



UNITED ARAB EMIRATES  
MINISTRY OF ECONOMY

# ANNUAL ECONOMIC REPORT 2019

27<sup>TH</sup> EDITION



Abu Dhabi - Headquarters

P.O. Box 901 Abu Dhabi, UAE

Tel.: +971 2 613 111

Fax: +971 2 626 000

Email: [info@economy.ae](mailto:info@economy.ae)

Website: [www.economy.ae](http://www.economy.ae)

Department of Economic Studies

Email: [pdsd.inf@economy.ae](mailto:pdsd.inf@economy.ae)

Tel.: +971 26131292



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MINISTRY OF ECONOMY

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## MISSION



Achieve national economy's development and competitiveness. Prepare for an environment that encourages the practice of economic businesses by enacting and modernizing economic legislations and external trade policy, and developing national industries and exports, and tourism development by developing its products and enhancing its quality, encouraging investment, regulating competitiveness and SME's sector, protecting consumer rights and intellectual property, supporting the efforts of cooperative societies, diversifying economic activities, popularization of smart apps. All the above should be lead by Emirati competencies in accordance with global standards of creativity and innovation and knowledge economies.

## VISION



Diversified global competitive economy based on knowledge & innovation, lead by Emiratis.

## VALUES



**Innovation:** Set up positive atmosphere to assist those appointed internally and externally in the Ministry to help them transform their ideas into distinguished applicable results that serve the Ministry's vision and the UAE competitiveness.

**Respect of Rights:** Respect employees and consumers, and all customers' rights as per the economic legislations and established work systems.

**Sustainability:** Do our best to fulfil social and environmental sustainability requirements in all economic activities.

**Integration:** Reinforce collaboration and integration aspect among economic sectors.

**Competitiveness:** Work hard to achieve a distinguished ranking for our national economy, both on local and international levels.

**Excellence and Team Spirit:** Work as one team to spread institutional excellence concept on all levels.





**His Highness Sheikh Khalifah Bin Zayed Al Nahyan**  
President of the United Arab Emirates Ruler of Abu Dhabi







**His Highness Sheikh Mohammed bin Rashid Al Maktoum**

UAE Vice President, Prime Minister and Ruler of Dubai

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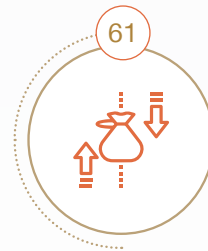
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## MINISTER MESSAGE



**H.E. Eng. Sultan bin Saeed Al Mansoori**  
UAE Minister of Economy

The UAE economy continues to advance as one of the most competitive and diversified economies in the region, which is backed by the country's leading policies and in accordance with the guidance of its wise leadership, pursuant to plans and strategies complementing the objectives and goals set forth in UAE Vision 2021 and the UAE 2071.

National efforts are being exerted at both the government and private levels to increase the trend towards enhancing the knowledge economy, digital transformation and developing the innovation system as an engine for sustainable economic development.

There is no doubt that the advanced technology outputs are radically transforming the business models and investment climate in different countries of the world. The UAE has been the first to employ modern technologies in its efforts to build an economy of the future, which can be seen in the national strategies created to guide development during the next phase in the fields of Advanced Innovation, Artificial Intelligence (AI), Fourth Industrial Revolution and others.

We see the positive impact of these efforts through the achievement of the Arab world rankings and progress in a wide range of global indicators, such as the Global Competitiveness Index, the Global Innovation Index, the Ease of Doing Business Index, the Development and Entrepreneurship Index, the Trade Empowerment Index and the UAE Rank in the field of Foreign direct investment and trade in goods and services.

Global economic activity has been weak in 2019, as a result of numerous updates that have affected the entire economic landscape, such as trade tensions between the major economic powers, the continuing impact of conflicts and wars, uncertainty in the future of the global trading system and reduced confidence in business and investment decisions.

Nevertheless, the UAE's economic model, based on flexibility and openness to global markets, deepening the role of innovation, technology, knowledge and research and development in the development process, and supporting national entrepreneurship, has been able to limit the impact of these global economic variables on the national

economy. This is reflected in the continuation of developmental efforts and initiatives in the various value-added sectors according to deliberate steps and a clear vision for the future industry.

In line with the Ministry of Economy's keenness to enhance the knowledge of the government, private and academic sectors of the most important economic developments, we are pleased to put in your hands a copy of the annual economic report for 2019, which provides an explanation and an overview of the economic conditions, variables and indicators in the UAE during 2018.

We hope that this report will be an important knowledge addition highlighting the most important economic issues of concern and meet the needs of the business sector and contribute to the enhancement of decision-making process and look ahead to develop appropriate plans to achieve our aspirations for development and prosperity.

**H.E. Eng. Sultan bin Saeed Al Mansoori**  
UAE Minister of Economy



01



## **FIRST: GLOBAL, ARAB AND GULF ECONOMIC CONDITIONS**

# 1

## WORLD ECONOMIC SITUATION

### GLOBAL ECONOMIC GROWTH

Following a 3.8% peak in 2017, then a slight decrease to 3.6% in 2018, global growth is expected to drop to 3.2% in 2019, before recovering to 3.5% in 2020 (according to IMF estimations). This decline in global growth since the second half of 2018 is attributed to the escalating trade tensions between the US and China that have overshadowed the global scene in general, as well as some challenges resulting from macroeconomic pressures in Argentina and Turkey, challenges in Germany's auto industry sector, the tightening of bank credit policies in China, the narrowing of financial conditions, and the normalization of monetary policy in major advanced economies. An Atmosphere of uncertainty dominates global growth prospects, as they are associated with the Brexit, potential sanctions by the US, and their reflection on causing disruptions in global trade and technology supply chains, as well as rising geopolitical tensions negatively affecting energy prices. Uncertainty also dominates the prospects of growth improvement in 2020, since they are mainly based on the assumption of stability in emerging-market economies and currently-under-pressure developing economies and progress in settling disagreements over trade policies.



### GLOBAL TRADE AND INVESTMENT

Both global investment and demand for consumer durables in both advanced economies and emerging market economies witnessed a decline, which is attributable to the companies and households refrain from long term expenditure with the increasing uncertainty over policies, which led manufacturing activity to decline all over the world. Similarly, the growth in global trade, which is heavily concentrated in machinery and consumer durables, dropped into about 0.5% in the first quarter of 2019 on a comparative annual basis after dropping into less than 2.0% in the fourth quarter of 2018. This slowdown was remarkable in emerging Asia, especially China.

The persistence of trade tensions generated negative impact on the prospects of global trade and investment. World trade growth fell to 3.7% in 2018, compared to 5.5% in 2017 and it is expected to decline further in 2019 to reach 2.5%. Weak prospects of trade, in turn, generate negative effects on business confidence and thus on investment and financial markets.

### INFLATION RATES

Core inflation in advanced economies has fallen below target, owing to weak growth in final demand. Further, it has continued to fall below historical averages in many emerging market and developing economies. While global activity



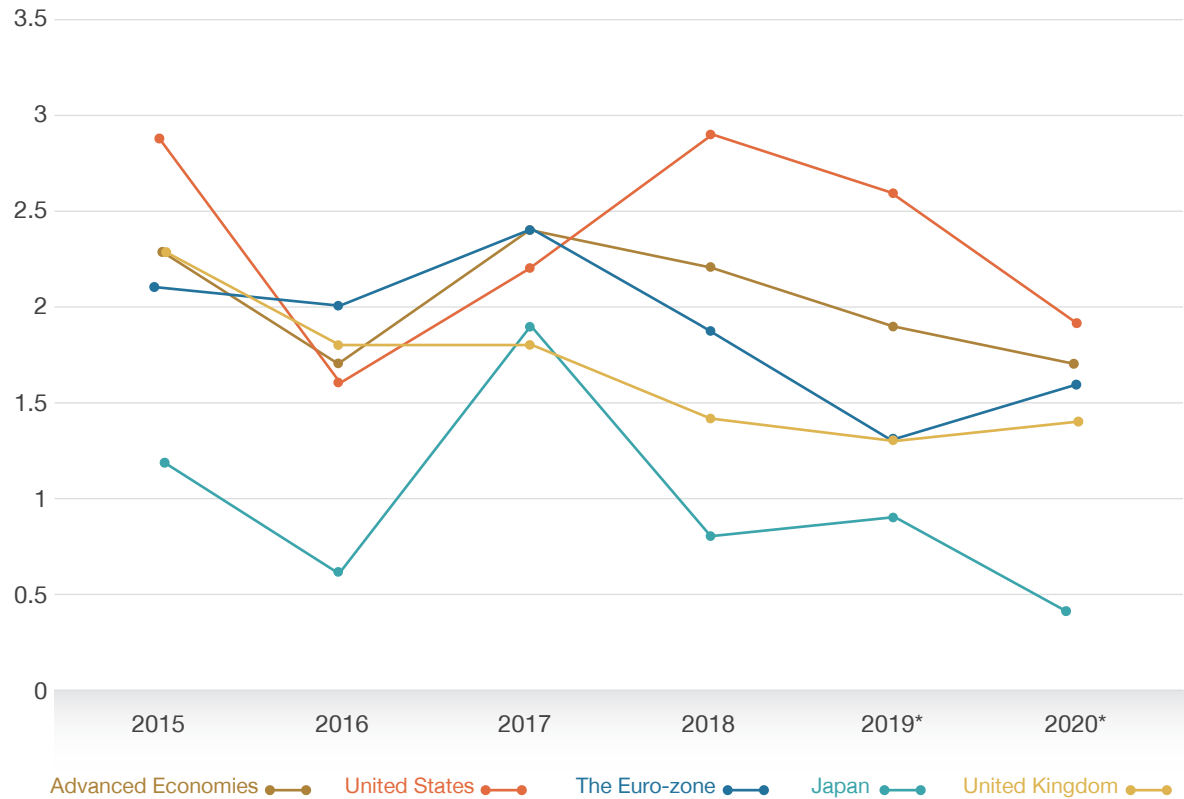
remains generally weak, the impact of supply increases continues to dominate movements in primary commodity prices, especially oil prices. Meanwhile, world oil prices have fluctuated markedly since the end of 2018 and the first half of 2019, affected by trade tensions and geopolitical factors. Oil prices fell by around 42% between October and December 2018, after they had risen by around 30% during the first 10 months of 2018. Global oil prices are expected to fall by 4.1% on average to around 65.5 dollars/barrel in 2019 and by 2.5% to 63.9 dollars/barrel in 2020, compared to 68.3 dollars/barrel in 2018.

The decline in inflation and inflationary expectations increases debt-service difficulties for borrowers, affect corporate-sector investment expenditure, and limit the monetary-policy space available to central banks to counter the economic downturn.

### ADVANCED ECONOMIES

Economic growth in the advanced economies is expected to decline to 1.9% in 2019 and 1.7% in 2020, compared to growth rates of 2.2% and 2.4% in 2018 and 2017, respectively. Consumer price inflation rate is also expected to remain subdued at 1.6% in 2019 and 2.0% in 2020, compared with 2.0% in 2018. Moreover, growth in total foreign trade in developed countries decreased to 3.1% in 2018, from 4.4% in 2017 and is expected to decline further to 2.2% in 2019, before it will rebound to 3.1% in 2020.

Figure 1: Annual growth in real GDP in advanced economies



Source: International Monetary Fund and Ministry of Economy \*Forecasts

## EMERGING MARKET ECONOMIES AND DEVELOPING ECONOMIES

GDP growth in developing economies and emerging market economies is expected to decline to 4.1% in 2019 from 4.5% in 2018 and 4.8% in 2017 and to rebound again to 4.8 in 2020. On the other hand, consumer price inflation

rate in these economies is expected to remain stable in 2019 at the same recorded level in 2018 reaching 4.7%. As for external trade, these economies' trade growth declined from 7.4% in 2017 to 4.7% in 2018, and is expected to decline further to 2.9% in 2019. In 2020, trade growth is expected to improve to 4.8%.

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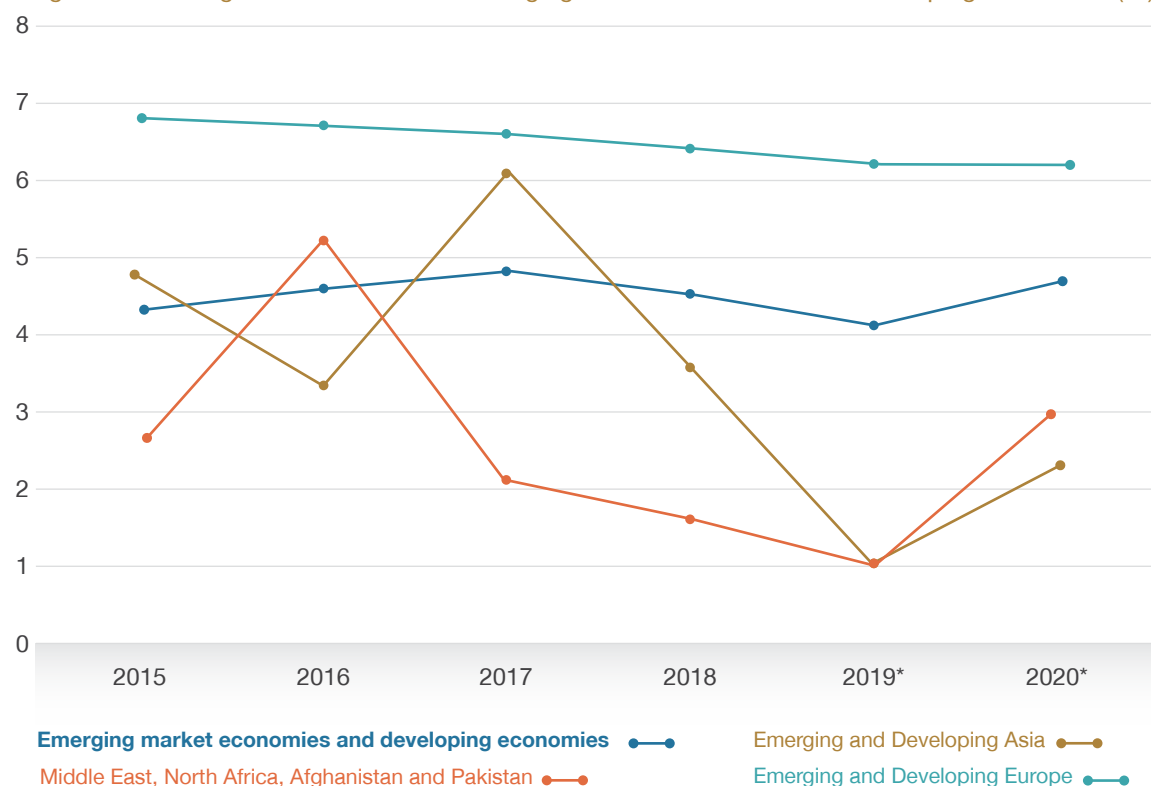
## ARAB ECONOMIC CONDITIONS

### ECONOMIC GROWTH

According to the International Monetary Fund, the world economy grew by 3.6% in 2018. It was close to the growth achieved in 2017, which witnessed a sharp increase in economic recovery momentum of 3.7%, though signs of weakness in economic activity and international trade were evident in the second half of 2018. That was the result of a number of factors, including growing trade tensions among major economies, concerns about rising levels of public indebtedness, uncertain policy conditions and accumulation of financial vulnerability. This was reflected on trade, investment and manufacturing activities in the developed and developing countries alike. This led to slower growth expectations in the world economy and the international trade during 2019 and 2020.

Despite that, Arab economies experienced a significant rise GDP growth rate to around 2.5% in 2018, compared to a low 0.7% growth in 2017. The growth came as a result of the oil economies' benefit from the increase in oil production in the second half of 2018. Within the framework of OPEC's decision to ease the adherence to the decision of modifying the production quantities in order to reduce the price pressures that the international oil markets witnessed during that period. Moreover, the rise in oil prices in 2018 boosted about 33.0% of the overall budget situation in a number of

Figure 2: Annual growth in real GDP in Emerging Market Economies and Developing Economies (%)



Source: International Monetary Fund and Ministry of Economy\*Forecasts

these countries and enabled them to continue government spending on infrastructure projects and economic diversification. Consequently, the non-oil sectors in a number of these countries continue to achieve moderate growth, which has caused the rise of the economic growth rate of the oil-exporting Arab countries to 1.8% in 2018, compared to a contraction of 0.3% in 2017. On the other hand, oil-importing economies were largely responsible for an important part of the rise in the growth rate of Arab countries as a group in 2018, with the growth rate of the group countries rising to 4.1%. This was against the backdrop of the implementation of economic reforms which promote economic stability and restore the internal and external balances that have contributed to providing growth-supporting financial resources in a number of these countries, and have stimulated investments and exports, thus supported the levels of aggregate demand. According to many local and international data, Arab countries are expected to grow at 3.1% in 2019 and 3.4% in 2020. This has reflected the expectations of the rise of the GDP growth rate in the Group of Arab Oil Exporting countries to continue to around 2.8% and 3.1% in 2019 and 2020 respectively, amid expected contrast of economic activity trends among the group countries. The expectations were also about the continuation of the high pace of growth in the Arab Oil Importing countries at 4.1% and 4.3% respectively in 2019 and 2020.

According to the estimations of the World Bank database, the Arab GDP at current prices is

estimated at USD 2781.6 billion in 2018, compared with USD 2588.7 billion in 2017. The Arab GDP at fixed prices amounted to USD 2711.3 billion in 2018, compared with USD 2655.6 billion in 2017.

### **AVERAGE GDP PER CAPITA OF ARAB COUNTRIES**

According to the World Bank database, the Arab world's population in 2017 has increased to about 419.8 million. Also the GDP of the Arab countries as a group at current prices in 2018 increased to 2781.6 billion. It estimated that the average GDP per capita of the Arab countries in 2017 reached about USD 6639, with a large disparity between the Arab countries in this regard. This was an outcome of the relative recovery of oil revenues, development of the growth of nonoil sectors in oil producing countries and its effect on the economic growth of Arab countries and the growth improvement in the oil importing countries as a result of the adopted reform programs.

### **INFLATION**

Year 2018 has witnessed a slightly decrease of the inflation rate in the Arab countries to reach around 13.4% compared to 13.6% in 2017. This came as the result of most countries taking measures aiming to contain inflationary pressures by heading into its deflationary monetary policy. The general price level in some other countries has been affected by the measures taken to reform the public finances by which the levels of commodity support have been reduced, customs on some



commodities increased, and new taxes applied in some Arab countries, including the value added tax. Moreover, the general price level in Arab countries was affected by high domestic demand levels and increased world oil and grain prices.

The inflation rate in 2019 and 2020 is expected to be affected by a number of financial and economic reforms, the most important are energy price correction measures, the value added tax that has been activated in some Arab countries, as well as the compensatory initiatives and measures in the context of some countries' tendency to reduce the burden of price rise and the cost-of-living for citizens.

The general price level will also be affected by the changes in the climatic conditions in some Arab countries and their effects on the supply of food commodities in the local market, in addition to the measures of raising customs duties in some of them on goods coming from abroad. Among the external factors that are expected to affect the inflation level are the increase in the international prices of oil, raw materials and strategic commodities such as wheat and changes



in the exchange rate of the Dollar against other major currencies. In light of these developments, the inflation rate is expected to reach about 6.7% in 2019 and about 6.5% in 2020.

### **ARAB BUDGETS**

The consolidated budget deficit for Arab countries fell to output in dollar terms from -6.7% in 2017 to -6.5% of output in 2018 amid the varying performance of different groups of Arab countries. The GCC group recorded a significant drop in the budget deficit to output to -4.5% in 2018, compared to -7.1% in 2017. The deficit level recorded in other Arab oil exporting countries rose to about -12% of the total output as oil revenues in the group countries continued to be affected by the internal conditions in some of the group countries and the need for increasing expenditure levels to meet economic needs and support spending on reconstruction requirements. The level of deficit

recorded in the Arab oil-importing countries' budget rose by 0.4 percentage points of GDP to reach 7.8% in 2018.

On the level of public revenues during 2018, the Arab oil countries, especially the GCC countries, adopted measures to diversify their public revenues by stimulating non-oil revenues, their tendency to impose taxes, and revising the fees of the governmental services. Oil-importing countries have also made significant progress on tax reform and adopted policies to improve tax administration, combat tax evasion and collect taxes electronically. On the public expenditure, Arab countries are implementing reform policies to rationalize public expenditure by reprioritizing spending. Other Arab countries have revised their support policies to reform commodity support systems and instead reform and strengthen social protection networks and monetary targeting eligible groups. The reforms also seek to increase resources for investment spending by implementing projects in partnership with the private sector to implement some infrastructure projects and provide government services.

As a result of the efforts exerted by the Arab countries to reform the public finances conditions, 2019 is expected to witness a tangible improvement in the Arab public finance situations. Estimates suggest that the consolidated general budget deficit as a percentage of GDP will decline to 5.5% in 2019, mainly supported by the growth of total revenues by 11%, while overall public expenditure is expected to grow by 7% in 2019.

### **ARAB FOREIGN TRADE**

Arab trade in goods and services rose, according to IMF data in 2018, by 12.8% to USD 2387 billion. This was due to the rise of Arab exports of goods and services by 17.4% to USD 1264 billion due to the improvement of oil prices, which still account for more than half of the region's commodity exports. Arab imports of goods and services also rose by 8.1% to USD 1122.7 billion during the same period.

### **ARAB UNEMPLOYMENT**

The unemployment problem is one of the most important economic and social challenges facing Arab countries, and what makes its challenges even more serious, its concentration in the young working-age community group (15-24) reached 26.1% in 2018. According to World Bank estimates, the Arab unemployment rate is about 10%. Among the most important reasons for the rise in Arab unemployment rates are the continuous and large growth in the number of Arab labor forces entering the labor markets annually, with the inability of Arab economies to provide sufficient job opportunities to face them. Moreover, the inability of those entering the labor market from the education graduates to face and adapt to the requirements of the labor markets, as well as the structure of labor markets and labor climate where there is a preference for government and public sector conditions over the private sector, the spread of work in the informal

sector, and the difficulty of establishing projects. According to the World Bank and International Labour Organization database, the amount of the Arab labor force in 2018 was estimated at 136.2 million workers compared to 133.4 million in 2017, with a growth rate of 2.1%. The Arab unemployment rate has also evolved from about 9.95% in 2017 to about 9.94% in 2018. The growth rate of economically active employment and population is expected to increase in the coming decades as a result of the impact of rapid population growth in the past three decades, thus a significant increase in employment supply levels. If the current growth and employment pace continues, youth unemployment will continue as the biggest economic and social challenge facing the Arab region until 2040. The technical development of the Fourth Industrial Revolution is a dynamic process that will involve both job creation and abolition at the same time and lead to a net increase in job creation in terms of skilled labor, and a net loss of unskilled labor by 25-50% approximately as a result of the automation of a number of jobs. In this regard, UN estimations indicate that the Arab countries need to provide 60 million job opportunities till 2020 to keep youth unemployment levels at current levels. Thus, the high rate of Arab unemployment requires from Arab countries to raise economic growth rates, focus on growth creating employment and take further measures to prevent its long-term growth.

## ARAB FINANCIAL MARKETS

At a time when the international financial markets retreated remarkably, as shown by the financial indicators, which affected by global trade conditions, geopolitical tensions, rising interest rate on dollar and rising oil prices. The market capitalization value of the global financial markets declined to USD 74.5 trillion in 2018 compared with USD 85.3 trillion in 2017, a decline of 12.7%, The Arab stock exchanges showed contrast performance in 2018. Moreover, the market capitalization value of Arab financial markets in 2018 rose to USD 1.166 trillion from its 2017 level of USD 1.083 trillion, up by 7.7%. Saudi financial market value accounted for about 48.0% of the total market value of Arab financial markets combined. As for trading volumes, they continued to fall for the fourth consecutive year to around USD 235.0 billion, compared with USD 268.1 billion in 2017, down 12.5%. The volume of trading in most other Arab financial markets declined sharply in 2018, with the exception of the Egyptian

stock exchange, which achieved a rise in trading volumes of 42.0%, and represented about 14.0% of the total volume of trading in Arab financial markets, in addition to the Saudi financial market, which witnessed a rise in trading volumes of 4.14%. As for the shares prices of listed companies in the Arab capital markets, the combined index of shares prices issued by the Arab Monetary Fund rose slightly to 324.54 points at the end of 2018, compared with 321.51 points at the end of 2017, a rise of 0.9%.

