UAE: Big plans, big threat

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- **The UAE is expecting an economic fillip from Dubai Expo 2020 as well as from growth-friendly reforms it has passed and government acceleration programmes it has launched, especially in Abu Dhabi.**
- **This is now being threatened by COVID-19 (coronavirus), which not only may deter people from large gatherings like the Expo 2020 but is also hitting one of the UAE's leading trade partners, China.**
- **For now, forecasts for overall growth in the UAE will need to be revised, on the back of three lacklustre years and a potentially weak 2020.**

Table 1 - UAE Macroeconomic Indicators[1]

	2016	2017	2018	2019	2020f
Real GDP Growth (%)	3.0	0.8	1.7	1.6	3.0
Crude Oil Production (M Bpd)	3.0	2.9	3.0	3.1	3.2
Oil GDP Growth (%)	2.6	-3.0	2.6	3.2	1.7
Non-oil GDP Growth (%)	3.2	2.5	1.3	2.7	4.0
CPI Inflation (%)	1.6	2.0	3.1	2.1	2.1
Fiscal Balance (% of GDP)	-2.0	-1.6	-1.8	-0.8	-1.7
C/A Balance (% of GDP)	3.7	6.9	6.6	5.9	5.1
Total Gov't. Gross Debt (% of GDP)	20.2	19.7	18.7	19.2	19.0
Total Gross Extrn'l Debt (% of GDP)	69.6	72.6	68.6	68.7	66.4
Gross Official Reserves (Mos. of Imports)	3.3	3.7	3.8	4.3	4.6
Nominal GDP (USD B)	357.0	382.6	424.6	427.9	449.1
Population (Millions)	9.2	9.4	9.5	9.7	9.8

Expected growth turnaround under threat

After a challenging 2019, economic activity was expected to pick up momentum this year, helped by Dubai Expo 2020, existing fiscal stimulus, as well as reform efforts to improve the investment climate and government acceleration programmes such as Ghadan 21 in Abu Dhabi. However, COVID-19 may now act as a major brake.

- The IMF had expected growth at 3% for 2020, up from the 2.5% previously forecast in October 2019 (and against a downward revision in global growth). That compares with 1.6% growth estimated last year. 2020 GDP growth will most likely be revised downwards.
  - The IMF and Central Bank of the UAE differ over 2019 performance with the latter estimating growth of 2.9% driven by 1.1% in the non-oil sector and 7.6% in the hydrocarbons sector (mostly natural gas).
  - Rising public and private spending at the federal and emirate levels will support economic activity.
    - Assuming it meets its objectives, the UAE says this would be the third consecutive year in which the fiscal budget is balanced. It last had a deficit (2.6%) in 2017.
    - Despite the completion of some major projects related to Expo 2020 Dubai, which has boosted spending and growth significantly, we expect the 2020 budget to still dedicate at least one-fifth of total spending to further infrastructure programmes.
    - We do not see a significant fall-off from the end of the Expo 2020 stimulus.

COVID-19 could take a major toll

GCC economies, especially the UAE, are very vulnerable to the fallout from COVID-19 or any health pandemic. These economies will be impacted by a hit on trade and retail spending, energy prices, and hospitality, which could all see relative declines. China is a major component of them.

- China, currently the epicentre of COVID-19, is the UAE's leading trade partner in non-oil commodities, accounting for close to 10% of its total non-oil trade.
  - The UAE is also considered a gateway for about 60% of China's exports to regional markets, at an annual volume of exchange worth USD 70B including re-exports. Sino-UAE bilateral trade stood at USD 34.5B in the first nine months of 2019 and USD 53B in 2018.
  - Trade with Dubai accounts for over 80% of total Sino-UAE trade; the emirate handles 60% of China's exports throughout the MENA region.
- In addition to the hopefully temporary COVID-19-related supply disruptions, an accompanying decline in consumption spending (retail sales will likely dive especially if people stay indoors fearing risk of infection) could add to negative impacts on UAE growth
  - Ominously, UAE non-oil private sector activity shrank in January for the first time since 2009.
  - A decline in the number of Chinese tourists, meanwhile, will significantly impact retail spending especially on luxury goods.
    - Chinese shoppers make up 40% of the global market for luxury goods (within China and during their travel internationally) and even if only 5% of that happens at UAE stores, it would still make for a significant loss.
  - Expenditures by foreign visitors in Dubai are estimated to account for about a quarter of total annual retail sales -- a sector which accounts for about 12% of the UAE's GDP.
  - Real estate services firm CBRE estimates that Dubai hosts 62% of the world's retail brands, followed by Shanghai (55.3%), London (51.7%), Abu Dhabi (51%) and Paris (48%).
- A decline in Chinese oil demand would have a major impact on trade with the Arab countries, given that over 50% of Beijing's oil comes from MENA.
  - Sino-Arab trade is estimated at USD 249B for 2019, with oil making up about 40% of the value.

[1] Arabia Monitor; IMF.

