The UAE

&

The World’s Leading Economies

Managing Challenges and Opportunities Amidst Global Change

Department of Economic Studies and Policies

Supervision by:

Nada Al Hashimi
Introduction

In the face of unprecedented global change, the UAE as a nation has remained steadfast and consistently buoyant in creating new opportunities for growth, while quickly addressing challenges and immediately finding solutions. As part of a globalized economy, it undoubtedly felt the impact of economic challenges of major economies in the world. However, it has proactively exerted efforts to be at the forefront by developing key mechanisms that ensure its economy remains stable in uncertain times.

Its government continues to assess the constantly changing social, economic and political landscapes and responds with unprecedented speed by creating and implementing new economic policies and regulations. This report examines the UAE and some of the world’s economic giants such as the United States, the UK, the European Union, China, Japan and other Asian countries which are experienced in terms of readiness in managing risks and global economic shifts in the future. It also features the UAE’s strong capabilities in terms of readiness to cope with change.

This analysis draws as well on the historical experiences of leading economies and their responses to economic crises that have hit regional and global economies in the past as well. It also provides valuable insights on the UAE’s current and predicted market and economic conditions based on its preparedness and efforts to create legislations towards a future-oriented and resilient economic system and forecasts the growth patterns from oil to non-oil markets, domestic trade and balance of payments (BOP); foreign direct investments (FDI); long-term projections for relevant macroeconomic elements such as knowledge-creation, innovation and technology; and emphasis on key sectors such as agriculture, energy, manufacturing, and tourism.

The ever-changing challenges that have gripped the global economy in recent years have left some of the world’s leading economies coping with financial and economic shocks which have dampened growth. Many advanced as well as emerging economies are now carefully looking at how to manage these changes by focusing on how to shield their markets from sudden economic shifts.
The global economy is in the path to ‘healing’ – albeit a slow process according to the International Monetary Fund (IMF) which projects that global growth would settle at 3.5 per cent in 2017 and slightly increase by 3.6 per cent in 2018, up from 2016’s 3.2 per cent. IMF Deputy Managing Director Tao Shang indicated that compared to historical data, “global growth of three and one-half per cent is weak\(^1\), and that achieving higher growth means strengthening key economic factors which include right policy measures in labor and capital markets coupled with more efficient and competitive industries.

In the face of global economic adversities which have become less predictable after mainstream economists failed to anticipate the global financial crisis spurred by the failure of the United States’ subprime market to recover from its losses in 2008-2009, economists rushed to analyze what went wrong and suggested new fixes through regulations. Australian-born economist Steve Keen, who wrote a new book titled “Can We Avoid another Financial Crisis?” views the capitalist economic system as inherently unstable, and expects that the occurrence of the next crisis is just a matter of time. His unorthodox view is far from the mainstream analysis of leading economists\(^2\).

Keen is a follower of celebrated US economist Hyman Minsky, who forecasted a global market phenomenon where over-optimism of borrowers and lenders could result in low-quality credit growth and inflated asset values, which can lead to sharp financial correction and crisis, as in the case of 2008. Now, most leading economic institutions are looking at economic preparedness and how another crisis can be avoided.

**Managing Global Change**

Historical experience from the 1997 Asian monetary crisis provided huge lessons on crisis prevention and preparedness and has instilled new insights and benchmarks for Asian economies. Economist Barry Sterland noted the lessons learned 20 years on: “The countries involved in the crisis have responded by improving their economic frameworks. Financial oversight, macroeconomic frameworks, and domestic competitiveness have been greatly strengthened.”

---


Sterland added that it also prompted Asian economies to develop stronger collective institutions and less reliant on IMF, and created new systems to address their currency needs through currency swap arrangements.\(^3\)

Economists agree that the monetary crisis has made Asian economies stronger and set straight their fundamental policies such as holding less borrowing in foreign currencies, allowing exchange rates to be more flexible, building up foreign exchange reserves, no longer running large account deficits, and improving banking oversight and coordinating the policy with other countries.\(^4\)

Bam bang Susantono, Vice-President for Knowledge Management and Sustainable Development at Asian Development Bank, reflected on the Asian lessons, and cited that: “If past experiences are any guide, systemic risks and financial contagion are beyond the control of national financial regulators. Consequently, securing financial stability in the region requires policy dialogues and coordination mechanisms that work through regional cooperation. The region has embraced many regional financial cooperation initiatives that strengthen macroeconomic surveillance, provide financial safety nets, and intensify financial system resilience—such as the ASEAN+3 Chiang Mai Initiative Multilateralization (CMIM) and the Asian Bond Markets Initiative. More efforts are needed to make the CMIM more operationally effective. And local currency bond markets need to further deepen and broaden the investor base to boost secondary trading and increase market liquidity. The region also needs to accelerate financial reforms to strengthen regulatory and institutional frameworks, and market infrastructure to safeguard macroeconomic and financial stability.”