## ARAB INDEBTEDNESS

According to the annual report of the Arab Investment Guarantee and Export Credit Corporation of 2019, the total external indebtedness indicators of Arab countries have witnessed a relative stability around the safe limits in half of the Arab countries. Therefore, the external debt as a percentage of GDP has stabilized below 50% in 8 Arab countries, despite the decline in other 10 Arab countries.



### 3

## GULF ECONOMIC SITUATIONS

The diversification of economic activity and the transition to a diversified knowledge-based economy led by the private sector are among the Gulf Cooperation Council countries' top priorities. Foreign investment and non-oil exports play a pivotal role in achieving this goal, which requires further reforms to attract foreign direct investment and diversify non-oil exports. Gulf Cooperation Council countries have made a lot of efforts to attract foreign direct investment, especially in non-oil sectors, such as reforming legislation, establishing free trade zones with generous incentives for investors, facilitating foreign ownership of companies, reducing non-tariff barriers, and business environment reforms. The private sector nationalization is one of the most important challenges facing GCC States, where the unemployment rate remains relatively high among young citizens. All GCC countries apply a variety of reforms, including mandatory job allocation quotas for citizens in certain sectors, and penalties for employers who do not adhere to such quotas.

### ECONOMIC GROWTH

Despite a slowdown in global economic growth, economic growth in the GCC economies in 2018 recovered to 2.0%, rising from a contraction of -0.3% in 2017. This strong growth in 2018 was due to improvements in oil output caused by



an increase in oil production in the second half of the year, as well as continued strong growth in non-oil output, supported by the increase in capital investment, and domestic demand. The World Bank and International Monetary Fund (IMF) forecasts that GCC economies will maintain stable growth in 2019 at 2.1%, and that growth will accelerate to around 3.0% in 2020. Growth remains mainly driven by the positive impact of economic diversification policies, the increase in non-oil exports, domestic and foreign investment attracting policies, business environment improvement reforms, promotion of small and medium-sized enterprises and growth supportive monetary and financial policies. In addition, sovereign funds have a positive role to play in alleviating the vulnerability of GCC economies to international economic fluctuations.

### INFLATION RATES

Inflation rates rose temporarily in Saudi Arabia and the UAE following the implementation of value-added tax in early 2018, while inflation

rate in Bahrain rose as food prices and transport services costs rose. The GCC inflation rate was 2.1% in 2018, compared to 0.2% in 2017. Inflation is expected to fall to 0.4% during 2019, as the inflationary impact of the value-added tax has diminished and the relative decline in oil prices.

### PUBLIC AND EXTERNAL FINANCIAL BALANCES

The GCC public fiscal deficit improved to -1.7% of GDP in 2018, compared to deficits of -5.5% and -10.7% of GDP in 2017 and 2016, respectively. This improvement in the fiscal balance is attributable to the increase in oil revenues and non-oil revenue consolidation improvement during 2018, with Saudi Arabia and the UAE applying a 5% value-added tax and achieving positive results, and Bahrain took a similar step at the beginning of 2019. Oman imposed production fees on tobacco products, energy drinks and soft drinks in mid-2018, and raised corporate income tax. The deficit is expected to rise slightly in 2019 to reach -3.1%, as a result of the reduction of oil revenues on

the one hand, and the increase of governmental expenditure on the other.

The decline in the general fiscal deficit of most GCC countries allowed the balance of total government debt at the end of 2018 to remain close to its level at the end of 2017 in terms of its share of GDP.

The increase in oil prices and the associated increase in oil export revenues enabled most GCC countries to achieve surpluses in their trade balances and thus current accounts, with the GCC

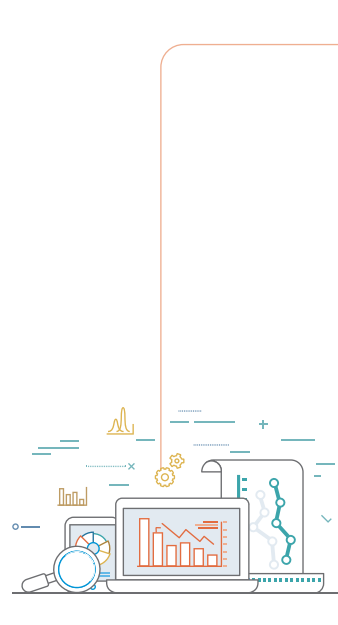
countries' current account surplus having risen significantly to 7.3% of GDP in 2018, compared to a 2.5% of GDP in 2017. This surplus is expected to stabilize at 3.9% in 2019.






### MONETARY AND BANKING SITUATION

Banking credit in the GCC grew in 2018, despite the increase in interest rates. Meanwhile, gulf central banks raised monetary policy interest rates in 2018, in line with the Federal Reserve's fund rate, which led to keeping the monetary and

banking market in tight conditions, and limiting credit growth and non-oil activity. The Federal Reserve raised its interest rate four times in 2018, by 25 basis points each. In 2019, the Federal Reserve cut down the interest rate twice and by 25 basis points each. Thus, Gulf central banks have lowered interest rates, giving more flexibility to the banking market and reviving credit and investment. Gulf banks generally enjoy financial soundness in terms of capital adequacy, liquidity ratios and profitability.

Table 1: Most important economic indicators for the GCC countries



The indicator	2016	2017	2018	2019*	2020*
 Annual GDP growth	2.3	-0.3	2.0	2.1	2.8
 Of which, non-oil GDP (%)	1.9	1.9	2.3	2.9	3.3
 Current account balance (percentage of GDP, %)	-2.8	2.5	7.3	3.9	3.4
 Balance of public finances (percentage of GDP, %)	-10.7	-5.5	-1.7	-3.1	-2.2
 Inflation rate (annual average, %)	2.1	0.2	2.1	0.4	2.4

Source: International Monetary Fund and Ministry of Economy





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## **SECOND: NATIONAL ECONOMY PERFORMANCE**

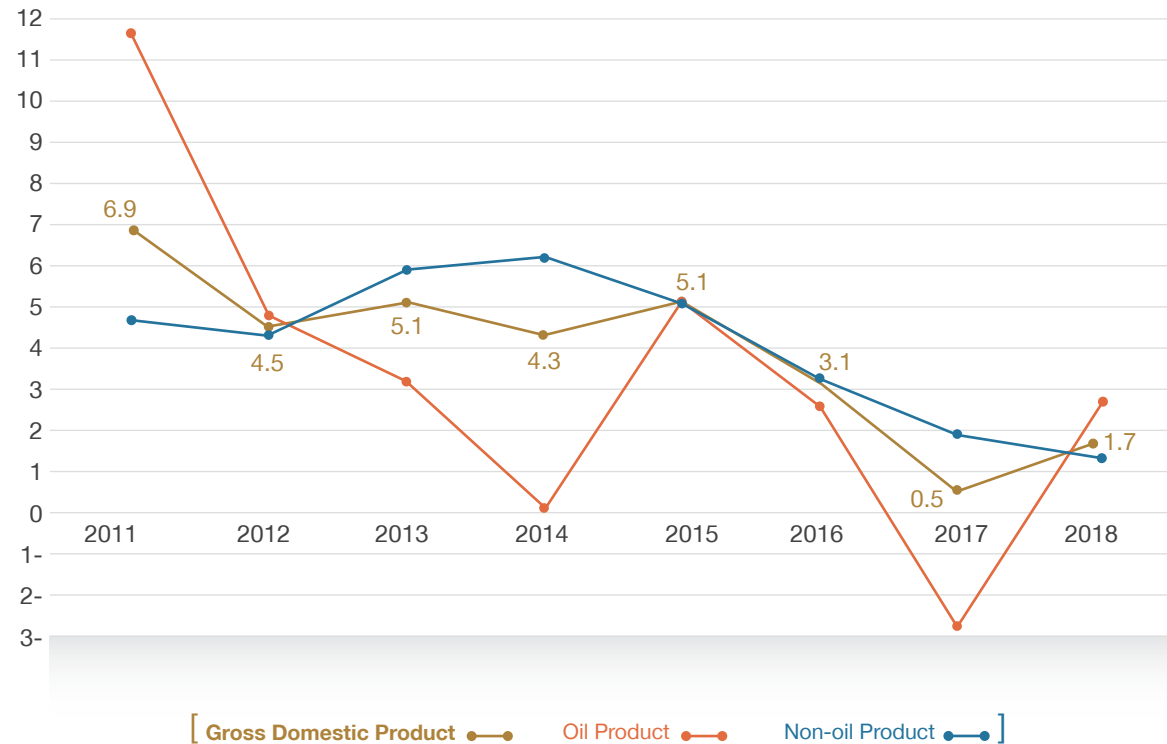
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## GROSS DOMESTIC PRODUCT

The real GDP growth rate rose to 1.7% in 2018, compared to a weak growth of 0.5% in 2017. This growth in real product in 2018 was due to non-oil product growth of 1.3% and oil production growth of 2.8%. GDP at constant prices was AED 1,442.5 billion for 2018, while GDP at current prices was AED 1,521.1 billion.



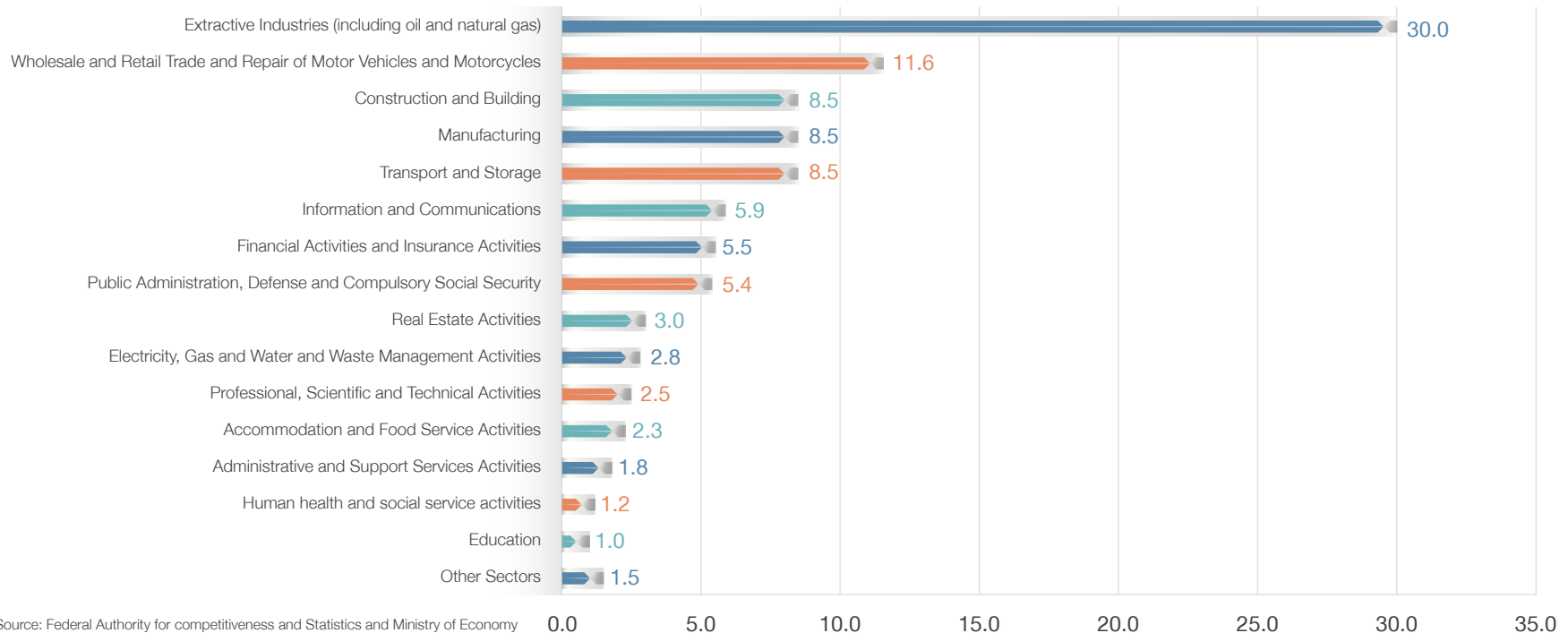
Figure 3: GDP growth rates at constant prices, (%)



Source: Federal Authority for competitiveness and Statistics and Ministry of Economy

As for the distribution of GDP (at constant prices for 2018) according to economic activity, the various non-oil sectors accounted for 70% of GDP, while the oil sector accounted for 30% of real GDP. Among the non-oil sectors, "the wholesale, retail and vehicle repair" sector accounted for the largest share; 11.6% of real GDP, followed by the "construction and building", "manufacturing" and "transport and storage" sectors, with roughly 8.5% each. Figure (4) illustrates the level of economic diversification in the productive structure of the State and the relative importance of various economic activities in GDP.

Figure 4: Sectoral distribution of GDP at constant prices for 2018, (%)



Source: Federal Authority for competitiveness and Statistics and Ministry of Economy

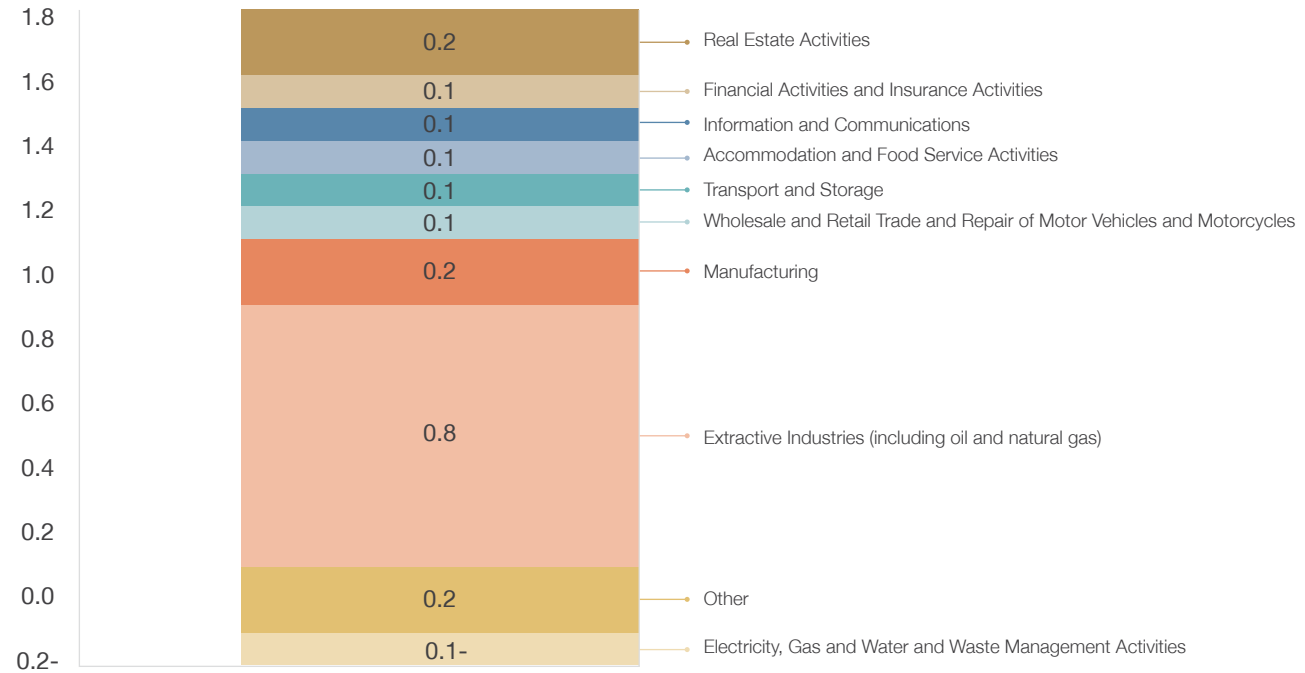
By analyzing the contribution of economic sectors to real GDP growth in 2018, non-oil sectors contributed 0.9 percentage points of total growth of 1.7%, while the oil sector contributed the remaining 0.8 percentage points. Among the non-oil sectors, the "real estate activities" and "manufacturing" sectors contributed by 0.4 percentage points (0.2 percentage points each) to overall real growth. The "wholesale and retail trade", "financial activities and insurance activities", "information and communications", "accommodation and

food services" and "transport and storage" sectors contributed 0.5 percentage points of real growth (0.1 percentage points each).

The "electricity, gas, water, and waste management activities" have negatively contributed to growth by -0.1 percentage points, and this negative contribution, which means a reduction in production in this sector, may be due to energy rationalizing policies and increasing production efficiency in this sector, in line with goal XII of sustainable development goals, related to responsible production and consumption.

By analyzing economic growth in 2018 according to expenditure, net exports were the main engine of real growth with 3.1 percentage points of contribution, while consumer and investment expenditures contributed negatively to growth of -0.4 percentage points and -1.0 percentage points respectively. These contributions reflect the impact of the implementation of value-added tax and the policy of rationalizing government expenditure, as well as high interest rates in line with the Fed's interest rate.

Figure 5: Oil and Non-Oil Economic Sectors Contribution to Economic Growth, in 2018



Source: Federal Authority for competitiveness and Statistics and Ministry of Economy

### DIGITAL ECONOMY AND KNOWLEDGE ECONOMY

As part of the State's pursuit of achieving a knowledge economy based on technology, smart applications and advanced industries, the State has made significant progress over the past five years in the growth of the knowledge, digital and industrial sectors. Whereby the information and communications sector grew at a cumulative rate of 27.2% in 2014-2018, at an average annual rate of 5.4%, and the "education" and "professional, scientific and technical activities" sectors grew at cumulative rates of 28.2% and 9.5% respectively in the same period, at annual growth rates of 5.6% and 1.9%, respectively. The manufacturing sector grew at an average annual rate of 4.2% in 2014-2018. Together, these sectors accounted for nearly 18% of real GDP in 2018.

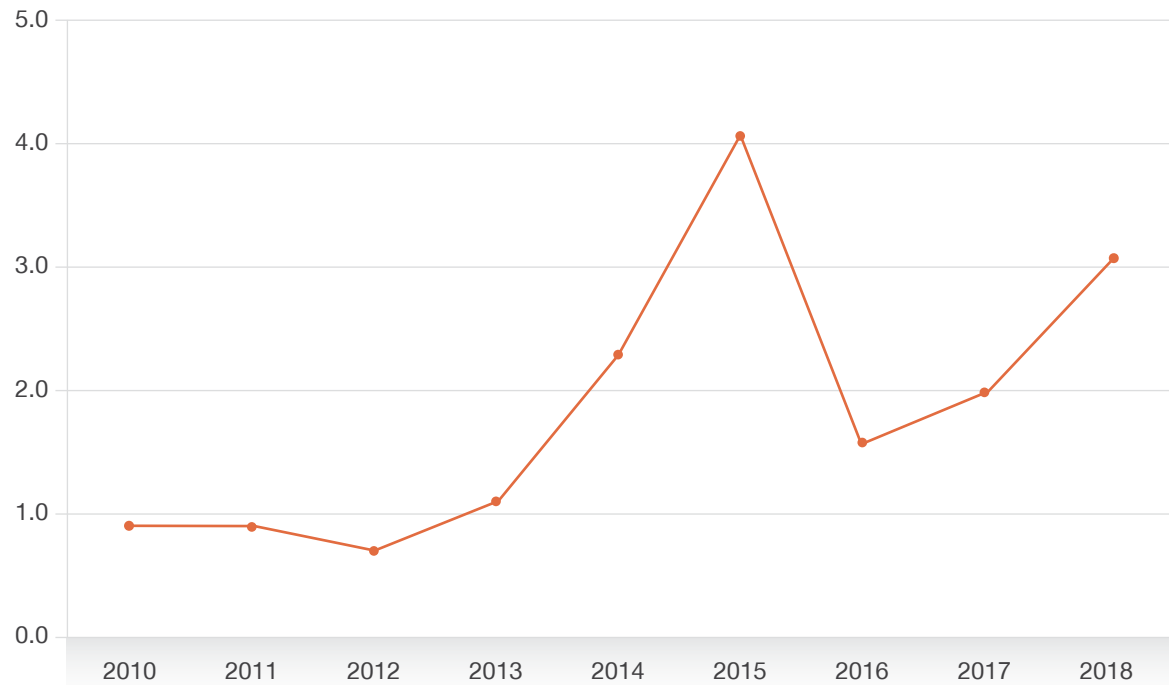


## 2

## INFLATION

The consumer price inflation increased to 3.1% in 2018 compared to 2.0% in 2017. This increase in inflation rate in 2018 is due to the introduction of VAT at the beginning of the year on one hand, and the increase of oil prices during the first ten months of the year, on the other hand.

Figure 6: Annual Inflation Rate (%)



Source: Federal Authority for competitiveness and Statistics and Ministry of Economy





### 3 FOREIGN TRADE

The UAE's non-oil foreign trade grew by 0.5% in 2018 to AED 1536.1 billion. This rise came as a result of the non-oil exports growth by 9.7% to reach AED 637.6 billion, and the decrease of imports by 5.1%.

