

Navigator

Now, next and how for business

UAE report

UAE

An oil-price recovery and improving infrastructure will strengthen the UAE’s status as a regional trade hub.

Higher oil prices and a positive short-term outlook for the Middle East economy will support the UAE’s status as a trade, transport, and tourism hub. Longer-term, the country’s high degree of openness, infrastructure investments, strong regulatory framework, and favourable business environment should bolster its success.

Short-Term Snapshot

The low-oil-price environment weighed on the UAE’s economy in 2017; output grew more slowly than in any year since 2009, and trade growth stalled. However, exports and imports alike will benefit this year from rising oil prices, the improved macroeconomic outlook for the UAE’s key trading partners, and increased government spending. Dubai’s economy in particular is set to enjoy a strong year, as the government boosts investment ahead of Expo 2020 and the stream of incoming tourists swells.

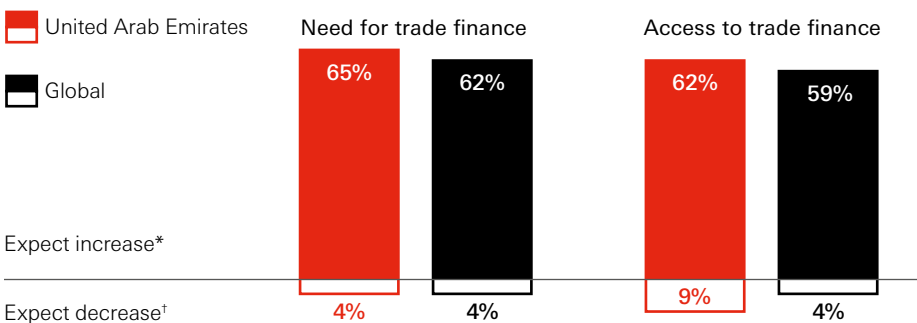
Indeed, more than three-quarters (77%) of UAE firms responding to our survey expect trade volumes to grow over the next 12 months, citing better external demand, greater use of technology, and more affordable, available skilled labour. Recent readings from the UAE Purchasing Managers’ Index, a gauge of non-oil private-sector activity, reinforce the story, showing strength in new export orders.

Not surprisingly given the recovery, 65% of UAE firms expect to need more trade finance over the coming year. As in most other markets we surveyed, respondents cited high transaction costs as the top challenge in meeting their trade finance needs.

Action points for business

- ◆ Firms will need to comply with new regulations, such as the 5% VAT, and adapt to the rapidly shifting political and trade relations between the Gulf markets.
- ◆ Given the recent weakness of the US dollar (which may well be temporary), businesses should take advantage of increased competitiveness on the global level.

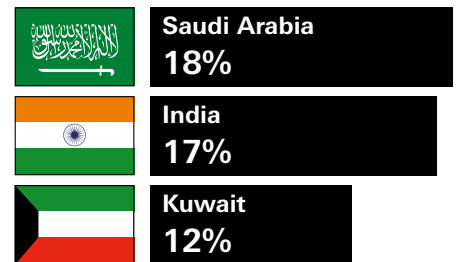
Outlook for trade finance need and access in the next 12 months



*Expect increase = Increase significantly + Increase slightly
 †Expect decrease = Decrease significantly + Decrease slightly

Source: TNS Kantar

Which are the top 3 markets where your business will look to expand in the next 3-5 years?



