

Prepared by the New Zealand Embassy in Abu Dhabi and the New Zealand Consulate in Dubai.

Summary

- *The following report provides a summary of the current economic situation in the UAE and the outlook for 2021-2022 to assist New Zealand businesses already operating in, or looking to opportunities in the United Arab Emirates. All dollar values in this report are New Zealand dollars unless otherwise stated.*
- As New Zealand's 10th largest trade partner, and a key player in the Gulf Cooperation Council (GCC), the United Arab Emirates (UAE) market remains important in our global diversification and trade recovery strategies.
- The UAE economy survived relatively well in 2020, although the travel and tourism sectors were hit hard with COVID related travel restrictions.
- The outlook for 2021-22 for the UAE economy is encouraging, particularly with the aggressive vaccination campaign enabling some return to normality, including hosting the upcoming Expo 2020 (1 October 2021 – 31 March 2022), to stimulate growth.
- Major changes to local laws and regulations continue to optimise the UAE's appeal for those considering living and working here including enabling 100% foreign ownership of companies and opening up UAE citizenship to foreigners to attract talent.
- While there have been significant changes across the region in the last six months, the core New Zealand relationship enablers remain stable including New Zealand exports, connectivity and food security contributions.
- In 2020, New Zealand goods exports to the UAE totalled \$819 million, a 1.5% increase from 2019. Significant growth in New Zealand exports to the UAE in 2020 included honey, food preparations (flour, meal, starch or milk products) and apples. Meat and dairy exports, aside from whole milk, decreased in 2020 compared to the year prior, while sheep meat, whole milk and cheese all saw significant growth in Q4 2020, compared to the same period in 2019.

Report

Overview: UAE economy's survival through 2020

- With over a year having passed since the UAE was plunged into a lockdown, the UAE's economy survived 2020 relatively well compared to many other economies around the region and world. The IMF noted in its October 2020 forecast a 6.6% contraction of the UAE economy, however this was adjusted as a 5.9% contraction in its April 2021 World Economic Outlook report. The Central Bank of the UAE (CBAUAE) has indicated that despite a sharp fall in goods and service export earnings, the current account remained in surplus in 2020, albeit at its lowest level since the 2016 oil price slump.
- The double hit of COVID restrictions and the significant drop in global oil demand and low prices drove a 13% year-on-year fall in UAE export earnings to US\$273.1bn in 2020. Hydrocarbons export earnings fell by 36.2%, while the drop in non-hydrocarbons exports (which generally account for about 30-35% of total

exports) was only 5%. The UAE was fortunate with a more diversified economic base, which saw it experience the smallest reduction in export earnings in 2020 compared to other oil-dependent Gulf States. The CBUAE also provided additional liquidity to the banking system, which in turn allowed banks to provide relief for borrowers affected by the pandemic.

- With time seemingly having stood still in other parts of the world in 2020, the UAE landscape continued to evolve with several megaprojects taking shape across the country, including Dubai's Museum of the Future, Etihad Rail that will connect freight across the UAE to the rest of the Gulf and the country's first nuclear power station, Barakah Power Plant, which started generating electricity in August 2020. These developments reflect the ongoing efforts to diversify the still largely oil dependent economy. Creating and maintaining a sustainable environment and infrastructure is a pillar of Vision 2021, which was launched in 2010 to make the UAE among the best countries in the world by the Golden Jubilee of the UAE, which takes place later this year.
- Despite key earning sectors, travel and tourism taking a hit in 2020, Dubai International Airport ranked first for international passenger numbers globally for 2020. This was despite a 70% drop in visitor numbers, with 86 million passing through Dubai in 2019 compared to 25 million in 2020. Nearly 18 million of these passengers travelled in Q1 2020, before the onset of global travel restrictions.
- Connectivity and resilient global supply chains were critical in 2020 as passenger flights were suspended globally. Emirates SkyCargo provided air cargo connectivity in 2020 through its cargo flights to Auckland and Christchurch, enabling cargo capacity from New Zealand to close to 200 global destinations. Emirates SkyCargo restarting passenger/cargo flights to New Zealand in early May was key in ensuring the critical flow of essential goods, including PPE and medical equipment, both into New Zealand and back out to global markets.
- Efforts to bolster the UAE's food security needs soared in 2020, despite the pandemic, with online sales of food and beverage products in Dubai growing 255% year on year in 2020 to a value equivalent to \$564 million according to the Dubai Chamber of Commerce and Industry. This was in part due to both leveraged technology and global partnerships, including with New Zealand, which accounted for 13% of Dubai's 2020 food imports – only coming second behind India. Dubai's food imports overall were valued at \$13 billion in 2020 according to Dubai Customs. As a key food security partner, in 2020 New Zealand goods exports to the UAE totalled \$819 million, a 1.5% increase from 2019. Significant growth in NZ exports to the UAE in 2020 included honey (242% increase to \$7 million), food preparations - flour, meal, starch or milk products (450% increase to \$61 million) and apples (32% increase to \$38 million), compared to 2019. While New Zealand meat and dairy exports, aside from whole milk, decreased in 2020 compared to the year prior, sheep meat, whole milk and cheese all saw significant growth in Q4 2020, compared to the same period in 2019. Q1 2021 saw a decrease in New Zealand dairy exports, notably whole milk powder with a 25% decrease compared to Q1 2020 however beef exports held steady and pharmaceutical products (medication) increased by 53% in Q1 2021 compared to the same period last year.

