Chapter 4

The United Arab Emirates: Economic Trends and Japanese Firms

4.1 Structure of Federation

The Untied Arab Emirates has the seven component sheikhdoms. The six emirates, other than what is now Ras al-Khaimah, formed a federation and became independent in 1971, when Britain withdrew its military forces from areas east of the Suez Canal. What prompted them to form the federation was the common recognition that each of them alone was politically and economically too weak to respond to any external threat independently. Ras al-Khaimah joined in 1972 to form the present federation of the seven sheikdoms, characterized by the high degree of independence of each component emirate, with the narrowly defined roles of the federal government limited to such areas as foreign policy, national defense, telecommunications, education, labor and banking. Each emirate therefore has a relatively broad discretion in decision-making. This raises some problems like the inability to implement unified policies as a nation, with one such example being the existence of quite a few airports and other infrastructure for a country with the size of the UAE.

Thirty years after the establishment of the federation, however, the UAE seems to be moving toward greater unity with Abu Dhabi as the core. The Constitution was made permanent in August 1996 and Abu Dhabi officially became the capital. Until then since independence, the constitution was treated as provisional and Abu Dhabi as the interim capital city.

The Supreme Council of Rulers, comprising the hereditary rulers of the seven emirates, decides a President and the next presidential election is scheduled for May 2001. Current President H.H. Sheikh Zayed bin Sultan al-Nahayan is at the great age of 85 and has health problems. He had a kidney transplant operation in 2000. The post of ruler of Abu Dhabi is to be inherited by Crown Prince H.H. Khalifa bin Zayed al-Nahayan, ensuring the continued stable governance for the emirate at least.

At the federal level as well, the current leadership of Abu Dhabi is expected to be maintained firmly, with Abu Dhabi strengthening its centripetal force by, among others, using its oil revenue to provide funds to the northern emirates either directly or indirectly through the federal government, as discussed later.

4.2 Economic Structure

4.2.1 Economic Structure Built around Abu Dhabi

The United Arab Emirates can be divided broadly into three groups by economic strength. The first is Abu Dhabi endowed with huge oil reserves. The second is Dubai trying to establish its presence by developing non-oil industries, and the third and last is the five Northern Emirates with relative weak economic foundations. Abu Dhabi contributes a little over 80% of the federal government's total revenue, with about 10% coming from Dubai and the remainder taxes and other revenue. On the expenditure side, other than spending items related to the affairs of state such as foreign policy and military preparedness, the bulk of the federal revenue is used to finance infrastructure development in the Northern Emirates, with very little spending earmarked for Abu Dhabi or Dubai. Even after making substantial contributions to the federal government, Abu Dhabi and Dubai still have ample revenue bases to fund their own infrastructure projects. Because of these factors, the federal government's budget is not an adequate measure to size up the whole picture of the UAE. Expenditure by the federal government accounts for only 25% to 30% of all the expenditures by the UAE, meaning that the affluent Abu Dhabi and Dubai are spending as individual emirates more than their fund contributions to the federal government.

As for per-capita gross domestic product (GDP) in each emirate, even Ajman with the lowest figure among the seven has a relatively high GDP of $6,145 per person (1999 data) (Table 1). According to the emirate-by-emirate component ratios of the UAE's GDP from 1990 to 1999 (Table 2), the ratios fluctuated for Abu Dhabi, which is highly dependent on energy and as such susceptible to oil price fluctuations. On the other hand, the ratios were extremely stable for the five Northern Emirates, particularly Umm al-Qaiwain and Fujairah, which could have seen declining GDP shares in view of their weak economic foundations. Their stableness are an apparent indication of the funds from Abu Dhabi flowing into them.

The federal affairs of the UAE seem to be dominated, in effect, by the intentions of Abu Dhabi and Dubai, reflecting the economic might of the two emirates. In addition, the present ruler of Dubai is said to be a person of mild-tempered character who shies away from rivalry, Dubai does not appear to assert itself more than it used to in the relationship between the two emirates. In the long run, the UAE is likely to be reorganized in a manner that would accord an even greater weight to Abu Dhabi.