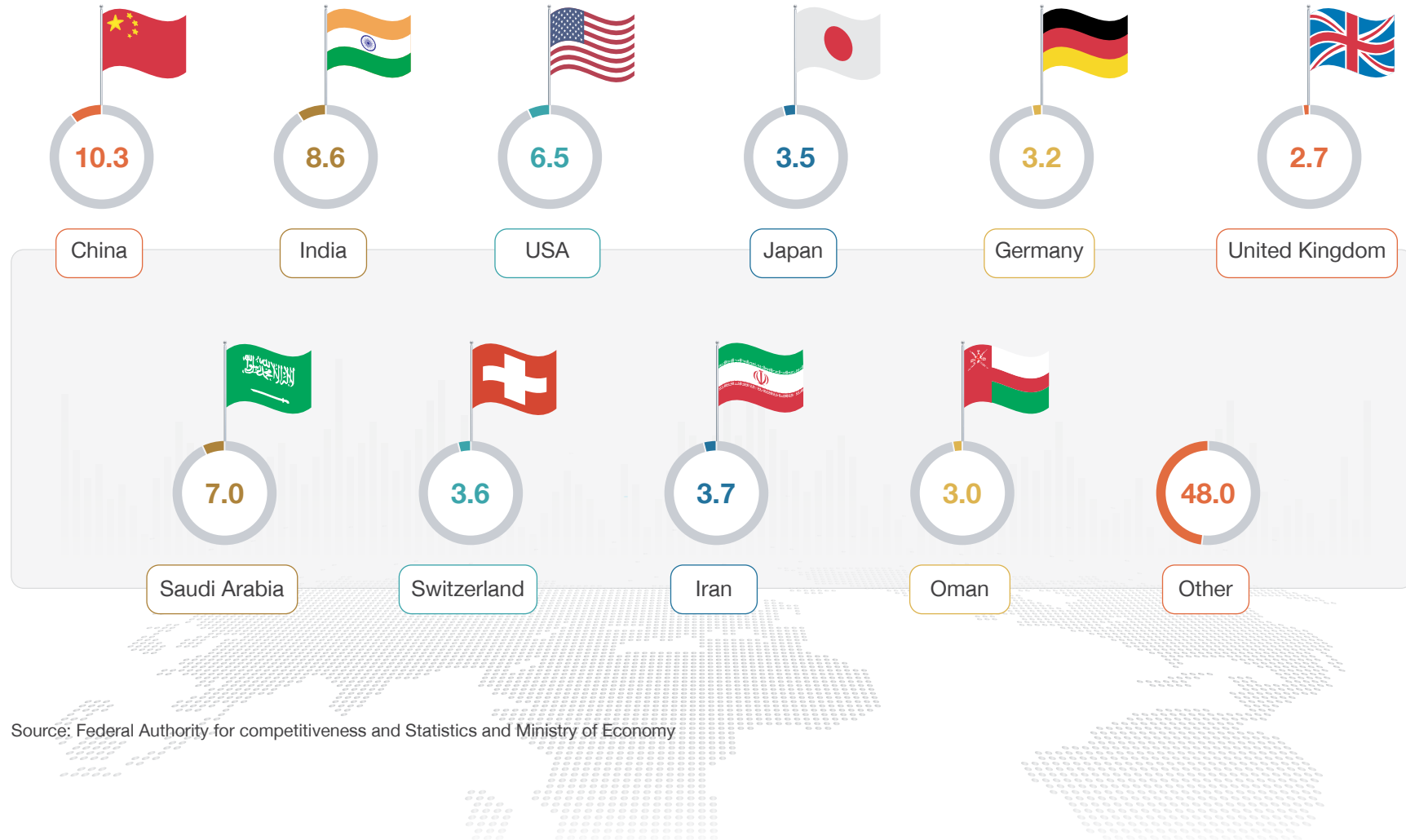
Table 2: Non-oil foreign trade of the United Arab Emirates, in AED billion

Year	Imports	Non-Oil Exports	Re-export	Total Non-Oil Exports	Total Non-Oil Trade
2017	946.5	181.0	400.3	581.3	1527.8
2018	898.5	206.0	431.6	637.6	1536.1

Source: Federal Authority for competitiveness and Statistics and Ministry of Economy.  
\* Direct trade, free-zone trade, and warehouse trade



Figure 7: Total non-oil foreign trade of the UAE, by country, (%)

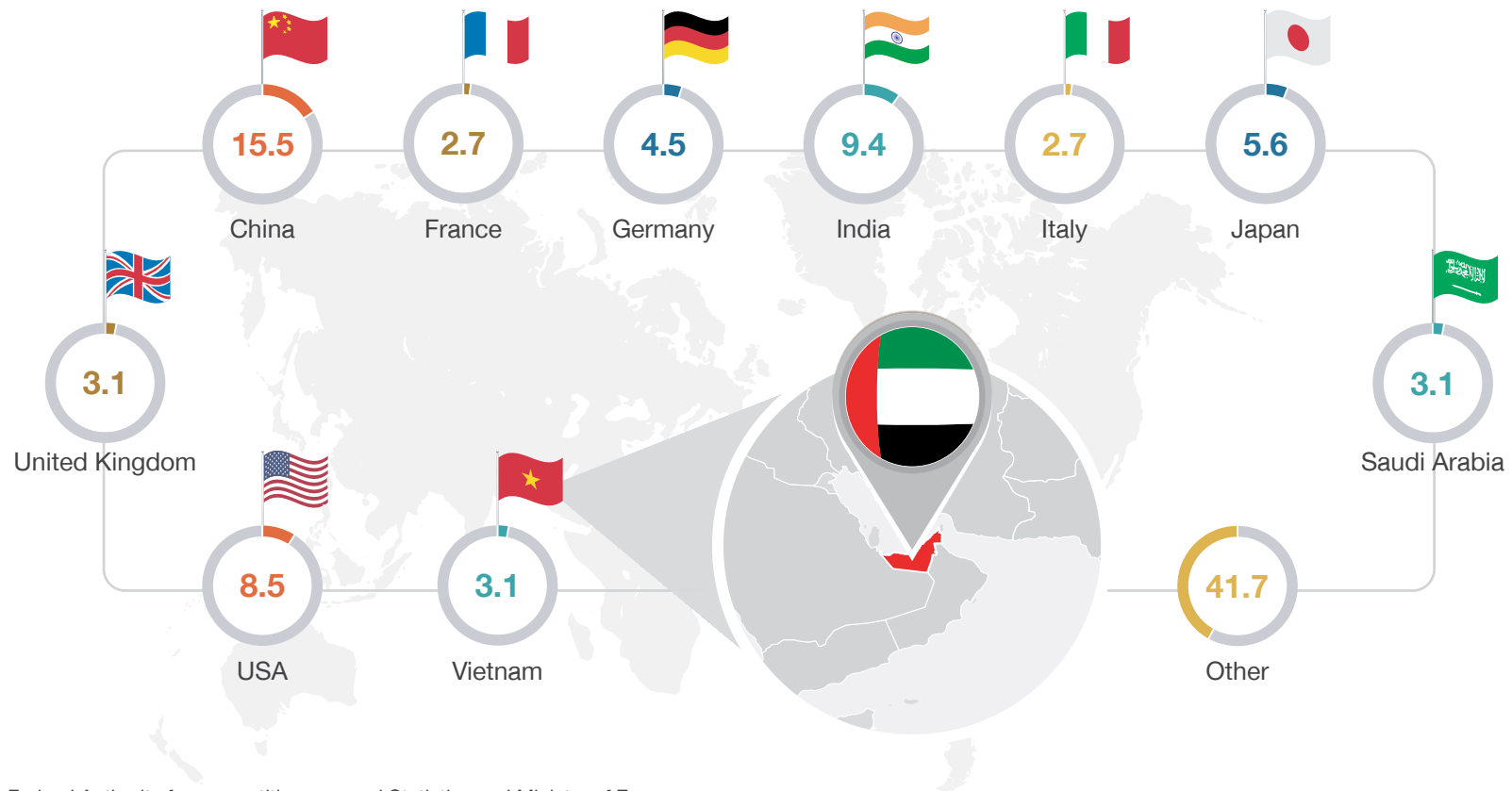


Source: Federal Authority for competitiveness and Statistics and Ministry of Economy

## IMPORTS OF THE UAE BY COUNTRY AND COMMODITY

The country's imports from both China and USA declined significantly in 2018, by 21.2%, and 10.1%, respectively. However, these two countries in addition to India, (which has increased state imports by 14.0%) still hold the largest share of the UAE imports. In addition, the UAE's imports from Germany, Italy and Japan decreased by 7.9%, 2.4% and 1.3%, respectively. In contrast, the UAE's imports from the United Kingdom and Saudi Arabia rose by 13.4% and 9.8%, respectively.

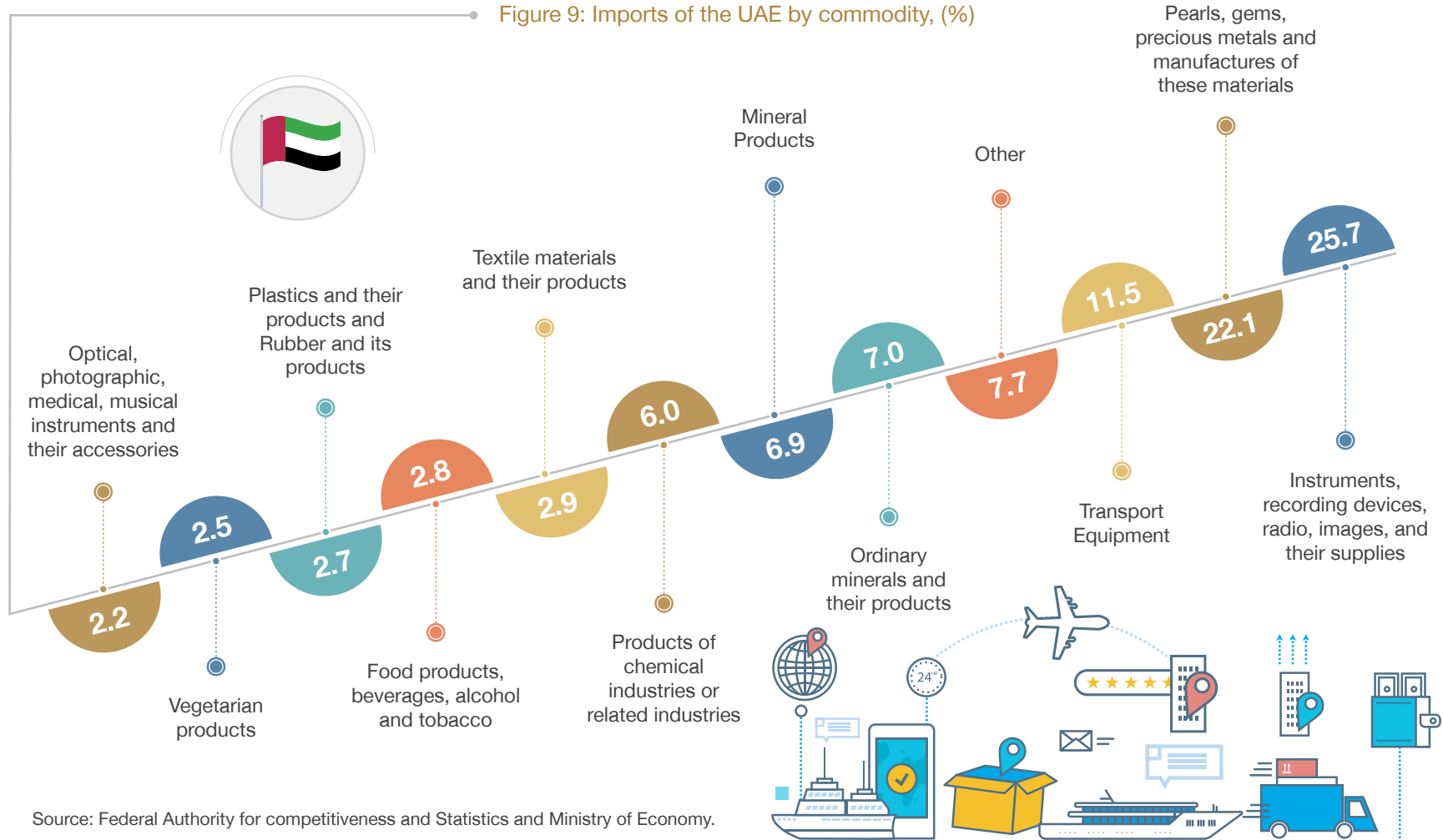
Figure 8: Imports of the UAE by country, (%)



Source: Federal Authority for competitiveness and Statistics and Ministry of Economy.



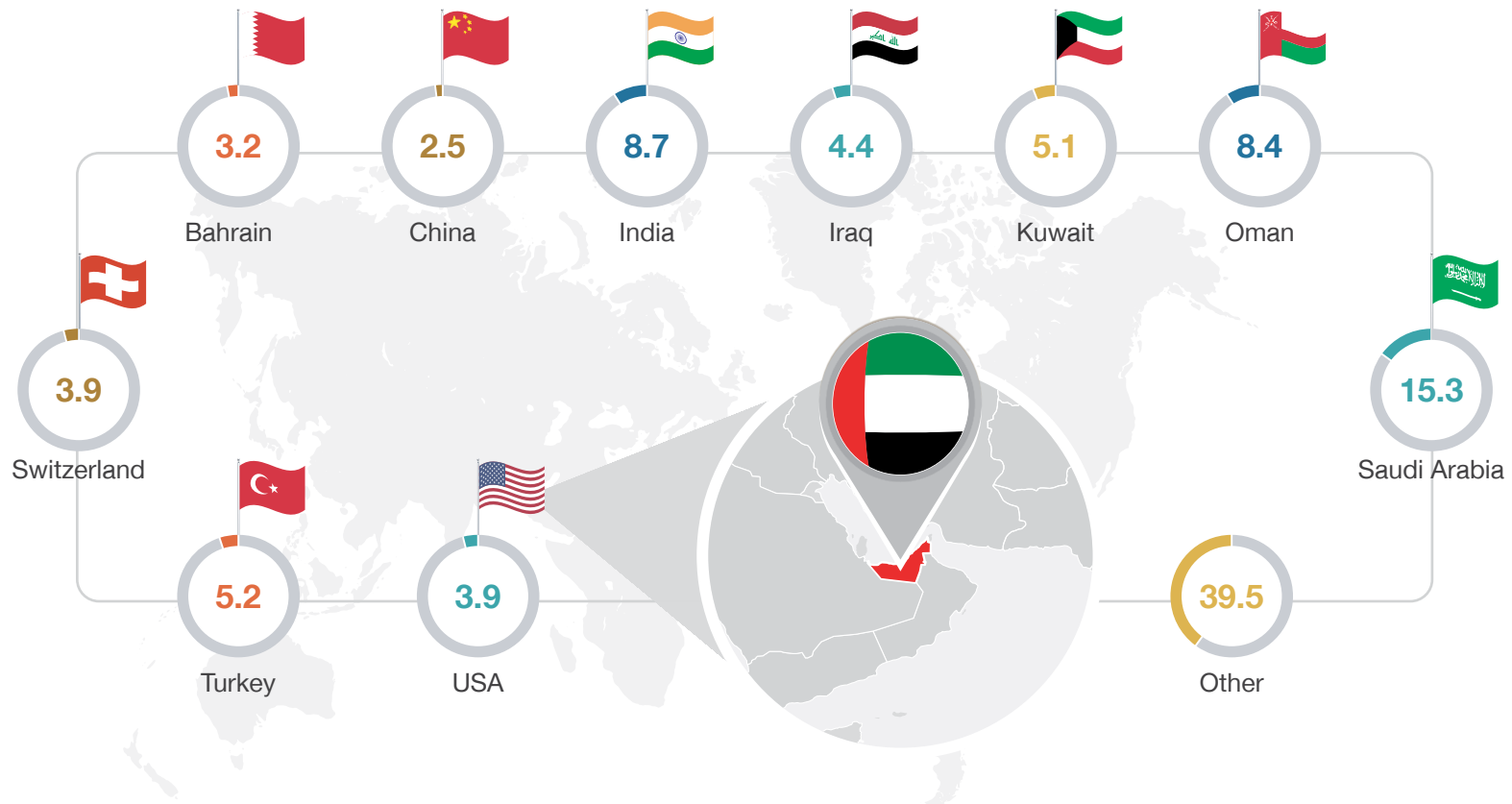
Figure 9: Imports of the UAE by commodity, (%)



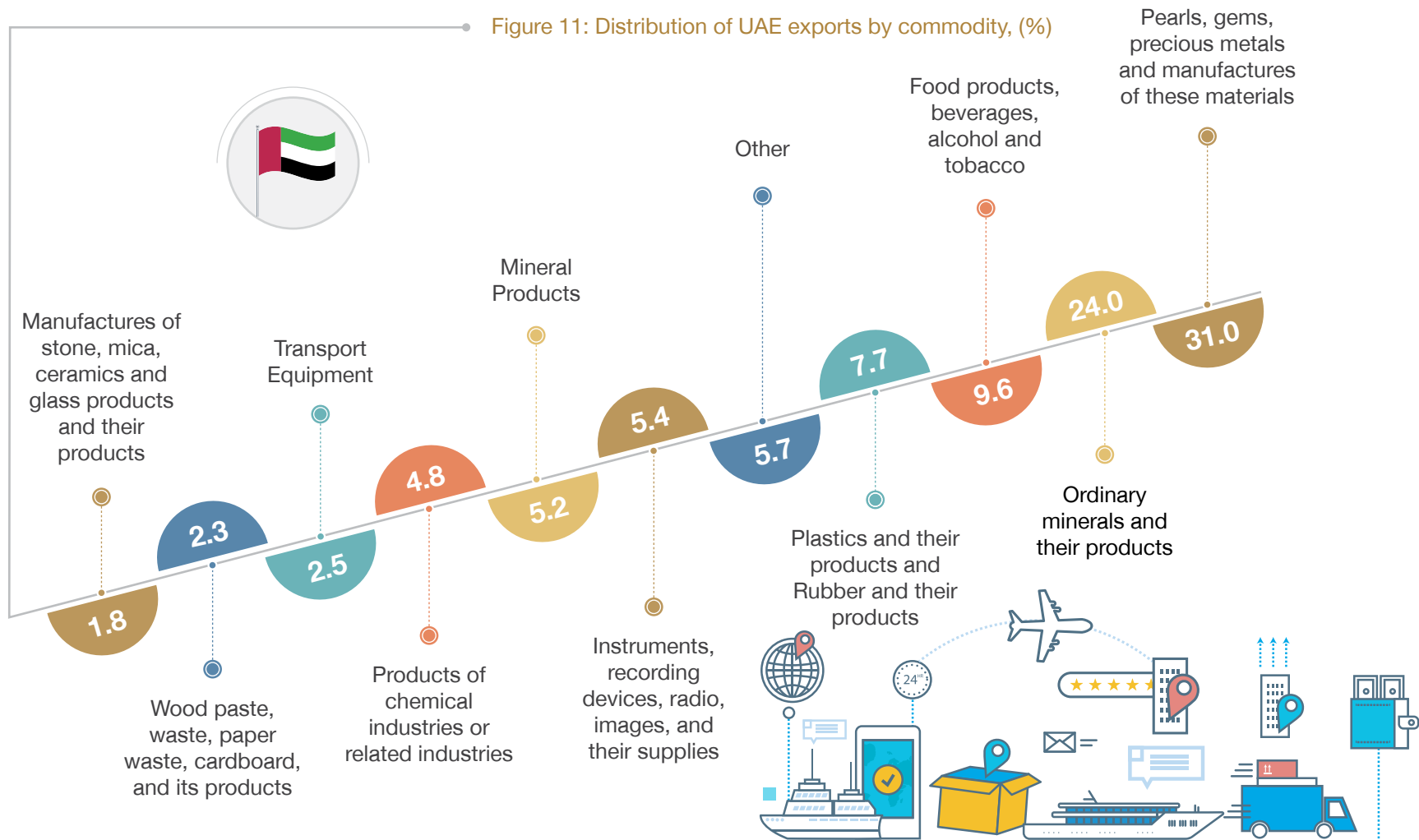
## EXPORTS OF THE UAE BY COUNTRY AND COMMODITY

UAE exports to Saudi Arabia doubled to AED 31.5 billion, taking the largest share of UAE exports in 2018. UAE exports to other Gulf Cooperation Council countries also increased significantly, including Oman (27.1%) to reach AED 17.2 billion, Kuwait (64.4%) to AED 10.5 billion and Bahrain (65.5%) to AED 6.6 billion. UAE exports to Switzerland doubled to reach AED 8 billion. In contrast, UAE export fell to Turkey by 35% to AED 10.8 billion, to China by 9.4% to AED 5.1 billion, and to India by 7.2% to AED 17.9 billion.

Figure 10: Distribution of UAE exports by country, (%)



Source: Federal Authority for competitiveness and Statistics and Ministry of Economy

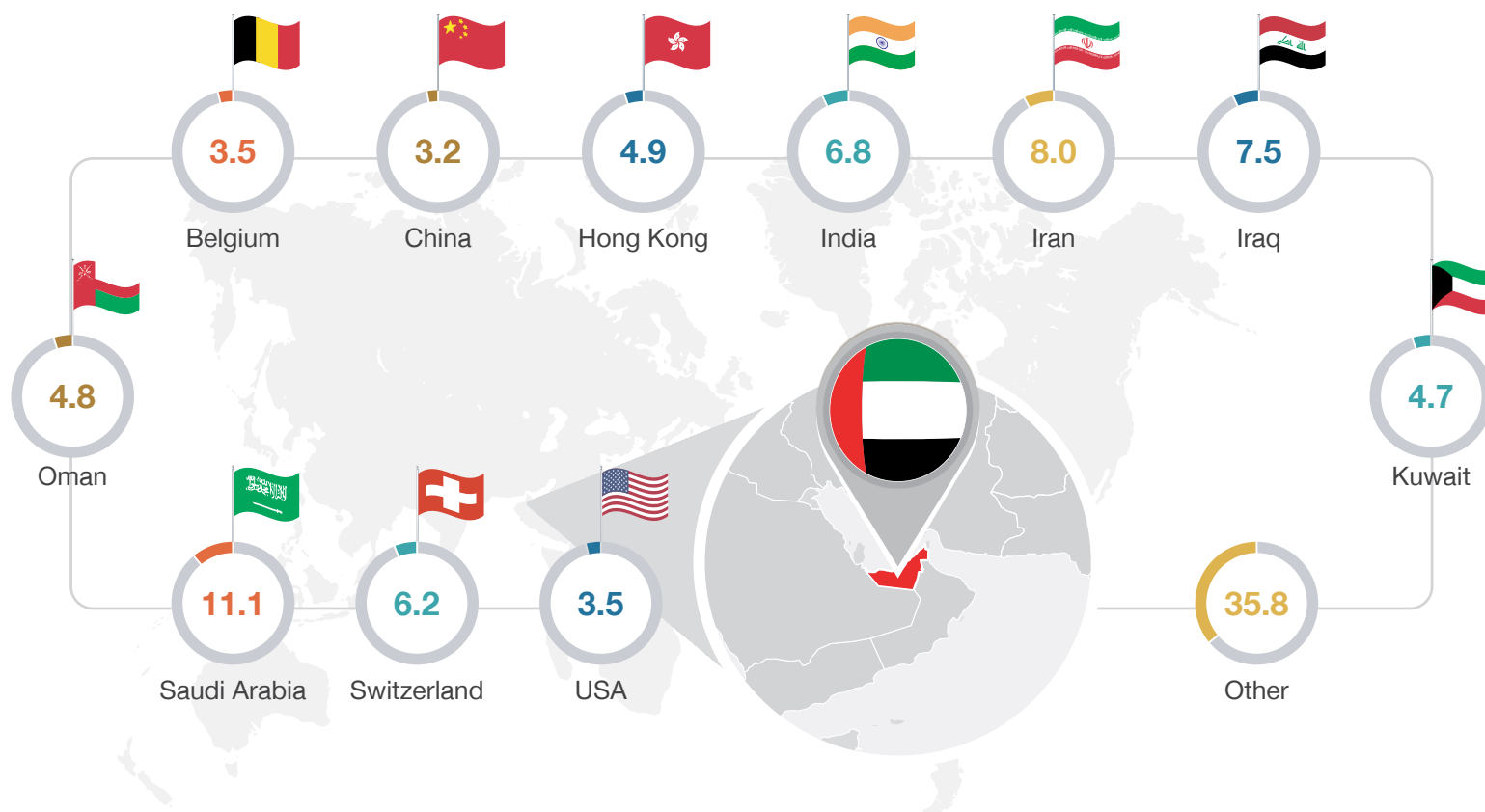


Source: Federal Authority for competitiveness and Statistics and Ministry of Economy.

## UAE RE-EXPORT BY COUNTRY AND COMMODITY

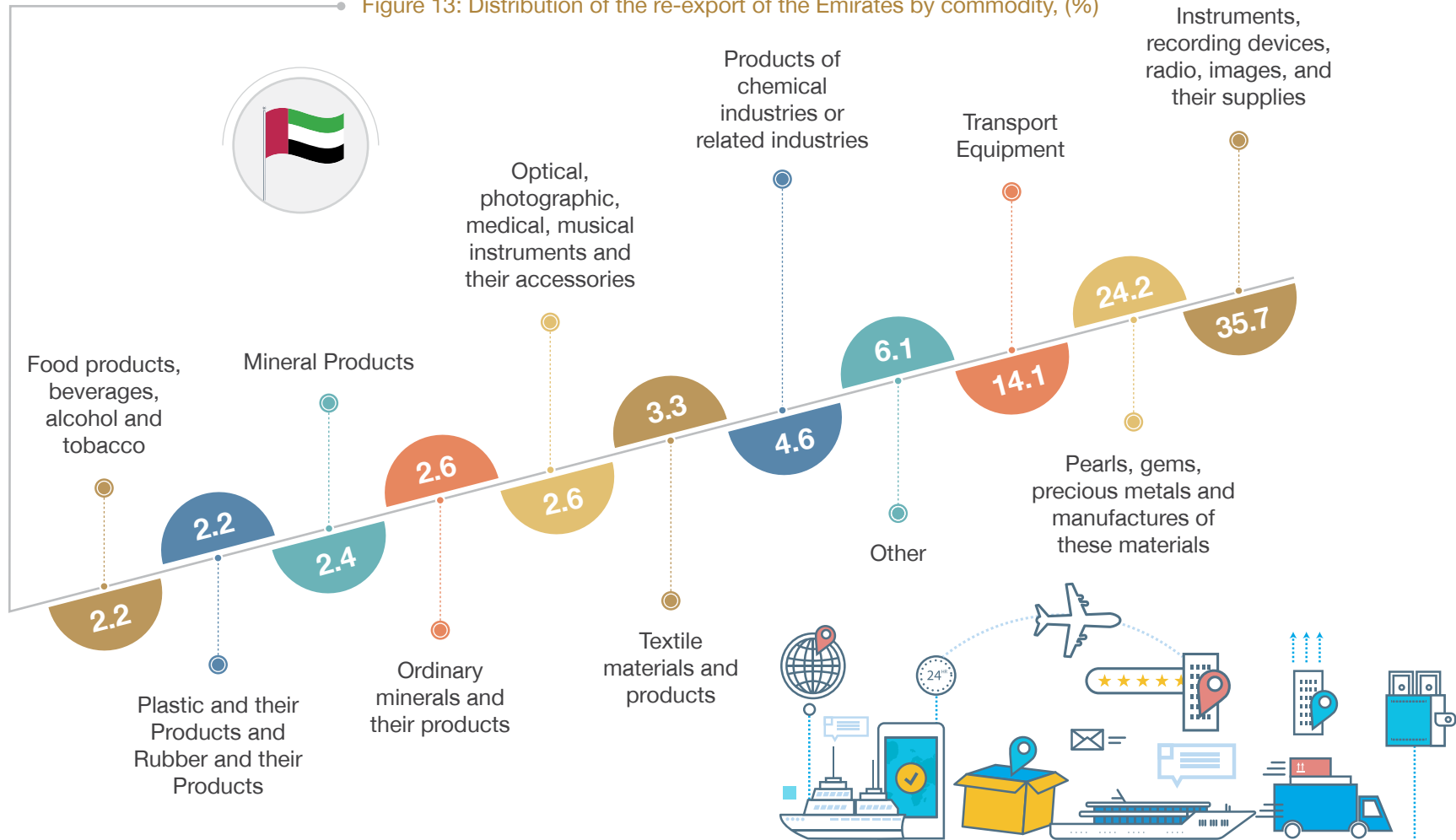
The value of the UAE re-export to the GCC increased significantly during 2018, with the value of re-export increased to Saudi Arabia by AED 9.2 billion (23.7%) to reach AED 48.1 billion, to Kuwait by AED 7.9 billion (63.8%) to reach AED 20.3 billion, to Oman by AED increased 6.3 billion (44%) to reach AED 20.5 billion, and to Bahrain by AED 5 billion to reach AED 9.6 billion. Moreover, the value of re-export to Switzerland doubled to reach AED 26.6 billion. In contrast, the value of re-export fell to Iran (34.4%), USA (22.7%), India (14%) and Iraq (11.1%).

