NEW ZEALAND
FOREIGN AFFAIRS & TRADE
Manatū Aorere

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UAE: Economic update

MARKET INTELLIGENCE REPORT

Summary

- The IMF estimates that the UAE will enjoy 4% real GDP growth in 2024 - largely driven by increased investment and continued Government efforts to enhance the economy's non-oil sectors in line with its UAE Vision2031.

- While this outlook remains subject to a number of risks (regional instability, fluctuating oil prices), the IMF projects that the UAE's significant financial buffers derived from oil revenues, combined with ongoing healthy returns on investments (UAE actors are currently estimated to possess US$2.5 trillion in overseas assets, 73 percent of which are owned by sovereign wealth funds) and structural reforms, could "help spur growth more than expected".

- The UAE Government remains focused on increasing the attractiveness of the UAE for international business. This is a multipronged approach with the UAE addressing governance regulatory gaps, reforming business regulations, and making it easier for foreign nationals to work in the UAE by liberalising the visa system and improving the living environment.

- Heightened regional competition for the title of preeminent business, financial and logistics hub, especially from Saudi Arabia and Qatar, the UAE will continue at full steam with its reform agenda including negotiating CEPAs with as many countries as possible.

- New Zealand businesses should be aware that the UAE is becoming an increasingly competitive market. It is therefore important to build sustained relationships in-market, clearly articulate points of difference from competitors, and be well across sectors of opportunity, particularly within the UAE’s extensive economic diversification efforts. These include tech & services, manufacturing, and food&beverage and consumer goods sectors.

Report

2024 is looking promising for the Emirates' real GDP growth ...

The IMF recently projected 4% real GDP growth for the United Arab Emirates (UAE) in 2024 (revised up from 3.5% in April). The UAE is a wealthy petro-state with a population of 10 million people, the 19th highest GDP per capita in the world and impressive foreign reserves. This growth will be largely driven by increased investment and continued efforts to boost the economy's non-oil sectors, in line with the Emirates' 'We the UAE Vision2031'. The country's hydrocarbon sector is also expected to contribute to this increase, following the UAE's increased OPEC+ 2024 quota driving higher crude production. While more conservative than the UAE's own estimate (with its Minister of Economy recently projecting up to 7%, as occurred in 2022), 4% is still positive when compared to the IFI's 2.8% average projection for the GCC.

The 2024 estimate comes off the back of 3.6% economic growth in 2023 (and 7.9% in 2022), with notable contributions from the UAE's non-oil sectors, which now account for around 73% of GDP. Its financial sector posted the largest growth (14.3%) in 2023, followed by transportation and storage (11.5%), construction (8.9%) and real estate (5.9%). The latter two sectors were helped in significant part by the UAE's various ongoing infrastructure projects (such as Etihad Rail and road expansions), and a significant number of realised housing and hospitality projects within the Emirates, comprising 30% of all 2023 projects in the MENA region. These gains were, however, slightly offset by the oil sector contracting 3.1% in the 2023 year, due to OPEC+ oil production cuts.

The outlook remains subject to several risks. All are watching the volatile regional situation and subsequent economic impacts. The Emirates remain vulnerable to the global financial context, given its role as an international hub; and commodity market volatility is a live risk. That said, the IMF projects that the UAE's large financial buffers (helped by sustained oil prices), combined with ongoing investment and structural reforms, could "help spur growth more than expected".

The UAE International Investor Council (UAEIIC) estimated the total value of UAE assets abroad, whether government or private, to be US$2.5 trillion, as of early 2024. Several sovereign wealth funds, chaired by immediate family members of the Rulers of Abu Dhabi and Dubai, control 72 percent of these investments, led by Abu Dhabi Investment Authority. UAE-owned assets are spread across 90 countries, with the United States, Egypt, UK, India, and Morocco said to top the list.

The UAE's Vision2031 is the live articulation of the Emirates' forward development/economic growth path, an intent to grow as a global player, and to keep building its status as an attractive and influential economic hub. Vision2031 comprises four 'Forward' national priorities – Society, Economy, Diplomacy and Ecosystem – with specific focus areas and targets.