As with the 2007 economic slowdown, the pace of global growth has remained challenged to the present. It first became evident in the US subprime crisis in 2008 and spread towards Europe in 2010. While the world is on its way to recovery, challenges and risks remain. One important lesson which economists noted on the aftermath of the 2008 US subprime mortgage crisis is that governments and legislators play a key role in addressing such crisis. The call for changes in global banking regulations was high, particularly for a replacement of the Basel Accords\(^5\). However, these actions are only limited as other economists would suggest.

\(^3\) https://www.brookings.edu/opinions/the-asian-financial-crisis-20-years-on-lessons-learnt-and-remaining-challenges/
IMF’s Fiscal Affairs Director Vitor Gaspar explained that a risk-based approach to fiscal policymaking which uses systematic analysis of possible sources of vulnerabilities is necessary to detect problems at the onset and provide a buffer for institutions to create a more resilient economy.

He added that governments can “better measure, prevent and minimize fiscal risks by considering their correlated, asymmetric and non-linear characteristics” and mainstreaming fiscal risk assessments into fiscal decision making. Monetary policies should also provide guidance on “enhancing fiscal transparency, including adoption of international accounting standards; analyzing and forecasting public sector balance sheets; and setting appropriate medium-term fiscal objectives that balance inclusive growth, stability, and risk management.”

Banque de France Governor Christian Noyer, a member of the governing council of the European Central Bank and chairman of the Bank for International Settlements, admitted that the “European framework for surveillance of Member States’ imbalances was insufficiently effective and not comprehensive enough until 2009 to 2010” to which the EU has since implemented financial safety nets.

He explained that the EU has put in place key measures to avoid future crises. “On the sovereigns’ side, the euro area has broadened its economic surveillance. The Stability and Growth Pact has been reinforced by a new legislative package: the “six pack” and the “two pack.” The “six pack” adopted in 2012 reinforces both the preventive and the corrective arm of the Pact and introduced a new procedure in macroeconomic imbalances; while the “two pack,” adopted in 2013, strengthened the fiscal frameworks of euro area Member States and upgraded the scope and quality of national annual budgeting and medium-term fiscal planning.”

The World Bank places emphasis on the government’s conduct of macroeconomic policy as key in managing risk at the national level. “Macroeconomic policies that are adequately designed and implemented help overcome many obstacles in managing risk, including asymmetric information, coordination failures, externalities, and the provision of public goods. Thus, sound macroeconomic policy promotes development. Policy makers should be proactive and keep their sights on long-term development. Macroeconomic risk management should concentrate on managing the cycle prudently and on developing systematic, credible, and sustainable policy responses. Forward-looking policy makers should avoid making hasty decisions during crises and instead focus on building the

---

6 [https://www.weforum.org/agenda/2015/03/how-can-we-better-manage-economic-risks/]
resilience of individuals, households, communities, the enterprise sector, the financial system, and the whole economy.”

### TABLE 7.2 Policy priorities to improve risk management at the macroeconomic level

<table>
<thead>
<tr>
<th>Knowledge</th>
<th>Data collection and dissemination</th>
<th>Policies to support risk management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improve quality of data</td>
<td>Monetary policy transparency</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Disclosure of fiscal risks</td>
<td></td>
</tr>
<tr>
<td>Central bank independence</td>
<td>Inflation targeting</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Flexible exchange rate regime</td>
<td></td>
</tr>
<tr>
<td>Build stronger fiscal frameworks/institutions</td>
<td>Debt/deficit reduction</td>
<td></td>
</tr>
<tr>
<td>Countercyclical monetary policy; reserve accumulation</td>
<td>Hedging mechanisms; contingent bonds</td>
<td></td>
</tr>
<tr>
<td>Design better automatic stabilizers</td>
<td>Strengthen automatic stabilizers and discretionary social spending</td>
<td></td>
</tr>
<tr>
<td>Countercyclical social spending</td>
<td>Support from international financial institutions</td>
<td>Contingent credit lines</td>
</tr>
</tbody>
</table>

Source: WDR 2017 team.

