



Country trade view United Arab Emirates

[Trends in global trade]

Summary

- The United Arab Emirates' export is highly dependent on oil. The dependency is twofold: most of the UAE's output is oil or oil related and government tax income (and therefore the government budget) depends on oil market developments.
- The UAE maintains a trade deficit of USD14.3bn even though its merchandise surplus is USD11bn. This means that the UAE holds a large services trade deficit.
- The UAE's currency, the Dirham is pegged to the U.S. dollar. This affects the UAE's competitive position when the USD gains or loses strength against other large currencies and also affects foreign currency reserves.
- Imports are expected to grow across all ING defined categories. This is also the case for exports, but we see that export diversification is developing slowly.
- China is expected to become the most important trade partner. Indeed, China is becoming the biggest source of imports for the UAE while it has been the main destination for Emirati exports for years.

About International Trade Research at ING

ING International Trade Research aims to help ING's (inter)national clients develop their knowledge and capabilities for doing business across borders, and contribute to the public debate on internationalization. We do this by providing insights on the current and future economic trends and international trade developments worldwide.

Economic profile

Economy

Expectations	2016	2017	2018
GDP growth (Real)	3.1%	3.3%	3.5%
GDP nominal (bn, USD)	356.22	382.62	410.42
GDP per capita (USD)	36,142	37,737	39,349
Exchange rate AED/USD (Peg)	0.27	0.27	0.27
Inflation	4.5%		
GDP composition by sector			
Agriculture			0.7%
Industry			55.1%
Services			44.3%

Population

	2015
Population (mln)	5.8
Unemployment rate (avg.)*	2.4%
65 years and over	1.0%

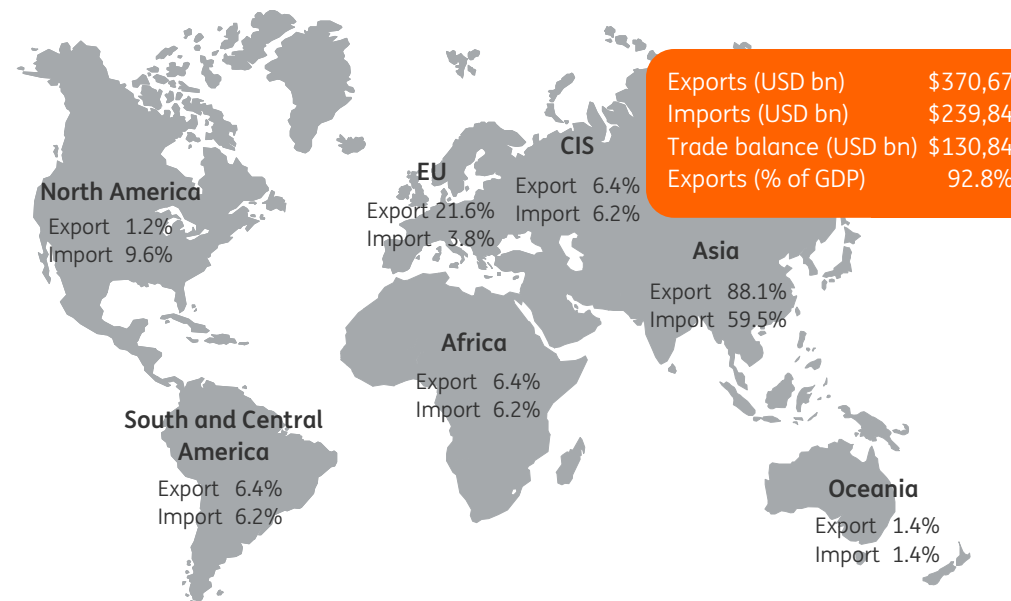
Other indicators

	2015-2016
Competitiveness rank WEF	17/140
Ease of doing business rank	31/189
Credit rating	
S&P	AA STABLE
Moody's	Aa2 STABLE
Fitch	AA STABLE

