

FOCUS ON

United Arab Emirates: the golden age goes on

Produced by the
Economic Analysis
and Research

EXECUTIVE SUMMARY

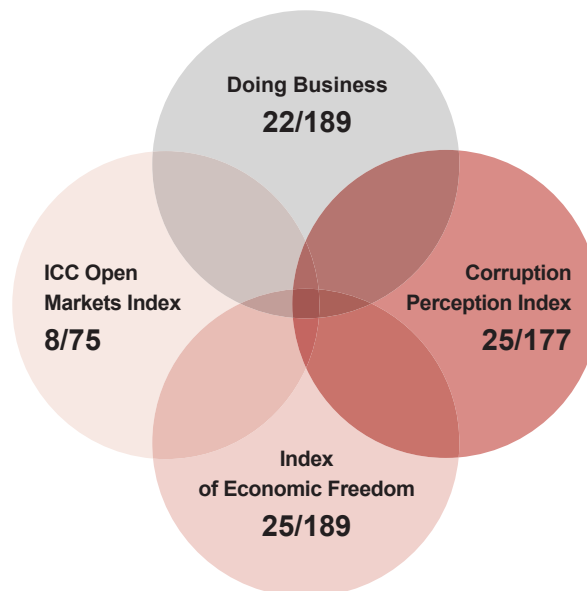
- *The Emirates' commitment to enhance economic diversification offers opportunities beyond the traditional industries, including those related to quality of life, energy saving, telecommunications, tourism, and major infrastructure projects.*
- *With over € 5 billion in exports, the United Arab Emirates represents Italy's principal export destination in the Middle East and North Africa, with considerable diversification and a projected increase in exports up to € 6 billion in 2018.*
- *Expo Dubai 2020 will be an opportunity for growth and profound change for that Emirate and the entire country because of the direct and indirect initiatives related to the event. This is only one of the growth channels, however. Federal and local development plans focus on sectors in which our companies possess significant know-how and expertise, presenting additional opportunities for increased Made in Italy business in the country.*
- *To operate successfully in the Emirates, companies must be sufficiently equipped to succeed in a fiercely competitive environment, with an eye to optimizing value for money. The offer of a quality product that can satisfy the high standards of local demand must be accompanied by an equally competitive financial proposal. The opening of a SACE branch in Dubai will offer Italian companies a direct intermediary to develop their business in the country, in the Gulf area and in the entire Middle East.*

A LOOK TO THE FUTURE OF THE UNITED ARAB EMIRATES

The commitment of the United Arab Emirates (UAE) to a greater diversification of its sources of growth offers opportunities beyond the traditional industries. These opportunities include sectors related to the quality of life, energy saving, telecommunications, tourism and major infrastructure projects. The excellent business climate, among the best in the region (see Figure 1), federal and local development programs, and high per capita income offer opportunities for many key sectors of Made in Italy. Expo Dubai 2020 will be a showcase not only for that Emirate but for the entire federation, an event in which Italy can participate from a favored position thanks to Expo Milano 2015 and the cooperation agreements signed between the organizers of the two events.

Italy's presence in the country is already significant: the UAE is the primary destination for Italian exports in the Middle East and North Africa (MENA), reaching € 5.3 billion in 2014. The exported Italian goods range from jewelry to capital machinery, from fashion to metallurgy and aircraft (see Figure 2). Italian companies with local offices have more than quadrupled in the past decade: currently more than 300 Made in Italy companies operate in the federation. Although Italy already has a strong presence, there is room for greater growth in the country. SACE conservatively estimates that **Italian exports to the UAE could grow by at least 3% a year, reaching a total value in excess of € 6 billion in 2018**. The potential of the Emirates is confirmed by the high value of the **SACE Export Opportunity Index**, equal to **78/100⁰¹**, a score equivalent to that of Germany.