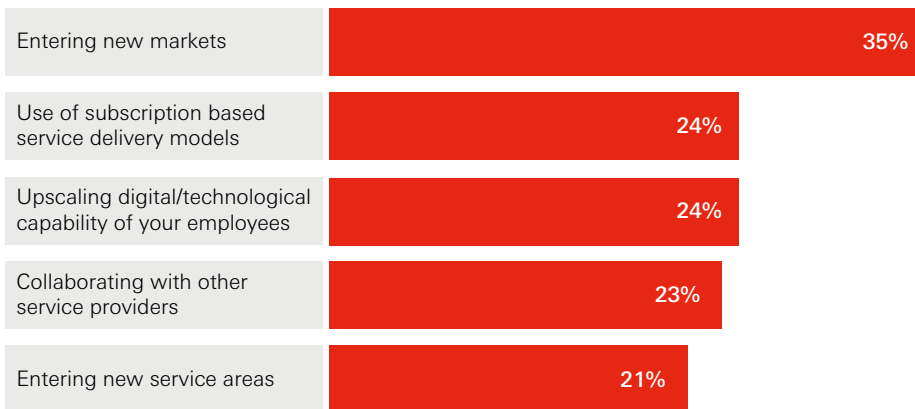
Source: TNS Kantar

A recovery in oil prices and the improved regional outlook should buoy trade in the near term.

Nearly two-thirds (62%) of UAE survey respondents expect to see a jump in service trade volumes. Perhaps not surprisingly for a country that is home to two of the world’s most renowned Airlines, Emirates and Etihad, the transportation and tourism sectors accounted for an estimated 97% of the UAE’s total service exports in 2017; higher projected tourism flows this year should support robust growth in these sectors. Recent data show healthy growth in passenger traffic, with Dubai’s international airport recording a 5.5% year-over-year increase in 2017.

The UAE’s highly open economy and pool of skilled labour will sustain the country’s status as a trade hub.

How do you plan to grow your services business?



Source: TNS Kantar

Over a third (35%) of respondents in the UAE view entry into new markets as an important strategy for growing their services business; businesses are also embracing new technology, with almost a quarter of respondents (24%) identifying this as a key enabler of growth in their service business. Building on this theme, almost three quarters of businesses (72%) think that easier access to data creates a level field for trade. However, a clear majority of respondents (70%) were concerned about cyber security threats.



Trade Policy Developments

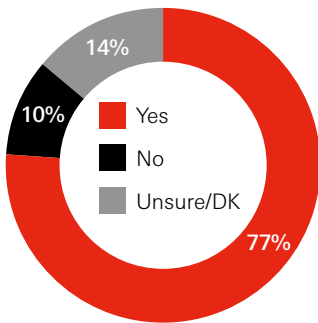
The UAE’s economy is highly open, and according to the World Bank, trade flows in 2016 were worth more than twice its GDP. As a member of the Greater Arab Free Trade area, which includes all Gulf Cooperation Council states, the UAE participates in free trade agreements with the EU, Japan, China, India, Turkey, Australia, Korea, and several Latin American countries.

Since the UAE depends so heavily on trade, the potential rise of global protectionism put its economic outlook at risk. But in the near term, businesses there seem more concerned about regional politics—although they disagree on the impact. Hearteningly, 41% of firms think the political environment in the Middle East will be beneficial to their business over the next two years; conversely, just over a third (34%) of them say it will be detrimental.

Action points for business

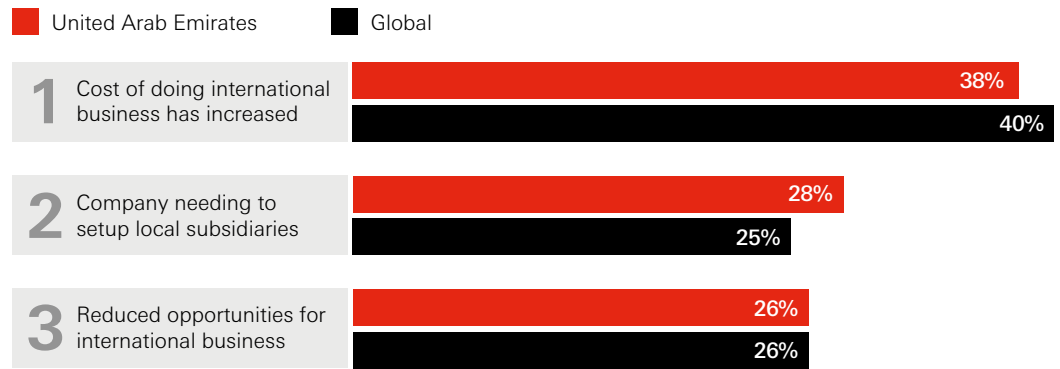
- ◆ UAE firms should consider in more detail how new trade deals such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) could affect their business.
- ◆ Businesses should assess their exposure to potential protectionist measures in important markets, such as the US.