Sources: ING, IMF World Economic Outlook, UNCTAD, Trading Economics

UAE trade profile: composition (USD bn), destination and origins of goods (% of total), 2014

	Agriculture & raw materials	Exports \$0.6	Imports \$1.1
	Basic food	Exports \$11.9	Imports \$20.2
	Beverages & tobacco	Exports \$1.4	Imports \$1.9
	Office, telecom & electrical equipment	Exports \$12.3	Imports \$36.4
	Chemicals	Exports \$14.1	Imports \$13.9
	Fuels	Exports \$208.3	Imports \$19.4
	Industrial machinery	Exports \$11.1	Imports \$26.0



	Ores & metals	Exports \$11.4	Imports \$6.0
	Other manufactured goods	Exports \$49.4	Imports \$77.4
	Other products	Exports \$20.6	Imports \$14.3
	Pharmaceuticals	Exports \$0.8	Imports \$2.4
	Road vehicles & transport equipment	Exports \$11.8	Imports \$29.4
	Textiles	Exports \$5.4	Imports \$17.3

Product group amounts in USD bn, and for the 32 partner countries distinguished

Sources: ING, IMF World Economic Outlook, UNCTAD, national sources

The UAE's trade environment

The UAE is highly dependent on oil market developments.

The UAE is the largest economy in the Arab world after Saudi Arabia, and is likewise primarily an oil producing country (but also the 4th largest aluminium producer in the world). Indeed, 36.8% of its export consists of fuels, and 13.4% of metals.

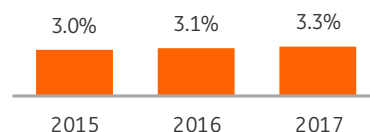
The dependence on oil is twofold: a large part of production is oil or oil dependent and government taxes and therefore budgets depend on oil production volumes and prices.

The Dirham is pegged to the U.S. dollar. This hurts the UAE's competitive position when the USD is gaining strength against other main currencies (such as the euro, yen and renminbi) and contributes to a drain on foreign currency reserves. We do not expect any depletion of foreign currency reserves soon. The UAE now maintains USD80bn worth of reserves, four times as much as in 2010, when they were at their lowest of the last 10 years.

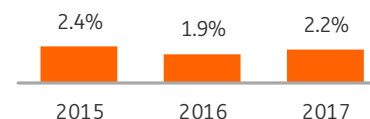
Economic growth is expected to remain stable but muted: 3.1% growth in 2016 and 3.3% in 2017.

Expected real GDP growth

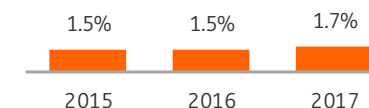
UAE



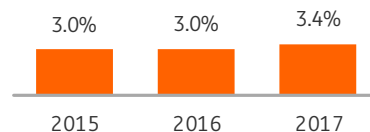
United States



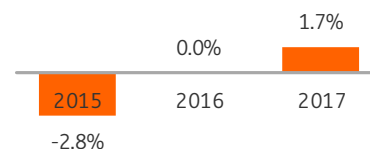
Eurozone



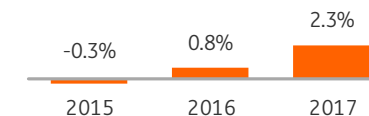
Emerging and developing Europe*



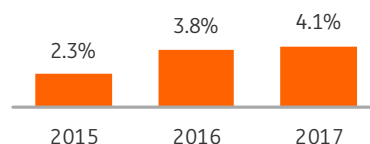
Commonwealth of Independent States**



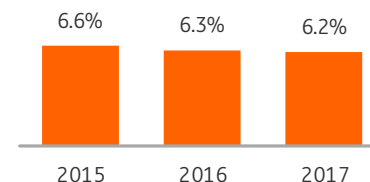
Latin America



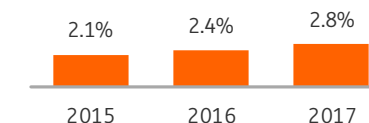
Middle East and Northern Africa



Developing Asia



Other advanced economies***



* Albania, Bulgaria, Croatia, Hungary, Lithuania, Macedonia, Montenegro, Poland, Romania, Serbia and Turkey

** Azerbaijan, Armenia, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Uzbekistan and Ukraine

*** Australia, Czech Republic, Denmark, Hong Kong SAR, Iceland, Israel, Korea, New Zealand, Norway, San Marino, Singapore, Sweden, Switzerland, and Taiwan Province of China.