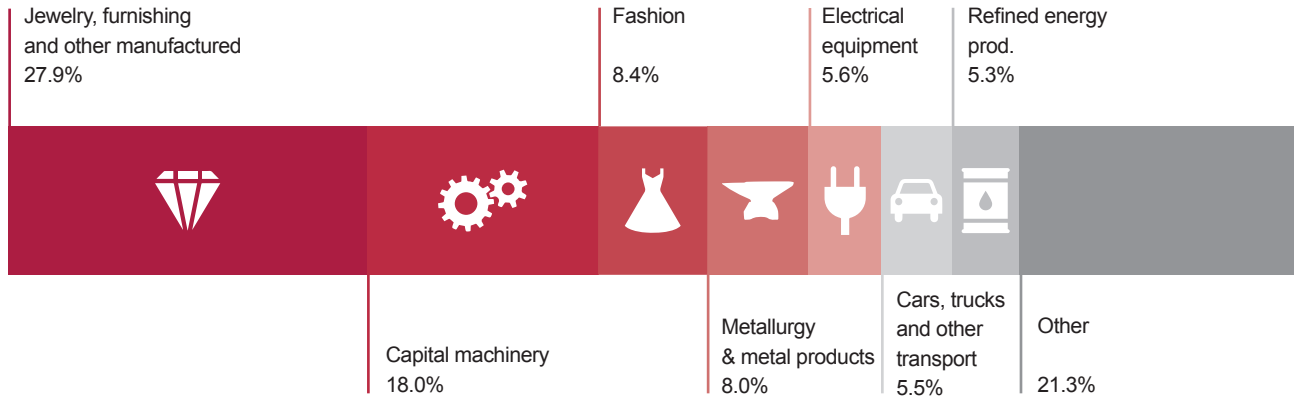
FIGURE 1. *The United Arab Emirates in Business climate rankings*



Source: International Chamber of Commerce, World Bank, Heritage Foundation, Transparency International.

⁰¹ The index is computed on a scale of 0 to 100, with 100 being the maximum opportunity.

FIGURE 2. Italian exports to the United Arab Emirates



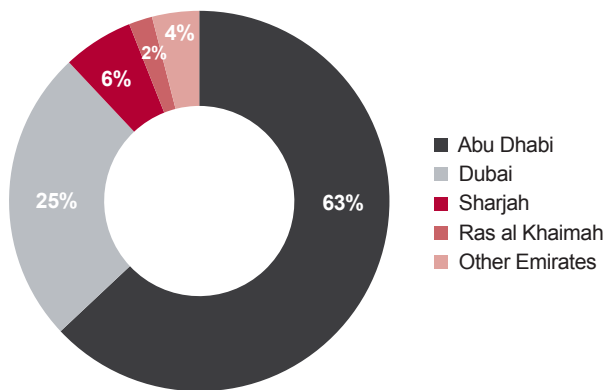
2014 data, in % of the total.

Source: Istat.

Over the past five years, economic events in the Emirates have determined the Federation’s priorities and future objectives. After the financial crisis of 2009-2010, the federation has overcome the difficulties and exited unscathed from the Arab Spring, maintaining internal political stability and offering a secure shelter for capital escaping neighboring countries affected by instability.

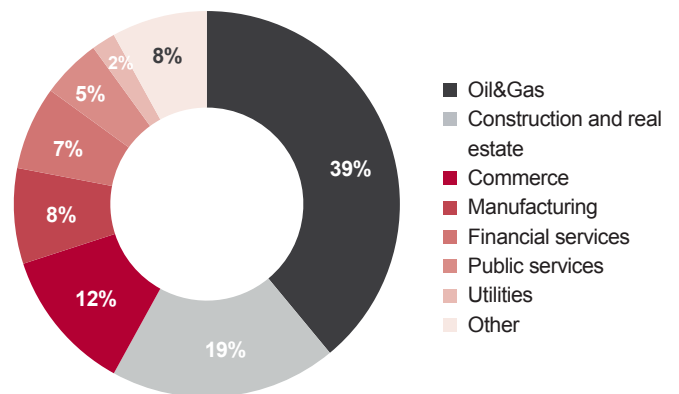
Between the 2011 and 2014 the growth resumed at a pace greater than 5% annually. The UAE enjoys good economic diversification (see figures 3 and 4), excellent infrastructures and ample financial capacity. These characteristics place the Emirates among the petroleum-producing countries best shielded from persistently low crude prices.