Note: The table presents a sequencing of policies based on the guidance of chapter 2 for establishing policy priorities: be realistic in designing policies tailored to the institutional/capacity of the country, and build a strong foundation that addresses the most critical obstacles sustainably and that can be improved over time.

However, the risks and challenges are not solely financial or economic. The World Economic Forum’s Global Risks Report 2017 outlined that in the five key dramatic changes in today’s world, only two are economic in nature. According to the survey, rising income and wealth disparity is rated by respondents as key trends to watch as global developments transpire over the next 10 years. It also noted that social concerns which include increasing division and intensifying national sentiment are strong challenges to consider, as well as growing opinion in respect to gender, sexual orientation, race, multiculturalism, environmental protection and international cooperation.

---


Managing rapid technological change is also an important challenge for labour markets. The need to strengthen global cooperation systems is another challenge which economies must address as these are key to ensure business continuity. Lastly, extreme weather events and failure of climate change mitigation and adaptation to solve environmental problems pose global concerns.

Case Study
Europe undergoes deep reforms

The United States monetary crisis in 2008 has spread a contagion that brought Europe into its worst financial and economic crisis in 80 years. However, the crunch has pushed the region to look deeply into its policies and implement massive structural reforms. The complexity of the European Union as a regional government adds to the compendium of problems that the region was facing at the time.

The root of the crisis was being attributed to Southern Europe’s accumulation of excessive debt due to easy access to credit when countries joined the European Union at the lowest interest rates in history. Companies and individuals borrowed money and invested in houses, cars, and vacations – things and activities that did not generate income – leading to massive debt that shoot up as high as 300 per cent as a percentage of the total economic output in countries such as France, Italy, and Spain, and Greece about 250 per cent.
Many countries in Southeast Europe were highly affected by the crisis. International funding institutions such as the IMF, World Bank, EBRD and EU came to the rescue of eight countries in Central, Eastern and South East Europe. Between October 2008 and May 2009, they provided approximately USD 110 billion of emergency lending to Romania, Serbia, Ukraine, Belarus, Hungary, Poland, Bosnia & Herzegovina and Latvia to weather the consequences of the economic and financial crises.  

However, scholars at Harvard University noted in an analysis that the European fiscal crisis is more than policy, taxes, liquidity, interest rates and bailouts. Support for the EU has very low approval ratings among countries with the highest unemployment rate – and there is a powerful sense of alienation for young people in political and economic systems. The researchers suggested that spurring innovation-driven entrepreneurship from a top-down investment with a bottom-up approach could offer a positive solution to the crisis and address deeper symptoms in the regional economy, while turning Europe’s established institutions as incubator of innovative ideas and businesses.

---

10 [https://scholar.harvard.edu/files/markesposito/files/eurocrisis.pdf](https://scholar.harvard.edu/files/markesposito/files/eurocrisis.pdf)
On the policy level, the EU as a government has taken five key responses\(^{11}\) to the fiscal crisis, which involved the following:

- Improving public finances and increasing competitiveness of crisis-hit countries
- Tightening fiscal policies and economic governance through the enforcement of the Stability and Growth Pact and issuance of country-specific recommendations
- Creation of the European Stability Mechanism (ESM), and its predecessor the European Financial Stability Facility, which worked to raise the funds needed in capital markets through highly-rated bonds
- The European Central Bank expanded its balance sheet like the FED, Bank of Japan and Bank of England, and provided unlimited liquidity for banks, started a bond purchasing programme to avoid low inflation, which also made it easier for banks to lend and boost investor sentiment.
- Establishment of the Banking Union and several other new institutions to monitor macro-prudential risks and supervise banks, securities markets and insurance companies.


---

**Figure 3a and 3b:** Employment and SME trends since 2005 (2011 and 2012 figures are estimates)

Source: Eurostat/National Statistics Offices of Member States/Cambridge Econometric/ECorys/ European Commission
The EU is now shaping its future based on three major initiatives: the completion of the Banking Union; a deeper Capital Markets Union, and a stronger and steadier Economic and Monetary Union over the next 10 years.

Kalin Anev Janse, Secretary General, European Stability Mechanism (ESM), noted that the crisis served Europe and take advantage of it as an opportunity to implement massive reforms into the system, adding that it is crucial that “Europe (does) not deviate from this path and that it continues to turn headwinds, like immigration, into opportunities.”

