FEDERATION OF ISRAELI CHAMBERS OF COMMERCE
ISRAEL'S LARGEST BUSINESS ORGANIZATION

October 20, 2020

The United Arab Emirates: Business Opportunities for the Members of The Federation of Israeli Chambers of Commerce (FICC)

Introduction

The UAE is a federation of seven Emirates - Abu Dhabi, Dubai, Ajman, Sharjah, Fujairah, Ras Al Khaimah, and Umm Al Quwain. It is a young nation, formed in 1971. The UAE population is about 10 million, of which only about 12% are Emirati citizens, while 88% are ex-patriates. Its land area is 84,000 square km. – four times that of Israel.

Though the UAE is an oil-rich country, it has diversified its economy, becoming a regional and global hub of business, trade, logistics and finance. The overall size of the economy is about the same as Israel (as measured by the GDP – Gross Domestic Product), around $400 billion. The GDP per capita (which measures the relative wealth of the country) is also similar, slightly above $40,000 per capita (2019 World Bank figures). The UAE is the second largest Arab economy, preceded only by Saudi Arabia (GDP of close to $800 billion, 2019 World Bank figures).

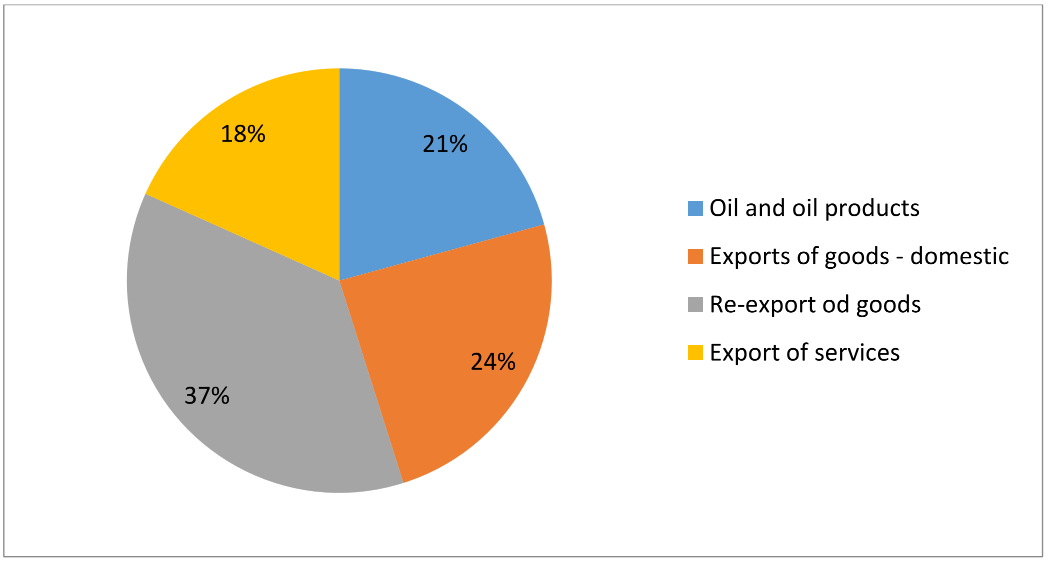
However, being a regional and global trade hub, its non-oil international trade is almost triple that of Israel. The overall volume of Emirati exports was $410 billion in 2019. Non-oil exports (goods and services) totaled $325 billion (almost 80%), while oil (crude and products) accounted for slightly more than 20% of exports. Israeli exports, in comparison, totaled $114 billion. Emirati imports totaled $340 billion, in comparison to Israeli imports of $107 billion (goods and services. 2019).

The composition of exports represents the wide and diversified nature of the UAE economy and trade – as shown on Chart 1.

The legal and regulatory system in the UAE is based on legislation and regulations promulgated at the Federal level, which provide the broader framework and guidelines. However, most aspects of the business environment are regulated at the local level of each of the seven Emirates. The governments of each Emirate retain powers to regulate commercial activities, issue trade licenses, effect the incorporation of corporate entities, etc.