Figure 12: Distribution of the UAE re-export by country, (%)



Source: Federal Authority for competitiveness and Statistics and Ministry of Economy

Figure 13: Distribution of the re-export of the Emirates by commodity, (%)



Source: Federal Authority for competitiveness and Statistics and Ministry of Economy.

## 4

## FINAL CONSUMER EXPENDITURE

World oil prices (according to OPEC basket) rose from USD 52.43/barrel on average in 2017 to USD 69.8/barrel on average in 2018, up by about 33.0%, and the United Arab Emirates oil production increased from 2.8 million barrels in the first quarter of 2018 to about 3.3 million barrel/day in the fourth quarter of the same year. This has resulted in a 13.3% increase in oil revenues on the general state budget, where its value has evolved from AED 144.9 billion in 2017 to AED 164.2 billion in 2018. It has also contributed to the rise in the size of the operational surpluses of oil-producing companies, and has allowed



the state more resources to continue to boost current government spending as well as growth-enhancing investment spending, especially on strategic projects, in particular the World Expo 2020 projects, the projects that promote sustainable development, the activation of a policy of diversifying income sources, diversifying the economic base and supporting human and social development. The volume of government consumer expenditure grew from AED 193.159 million in 2017 to AED 199.823 million in 2018,

with a 3.5% increase. Also, the private consumer expenditure increased from AED 513.397 million in 2017 to AED 586.203 million in 2018, with a growth of 14.2%.

As a result, the overall final volume of current consumer expenditure has increased from AED 706,555 million in 2017 to AED 786,026 million in 2018, a growth rate of 11.2%; moreover, the percentage of final consumer expenditure of GDP has increased between the two years from 50.9% in 2017 to 51.7% in 2018, as stated in table below.

Table 3: The Final Consumer Expenditure of 2017 and 2018 (in AED million)

Description	2017	2018	Growth Rate %
Government Consumer Expenditure	193,159	199,823	3.5%
Private Consumer Expenditure	513,397	586,203	14.2%
Final Consumer Expenditure	706,555	786,026	11.2%
Final Consumer Expenditure/ Current GDP %	50.9%	%51.7	-

\*Source: United Arab Emirates, Federal Competitiveness and Statistics Authority, preliminary figures- May 2019.

## 5 INVESTMENTS

### 5.1 LOCAL INVESTMENTS

The improvement of oil revenues in 2018 from its level in 2017 owing to the rise in oil prices by about 33.0%, as well as the increase in tax revenues, financial surpluses and the involvement of the private sector, as well as the government, in implementing projects, have provided the financial resources needed to inject growth-enhancing investments, achieve sustainable development and activate a policy of diversification of income sources and shift toward a competitive, high-productivity knowledge economy based on research, creativity, and innovation. In order to activate the UAE vision of 2021, 2071 Centigrade, and the strategy of the UAE for the Fourth Industrial Revolution and adopt its technologies to qualify the country for the post-oil era. These investments focused on completing the implementation of strategic projects and



infrastructure projects, mainly the construction of the World Expo 2020 projects, the Metro and light rail lines and the expansion of Abu Dhabi Airport, the Al Maktoum International Airport expansion Project and other stages of the Federation Railway Project of the Union Railway Company. Moreover, implementing investment projects in all economic sectors, especially high value-added sectors that will stimulate growth, achieve sustainable development, increase levels of economic diversification and support human development such as: energy, especially new, renewable and nuclear energy, industry (mainly petrochemicals), aluminum, military, food, medicine, aviation, space, robotics, artificial intelligence, self-propelled vehicles, bio-technology, tourism, hotels, trade,

education, health, physical and electronic infrastructure, logistics, financial services, transport, communications and information technology. As a result, total capital formation has evolved from approximately AED 298.6 billion in 2017 to AED 295.4 billion in 2018, with a decline of -1.1%. The public sector's contribution to investment grew by 2018 to AED 170.8 billion, 57.8% of total fixed capital formation, up from AED 162.3 billion, at a rate 54.4% of total fixed capital formation in 2017 with an increase of 5.3%. That was on account of the decline of the private sector's contribution to investment by -8.6% from AED 136.2 billion (45.6% of total investments) implemented in 2017, to AED 124.6 billion, (42.2% of total investments) implemented in 2018, as stated in the table below.

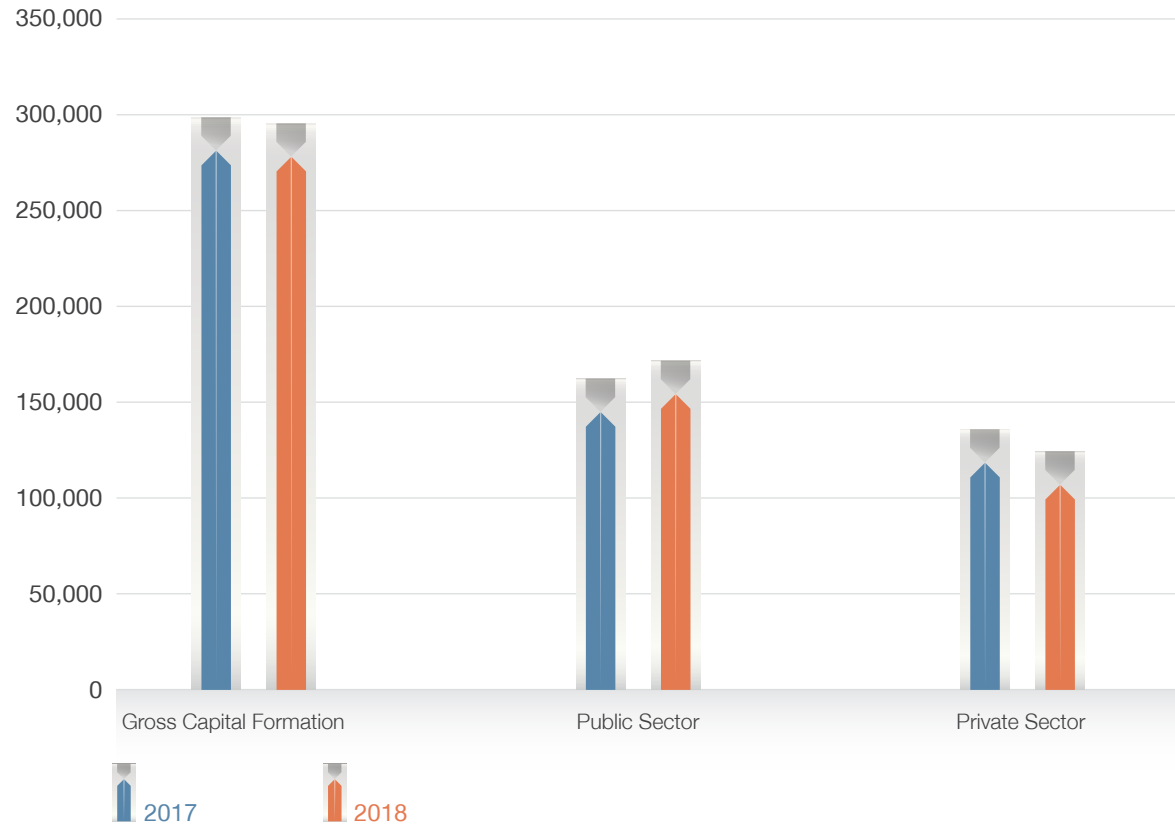
Table 4: Gross Capital Formation According to Sector in Current Prices of 2017 and 2018 (in AED million)

Description	2017		2018		Growth Rate %
	Value	Contribution %	Value	Contribution %	
Gross Capital Formation	298,569	100%	295,410	100%	-1.1%
Public Sector	162,321	54.4%	170,851	57.8%	5.3%
Private Sector	136,248	45.6%	124,559	42.2%	-8.6%

\*Source: United Arab Emirates, Federal Competitiveness and Statistics Authority, preliminary figures- May 2019.



Figure 14: Gross Fixed Capital Formation According to Sector in Current Prices of 2017 and 2018 (AED Million)





## INVESTMENT STRUCTURE ACCORDING TO ECONOMIC SECTOR

Table 5: Gross Fixed Capital Formation According to Sector in Current Prices of 2017 and 2018 in AED million

Economic Sectors	2017		2018	
	Value	Contribution %	Value	Contribution %
Agriculture, Forestry and Fishing	1,548	0.5%	1,331	0.5%
Extractive Industries (including crude oil and natural gas)	43,350	14.5%	44,312	15.0%
Manufacturing	31,712	10.6%	30,708	10.4%
Electricity, Gas and Water and Waste Management Activities	21,499	7.2%	19,832	6.7%
Construction and Building	9,183	3.1%	9,029	3.1%
Wholesale and Retail Trade and Repair of Motor Vehicles and Motorcycles	20,433	6.8%	21,458	7.3%
Transport and Storage	32,912	11.0%	31,336	10.6%
Accommodation and Food Service Activities	5,972	2.0%	6,320	2.1%
Information and Communications	7,862	2.6%	7,734	2.6%

Economic Sectors	2017		2018	
	Value	Contribution %	Value	Contribution %
Financial Activities and Insurance Activities	4,468	1.5%	3,844	1.3%
Real Estate Activities	59,240	19.8%	56,440	19.1%
Professional, Scientific and Technical Activities	3,813	1.3%	4,545	1.5%
Administrative and Support Services Activities	6,598	2.2%	5,891	2.0%
Public Administration, Defense and Compulsory Social Security	37,025	12.4%	40,638	13.8%
Education	4,840	1.6%	4,087	1.4%
Activities of Human Health and Social Service	4,161	1.4%	4,173	1.4%
Arts, Entertainment, Promotion and Other Service Activities	3,953	1.3%	3,732	1.3%
Household Activities as Employer	-	-	-	-
<b>Total</b>	<b>298,569</b>	<b>100.0%</b>	<b>295,410</b>	<b>100.0%</b>

\*Source: United Arab Emirates, Federal Competitiveness and Statistics Authority, preliminary figures- May 2019.

Figure 15: Gross Fixed Capital Formation According to Economic Sectors in 2017 and 2018

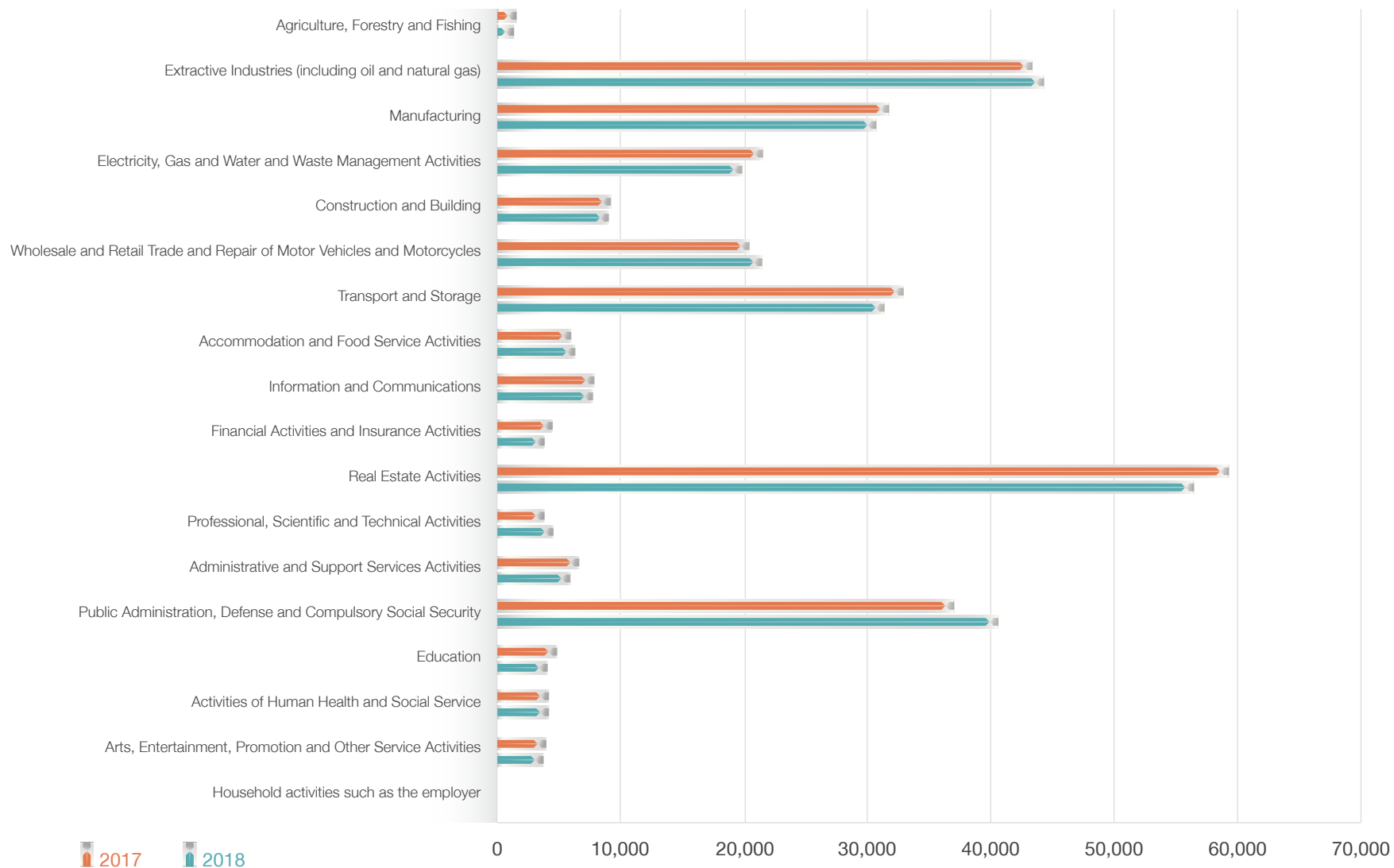




Table (5) illustrated that, the real estate sector acquired 19.1% of all economic sector investments and came first across all sectors in 2018. It was followed by the extractive industry sector in second place, which has acquired about 15.0%; the third place was filled by the public administration, defense, and compulsory social security sector, which accounted for 13.8% of total investments. Then, the transport and storage sector, which accounted for 10.6% of total investment, followed by manufacturing, which accounted for 10.4% of total investment. Then the wholesale and retail trade sector, which accounted for around 7.3% of the investments, followed by the electricity, gas, water and waste management activities, which implemented 6.7% approximately of the investments.

These seven sectors combined accounted for 82.9% of the total volume of investments and for about AED 244.7 billion in 2018, up from 82.3% of total volume of investments with a value of about AED 246.2 billion in 2017.

## 5.2 FOREIGN DIRECT INVESTMENT

According to the United Nations Conference on Trade and Development (UNCTAD) World Foreign Direct Investment Report 2019, the United Arab Emirates advanced three levels in 2018 from its ranking in 2017 to rank 27 globally in terms of its ability to attract foreign direct investment (FDI). The value of FDI inflows grew to about USD10.385 billion in 2018 from USD10.354 billion in 2017, with growth of 0.3% and an average growth rate of -1.6% during the period 2014-2018.

It was thus the first Arab country in attracting foreign direct investment accounting for 33.3% of the total value of FDI inflows to Arab countries in 2018; which amounted to USD 31.2 billion. It also ranked second in the West Asia region with 35.5% of total FDI inflows to the region and about 22.0% of total annual FDI inflows to the Middle East and North Africa region. Consequently, Total accumulative FDI inflows grew to USD140.319 billion from USD129.934 billion in 2017, with a growth rate of about 8.0% in 2018 and an average growth rate of about 8.5% during (2014-2018).

Many factors helped achieve those positive results such as the stable political climate, the sound and effective economic policies, the business-friendly legislation, the strong economic relations with various countries of the world, the important geo-strategic location that helped UAE become a vital business gateway for different regional markets, the efficient government services and effective judicial system, the efficiency of financial, taxation and customs investment-stimulating systems, the modern infrastructure and technology such as highly sophisticated airports and ports, the

vital and integrated logistics services sector, the infrastructure-developed and diversified free zones, the global leadership in civil aviation, the globally competitive giant air carriers, the open and multicultural society that embraces more than 200 nationalities, the modern and sophisticated lifestyle and the widespread technology and communications.

876 new foreign investment projects were established in Arab countries in 2018 at an investment cost of more than USD83.5 billion, 635 of which by the GCC countries and 16.9% of the GCC countries' incoming projects were accounted for by United Arab Emirates at an investment cost of about USD14.1 billion.

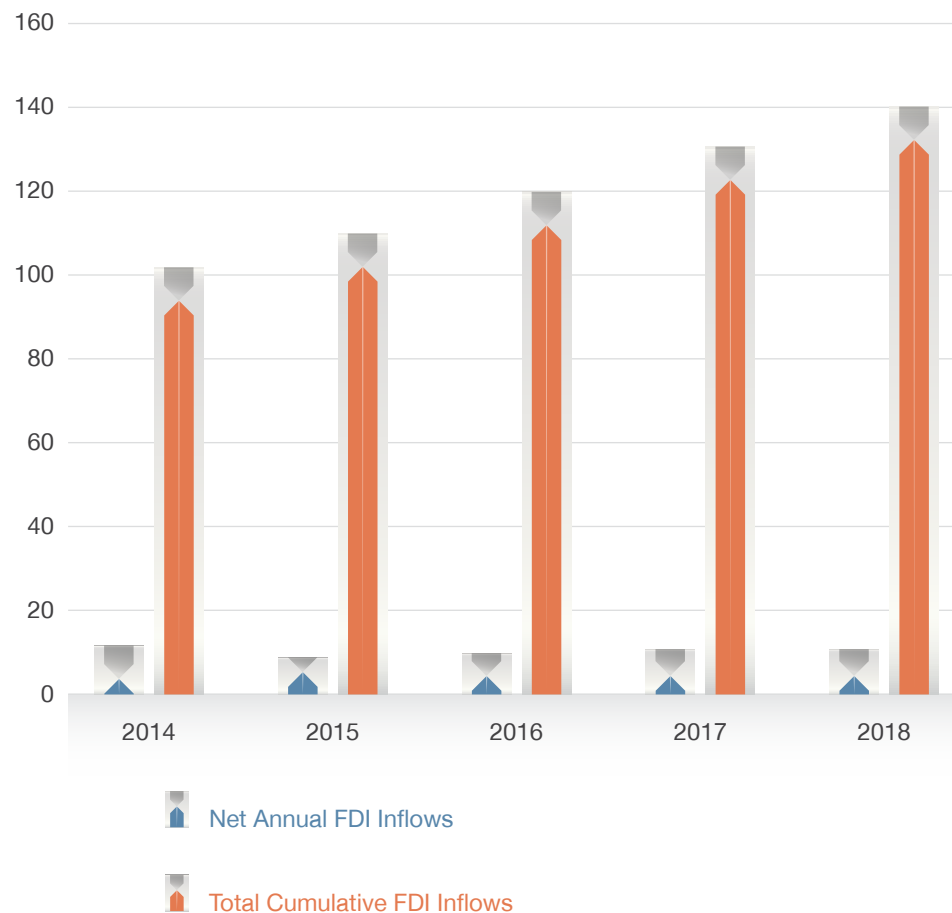
The structure of FDI in the state is well diversified and among the most important economic sectors in terms of FDI: Wholesale and retail trade, real estate activities, financial services and insurance, manufacturing, mining and quarry exploitation. Among the most important countries investing in the state are Switzerland, the United Kingdom, India, the United States, France, Austria, Japan, Saudi Arabia, Kuwait and the Netherlands.

Table 6: Annual Accumulative FDI Inflows to the UAE during the Period between 2014-2018 (in USD billion)

Year	Net Annual FDI Inflows	Total Accumulative FDI Inflows
2014	11.072	101.424
2015	8.551	109.975
2016	9.605	119.580
2017	10.354	129.934
2018	10.385	140.319
Average Growth rate %	-1.6%	8.5%

\*Source: UNCTAD reports for different years.

Figure 16: Annual Accumulative FDI Inflows to the UAE during 2014-2018





In the coming years, the country is expected to witness more growth in FDI inflows during 2019-2020, with a growth ranging between 15-20%. Moreover, the share of (FDI) contribution to GDP at current prices is expected to increase to 5% by 2021 against 3% now, under the state's direction to activate the policy of diversifying income sources and realizing its vision of building a diverse economy based on knowledge, research and innovation with a secure economic environment, encouraging businesses and investment climate, and giant projects in the sectors of infrastructure, industry, new and renewable energy, tourism, aviation, space, adoption of the UAE higher policy in the field of science, technology and innovation, which includes 100 national initiatives in the education and health sectors, energy, transport, space and water, and allocating an expected investment volume of more than AED 300 billion. In addition to the country's expected economic returns from the Comprehensive Strategic Partnership Agreement

with China and its strategic position on the New Silk Road, under the enactment of the Foreign Direct Investment law in 2018, which includes many incentives and advantages provided by the state to foreign investors and the development of a safe and attractive investment environment, Among the most prominent advantages are the possibility of 100% foreign ownership of projects in specific sectors, investment protection guarantees, financial transfer facilities and the possibility of modifying the partnership, merger, acquisition and transfer of ownership in accordance with the investor's interest, according to a set of controls and criteria, as well as issuing a number of initiatives and activities that contribute to raising the level of services and simplifying procedures for investors and employers, and organizing an annual international investment forum by the ministry of economy to share the latest information and strategies related to attracting foreign direct investment, facilitating strategic communication and promoting investments, in

addition to issuing a foreign direct investment electronic board, which provides a huge interactive investment database that includes FDI flows and balances of over 200 countries, including UAE investments abroad. It also provided data on various countries FDI inside the UAE. According to various classifications. It also highlights the most important investment projects and opportunities in the country's different Emirates, which provide a guide for investment companies, either new or existing, that want to expand and seek new opportunities and areas for investment and make investment decisions on a sound knowledge basis.

