



# Outlook on Italian Business

[ UNITED ARAB EMIRATES ]

Abstract

mediterranean  
equities

2015

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# OUTLOOK ON ITALIAN BUSINESS IN THE UNITED ARAB EMIRATES

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# INTRODUCTION

## **The birth of the new “business” project: the United Arab Emirates (UAE) and the role of international trading and maritime relations**

The publication on the United Arab Emirates is a turning point toward the new editorial line of the Business Project of SRM, started in 2012. The initiative is part of the analysis carried out by our Research Centre based on the “Observatory of economic relations between Italy and the Mediterranean”, one of the most relevant projects realized during these years.

So far, the program planned and elaborated 4 researches on Turkey, Morocco, Tunisia and Egypt; Countries overlooking the Mediterranean, with a significant international openness, with efficient investment attraction policies and under the scrutiny of Italian companies, which are constantly exporting their goods in those areas, establishing trading agreements and opening new facilities and productive plants. If we were to express this situation with a number, it should be sufficient to say that Italian export toward the MED area plus the Gulf amounts to over 40 billion euro, a value higher than our export toward USA and China combined.

The core objective of the project was to quantify the value of the Italian business presence in the Southern and Eastern Mediterranean Countries, with the goal of giving an operational tool to companies and financial operators to use in identifying opportunities, features, strategies and outcomes of the Italian companies located there. The “typical” work methods of SRM are used in achieving this, with desk analysis and, most of all, field research: a group of researchers has always been sent abroad and, with the support of the Banks and Representatives of the Gruppo Intesa Sanpaolo, has listened to the territory, with its business and institutional players, providing as such an important added value to the works produced. To this end, in May 2015, a research team was sent specifically in Dubai and Abu Dhabi.

The United Arab Emirates is a Country with the basis of its economic growth rooted in an extraordinary capacity of scheduling its own development, on the presence of areas which adamantly pursue an attraction policy for foreign investments and, last but not least, a high availability of financial resources to allocate on infrastructural projects with great economic impact.

The Abu Dhabi - Economic Vision 2030 and Dubai Plan 2021 papers express, in fact, how the Country has a well-defined projection of what is going to be established and which are and will be the Pillars of development in economic, social, productive and many other terms. Joining the picture, we also have specific programs for the development of sectors such as the maritime one, which was also put into effect with the Dubai Maritime Vision 2030, from where it is easy to see how the Country wishes to candidate itself as the main hub of maritime global trade.

In terms of economic growth, the possible effects of a possible removal/decrease of Iran’s embargo are not to be overlooked; the 14th of July 2015 there was the signing of the *Joint Comprehensive Plan of Action* (JCPOA), an agreement between Iran, the Countries of the United Nations Security Council (China, France, Russia, United Kingdom, United States and Germany) and the European Union, which lays down a series of strategic lines to follow in the utilization of nuclear power. The Country taking the biggest toll from the Iranian embargo is the United Arab Emirates, which has important trading volumes with Iran; in 2014, UAE’s exports toward Iran amounted to 34.7 bn dollar, and imports to 1.5 bn dollar.

The analysis of the United Arab Emirates, also, proposes a line that develops some additional aspects of the strategies of the Countries, compared to the ones we considered so far and that we mentioned before; in particular, the attention is focused on the infrastructures and companies in the shipping and logistics sectors. To this regard, some considerations need to be made, which will show why we chose to “expand” the Observatory’s view: not only the Mediterranean, but the Gulf too, and not just companies, but also maritime infrastructures; these two elements are intertwined.

Let’s start from Italy; our Country has its international trade relations deeply “anchored” to maritime shipping; the numbers show that the traffics of goods between Italy and the Mediterranean Countries happen by 76%

with naval means. This leads us to a fundamental asset for internationalizing companies, Ports, and logistics associated to them. We should mention that the vessel traffic of goods in the MED Basin has more than doubled in the past 13 years, and that in the Mediterranean there is about 19% of global traffic; this percentage, in 2005, was 15%.

The Med Area Countries we showed and analyzed have been following important development policies in their port system in chain-like terms for quite some time, knowing that this is the key element for the economy and the foreign vocation of an area (some examples: Morocco with Tanger Med and Turkey with Ambarli and Mersin). As if it was not enough, our competitor European Countries are investing in maritime infrastructures to increase their relations in the Mediterranean (in the previous Reports we talked about Germany and France and their important business settlements).