4.2.2 Oil-Dependent Economy

The source of wealth of the United Arab Emirates is production of crude oil. The ratio of the oil industry to the UAE's total GDP declined from a little less than 50% in 1990 to 25% in 1999, reflecting industrial diversification (Table 3). But the ratio is prone to big fluctuations depending on oil price movements. For 2000 when oil prices stayed at high levels, the ratio is expected to go higher than the 1999 level. Moreover, since oil revenue has no small effect on government expenditure as well as construction and other project-related industries, it has quite a big role to play in the UAE economy, including indirect effects. The international balance of payments also sheds light on the importance of crude oil and gas exports. Exports of crude oil and gas fully cover a deficit in non-oil trade, helping the UAE keep the external balance in the black.

The UAE is estimated to be currently producing 2.32 million barrels per day (bpd) with an output capacity of 2.50 million bpd. Dubai is seen to accounts for 150,000 to 200,000 bpd of the total production. Dubai's oil output has been on the decline after marking 420,000 bpd in 1991, estimated to have dwindled to 270,000 bpd by 1996. While Abu Dhabi is believed to have oil reserves recoverable for over 100 years, Dubai's recoverable period fell short of 20 years long ago. Dubai is able to pump out a fair quantity of oil today only because it is trying hard to raise the oil recovery rate with the aid of advanced techniques like horizontal-drilling and gas-injection recovery methods.

With no strikes of new oil fields, Dubai is finding it urgent and pressing to shake itself free from the oil-dependent economic structure. As far as oil policy is concerned, each emirate is gaining a greater degree of independence, with the powers and authority of the federal Ministry of Petroleum Oil and Mineral Resources being devolved. The Abu Dhabi Supreme Petroleum Council is responsible for management of oil output quotas set by the Organization of Petroleum Exporting Countries. Because of this arrangement, Abu Dhabi is adjusting its production levels by taking other emirates' output levels into account.

Abu Dhabi finds it much less necessary than Dubai to go for an economic structure not dependent on oil because it has a vast reservoir of energy resources such as crude oil and natural gas.

Table 1 UAE's Nominal GDP by Emirate (1999, at factor cost) (US$)

Emirate	GDP($m.)	Per-capita GDP	Principal industries
Abu Dhabi	29,504	26,179	Oil, gas, petrochemical
Dubai	13,880	16,178	Commerce, aluminum smelting
Sharjah	4,973	10,128	Gas, pipe manufacturing, light industries, cement
Ajman	989	6,145	Shipbuilding, ship repairs
Umm al-Qaiwain	327	7,425	Agriculture
Ras al-Khaimah	1,437	8,706	Agriculture, commerce
Fujairah	785	8,536	Agriculture, cement, bunkering
Total	51,895	17,663	

Source: Compiled from Ministry of Planning, *Annual Economic Report, Annual Statistical Abstract*

Table 2 Component Ratio of Nominal GDP by Emirate (%)

	1990	91	92	93	94	95	96	97	98	99
Abu Dhabi	63.6	63.3	62.8	61.0	58.7	57.7	59.5	58.9	54.9	56.9
Dubai	23.1	22.9	23.2	24.1	25.9	26.3	25.5	25.4	27.8	26.7
Sharjah	7.6	7.6	7.7	8.2	8.9	9.6	9.0	9.3	10.1	9.6
Ajman	1.1	1.2	1.2	1.3	1.6	1.6	1.6	1.8	2.0	1.9
Umm al-Qaiwain	0.6	0.6	0.6	0.7	0.6	0.6	0.6	0.6	0.7	0.6
Ras al-Khaimah	2.8	2.9	2.9	3.1	2.8	2.7	2.6	2.6	3.0	2.8
Fujairah	1.3	1.4	1.5	1.6	1.4	1.4	1.3	1.4	1.6	1.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Ministry of Planning, *Annual Economic Report*