FIGURE 3. Emirates contribution to GDP



Source: Moody's, UAE National Bureau of Statistics

FIGURE 4. Composition of GDP



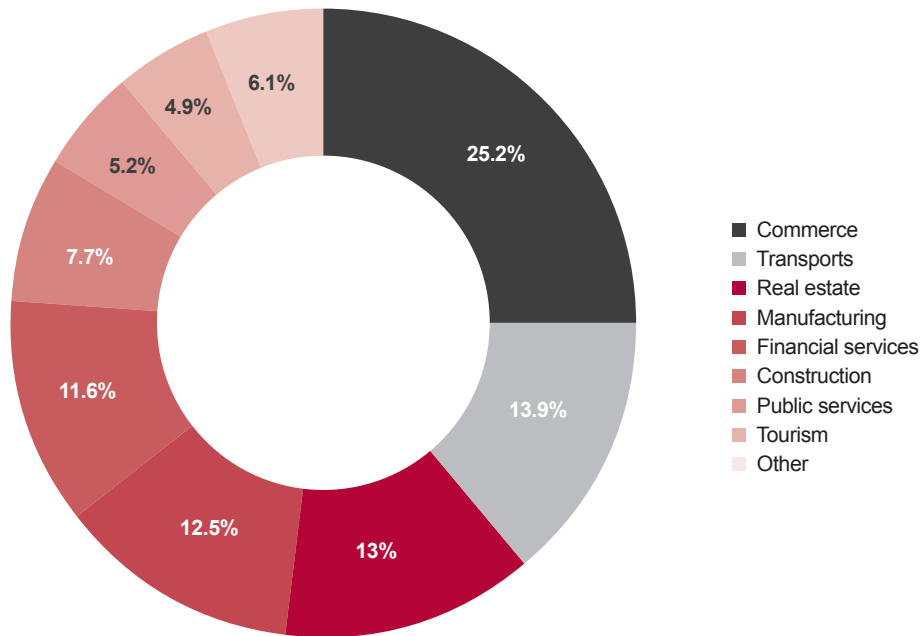
Source: Moody's, UAE National Bureau of Statistics

DUBAI 2020, OPPORTUNITIES FROM EXPO

As Expo Milan 2015 draws to a close, attention is focused on the next event and the city called to host it in 2020: Dubai. The initiatives linked directly or indirectly to the Expo will generate growth opportunities for the Emirate and the entire country. But the event is only one of the channels of development the Emirate of Dubai has been pursuing for some time. Dubai has been modifying its view of the future for years, in fact, right after and in response to the financial crisis, of which Dubai was the most affected of the Emirates.

Since it lacks significant petroleum reserves, Dubai is the Emirate that has led the process of economic diversification (see Figure 5). During the past decade, Dubai has positioned itself among the major international financial and commercial centers (see Figure 6), proposing itself as the catalyst of trade and financial flows for the entire area. With 1.7% of global trade, it is an essential trade hub for flows to Africa and the Asian countries on the Indian Ocean. The return of Iran to the international markets might open new opportunities, considering the strong presence of Iranian immigrants in the Emirates: around 400,000, 75% of them just in Dubai. Despite the current sanctions, in fact, the Emirates were the no. 1 exporter to Iran in 2014 and are Teheran's no. 2 trading partner overall.

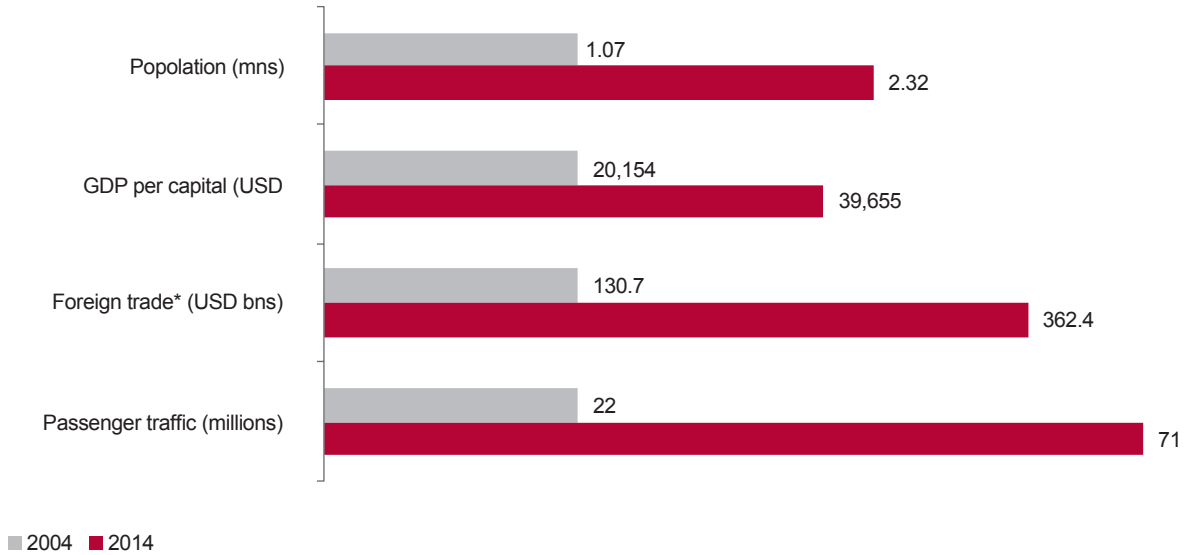
FIGURE 5. *The economy of Dubai*



Values in % of GDP

Source: Dubai Chamber of Commerce

FIGURE 6. Dubai in numbers



*base year 2005

Source: Dubai Chamber of Commerce; SACE processing

With a series of multi-year strategic programs — Dubai Plan 2021, Dubai Tourism Vision 2020 and Integrated Energy Strategy 2030, to mention a few — the Emirate of Dubai has instituted a series of policies to strengthen sectors regarded as strategic. Significant investments have been earmarked for **infrastructures and constructions, tourism and renewable energy**.