Source: ING Forecasts February 2016, IMF World Economic Outlook October 2015

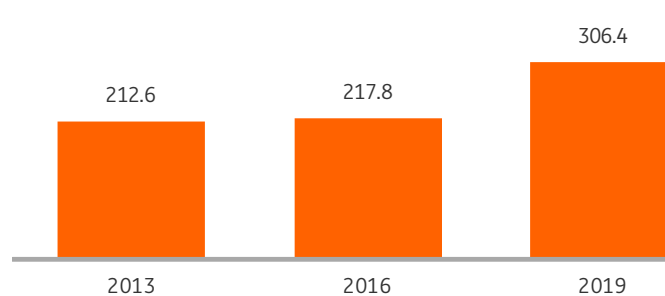
Trade forecasts

Depending on the oil price, trade is expected to grow steadily.

The UAE maintains a trade balance (goods AND services) deficit of USD11bn at June 2015. The merchandise trade balance, however, is decidedly positive: USD14.3bn. This implies that the UAE maintains a large services trade deficit (not covered in this publication).

ING expects trade to grow steadily. Imports are expected to grow by 7.9% annually while exports are expected to grow 7.8% annually. Of course, this is highly dependent on developments on the oil market and therefore on OPEC policy changes.

Total imports, USD bn

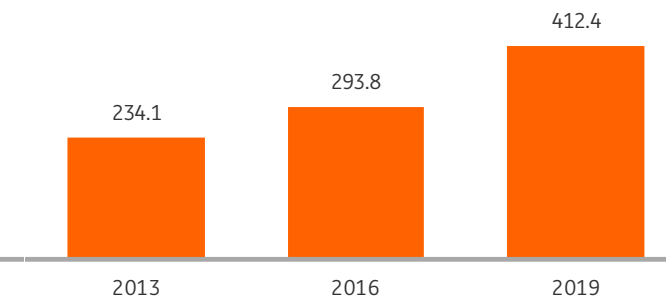


United Arab Emirates

World ranking 2014 15

Average expected growth rate 2016-2019* 7.9%

Total exports, USD bn



United Arab Emirates

World Ranking 18

Average expected growth rate 2016-2019 7.8%

*Calculated as Compound Annual Growth Rate (CAGR)