Table 3 Component Ratio of Real GDP by Sector (1990 prices) (%)

Year	1994	95	96	97	98	99
Crude oil	32.3	31.4	33.1	30.0	21.4	25.4
Non-oil	67.7	68.6	66.9	70.0	78.6	74.6
Manufacturing	10.2	10.7	10.6	12.5	13.5	13.2
Commerce	10.6	10.3	10.2	10.5	11.8	11.2
Government	11.3	10.9	10.3	10.2	11.8	11.2
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Compiled from Ministry of Planning, *Annual Economic Report*

For this reason, Abu Dhabi, while regarding energy development as important, is not so enthusiastic about development of non-energy industries. Among non-oil infrastructure projects, the Mina Zayed project was completed, but the Lulu Island Development Plan, the Saadiyat Free Zone project and other projects are falling considerably behind initial schedules.

The Saadiyat Free Zone project calls for development of Saadiyat Island (with an area of 26 square kilometers) off Abu Dhabi as a free zone to locate (1) an international securities exchange; (2) a clearing house; (3) a market for primary products (67 items, including crude oil and agricultural products); and (4) a future market for primary products. At present, the project's first phase is under way for infrastructure construction. The Abu Dhabi Free Zone Authority cites the following points as reasons for pushing the project: (1) Abu Dhabi has ample oil revenue, (2) Abu Dhabi has confirmed oil reserves of 100 billion barrels (the third largest in the world and the recoverable period of some 120 years) as well as confirmed natural gas deposits of 6 trillion cubic meters (the fourth largest in the world and recoverable for about 100 years); and (3) the markets of the Gulf states, Iran, Russia/the Commonwealth of Independent States (CIS), India and Pakistan offers a physical distribution market of some $400 billion a year. On the potential rivalry with the Jebel Ali Free Zone (JAFZ) of Dubai that is developing as a distribution hub in the same country, the free zone authority asserted that while the JAFZ is mainly for the physical distribution of manufactured goods, the Saadiyat Free Zone for primary products can grow as a distinct market. As a financial market, Abu Dhabi appears to have several competitive advantages such as that it can be a strategically important market to cover three to five hours of the time vacuum between the close of the Hong Kong and Singapore markets and the opening of the London market and that it is open for trading on Saturdays and Sundays when other markets are closed for the weekend.

4.2.3 Dubai Facing Urgent Need to Create an Economy Not Dependent on Oil

With its oil resources drying up in the near future, Dubai can no longer expects to rely on oil revenue for the emirate's fiscal revenue. As a policy of practical discretion, Dubai currently does not impose corporate or individual income taxes, except on oil companies, banks and some other firms. Faced with declining oil revenue, however, Dubai will likely be pressed to collect taxes on other corporate entities in order to raise revenue for the emirate's coffers. Against this background, Dubai is now under intense pressure to develop sources of revenue to take the place of oil revenue, meaning sources of tax revenue, by promoting non-oil industries.

Selected as a means of developing the source of revenue to substitute oil is to draw many foreign firms to Dubai as a regional business center by further improving its functions as (1) a base for entrepot trade; (2) a commercial hub; and (3) a tourist resort.

Dubai at first placed emphasis on the promotion of trade as a center of physical distribution. Dubai has been known to be excelling in trade due in part to its historical background. In 1870, Britain designated Dubai as a main port in the Persian Gulf region and since then Dubai is said to have developed an liberal atmosphere that made a lot of foreign merchants feel at home.