Are governments becoming more protective of their domestic business?



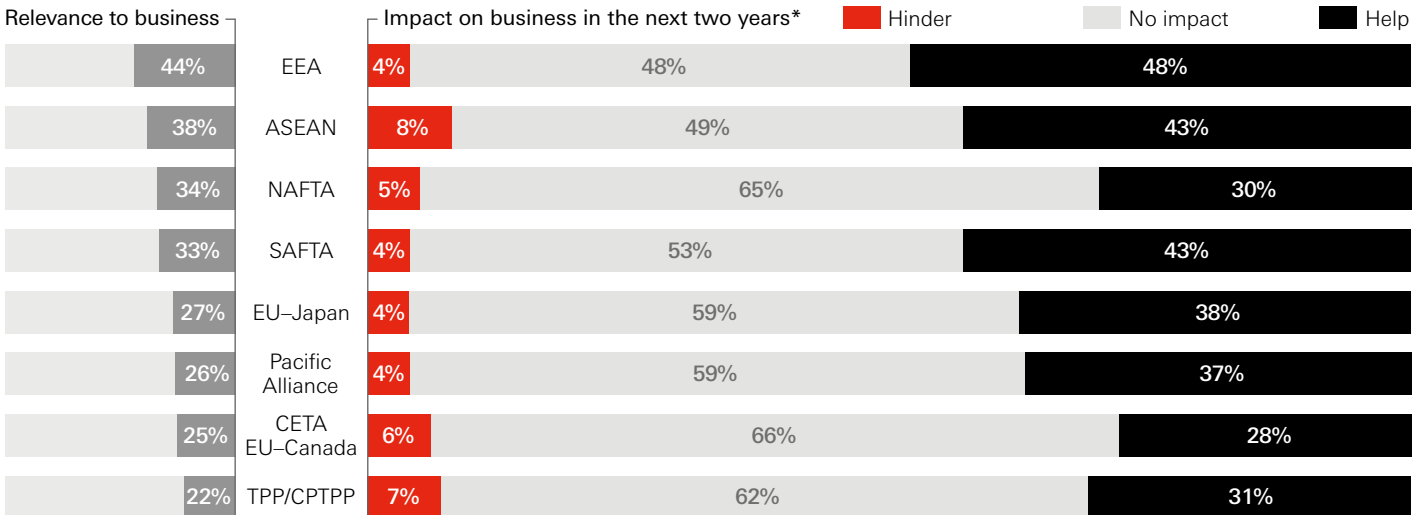
Note: may not total 100% due to rounding
Source: TNS Kantar

Top 3 impacts of protective policies on my business



Source: TNS Kantar

Relevance and impact of trade agreements



Source: TNS Kantar

*May not total 100% due to rounding

Focussing on the role of trade agreements, respondents did not generally appear enthusiastic about the potential benefits of new deals such as the CPTPP – only 22% viewed the pact as being relevant to their business. Established links with Europe appear most important to UAE businesses, although still only 44% thought developments in the EU would be relevant.

Long-Term Outlook for Trade

Fundamental economic and political factors should solidify the UAE’s status as a strategic trade hub over the long term. The country enjoys political stability, a strong regulatory framework, an abundant supply of low-cost and skilled labour, and a diversified economy. The authorities aim to reduce the oil sector’s share of GDP to just 20% by 2021, shifting toward a more diversified, knowledge-based economy. Already, the UAE’s economy is among the most diversified in the Middle East, ranking among the top attractive Arab countries for foreign direct investment.