Demand for products: imports by product group

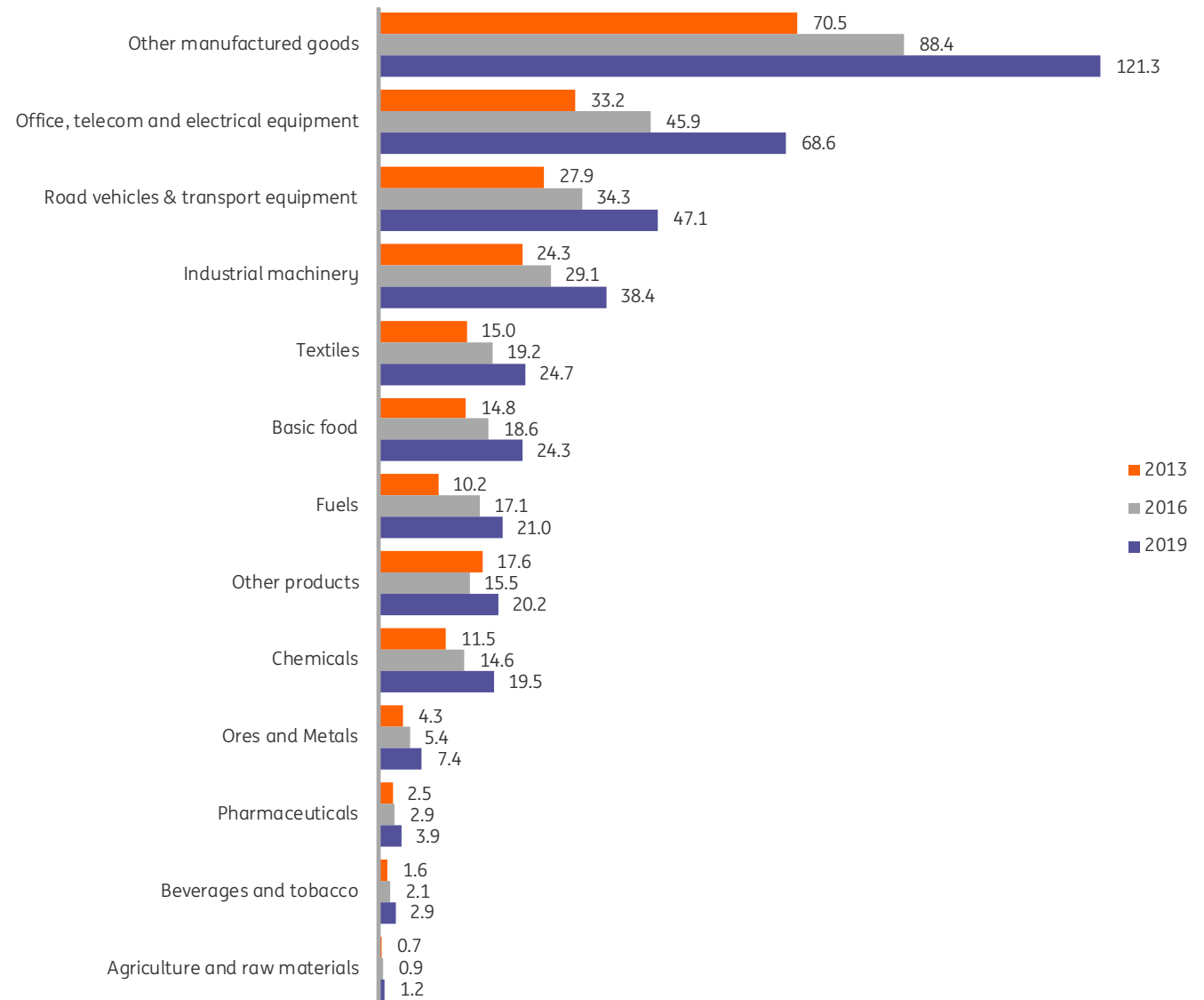
Imports are expected to grow across all ING-defined categories

The main import flows are in other manufactured goods, office, telecom and electrical equipment, and road vehicles & transport equipment. These flows are expected to keep growing over coming years.

The largest expected inflow growth is in fuels (24.4% annually until 2019) as the UAE is a prime refiner of petroleum products. Of course, this forecast depends highly on foreign and domestic production and on price developments.

The second largest increase is expected in office, telecom and electrical equipment (+14.3%). We also expect large increases in imports of other manufactured goods (11.1% annually until 2019). Jewelry (USD17.4bn in 2014), pearls and precious stones (USD14.7bn) and various construction goods make up most of this category.