It was Sheikh Rashid bin-Said al-Maktoum, Dubai's previous ruler, who laid the foundation for Dubai to win recognition as a base of physical distribution. Rashid dredged creeks to build a trade port in 1959 by making the best use of Dubai's geographical features and also constructed onshore infrastructure to lift dhow ships in1978 for trade for cheap repairs. In the 1980s, however, Dubai seems to have shifted policy emphasis from the promotion of trade to acceptance of foreign direct investment. In 1985, Dubai established the Jebel Ali Free Zone and took successive measures to encourage foreign companies to set up operations, including the creation of the emirate-run airline and opening of a turf golf course for the entertainment of foreign residents. The Dubai Department of Tourism and Commerce Marketing, established in 1989, provides information on the investment environment in Dubai, accepts and sends missions, and participates in overseas trade fairs. It also hosts conventions in Dubai, promotes tourism and undertakes other public relations activities. At present, the department operates 14 overseas offices. Into the 1990s, Dubai also took measures to respond to new trade needs, such as re-development of the creeks, establishment of the Dubai Airport Free Zone and the creation of the Internet City.

In the area of trade, Dubai has steadily reinforced its position as the hub port through effective measures such as the low tariff rate of just 1% through July 1994, again as a policy of practical discretion. Its development as the hub of distribution was also aided by the existence of the hinterland like Iran. In the 1990s, Dubai benefited from the successive generation of demand from the hinterland as the emerging markets of merchandise re-exports, including shopping by Iranians after the end of the long Iran-Iraq war, special restoration demand in Kuwait which became outstanding after 1992. Gulf War, and the opening of the markets of the CIS, Bulgaria, Russia and Central Asia from early 1993. Even today, Dubai, as the core of regional distribution, is exporting and re-exporting a variety of goods to Iran, other Gulf states, Central Asia and the Caucasus as well as India, Pakistan and east coastal countries of the African Continent.

However, the redevelopment of Oman's Salalah port in December 1998 and of Yemen's Aden port in March 1999 began to cast a cloud over the future of Dubai's hub function. This stemmed from changes being brought about in the physical distribution sector by the growing use of large container ships in the shipping industry. Amid the cutthroat competition for lower transport rates, shipping companies tried to raise efficiency by launching large container ships into service. Against this background, some shipping companies are moving to restructure the physical distribution setup in the Middle East while putting truck routes linking Asia and Europe at the center of business. As part of such restructuring, some are increasing calls at Salalah in the Gulf of Oman and Aden facing the Indian Ocean. Maersk of Denmark and Sea Land of the United States are now operating Salalah port, which both of them find suitable as the base of feeder services for the Gulf region countries and the hub port for services to the Indian Subcontinent and East African countries. Aden port, meanwhile, is situated at the geographically most efficient location in the middle of Asia-Europe routes. The Port Authority of Singapore and Yeminvest of Yemen formed a joint venture to operate a container terminal at Aden, and American President Line is already calling at the port.

Still, Dubai keeps a high reputation it has earned for the past record of efficient port operations. Besides, Dubai is quite popular as the base for re-exports to CIS countries. Because of complicated on-land transport routes, over 50% of re-exports to these markets are air-borne and low-cost flights are available from airports in Dubai and Sharjah in the UAE.

Therefore, the operations of Salalah port and Aden port do not immediately render all the hub functions of Dubai port totally uncompetitive. In particular, Dubai is likely to maintain its function for re-exports to the Gulf countries located inside the Strait of Hormuz. Sultan bin Sulayem, chairman and managing director of the JAFZ and the Dubai Ports Authority, told *MEED* magazine that about half of Gulf region-bound cargos are to Dubai as the port of destination, emphasizing that Dubai still remains at the center of Gulf regional distribution. When the Iraqi market is opened up following a lifting of economic sanctions by the United Nations, there is a strong possibility of Dubai becoming one of main hubs of transportation to Iraq.

It is also very likely, however, that the newly established ports will take over as hub ports for cargos for re-exports to East Africa and the Indian Subcontinent. It takes about three days by ship from Salalah to Dubai, and it seems simply an inefficient proposition to carry to Dubai a cargo that is set to be re-exported to a destination outside the Persian Gulf.