Abu Dhabi is the largest and wealthiest Emirate; while Dubai has been the most dynamic Emirate in terms of economic development. The other five "Northern Emirates" are much smaller (economically and population-wise).

Charts 1: UAE – Composition of Exports



Source: computed by the author, based on federal and Dubai statistics, as well as estimates
Note: part of the trade volume of free zones is not registered in aggregate UAE federal trade statistics. This part of trade was estimated by the author based on the trade statistics of the Emirate of Dubai.

Map 1: The Seven Emirates of the UAE

A most distinctive facet of the economic DNA of the UAE is long-term planning. The UAE has been blessed by farsighted leaders who have set ambitious long-term visions and plans for the country. This has enabled the UAE to develop itself into a World-class trade and business hub.

The new long-term vision, which is directing the economic development strategy of the UAE for the first half of the 21st century, is to transform into a knowledge-based economy. The UAE is set to become one of the World-leading nations in the most important fields that deal with the challenges that the world is facing in the 21st century – from the challenges of climate change and food security to conquering the outer space. That includes. Inter alia, concentrated national effort aiming at fast development of innovative, "Start-Up Nation" style, eco-system.

In consideration of all the above, the normalization agreement and the Abraham Accords signed between Israel and the UAE, seem to be a most important mile-stone in the economic history of both nations.

From the Israeli point of view, it starts wide and deep economic cooperation with the most dynamic and resourceful Arab nation, and the main hub of business and trade of the region at large. Moreover, the agreement with the UAE opens the way to economic cooperation and trade with the entire GCC bloc. Based on multiple in-depth studies of recent years, that is expected to be the most important economic growth-engine available to Israel in the coming decade.

Given the most important synergies between the Israeli and Emirati economies and visions, these agreements seem to pose similarly huge potential for the UAE as well.

Opportunities for Israeli import and trading companies

The Composition of Emirati export of goods and where these exports go

The Emirate of Dubai accounts for a half of total Emirati non-oil export of goods. According to Dubai trade statistics, its export of goods (including re-exports) totaled about $160 billion, in 2019. The other half of non-oil exports originate from the other six emirates.

Close to one half of the export volume of Dubai (goods, in US $ terms) is composed of high-value items shipped by air – diamonds, jewelry, gold, cell phones, etc. Most of the other half-plus is split, roughly evenly, between exports to regional markets (shipped mostly by land), and exports by sea to markets on the east (east, south and south-east Asia, and Oceania). The volume of export of goods (by sea) to markets on the west (Europe, North America, Mediterranean markets) is relatively small, estimated at no more than 5% of the total exports of Dubai

Export of goods from Abu Dhabi and the other five "Northern Emirates" include mainly products that are shipped by land and sea. Regional markets take roughly 40% of these exports, while exports by sea to the markets on the east account for 50%-plus. Markets on the west take a marginal share of exports from these Emirates as well.

Hence, out of the top ten export markets of the UAE, in 2019, five are regional markets (Saudi Arabia - number 1, Oman, Kuwait, Iraq and Turkey - number 4 to 7). Three of the other countries on the top-ten list are markets on the east: India, China and Singapore (numbers 3, 8 and 10, respectively). Large part of Emirati trade with the only two western markets on the top-ten list (Switzerland and the US – number 3 and 9) is composed of diamonds and other high-value items that are shipped by air.

Being a regional hub, the UAE exports wide range of products – part of which are domestically produced goods, and others are re-exported goods (mainly from the UAE's huge free trade zones). The top product categories exported from the UAE are:

- Machinery, electrical equipment, and various kinds of industrial and other equipment – most of which re-exported from the large warehouses and distribution centers located in the free zones of the UAE – to regional markets and beyond
- Pearls, Stones, Precious Metals, etc.
- Cars and other vehicles, distributed to regional markets from warehouses and distribution centers in the large free zones of the UAE
- Metal, mineral and chemical products
- Wide range of industrial products: food, textile, plastics, etc.