Strengthening the UAE Economy

Less than half a century ago, the UAE was not known to the global economic community. For decades, the country relied mostly on pearl trading and maritime commerce, scant agricultural and livestock activities, and traditional manufacturing to sustain its subsistence economy.
The UAE’s first genuine decade of development began in the early 1970s with the formation of the Union and a subsequent oil production and export boom that serendipitously coincided with a period of rocketing global oil prices. As the world confronted fluctuating rates that peaked at USD 35 per barrel (equivalent to USD 104 per barrel in 2017 dollars, when adjusted for inflation) in 1980, the UAE took the opportunity to achieve phenomenal economic development within just a short span of time from 1973 to 1982\(^\text{13}\).

Thanks to the large oil revenues it quickly amassed, the UAE was able to hurdle the normally tedious and lengthy process of accumulating sufficient capital to jumpstart major economic development. Leaning on the oil and gas sector as the pillar of the economy, the state invested heavily on physical and social infrastructure. The frenzy of development activities also began a mass influx of supportive expatriate labor. The Emirates was finally attracting worldwide attention to its immense commercial and economic potentials.

The global oil glut that began in the early 1980s, though, dampened the UAE’s growth spurt. Prices spiraled to less than USD 10 (USD 60 per barrel in 2017 dollars) in 1986\(^\text{14}\), prompting the Federal National Council to call on government to intensify nationwide efforts to diversify the economy away from oil. The oil slump turned out to be a fortuitous event for the UAE, as it motivated the country to sharpen its focus on diversification. The state’s late President and Founding Father, Sheikh Zayed bin Sultan Al Nahyan – a staunch advocate of diversification despite the country’s oil wealth – seized the opportunity to cement diversification’s role in the UAE’s development strategy.

The UAE’s rise as one of the world’s most prolific oil producers coupled with its success in nurturing its non-oil sectors and its visionary leadership have turned it into the Middle East’s second largest economy and one of the most open in the world.

**Structure of the economy**

Although still highly dependent on petroleum income, the UAE has the most diversified economy in the Gulf Cooperation Council region. The non-oil sector currently accounts for around 70 per cent of the national GDP, with the figure expected to swell to 80 per cent by 2021.


Each of the seven Emirates has different economic conditions and priorities, although they all adhere to an overarching UAE Vision 2021 development strategy. While Abu Dhabi holds most of the country’s oil and gas reserves and controls most national savings, Dubai acts as the commercial hub of the country. Domestic economic growth will continue to be driven largely by these two emirates, with Dubai attracting huge foreign investments as it prepares to host the historic 2020 World Expo and Abu Dhabi injecting more funds into infrastructural works. The economies of the two emirates exceed those of other GCC neighbors

Economic and financial indicators

A glance at the UAE’s main indicators through 2018 affirms the country’s resilience to financial crises and adaptability to socio-economic shifts:

<table>
<thead>
<tr>
<th>Main Indicators</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017 (e)</th>
<th>2018 (e)</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP (billions USD)</td>
<td>401.96</td>
<td>370.30e</td>
<td>371.25e</td>
<td>407.21</td>
<td>435.70</td>
</tr>
<tr>
<td>GDP (Constant Prices, Annual % Change)</td>
<td>3.1</td>
<td>3.6e</td>
<td>2.7e</td>
<td>1.5</td>
<td>4.4</td>
</tr>
<tr>
<td>GDP per Capita (USD)</td>
<td>43,212e</td>
<td>39,850e</td>
<td>37,876e</td>
<td>40,162</td>
<td>41,772</td>
</tr>
<tr>
<td>General Government Gross Debt (in % of GDP)</td>
<td>15.6</td>
<td>18.1e</td>
<td>19.3e</td>
<td>19.1</td>
<td>10.0</td>
</tr>
<tr>
<td>Inflation Rate (%)</td>
<td>2.3</td>
<td>4.1e</td>
<td>1.8e</td>
<td>2.6</td>
<td>3.7</td>
</tr>
<tr>
<td>Current Account (billions USD)</td>
<td>40.33</td>
<td>12.31e</td>
<td>6.76e</td>
<td>14.37</td>
<td>16.97</td>
</tr>
<tr>
<td>Current Account (in % of GDP)</td>
<td>10.0</td>
<td>2.3e</td>
<td>2.4e</td>
<td>2.5</td>
<td>3.9</td>
</tr>
</tbody>
</table>

Source: IMF - World Economic Outlook Database, 2017
Note: (e) Estimated Data

The UAE’s rankings on various global economic indices reflect the success of nationwide efforts to accelerate diversification, create an unparalleled business and investment environment, and nurture a knowledge-driven economy:

<table>
<thead>
<tr>
<th>Index</th>
<th>Global Ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic Openness</td>
<td>3rd</td>
</tr>
<tr>
<td>Business Environment, Infrastructure &amp; Technological Advancement</td>
<td>4th</td>
</tr>
<tr>
<td>Global Readiness Index</td>
<td>5th</td>
</tr>
<tr>
<td>Change Readiness Index</td>
<td>5th</td>
</tr>
<tr>
<td>World Competitiveness Index</td>
<td>15th</td>
</tr>
</tbody>
</table>

Source: Research Konnection

The heightened level of economic activity on the lead up to Dubai’s hosting of the first ever-Middle Eastern edition of the World Expo in 2020 indicates sustained growth for the UAE. Expo 2020 is expected to draw in more than 25 million visitors from around the world and reel in foreign investments of between USD 100 and 150 billion towards sectors such as retail, real estate, tourism and education\(^{16}\). As the iconic event approaches, the UAE will capitalize on opportunities for strengthening international ties, funding new mega projects, and pursuing new global markets.

**Economic policies**

The UAE’s sound economic policies form the basis for its buoyant economic outlook. Most of the latest policies center on reforms and improvements for facilitating the transition to a Post-Oil Era. The Ministry of Economy is presently working on various laws related to Foreign Investments, Industry Regulation, Protection of Industrial Property and Industrial Design, Commercial Transactions, and Arbitration to further boost economic productivity and expand the contributions of the non-oil sector.

Key fiscal and economic policies enacted since 2015\(^ {17}\) have improved the country’s resilience to global economic pressures as well as its ability to remain financially and monetarily stable and sustain growth. This includes fiscal consolidation efforts that have increased electricity and water tariffs and removed fuel subsidies, among others. More policy introductions and structural reforms are forthcoming to further enhance the business environment, increase credit access, and modernize the labor market.

In November of 2017, the UAE Cabinet approved the 2018 Federal Budget which proposes a 5.6 per cent increase in expenditure to boost non-oil growth. Although it represents just a fraction of total government spending, the budget does provide a good barometer for the overall direction of the country’s fiscal policy. Focused policy measures are currently being developed to synchronize investments among the seven emirates, promote foreign investment beyond the freezones, and encourage competition. These will serve the broader government goal of spurring diversified and knowledge-based growth.


\(^{17}\) [https://www.thenational.ae/business/uae-working-on-laws-to-boost-non-oil-sector-contribution-to-80-by-2021-1.622658](https://www.thenational.ae/business/uae-working-on-laws-to-boost-non-oil-sector-contribution-to-80-by-2021-1.622658)
The introduction of the 5 per cent value-added tax (VAT) is a diversification-influenced reform that, while minimally impacting price increase and inflation, will generate between 1.5 and 2 per cent of annual GDP\(^1\). It embodies the UAE’s commitment to adopting fresher policy moves to further invigorate the economy. Mubarak Rashid Al Mansouri, the Governor of the Central Bank of the UAE, estimates that the government could earn 1.6 per cent of GDP during the first year of VAT implementation.

**Economic development**

The UAE successfully maintained growth from 2010 to 2016 based on real GDP value data for the period (based on constant prices for 2010). Its average real GDP growth of 4.6 from 2011 to 2016 surpassed the global average thanks mainly to non-oil activities\(^2\). This was achieved amidst slumping oil prices, sluggish growth in several developed and emerging economies, and a conservative 1.7 per cent hike in global trade\(^3\).

The International Monetary Fund (IMF) affirms that the UAE economy has been able to emerge relatively unscathed from the post-2014 oil shock. The country’s financial cushions, sound banking fundamentals, global safe-haven reputation, business-friendly environment and diversified sources of income are noted as benefactors\(^4\). The IMF projects sustained growth for the company given the positive outlook for global trade, the easing of the UAE’s fiscal consolidation, and accelerated investments in key economic movers such as Expo 2020.

The UAE has set a growth target of 4 per cent in 2017 after hitting a 3.8 per cent growth in 2016\(^5\). Moving forward, Focus Economics experts foresee a 2.9 per cent rise in 2018 and 3.1 per cent in 2019\(^6\).

