Northwestern Law

International Team Project: United Arab Emirates, Spring 2011

Capitalizing On A Market: The Past, Present, and Future Of U.A.E's Capital Markets

By Peter Hanoian, Marc Miller, Adam Sussman, and Theodore Wells

ABSTRACT

The signing of the Euro-Mediterranean Partnership in 1995 laid the foundation of a new regional relationship between European Union and Middle Eastern countries that led to the introduction of economic reforms to the region. Since that time, Middle Eastern countries have achieved significant economic stabilization and growth. One part of their growth has been the development of local capital markets. In 2000, Abu Dhabi and Dubai, the two leading cities of the United Arab Emirates, developed stock markets to serve local companies and investors. In 2005, Dubai created a second stock market, that eventually became the NASDAQ Dubai, to cater to international investors and companies. Dubai created an economic free zone for the second market that liberated it from applying most U.A.E. regulations.

Despite its lofty goals and efforts to attract foreign capital, NASDAQ Dubai failed to develop a significant capital market. This is the result of multiple factors that include Dubai's unrealistic attempt to rival the New York and London stock exchanges, a lack of liquidity in its markets, and a failure to develop infrastructure to attract both institutional and retail investors. Together these factors limited investor and corporate interest in the U.A.E.'s capital markets. In addition to its illiquidity, the capital markets

are hindered by the current legal and political structures in the U.A.E. The most significant elements of this are the risk of arbitrary or self-serving decisions by Abu Dhabi's and Dubai's absolute monarchs, the legal system's lack of certainty and transparency, and the political rivalry between Abu Dhabi and Dubai.

To develop its capital markets, Dubai and Abu Dhabi will need to reform their legal system and shield the capital markets from their political rivalry. In addition, political and cultural expectations and habits must be reformed to meet the needs of a new breed of investors who require more developed legal and corporate governance systems.