Table 1: UAR Exports - Top Categories of Goods
(goods produced domestically plus re-exported goods, 2019, $ billions)

Category (HS sections)	$ billions
Machinery, Sound Recorders, Reproducers and Parts	66.5
Pearls, Stones, Precious Metals and Its Articles	40.4
Vehicles of Transport	20.8
Mineral Products	11.5
Base Metals and Articles of Base Metal	9.4
Products of The Chemical or Allied Industries	9.0
Foodstuffs, Beverages, Spirits and Tobacco	5.4
Textiles and Textile Articles	4.9
Plastics, Rubber and Articles Thereof	4.2
Photographic, Medical, Musical Instruments & Parts	4.1

Source: UAE Federal Competitiveness and Statistics Authority, International Trade Statistics; not including part of the trade volume that is not specified by categories in aggregate UAE federal trade statistics

Opportunities for Israeli importers

Israel, being part of the Middle East region, and given its large and diversified volume of imports, can be expected to become a major import market for the UAE. Probably not as large as its top three regional import markets, but potentially around the magnitude of the fourth to fifth largest regional markets - namely, $5 – 10 billion a year (Table 2).

At that magnitude, the UAE would become one of the largest source-markets for Israeli importers.

Table 2: Top Eight Regional Markets of the UAE
(UAE export of goods, 2019, $ billions)

Market	UAE export of goods - goods produced domestically plus re-exported goods
Saudi Arabia	24.0
Iraq	17.8
Oman	12.2
Kuwait	10.3
Egypt	5.3
Bahrain	4.7
Jordan	4.1
Turkey	3.7

Source: UAE Federal Competitiveness and Statistics Authority, International Trade Statistics

Considering the great variety of product categories of exports, as shown in Table 1 above, it seems that the UAE offers opportunities to wide range of Israeli importers

The UAE as a regional trade hub – opportunities for Israeli international trading companies

As shown above, the UAE has developed to become the most important regional trade and business hub, as well as a World-class international hub.

The multiple advantages of having a regional trading, logistical, distribution or service base in the UAE have lured into the country more than 12,000 foreign companies; including more than 100 of the fortune global top 500 multinational companies. The Jabel Ali Free Zone in Dubai (the largest free zone of the UAE) alone hosts more than 7,000 foreign companies and generates trade of close to $ 100 billion.

An Israeli trading company, which would set a base in the UAE (registered as an Emirati company) will be able to benefit from two most important free trade agreements: (1) that of the Gulf Cooperation Council (GCC), which allows for free trade between the six Gulf countries; and (2) the Great Arab Free Trade Agreement (GAFTA), which widens the free trade regime to engulf all significant Arab markets. That, in addition to the other advantages of working from the UAE, would greatly enhance the development of that company's trade activity in the Arab world at large, and especially in the neighboring Saudi and other GCC markets

Israel as a Gateway for Emirati Business and Trade with European, North American and other markets "on the West"

As indicated above, Emirati trade with markets on the west (west and east Europe, North America) is relatively small. This phenomenon results from a combination of historical trends, as well as the geographical distance and length of transportation routes between the UAE and those markets on the west, in comparison to the markets on the east of the UAE.

The agreement with Israel provides Emirati trading, logistical and various service companies new opportunities to strengthen their trade and other economic relations with the markets on the west. More specifically, it can be expected that hundreds of Emirati companies in diverse fields will look for having a base in Israel, as their gateway to European, North American and other markets on the west. That would include companies in trading, logistics, transportation, banking & finance, various fields of business services and more.

The "Dubai – Tel Aviv Axis" has the potential to develop into one of the strongest anchors of the regional business environment. That opens vast opportunities for Israeli companies in all these fields.

Key Non-Trading Opportunities for members of the FICC in the UAE

Tourism and hospitability

The UAE is the largest tourism and hospitality market in the region, except for Turkey. The number of incoming tourists has been fast increasing over the last decade, and was planned to reach 20 million in 2020. In terms of tourism income the UAE is, by far, the region's leader (together with Turkey), with annual income of slightly below that of Turkey ($25 billion a year) – triple that of Israel. The number of hotel rooms (close to 200,000), as well as other main indicators of the hospitality industry, is in line with these figures

Dubai is the most important tourism destination in the UAE. The Emirati tourism development strategy focuses on making Dubai "the first choice" for the international leisure and business traveler.