---


\(^2\) [https://www.thenational.ae/business/uae-working-on-laws-to-boost-non-oil-sector-contribution-to-80-by-2021-1.622658](https://www.thenational.ae/business/uae-working-on-laws-to-boost-non-oil-sector-contribution-to-80-by-2021-1.622658)


\(^6\) [https://www.focus-economics.com/countries/united-arab-emirates](https://www.focus-economics.com/countries/united-arab-emirates)
KPMG’s 2017 Change Readiness Index (CRI) has ranked the UAE as first among the MENA countries for its readiness to change and third globally among the 136 countries rated, next to Switzerland and Sweden, respectively. The UAE led worldwide, ranking number one in terms of enterprise capability which is measured in terms of the labour markets, economic diversification, openness, innovation and research and development, the business environment, the financial sector, transport and utilities infrastructure, enterprise sustainability, the informal sector, and technology infrastructure.

In terms of government capability, the UAE ranked second after gaining high scores for its macroeconomic framework, public administration and state business relations, regulation, fiscal and budgeting, rule of law, government strategic planning and horizon scanning, environment and sustainability, food and energy security, land rights, and security. The country ranked 17th for people and civil society capability, based on several factors such as human capital, entrepreneurship, civil society, safety nets, technology use, health, civil society and inclusiveness of growth, among others.

Furthermore, the 2018 Insight Report published by the World Economic Forum titled ‘Readiness for the Future of Production Report 2018’ highlighted that the UAE may currently have limited ‘Structure of Production’ but continuous diversification efforts makes it among the high-potential economies ranked in terms of production readiness. It targets to increase manufacturing’s GDP share to 25 per cent by 2025.

---

The report noted: “The UAE is positioned well for the future as it ranks in the top quartile of countries across all Drivers of Production, except for Sustainable Resources. The country should focus on improving sustainability practices and continue to invest across all Drivers of Production. Given that the UAE has relatively few workers employed in manufacturing today, it will be particularly important to develop the right set of labour force capabilities to capitalize on the transformation occurring within production.”

The UAE’s private sector and most businesses also rank high in terms of implementing risk management practices based on a study by the UAE Internal Audit Association. The report, titled ‘Risk Management Practices and the Role of Internal Audit: A UAE Perspective on Non-financial Institutions’, revealed that 77 per cent of respondents have either implemented a risk management program fully or partially, while 14 per cent of organizations are considering establishing a formal risk management program in the future although currently they do not have any formal risk management program.

Source: UAE Internal Audit Association

Long-term forecast: The global economy & the UAE

Consulting firm pwc has projected that 32 of the largest economies in the world – which account for around 85 per cent of global GDP – could more than double in size by 2050, driven by productivity improvements supported by technological innovation. The report further predicted that:

- Six of the seven largest economies in the world are projected to be emerging economies in 2050 led by China, India and Indonesia
- The US could slide to third place in the global GDP rankings while the UK could slip to 10th place by 2050
- France could no longer be among the top 10 and Italy further drop out of the top 20
- New markets such as Mexico, Turkey and Vietnam could overtake leading economies

The UAE’s future is geared towards a post-oil economy and the government’s efforts are highly visible in many policies and new development projects.

A joint report by the Institute of Chartered Accountants in England and Wales (ICAEW) and Oxford Economics says that the UAE will record an accelerated growth in 2018 to 3.6 per cent from 1.7 per cent in 2017. The momentum will further gain pace in 2019 to post 3.6 per cent growth. This is consistent with the GDP growth projected by the IMF, which reported that the UAE economy is on track to bounce back to register a growth of 3.4 per cent in 2018.

UAE Economic Forecast 2018-2020

<table>
<thead>
<tr>
<th>Overview</th>
<th>Actual</th>
<th>Q1/18</th>
<th>Q2/18</th>
<th>Q3/18</th>
<th>Q4/18</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unemployment Rate</td>
<td>3.69</td>
<td>4.8</td>
<td>4.8</td>
<td>3.6</td>
<td>4.8</td>
<td>4.9</td>
</tr>
<tr>
<td>Inflation Rate</td>
<td>1.70</td>
<td>2.3</td>
<td>3.1</td>
<td>3.3</td>
<td>3.3</td>
<td>3.4</td>
</tr>
<tr>
<td>Interest Rate</td>
<td>2.00</td>
<td>2.25</td>
<td>2.25</td>
<td>2.25</td>
<td>2.5</td>
<td>3</td>
</tr>
<tr>
<td>Balance of Trade</td>
<td>2509000.00</td>
<td>3500000</td>
<td>3500000</td>
<td>250975</td>
<td>350000</td>
<td>580000</td>
</tr>
<tr>
<td>Government Debt to GDP</td>
<td>19.10</td>
<td>20.6</td>
<td>20.6</td>
<td>17.9</td>
<td>20.6</td>
<td>22.32</td>
</tr>
</tbody>
</table>


From oil to non-oil markets

Building an economy beyond oil has become a recurring theme and a high priority among GCC states, particularly the UAE. The Institute of International Finance notes that a diversified economy alongside sophisticated infrastructure, political stability and substantial foreign investment flows has helped the UAE economy weather the slump in oil prices.

