Dubai EXPO2020 - Exploring the drivers impacting sustained changes in UAE Economy

Dr Anu Vij
Assistant Professor, Al Dar University
Dubai, United Arab Emirates

Abstract

Dubai let out a whoop of joy on being chosen the official host of EXPO 2020, thus ending months of speculation, anxiety and curiosity of all concerned. While the tiniest of doubts as to the result of this most awaited and abetted race were being squashed; a new series of concerns and meditation were germinating throughout the business community. The scope and scale of events that would necessarily follow in the aftermath of this historic moment are worth pondering upon. Among the opportunities and facilities that present a wide array of possibilities and promises, a few are coined such as a trade boosting strategic connect between the East and West; an international airport thrumming with commercial/non commercial flight; opening of the brand new Al Maktoum International Airport etc. Barring a few exceptions, such events in the past generally have had a significant impact on the host countries’ economic climate and therefore remain a major area of concern. In this article we discuss the effect of EXPO 2020’s on certain sectors of UAE that are critical to its progress and how that will further impact the economic climate of this country. The forthcoming event heralds key changes in the real estate, trade and commerce, hospitality and infrastructure sectors which will eventually prove drivers of growth and development in UAE.

Key words: EXPO 2020, Dubai, Expo

Introduction

A young nation with a steep growth curve, United Arab Emirates (UAE) tends to surprise the world by establishing new benchmarks and milestones. Who would have thought that a country once dependent only on oil and gas industry would be considered as one of the most diversified economies regionally as well as internationally! The country is surely recouping rapidly from the recession hit and the steady recovery of real estate market has brought back investor confidence in the country. Given the political stability challenges in the region, the UAE looks to offer confidence and security to the skilled manpower in the country. Although the country consists of seven emirates with Abu Dhabi as capital, Dubai remains the leading emirate in terms of developing and promoting tourism thereby creating a brand in itself. In addition, trade, the strongest of the Dubai’s economic foundations, broke the trillion-dirham barrier in the third quarter of 2013. The bustling retail business, already offering among the biggest variety of outlets per head of population in the world, is in full expansion mode as Dubai mounts two 2020 campaigns at the same time - one to increase the number of tourists to 20m by 2020 and the other to prepare for the World EXPO 2020, which Dubai won the right to stage in November 2013.

According to Wikipedia, the World EXPO is “the best opportunity for every host country to make every effort to demonstrate its social, economic and cultural achievements and prospects to the world” and a vivid reflection of the progress of human society as well as its dream for the future. The event is a super-scale international exposition hosted by the government of the country and participated by many other countries and international organizations all over the world. Spanning over a long time and attracting the participation of many countries, the super-sized and influential World EXPO is renowned as “the Olympics in the fields of economy, culture and science and technology”. It is even listed by some as one of “the Top Three Super Events in the World” together with the Olympics and FIFA World Cup. The World EXPO lasts for a long time, but what enables it apart from others is that as a national behavior, it is bid and hosted by a country’s government. World's fairs originated in the French tradition of national exhibitions, a tradition that culminated with the French Industrial
The exposition of 1844 held in Paris. This fair was soon followed by other national exhibitions in continental Europe, and eventually the United Kingdom. The best-known 'first World EXPO' was held in The Crystal Palace in Hyde Park, London, United Kingdom, in 1851, under the title "Great Exhibition of the Works of Industry of All Nations". The Great Exhibition, as it is often called, was an idea of Prince Albert, Queen Victoria's husband, and is usually considered as the first international exhibition of manufactured products. It influenced the development of several aspects of society, including art-and-design education, international trade and relations, and tourism. These events have resulted in a remarkable form of Prince Albert's life history, one that continues to be reflected in London architecture in a number of ways, including in the Albert Memorial later erected to the Prince. This EXPO was the most obvious precedent for the many international exhibitions, later called world's fairs that have continued to be held to the present time.