... And the outlook for 2021-22 is looking more positive than expected...

- In April, the IMF more than doubled the UAE's GDP forecast from 2020, with its 2021 outlook predicting 3.1% growth. The CBUAE also foresees growth, with real GDP to grow 2.5% in 2021, with an even bigger boost in 2022 with 3.5% growth forecast.
 - Dubai International Airport anticipates a recovery in airline traffic this year, with a February statement by Dubai Airports noting that they already had seen a 61% recovery in destinations compared to 2020. Jet fuel demand is set to increase by 40% in 2021 compared to last year (to 110,000 barrels a day from 79,000 barrels a day in 2020), according to S&P Global Platts Analytics. However, this is still significantly below 2019 levels (172,000 barrels per day).
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- Sea freight and logistics have also seen improvement even just one quarter into 2021, with UAE based trade enabler DP World seeing gross container volumes across its global portfolio increased by 10.2% in Q1 2021 compared to the same period in 2020. DP World's Jebel Ali terminal in Dubai handled 3.5m TEU (twenty-foot equivalent unit) in Q1 2021, up 2.6% year-on-year.
- The IHS Markit Purchasing Managers Index (PMI) also suggests a healthier UAE economy, rising to 52.7 in April from 52.6 in March. The PMI for the UAE was above the 50 threshold that separates growth from contraction, for the fifth consecutive month, and at its highest since July 2019, indicating a solid improvement in the health of the non-oil sector.
- The UAE's international standing is also continuing to climb, with the UAE ranking 1st in the Middle East and 17th globally on the Global Soft Power Index 2021 due to its handling of COVID-19 and efforts in sending a probe to Mars. While, New Zealand was the fastest-improving country, climbing to 16th place.
- Negotiations for the NZ/GCC Free Trade Agreement were concluded in 2009. New Zealand was one of six countries mentioned in the Al Ula Communique in January 2021, noting the GCC Supreme Council intention to track progress on the NZ/GCC Free Trade Agreement. 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.

... with major developments to stimulate growth...

- Business conditions in the UAE have improved in recent months with the significant vaccine rollout. As of 18 May, over 11.5 million vaccine doses have been administered, with an average of 115 vaccine doses administered per 100 people. While some COVID-19 restrictions remain in place, the vaccination efforts are already starting to see some normality return to the Emirates. This includes a recent announcement by the Abu Dhabi Department of Culture and Tourism that quarantine free travel will be permitted to the Emirate on 1 July (at this stage travellers from India will still need to quarantine). In the meantime, countries will continue to be added to the Abu Dhabi 'green list' which New Zealand is already included. The Emirate will have different testing protocols for visitors from low-risk and high-risk countries come summer. The details of these protocols will be announced in due course, however it is expected this shift will see increased tourism revenue for Abu Dhabi. A further reduction of COVID restrictions in Dubai has also recently been announced. There have been recent reports that the government is considering introducing movement restrictions within the UAE, for those who are unvaccinated however, there is no further detail on this at this stage. Vaccine efforts in the UAE are not limited to doses administered, with one out of every 20 COVID-19 vaccine doses administered around the world having transited through Dubai and having flown on an Emirates aircraft.
 - Expo 2020 Dubai remains the hallmark event for the UAE in 2021 to stimulate economic growth. After its postponement due to COVID-19, Expo will now run from October 2021-March 2022 and it is anticipated that Expo will be an indicator of the world's post-pandemic recovery. It will be one of the first and most important events globally to reconnect the world, digitally and physically. With the pull of an anticipated 25 million visits and over 200 international participants, it is expected to solidify the UAE's economic recovery.
 - Scott Livermore, Chief Economist for the Middle East at Oxford Economics noted the importance of travel and tourism for the UAE and that there is a need for "lift off" to trigger recovery, and their baseline forecast is for strong recovery in this sector in the second half of 2021, which bodes well for Expo. However, Livermore cautioned that Expo will only provide a temporary boost to tourism and that pre-COVID travel and tourism would not be seen in the UAE until 2023-24.
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... and further cash to ensure sufficient liquidity...