In a dynamic context like Dubai, the opportunities for Italian companies are numerous. The partnership between Expo Milan 2015 and Expo Dubai 2020 offers our companies a preferential channel for contacts. In fact, a cooperation agreement has been signed between Milan and Dubai — for the first time in the history of universal expositions — on several objectives through which the two events will share technological and organizational expertise. This pact will give a competitive advantage to Italian companies desiring to participate in contracts linked to the event, exploiting expertise acquired during Expo Milan.

But the opportunities are not limited to contracts related to the Universal Exposition. There are others coming from private sources in a number of sectors that include building construction, furnishings, lighting, agro-food, and medical equipment. By hooking up to the Expo engine, in fact, Dubai proposes to **double the number of tourists to the country to 20 million a year** in the next five years. To attract this number of visitors, the government has planned to build veritable cities devoted to tourism, like Mohammed Bin Rashid Al Maktoum City, which comprises more than a hundred hotels and the world's largest shopping mall, the Taj Al Arab, replica of the Taj Mahal in India.

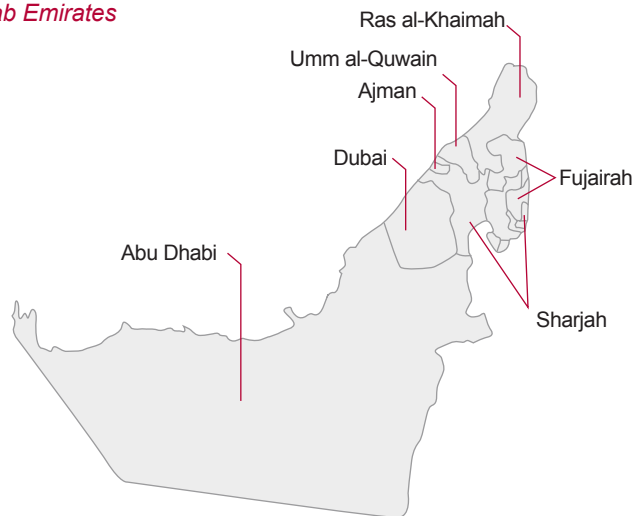
To support Italian companies interested in developing these projects, SACE has begun discussions with the city council of Dubai and the Road and Transport Authority of the Emirate, the source of important infrastructure projects for which several Italian companies have already prequalified. On the National Day of Expo 2015 dedicated to the UAE, **SACE also signed an important memorandum of understanding with the Dubai Aviation City Corporation** to support Italian companies that will participate in the project to expand Al Maktoum Airport: the \$ 30 million+ mega-project will increase its capacity to 220 million passengers a year, making it the world's largest airport.

SIX GOOD REASONS IN ADDITION TO DUBAI

The commitment to diversify the economy does not apply only to Dubai: the other six Emirates have also planned a series of long-term initiatives and programs to reduce their dependence on oil and gas.

At the federal level, Vision 2021 sets the guidelines for the economic-institutional development of the country through **six priority objectives⁰² to further improve the business climate in the Emirates**, enforcing the right of law and providing local and foreign suppliers human capital capable of capitalizing on the economic role the Emirates have assumed and intend to expand in coming years.

FIGURE 7. The United Arab Emirates



This development process is creating a series of opportunities in numerous sectors where Italy has expertise (see Figure 8). These include agro-foods, civil and residential construction, tourist services, and consumer goods (apparel, footwear, jewelry, etc.). In those sectors, Italian companies all along the production chain can participate directly or in collaboration with local distributors, perhaps exploiting the Emirates' potential as a logistics base for operating in the entire Gulf area, in Sub-Saharan Africa, and in the Asian countries on the Indian Ocean.

⁰² Social bonding and improved standards of living; security policies and a modernized judicial system; development of the knowledge economy and an improved education system; improved health standards; and eco-sustainable development of infrastructure.