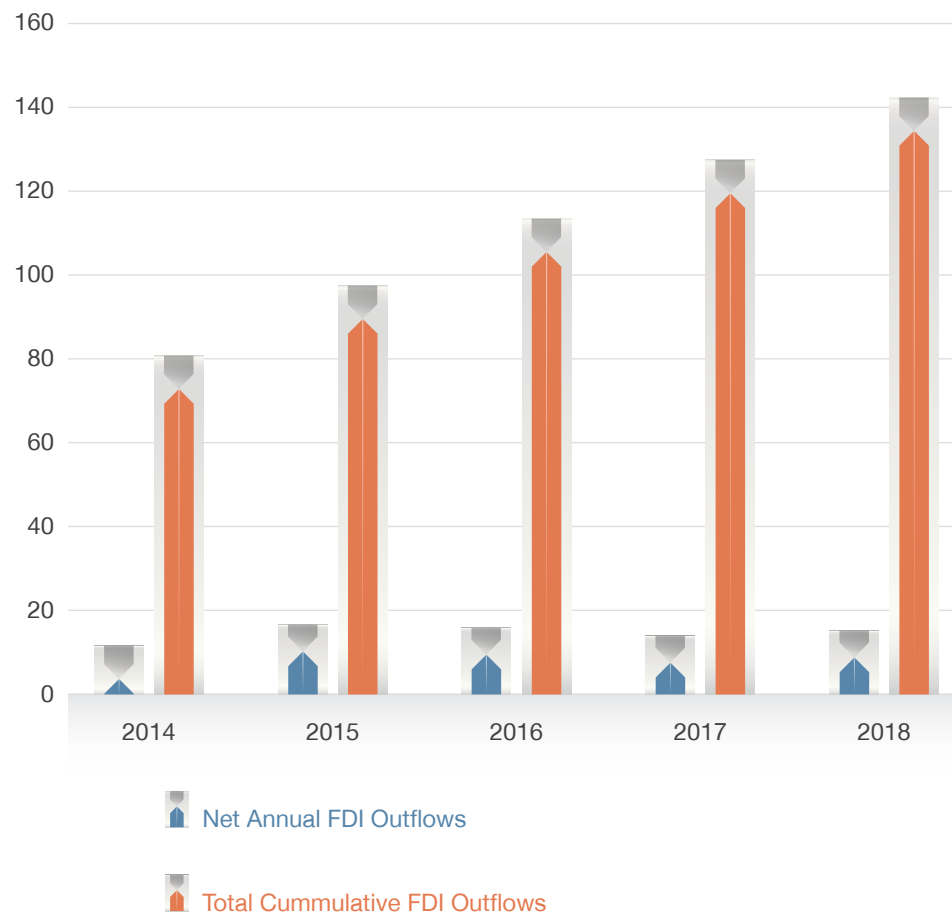
The UAE, through its foreign investments abroad that cover most of the world's countries, is also playing an important and effective role in driving the development movement of these partner countries. These investments cover several sectors such as infrastructure, ports, manufacturing, health services, agriculture, construction, real estate, etc. Total FDI outflows from the UAE to the world in 2018 amounted to USD15.0 billion from USD 14.0 billion in 2017, with a growth rate of 7.5% and an average growth rate of about 6.3% during 2014-2018. The UAE ranked 19<sup>th</sup> globally and the second in the West Asian region, accounting for 31% of total FDI outflows from West Asian countries after Saudi Arabia, which ranked first with a percentage of 43.0% of the region's total FDI outflows in 2018. Annual accumulated FDI outflows grew to USD142.2 billion in 2018, from USD127.2 billion in 2017, with a growth rate of about 11.8%, and an average growth rate of 15.2% during 2014-2018.

Table 7: Annual Accumulated FDI Outflows from the UAE during the Period 2018-2014 (USD billion)

Year	Net Annual FDI Outflows	Total Cumulative FDI Outflows
2014	11.736	80.838
2015	16.692	97.530
2016	15.711	113.241
2017	13.956	127.197
2018	15.0	142.2
Growth rate %	6.3%	15.2%

\*Source: UNCTAD reports from different years.

Figure 17: Annual Accumulative FDI Outflows from the UAE during the Period 2014-2018 (USD billion)





## 6

## FINANCIAL AND MONETARY SECTOR

The output of financial sector activities in current prices achieved an increase from AED 133.9 billion in 2017 to AED 140.0 billion in 2018, with a growth rate of 4.6%. The contribution of the sector to the GDP (at current prices) declined from 9.6% in 2017 to about 9.2% in 2018, and the contribution of the financial sector in of non-oil GDP (at current prices) increased from 12.2% in 2017 to 12.4% in 2018.

### 6.1 FINANCIAL MARKETS DEVELOPMENTS

Table 8: The UAE Securities Exchange Performance in 2017 and 2018

Description	2017	2018
Number of companies listed on the Emirates Securities Exchange	130	137
Number of companies listed in Abu Dhabi Securities Exchange	66	70
Number of companies listed on the Dubai Stock Exchange	64	67
Annual change in share price index of Abu Dhabi Securities Market %	-3.25%	11.7%
Annual change in share price index of Dubai Financial Market %	-4.55%	-24.9%
Market value of Abu Dhabi Securities Market (AED 1 billion)	457.3	505.4
Market value of Dubai Financial Market (AED 1 billion)	394.0	343.3
Average daily trading volume on the UAE Securities Market (AED 1 million)	651.74	393.10
Volume of trading in Abu Dhabi Securities Market (AED 1 billion)	48.1	39.6
Trading volume of Dubai Financial Market (AED 1 billion)	114.7	59.2

\*Source: securities and commodities authority database.



The number of listed companies in the UAE Securities Market rose from 130 in 2017 (number of companies listed in Abu Dhabi Securities Exchange (ADSE) is 66 companies; 50.7% of the total listed companies in the country's markets, while the number of listed companies in the Dubai market is 64, representing 49.2% of the total number of listed companies in the country's markets), to 137 companies in 2018 (the number of listed companies in Abu Dhabi Stock Exchange is 70 which is 51.1% of the total listed companies in the country's markets while the number of listed companies in Dubai market is 67, representing 48.9% of the total number of listed companies in the country's markets) and the annual growth rate of the number of listed companies in the UAE stock market was 5.4% in 2018.

The UAE's stock market performance indicators in 2018 showed mixed trends, with Abu Dhabi Securities Market index growing from -3.25% in 2017 to 11.7% in 2018. The market value increased from AED 457.3 billion in 2017 to AED 505.4 billion in 2018, driven by a relative rebound in oil prices, public financial reforms, economic stimulus package, regulatory measures and the adoption of Abu Dhabi Development Accelerators Program "tomorrow 21" for Abu Dhabi Government to accelerate implementation of community projects, support the business sector and solidify the Emirate's investment attractiveness. In Dubai Stock Exchange the decline in the share price index has deepened from -4.55% in 2017 to -24.9% in 2018, driven by the decline in market value and

the decline in sub-indicators for industry, real estate, construction and financial services sectors. The average daily trading volume in the UAE's financial markets shows a drop of -39.7% in 2018 compared to 2017. The volume of trading in Abu Dhabi Securities Market declined from AED 48.1 billion in 2017 to AED 39.6 billion in 2018. The volume of trading in Dubai Financial Market decreased from AED 114.7 billion in 2017 to AED 59.2 billion in 2018.

## 6.2 MONETARY DEVELOPMENTS

The money supply ( $M_1$ ), currency in circulation and monetary deposits, fell by 1.4% from its registered level by the end of 2017 to become AED 485.7 billion by the end of 2018. However, during

the first ten months of 2019, ( $M_1$ ) increased by 4.1% to AED 505.7 billion by the end of October 2019.

The money supply ( $M_2$ ), which consists of money supply ( $M_1$ ), plus the quasi-monetary deposits increased by 2.5% from its registered level by the end of 2017 to AED 1,308.4 billion by the end of 2018. Future, ( $M_2$ ) increased by 4.9% during the first ten months of 2019 to AED 1,372.7 billion.

The money supply ( $M_3$ ), which consists of money supply ( $M_2$ ), plus government deposits, increased with an annual growth rate of 7.8% to AED 1,602.4 billion by the end of 2018. Moreover, it increased by 4.9% during the first ten months of 2019 to AED 1,680.8 billion by the end of October 2019.

Table 9: Monetary Developments for the First Quarter of 2018-2019 (in AED billion)

Description	2017	2018	October 2019	The change during 2018 (%)	The change during 10 months 2019 (%)
Money supply ( $M_1$ )	492.4	485.7	505.7	-1.4%	4.1%
Money supply ( $M_2$ )	1,276.1	1,308.4	1,372.7	2.5%	4.9%
Money supply ( $M_3$ )	1,487.1	1,602.4	1,680.8	7.8%	4.9%

\*Source: Central Bank and the Ministry of Economics.

## 6.3 BANKING DEVELOPMENTS

The total number of banks operating in the state reached 59 banks by the end of October 2019; including 21 national banks and 38 foreign banks. Total assets of banks reached AED 3,040.6 billion by the end of October 2019, up by 6.0% from their registered level by the end of 2018, compared to an annual growth level of 6.5% during 2018. Total deposits of banks grew strongly in 2018 with a rate of 7.9%. However,

during the first ten months of 2019, the deposits grew by 3.6% to AED 1,819.7 billion by the end of October 2019. Furthermore, thanks to the high level of deposits and capital solvency, the banks were able to continue their banking credit activities, with total bank credit grew by 4.8% in 2018 and 3.2% during the first ten months of 2019. Therefore, the total banking credit reached AED 1,708.6 billion by the end

of October 2019. The ratio of “loans to deposit” continued to decline gradually to reach 93.9% by the end of October 2019 compared to 94.3% by the end of 2018 and 97.1% by the end of 2017.

## 7

## PUBLIC FINANCE

Table 10: Banking Developments (in AED billion)

Description	2017	2018	October 2019	Growth Annual Rate of 2018	Growth Rate during the First 10 Months of 2019
Total Assets	2,693.8	2,868.5	3,040.6	6.5%	6.0%
Total Deposits	1,627.3	1,755.7	1,819.7	7.9%	3.6%
Total Credit	1,580.3	1,656.2	1,708.6	4.8%	3.2%
Credit/ deposit ratio %	97.1%	94.3%	93.9%	-	-

\*Source: Central Bank and the Ministry of Economics.

World oil prices rose in 2018 from their 2017 level according to the average OPEC basket price by an increase of about 33.0%, with the country's oil production increasing from 2.8 million barrels in the first quarter of 2018 to about 3.3 million barrels per day in the fourth quarter of the same year, resulting in an increase of general revenues by 13.3% from AED 401.894 billion in 2017 to AED 455.516 billion in 2018, as a result of the development of oil revenues with the increase from AED 144.9 billion in 2017 to AED 164.2 billion in 2018, and the other general revenues increasing between the two years from AED 257.0 billion in 2017 to AED 291.3 billion in 2018. The company's corporate profits have grown from AED 132.0 billion in 2017 to AED 149.6 billion in 2018, and tax revenues have increased from AED 22.1 billion in 2017 to AED 25.03 billion due to the application of selective (harmful) commodity tax as of the fourth quarter of 2017 and value-added tax as of the beginning of 2018. In 2018, the country also

continued to pursue its rational and balanced fiscal policy to control and rationalize current expenditure and continue pumping investments to activate its strategies and implement infrastructure projects and strategic projects to stimulate growth and transition towards a highly productive and competitive knowledge economy based on creativity, research and innovation, in addition to developing the projects of the global

event Expo 2020, increasing levels of economic diversification and supporting human and social development. As a result, public expenditure has increased from about AED 404.6 billion in 2017 to AED 421.8 billion in 2018 with a growth rate of 4.2%. As a result, the budget deficit turned from around AED -2.8 billion in 2017, to a substantial surplus of AED 33.7 billion in 2018, As shown in the table below.

Table 11: Public Revenues and Expenditures of the State for Years 2017-2018 (in AED billion)

Description	2017	2018	Change Rate in 2016/ 2017 %
Total Public Revenues	401.894	455.516	13.3%
Total Public Expenditures	404.649	421.772	4.2%
Final Surplus/ Deficit	-2.756	33.744	-

\*Source: United Arab Emirates, Federal Competitiveness and Statistics Authority, Preliminary Figures, April 2019.





03

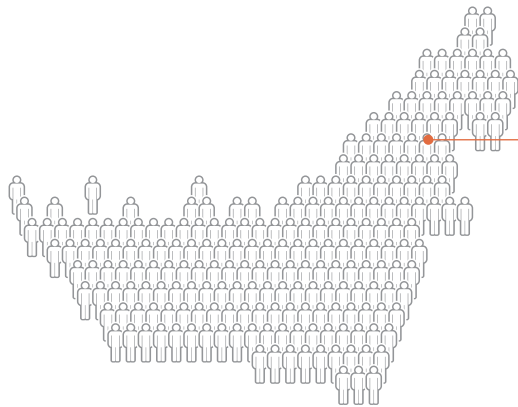


## **THIRD: POPULATION AND WORKFORCE**

# 1 POPULATION

According to the World Bank database, the UAE population grew from about 9487.2 thousand in 2017 to about 9630.9 thousand in 2018, with a population growth rate of 1.50%, and according to the Federal Competitiveness and Statistics Authority, the UAE's total population of resident citizens and expatriates was 9,304,277 in 2017, compared to 9,121,167 in 2016, with a population growth rate of about 2.0% of the year 2017.

The United Arab Emirates have expatriates from more than 200 nationalities who live and work and their number exceed the number of citizens in the country, and the Indian community is considered one of the largest expatriate communities resident in the country, followed by the Pakistani, Bengali and other Asian, European and African nationalities.



# 2 WORKFORCE

Table 12: UAE workforce, workers and unemployed for 2017-2018

Description	2017	2018	Change Rate in 2018/ 2017
Number of workforce (Million)	7.424	7.384	-0.5%
Number of employed (Million)	7.241	7.219	-0.3%
Number of unemployed (Thousand)	183.000	164.655	-10.0%
Unemployment rate%	2.5%	2.2%	-









\*Source: United Arab Emirates, Federal Competitiveness and Statistics Authority, 2019.











Based on Federal Competitiveness and Statistics Authority data, the UAE workforce grew from 7.424 million workers in 2017 to 7.384 million workers in 2018 with a decline rate of -0.5%. The number of people working in all economic sectors of the country grew from 7.241 million in 2017 to 7.219

million in 2018, a decline of -0.3%, therefore, the number of unemployed has declined from 183.0 thousand in 2017 to 164.655 thousand in 2018, with a decline of -10.0%, thus, the rate of unemployment decreased from 2.5% in 2017 to 2.2% in 2018.

## 2.1 DISTRIBUTION OF EMPLOYEES COMPENSATION BY ECONOMIC SECTOR

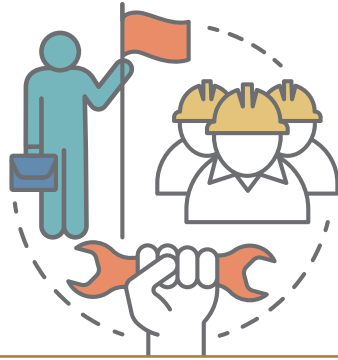
Table 13: Estimates of Compensations of Employees (Wages) by Economic Sector for Years 2017 and 2018 (in AED million)

Sectors	Compensations of Employees 2017	%	Compensations of Employees 2018	%
 Agriculture, Forestry and Fishing	3,791	0.8%	3,895	0.8%
 Extractive Industries (including crude oil and natural gas)	19,419	4.0%	20,326	4.1%
 Manufacturing	44,523	9.2%	45,777	9.3%
 Electricity, Gas, Water and Waste Management Activities	7,411	1.5%	7,509	1.5%
 Construction and Building	52,338	10.8%	52,959	10.7%
 Wholesale and Retail Trade and Repair of Motor Vehicles and Motorcycles	66,201	13.7%	62,857	12.7%
 Transport and Storage	41,210	8.5%	41,662	8.4%
 Accommodation and Food Service Activities	16,851	3.5%	16,745	3.4%

Sectors		Compensations of Employees 2017	%	Compensations of Employees 2018	%
	Information and Communications	13,121	2.7%	13,087	2.6%
	Financial Activities and Insurance Activities	25,579	5.3%	29,307	5.9%
	Real Estate Activities	8,707	1.8%	8,479	1.7%
	Professional, Scientific and Technical Activities	26,623	5.5%	26,466	5.4%
	Administrative and Support Services Activities	16,649	3.4%	16,801	3.4%
	Public Administration, Defense & Compulsory Social Security	90,550	18.7%	95,803	19.4%
	Education	17,300	3.6%	17,985	3.6%
	Activities of Human Health and Social Service	18,155	3.8%	18,326	3.7%
	Arts, Entertainment, Promotion and Other Service Activities	5,103	1.1%	5,212	1.1%
	Household Activities as Employer	9,480	2.0%	10,049	2.0%
	<b>Total</b>	<b>483,011</b>	<b>100.0%</b>	<b>493,246</b>	<b>100.0%</b>

\* Source: Federal Competitiveness and Statistics Authority, Preliminary Figures, May 2019.





The relative distribution of employees' compensation by economic sector for 2017 indicates that the “public administration, defense and compulsory social security” sector was the top economic sector in terms of the value of compensation for the state's employees, which was AED 90550 million, accounting for 18.7% of the total compensation value of the employees, followed by “wholesale and retail trade and repair of motor vehicles” at AED 66201 million, accounting for 13.7% of the total compensation value, then the “construction and building” sector with a value of AED 52338 million, and a percentage of 10.8% of total compensation value, then the manufacturing, with a value of AED 44523 million, and a percentage of 9.2% of total compensation value, and the transport and storage sector, with a value of AED 41210 million and a share of 8.5%. The total value of compensation for the five sectors reached AED 294,822 million and a share of 61.0% of the total compensations of the state's employees during 2017. The same economic sectors referred to came in the same order during 2018. The total compensation of the five sectors' employees reached AED 299058 million with a percentage 60.5% of the total compensations of the state's employees during 2018.