Strategic indicators of note include: doubling GDP to reach AED 3 trillion (NZ$ 1.3trillion) by 2031, generating AED 800 billion (NZ$ 356billion) in non-oil exports, raising the value of the UAE's foreign trade to AED 4 trillion (NZ$1.78trillion), and ranking in the top 10 countries globally both for attracting global talent and in the Global Food Security Index. The Vision2031 framework, which all UAE institutions are required to work towards achieving, can be used as a reference point for New Zealand firms seeking to engage with the UAE's extensive economic diversification efforts.

… and living and working in the UAE is becoming easier than ever …

The UAE Federal Government continues to announce changes meant to sustain the UAE's position as both the preeminent regional business hub and the destination of choice for foreign capital and talent, in the face of regional challenges. Remaining attractive to foreign workers is essential for the UAE, given 90% of the population is expatriate.

In late 2022, the Advanced Visa System, comprising 10 visa types, came into force to establish longer-duration visitor visas and long-term residency options. The most prestigious, the (aptly named) 'Golden Visa', is now available for those expected to "increase the UAE's competitiveness and create an attractive environment for business and growth". Eligible categories include public investors, entrepreneurs, and those with 'outstanding specialised talents' such as doctors, athletes, artificial intelligence experts and creatives. Importantly, it gives holders a ten-year residency, the ability to sponsor family members without age restrictions and removes the sponsor requirement. Holders of the five-year Green Visa for freelancers and skilled employees also no longer need a sponsor, and can now bring their family to the UAE for five years. In 2024, a new ten year 'Blue Visa' was also unveiled, aiming to attract those having 'made an exceptional contribution towards the environment's protection and sustainability'.

Visa conditions more broadly have also been relaxed. Parents are now permitted to continue sponsoring disabled children when they reach adulthood. A 2022 law introduced flexible working practices into the private sector, enabling employees to opt for temporary and flexible work, shared jobs and condensed working hours. Importantly, employers can no longer force staff to leave the UAE when their work contract is terminated. This change, coupled with the above visa reforms, should make the UAE even more attractive to foreign workers and provide both employers and employees with greater choice in the labour market.

…supported by continuing regulatory change to improve ease of doing business.

These wide-ranging visa changes have been complemented by a series of recent commercial legislative changes. The federal-level Commercial Companies Law for the first time allowed foreigners to start a business without needing a local shareholder or sponsor in over a thousand sectors (designated at the emirate-level to balance sensitivities, and unsurprisingly excluding strategic sectors such as telecommunications, utilities and fintech), with existing companies in those sectors also able to benefit. This change aims to increase foreign direct investment (FDI) into the UAE, which typically records net FDI outflows, and improve the country's global competitiveness. These measures have borne tangible results, with UNCTAD reporting in June 2024 that FDI flows into the UAE increased 35% in 2023, meaning the country jumped five places to 11th in the global FDI rankings. 2023 also saw the Emirates record the second highest global rise in greenfield FDI (according to UAE Trade Minister Dr Thani Al Zeyoudi), with a 28% increase on 2022 figures.

The UAE is also progressing a range of public-private partnerships (PPPs), to improve diversification efforts and balance state finances. This approach (guided by a December 2023 Federal PPP Law and a June 2024 Ministry of Finance guidance manual) aims to make federal projects commercially viable for the private sector, using a range of government guarantees and commercial incentive mechanisms. The first phase has identified energy, healthcare, social services, infrastructure, and education as initial priority sectors.

A new Ministry is aiming to unlock private investment …

The UAE Federal Government established a new Ministry of Investment in mid-2023, reflecting the reality that its ambitious goals, including in strategies like 2016's 'After Oil' and the National Energy Strategy 2050, require substantial investment levels to succeed. The Ministry has been charged with improving conditions for private investment, including FDI, and promoting the Emirati investment environment through "strategies, legislation, plans, projects and national programmes".

These high level aims, however, have yet to be paired with more granular detail about what policies may be announced or amended: for example, if particular classes of (or individual) firms will be supported and in what ways. Commentators have also flagged the risk of the ministry becoming another layer of bureaucracy in a system where firms already navigate federal and emirate level regulations, rather than improving efficiencies or promoting trade and investment (the UAE does not have a NZTE-equivalent agency).