- In March, the Governor of the CBUAE said that the overall liquidity of the UAE's banking system had returned to pre-COVID levels. However, it was encouraging to see in April, the CBUAE extended its US\$13.6bn zero-cost liquidity facility under its broader Targeted Economic Support Scheme (TESS) until June 2022, sustaining the stimulus measures introduced in March 2020 to reduce the economic fallout from COVID. The extension to a key element of the TESS will provide much needed support to the UAE private as financial institutions. The facility provides commercial banking with funding at 0% against collateral, which will enable sector as well banks to provide debt-servicing holidays both to individuals and SMEs affected by the pandemic.

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

- Recent normalisation of relations with Qatar and Israel could also pay economic dividends for the UAE, with boosts in tourism and investment inevitable. The signing of the Abraham Accords signalling a normalisation of relations with Israel in September 2020 has opened up an entirely new market. The Dubai Chamber of Commerce and Industry predict that bilateral trade between the UAE and Israel could reach AED15 billion in the next few years. Positive trade statistics are already showing success, with two-way bilateral trade between September 2020 and January 2021 reaching AED1 billion in value. The biggest deal since the Accords is currently under consideration, with UAE sovereign wealth fund Mubadala planning to buy a stake in Tamar, an Israeli natural gas field for US\$1.1 billion.
- The reconciliation between the UAE and Qatar is set to see less direct economic benefit, with limited passenger numbers between the countries and less than 1% of GDP value of exports to Qatar prior to the rift. However, more broadly, intra-GCC trade is likely to receive a boost and services like travel, tourism, and logistics all set to benefit. Jobs may be created, particularly as the private sector eyes potential opportunities stemming from the Qatar hosted 2022 FIFA World Cup. With travel restrictions being lifted in Saudi Arabia on 17 May, it is anticipated economic benefit will be seen with the return of intra-regional tourism.
- The business environment in the UAE has seen steady changes in the last year with the introduction of several progressive measures to entice foreign interest to the market:

UAE citizenship for foreigners

- In January, in a major shift in approach, the UAE opened its citizenship to investors, special talents and a number of other specific professions. While a well-established transient hub, the permanency of this latest change is anticipated to broaden the UAE's talent pool to further the UAE's development and diversification.

Foreign ownership of companies

- The UAE announced in November 2020 that foreign nationals will now be able to own 100% of commercial companies in the UAE (as per Federal Decree Law No. 26 of 2020), which previously, required 51% UAE ownership for businesses beyond the free zones. This change will likely enhance the UAE's attractiveness for foreign investment and help further diversify the economy. While details are still emerging, we understand the change on a Federal level looks like this:
 - 122 economic activities have been put on a "Positive list". These activities are permitted 100% foreign ownership. The three main sectors under the Positive List include the:
 - agricultural sector
 - manufacturing sector
 - services sector*
 - There are certain sectors and economic activities that are not permitted for foreign direct investment, known as the 'Negative List' and they currently include:
 - insurance services
 - banking activities;
 - financing;
 - payment systems and dealing in cash;
 - insurance services;
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- land and air transport services;
- commercial agent services; and
- medical retail services such as private pharmacies*

*These lists are subject to change by Cabinet.

- Abu Dhabi has published its own additional Positive List of sectors which are possible for companies to apply for an FDI license.
- On 19 May, the UAE Ministry of Economy announced that the amended Commercial Companies Law, allowing 100% foreign ownership of companies onshore, will come into effect on June 1st, 2021.
- In terms of how companies can take advantage of this change, the FDI law requires each Emirate to specify their licensing procedure separately. Therefore, the process a company may need to follow to acquire a FDI license to take advantage of the 100% foreign ownership legislative change, will vary from Emirate to Emirate. We encourage businesses interested in applying for an FDI license, to contact the local competent foreign investment authority.
- New Zealand companies who are interested in finding out further information, or who wish to apply for 100% ownership of a company – we encourage you to contact your lawyer and the relevant authorities in the UAE for more information.

Support for New Zealand businesses in the UAE.

- NZTE remains committed to supporting its customers in market. With COVID-19 still restricting traditional ways of doing business, the format of events continues to adapt. Recently, NZTE hosted a two-week virtual “Meet the Buyer” event, which connected New Zealand exporters with potential UAE partners. There was huge interest from the UAE buyers in New Zealand products, both for groceries and food service. Engagement with customers continues to be strong, with monthly customer meetings being held virtually focused on sector-based developments. Recent campaigns to boost the profile of New Zealand food and beverage products include the “Made With Care” campaign, which aims to profile the safety, innovation and sustainability of New Zealand products to the UAE market.
 - For New Zealand businesses interested in how to participate in Expo 2020 Dubai, please find more information here - <https://www.nzatexpo.govt.nz/post/ten-ways-to-participate-in-expo-2020-dubai>. NZTE has also put together the Expo Business Leverage Programme, designed to optimise opportunities at Expo for New Zealand businesses. Find out more information on the Programme here - <https://www.nzte.govt.nz/page/expo-2020-dubai-business-leverage-programme>
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