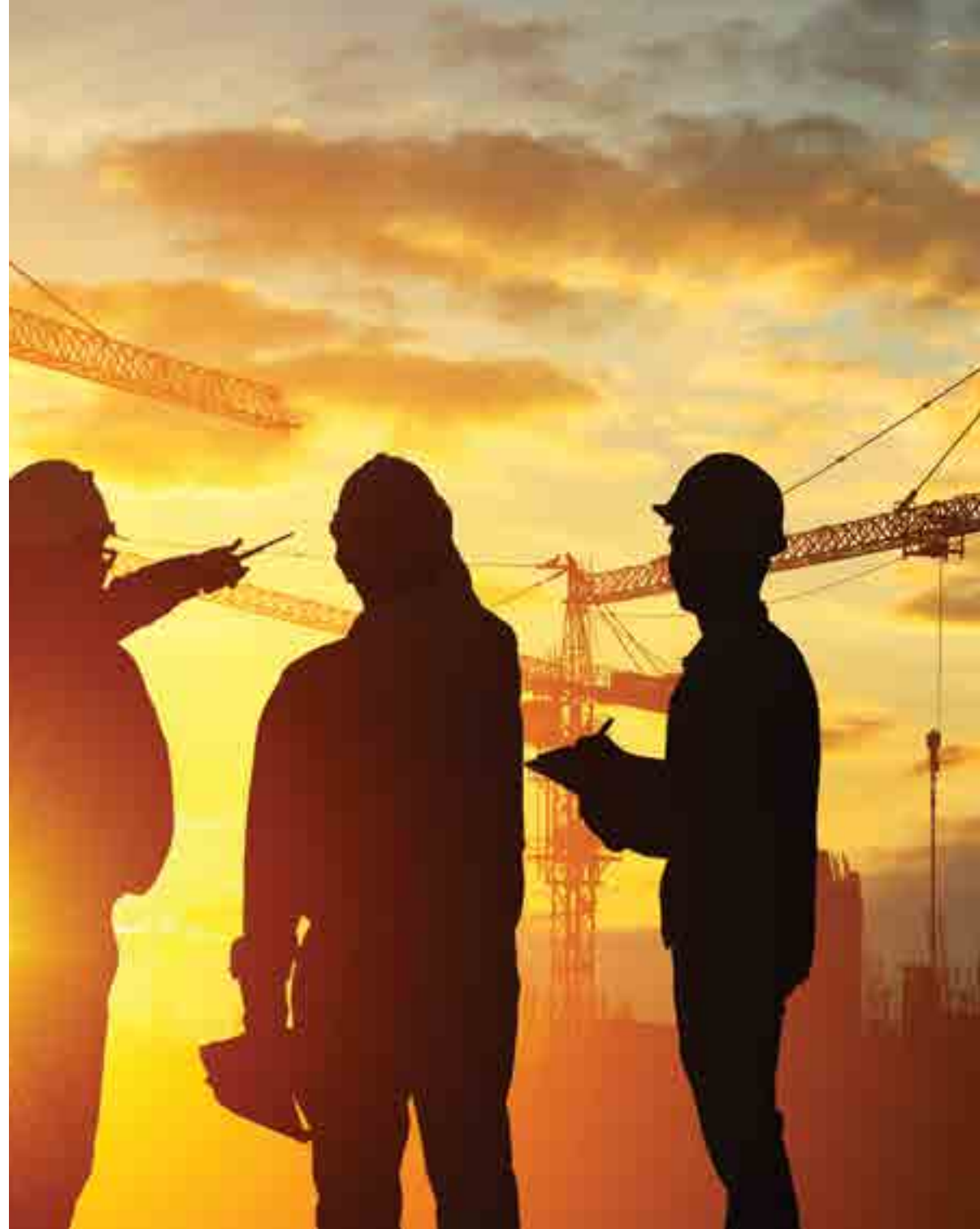


Figure 18: Distribution of Compensations of Employees by Economic Sector in 2017

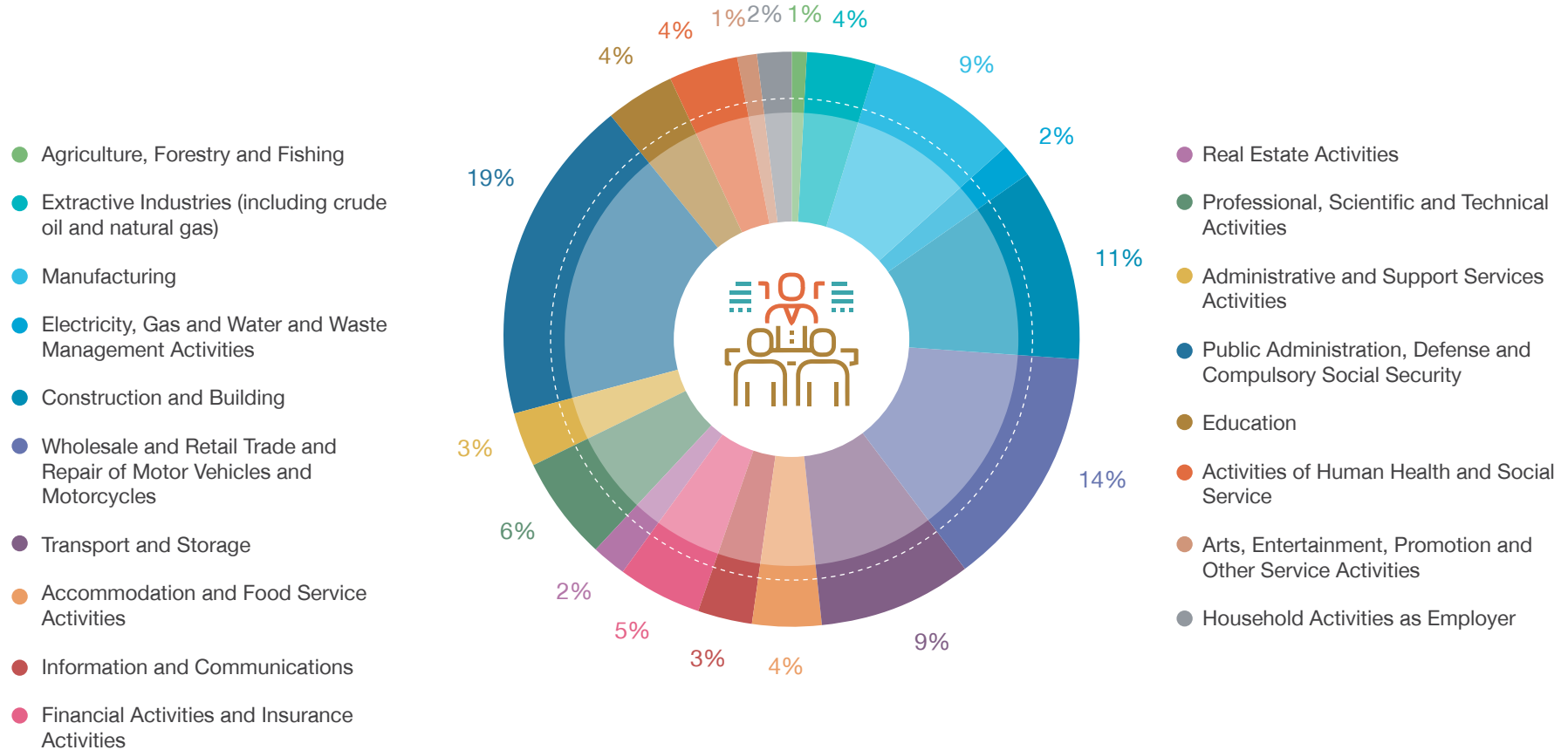
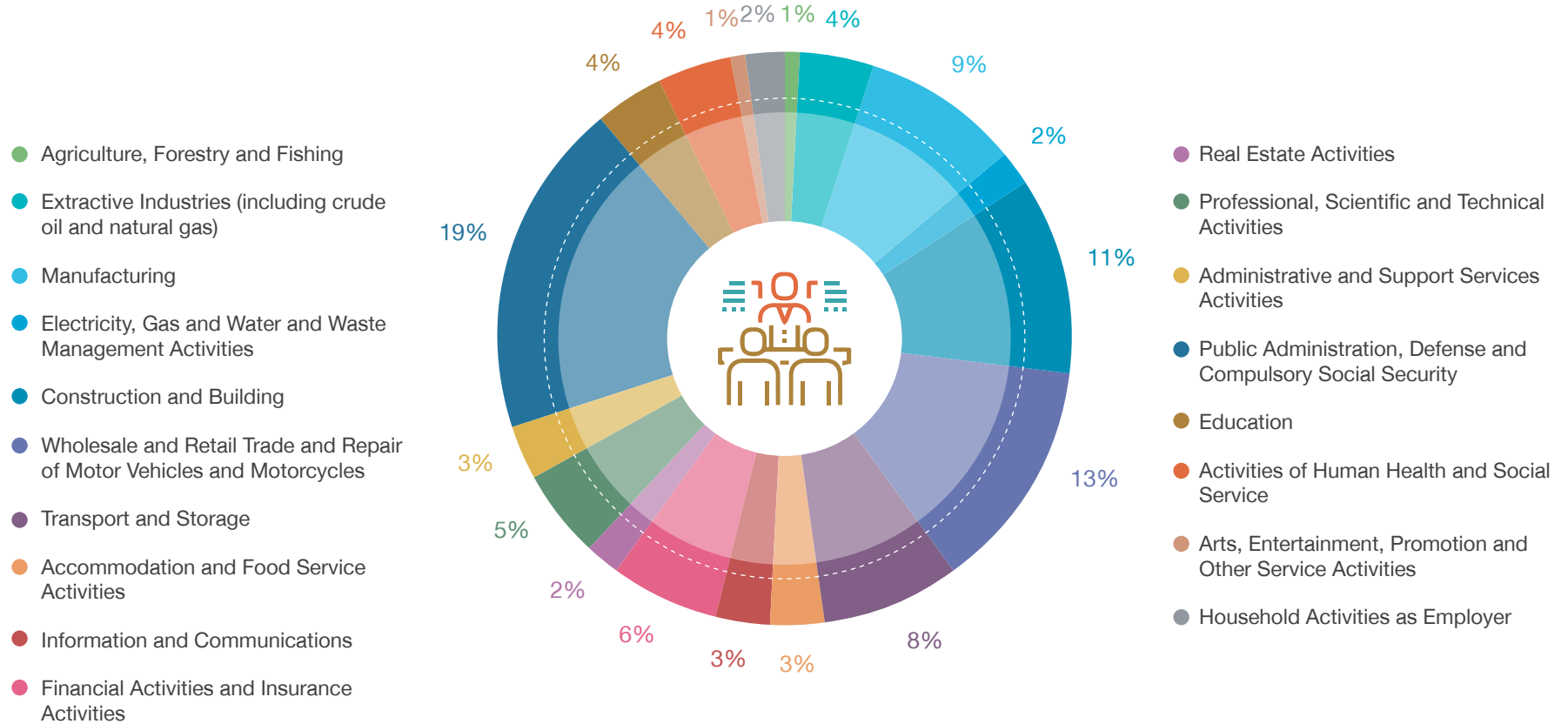


Figure 19: Distribution of Compensations of Employees by Economic Sector in 2018





04



## **FOURTH: ECONOMIC ISSUES**

1

## THE TRADE WAR BETWEEN THE UNITED STATES OF AMERICA AND CHINA AND ITS INTERNATIONAL AND REGIONAL REPERCUSSIONS

The great competition between the two major economic powers in the world, the United States of America and China, and the former's concern about the diminishing of its economic influence and its removal from the throne of the world economy in favor of the latter, which is considered as a source of threat to its economy, has turned into a trade conflict between the two poles since

July 2018. This took the form of imposing customs duties on each other, which has had repercussions on the economy of the two countries and consequently on the global economy and their partners in the Arab countries, especially the GCC countries.

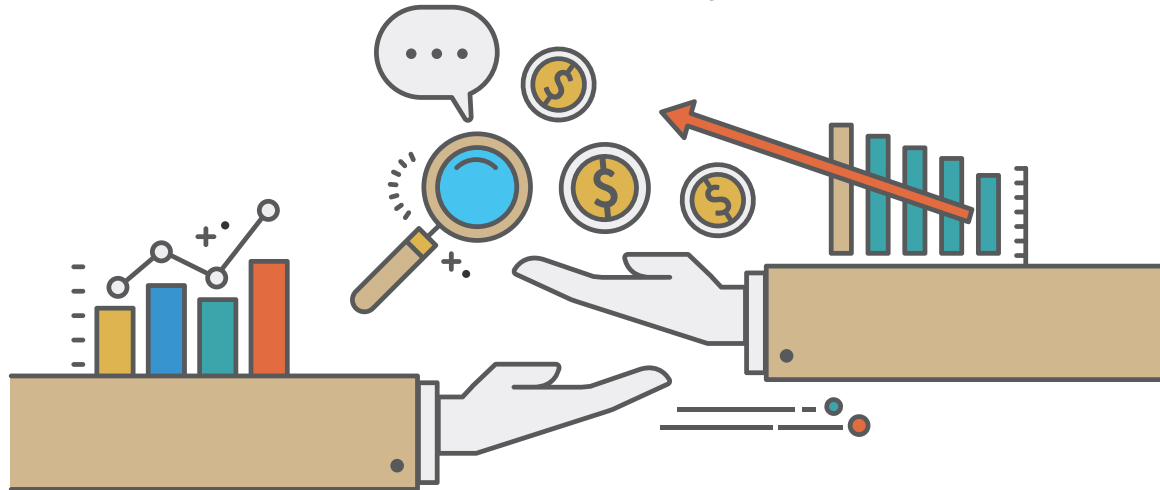
### ECONOMIC FUNDAMENTALS OF THE UNITED STATES OF AMERICA

The United States of America covers an area of 9.8 million km<sup>2</sup>, and has a population of about 329.3 million, with a population growth of 0.8% according to the estimates of 2018. The United States has many natural resources, such as coal which represents 27% of the total global reserves, copper, lead, molybdenum, phosphate, rare earth elements, uranium, bauxite, gold, iron, mercury, nickel, potash, silver, tungsten, zinc, petroleum, natural gas, timber, and arable lands.

The US real GDP in 2017 was about USD 19.49 trillion, with a growth of 2.2%. Although it is the largest and the most technologically-advanced economy in the world, it lost its global leadership in favor of China in 2014, according to the GDP as measured by purchasing power parity criterion. The value of its GDP as measured by purchasing power parity in US dollar was about USD 19.49 trillion in 2017 (the second in the world), and the average GDP per capita as measured by purchasing power parity in US dollar for the same year (2017) was about USD 59,800 and came in the rank (19 globally). In 2017, agriculture contribution was about 0.9% of the US GDP, industry about 19.1% and services about 80.0%.

Among the most important US agricultural products are: wheat, corn, other cereals, fruits, vegetables, cotton, beef, pork, poultry, dairy products, fish, and forest products. It is also considered as the world leader in producing a highly diversified range of advanced technological innovations and the world's second largest industrial producer of petroleum, steel, cars, spacecrafts, communication equipment, chemicals, electronics, processed food, consumer goods, wood, and mining. The inflation rate in the United States in 2017 was about 2.1%, and its credit balance increased from USD 20.24 trillion in 2016 to USD 21.59 trillion in 2017.

The United States ranks second in the world in terms of the volume of exports, which increased from USD 1.456 trillion in 2016 to USD 1.553 trillion in 2017, of which China accounted for 8.4%. The most important exports are agricultural



products (soybeans, fruits, corn), industrial supplies (organic chemicals), Capital goods (transistors, aircrafts, cars, vehicle spare parts, computers, and telecommunication equipment), consumer goods, and medicines.

The United States also ranks first in the world in terms of the volume of imports, which increased from USD 2.208 trillion in 2016 to USD 2.361 trillion in 2017, of which China accounts for about 21.6%. The most important imports are: agricultural products, industrial supplies including crude oil, capital goods (computers, communication equipment, cars and their spare parts, office machines, electric power machines), consumer goods (clothing, furniture, toys) and medicines.

The US balance of gold and foreign currencies grew from USD 117.6 billion in 2015 to USD 123.3 billion in 2017 and it ranked 20<sup>th</sup> globally. The US is considered the largest debtor in the world. The US external debt grew from USD 17.85 trillion in 2015 to USD 17.91 trillion in 2017, and it recently reached USD 21.3 trillion and about 4/5 of debts denominated in USD. The lenders hold debt instruments denominated in USD.

The Foreign Direct Investment (FDI) inflows to the United States in 2017 amounted to USD 466 billion, as the balance of FDI inflows increased from USD 3.614 trillion in 2016 to USD 4.08 trillion in 2017, and it ranked the second globally. Its balance of FDI's outflows in 2017 was USD 359 billion. The balance of FDI's outflows grew from USD 5.711 trillion in 2016 to USD 5.352 trillion in 2017, ranking the second in the world as well.

The US economy, which accounts for 17% of the global economy, is based on market mechanisms, investment and trade competition. The US dollar dominates the international transactions market and constitutes the largest part of the world's monetary reserves. Some countries use the US dollar as their currency. The US economy is considered as a diversified economy, with stable growth and average unemployment rate, and large capital and research investments. It possesses large wealth of mining and energy resources, yet it is the most fuel-importing country.

The US is also considered as the first agricultural power in the world in terms of production or exports. The US agriculture has fertile land and a favorable climate and is integrated with the industrial sector. It also enjoys the most important industrial products globally, due to its ability to innovate, its leadership in technology, product diversity and the availability of qualified and trained technical workforce. Its Leadership manifests itself in many fields such as: petroleum, cars, aviation and electricity industry, and consumer goods. It is also progressing steadily in the high-tech sectors, such as aviation, aerospace, electronics, armament, and micro-chemistry. Services sector dominates the US economy; as there are resorts and different recreational places and huge markets. The most important services include: management, tourism, recreation, banks.

Consumer spending is the largest driver of the US economy, and it represents 71% of the size of economy. It is considered as the largest consumer



market in the world as the consumption of the US households is five times higher than that of Japan. Since the Great Depression in the 1930s, the US economy has been subjected to a number of violent crises, and the global financial crisis in 2007 and 2008 was the most serious recession that the US witnessed in the last few decades. The US derives its economic strength from:

1. The agricultural power, which is considered as the highest in the world in terms of production and export. This is due to the availability of plains, climate diversity, abundance of water resources, and regulatory qualifications. Thus, agriculture enters into capital relations with other sectors and provides hotels, restaurants and factories with agricultural products. In return, it is equipped with machinery, fertilizers and pesticides by the industrial sector. However, the services sector supplies it with loans and scientific research and this is called "Agrobusiness", in addition to the use of the latest technological means in production through using the satellites to monitor the quality of soil and the amount of fertilizers used and to make use of the machines required for marketing the products.
2. The development of industry which occupies the first ranks and controls a large share of the global production of several products, the most important of which are: cars, steel, textiles, and advanced and high-tech industries such as: electronics, aerospace, and military industries.
3. The strength of trade, where the manufactured products dominate the US exports and imports, assisted by the strength and magnitude of shipping fleets and ports.



4. The magnitude of its investments abroad. The US companies represent a large proportion of the first 100 multinational companies in the world, and attract huge investments from abroad.
5. The strength of the services sector which ranks first in the world and whose pace of growth and development is increasing to control a large proportion of the gross product.
6. Multinational companies whose budgets are equal to those of some countries.
7. Advancement of scientific research and its applications, which became a driving force as a result of the rapid scientific and technological progress and development.

### **THE FUTURE PROSPECTS OF THE US ECONOMY**

In the recent years, the US growth has been slow and close to 2.0% compared to the Chinese economy, whose growth has exceeded 6.5% at a minimum. If this disparity continues, China's economy would become twice the size of the US economy in less than two decades. Furthermore, the economists predicted that US economy would contract either in this year 2019 or the next year 2020.



The United States is provoking its allies and trade partners through imposing tariffs on EU countries and China, and renegotiating the North American Free Trade Agreement (NAFTA). The US also withdrew from the Trans-Pacific Trade Agreement. Therefore, the US external debts, which have increased since 2008 and currently reached USD 21.299 trillion, became larger than the economy itself; exceeding the gross domestic production and becoming a burden on its economic progress. The US interventions in different regions in the world required major shifts in the national resources from being used for civilian purposes to military purposes, which contributed to a rise in the public debt and budget deficit. In 2018, according to the US government figures, the direct costs of wars amounted to more than USD 1.9 trillion. The increase in the public debt and its interests is putting pressure on the state budget and impeding all other items of government spending; leading to a reduction in available resources in favor of increasing the US military spending. The US debts are expected to rise further after the US government agreed in 2019 to increase military spending for maintaining its global influence, in addition to some compulsory aspects of government spending, particularly social insurance, health care programs, and interest paid on debts. This year, the officials in charge of managing spending on social insurance and healthcare have announced that they will begin to draw from their spending reserves in order to meet the growing demands,



and by 2026, there will be no balances to spend on healthcare programs. Education programs will be affected as well, while social security programs will have better chances as they will have balances until 2034. Moreover, if the federal government does not find other funding sources, a number of concessions on these two items will be canceled. The US corporations' loans doubled about a decade ago, and their debts amounted to USD 9000 billion; this represents a "macroeconomic risk", according to the head of the Central Bank. The US budget deficit rose by 17% to USD 779 billion in 2018, and it is expected to continue its rise to reach more than USD 900 billion this year. Due to increased government spending, this will lead to a further budget deficit by USD 1500 billion during the next ten years, which means resorting to financial markets to borrow, and the consequent great obstacles faced by the economic growth.

The new Chinese vision, which is no longer limited to competing economically through the production of cheap goods, became a beginning of a new world's features where there is no place for the American and Western monopoly, especially with regard to specific industries such as: artificial intelligence, robotics, communications, Internet and 5G networks, in addition to other advanced industries monopolized by the West. Technology and excellence in the West are likely to move to the east through China's production and excellence in those industries.

The United States relies on the import of raw materials classified as strategic, and known as rare earths or metals, of which China is the most important producer. It also provides the largest part of its global production, which is involved in advanced and strategic industries, weapons, solar panels, mobile phone chips, computer

chips and wind turbines. All this gives Beijing a real monopoly of the rare earths market, which includes 17 elements, posing a threat to the US once the export is stopped. China also is moving to the markets in Africa, Asia, Latin America and other countries to reduce its dependence on the American markets and continue operating its factories. In return, the USA relies on Chinese products because the alternative products cause inflation in its economy and reduce its purchasing power; as China provides the American consumer with products of the same quality, power and efficiency, yet at a lower cost compared to other products.

The United States is struggling to stop the decline of its global economic, political and military status and regain its position as a single or major global pole; as it knows well how China's economic capabilities qualify it to lead the global economy.

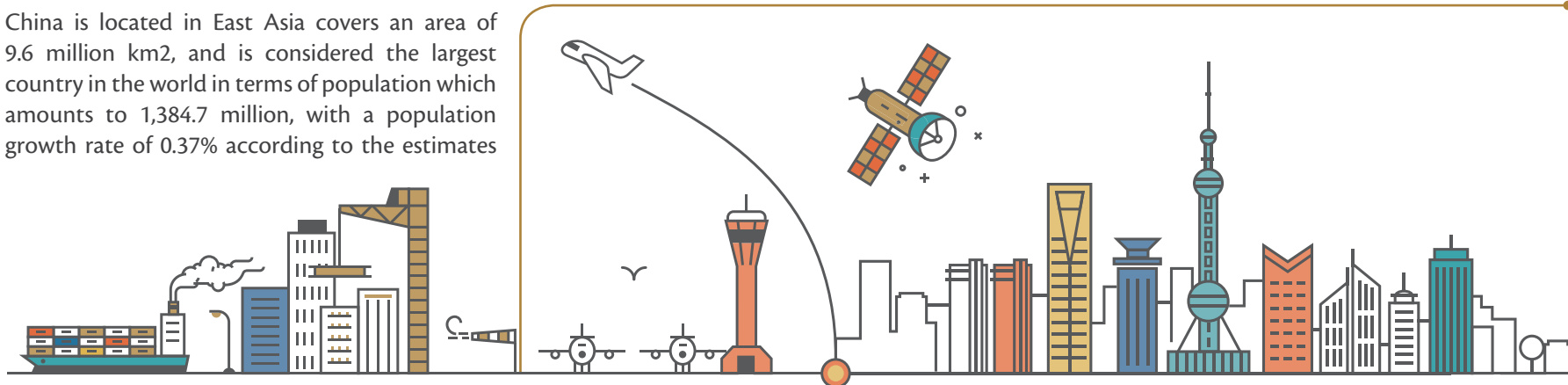
### **ECONOMIC FUNDAMENTALS OF CHINA**

China is located in East Asia covers an area of 9.6 million km<sup>2</sup>, and is considered the largest country in the world in terms of population which amounts to 1,384.7 million, with a population growth rate of 0.37% according to the estimates

of 2018. China possesses several natural resources such as: coal, iron, helium, petroleum, natural gas, aluminum, lead, zinc, rare earth elements, uranium, hydroelectric power, vast arable lands, and many other natural resources and minerals.

China has achieved an "economic miracle" by building a unique economic model based on a growth rate of 9.8% that has lasted for many years and had its reflections on employment rates, which rose from 28% in 1978 to 72% in 2013. It was also able to accumulate the largest gold and foreign exchange reserves in the world that was estimated at about USD 3.326 trillion in 2017. China also enabled about 660 million Chinese people to get rid of poverty. Moreover, after the global financial crisis which lasted from 2008 to 2014, China contributed to the increase in the size of the global economy by 50%, so that the Chinese economy, which constitutes about 14.8% of the global economy, became the second

largest economy in the world after the United States and the largest trade partner to more than 130 countries. The Chinese Renaissance is considered a comprehensive and integrated agricultural, service, industrial, civil and military one. The private sector has played a leading role in supporting growth and creating jobs, contributing about 75% of GDP between 2010 and 2012. In 2010, China became the largest exporter and second largest importer of commercial goods in the world, and it became the fifth largest exporter and the third largest importer of services. In 2013, China became the largest trading country; and thus it exceeded the United States for the first time in modern history. In 2016, China became one of the largest economies in the world. The real GDP of China in 2017 was about USD 12.01 trillion with a real growth rate of 6.9%. The average GDP per capita grew by 42 times; from less than USD 400 in 1978 to about USD 17,000 in 2017.





China achieved a rise in its economy thanks to its transformation into a global manufacturing center specialized in collecting and processing products locally based on cheap labor force and exporting these products for all countries in the world. In terms of contribution to the output, agriculture contributes by 7.9%, industry by 40.5% and services by 51.6%.

China is the world leader in terms of the value of agricultural production of many crops such as: wheat, rice, potatoes, corn, tobacco, beans, tea, apples, cotton, pork, mutton, eggs, fish and shrimp, as well as industrial production of many products such as: iron, steel, aluminum, other metals, coal, machinery, weapons, textiles, clothing, oil, cement, chemicals, electronics, transportation means, cars, trains, airplanes, ships, telecommunication equipment, spacecrafts, satellites and consumer products. The Inflation rate reached about 1.6% in 2017.

While the United States is the world's leading debtor, China is the world's leading lender, where its credit balance increased from USD 23.02 trillion in 2016 to USD 27.34 trillion in 2017.

China comes first in the world in terms of its export volume, which increased from USD 1.99 trillion in 2016 to USD 2.216 trillion in 2017, of which the United States accounted for about 19%. China's most important export commodities include: electrical machinery, computers, telecommunication equipment, clothing, furniture and textiles. China also ranks the second in the world in terms of the volume of its imports, which increased from USD 1.501 trillion in 2016 to USD 1.74 trillion in 2017, of which the United States accounted for about 8.5%. China's most important import commodities include: electrical machinery, integrated circuits, other computer components, oils, mineral fuel, optical and medical equipment, metal ores, cars and soybeans.

The Chinese economy ranks the second globally after the USA, making it one of the most influential countries in the global economic decision and its main drivers, and any shock which might befall it would have its direct negative repercussions all over the world. In addition, China is the largest provider of foreign direct investments in the world; as its investment outflows was USD 156 billion in 2017.

Furthermore, China ranks the first in the world in terms of foreign direct investment inflows, which amounted to USD 132 billion in 2017. It also has the largest foreign exchange reserves, which reach up to USD 3.236 trillion. China's economic influence rose with the launch of the Belt and Road Initiative, and its growing development in innovation and producing high-quality technological products, whose production was limited to the United States and the West. Furthermore, the growing size and influence of major Chinese companies has become a source of concern for the USA.

### **THE FUTURE PROSPECTS OF THE CHINESE ECONOMY**

Through its ambitious economic plans, China has achieved high growth rates on the world level, and it has ranked the first in the world in most years since 1978 up to now. It also spends more than USD 370 billion annually on scientific research and development. It follows all ways to achieve progress whether legal and illegal. Therefore, the US accuses China with stealing intellectual property rights, patents, technology

and counterfeit industries; as Washington points out that China is the world's largest exporter of counterfeit goods, and that 77% of counterfeit goods goes to the United States.

By 2030, China is expected to become the largest economic power in the world, led by the rapid developments and the preparations of more than half of its population for the Fourth Industrial Revolution. This is reflected in the 13<sup>th</sup> Five-Year Plan of 2016 which summarizes the development path of China for the next five years through the growth prompted by innovation, technology, green development, openness, sharing the projects; especially those related to "The Belt and the Road" initiative, and the tremendous progress in the field of artificial intelligence by following studied and serious significant steps; as it has already started to introduce the uses of artificial intelligence at the global level in the fields of medicine, economy and services.

A study carried out by China's Artificial Intelligence Systems Development Center pointed out that the development of this type of systems increased the production capacity of various vital sectors and added about USD 500 billion to the Chinese total output. The main sectors which benefitted from that were the manufacturing sector and services sector, especially health and education. In order to achieve further progress in this field, China has allocated USD 320 billion to develop the artificial intelligence system, part of which is spent on education to form a new generation of AI professionals. It has also allocated about USD

150 billion to spend on technological industries, creativity and smart cities within the 2025 vision. The smart cities that China has planned to construct would change the structure of the world, and this is what worried Washington. The future of telecommunications and smart cities around the world is centered on the 5G, and the Chinese corporation 'Huawei' is leading China's 5G network infrastructure project, the value of which is estimated between USD 12 trillion to USD 13 trillion until 2035.

China also benefits from its scientists and researchers around the world. In parallel line, it continues to build new financial systems and infrastructure investment banks. It also expands in the East Asia, Africa (which abundantly possesses the main resources and is considered as an important consumer center for China which needs consumer

markets to drive the wheels of its factories), Latin America and other regions all over the world.

China is considered as the first exporter in the world as its exports are estimated at USD 2.4 trillion, according to 2017 figures. It also became the second largest country in terms of military spending, which has its strategic repercussions on the South China Sea; where confidence in American supremacy there has diminished, and the American potentials became encircled by defense systems, artificial islands, and high military technical capacities.