The UAE Central Bank expects the UAE’s non-oil sector to grow 3.1 per cent in 2017 and rise further to 3.5 per cent in 2018. The Director of the IMF’s Middle East and Central Asia Department adds that the diversification efforts led by Dubai and Abu Dhabi and the pursuit of structural reforms are influencing positive forecasts for the UAE economy in 2018 and beyond. The non-oil sector in the UAE’s two high-profile emirates are expanding at the same rate of around 3 per cent.

The World Bank predicts the UAE’s non-oil growth to end on a strong note in 2017 amidst OPEC-mandated oil production limits. In the medium term, the organization expects economic activity to surge as oil prices stabilize, global trade gains momentum, and fiscal consolidation downshifts. The optimism is tempered by the possibility of lower oil prices and restricted global finances.

Source: Trading Economics

<table>
<thead>
<tr>
<th>GDP</th>
<th>Actual</th>
<th>Q1/18</th>
<th>Q2/18</th>
<th>Q3/18</th>
<th>Q4/18</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP Annual Growth Rate</td>
<td>3.00 percent</td>
<td>3.9</td>
<td>3.9</td>
<td>3.9</td>
<td>3.9</td>
<td>4.3</td>
</tr>
<tr>
<td>GDP</td>
<td>348.74 USD Billion</td>
<td>390</td>
<td>390</td>
<td>342</td>
<td>390</td>
<td>425</td>
</tr>
<tr>
<td>GDP Constant Prices</td>
<td>1391127.36 AED Million</td>
<td>1223405</td>
<td>1223405</td>
<td>1431795</td>
<td>1223405</td>
<td>1325596</td>
</tr>
<tr>
<td>Gross Fixed Capital Formation</td>
<td>296297.26 AED Million</td>
<td>375000</td>
<td>375000</td>
<td>375000</td>
<td>375000</td>
<td>430000</td>
</tr>
<tr>
<td>GDP per capita</td>
<td>40864.20 USD</td>
<td>41100</td>
<td>41100</td>
<td>42015</td>
<td>41100</td>
<td>43100</td>
</tr>
<tr>
<td>GDP per capita PPP</td>
<td>67133.10 USD</td>
<td>74800</td>
<td>74800</td>
<td>68941</td>
<td>74800</td>
<td>80300</td>
</tr>
</tbody>
</table>

It noted: “Several downside risks include lower oil prices and tighter global financial conditions. Non-oil growth is estimated to remain resilient in 2017 while OPEC-mandated oil production cuts limit oil growth. However, in the medium term firmer oil prices, a rebound in global trade and easing of fiscal consolidation are expected to strengthen economic activity, especially as investments ramp up ahead of Dubai’s Expo 2020. This rebound is faced with several downside risks including lower oil prices and tighter global financial conditions.”

New growth segments, which include health, education, social welfare, infrastructure, trade, transport, logistics, finance, alternative and renewable energy, telecommunications, information technology, tourism, aluminum, petrochemicals, metallurgy, iron and steel, and aviation, will play a key role in the move to increase the levels of economic diversification, while also helping in the overall transition to a knowledge-based economy backed by creativity and innovation.

**Foreign Direct Investment (FDI)**

The UAE’s FDI soared by 10 per cent in 2016, hitting USD 9 billion (AED 33 billion) invested in various sectors and is expected to attract more inflows in the coming years as mega projects continue to rise. The country is ranked 13th globally in terms of attracting FDI.

In the long term, FDI is seen to grow as much as AED 50 billion in 2020, according to Trading Economics’ econometric models. With the Expo 2020 event, the country could attract FDI of about USD 100 billion to USD 150 billion in Dubai and UAE, going to real estate, tourism, retail and education.