Additionally, Dubai has become a leading air-traffic hub. Dubai air-ports are among the busiest in the world.

Given the large volume of tourism, and air traffic, of the UAE, the opportunities it opens for Israeli businesses in various aspects of tourism, hospitality and related fields, are wide-ranging and significant. In these fields too, the theme of "Dubai – Tel Aviv Axis" seems to be of large potential.

The Emirati financial sector

The UAE is also the regional leader, by far, in banking and finance; and this sector too has been fast expanding over the last decade. According to the central Bank of the UAE, the overall income of the UAE's banking sector (net interest and charges) was close to $ 25 billion a year over the last few years.

In addition to conventional and Islamic banks, the Emirati financial sector includes large number of investment banks, wealth funds and a most vibrant "money and business management" firms, which handle the personal and family wealth of Emirati and other Gulf clients.

The size and diversity of the Emirati financial market provides far-reaching opportunities to various Israeli players in this field as well.

The UAE as a transportation and logistical hub

The UAE has been most aggressive in port development, since the 1970s. As of the early 2010s it became a World-class shipping power. Its ports handle as much containerized cargo as Japan or Korea.

Dubai's Jabel Ali Port is located near the Jabel Ali Free Trade Zone, which is one of the world largest. The Dubai Port is continuously expanding to sustain the fast growth in traffic. The total volume of containerized cargo handled by Dubai Port has grown fourfold over the last two decades, from 4 million TEU (standard 20-feet container unit) in 2002 to 16 million TEU a year in recent years – almost four times the containerized shipments handled by all Israeli sea ports, combined. Current expansion plans would increase its capacity to above 20 million TEU. The Dubai port is, for more than a decade now, among the World top-ten largest ports (in terms of container movement).

Though Dubai Port is, by far, the largest of the Arabian Gulf ports, it is not the only large port in the UAE. The Khor Fakkan Port, located on the Gulf of Oman (The Emirate of Sharjah, on the east coast of the UAE – see Map 2 below), has become another important hub for east-west global trade. It is mainly a transshipment hub for the Arabian Gulf, the Indian Sub-continent, the Gulf of Oman and the East African markets. Its capacity is 5 million TEU.

The new Khalifa Port, the third major port of the UAE, was constructed in the early 2010s in the Abu Dhabi Emirate (located north of Abu Dhabi City). The Khalifa Port serves the new large Khalifa free trade zone which is developed beside the port. The Khalifa Free Trade Zone and the Khalifa Port are planned to develop into a complex close in size and importance to that of Jabel Ali. The present capacity of the Khalifa port is 2.5 million TEU; and in 2019 it already worked at close to this capacity. The Khalifa port is planned to expand, in several phases, up to a capacity of 15 million TEUs, by 2030.

Beside these three main ports, more than ten other secondary ports are in operation or under development in the UAE. On the northern part of the UAE, the Khalid Port in the heart of Sharjah city, is a free trade terminal, like most of the UAE ports, serving the Sharjah Free Trade Zone. The Sharjah (Khalid) Port serves all needs of the local trade of the Emirate of Sharjah. Most of the other secondary UAE ports are also built beside free trade areas, and assist the local economic activity. Hence, the Port of Fujairah serves the local trade of the Fujairah Emirate; the Port of Hamriyah serves the nearby free trade area, and the new port of Ras Al-Khaimah (RAK) serves the fast growing economy of this Emirate, and the RAK Free Trade Zone. Further to the south-west, in the vast Western (Al Gharbia) region of Abu Dhabi, a number of small fishery and tourism ports are planned to be developed as specialized cargo ports.

All in all, the UAE’s on-going port development program aims at upgrading its position in the global shipping industry to the league of the top five. The total volume of containerized shipments handled in UAE ports is planned to be, in the middle of the 2020s, at the same magnitude of Singapore or Hong-Kong, and exceeded only by China and the US.

Furthermore, Dubai Ports World (DP World), the international port-management arm of the Dubai Port Company is, since 2010, among the top-five largest port management companies, globally. DP World manages more than 50 ports, and engaged in the development and management of tens of smaller sea and land (dry) ports; in more than 30 countries, across six continents.