Estimates from a number of global economic reports have also confirmed the change of the global economic map and the centers of global economic power over the next 30 years. The reports pointed out also that by 2050, China would remove the USA from the throne of the world's



largest economy and rank first globally with a GDP of about USD 58.5 trillion (there are predictions by global economists say that China would overtake America by 2041 maximum), followed by India in the second place with a GDP about USD 44.1 trillion, while the USA would drop to the third place globally with a GDP of USD 34.1 trillion, and Indonesia would progress to occupy the fourth place with a GDP of about USD 10.5 trillion.

### **THE CAUSES OF THE TRADE WAR BETWEEN THE USA AND CHINA**

The great competition between the two economic powers, the United States of America and China, and the former's concern about the shrinking of its economic influence and its removal from the throne of the world economy in favor of the latter, has turned into a trade conflict between them since July 2018, as the United States considers China as a threat to its economy for several reasons, including:

- China's rising influence in the global economy, the growing size and influence of Chinese companies, the initiation of China's giant economic projects, such as the "Made in China 2025" project and the new Silk Road project, "One Belt, One Road", which both aim at developing China's technological industries and opening new markets in all countries over the world as an alternative for the US market in a way that enables it to control trade routes, lead the world economy in the coming years and achieve strong growth rates; and this is what represents a source of concern for the United States.

- The USA realization of the dangers of global economic shifts which led the USA's successive administrations to view the Chinese economy as a threat to their interests and a main economic competitor in the medium and long terms. This is neither due to China's export leadership over the world nor to the trade imbalance in favor of Beijing, but this is due to its secret plans and ambitious projects which if not impeded by Washington, the Chinese accelerating train of progress would take over the US and the West supremacy.
- Washington's repeated accusations for China of stealing and violating the US intellectual and technological property rights through piracy, espionage, or producing models like them, acquiring corporations with the government support, compulsory transferring of technology and imposing restrictions on exports in order to dominate advanced industrial sectors globally.
- China's resorting to reducing the value of its local currency "Yuan" to boost its exports and world trade and raise the demand for its domestic products.
- Activating Trump's election program in which he announced his intention to impose tariffs on the imports which compete the American products; causing a reduction in their prices, a decline in manufacturing and a rise in unemployment.
- The US President's group of advisors who are pushing him towards confrontation with China, such as Peter Navarro, the author of



"The coming wars of China", who follows the footsteps of George Friedman who declared his prophecy of the "coming war with Japan" in the late 1980s.

- The trade balance between the USA and China is in favor of the latter, with a deficit close to USD 375 billion, and this will make the trade war of greater consequences on the Chinese economy, which cannot abandon the US market to sell its products at least for the present time; and this will push it to the negotiation table to discuss Washington's requests and respond to them.
- Washington's request from China to change its policies towards supporting its commercial companies by providing them with loans at low interest rates, making it difficult for the US counterpart companies to compete with them.
- The US request from China to stop the artificial espionage, which Beijing is practicing according to the US claims. It also calls China to give the American goods and investments greater opportunities in the Chinese market.



## THE MANIFESTATIONS OF THE TRADE WAR BETWEEN THE USA AND CHINA

The trade war between the United States of America and China began on July 6<sup>th</sup>, 2018, the most important manifestations of which were imposing trade tariffs on each other as follows:

- The United States imposed tariffs by 25% on 818 imported Chinese products worth USD 34 billion. China responded by imposing tariffs by 25% on 545 US goods worth USD 34 billion.
- On August 23<sup>rd</sup>, 2018, the United States imposed tariffs on imported Chinese products worth USD 16 billion, and China responded by imposing tariffs on US goods worth USD 16 billion.
- On September 17<sup>th</sup>, 2018, the United States imposed tariffs by 10% on imported Chinese products worth USD 200 billion, and China responded by imposing tariffs by 10% on imported US goods worth USD 60 billion.
- At the end of 2018, the two countries agreed to calm, hold a truce and hold negotiations by early 2019 in order to reach a trade agreement

through which the United States aimed to achieve the following objectives:

1. Reducing their trade deficit by about USD 200 billion in favor of the United States within two years.
2. Reducing China's support for state-owned companies or changing their economic model.
3. Increasing US companies' access to China's agricultural, energy and financial markets.
4. Restoring American companies to production and creating job opportunities for the Americans within the United States.
5. Maintaining American technological superiority and its primacy.

After holding 11 rounds of high-level trade talks, the US president declared on May 5<sup>th</sup>, 2019 that the negotiations have stalled, and that the United States would increase tariffs from 10% to 25% on Chinese products worth USD 200 billion, and this increase in tariffs would come into effect for the goods leaving China starting from May 10<sup>th</sup>, 2019. Moreover, he threatened to introduce a new tariff by 25% on Chinese goods worth an additional

USD 325 billion; covering all remaining Chinese products. In response, the Chinese Ministry of Commerce issued a statement announcing that it will increase the tariffs on US goods worth USD 60 billion starting from June 1<sup>st</sup>, 2019. Thus, the total value of Chinese goods which are subjected to the US tariffs exclusively is USD 250 billion, as opposed to imports of steel, aluminum, washing machines and solar panels that are applied on the imports of several countries. Furthermore, the total value of US goods subjected to the Chinese tariffs exclusively amounted to USD 110 billion.

The crisis of Huawei which is one of the world's largest manufacturers of telecommunications, networks and smartphones has also escalated as the US administration prevented it from developing its 5G network within its borders. In May 2019, the US Department of Commerce placed Huawei and its subsidiaries on the "list of banned entities". Australia and New Zealand also banned the use of Huawei devices to build their 5G networks, and EE and Vodafone in the UK have canceled their orders to import Huawei smartphones which are compatible with the 5G and announced their review of 5G development policies that might limit Huawei's role to only providing them with non-essential components. Therefore, the continuance of the crisis between Huawei and the USA would impede China's attempts to enhance its access to European markets and other countries and hamper its efforts to strengthen Huawei's ability to provide 5G network services that are considered one of the basic structure requirements in the future.

## ECONOMIC, TRADE AND INVESTMENT RELATIONS BETWEEN THE UAE AND CHINA

These economic and trade relations are characterized by strength, robustness, complexity, and steady growth, and they are based on coordination, cooperation, and achieving mutual interests. The UAE is China's second largest trade partner in the world and its largest partner in the Arab region, accounting for 23% of the Arab trade with China. Furthermore, about 60% of China's trade is re-exported through the UAE and its ports to 444 cities in the Middle East, North Africa and African countries. China views the UAE as the first gateway to the Middle East and North Africa. The

UAE also is the largest oil exporter to China. In 2017 only, it exported oil worth USD 4 billion. The volume of non-oil trading between the UAE and China increased during the period 2015-2018, as shown in the following table.

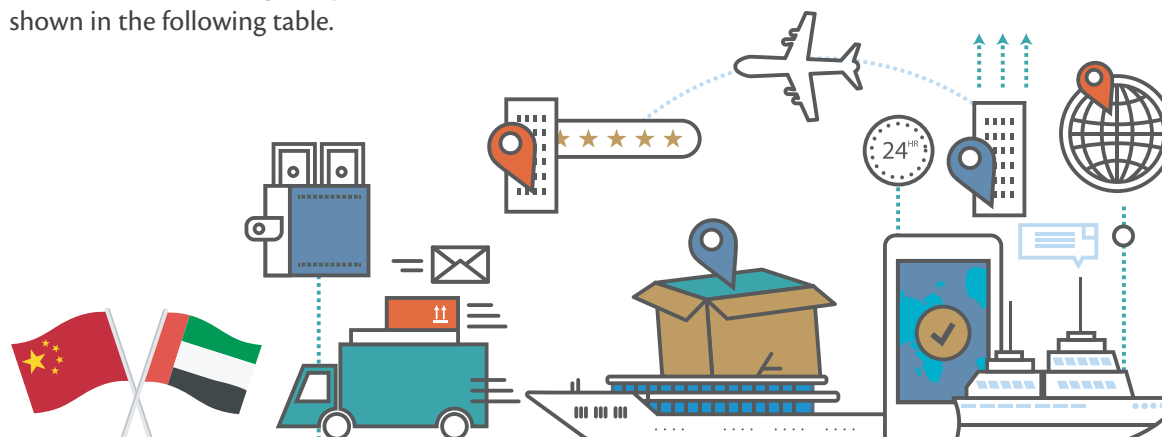


Table 14: Trade between the UAE and China For the period 2015-2018 (in AED Million)

Year	Re-Export	Exports	Imports	UAE-China Trade Volume	UAE-World Trade Volume	UAE-China Trade Volume/ UAE-World Trade Volume %
2015	5,454.59	3,774.14	83,898.82	93,127.55	1,059,010.82	8.8%
2016	7,490.04	5,961.41	82,353.95	95,805.40	1,078,852.18	8.9%
2017	12,839.06	5,614.52	177,181.18	195,634.76	1,527,812.64	12.8%
2018	13,702.6	5,084.7	139,600.4	158,387.70	1,536,082.00	10.3%

Source: Database of the Federal Competitiveness and Statistics Authority.

The UAE-China Higher Economic Committee regulates economic and trade relations between the two countries to improve the level of this cooperation through 13 sectors: investment, industry, new and renewable energy, small and medium enterprises, innovation, health, education, tourism, aerospace, aviation, infrastructure, and financial services. There are also 25 agreements and memorandums of understanding between the two countries, which regulate the relations between them, the most notable of which are: new and renewable energy, financial services, modern industries, information and communications technology, higher technology, aerospace, artificial intelligence and smart cities in addition to medicine and medical tourism.

The Chinese Dragon Market was established in Dubai as one of the largest Chinese markets in the region, and it includes about 4000 Chinese companies operating under the sponsorship of Jabal Ali Free Zone. In 2015, the UAE and China also launched the Joint Strategic Investment Fund to promote economic and political cooperation and support development plans in the two countries. In 2018, there was a paradigm shift in the relations that were elevated to the level of comprehensive strategic partnership, and 13 agreements and memorandums of understanding were signed to strengthen the strategic partnership and bilateral cooperation between the two countries and open new horizons for joint work. The Gulf countries, led by the UAE, became part of the "Belt and Road" or "New Silk Road" initiative. The initiative in which



investments worth USD one trillion includes: the establishment of marine projects, railways and road networks in Asia, Africa and Europe. Moreover, Abu Dhabi Crown Prince Mohammed bin Zayed visited Beijing and discussed with the Chinese president Shi Jing ping the giant Chinese project and signing agreements in this regard.

### **ECONOMIC, TRADE AND INVESTMENT RELATIONS BETWEEN THE UNITED ARAB EMIRATES AND THE UNITED STATES OF AMERICA**

UAE-US relations started since the establishment of the UAE federation in 1971, and the diplomatic relations between the two countries were established in 1972. The first US embassy was established in Abu Dhabi in 1974, and since then, the relations have witnessed a paradigm

shift in the various political, security, economic, trade and military fields. The UAE is considered as the largest Arab investor in the US market as the UAE's direct investment inflows into it were estimated at USD 4.8 billion in 2018, which increased the accumulative balance of the UAE's direct investments in the US market to USD 26.6 billion, and they are investments in the US financial markets and direct investments in the US economy, in addition to the UAE hosting of more than a thousand American companies in which about 60 thousand American employees work.

Cooperation between the two countries includes: nuclear energy, aviation, aircraft parts manufacturing, aerospace field, including space policy, regulatory developments, space security, space sciences, weather monitoring, satellite-



based applications, national security, food security, artificial intelligence, innovation, digital economy, technology, and health.

Bilateral trade relations are based on vital sectors such as: aviation, healthcare, technology, building and construction. The UAE airlines are among the largest buyers of Boeing aircraft in the world. Total bilateral exchanged trade between the two countries has increased from about AED 80.0 billion in 2015 (7.5% of the UAE's total trade with the world) to AED 99.3 billion in 2018 (6.5% of the UAE's total trade with the world), with an average growth rate of 7.5%. The UAE is among the largest trading partners of the USA and one of the largest importers of US goods in the Middle East.

The two sides have firm and strong strategic relations and this is evident from the value of trade exchanges which amounted to approximately USD 30.6 billion in 2017. The UAE is the third largest importer of US goods and services on the world level. The value of its imports from the United States in 2017 was about USD 23.1 billion,

and the value of its non-oil exports was about USD 2.2 billion, and its re-exports were about USD 5.3 billion. Aluminum is among the UAE's most important exports to the United States of America. The following table shows the trade relations between the UAE and the USA for the period (2015-2018).



Table 15: the trade between the UAE and the USA for the period 2015-2018 (in AED Million)

Year	Re-Export	Exports	Imports	UAE-USA Trade Volume	UAE-World Trade Volume	UAE-USA Trade Volume/ UAE-World Trade Volume %
2015	5,046.10	4,135.45	70,823.68	80,005.23	1,059,010.82	7.5%
2016	7,127.01	5,572.59	75,365.36	88,064.96	1,078,852.18	8.2%
2017	19,428.67	7,902.94	84,910.74	112,242.35	1,527,812.64	7.3%
2018	15,024.7	7,951.7	76,372.7	99,349.10	1,536,082.00	6.5%

Source: Database of Federal Competitiveness and Statistics Authority.



### THE REPERCUSSIONS OF THE TRADE WAR BETWEEN THE USA AND CHINA ON THE WORLD ECONOMY:

Economists warn that the ongoing trade war between the USA and China could lead to the following disastrous global consequences:

- The collapse of the World Trade Organization and the dollar system itself.
- High inflation rates due to the inflation of import prices.
- The decline in global trade and manufacturing which would cause a decline in global economic growth that is expected to reach 2.9% in 2019.
- Threatening the global economic stability and the impact on industrialization rates, capital flows, and foreign direct investment.

- The possibility of a recession and a financial crisis similar to the global recession in 1929 and the global financial crisis in 2008, and the unemployment associated with the global recession.
- The fluctuation in stock prices in the world due to the uncertainty of the future of the global economy.
- Growth, unemployment and corporate profits being influenced by many economies which are commercially linked to China and America, raising the economic challenges that face the emerging economies around the world.
- The possibility of the development of the economic war into a military war, especially that the two poles of conflict are among of the

strongest military countries in the world, in addition to their being nuclear countries.

- The foreign direct investment flows from the USA to China fell from USD 14 billion in 2017 to USD 13 billion in 2018. The foreign direct investment from China to the USA fell from USD 29 billion in 2017 to USD 5 billion in 2018.
- The US companies and consumers have borne the full cost of the tariffs which the USA imposed on the imports from China last year in 2018.
- The decline of Chinese growth due to the slump in Chinese industry which resulted from the decrease in sales.
- Great contraction in electronics industry all over the world especially in China.
- The halt of employment in the corporations manufacturing small electronic chips and semiconductor which are used in many electronic devices due to the recession in Singapore.
- The US tariffs on Chinese goods would push the companies to move their production out of China to other Asian countries, such as Vietnam or Cambodia to avoid paying the tariffs.
- Imposing tariffs between USA and China leads to a rise in the prices of Chinese goods, including those partially manufactured which some American industries depend on as production inputs, and this would result in a rise in the prices of American products. Several US companies,

such as Coca-Cola, have already announced that they raised their prices to cover the high costs. Consequently, the global markets are affected by the rise in US market prices which may lead to high levels of inflation in the local markets that are linked to the US goods.

- The US trade deficit with China fell to USD 80 billion in the first quarter of 2019, compared with about USD 91.1 billion in the first quarter of 2018.
- China is still the USA's largest trade partner. In 2018, China's exports increased by 7%. Yet, its exports to the USA declined by 9% in the first quarter of 2019, indicating that the effects of the trade war started to emerge.
- The recent US protectionist trade measures may lead to the retreat of Beijing and European countries temporarily in front of the pressure because the structural transformation in their economies and product markets is unlikely at the current stage; however, it may lead China and Europe to further cooperation, trade partnership, and search for New markets in order to face similar US pressures in the future.
- In the long term, the US agricultural exports would be negatively affected due to Chinese tariffs, and the US agricultural sector would face a significant decline as a result.
- Wages and prices in China would be affected in the short term as they do not adapt quickly to offset the decline in external demand due to the decline in exports to the USA, and in the

long term, it would be affected by the decline in economies of scale.

- The repercussions of the trade war between the USA and China on the UAE and GCC states

It is expected that the trade war between the USA and China would be reflected on the UAE and the rest of the GCC States as follows:

- According to a recent UNCTAD report, the impact of the trade war between China and the USA is limited on the UAE, and is likely to be reflected in increasing the tariffs from less than 5% currently to more than 10% in case the consequences of war spread to cover the entire world.
- Fluctuation in the GCC stock indices.

- Decline in the world demand for oil and thus its prices and then the oil revenues which the GCC States depend on.

- The possibility of decline in the Chinese economy because of this trade war may be of benefit to the Arab markets, including the GCC markets, as Chinese goods would become cheaper and thus the GCC countries would be able to import larger volumes of Chinese products at the same financial values of the former imports from it.

- The growing trade dispute between the USA and China is expected to have a negative impact on the GCC states, in case the USA imposes sanctions on those dealing with China.





- The UAE and some other GCC countries are expected to gain a larger market share of selected petrochemical products in the Chinese market.
- This trade dispute could have a positive impact on the UAE producers due to the rise of China's demand on the UAE manufactured products.
- The trade war also represents an opportunity in the UAE which acts as a major importer to re-export Chinese goods to the rest of the world, especially the Middle East and Africa. Chinese exports to the UAE, especially Dubai, are expected to increase for transporting them to other parts of the world.
- The increase in tariffs would lead to higher prices in most trade partner countries, especially the USA. Given the fact that GCC states import many goods in addition to their currencies link to the dollar, this would be reflected on inflation rates in the UAE in particular and in the GCC states in general, which would require a set of restrictive growth-adverse policies.
- If inflation in the USA increased due to high tariffs, the Federal Reserve would be obliged to raise interest rates which would push the UAE to raise its interest rate and thus the investment would be affected.
- Uncertainty and risks resulting from trade disputes could lead to capital outflows from emerging markets to safer and more stable developed markets, as capital flows to the UAE and the Gulf region could decrease, especially under these tense conditions.

## 2

## LOCALIZATION IN THE PRIVATE SECTOR: REALITY AND HOPES

Localization in the private sector is a national demand and an urgent need for citizens' participation in pushing the wheel of economic development forward. The UAE has worked through its localization strategies and initiatives to achieve a strategic goal based on the need to empower young UAE nationals with knowledge, skills and experience that help them reach leading positions in the future, and provide them with sustainable jobs that increase their competitiveness required to lead the desired knowledge economy with high capacity and efficiency through continued partnership and cooperation between the Ministry of Human Resources and Emiratization and federal and local government agencies on one hand, and private sector institutions on the other, as a key partner to achieve the sustainable development goals, and a strategic option embodying the principle of shared responsibility in promoting growth and

development process. Job localization is considered as one of the key performance indicators to achieve the UAE Vision 2021, and to unleash the citizens' potentials to drive the wheel of economic development by encouraging projects, instilling the culture of entrepreneurship, and building creative, responsible and ambitious generations, in line with the state vision to enhance the business environment through encouraging innovation, research and development, and moving to a competitive economy based on knowledge.

The National Agenda aims to double the number of UAE nationals working in the private sector ten times by 2021. In order to bridge the structural gap that characterizes the UAE labor market in terms of the expatriate workforce predominance over the local workforce, and the concentration of the majority of nationals in the government sector, while the expatriate workforce is in the private sector. The UAE Federal Government has

launched the Emiratization initiative to increase the engagement of the UAE nationals in the labor market, particularly in the private sector, and it also attached a great importance to creating job opportunities for them, providing necessary career guidance and training and developing programs, and encouraging citizens to join work. However, the percentage of localization in the private sector is still below the required level, as it reached 3.8% in 2018, and this requires finding radical and quick solutions to activate the citizens' role in the private sector, reduce the gap between education and the labor market, and find a supervisory body that follows the response of all institutions and private companies to the Emiratization initiative.

The high competitiveness of the state means that the private sector is growing, and that the more the number of expatriates in the private sector is, the more money wasted outside the country, while it is supposed to be used to expand the state economy, which requires innovative solutions to raise the localization process efficiency and reduce the dependence on expatriate workers.

### **OBJECTIVES OF LOCALIZATION IN THE PRIVATE SECTOR**

- Promoting the participation of national human resources in approved posts within targeted sectors in the private sector.
- Ensuring the continuity of national human resources in the work, in way that achieves their professional and practical aspirations.
- Qualifying national human resources in a way that meets the requirements of the labor market in the priority strategic sectors,

in cooperation and coordination with the concerned authorities, and providing a smooth accessible and smart electronic platform based on the best international practices.

### **ADVANTAGES OF LOCALIZATION**

- Ensuring a decent life for citizens and improving their standard of living.
- Achieving family and social security for citizens.
- Strengthening security and stability in the country.
- Establishing integration and balance in the society and enhancing its effectiveness and efficiency and safe continuity.
- Raising the efficiency and productivity of national human capital.
- Circling citizens' salaries in the state's economy and markets, as liquidity and deposits circulation in the local monetary market encourages local credit, and thus local private consumption and investment spending and drives the wheel of economic growth.

### **GOVERNMENT EFFORTS TO RAISE LOCALIZATION RATES IN THE PRIVATE SECTOR**

- The UAE has adopted supportive measures to increase the level of national cadre participation in the labor market. The measures included issuing binding decisions for institutions working in specific sectors, such as the banking sector, to hire national cadres at an annual rate of 4%, and the insurance sector by 5% annually, and encouraging the private companies and institutions to participate in the localization



process, through the state's bearing part of the monthly salaries received by citizens working in these institutions, in addition to bearing the costs of training provided for the employed nationals.

- Ministerial Decrees No. 41, 42, and 43 of 2005 impose on the private sector employers a system of specified rates of localization in certain sectors. Under these decrees, each company employing more than 100 employees must hire a stipulated minimum of the UAE nationals.
- Pursuant to the Ministerial Decrees No. 26 and 1187 of 2010, the Council of Ministers has determined the classification system whereby companies that comply with localization requirements are rewarded and motivated. In this context, as a matter of encouragement, employers who comply with localization rates are not required to provide financial security for their employees, as it is the case in the private sector, which requires employers to deposit financial security for each employee. Accordingly, companies with a low classification are obliged to have mandatory financial securities, the amount of which depends on the employee's job category.



- The UAE has declared 2013 as an Emiratization Year, as a range of initiatives and policies were launched to deal with Emiratization as a national priority at all levels. One of the most important initiatives is “Absher”, which aims at achieving family and social stability for citizens, supporting government policies and procedures in localization, diversifying fields of work for citizens, and motivating them to work in the private sector. The Ministry of Presidential Affairs oversees “Absher” initiative which is implemented by the Ministry of Human Resources and Emiratization to enhance the participation of national cadres in the labor market and to provide secure career prospects for them in the future. This initiative follows a number of

previous initiatives launched by the federal and local governments in the UAE to promote localization, such as the National Employment Program in the Private Sector-Ministry of Human Resources and Emiratization, Emirates National Cadres Development Program, Dubai Government Human Resources Department, and Sharjah Government Human Resources Department. These entities are concerned with developing the skills of the UAE cadres and preparing them for the labor market. They also serve as employment institutions by providing both employers and employees with the opportunity to meet and communicate concerning the available job opportunities.

- In 2016, the Ministry of Human Resources and Emiratization decided to increase the number of jobs restricted to UAE nationals in the private sector. An example of this is the Ministerial Decree No. 710 of 2016 on the localization of the data-entry profession for companies employing more than 1000 employees. The Ministry obliged these companies to register in the Ministry of Labor’s ‘Tasheel’ system to do their transactions electronically, and to appoint only UAE nationals to do this task. This decision has been in effect since 2017. Moreover, the Ministry obliged the owners of private companies that work in the field of building and construction and employ 500 or more cadres to appoint at least one Emirati employee in the position of ‘occupational health and safety officer’ starting from 2017.
- Starting from 2016, the Government of Dubai provided scholarships in the field of health to

130 citizens every year, and launched a guiding program in schools and universities to explain to students the advantages of working in the field of medicine to encourage citizens to study health sciences and medicine in order to address the problem of the low proportion of citizens working in this growing sector.

