

Prepared by the New Zealand Embassy in Abu Dhabi

The following report provides a summary of the current economic situation in the UAE and the outlook for 2021 to assist New Zealand businesses already operating in, or looking to opportunities in the United Arab Emirates or wider region.

Key points

- The impact of COVID-19 continues to be felt across the United Arab Emirates (UAE) economy, but as a key market for New Zealand exporters, it has fared relatively well through COVID-19 and retains its role as the gateway for exporters to the Middle East and Africa.
- As New Zealand's 10th largest trade partner, and a key player in the Gulf Cooperation Council (GCC), the UAE is crucial as a market in the region and remains important in our global diversification and trade recovery strategies.
- The outlook for the UAE's economic recovery is trending upwards for 2021 with the assistance of economic stimulus packages, large-scale events (50th Jubilee and Expo), re-focusing on economic diversification and an imminent vaccine rollout.
- This positive outlook bodes well for New Zealand exporters who are already in market or looking to new opportunities in the UAE, with significant liquidity in the banking system and ongoing efforts to enhance the ease of doing business.
- By mid-2020 goods exports to the UAE were up 16% on the previous year, making the UAE the strongest growth market amongst our top 10 trading partners for Q1 and Q2. In Q3 2020, apples and honey in particular saw significant growth compared to the same period last year.
- With the UAE importing 90% of its food and an ongoing focus on ensuring its food security, particularly during the pandemic, New Zealand remains a reliable food security partner with our high quality and safe food and beverage products.

Overview: UAE Economy

Oil remains the driving force for the economy....

The UAE's significant wealth remains heavily reliant on the oil and gas industry, which has 10% of the total world supply of oil reserves and the world's 5th largest natural gas reserves. Besides oil, the UAE continues to be a strategic logistics hub for people and goods with business-friendly free zones and ongoing measures to enhance its appeal to foreigners to live and work in the UAE.

Official government figures estimate **the oil and gas industry accounts for 30% of the UAE's overall GDP**, but due to the flow-on effects of oil and gas wealth, many economists in the UAE consider this value is understated. Oil prices are arguably the most important factor in oil exporters' economic recovery, and despite oil prices somewhat recovering from the historic dive in March, the IMF does not see oil dramatically recovering in 2021, forecasting prices between \$US40-\$US50 per barrel. International benchmark Brent crude is still trading nearly 40% below pre-pandemic levels. Low oil prices will also constrain performance in other sectors in the UAE, particularly construction. This coupled with the International Energy Agency's September outlook for oil demand being cut to 91.7 million barrels a day, a daily contraction of 8.4 million barrels year on year, will also affect oil pricing and revenue for the UAE. OPEC's outlook was even worse, with its members describing the commodity's demand as "anaemic". The COVID-19 vaccine rollout may positively impact oil prices with the increased demand for transportation, which could see flow on effects to the embattled UAE aviation sector as well.

While the oil and gas sector remains dominant, diversification efforts in the past few years have seen a significant focus on developing the construction, logistics, and tourism sectors – particularly in Dubai. This diversification has become even more critical with the dual economic shock of COVID-19 and drop in oil prices. The UAE's diversification efforts aim to transform its economy from a conventional, labour-intensive economy to one based on knowledge, technology and skilled labour. Significant investment into infrastructure, education, healthcare, renewable energy and the introduction of a 5% VAT in 2018 have all contributed to the UAE's increased diversity in its economy. These efforts continue, notably with Expo 2020 (postponed to 2021 due to COVID-19) which aims to bolster both Dubai and the UAE's credentials as a hub for innovation.

Further to this, at a December GCC Ministerial meeting, Dr. Thani bin Ahmed Al Zeyoudi, UAE's Minister of State for Foreign Trade highlighted the need "to reinforce coordination between GCC states and enhance openness in international trade, as well as **to ensure the adoption of economic diversification plans through free trade agreements**". He highlighted that the UAE was eager to leverage plans aimed at accelerating free trade agreements between the GCC and other countries. Negotiations for the NZ/GCC Free Trade Agreement were concluded in 2009. We continue to receive positive signals about the readiness of the Gulf Cooperation Council (GCC), to resume the process towards finalisation of the NZ/GCC Free Trade Agreement and New Zealand officials are continuing to engage with GCC countries.

...But the numbers for 2021 are looking more positive than expected...