That huge scale of activity offers numerous opportunities for Israeli companies in the fields of shipping, logistics and wide range of service providers that work in and around ports, logistical centers, shipping and related activities.

Map 2: Sea Ports of the UAE

The UAE as a gateway to the GCC project market

Given the position of the UAE as the business hub of the GCC countries, Israeli companies that would have a base in the UAE will have access to the huge large-projects market of the GCC as a whole.

Long term analysis of the six GCC countries' investment patterns shows that, on average, about 20 percent of GDP have been channeled to investments. Given the present GDP of around $1.5 trillion (post-Covid-19 estimate for 2020), one may expect total investment of $300 billion a year on average (in 2020 dollars), in the GCC economies, for the coming decade.

Large government and business sector projects constitute a substantial share of investment. Long-term analysis of the large project market shows that, on average, at any given time, large projects at a total value of around $ 1.5 trillion have been underway or in the pipeline. That includes tens of multi-billion projects, and 2,000-3,000 projects of above $ 100 million.

These figures represent the aggregate value of projects which have survived a process of re-evaluation and significant scaling-down since the financial crisis of 2008.

The GCC "large project market" engulfs all sectors of economic and social infrastructure and most branches of the economy. Including, inter alia: oil and gas production, transportation, and treatment; oil refining industry, other petro-chemical industries, chemical and other industries; land transportation (roads, railways), sea ports and marine transportation, airports and air transportation; energy infrastructure (electricity, renewable energy, etc.); water desalination, water and sewage treatment, irrigation, and other water and sewage infrastructures; hospitals, universities and other education infrastructure, parks and other landscaping projects, etc.; construction (new cities and neighborhoods, industrial estates, hotels resorts and other tourism industry projects, etc.); and more.

A wave of public investment programs, mainly in social infrastructure and affordable housing, entered the pipeline in Saudi Arabia and the other GCC countries, in the wake of the "Arab Spring" of 2011. These programs, in conjunction with continued investment in economic infrastructure and the various branches of the economy, are still generating steady flow of new projects into the "large project market" of the GCC.

The opportunities for Israeli companies are less as first-line contractors for these projects. This part is almost entirely taken by large multinationals and top local companies (usually consortiums of several companies belonging to these two groups). **The place for Israeli companies would be as sub-contractors, in supply of equipment, and various services for these projects. In fact, most of the budget of these large projects goes, through the first-line contactors, to sub-contractors, equipment suppliers and service providers.**

Establishing a regional base in one of the Emirati free zones: opportunities for Israeli companies in various non-trade service sectors

About 50 free trade zones are active in the UAE, and about 10 new ones are under development or in the pipeline. Large part of Emirati international trade in goods and services is conducted in and from these free zones.

The "model" and the eco-system of these free zones was developed in Dubai, and copied by the other Emirates (and also other Arab countries, usually with lesser success). This model is based on the following four anchors:

- **Most attractive customs, tax and other incentives**. A company registered in the free zone (a "Free Zone Company" - FZC) enjoys full exemption from customs duties on goods manufactured or imported; no corporate and personal income taxes. possibility of 100% business ownership by foreign nationals; as well as 100% repatriation of profits and capital, and free export of currency from the UAE to other countries
- **World-class infrastructure** as well as logistical, business, financial and other services – in and around the free zone.
- **Business-friendly eco-system.** The UAE is ranked high in the international index of Ease of Doing Business – number 16 globally in 2020. The highest, by far, in the Middle East (Israel ranks 35). That reflects, inter alia, friendly regulatory environment and good governance. The free zone management supports its FZCs through simplified procedure for recruitment of employees, etc.
- **Proximity to large and efficient sea and air ports**

These advantages, in combination with the envelope of the UAE's free trade agreements mentioned above (the GCC and GAFTA free trade agreements), generate an exceptionally business supportive environment for foreign companies that wish to develop their business activity in Arab markets. Moreover, international companies use their bases in the free zones of the UAE as regional offices for neighboring regions, such as the Indian sub-continent, other South Asia markets or East Africa.