4.3 Attraction of Companies by Free Zones

4.3.1 Dubai Drawing Attention as Commercial Hub

Dubai has been striving to promote the development of commerce by taking such measures as a very low rate of tariffs. With the city dotted with shopping malls, Dubai has been holding an annual shopping festival since 1996 as an attraction to draw shoppers from neighboring countries. Prices are generally cheap to reflect the business practice there of "small profits and quick returns," throngs of Iranian shoppers visited Dubai after the end of the Iran-Iraq war. In the peak period, over 10,000 tourists from the CIS states, Russia and other countries came to the UAE (in particular, Dubai and Sharjah) each month, all eager to loosen their purse strings. Dubai is also promoting tourism by inviting international events and tournaments of golf, boat races, horse races and pool or hosting an air show, aiming for a synergetic effect with shopping.

But the business of commerce can fluctuate wildly and, to a high degree, is vulnerable to global economic cycles and conditions. It is too brittle as a means of establishing an economic structure not dependent on oil revenue. The Jebel Ali Free Zone (JAFZ) was created in order to further diversify the foundation of economic activities in Dubai. Dubai constructed infrastructure for the free zone to invite foreign companies seeking low-cost business locations while it still could count on oil revenue. Companies setting up operations in the free zone are exempted from income and corporate taxes for up to 30 years and guaranteed of remittances without restrictions. They can undertake any type of business operations regardless of industry, from manufacturing and wholesale to business offices and branches. The logic behind preferential treatment in the free zone is that the economy will get rolling if companies set up shop and undertake any kind of operations there and the economies of scale can be expected if the number of firms operating in the zone increases.

The two particular factors can be cited for the success of JAFZ in drawing foreign companies.

The first is the geographical factor: JAFZ is located in the Middle East. Countries in the Middle East have big time differences either from Japan or from Europe. Many of them are Islamic countries and thus have holidays on different dates from other parts of the world. Usually, their holidays are on Thursday and Friday, or Friday and Saturday, while weekly holidays in most countries in other regions of the world are Saturdays and Sundays. So, if you are dealing with the Middle East from other regions of the world, there are only three business days, from Monday to Wednesday, in the shortest case. This is the factor that encourages foreign companies to open up offices in the Middle East.

The next question is which location to choose in the Middle East. A location for a base of operations should be a hub of economic activities and a strategic point of transportation with mobility, offer a high level of public safety, and provide an environment easy to live in for foreigners in the different culture of Islam. The locations satisfying these conditions include Dubai and Bahrain, and so on.

Why do foreign companies eventually choose Dubai over Bahrain or other locations? It has a lot to do with the particular business practice of the Gulf states: the sponsorship system.

When a foreign company plans to engage in commercial activities in a country of the region, it needs to have a sponsor in the host country as a requirement in obtaining a business license. Even in opening up just a representative office, the foreign company is required to appoint a local agent having the citizenship of the host country. The principal role of these local agents is to offer the sponsorship for foreign firms and take procedures on their behalf for residence visas and business licenses. This sponsorship system seems to be designed originally as part of an economic policy to provide nationals of the host country, who only have limited employment opportunities, with a means of earning cash revenue and help lift the standard of living for its people. Anyone with a local citizenship can be a sponsor. But foreign businesses have great trouble choosing a candidate for sponsor. There is not much information available to help them determine who would be a good sponsor to offer adequate services corresponding to cost.

Moreover, once a sponsor is appointed, the change of that appointment could be often difficult and costly because it requires the consent of the sponsor regardless of what is written in the contract. The economic cost is potentially huge if a sponsor appointed happens to be an individual who has values quite different from the concept of the Western version of an economic contract. There actually were Western companies that refrained from or gave up on advancing into the Gulf region after carefully weighing such risks against potential benefits.

Under these circumstances, Dubai established JAFZ and the Free Zone Authority offered to stand guarantee for advancing firms, thereby creating an environment where foreign companies can open offices and undertake other commercial activities in line with the concept of Western-style contracts. This is the reason to explain the concentration of foreign investment in Dubai. At present, there are many other countries offering similar systems. But Dubai was the first to do it and has been given credit for that. Dubai has also been trying to offer institutional improvements, permitting the creation of 100% foreign-owned "free zone establishments" in September 1992.

