

A scenic view of the Dubai skyline across the water. In the foreground, a traditional wooden dhow boat with a canopy is moving across the turquoise water, leaving a white wake. The background features a dense cluster of modern skyscrapers under a clear blue sky. The text is overlaid on the image.

DUBAI, UNITED ARAB EMIRATES

A trading legacy

To understand Dubai and its strategic focus on commodities trading, look at aspects of its past to see how central this business is to Dubai's success. Dubai began as a village centered on fishing and pearl trading and grew on the back of this trading legacy. However, as Sami Al Qamzi, Director General, Department of Economic Development (DED), says: "While retail trade has always played an important role in Dubai's growth, it has undergone a major transformation and modernization in the last ten years. Trade has and continues to be one of the key pillars in the overall structure of our local economy and a main driver for its growth with the rising curve in trade volumes as an indicator of the success of its developmental strategies."



Luke Ellyard,
KPMG in the Lower Gulf

Commodities trading as a strategic government initiative

At the heart of this growing trade is Dubai's commodities industry. In 2002, as a central strategic government initiative, the Dubai Multi Commodities Centre (DMCC) was established with a mandate to provide the physical, market and financial infrastructure required to set up and operate a thriving commodities market-place. This was seen as vital for Dubai to be a global gateway for the commodities trade. Today, DMCC is the largest free zone in the United Arab

Emirates with over 9,000 registered companies under license. Ahmed Bin Sulayem, Executive Chairman of DMCC, is quoted on their website as saying: "Trading will always be a key component of Dubai's vision of becoming a dynamic and diverse economy, and the gateway to the emerging markets of the Middle East. As an international commodities hub, DMCC plays an important role in the evolution and economic growth of Dubai."

A location central to global commodities flows

In addition to this strategic focus on trade, Dubai's success is in part due to its central location. It is midway between East Asia and western Europe, as well as Central Asia in the north and Africa in the south. At a time when the the European and the American economies are growing only sluggishly, Asia

has become an attractive place to do business, with Western markets shifting trade and financial flows from the West to the East. This also has to do with the massively increased regulatory burden of conducting commodity and derivatives businesses in Western markets.

Businesses are also aware that they can go more directly from production in the west (Africa and South America) or north (Russia) to consumption in Asia.

Dubai, with its first-world infrastructure and ideal geographic location, is ideally placed to play its part in these flows.

Now established as a global player in gold, diamond and tea trading

In particular for gold flows, Dubai has been able to capitalize on both its

proximity to the key consumer markets of India and China and its value as a trade hub and channel from the international market to its ultimate destinations. It is currently the world's leading physical gold market with over 40% of the world's gold passing through the emirate, with some giving Dubai the nickname City of Gold. This is also true for flows in other commodities, such as diamonds. DMCC has grown exponentially in terms of diamond trading in recent years. Diamonds are following the West-to-East. The Dubai Diamond Exchange now has over 600 precious stones and diamond companies and is one of the top three diamond trading centers in the world. Tea is reversing the West-to-East pattern, shifting further west. The UAE is the world's largest reexporter of tea with a 60% share of the market. Again DMCC plays a key role in global tea trading and logistics. Both diamonds and tea are now established because of what Dubai can offer to this global commodities flow.

Other factors contributing to the success

Dubai has two main commodities exchanges: the Dubai Gold and Commodities Exchange (DGEX), located in the DMCC, and the Dubai Mercantile Exchange (DME). The DME is located in the Dubai International Financial Center (DIFC), a financial free zone designed to promote financial services within the UAE, which is regulated by the Dubai Financial Services Authority. It is the main energy-focused commodities exchange east of the Suez and home to the world's third largest crude benchmark, the Oman Crude Oil Futures Contract (DME Oman) which is established as the crude oil benchmark for the region and historically established markets for Middle Eastern crude oil exports to Asia. However, whilst the DMCC as a free zone acts as a focal point for commodities trading, there are many other factors contributing to the success,

including world-class air and port free-zone facilities. Other attractive factors, such as Dubai's strong security and good customs, combined with the rest of the infrastructure, make Dubai a place where cash and physically settled ETD and OTC commodities contracts are viable options for global as well as local businesses. The available skill set is constantly improving, meaning that companies establishing themselves in Dubai can find (or easily import) the skilled labor they require. Telecoms and associated trading technologies are also constantly improving. Where once they may have been viewed as a deterrent to set up shop in the region, this is no longer the case.

Positively countering the geopolitical and regulatory challenges faced

Given Dubai's location, it is impossible to ignore the rise of religious extremism in the Middle East and Africa. The region has its fair share of political tension. However, Dubai is part of the UAE, which has a reputation for being a low-crime and politically stable country, considered a safe haven for people and money flows from the rest of the region.

Another aspect that cannot be ignored is the fall of the oil price. However, since the formation of the UAE in 1971, Dubai has transformed itself from an oil-and gas-dependent state to a broadly diversified economy based on international trade, banking, tourism, real estate and manufacturing. Oil has played a progressively diminishing role in the emirate's economic profile. In 1985, the oil sector contributed just under half of Dubai's GDP. By 1993 that figure had fallen to 24%, and now it is under 5%. Perversely for its location, Dubai has the potential to gain from the rise in trade flows expected from the falling costs of transport fuel.

From a regulatory perspective the challenge is the economic fallout from 2008, which is now affecting how the derivatives business is conducted in and between economic areas. Central

counter parties (CCPs) are considered a key element of the infrastructure in the financial system of any economy, integral in managing risk within the financial system, and European Market Infrastructure Regulation (EMIR) is focusing on the financial security of CCPs, the integrity and capability of CCP management, capital and structure. Broadly, EMIR requirements for capital and structure are becoming benchmarks within the industry and the Emirates Securities and Commodities Authority, the federal regulator, is likely to adopt these standards in new regulation. This would be beneficial for Dubai because it will give global institutions increased confidence in the regulatory environment, reduce risk within well-capitalized CCPs, and therefore give institutions added comfort in engaging with local CCPs. These positive regulatory steps, providing a regulatory environment in many ways equivalent to Europe, simply enhance Dubai as a location in which global entities are happy to conduct commodities business.

So what does the future hold for Dubai?

One of the six key themes in the recently published city's vision for 2021 is that it will aim to be a "Pivotal Hub in the Global Economy." Dubai has also been awarded the World Expo for 2020 which will be held under the theme "Connecting Minds, Creating the Future" and is projected to attract 25 million visitors, 70% from overseas. Both of these projects are central to Dubai's growth over the coming years and reinforce the view that Dubai will continue to focus on developing its role as a trading center in the world of commodities flows. It is hard to imagine where the Dubai commodity industry will be in ten years, but assuming flows and capital continue to move to the East, regulation, systems and infrastructure reach operational maturity, and the market continues to develop at the pace of the last ten years, it will be an exciting place to be!