This is where the United Arab Emirates enters the picture, with its logistics system based on important ports, Dubai in particular (the ninth port in the world for container traffic), on world-class terminal container operators – such as DP World, for example – and, last but not least, container carriers, which are expanding and establishing alliances with each other, as in the case of UASC-United Arab Shipping Company, which entered the new alliance named Ocean Three, together with the French CMA CGM and the Chinese China Shipping Container Lines. Together, they will cross routes which will allow them to cover the whole arc of global trade, increasing the connectivity of the Gulf area.

The ability of the Emirates of building a maritime cluster of excellence with Dubai as the Hub port, becoming the “entry door” to and from the Gulf, will allow to intercept new traffics and to create new routes, also thanks to the development of Free Zones located right next to the main ports, as well as in the whole area.

The Arab Emirates, in fact, is pursuing important development policies in the port sector, which can also take advantage of a solid system of 36 Free Zones spread throughout the whole territory of the Country, which are autonomously pursuing well-structured foreign investment attraction policies; in addition, Free Zones are one of the most distinguished elements affecting the growth of the ports in North-Africa and in the Gulf; in Europe, they are not utilized, and when they are their use is limited to custom duties aspects.

Free Zones are a catalyst for companies of every sector, which can benefit from a “friendly” bureaucratic system, from tax and custom duties incentives for companies, and from low-priced areas with licences and permits already acquired with reliable times for obtaining any form of “documentation” required in practicing a productive activity. Many Italian companies of every size have invested in the UAE and are located in Free Zones, but also in non-Free Zone areas, as the research shows.

The combination of elements we mentioned so far makes it so that the UAE holds a position of influence in competitiveness rankings; it is the same combination of elements that contributes in creating the commercial interchange of the United Arab Emirates, amounting to 630 billion dollar, and that makes it one of the most open Countries in the world toward international trade, with an incidence of import-export on GDP of 163%.

As such, the strategic importance of the Mediterranean-Suez-Gulf-Far East economic axis seems to gain an increasing importance. We started from these assumptions to inaugurate the new design of the research project, adding, as mentioned earlier, the logistics aspects to the industrial ones we considered before. The new soul of the publication lies within the synergy of the two permanent research Observatories held by SRM; the one on the Economic Relations between Italy and the Mediterranean and the other one, born only recently, on Maritime Shipping and Logistics.

The work structure is enriched by the topics we listed above and it is completed by the analysis that have always characterized the other researches; in particular, we are going to illustrate how the volume was conceived in its three sections.

The First addresses the issue of trading and maritime flows in order to have the framework of the international projection of the Arab Emirates; this Country is characterized by its re-export activity, 46.3% of imports is processed and re-exported. The main trading partners are India, Japan and China, covering 1/3 of interchange, and Italy is one of the main European partners, along with Germany and United Kingdom.

Next, always in this section, there’s the analysis of the logistics and infrastructural aspects with the situation of the ports and container terminals, offering the general framework and by individual seaport, also showing



the high connection level with the Country and the rest of the World measured by regular naval services. At the end of the chapter there is the interesting analysis of the infrastructural competitiveness of the Country, which examined 3 indices, respectively of Unctad, WEF (World Economic Forum) and World Bank, offering a cross-section of the connectivity, the quality of infrastructural works and the so-called “Doing Business”.

This section ends with the analysis of an infrastructure that is going to have a huge impact on the importance of the Mediterranean and that will affect the Gulf as well: the doubling of the SUEZ Canal. The Egyptian government launched this work the 6th of August 2015, which will allow to double the number of ships transiting each day and to considerably reduce traversing times; the benefits will not come just from the increase in the collection of transiting fees, but also from the heavy manufacturing and logistics investments which are going to be carried out “in parallel” to the canal.

SUEZ’s centrality, anyway, seems to be the key that will renew the Mediterranean, giving it more traffic, more routes and, as a consequence, more competitiveness between ports. 27% of the goods traversing through SUEZ are directed or come from/to the Gulf; it should also be mentioned that the passages from the Suez Canal from North to South and directed toward the Gulf have increased by 339% in the last 14 years, and in the same period the South-North passages coming from the Gulf have increased by 175%.

The growing phenomenon of ship gigantism, moreover, is going to increase the importance of the Canal and its interrelationships with the Gulf area. Suez has no trouble in accommodating last-generation ships (the so-called Megaships) of 18-20,000 TEU and the ports of the Gulf, especially Dubai, have invested and will keep on investing on the preparation of infrastructures completely capable of managing embarking and disembarking operations of container ships. Not coincidentally, the port of Dubai is the first in the world for productivity of its terminals, with 131 ship movements per hour, according to the ranking of the Journal of Commerce. Among other things, the orderbooks are showing a growth projection of the fleet of mega ships equal to +72% by 2018 (versus a 1-3% growth for small and medium-sized ships).