The idea of the Free Zone Authority offering its sponsorship presumably encountered strong resistance from the public initially, because it would deprive UAE nationals of opportunities to become sponsors and encroach upon their vested interests. But Dubai realized the epoch-making enterprise by creating the free zone, a district clearly demarcated from Dubai itself, with the use of the expedient, called the decree by the emirate's ruler.

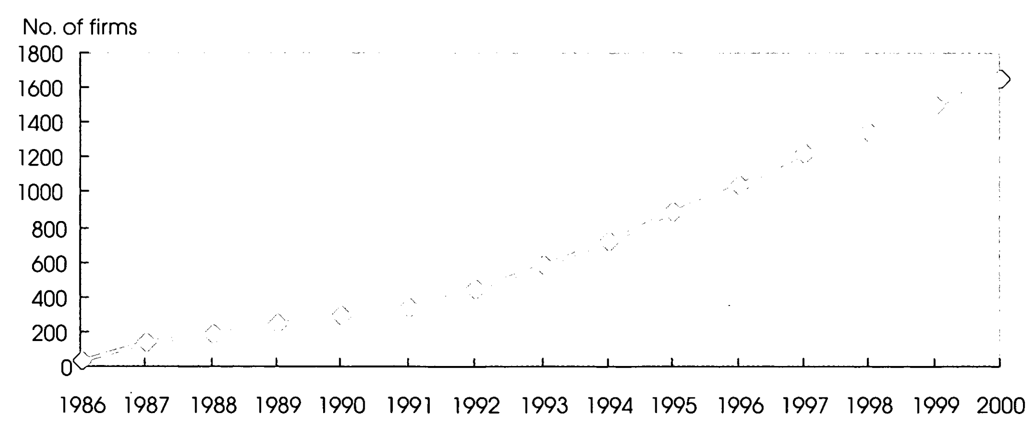
4.3.2 Foreign Firms in UAE

The United Arab Emirates does not have official statistics on foreign direct investment, making it impossible to have an accurate grasp of foreign companies operating. Therefore, we look at the situation in JAFZ that is assumed to host the largest number of foreign firms in the country.

According to the JAFZ Authority, there were a total of 1,661 firms from 92 countries were operating in the zone as of the end of September 2000. In the year from October 1999 to September 2000, 204 companies set up operations there (in net terms and including UAE firms (Figure 1). By country, there were 39 companies from India, 29 from Iran, 21 from Britain, 10 from Germany, eight from Pakistan, six from the United States, five from France, and four from Japan. By industry, commerce accounted for 196 cases of investment, manufacturing 20 and services six (Table 4).

On a stock basis, the UAE leads in the number of firms operating in JAFZ, followed by Brit-

Figure 1 Firms Operating in JAFZ (End of Year)



Note: Figures are estimates at end-August for 1986 and at end-October for 1997. The 2000 number is at end-September (1,661 firms).

Source: *JAFZ Authority*

ain, India, the United States and Iran. Since UAE firms do not benefit from preferential taxation or no need of sponsors in JAFZ, they were presumably drawn to the zone by good infrastructure or to provide services to banks, restaurants and other businesses there. Other countries all have strong trade ties with the UAE. Generally speaking, the large number of foreign commercial entities in the zone indicates that JAFZ's main attraction to them is the requirement of no sponsors. Meanwhile, superb infrastructure explains numerous Indian firms in the manufacturing sector.

4.3.3 Japanese Firms Operating in JAFZ

As of the end of September 2000, there were a total of 132 Japanese firms operating in the UAE (27 in Abu Dhabi, 105 in Dubai, Northern Emirates)[1]. Leading the pack are those in JAFZ. According to statistics provided by the JAFZ Authority, six Japanese firms advanced into the zone and two firms withdrew in a year from October 1999. The number of Japanese firms in JAFZ was 64 as of the end of September 2000, with the breakdown shown in Table 5.