---


34 [https://tradingeconomics.com/united-arab-emirates/forecast](https://tradingeconomics.com/united-arab-emirates/forecast)
Key Growth Sectors

Tourism

Tourism has played a large part in the success of the country’s economic diversification. Abu Dhabi's 156 hotels recorded their best year ever in terms of visitor numbers in 2014, while Dubai's 634 establishments have also experienced a significant increase in guests. Other emirates are following suit. The UAE's two world-class airlines, Etihad and Emirates, as well as constant upgrading of aviation infrastructure, have played a major role in the advance of the tourism industry and are key contributors to the economy. Dubai expects that the aviation industry will contribute 32 per cent to its GDP by 2020.
Tourism and travel accounted for 12.1 per cent of the UAE’s GDP in 2016 (USD 43.3 billion) and an analysis conducted by the Dubai Chamber of Commerce and Industry said spending within the UAE’s travel and tourism sector will continue to rise steadily and reach over USD 56 billion in 2022.\(^{35}\)

**Agriculture**

With limited arable land and water resources, agriculture is one of UAE’s biggest challenges. However, the sector has markedly improved as the government invested huge efforts to increase productivity in the sector. From about 4,000 farms in 1971, more of the country’s lands were cultivated to reach to 35,704 farms in 2011 covering an area of 105,257 hectares.

The rate of production has been increasing with dates remaining to be the primary local crop. Fresh vegetables are also growing steadily with the largest production volume growth witnessed in 2014 by 162.3 per cent followed by sorghum at 42.9 per cent.\(^{36}\)

With a growing population and robust economic growth, the demand for food is expected to rise and thus food security scores high among the government’s priorities. The country is actively developing modern technologies to maximize water resources for food production.

Dr Thani Ahmad Al Zeyoudi, Minister of Climate Change and Environment, explained that it is imperative for the country to boost domestic produce as the UAE has an annual growth in food demand of above 12 per cent and 64 per cent are being imported every year.\(^{37}\)

Organic farms are also on the rise and hydroponics are increasingly explored with more than 87 commercial farms using the technology. The potentials are high for the country as limited resources are becoming a global challenge and its investments in the sector could strongly benefit the country.

The global hydroponics market is valued at USD 411.88 million in 2017, with a CAGR of 12.81 per cent, the market could grow by USD 752.57 million by 2022.\(^{38}\)


The UAE is the leading country in the Middle East when it comes to developing the clean and renewable energy sector. It targets to reach 50 per cent of its energy sources by 2050, with 25 per cent of the energy mix expected to come from solar power by 2030. Study shows the UAE needs USD 35 billion to meet the 17GW it should add to the mix over the medium-term.39

The massive investments in the clean energy sector is promising as the world turns to these resources to cope with the impacts of climate change. However, outlook shows that the UAE will continue to primarily depend on natural gas for energy supply by 2030, but is seen to be impacted by energy conservation measures.  

Source: IEEJ

40 https://eneken.ieej.or.jp/data/6115.pdf
The UAE’s manufacturing sector is reported to account 53 per cent of the country's total non-oil exports. It is projected to contribute 25 per cent of the overall GDP by 2025, attracting about USD 75 billion investments. Reports show that international brands favor the country’s business environment as an ideal location to set up its manufacturing hub in the region.

Manufacturing is led by Dubai, establishing an industrial strategy through the Dubai Industrial Park spread over 55 square kilometers and houses over 680 companies. With the 50 to 100 per cent net profit reports of global companies in recent years, the country expects more manufacturing facilities will be set up in the country in the coming years.\(^{41}\)

\(^{41}\) [https://www.mordorintelligence.com/industry-reports/manufacturing-sector-in-united-arab-emirates-industry](https://www.mordorintelligence.com/industry-reports/manufacturing-sector-in-united-arab-emirates-industry)
Industry reports revealed that the manufacturing sector is now Dubai’s third largest, and the emirate’s Department of Economic Development expects around USD 19 million to be spent on R&D by manufacturing companies, as the sector expands from a current value of USD 11.2 billion to USD 16.1bn by 2030. Following the implementation of Dubai Industrial Strategy, the sector is expected to create 27,000 jobs and contribute to Dubai’s total GDP by AED 165 billion by 2030.

**Conclusion**

Driven by a highly-focused ambition to become the world’s leading government in delivering sustainable development, the UAE has made huge strides to ensure its economy is stable in the aftermath of the 2008 global debacle, followed by the oil price glut in 2014. It has proved itself resilient in many aspects of the economy and continues to build an attractive market for FDIs to enter the country, as well as increase its GDP inputs.

The country’s leadership have shown strong position to ensure policies and regulations on par with international standards are in place and monitored. This has led to increased confidence from the international markets about the country’s capability to steer its economy amidst global economic changes and protect its country from major challenges such as climate change, security threats, migration, and financial uncertainty, to name a few.