Lastly, right in this section of the work, we decided to develop one of the issues we addressed earlier, the Free Zones (FZ) and the policy of attraction of the investments, with an in-depth analysis: in the UAE there are 36 FZ with their own independent management, their own managers and their own vocations (some mixed, some focused on one sector).

The Second part gives an in-depth analysis of the bilateral trade relations between Italy and the UAE with an examination of the dynamics of international trade, FDI and Italian Companies in the Emirates, where they export goods for a value of over 7 billion dollar (four times the amount of 2001), with the mechanical sector in the front line, together with precious metals. Italian FDI in the UAE show, as well, some interesting figures, for a total of 6.3 billion dollar. SRM has then evaluated the presence of about 330 Italian companies located in the Free Zones of the Emirates, slightly less numerous than the German companies.

This part also includes an analysis of the performances of a panel of Italian companies operating in the UAE, focusing in particular on the financial statements of companies operating in the Country with a significant share of their capital owned by Italian companies. Two main aspects are highlighted – growth and profitability – with the aim of offering a framework of market trends, profitability and financial soundness of Italian investments in the UAE. Among other things, the growth tendency of the company themselves stands out, thanks to the potential of the domestic market offered by the territory of the UAE.

The Report ends with the Third part, of a more “traditional” nature, focusing on the numbers of the economy of the Emirates, highlighting the economic value of the Country and the main indices showing its state of health.

In this part it is also possible to find an analysis of another sensible sector of the UAE, the energy one, consisting prevalently of Oil and Natural Gas. The aim is to offer a concise framework of the future programs of the Country in view of the steep increase in the domestic demand of energy expected in the following years. One should consider that the demand of electricity in the UAE grew by over 50% between 2007 and 2013, due to the population increase and manufacturing production.

A significant added value to the report comes from the “case studies” at the end of the volume; they focused on players in the maritime sector, the industrial sector and the most complex aspects of investment policies.

With UASC we analyzed the development routes of the carriers, the importance of the Gulf and the Med area in

their development strategies, as well as the role that Italy could take, with its opportunities and its challenges. Next, there is an interview with the CEO of the Free Zone of Ras Al Khaimah, one of the most important of the Emirates for the presence of manufacturing companies.

The other case studies involved Mapei (construction materials) and Bespoke (high fashion), which have talked about their internationalization process and their investment motivations with SRM researchers.

It should be noted, in particular, that in the attachment of the report there is an extra feature on Sovereign Funds, an important topic linked to the development of many of the most important Countries of the North-African and Gulf Mediterranean. The UAE employs massive amounts of its resources in its Sovereign Funds. Their overall value almost reaches 1,200 billion dollar, about three times the GDP of the Country.

This new initiative by SRM is thereby starting, aiming to provide to economic, business and infrastructural operators a full-fledged and strategically-focused framework of the analogue Country. A product whose analyses might help to understand the opportunities for our companies and our Country's growth arising from the Med and Gulf areas. Our manifest ambition is that the Observatory on the Mediterranean, with its ideas and analyses, might become a point of reference for the economic knowledge and the understanding of the opportunities represented for us by these areas and the Mediterranean as a whole.

**Massimo DEANDREIS**

# RECAP

The United Arab Emirates is a Hub in the international trading routes, with a growing and competitive logistics-port system:

- The foreign commercial interchange of the United Arab Emirates (UAE) totalled 631.3 billion dollar in 2014, a value 4 times higher than the one registered in 2004. the UAE sits at the first place among the Middle Eastern and North-African Countries (the MENA region) for the value of foreign trade.
- It ranks 5th in the world in terms of trading openness. The trading interchange and GDP ratio equals to 163.1%.
- The UAE is, above all, a re-exportation hub: during the first 6 months of 2014, 46.3% of UAE's imports has been re-exported; in the Free Zones, this percentage is 70%.
- India, Japan and China are the main trading partners of the United Arab Emirates. Overall, the trading interchange with this three Countries amounts to about 210 billion dollar in 2014. Among the main western trading partners we have USA, United Kingdom, Germany and Italy.
- The role of the main logistics hub in the MENA region is supported by a highly developed port system. The UAE has many seaports both in the Gulf and in the Indian Ocean. The main commercial port of the Country is the one of Jebel Ali in Dubai (15,2 million TEU shipped in 2014, 9th transshipment seaport in the world); other important seaports in the Gulf are Port Khalifa in Abu Dhabi, the port of Hamriyah in the emirate of Sharjah and Port Saqr in Ras Al Khaimah, while the main seaport in the Indian Ocean is the port of Fujairah, in the emirate of the same name.
- Dubai has developed a very dynamic cluster in the Shipping and Logistics sector, which groups 1,600 logistic companies and over 170 Shipping Lines, with an ever-increasing importance of its role in global trade.
- The UAE sits at the 14th place in the global ranking of the Liner Shipping Connectivity Index (LSCI), preceding Italy and the other Countries on the South-Eastern shore of the Mediterranean; Germany and Spain have a higher LSCI, sitting at the 6th and 11th position of the global ranking respectively.
- There are additional prospects of growth for trading traffics by sea in the Med-Gulf area: the new Suez canal (launched on 6th August of last year) has a double transit capacity than in the past and allows for a steep decrease in transiting times.