FIGURE 8. Six sectors of opportunity for Made in Italy



Oil & Gas



Tourism



Infrastructure



Food



Renewables



Consumer goods

Growth in those sectors will be sustained by a rising population, expected to increase due in part to an influx of foreign labor (80% of the UAE inhabitants are foreigners), the high level of per capita income (\$44,000 a year⁰³), and the young demographic structure (70% of the population is under the age of 40). Another driving factor will be the increased flow of tourists, drawn in part by the long-standing political stability in the Emirates versus the rising levels of instability in other area countries since 2011.

One of the fastest growing of those sectors will be retail. Consumer spending is expected to increase at an 8-10% average rate in the next five years. This growth will be marginal in segments such as alcoholic beverages or tobacco, given the restrictions on the consumption of those goods. The trend in other segments such as apparel and footwear, furnishings, and cosmetics will be much more dynamic.

Despite the prohibitive weather conditions for farming, agro-industry will also show healthy growth because of the Emirates' role as a regional hub for commerce in agro-food products. The UAE accounts for 20% of the total consumer spending for food in the GCC countries, second after Saudi Arabia. Imports satisfy 85% of the food requirement. Some 40% of the international food trade of the UAE is destined for export. The government is committed to sustaining the development of a local food industry to ensure domestic food security. Food production already represents 10% of Emirati food production. The objective is to develop the industry further to cover part of the growing domestic requirement and exploit the commercial potential to re-export incoming goods, adding value through processing. Foreign companies can also take advantage of the strategic positioning of the country, e.g. by establishing in one of the Emirates' free zones for manufacturing, such as Kizad in Abu Dhabi or the Dubai Industrial City.

⁰³ 2014 data at current values. Source: World Bank.

Italian companies willing to operate in these sectors and in other opportunities offered by the country can operate with the support of local partners, by setting up business in the 30+ free zones, or by forming a mixed company with local partners (see Table 1). The imminent opening of a commercial branch of SACE in Dubai will provide Italian exporters convenient support to sustain their activities in the country and in the entire GCC and Middle East areas through instruments designed to sustain, expand and promote the business of Italian companies abroad, medium- and long-term credit insurance, and the issue of bonds to permit participation in foreign tenders and contracts.

TABLE 1. *How to operate in the UAE*

	PROS	CONS
Acquire/establish a local company (LLC)	<ul style="list-style-type: none"> • Possibility to operate throughout the territory • Possibility to operate with federal and local public entities 	<ul style="list-style-type: none"> • Require the 51% participation of a local partner • Need to hire a minimum number of local workers
Open a local office	<ul style="list-style-type: none"> • Easier to open than an LLC • Broader business permits than a representation office 	<ul style="list-style-type: none"> • Can only conduct non-commercial activity (e.g. professional services) • Requires an Emirati agent to manage relations with public entities • Limits on the hiring of foreign personnel
Open a representation office	<ul style="list-style-type: none"> • Rapid opening procedure 	<ul style="list-style-type: none"> • Can only conduct administrative and promotional activity on behalf of the foreign parent company • Require an Emirati agent to manage relations with public entities • Can hire a maximum of 4 foreign workers
Open an entity in a free trade zone (FTZ)	<ul style="list-style-type: none"> • Permits 100% foreign ownership • Strategic proximity to other entities in the same sector • Facilitated tax treatment 	<ul style="list-style-type: none"> • Limited operation within the UAE • Many FTZs require the physical presence of a local office • High costs
Undertake a commercial relationship with a local agent	<ul style="list-style-type: none"> • No requirement for a local office 	<ul style="list-style-type: none"> • The business aspects in the UAE are delegated to the local partner • The agent has exclusive rights on goods imported • Costs related to commercial intermediation

Source: Latham&Watkins LLP

CONCLUSIONS

The UAE is already committed to promote a greater economic diversification: this has enabled the country to recover from the economic crisis of 2009-2010 and will consolidate the Federation's position as a leading player in the Middle East. The favorable operating context and the government's commitment to make it more business-friendly are driving factors underlying this development program, with ample opportunity to foreign companies intending to participate. To operate successfully, however, companies must be sufficiently equipped to compete in a fiercely competitive environment with a view to optimizing value for money. The offer of a quality product that can meet the high standards required by local demand must also be accompanied by an equally competitive financial proposal.

The opening of a SACE branch in Dubai will enhance the support it already provides to Italian companies. This support takes the form of € 300 million in total commitments in just the UAE and € 5 billion in the entire area, in sectors like chemicals, petrochemicals, metallurgy, construction, capital machinery, and consumer goods, with an expanding pipeline of potential projects and the steadily growing involvement of SMEs.

PREPARED BY

Angelico Iadanza

CONTACTS

Customer service: +39 06 6736000 - info@sace.it

Press Office: +39 06 6736888 - mediarelations@sace.it