Imports by product groups, USD bn



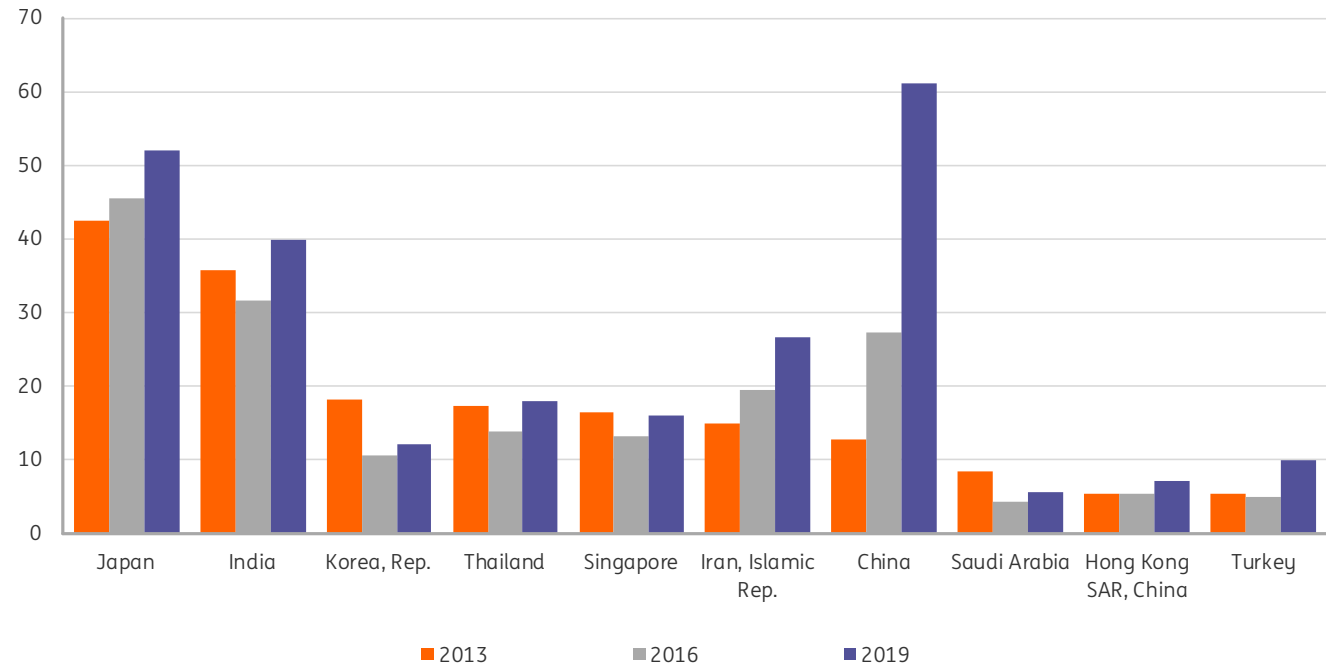
Demand for products: import origins

China is expected to become the most important trade partner (1)

Imports are expected to rebound for all top 10 import partners in coming years. More extreme, however, is the expected boom in imports from China which is expected to overtake Japan as the top exporter to the UAE.

Also interesting is the large expected increase of fuel imports from India. Indeed the UAE is becoming a large consumer of oil. But where the UAE primarily exports crude oil, import is mostly refined oil.

Main origins of imports, USD bn



Top 5 largest import flows by product group and country of origin

United Arab Emirates					
Product group	Origin	2013	2016	2019	CAGR 2016 - 2019
Other manufactured goods	India	18.1	22.4	34.4	15.4%
Other manufactured goods	China	12.5	18.6	25.6	11.2%
Office, Telecom and electrical equipment	China	9.3	16.2	26.9	18.4%
Textiles	China	8.1	11.4	16.6	13.3%
Fuels	India	5.0	10.8	25.8	33.8%

Sources: ING, IMF World Economic Outlook, UNCTAD, National Statistical Services, Rating Agencies

