurance | 12,931 | 15,025 | 16.20% |
| Others | 830 | 780 | -6.10% |
| Total | 37,435 | 42,463 | 13.40% |

The data on FDI by country of investment confirms Dubai's internationalization.

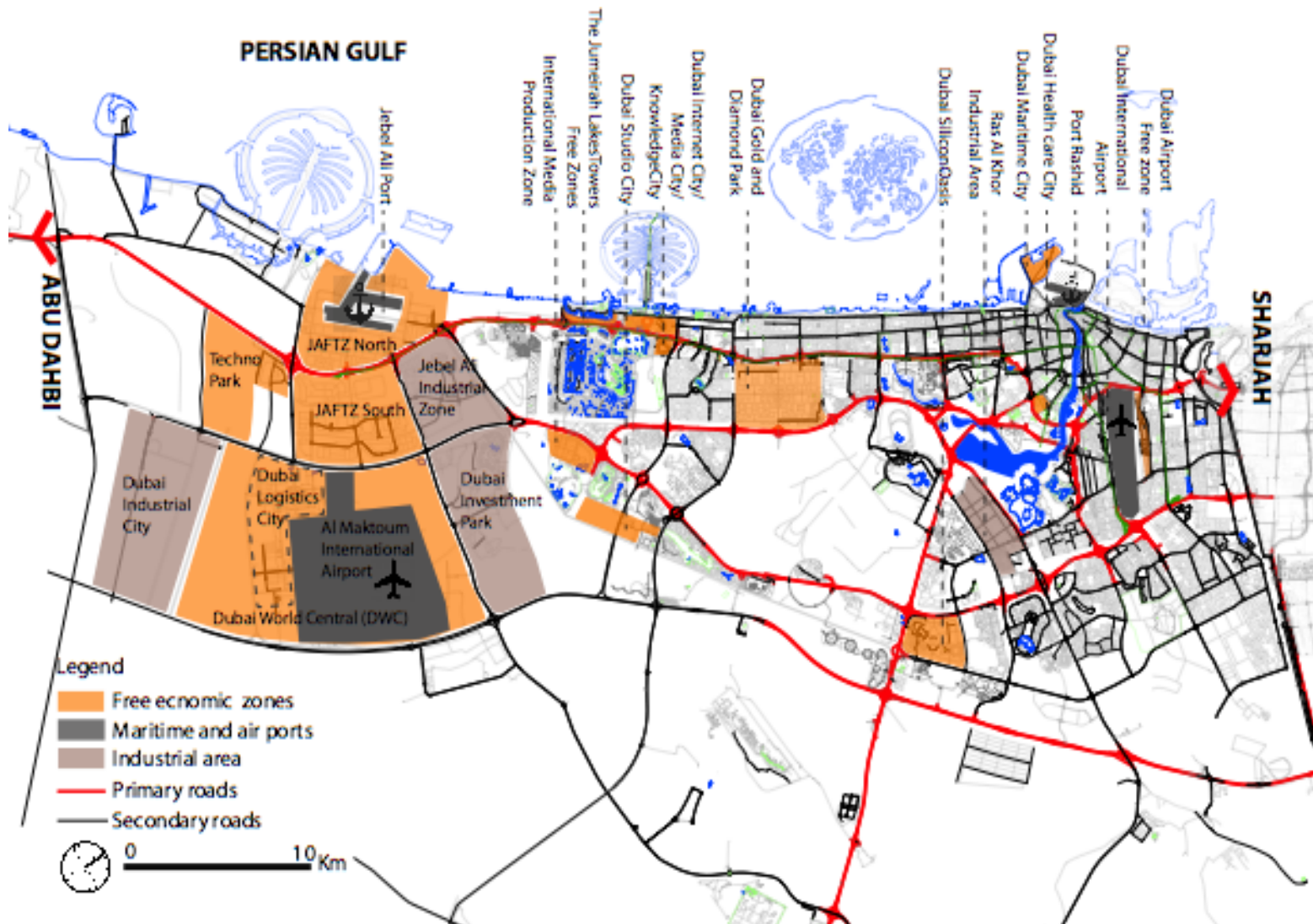
Around 45% are from Europe, followed by the non-Arab Asian countries (with 41%).

FDI in Dubai by source of investment (values in million AED)

| | 2005 | 2006 | % change |
|---------------------------|--------|--------|----------|
| GCC Countries | 979 | 1,208 | 23.40% |
| Other Arab Countries | 516 | 565 | 9.60% |
| Non - Arab Asia Countries | 16,169 | 17,569 | 8.70% |
| Europe | 14,798 | 19,047 | 28.70% |
| North And South America | 4,274 | 3,034 | -29.00% |
| Oceania | 592 | 911 | 53.90% |
| Others | 107 | 129 | 21.30% |
| Total | 37,435 | 42,463 | 13.40% |

The Free Trade Zones in Dubai

The UAE government has established 40 free zones, which the highest concentration of zones is in Dubai.



The Free Trade Zones in Dubai

Each zone hosts specific economic activities, such as information technology, media, automation, metal industries. However what characterizes all the zones are:

- (i) the provision of world-class infrastructures and facilities by the local government;
- (ii) tax cuts, if any, and
- (iii) little regulatory red tape, which are not available in the regulatory domestic area.

The Jebel Ali Free Zone (JAFZA):

- the first and the most important among the several FTZs (also at the national level);
- located at the Jebel Ali area, in between the seaport and Dubai World Central (airport and the logistics city).