Table 1.1 - NOTABLE LEGACIES OF PAST WORLD EXPOS

<table>
<thead>
<tr>
<th>Year</th>
<th>Venue</th>
<th>Landmarks</th>
</tr>
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<tbody>
<tr>
<td>1851</td>
<td>London</td>
<td>Profits fund Victoria &amp; Albert Museum, Imperial Science College and Museum of Natural History</td>
</tr>
<tr>
<td>1889</td>
<td>Paris</td>
<td>The Eiffel Tower built as entrance archway to the event</td>
</tr>
<tr>
<td>1958</td>
<td>Brussels</td>
<td>Atomium landmark, new synthetic materials and automated machines developed</td>
</tr>
<tr>
<td>1970</td>
<td>Osaka</td>
<td>First mobile phones introduced, maglev trains demonstrated and lunar rock samples displayed</td>
</tr>
<tr>
<td>1876</td>
<td>Philadelphia</td>
<td>Introduction of innovations including the telephone, typewriter and tomato ketchup</td>
</tr>
<tr>
<td>1937</td>
<td>Paris</td>
<td>Palais de Chailot and exhibition of Picasso's &quot;Guernica&quot; depicting a German attack on the Basque town</td>
</tr>
<tr>
<td>1962</td>
<td>Seattle</td>
<td>Seattle Space Needle Building</td>
</tr>
<tr>
<td>2010</td>
<td>Shanghai</td>
<td>World EXPO Museum</td>
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</table>

Since their inception in 1851, the character of world expositions has evolved. Three eras can be distinguished: the era of industrialization, the era of cultural exchange, and the era of nation branding. According to the Paris-based Bureau International des expositions (BIE), which oversees World EXPO events, there are four main types of legacy creation: transformational; informational; thematic; and cultural. Perhaps the most obvious is the transformational potential. Lisbon 1998, for example, took a run-down industrial area 10 kilometers from the city Centre, home to the abandoned Cabo Ruivo International Transatlantic Airport, and regenerated it to become an attractive, livable precinct. In Canada, the city of Montreal used its 1967 EXPO to become a major player in the international events arena, going on to host the 1976 Summer Olympics and motorsport's Formula One Canadian Grand Prix.

Although commodity exhibition and exchange at the beginning have been gradually replaced by the promotion of new technologies and new concepts of life, the World EXPO has always been aimed at promoting international exchanges and cooperation. It is not only an international event for ordinary people but a global gathering for peace and understanding. The World EXPO today manifests different themes in different pavilions, including theme pavilions, national pavilions and corporate pavilions. The participating countries are entitled to planning, designing and building their national pavilions based on their own cultural backgrounds, understanding about the theme and level of science and technology. Generally, the host country is responsible for building the theme pavilions. Apart from the presentation in special pavilions, the World EXPO also organizes National Day events, cultural and artistic performances of every participating country, celebration activities and forums as well as other

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large events in different forms. During the exposition, heads of all the participating countries will attend their National Day events. National cultural and artistic performances and parading shows organized by the participating country will be presented in different areas of the venue.

**Dubai World EXPO 2020**

After Thailand withdrew its bid to stage the World EXPO 2020, Dubai became the favorite to win, as São Paolo was thought to be too far away from much of the world’s population, and Yekaterinburg was slipping because Russia was suffering from (mainly Western) bad press, a phenomenon that equally applied to Izmir, Turkey. With its state of art infrastructure, UAE’s transport sector shows enormous potential to deal with the challenges for organizing World EXPO 2020. One of the world’s busiest international airports, Dubai Airport has witnessed more than 51 million foot falls, last year. The airport’s growth can be gauged from the fact that it hosts 150 airlines serving 220 destinations on six continents thus contributing immensely to the double digit growth recorded by the Dubai tourism sector. While the emirate ranks sixth globally measured by air cargo traffic, its shipping port Jebel Ali is consistently ranked among the best containers ports in the world. Furthermore, a flurry of investments in the ground transportation modes such as metro and road infrastructure have resulted in an efficient and speedy connection within the region.

A haven to more than 200 nationalities, UAE is now known for its annual cultural events – thanks to the government’s initiatives towards investing in museums and cultural districts. Events such as Sharjah Biennial, the Emirates Airline Festival of Literature, the Abu Dhabi Festival and the Dubai and Abu Dhabi Film Festivals have successfully put it on the world map! Thus over the years consistently proving itself as a hub for global trade, home for global cultures and as a tested stage for global event, the UAE vividly showcases the means, expertise and vision to host an EXPO for the world.

The widespread national interest in organizing the EXPO is surely justified in the light of expected spur in economic opportunities! It is expected that 25 million visitors would attend a Dubai-hosted World EXPO 2020, with 70 per cent of those attending coming from outside the UAE. Already Dubai is attracting around 10 million international tourists every year, a strong business proving means of survival to a number of people, directly or indirectly. An addition of another big chunk would surely enhance business opportunities in the country. According to projections by Oxford Economics, EXPO 2020 Dubai is expected to account for a total economic output of nearly AED 142 billion with 277,000 employment opportunities being created between 2013 and 2021. Over the six months of the event, the emirate is expected to earn total revenues of Dh140bn ($38.1bn) from EXPO-related activities. Estimates also suggest that between 270,000 and 300,000 jobs will be created as part of preparations, with Standard Chartered suggesting that most jobs would come between 2018 and 2021. Citing the 300,000 number, the bank added, “To put this number into perspective, the 2011 labor force survey conducted by the Dubai Statistics Centre recorded a total of 1.32m people employed in Dubai, of whom 1.27m were expatriates.” Based on data from past World EXPOs, visitors not only visited the exhibition on multiple days but also commonly extended their trips to visit other attractions in the region. Similarly, visitors to other nearby tourist destinations, such as Oman, or transit passengers at Dubai's airports, would likely extend their stay and travel to Dubai to explore the World EXPO. All these factors point towards a significant potential for increased visitation of destination Dubai even if not all of it would be totally new business.