- In 2017, the Central Bank started implementing the Council of Ministers’ Decision of 2015, by adopting the localization strategy in the banking sector and insurance companies, as well as the points system which replaced the ratios system, without applying fine, at the first stage. The decision was fully implemented in 2018, as the localization strategy became highly dependent on the banks’ operating profits, i.e. the higher the bank’s profits, the higher the number of target points. The localization system in the banking sector provides banks with several options through which they can achieve their target points, as more points can be achieved by employing nationals in higher job grades, i.e. the higher the job grade is, the higher the scored points are. According to this system, the bank achieves one point for each UAE national employed in a non-managerial grade, three points in the middle management, and five points in the senior management. These points are doubled in the case of appointing a national of people of determination, in addition to obtaining two points in the case of appointing a UAE national in a vital job such as investment, risk management, etc.... Furthermore, more points can be achieved through the investment in training and qualifying citizens as well

as through the commitment of the senior managements to achieving the localization strategy. In 2018, the banking sector exceeded the target points that reached 26,806 in total, meaning that most banks were able to achieve the target points, and some of them exceeded the target points by a wide margin. In April 2019, the total of target points which all banks operating in the state have to achieve by the end of the year was specified as 29,736 points, given that the banks were able to achieve 28.05 points by the end of June 2019, which means that some banks have to increase the employment and training of citizens in order to achieve the target points by the end of the year.

- In January 2018, the Ministry of Human Resources and Emiratization, in cooperation with “Government Accelerators”, launched the ‘Emiratization in Targeted Sectors’ initiative, which aims to accelerate the ‘Emiratization process in a number of priority sectors within a specified period of time. The launch of the initiative first phase was announced in January 2018 and it lasted until May 2018. It aimed at employing 4,000 citizens in four key sectors: transportation and aviation, real estate, technology and communications, and services. By comparing the results in 2017, the first phase in 2018 made a growth rate of 109% in employing citizens. The initiative second phase started in August 2018, until December 2018 with the target of employing 3,500 UAE nationals in the following sectors: tourism and finance. In July 2019, the Ministry of Human Resources and Emiratization launched new qualitative Emiratization

accelerators which aimed at providing 1,000 job opportunities in the electricity sector and 1,000 job opportunities in the energy sector within 100 days for male and female citizens in partnership with the Ministry of Energy and Industry. Targeting the electricity and energy sectors was due to the importance of these two sectors which are considered to be among the strategic and vital economic sectors characterized by their potential for creating diverse jobs that meet the aspirations of job seekers in terms of incentives, privileges, and job stability. The other phases of this initiative will be continued until 2021 and will target the State’s other priority sectors for localization.

- In May 2018, ‘Tawteen 360’, one of the most important initiatives of the Ministry of Human Resources and Emiratization, was launched in partnership with the Ministry of Education, universities, and the private sector, aiming at raising the awareness of national students at the undergraduate and high school levels about the importance of working in the private sector, and guiding them professionally through the advantages provided by it. In July 2018, the Ministry of Human Resources and Emiratization launched the application of the national program for field training and summer work ‘Direct Me’, which is part of the initiative (Tawteen 360). This application provides a platform which offers distinctive services for educational institutions, students, and private sector enterprises in the management of vocational and summer training operations, in addition to the possibility of benefitting from the training opportunities and summer jobs provided by the program and

the ability to apply for them directly through the smart application ‘Direct Me’.

- Implementing a package of qualitative initiatives to support UAE women, including the “tele-work” initiative which aims at creating more job opportunities for UAE women with a new system that does not require them to move daily to the workplace, which would make a balance between the work of women and their family life, and thus motivate them to join jobs in the private sector. The tele-work system is based on partnership between the Ministry of Human Resources and ‘Emiratization and the private sector, through making agreements between the two sides, whereby the ministry provides fully-equipped tele-work premises, and organizes open days for the employment of female citizens according to the aforementioned system which allows women residing in places far from the cities to work in the abovementioned centers, and thus avoid the trouble of going back and forth to the companies they work for, especially the big ones that are based in the cities.



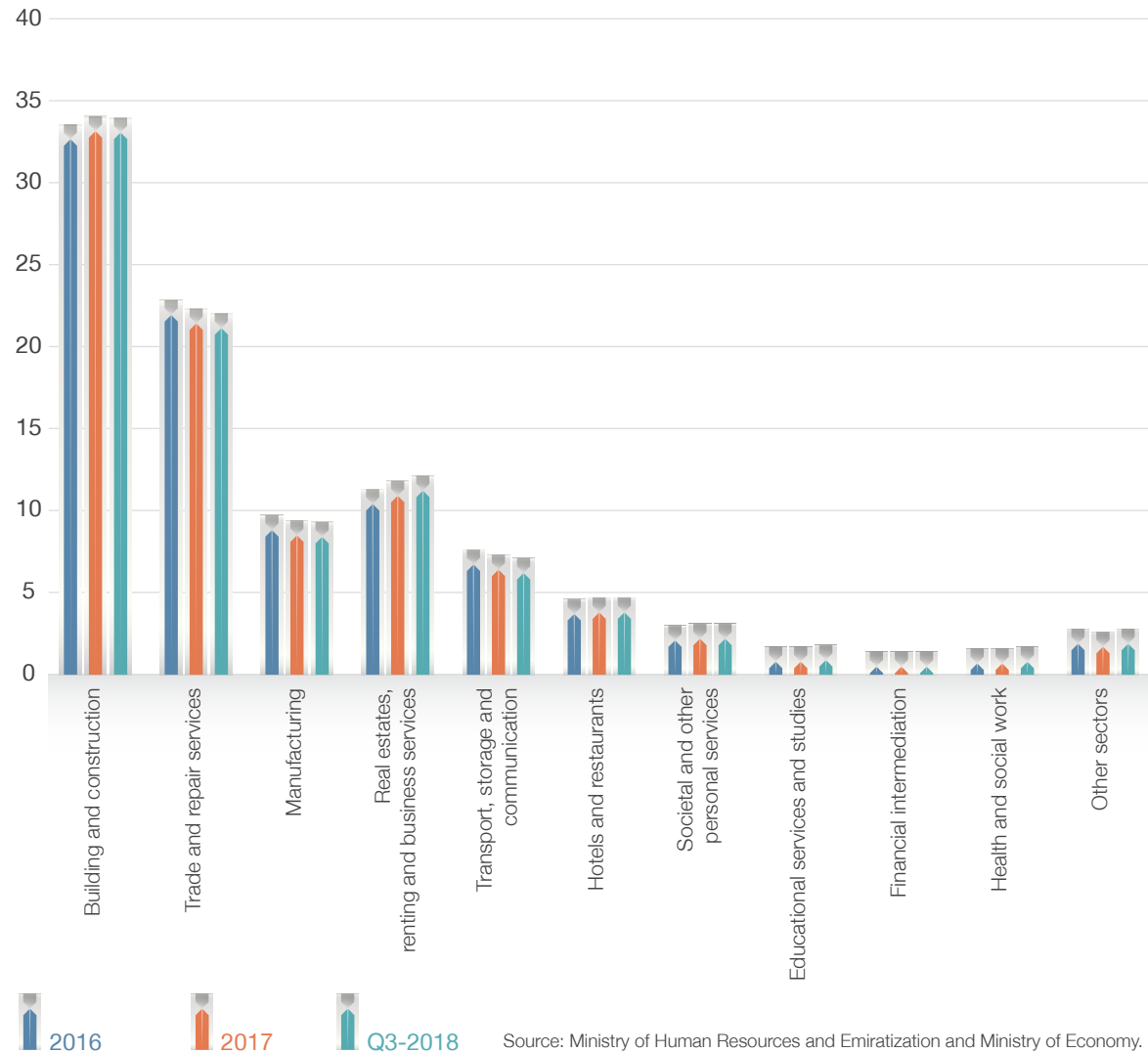
## THE IMPORTANCE OF THE PRIVATE SECTOR IN PROVIDING JOBS

The private sector accounts for a large proportion of the workforce in the UAE. The number of workers registered in the private sector at the Ministry of Human Resources and Emiratization increased by 3.3% during 2017 to reach 5.04 million workers, i.e. 69.4% of the total number of employees which amounts to 7.2 million. According to the latest data for the third quarter of 2018, the number of employees in the private sector decreased by 13,000 workers (0.3%) to reach 5.03 million workers.

The rate of localization in the private sector in 2018 was 3.8% of the total number of workers registered in the private sector, which means that the estimated number of national workers was about 19,000 ones. This number, citizens in the private sector, may raise many questions, especially since there are many doubles of that number of jobs suitable for localization, with qualifications from secondary school to university degree. So, what are the problems that impede the localization of these jobs even though there is large number of national job seekers.

According to the latest data for the third quarter of 2018, the building and construction sector accounted for the largest share of the total employees registered in the private sector of 33.9%, followed by the trade and repair services sector by 22.0%, then the real estate, renting and labor services sector by 12.1%.

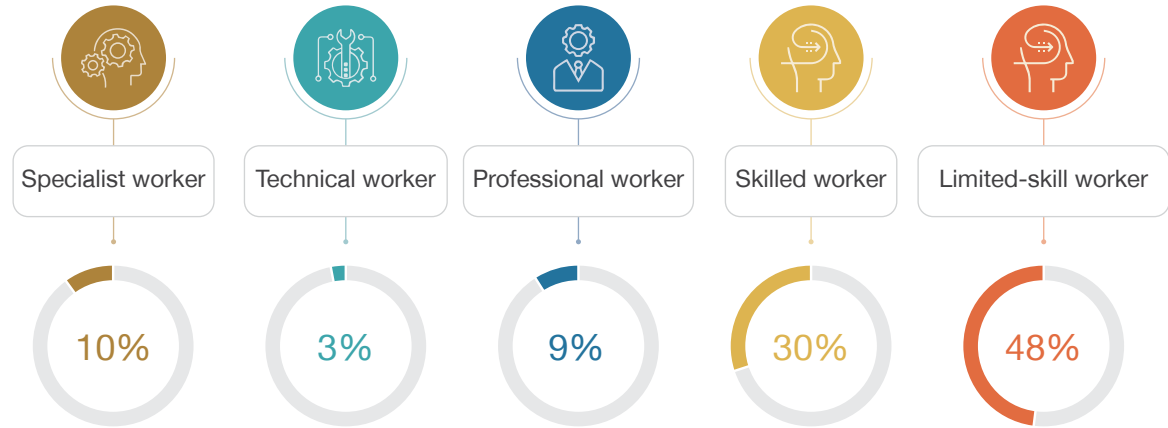
Figure 20: Distribution of employees registered in the private sector at the Ministry of Human Resources and Emiratization by economic sector (%)



Source: Ministry of Human Resources and Emiratization and Ministry of Economy.



Figure 21: Distribution of employees registered in the private sector by skill level, Q3 2018



Source: Ministry of Human Resources and Emiratization and Ministry of Economy.

Employment in the top four skill levels constituted 52% of the total employment in the private sector for the third quarter of 2018, the most important of which was skillful labor by 30%, while the percentage of limited-skill labor reached 48% of the total employees in the private sector. Male workers accounted for almost 90% of the total number of workers registered in the private sector. In spite of the low percentage of females working in the private sector (10%), the Ministry of Human Resources and Emiratization announced that the percentage of female citizens working in private sector institutions and companies registered at the ministry reached about 57.3% of the total national cadres working in the private sector and that about 33% Of the total female citizens working in the private sector work in the higher skill level jobs.

The youth accounted for largest percentage of employees, with the number of workers in the age group (30-34) reaching 23.4% of the total number of workers in the private sector, followed by the age group (25-29) years by 19.5%, then comes the age group (35-39) by 18.3%.



Figure 22: Distribution of employees registered in the private sector by gender, third quarter of 2018

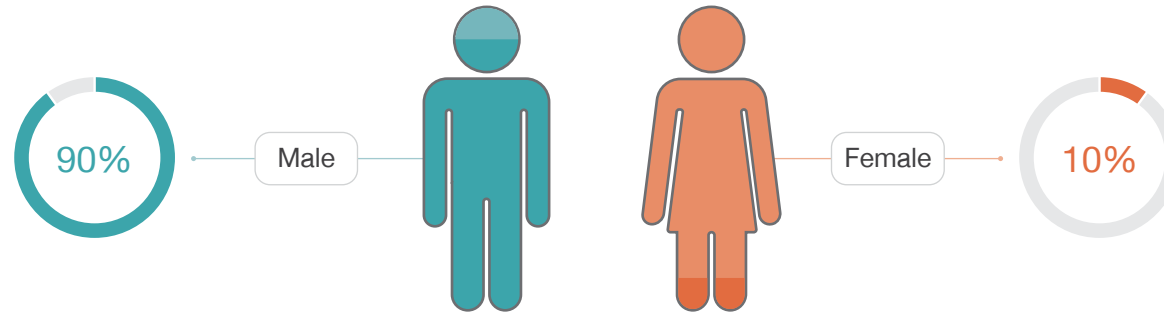
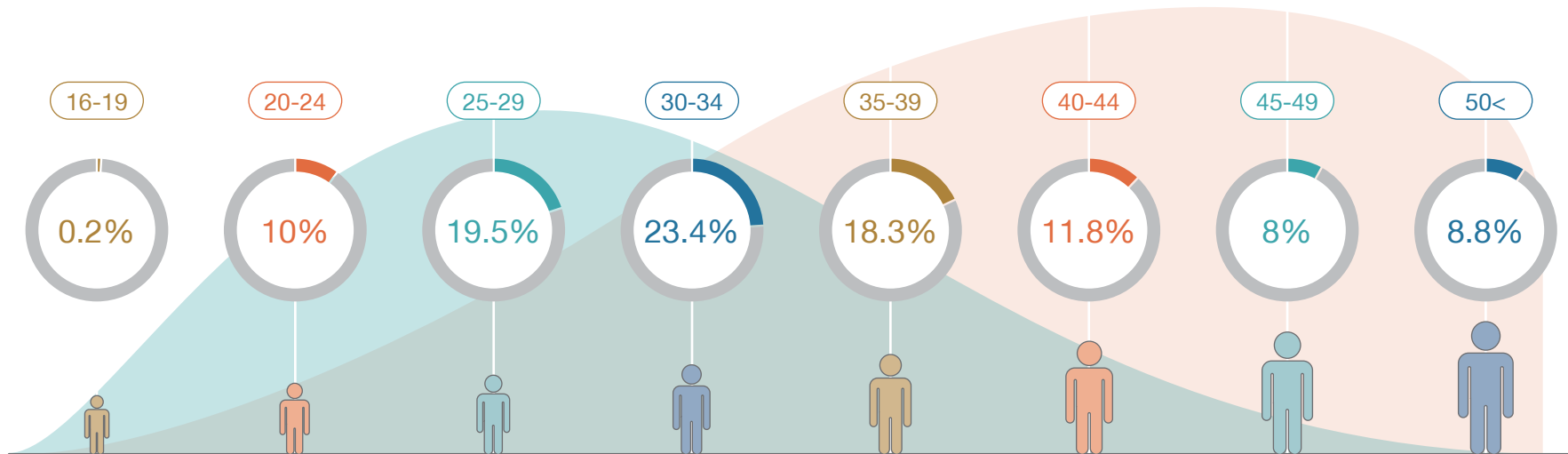


Figure 23: Distribution of employees registered in the private sector by age group, third quarter of 2018



Source: Ministry of Human Resources and Emiratization and Ministry of Economy

Table 16: Distribution of entities registered at the Ministry of Human Resources and Emiratization by economic sector, Q3 2018

Economic Sector	Number of entities (in thousands)
Building and construction	65
Trade and repair services	129
Manufacturing	30
Real estate, renting, and business services	31
Transport, storage, and communication	24
Hotels and restaurants	20
Societal and other personal services	25
Educational services and studies	2
Financial intermediation	2
Health and social work	3
Other sectors	6
<b>Total</b>	<b>338</b>

Source: Ministry of Human Resources and Emiratization and Ministry of Economy.

## CHALLENGES FACING LOCALIZATION POLICY

The existence of a gap between supply and demand on the local workforce due to:

- The citizens' reluctance to work in some professions for several reasons including: the wrong stereotype attached to some professions in the minds of citizens and poor knowledge about the future of them, the poor financial returns of some professions, and their long working hours.
- The citizens' reluctance to study in some scientific, engineering and medical disciplines, and going towards traditional disciplines such as: business management, human resource management, marketing, and others.
- The mismatch between education outputs to the needs of the labor market.
- Lack of human resources planning system and future readings of the numbers and skills required in all sectors.
- Lack of accurate statistical reports at the Ministry of Human Resources and Emiratization regarding the private sector needs of national graduates for the next five or ten years.
- Lack of citizens qualified to work in certain positions, which requires a clear policy for developing citizens and ensuring their persistence in the private sector jobs.
- The companies' desire to implement ambitious development projects that pushes them to hire foreign expertise, in addition to the strong competition in the labor market which imposes the approach of attracting skills without taking localization into consideration,



add to that the amazing digital transformation which was not accompanied by adequate preparation to occupy quality jobs.

- The graduates' ignorance of the advantages of working in the private sector and entering the labor market without a clear guidance, as well as the financial advantages in the government sector which are far more than those of the private sector and affect the citizen's decision to go to the private sector.
- The expertise required for the employment of citizens in the private sector, as it sometimes requires up to 10-year experience. Thus graduates are pushed into a vicious circle; experience is only obtained through a job and job requires years of experience.
- Inefficiency of job fairs in achieving localization goals.

### RECOMMENDATIONS

- Developing a comprehensive operational and development plan for the national workforce in accordance with the strategic needs of the State, through which a complete and comprehensive survey of current and future needs is done.
- Monitoring and ensuring the activation of Article 14 of the Labor Relations Regulation Law, which states that "the Department of

Labor may not approve the employment of non-nationals unless it is confirmed, according to its records, that there are no unemployed nationals registered in the Employment Section able to perform the this work". Therefore, the entities that need employees have to announce their vacancies so that citizens looking for work can see them to choose the suitable ones, and in case of the absence of qualified nationals willing to occupy these jobs, the institution then has the right to employ non-nationals.

- Consistent investing in education to reach the highest levels, imposing the employment of fresh graduates as a condition for raising training budgets, allocating employment posts suitable for the skills and experience of citizens, developing working schedules that help the citizens make balance between their personal and professional life, providing adequate financial budgets to hire citizens to become qualified for the market, and reducing the financial concession gap between working in the private and government sectors.
- Strengthening the relationship between the Ministries of Education and Human Resources and Emiratization in terms of education outputs in the state and the needs of the labor market, the existence of future planning for the human

resources based on a thoughtful study to ensure the full embrace of education outputs, Considering the jobs and specialties lacked in the market, and programming education according to the State's future orientations.

- Providing accurate and periodic statistics on graduates, the needs of the labor market, and the number of citizens it needs in ten years, which will undoubtedly lead to clarifying the picture for the citizens looking for a particular job, the educational institutions and the labor market in general.
- Qualifying fresh graduates, providing them with practical experiences that entitle them to enter the labor market, and opening specialized institutes for professions within the state with international standards.
- Developing and improving localization plans applications, allotting localization proportions by job groups or jobs, activating the Emiratization and succession plans by job gradual placement of foreign employees with citizens who are trained and qualified for the vacant position. Thus, the localization rate in different entities would increase through benefitting from the experienced employees and transferring their expertise in order to qualify employees in the central posts. This is achieved through setting a mechanism that includes identifying the target specialties and the employees to be trained, exchanging employees to benefit from their expertise or to train them, and through continuous coordination between government and private entities.
- Improving the UAE workforce competitiveness to become an essential pillar for development

through preparing and qualifying the national cadres with the future skills and the needs of the current and future labor market in order to keep up with the development process and expand the available options to occupy the central positions in the government.

- Raising the citizens' awareness about the advantages of working in the private sector, in a way that makes the citizens not worried about the low salaries at the beginning of their work, as the private sector enables them to acquire additional expertise and skills and move up the career ladder, which will increase their salaries. Oftentimes, the private sector salaries match those in the government sector and sometimes exceed them.
- Listing the private sector needs of expatriate workers in the past five years, and classifying the jobs they have occupied according to their job titles and average monthly dues, then, listing education national outputs during the same years and identifying the positions they have occupied or the specializations they headed to, which is useful in the process of forecasting the labor market future needs and the required educational outputs.
- Attracting citizens to work in different fields without focusing on specific specializations, through refining their abilities and skills to meet the requirements of the labor market in the coming years, and highlighting the importance of focusing on the fields of tourism and simple jobs such as: sales, working in maintenance workshops, and sales halls, in addition to

establishing qualified cadres for medical tourism in which the state has passed a long way.

- Imposing penalties on the companies that manipulate the raising of their employees number assisted by external companies, as the government pays a proportion of the citizen's salary to the pensions on behalf of the company that hired that citizen in the private sector, and this in itself represents a motivation for the company to employ more of the UAE nationals, stressing the need for punishing companies in case of reluctance to localization, and creating a supervisory body to call to account companies failing to implement the initiative through establishing an entity responsible for this.
- Studying the factors that led to the persistence of some citizens who succeeded and excelled in the private sector companies and which represent attractions for others, in addition to factors that caused others to leave work and which need corrective measures.
- Governance of employment fairs and holding accountable those responsible for the number of jobs obtained by citizens after the fair ends.

### **THE NATIONAL FEDERAL COUNCIL RECOMMENDATIONS REGARDING THE ISSUE OF LOCALIZATION**

- The need to issue a special federal law regulating the work of citizens in the labor market in order to achieve the objectives and plans of the localization programs.
- Passing all new work permits for the federal and local government and semi-government



entities and private sector to the Ministry of Human Resources and Emiratization to affirm that there are no national job seekers able to perform the required job.

- Allocating a fund against the employment break of citizens working in the private sector in times of economic crises.
- Granting social assistance for job seekers registered in the Ministry of Human Resources and Emiratization database.
- Addressing wage differences challenge by bridging the gap between the public and private sectors.
- Localizing the position of Human Resources Manager in various economic sectors in the country.
- Localizing the first, second and third grade leadership's posts in the labor market that contributes to the localization of the private sector.
- Unifying the citizens' maximum pension in the labor market as in the government sector.
- Amending employment contracts in a way that suits the policy of labor market localization in the country.





## **FIFTH: FORECASTS FOR THE UAE ECONOMY FOR 2019**



The real economic growth of the UAE amounted to about 1.7% in 2018, and is expected to continue its upward growth in 2019 to reach 2.0%, as a result of the increase in the output of the oil sector, whose oil production and export capacity is expected to rise to reach about 3.1 million barrels/ day in 2019; in addition to the acceleration in the pace of growth of the non-oil sector due to an improvement in the activities of the financial services and tourism sectors, the increasing investments in strategic projects, infrastructure and high added-value economic sectors which stimulate growth, the implementation of the projects related to the preparation for the “World Expo 2020”, the activation of the “National Innovation Strategy” and “the Higher Policy in Science, Technology and Innovation” which include projects worth of AED 300 billion, as well as the “UAE Centennial 2071” as a long-term strategic vision to prepare the country for the post-oil phase, activate its space program, increase the levels of benefitting from the Fourth Industrial Revolution technologies, especially Artificial Intelligence, and the issuance of the Foreign Direct Investment Law.

Inflation is expected to decline in 2019 to -1.2% as a result of a number of factors, including: the

absorption of the add-value tax impact, the expected decline in oil prices as well as the decline in rental prices, which represent a large share of the consumer basket, the liberalization of energy prices and its implications on transportation prices, in addition to the developments in the US dollar and the monetary policy adopted by the American Federal Reserve and the expected decline in the dollar interest rate. This is expected to have reflections on the interest rates of the Arab currencies fixed against the dollar, including the UAE, and this would give the makers of monetary policies the opportunity to keep interest rates at encouraging levels for providing credit and supporting economic activity and its impact on inflation trends in the UAE.

In 2019, merchandise exports are expected to increase by 4.2% to reach about USD 330.2 billion compared to about USD 316.9 billion achieved in 2018. Merchandise imports are expected to increase by 4.3% to reach about USD 245.4 billion in 2019, compared to USD 235.4 billion in 2018, as a result of previous developments in both exports and imports. The trade balance surplus is expected to increase by 4.1% to reach about USD 84.8 billion in 2019 compared to 2018.