Early on, the UAE rolled out a series of measures to mitigate the economic shock caused by COVID-19, but like many other countries, the pandemic has hit some of **the UAE's core sectors hard, notably retail, hospitality, real estate and aviation**. According to the Economist Intelligence Unit, the UAE's 'bricks and mortar' retail sector continues to face challenges with recovery, while retail's e-commerce side continues to maintain its recent gains in popularity. With Abu Dhabi recently joining Dubai in re-opening for tourism, the Emirate saw a 46% increase in revenue in the hotel sector and 95% increase in guest numbers in Q3 2020 compared to a low-base in Q2, suggesting a move towards recovery in the battered tourism sector.

In October the IMF revised its initial -3.5% contraction in GDP for the UAE, to -6.6% for 2020. Such a sharp contraction was largely due to COVID-19 containment restrictions, OPEC+ oil production cuts, lower oil prices, reduced global oil demand, and disruption to global supply chains. **Next year, however, looks a little more promising for the UAE**, with economic growth projected to be 1.3% according to the IMF. Looking further ahead, the UAE is expected to see 2.5% growth by 2022 with government recovery plans, oil production and prices starting to increase, a boost from Expo 2020 (in 2021) and improved business confidence. The normalisation of relations between the UAE and Israel deal could see opportunities for growth given the significant trade element of the Agreement. The 50th Golden Jubilee since the UAE's founding may also see significant economic announcements. While more immediately, impending loosening of COVID-19 related restrictions in Abu Dhabi may also stimulate a recovery, at least in the tourism sector. Abu Dhabi has taken a conservative approach to COVID restrictions compared to Dubai with an inter-Emirate border in place since June and the capital only recently opening for tourism, there is an ongoing requirement for 14 days quarantine on arrival.

...with a budget to stimulate growth...

In November, the UAE Cabinet approved the Federal **budget for 2021, with forecast spending at AED58.11 billion (NZ\$22 billion), a 5% decrease from the 2020 budget** of AED61.35 billion which was the UAE's largest ever budget. A decreased budget suggests the need to curb spending amidst the economic downturn. However, UAE's Prime Minister and Dubai Ruler, His Highness Sheikh Mohammed bin Rashid al Maktoum provided assurance that "the UAE economy will be among the fastest to recover in 2021, and the government has dealt with the 2020 budget efficiently and has all the tools to continue its financial and operational efficiency in 2021".

Priorities in the 2021 budget flow from priorities seen in the 2020 budget, with spending seen on the following:

- 42.6% of spending allocated to social development and welfare programmes;
 - 34.8% on the government sector;
 - 15.7% on education;
 - 8.1% on the health sector;
 - 7.4% on infrastructure – with an additional AED963 million allocated to infrastructure development projects;
 - 5% on financial assets and investments.
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Key federal projects provided for in the budget (AED3.93 billion) include funding for the UAE Space Agency and the UAE railway network.

While Abu Dhabi, Dubai and Sharjah, the three largest Emirates, have their own budgets, the Federal budget provides an indication of official direction for the UAE economy.

...and cash to ensure sufficient liquidity....

In order to **help mitigate the fallout of COVID-19 and prop up the economy**, the UAE Central Bank (CBUAE) introduced a AED100 billion 'Targeted Economic Support Scheme' (TESS) in March, which consisted of zero-interest, collateralised loans worth AED50 billion for local banks and an additional AED50 billion freed up from banks' capital buffers. In August, UAE monetary authorities further eased liquidity measures for banks, enabling them to free up more cash to lend to companies and individuals affected by COVID-19. Banks will be allowed to go below the 100% 'net stable funding ratio' (NSFR) but not below 90%, and above the 100% requirement for 'advances to stable resources ratio' (ASRR) but no higher than 110%, until December 31, 2021. The purpose of these ratios is to ensure that long-term assets are funded through stable funding sources. The relaxation of the NSFR and ASRR will provide banks with enhanced flexibility in managing their balance sheets to further facilitate the flow of capital from banks into the economy.

In November, the CBUAE announced that a AED50 billion "Zero Cost Facility" will continue to be available through to June 2021. The Facility aims to increase liquidity management for banks through funding at zero cost meaning banks and finance companies participating in the TESS can provide new loans and facilities to customers negatively affected by COVID.

...but it's not just about hard cash...