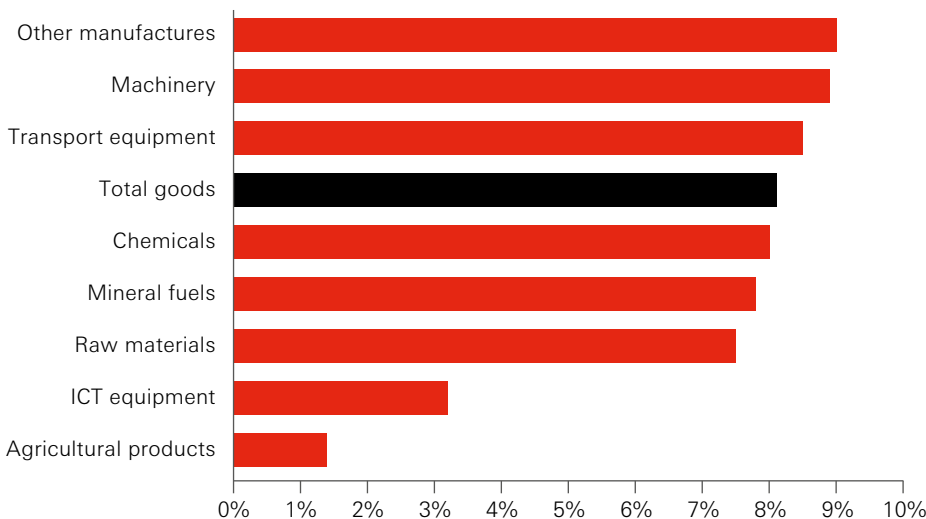
Our projections suggest that on average, total merchandise exports will grow by close to 7% a year in value terms between 2021-30 (excluding petroleum products, growth will be closer to 8% a year) and service exports by 6% per year between over the same period. At the end of that period, petroleum will remain as the top goods exports of the UAE while travel and tourism will likely still be the UAE’s top service exports. Of course, potential regional conflicts could put a damper on export growth.

Oil remains centre stage, despite diversification

Like other countries in the Middle East, the UAE is diversifying its economy by investing in the non-oil sector to boost its contribution to GDP and exports. Still, the Abu Dhabi National Oil Company plans to expand production and raise output capacity from 3.15 million barrels per day to 3.5 million. Petroleum products will therefore remain the principal drivers of export growth, accounting for up to 40% of the increase in merchandise exports from the UAE through 2030. Other oil-related sectors will also remain integral; mineral manufactures should contribute 16% of merchandise export growth over the period.

The ‘unclassified goods’ category will be the third largest contributor to export growth from 2021 to 2030, with 14% of the total increase in merchandise exports. This group consists mainly of high-value items that are re-exported through the UAE, including gold, diamonds, and jewellery. Also reflecting the role of re-exports, transport equipment and industrial machinery are expected to grow rapidly.

Exports of goods by sector, 2017-30 (average annual growth)



Source: Oxford Economics

Action points for business

- ◆ As security and political conditions improve in certain Middle Eastern countries, UAE businesses should consider how they can cater to these high-potential markets.
- ◆ Firms should evaluate how they can maximise benefits from trade initiatives like Belt and Road, given the UAE’s trade ties with China and the broader Eurasian region.
- ◆ Saudi Arabia’s Vision 2030 makes foreign tourism a priority and UAE firms will have to innovate and leverage their competitive advantage to continue attracting visitors.

Top 5 Hotlist destinations of goods exports

Rank	2016	2030
1	India	India
2	Japan	China
3	China	Japan
4	Saudi Arabia	Korea
5	Korea	Singapore

Note: Ranking among the 24 trade partners covered in the forecast

Source: Oxford Economics

Asia’s markets will remain the principal buyers of the UAE’s goods exports (and re-exports), given their booming populations, strong economic growth, and increasing energy needs. India, China, and Japan will retain the top three spots on the export destinations Hotlist for the UAE to 2030; by value, merchandise exports to India and China will grow on average 10% and 9% per year, respectively. The UAE’s exports to other MENA countries will also grow rapidly, thanks to closer bilateral economic and political ties. Merchandise exports to Saudi Arabia and Egypt should grow by an average of 7% a year between 2021 and 2030 in value terms.