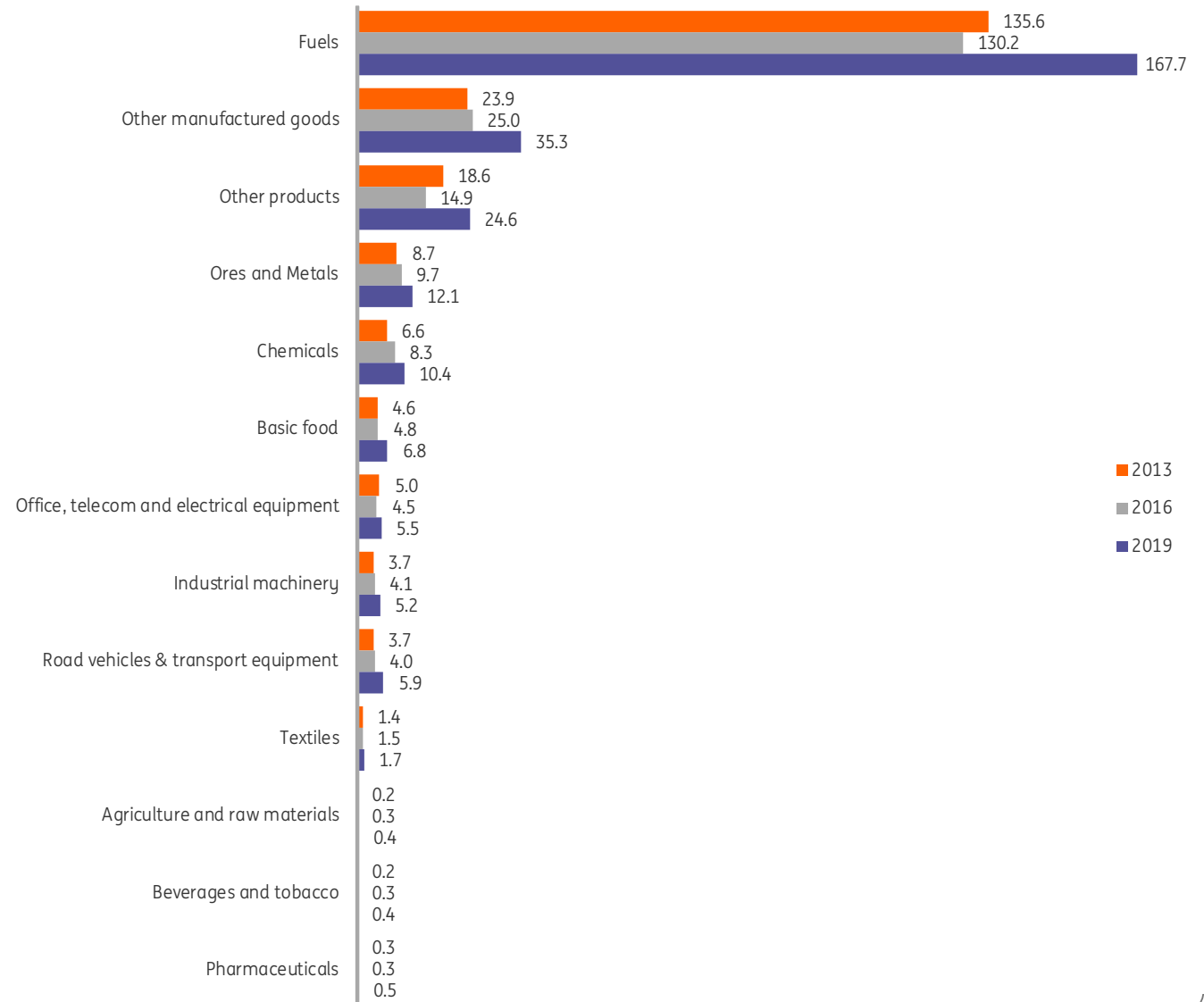
Supply of products: exports by product group

Oil all the way, but expectations may be bloated.

It does not come as a surprise that the fuels category was by far the largest export product group three years ago, is now and is expected to remain so in coming years. As one can see, merchandise export diversification is coming about slowly. Growth is not expected to be higher in non-fuel related sectors.