In addition to the Federal budget and ongoing stimulus packages, **UAE authorities have recently announced a series of legal reforms intended to improve legislation and the investment climate**, and promote the principle of tolerance. The first of which is a significant change in foreign ownership of companies. Announced in November, the UAE will now **allow foreign nationals to own 100% of commercial companies** in the onshore UAE jurisdiction, which previously, required 51% UAE ownership for businesses beyond the free zones. This change will likely encourage foreign investment into the UAE and help further diversify the economy. Secondly, UAE authorities have raised the 30% limit on the amount of shares of joint stock companies that can be sold in an initial public offering to 70%. This should encourage further listings and increase liquidity in the local market, which will promote enhanced foreign investment and align with the UAE's aspirations to be a hub for foreign capital. The UAE has also overhauled some local laws, including allowing unmarried couples to cohabit and loosening alcohol restrictions for foreigners. These changes will provide a more business friendly environment for foreigners reflect the changing profile of a country that strives to maintain its appeal as a regional and global financial powerhouse, supply chain nerve centre and a place for foreigners to live, work and invest in.

New Zealand exports are holding steady

Despite the pandemic, New Zealand exports to the UAE and broader Gulf Region have fared well. By mid-2020 goods exports to the UAE were up 16% on the previous year, making the **UAE the strongest growth market amongst our top 10 trading partners for Q1 and Q2**. By way of comparison, goods exports to the twin markets of the UAE and Saudi Arabia are much more than to the UK – a market with 20 million more consumers. More recently we have seen growth in several key exports from Q3 2020 compared to Q3 2019, in particular apple exports are valued at \$NZ5.3 million (an 80% increase) and honey at \$NZ22 million (a 350% increase). Key New Zealand exports to the UAE in the 12 months to October were whole milk (\$NZ449 million), fruit (\$NZ45 million) and beef (\$39 million). We continue to be the UAE's number one supplier of a number of dairy products. For example, since 2011, we have averaged annually 85% of the UAE's Whole Milk Powder imports, 52% of Butter and 62% of Anhydrous Milk Fat.

The UAE faced the pandemic from a position of strength, though found the economic challenges of COVID-19 tougher than expected. Despite this, the fundamentals for the UAE as a key market for New Zealand remain strong and we continue to see opportunities for New Zealand under our Trade Recovery Strategy. With the UAE importing 90% of its food and an ongoing focus on ensuring its food security, particularly during the pandemic, **New Zealand remains a reliable food security partner**

with our high quality, safe food and beverage products with relatively resilient supply chains including with airfreight through Emirates Airlines.

Outlook for 2021 for New Zealand exporters

Next years' Expo provides a helpful vehicle for New Zealand exporters in their recovery. NZTE has also recently introduced a range of initiatives with more planned for 2021 including through Expo, to both promote New Zealand products and educate consumers about New Zealand's high quality food and food standards including launching a virtual New Zealand store on a major supermarket website (Spinneys), publishing a series of articles showcasing the Spinneys New Zealand Food Festival in October/November and a seeding campaign through sharing kiwi products with key social media influencers to promote online. While exporters remain confident in this market as a centre for growth and products continue to perform strongly, some COVID related challenges endure. Recent reports with ongoing challenges to sea freight movement from New Zealand were echoed by some exporters in the UAE with backlogs of containers and New Zealand ports reaching peak import volumes causing delays to customers.

In another encouraging sign, the **New Zealand Business Council** has been established in Dubai. New Zealand's Ambassador to the UAE and Trade Commissioner Dubai both spoke at a Council event in November, outlining the New Zealand government priorities and activities over the last nine months, and highlighting the priority of NZ Inc as a key food security partner for the UAE. There has also been ongoing engagement with the **New Zealand Middle East Business Council** in New Zealand, with MFAT attending the most recent event in early December.

NZTE in Dubai continues to work directly with customers within the UAE and in New Zealand to seek out opportunities and work through challenges. Trade Commissioner Dubai has previously held weekly discussions with customers, to hear how exporters are faring with the disruptions caused by COVID-19 and hearing what the key challenges are. These sorts of engagements will likely resume in early 2021.

How can we help you?

We have a network of posts in the Middle East and Africa, including the Embassy in Abu Dhabi (UAE) and Riyadh (Saudi Arabia). NZTE is located in Dubai and Riyadh.

The New Zealand Consulate in Dubai has been providing regular updates for markets around the world, including the Middle East on the New Zealand Trade and Enterprise (NZTE) website, see [here](#) for more information. In market, NZTE also works directly with NZTE customers.

NZInc continues to work together closely to seek the latest information and possible opportunities for New Zealand businesses.

If you wish to make contact with us, please email us:

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- New Zealand Consulate Dubai: dubai@nzte.govt.nz

If you wish to contact the New Zealand Business Councils, please visit their websites for further information:

- New Zealand Business Council (Dubai): <https://nzbc.me/>
- New Zealand Middle East Business Council: <https://www.nzmebc.org.nz/>

All New Zealand trade statistics are sourced from Statistics New Zealand

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