Table 4 Firms Operating in JAFZ by Country, Industry (As of end-September 2000)

(No. of firms, investment cases)

	Total number of firms	Manufacturing	Commerce	Services
UAE	307	69	183	63
U.K.	203	37	189	0
India	195	63	163	0
U.S.	121	14	115	1
Iran	115	12	106	0
Japan	63	2	62	0
Germany	58	8	53	1
France	41	10	39	1
Pakistan	38	16	28	0
Saudi Arabia	34	10	27	0
Others	486	82	447	5
Total	1,661	323	1,412	71

Note: The total number of firms does not coincide with the total of firms by industry because some companies have two or more licenses.

Source: *JAFZ Authority*

Table 5 Breakdown of Japanese Firms in JAFZ (As of end-September 2000)

Business lines	No. of firms	Business lines	No. of firms	Business lines	No. of firms
Home electric appliances/electronics	18	Commerce	8	Watches/medical equipment/precision instrument	4
Automotive (including parts, tires)	10	Optics/camera /film	5	Transportation	2
Heavy electric machinery/ordinary machinery	9	Construction machinery	4	Others	4

Source: Prepared by the author.

The net number of Japanese firms newly advancing into JAFZ was on the gradual decline from the peak of 14 in 1997 to seven in 1998 and five in 1999, due to the sluggish Japanese economy and deteriorating corporate earnings. The new entries in the year between October 1999 and September 2000 included Best Corporation (home electric appliance retailer), Bridgestone Middle East FZE (automobile tires), and Nippon Express Co. Ltd. (transportation). An overwhelmingly large number of Japanese firms were motivated to go into JAFZ by the wish to make it the base of distribution and re-exports. The reasons are: (1) Agencies in the Gulf countries are small in scale because their business territories are limited by national borders. So, their business base is usually weak and cannot afford to open long-term letters of credit; (2) Their purchases of merchandise are small in quantity. This requires mixed loading of a great variety of goods in a small amount for each to fill a container to ensure the economical and efficient container transportation. When production plants are scattered in two or more countries, products must be collected to a location from which a certain amount of products need to be delivered to achieve economical transportation; and (3) the mentality of Gulf merchants regards a transaction as the barter of cash for merchandise. In that climate, there would not be any business done unless merchandise is on hand. Because of this factor, manufacturers set up distribution warehouses in JAFZ for stock operations to shorten the time between order receipts and deliveries in support of agencies.

Iran is the largest market for re-exports. Other markets include the Gulf states, India, Pakistan, Russia and CIA states, and the east coast of Africa.

Japanese firms' investment in Abu Dhabi at present is concentrated on the energy sector. There has been no significant change in recent years in the number of Japanese companies operating in Abu Dhabi.

4.3.4 Dubai Striving to Attract More Foreign Firms

The government of Dubai in January 1999 set up the Dubai airport free zone, setting its sights on distribution companies. Further, in October 1999, it announced the Internet City plan and a year later, on October 28, 2000, established the Internet City on a four-square-kilometer site adjacent to the Jebel Ali Free Zone. The city is subject to Law No. 1 of 2000, creating the Dubai Technology, Electronic Commerce and Media Free Zone, promulgated on February 5.

The Internet City is designed to become a major hub of information and high-technology industries by drawing a broad range of companies from computer software and hardware firms to Internet service providers and other e-business concerns. To help realize the goal, on top of preferential measures accorded in conventional free zones like admitting full foreign ownership, the Dubai government has offered extra favors, including 50 years of income and corporate tax exemptions and land leasehold. The early comers in the city include Oracle, Dell Computer, Microsoft, IBM, Compaq, MasterCard International, Hewlett-Packard and Siemens. A total of 194 firms were licensed at the time of the establishment, and 350 more applications are said to be pending.