The benefits to Dubai's tourism industry would be manifold. The accommodation sector would likely be one of the largest beneficiaries of the EXPO event, whereas an influx of visitors would mean increased demand on Dubai’s hotel establishment room supply. The food and beverage and retail sectors are also expected to benefit significantly from an increased traffic of leisure and business travellers congregating in Dubai for the duration of the EXPO.

**Challenges ahead**

Overnight after Dubai won the bid, the real estate prices in the entire country rose to more than 20%. Dubai’s consumer inflation rose 3.0 per cent in March compared to the same month last year, registering the highest increase since August 2009. The increase from February was 0.4 per cent,
according to the Dubai Statistics Center. Housing and utility costs, which account for almost 44 per cent of consumer expenses, climbed 4.8 per cent year-on-year and rose 0.4 percent month-on-month in March. Food and beverage prices, which account for 11 percent of the basket, also rose 4.8 percent from a year earlier and gained 1.2 percent from a month earlier. Analysts polled by Reuters in January forecast average inflation in the UAE federation would accelerate to 2.5 percent in 2014 and 2.7 percent in 2015 from 1.1 percent in 2013, which was the highest level since 2009.

Dubai’s neighboring emirate and the capital of UAE, Abu Dhabi’s plans to diversify its economy away from oil, also risks cannibalization of Dubai’s future growth potential, particularly in finance. Abu Dhabi has announced plans to substantially increase its finance, tourism and shipping sectors over the coming decade, sectors which account for 11 %, 10% and 8% respectively, of Dubai’s GDP. In the short to medium term this is unlikely to have a significant impact on Dubai, given its entrenched status in the region and the room for both emirates to grow with our competing directly. However, over the long term the picture is more concerning. Regarding tourism, we see minimal risk at present of cannibalization in the coming years. Over the past year monthly arrivals at Abu Dhabi’s airport have increased by 15-25% y-o-y, whilst Dubai’s growth has averaged around 11 %. However, Abu Dhabi's superior growth rate has come off a low base with almost 1.2mn passengers per month in the emirate, compared with around 5mn through Dubai’s airport. There is substantial room for both emirates to increase passenger numbers over the long term as global tourism picks up with the improving macroeconomic picture and increased tourism from Asia. Furthermore, Dubai will remain attractive to tourists given its dominance if marketing and its image as a relatively tolerant destination, compared to much of the Gulf, for tourists. Indeed, although Abu Dhabi is looking to expand tourism, it has a long way to go to match Dubai’s global prestige. One area where we could see cannibalization is in transit passengers, a significant source of arrivals for both emirates. Not only is Abu Dhabi increasing its global reach with more destinations in the coming years but Turkey and Qatar are also planning to capture some of the growth in global tourism and take advantage of their position between Europe and Asia.

Summary and Conclusions

Undoubtedly, the winning bid for World EXPO 2020 is a big achievement for Dubai. The event is set to lift confidence in Dubai’s housing sector by supporting long-term demand dynamics and underpinning fundamentals as the key driver of the property market rebound. Although, most of the infrastructure and related housing facilities will be built in the relatively less populated southern part of the city, which will contribute to Dubai's expansion, there are a number of lessons to be learnt from the previous World EXPO 2010 held at Shanghai where the locals were forced to move from the propose venue resulting in lot of anger among them. On the hospitality front, the authorities estimate that 25 million people are likely to visit the EXPO, of which 70% will come from outside the UAE.Dubai's hospitality sector presents a potential development opportunity for further additional hotels and hotel apartments over and above the gradually increasing "normal" room supply, in particular when taking a potential World EXPO 2020 award into consideration. An estimated additional hotel establishment room supply of approximately 55,000 - 60,000 units (equivalent to 220-240 hotel establishments at 250 keys per property) would come online in between 2013 and 2020. However, it has to be taken care of that the hotel sales do not fall immediately after the event, rather are fuelled by sustainable growth.