- Oman is the most exposed Middle Eastern oil producer to China's crude demand, with sometimes more than 90% of its monthly sales going to China and oil trade making up over 80% of total bilateral trade value.

➢ Virus-related travel restrictions could weigh on the GCC's hospitality industry, but more so in Dubai, which received almost 1 million visitors from China in 2019.
  - Latest official data for 2019 from Dubai Tourism ranks China fifth after India, Saudi Arabia, the UK and Oman in terms of the numbers of arrivals.
  - Total 2019 Chinese tourist arrivals were just over half those from India (1,970,000) and relatively close to those from the UK (1,200,000). Both have been traditional mainstays of Dubai tourism.
  - There is an opportunity to scale up in the long-term, given both the potential numbers of Chinese visitors and the low base from which the UAE can build.
  - In the short-term, however, we estimate that the UAE stands to lose about 250,000 Chinese tourists to Dubai over three months if the virus outbreak is not contained.
  - Prior to the outbreak, a number of initiatives were being undertaken by the UAE to encourage Chinese tourism. There is no reason to suggest that they will be stopped, but the economic upside will be delayed.

Expo could hinge on COVID-19 containment

Expo 2020, which starts in October, is expected to attract 25 million visitors and generate greater business activity for the private sector. However, if the virus outbreak across the world is not contained, it may be postponed or cancelled.

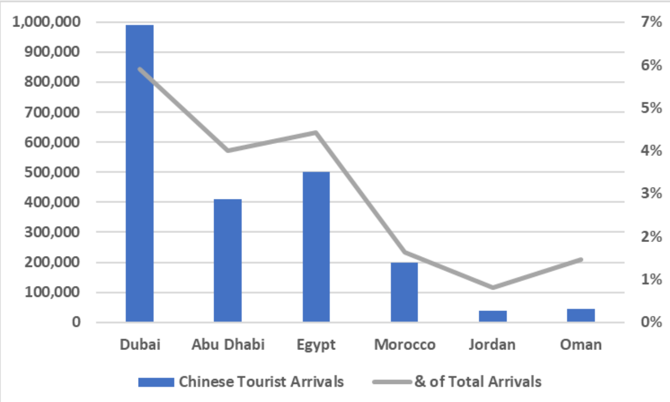
➢ Anxiety over the spread of the virus has already disrupted some events in the UAE, including Dubai Lynx (the main creative-industry festival for the Middle East), Dubai International Boat Show and a few annual company conferences. (The boat show is particularly lucrative, focussing on superyachts costing hundreds of millions of USD).

➢ Expo 2020 spending this year is estimated at USD 18.1B, 17% YoY higher than the previous year. A postponement or cancellation would be a major hit on GDP, although the infrastructure stimulus would remain.

➢ Before the virus outbreak, Dubai was already taking measures to facilitate more convenient travel to the country which will provide a boost to overall tourist spend and stimulate the UAE's GDP impact.

➢ The introduction of a new multi-entry five-year tourist visa is aimed at driving longer stays as well as encourage new airline routes, making the country more accessible to a host of first-time tourists, especially from emerging markets.

Figure 1 - Chinese Tourist Arrivals, by Host Country[2]



Ghadan 21 forging ahead in Abu Dhabi

In Abu Dhabi, growth will partly be driven by the economic stimulus package for the next three years that was announced last year, brought together under the umbrella of the multi-phase "Ghadan 21" plan. There is significant progress in the initiative, and we do not expect this to slow down because of COVID-19. But the emirate's tourism and hospitality industry would be hit by the virus scare.

➢ Ghadan 21 is accelerating Abu Dhabi's transition to a knowledge-based economy and strengthening its position as a global innovation hub.

➢ One year since the launch of the tech platform -- Hub71 -- as part of the broader initiative, 39 startups have been incubated.
  - In February, WeWork, the leading co-working and space-as-a-service company, launched its first location in the UAE with Hub71 which hosts all 39 startups.

➢ Another major boost for the entrepreneurial ecosystem was the launch of the AED 535M (USD 146M) Ghadan Ventures Fund, which aims to grow the emirate's start-up and venture capital space.
  - This includes a Start-up Matching Fund for early-stage start-ups of up to AED 10M for seed rounds and AED 50M for series A rounds.

➢ In February 2020, Abu Dhabi Investment Office (ADIO) expanded the scope to increase support for the growth and expansion of innovation-focused companies through participation in Series B.

➢ ADIO is also investing AED 60M in five innovation-focused companies, including Securrency, TruKKer, Sarwa, YACOB and Okadoc.

➢ In addition, ADIO's New Managers Fund, which matches every AED 1 of equity raised in a private market (up to AED 20M per fund), has made its first investment in UAE-based VC firm Global Ventures.

➢ Abu Dhabi, which receives about half the number of Dubai's Chinese tourist arrivals will also see a decline in arrivals.

[2] Arabia Monitor; ministries of tourism of respective countries.

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