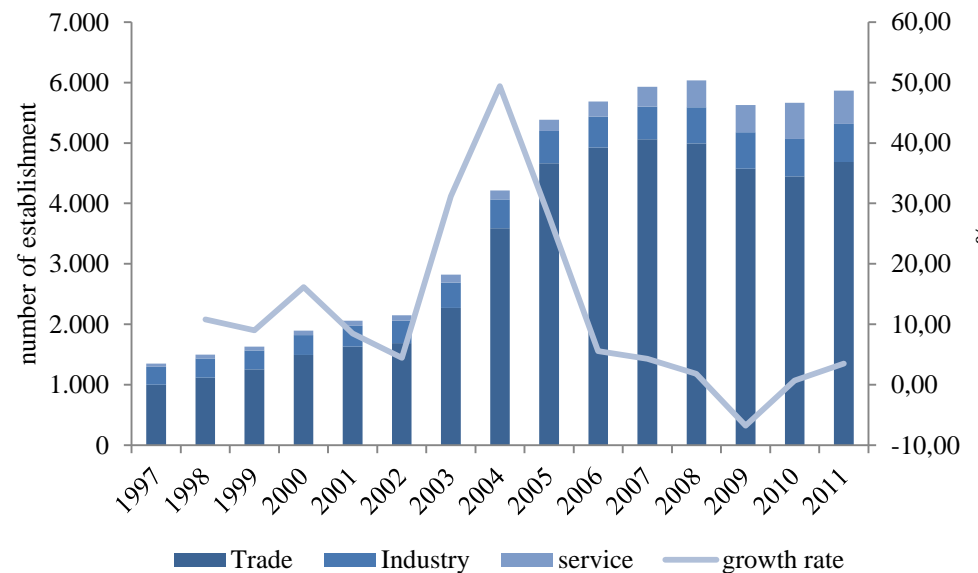
The Jebel Ali Free Trade Zone

Started with 19 companies (in 1985)
and 7100 (in 2013)

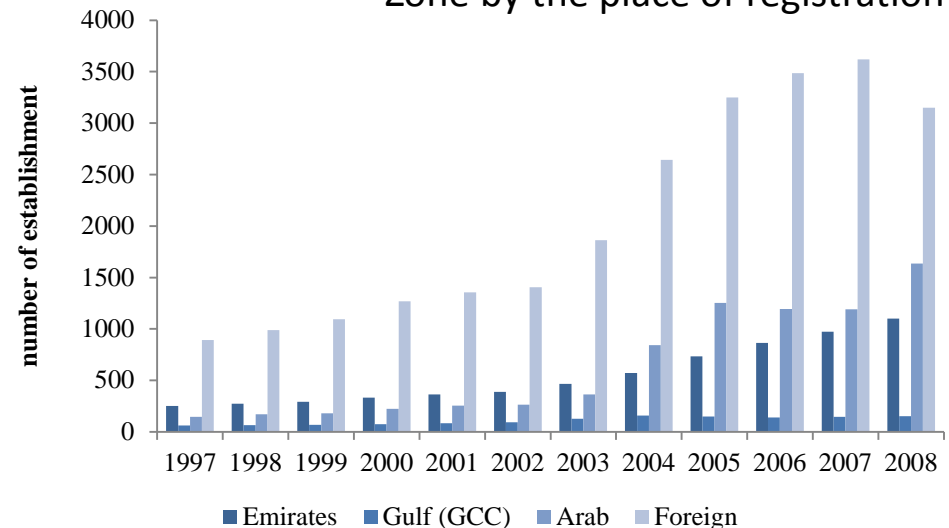
75% of the business are involved in
trading, warehousing and
distribution, while less than 20% in
industry and the rest in services,

the local emirates registered 18%,
the GCC countries of 2.5%, other
Arab world 27% and the rest with
52% are the multinationals (non-
Arabic) companies

Number of establishments in JAFZA by type of
economic activity (1997-2011)



Number of establishments in the Jebel Ali Free Trade
Zone by the place of registration



The Jebel Ali Free Trade Zone

Most companies are set up at JAFTZ for the purpose of re-exporting goods through Dubai to other markets as it provides advantages policies for the investors:

- (i) 100% fully owned foreign investment, is not subject to the provisions of the company law of foreign investment which accounts for 49%, domestic 51%;
- (ii) the foreign company enjoys exemption from income tax for 50 years, which may be extended for 15 years after the expiration of the period;
- (iii) 100% repatriation of capital and profits;
- (iv) the goods of import and export exempt entirely and does not levy income tax;
- (v) The registration procedure is simple, without cumbersome bureaucratic procedures and no minimum capital investment restrictions;
- (vi) The recruitment procedure is simple ,efficient and no limit for employers;
- (vii) low-cost energy supply;
- (vi) Excellent infrastructure, support services and communications;
- (vii) access to a customer market of 1.4 billion people.

Conclusion and further research ...

The value of FDIs in Dubai at 2006 is concentrated in Construction (34,5%), Financial intermediation and Insurance (35,4%), Wholesale and Retail trade (20,5%)

These sectors are strictly related to the infrastructural investment program of the City and to its economic specialization (i.e. transshipment hub port city of Dubai).

Specifically, JAFTZA mainly attract wholesale and retail trade, thus confirming its SEZ's typology of FTZ

.....Carry out the analysis on a more recent period and with disaggregated data to make an indeep analysis of the location determinants. Investigate the several special economic zones' typologies

Many thanks for your attention