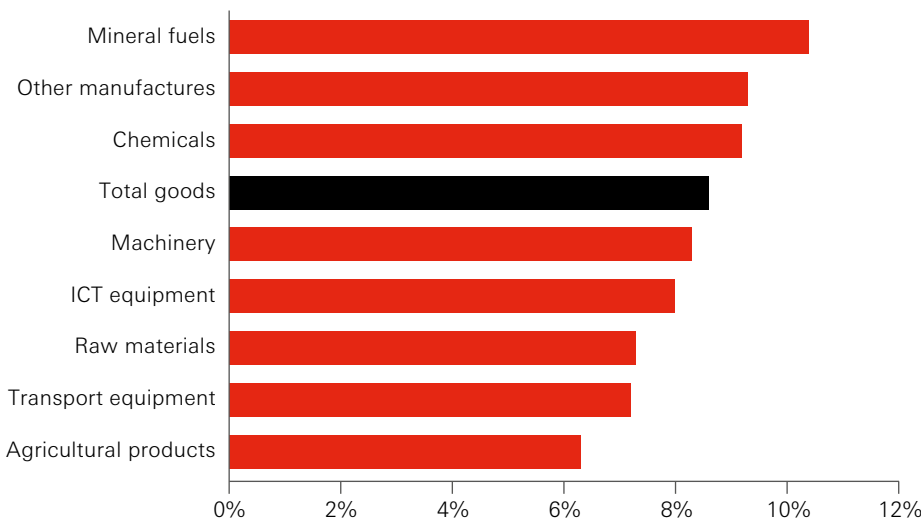
Overall, we forecast that the Asian economies (excluding Japan) will capture almost two-thirds of the UAE’s total merchandise exports by 2030, while the MENA region will account for close to a fifth.

The import mix won’t change appreciably

As for goods imports, ICT equipment, transport equipment, and industrial machinery will account for most of the growth in the coming decade. Many of these goods will be re-exported, reflecting the UAE’s role as a trading hub. But as the country invests in infrastructure and transitions to a more knowledge-based economy, domestic demand for these goods will strengthen as well. We also expect the value of ‘unclassified goods’ imports to grow, reflecting the UAE’s lucrative trade in jewellery.

Emerging markets will overtake advanced economies as the main destinations for the UAE’s goods exports.

Imports of goods by sector, 2017-30 (average annual growth)



Source: Oxford Economics

Today, the UAE’s top five import partners consist of three advanced economies (the US, the UK, and Germany) and two emerging economies (China and India). By 2030, Saudi Arabia will leapfrog both Germany and the UK to become the UAE’s fourth largest supplier of imports. The UAE’s imports from Vietnam and India will grow by an average of 11% per year between 2020 and 2030; imports from China will average 10% annual growth.

Overall, we forecast that by 2030, 46% of the UAE’s total goods imports will come from Asia (excluding Japan), 20% from Europe (excluding Russia), and 18% from the Middle East and North Africa.

Top 5 Hotlist origins of goods imports

Rank	2016	2030
1	China	India
2	India	China
3	USA	USA
4	Germany	Saudi Arabia
5	UK	Germany

Note: Ranking among the 24 trade partners covered in the forecast

Source: Oxford Economics

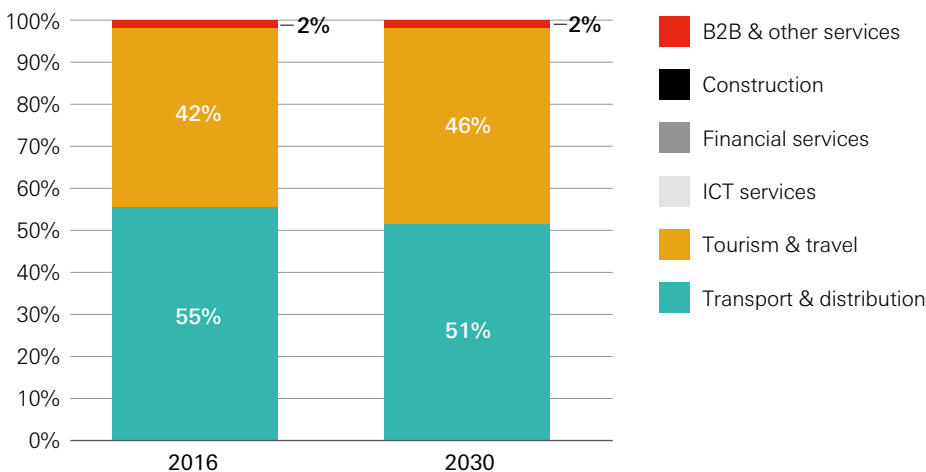
Transport and tourism contribute the lion’s share of service exports