However, the parameters we used in our model run strongly dictate this rise. The current forecast is an average price of USD45 for 2016 and 63 for 2017 with stable prices from thereon. Obviously this has a large impact, and therefore expected fuel export growth rates, and therefore total export growth rates, should be treated diligently.

Exports by product groups, USD bn



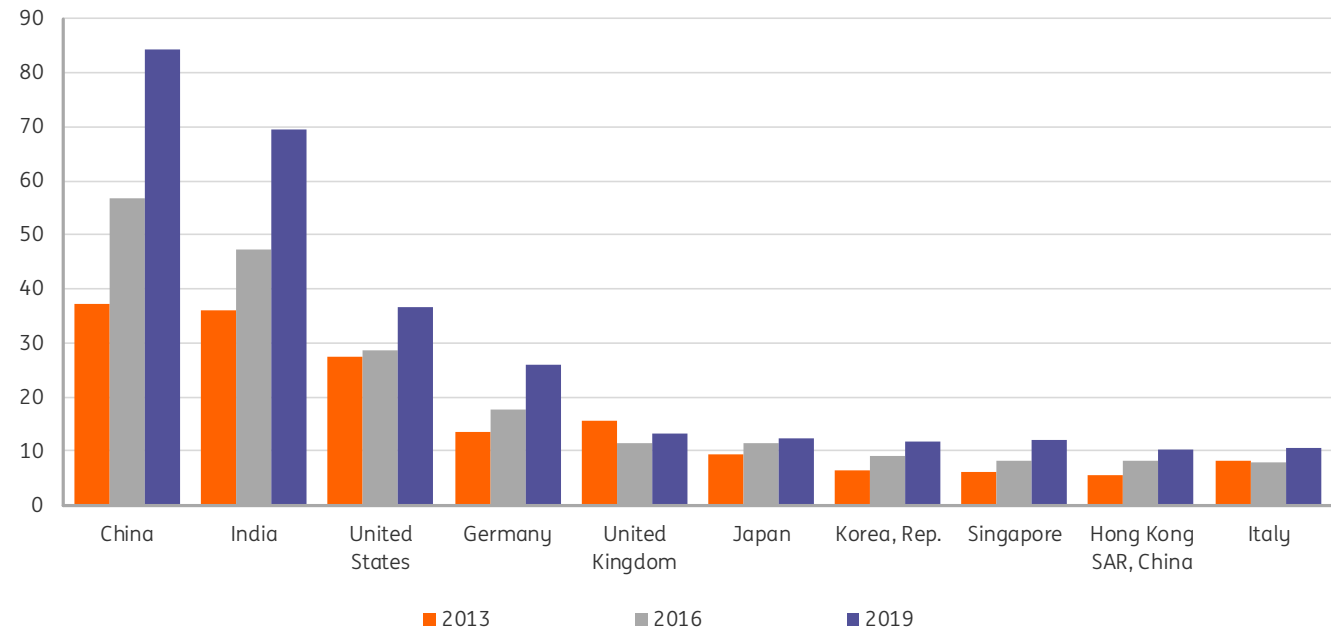
Supply of products: export destinations

China is expected to become the most important trade partner (2).

In addition to China becoming the biggest source of imports for the UAE, it has been the main destination for Emirati exports for years.

As we can see, the export composition is very lopsided. The five largest export flows by partner and product group are all fuels.

Main destinations of exports, USD bn



Top 5 largest export flows by product and country of destination

United Arab Emirates					
Product group	Destination	2013	2016	2019	CAGR *2016 - 2019
Fuels	Japan	41.9	44.4	50.5	1.3%
Fuels	China	10.3	23.1	54.7	8.9%
Fuels	India	15.3	16.1	18.3	1.3%
Fuels	Thailand	16.8	13.3	17.3	2.6%
Fuels	Singapore	15.3	11.5	14.1	2.0%

Sources: ING, IMF World Economic Outlook, UNCTAD, National Statistical Services, Rating Agencies

*Compound Average Growth Rate

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