In the future, the Dubai government plans to set up an Internet University, a research and development center and other attached research institutions as well as permanent exhibition areas, offer various services and conveniences to promote high-technology industries, and actively support venture businesses. As a core organization to push ahead with these projects, it already announced a plan to establish a Dubai Ideas Oasis with capital of $30 million, a majority of which being put up by the Dubai government and the remainder solicited from the private sector. Following the creation of the Internet City, the Dubai government is expected to establish a Dubai Media City within 2001 for the furtherance of e-business.

In parallel with the above-mentioned projects, the Dubai government is going ahead with an e-government scheme under which tenders of procurement contracts for materials, equipment and services are to be conducted via the Internet. As an initial step, it uploaded the Tejari.com. site on June 20, 2000. By conducting the government procurement through this site, Dubai hopes to facilitate the development of e-commerce and also enhance the transparency of transactions and reduce procurement costs. Already, companies from Japan, Britain, the United States, Saudi Arabia, Lebanon, Egypt and some other countries are reported to have registered with the site. From within Dubai, registrants include Al-Futtaim Group, Dubai Transport Corporation (DTC), EPPCO and Emirates National Oil Co. There was a report that DTC has placed an order with Al-Futtaim for 855 vehicles.

As examined above, Dubai's strategy of attracting foreign companies mainly to the free zones has the potential over the long term to increase firms without individual sponsors and reduce the sponsorship system unique to the Gulf countries to an empty shell, making the business environment in Dubai more Westernized. It appears that that is exactly what the Dubai government is seeking after.

4.4 Stock Exchange Opening Quickening Modernization

The opening of the securities exchanges is also helping improve the climate to do business in Dubai. There were no public stock exchanges in the UAE until 2000. But Dubai established the securities exchange in March and Abu Dhabi followed in November. There are plans for exchanges to trade crude oil, agricultural produce and other primary products as well as futures contracts on them in the future. One of the objectives of the establishment of the securities exchanges is to call back the oil money now invested overseas primarily to the UAE. But this oil money is huge, amounting to some $300 billion for Abu Dhabi alone and reaching about $1 trillion, when all the neighboring oil-producing states are included. So, a success of the securities exchanges seems to depend on how to create investment opportunities within the region. At present, the significance of the securities exchange establishment lies in that it should help promote disclosure of information about companies in the UAE. Generally speaking, information disclosure in the Gulf states has much to be desired. Major corporate groups in the region that seem attractive to foreign investors have strong financial bases, and therefore see little need or have few incentives to go public by listing their shares on the securities exchanges. Moreover, many of them have very conservative management styles and do not like to disclose information about what they are doing. However, as the reins of management are handed over from the generation of founders to the generation of Western-educated children, the reluctance to disclose corporate information seems to be diminishing. Also, as the style of corporate management changes from the founders' top-down directives to a more methodical approach organized by technocrats, more companies are expected to opt for stock listings on the exchanges. As of November 2000, the number of companies planning to get listed was 12 for Abu Dhabi, and 22 when those for Dubai are included (the *Nikkei Financial Daily*, November 7, 2000, edition).

For the privatization of state-run enterprises coming into the scene soon as part of economic reform efforts, the securities exchanges are expected to play an important role in market absorption of their shares.

As discussed above, Dubai has been striving to turn its economic structure into one less dependent on oil revenue, with the free zones as the primary means of attracting foreign investment. Dubai's JAFZ appears to be getting a head start over its neighbors in terms of institutional advantages and conveniences offered to investing foreign companies, and is well-positioned to continue to attract new entrants that are eager to develop business in the Middle East. The question to be answered is how cheap Dubai can offer the existing services in the free zones when its oil revenue dries up.

Note

1. As the UAE issues a business license to each office established, when a single company sets up an office each in Abu Dhabi and Dubai, or when it opens two or more offices in the same emirate, these offices are considered as if those were established by different companies.

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