Thanks in part to the Vision 2021 plan for economic diversification, the UAE’s service exports should grow on average 6% per year by value from 2021 to 2030. The strong transport and tourism sectors will remain dominant, accounting for more than 90% of total service exports by 2030. In general, we consider the UAE well positioned to benefit from healthy global growth and infrastructure improvements.

The UAE’s services exports will remain largely geared towards Asia and the Middle East. India and Saudi Arabia will remain as the top two destinations, while China will overtake Japan into third place.

Top service export markets for the UAE will remain relatively unchanged in 2030, reflecting strong bilateral ties.

Sectoral shares in total services exports



Source: Oxford Economics

Top 5 Hotlist destinations of services exports

Rank	2016	2030
1	India	India
2	Saudi Arabia	Saudi Arabia
3	Japan	China
4	China	Japan
5	USA	Turkey

Note: Ranking among the 23 trade partners covered in the forecast

Source: Oxford Economics

About the HSBC Navigator

The HSBC Navigator presents a blend of survey evidence, policy analysis, and economic modelling to generate unique and timely insights into the changing landscape for global trade.

The business survey is a quantitative indicator of the short-term outlook for global trade. The survey, which is the largest of its kind, is conducted on behalf of HSBC by Kantar TNS. It is compiled from responses by decision-makers at over 6,000 businesses – from small and mid-market to large corporations – across a broad range of industry sectors in 26 markets. Interviewees were polled on a range of questions including expectations around future growth in trade, trade finance needs, attitudes toward trade policy developments and strategic business plans.

The survey represents a timely source of information on the fast-evolving trade environment. And it can provide a useful contextual setting for interpreting developments in official data. In this way, economists at Oxford Economics are able to blend insights from the survey with their own analysis and modelling of developments in trade.

Oxford Economics has tailored a unique service for HSBC which forecasts bilateral trade in goods and services, in part based on HSBC’s own analysis and forecasts of the world economy. A top-down approach is employed, with Oxford Economics’ suite of models used to ensure consistency between HSBC’s forecasts for economic growth and exchange rates in key countries and the more granular projections for bilateral trade flows presented here.

Oxford Economics employs a global modelling framework, with headline bilateral trade forecasts constructed as a function of demand in the destination market and the exporter’s competitiveness (as measured by unit labour costs in nominal USD terms). Exports, imports and trade balances are identified, with both historical estimates and forecasts for the periods 2017-20 and 2021-30.

These headline bilateral trade forecasts for goods and services are also disaggregated by sector, using Oxford Economics’ Industry forecasts to inform future production trends and taking into account the historic relationship between output and exports in each sector, by market:

- ◆ For trade in goods, sectors are classified according to the UN’s Standard International Trade Classifications (SITC) system at the two-digit level and grouped into 30 sector headings.
- ◆ For trade in services, we identify five broad sectors: B2B and other services, tourism & travel, transport & distribution, financial services, ICT services and construction.

Drawing on the Kantar TNS survey results and Oxford Economics’ long-term forecasts, Oxford Economics produces in consultation with HSBC a global report and specific reports on the following 23 markets: Argentina, Australia, Bangladesh, Canada, China, Egypt, France, Germany, Hong Kong, India, Indonesia, Ireland, Japan, Malaysia, Mexico, Poland, Saudi Arabia, Singapore, Turkey, UAE, UK, USA and Vietnam. The analysis of trade in goods also includes trade with Brazil and Korea for a total sample of 25 key trading markets; for trade in services the analysis also includes Korea for a total sample of 24 key trading markets.

For media enquires please contact:
Natasha Plowman
HSBC Global Communications
Natasha.Plowman@hsbc.com

Or go to www.business.hsbc.com/trade-navigator

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United Kingdom

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