The government is likely to be considering the goals set out in its ambitious "After Oil" Initiatives adopted in 2016 and the National Energy Strategy 2050, both of which are prefaced on high levels of investment. The UAE also faces growing competition regionally as a business centre from Qatar and Saudi Arabia; with Dubai's historic role as multinationals' location of choice for their regional headquarters being challenged by the Kingdom's requirement for such firms to shift headquarters to Riyadh to be eligible for government contracts.

... and the Government's Emiratisation push continues.

The UAE is embarking on a major push to encourage more Emiratis to join the private sector, which remains critical to the country's economic development, dominated by expatriates, and typically lower paid than the public sector. The Nafis national programme targets Emiratis filling 10 percent of all skilled jobs in the private sector by the end of 2026, through a mix of private sector requirements, hefty non-compliance measures, and financial incentives for Emiratis. While companies in free zones are exempt, they are encouraged to participate. In May 2024, Prime Minister (and Dubai Ruler) Sheikh Mohammed bin Rashid announced that the number of private-sector employed Emiratis had surpassed 100,000: the highest ever figure.

Businesses comprising at least 50 employees are presently (since June 2024) required to have Emiratis fill five percent of skilled roles. These companies must increase the proportion of Emirati workers by 1 per cent every six months (i.e., to six percent by the end of 2024, eight percent in 2025, and 10 percent by the end of 2026). Non-compliant companies will be fined AED 6,000 (NZD2,670) monthly for every citizen not employed.

In 2023, the Emiratisation rules were expanded to cover companies with between 20-49 employees. These firms are required to hire one Emirati employee in 2024 and a second in 2025. Non-compliance will result in a AED96,000 (NZD42,720) fine in 2024, and increase to AED 108,000 (NZD 48,000) for those who have not hired two Emiratis by 2025.

Opportunities for Kiwi firms, particularly in tech & services, manufacturing, and F&B/ consumer goods

Tech and Services: There is growing demand for digital transformation and cutting-edge technologies, driven by government spending. Services are also growing rapidly, supported by the UAE's efforts to be a regional player, including in data centres. Education, telehealth, data analytics and artificial intelligence are all expanding, in line with their Vision2031 prioritisation. That said, the UAE is a highly competitive market with competitors a short distance away. Cost of goods sold are quite high, driven by expensive talent, and retention is difficult given the hot labour market.

Manufacturing: Foreign firms that partner with local manufacturers, and/or set up operations themselves locally, can take advantage of the '[Make in the Emirates' scheme's incentives]. Incentives include better access to requests for proposals, favourable financing, and training opportunities. In-country firms can also access the UAE's growing network of Comprehensive Economic Partnership Agreements (CEPAs). The country is expecting to exceed its initial target of signing 26 CEPAs by 2031. Six are currently in force with India, Israel, Indonesia, Türkiye, Cambodia, and Georgia, with another three signed, five concluded, and a further eleven currently under negotiation, including with New Zealand. New Zealand firms providing e-mobility solutions have received regional interest, and the hydrocarbon sector will remain important to the UAE in the years to come, including as part of non-oil future exports. That said, export controls requirements, and the increased cost of sea freight due to the regional situation, continue to be challenges for New Zealand manufacturing firms.

Food, beverage, and consumer goods: Companies that move away from commodity trading and focus on value-adding through branded products can command a premium price in both retail and food services sectors in the Emirates. A major pharmaceutical retailer's upcoming entry into the UAE will also facilitate market access to many new nutraceuticals and fast-moving customer goods (FMCGs). That said, given the limited barriers of trade, the UAE market is becoming increasingly competitive, with many high quality, and sometimes cheaper, alternatives to New Zealand products fighting for market share. This sector is also grappling with the increased cost of air and sea freight, combined with increased shipping times.

Comment

The UAE's strong economic outlook, ongoing efforts to make it the 'living and working' regional destination of choice for foreign talent, and laser focus on growing its private sector and removing barriers to trade, are creating opportunities for existing and prospective New Zealand firms in market; and may assist in achieving the Government's goal of doubling the value of exports in ten years.

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