THE NEW SILK ROAD

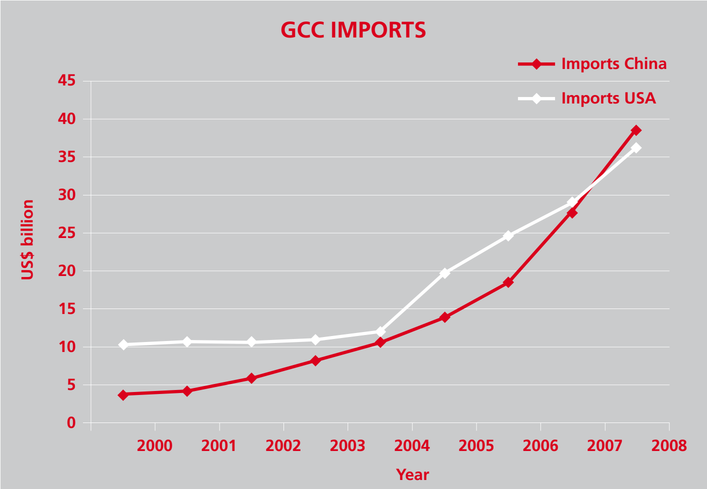
REFLECTING ON ECONOMIC HISTORY OF THE 20TH CENTURY, THE PROCESS OF GLOBALIZATION IS ONE OF THE FIRST TOPICS THAT CROSSES ONE'S MIND. BUT EVEN THOUGH MODERN LOGISTICS AND COMMUNICATION TECHNOLOGIES BOOSTED INTERNATIONAL TRADE DURING THE LAST DECADES, THE EXCHANGE OF GOODS ACROSS INTERNATIONAL BORDERS AND TERRITORIES IS BY NO MEANS A MODERN INVENTION.

» RESULTING FROM CHINA'S AND INDIA'S **ECONOMIC GROWTH** AND THEIR **SOARING ENERGY NEEDS**, TRADE RELATIONS BETWEEN EAST-ASIA AND THE MIDDLE EAST HAVE **INCREASED RAPIDLY** IN THE LAST DECADE.«

In the beginning of 130 BC, a network of trade routes emerged in Asia. Crossing Central Asia and Persia, merchandises from China were brought to the Mediterranean and vice versa. Named after the most prominent good traded, the Silk Road furthermore paved way for the exchange of ideas and inventions between Western and Eastern societies and thereby strongly influenced the world's development. Since the great political powers in Central Asia became economically and culturally separated in the 14th century, trade along the Silk Road declined. But history repeats itself.

Resulting from China's and India's economic growth and their soaring energy needs, trade relations between East-Asia and the Middle East have increased rapidly in the last decade. Since 2000, exports from the six Arab states of the Gulf Cooperation Council (GCC) to China have grown more than eight-fold while reverse trade flows increased nearly eleven-fold. On the contrary, GCC exports to the US only tripled and trade flows the other way round only quadrupled. Even if GCC exports to the US ($67 billion) still outnumbered those to China ($54 billion), the long-term trend is clear. In terms of export to GCC, China ($39 billion) already overtook the United States ($36 billion). According to the consulting firm McKinsey, the trade volume between China and the Middle East will rise up to between $350 billion and $500 billion by 2020, with trade between China and the GCC accounting for the lion's share.

Trade and investment between the regions is expected to continue to rise dramatically. A new Silk Road has emerged, connecting new economic hotspots in the Gulf such as Riyadh, Doha and Dubai with eastern ones like Beijing, Mumbai, Tokyo, Kuala Lumpur and Singapore. The new merchants on this route are Asians seeking for energy supply or new markets and Arab investors looking for smart investment opportunities. Gas, oil and petrochemical products are the major GCC exports to the East. In return, sophisticated



CHINA GAINS GROUND IN THE CONSTRUCTION SECTOR

BENEFITING FROM COMPETITIVE prices as well as tight relationships with banks, Chinese construction companies are becoming important players in the Gulf region. In the building sector, clients often require performance bonds as an insurance policy that work will be finished as scheduled. While construction companies worldwide suffer from the global contraction in lending, Chinese corporations enjoy governmental support and are backed by well-heeled banks in Beijing and Shanghai. Hence, after years of Japanese and Korean dominance on Middle Eastern construction sites, China is catching up.

Between 2001 and 2003, contractors from the People's Republic had only one major project in the United Arab Emirates. But their activities have been rising ever since. In the past two years they had 18 major contracts worth some $1.3 billion. Compared to their Asian and Western competitors this may be rather unimpressive. But Chinese corporations have been winning more and more bids in the Gulf region recently, including very prestigious and lucrative ones, such as the Etihad Towers in Abu Dhabi or the high-speed rail link between Mecca and Medina. According to industrial experts, Chinese equipment and construction capacity in the GCC states will increase significantly in all sectors within the next five years.

construction projects in the Middle East are being realized by big Asian corporations. A Japanese consortium lead by Mitsubishi Heavy Industries is currently constructing the Dubai Metro. South Korean Kepco, has recently won a contract worth some $20 billion to build four nuclear power plants in the United Arab Emirates. Moreover, a major share of the food consumed in the Gulf is from India and South East Asia and a wide range of products from cars to computers is imported from China, South Korea or Japan.

Considering the fact that infrastructure in central Asia is still backward but developing rapidly, maritime trade routes are being increasingly complemented by overland routes. Shipping goods from China to the Mediterranean is much cheaper than trucking, but the latter is faster. Thus, the more high-valued goods China will export, the more attractive road transport will become.

Occupying a strategic location midway between the East and the West, Dubai is one of the major staging posts on this new Silk Road. The Emirate hosts the largest port in the Middle East and the sixth largest one worldwide. State-owned DP World operates 49 terminals in 31 countries worldwide, handling more than 43.4 million TEU. Thus, the new Silk Road is extended to other regions, particularly to Latin America and Africa with whom Dubai's trade relations are increasing steadily. In addition, Dubai is currently constructing the Dubai Logistics City (DLC), an integrated multi-modal logistics platform with a capacity to turnover 12 million tons of air cargo annually. Outshining comparable ports, DLC reduces sea-air lead times to less than four hours, contrasting with the usual one to three days.

Moreover, Dubai International Airport is the busiest airport in the Greater Middle East, in terms of cargo as well as passenger traffic. While European air traffic declined 6.6% in 2009, air traffic in Dubai increased by 9.7%. Expecting further decreases in Europe in the midterm, the German Aerospace Center predicts a reverse tendency in the Middle East. Dubai Airports CEO Paul Griffiths forecasts Middle Eastern passenger traffic to rise up to 400 million in the next years, with half of them handled by the new Al Maktoum International Airport, currently under construction in Dubai.

Despite the real estate crunch, Dubai continues to strengthen its position as a trading hub and invests very reasonably in the logistic sector. Even if it faces some challenges at the moment, its convenient geo-strategic location stays and thus, Dubai is and will be a major gateway to the new Silk Road.

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