The increasing importance as a commercial Hub between West and East and some strong domestic development policies led to a significant economic growth of the Country, which today sits at the second place (after Saudi Arabia) for the level of Gross Domestic Product among the Countries of the Gulf Cooperation Council (GCC):

- With a GDP of 401.6 billion dollar in 2014, the UAE totals 24.4% of the aggregate GDP of the GCC Countries. Between 1971 (year of foundation of the Emirates) and 2013, the GDP grew by almost 10 times, more than the combined growth of GCC Countries (+445%) and Italy (+111%).
- Between 2011 and 2013, the UAE grew by an annual rate of about 5%; in 2014 the growth rate went down slightly (3.6%), but was still high, higher than the growth rates registered in the EU Countries.
- The inward Foreign Direct Investment stock (FDI in) amounts to 105.5 billion dollar (2013 data), growing steadily during the last ten years (in 2003 it amounted to a mere 6.6 billion dollar).
- The UAE sits at the 22nd position in the global ranking of Doing Business (2015), the first among the MENA Countries and quite higher than Italy (which is 56th). Tax-wise, the UAE sits at the 1st place, while it is 4th in the attainment of construction permits, of electricity access and registration of property.
- In the UAE there are 36 Free Zones with over 70,000 registered companies. At the first 4 places of the 'Top 25 Middle East Free Zones of the Future', elaborated by FDI-Intelligence, there are 4 Free Zones of the UAE; Dubai Airport Freezone is at the 1st place.

- The UAE sits at the 7th place in the world in terms of GDP per capita with power purchasing parity (64,500 dollars per inhabitant), a value well over the one registered in Italy (35,500 dollars), France (40,400 dollars) and Germany (45,900 dollars).

However, it should be said that UAE's economy is still oil-driven:

- The UAE sits at the 8th place in the world in terms of oil reserves (12 billion of tonnes); 94.3% of the reserves are in the emirate of Abu Dhabi.
- The UAE is the 7th oil producer in the world (167.3 million of tonnes in 2014).
- The mining sector contributes with 39.1% to the overall value added of the Country. The contribution of the construction sector (9.0% versus 5.1% of Italy) is also high; the share of manufacturing is still quite low (8.5% versus 15.3% of Italy), as well as the one related to services (40.3%, 74.2% in Italy).

Italy is one of the favourite partners of the Arab Emirates – its exports grew exponentially in the last 15 years and its trade balance registers a significant surplus – as well as an important investor:

- In 2014, the value of bilateral trade between Italy and the UAE was equal to 7.9 billion dollar. Exports have registered a value of 7.1 billion dollar (four times the value of 2001), contributing by almost 90% to the commercial interchange between Italy and the UAE. Germany (the benchmark Country of the analysis) had commercial exchanges with the UAE for a value of about 16 billion dollar in 2014, of which 15.1 billion consisted of exports.
- Italy registers a surplus in the trade balance with the UAE of 6.2 billion dollar. Compared with the overall interchange between the two Countries, it's equal to 88.2%, a much higher figure than the one Italy registers with other GCC Countries (50%) and MENA area Countries (27.3%). Germany, in 2014, registered a 14.1 billion dollar of surplus (94.2% compared with interchange).
- The main export sectors of Italy are mechanical (1,815 million dollar in 2014) and precious metals (1,598 million dollar). The overall value of Italian exports of traditional products of the Made in Italy<sup>1</sup> in the UAE was equal to 2,878 million dollar.
- The Italian FDI stock in the UAE amounted to 6.3 billion dollar in 2012 (last data available), up from 41.5% of 2011. The FDI stock of Germany in the UAE amounts to 2.1 million dollar, 1/3 of the Italian value.
- Among the Countries forming the Organisation for Economic Co-Operation and Development (OECD), Italy sits at the 5th place in terms of FDI stock in the UAE, after United Kingdom, France, Switzerland and United States.
- According to an SRM analysis focused only on the 36 Free Zones, there are 330 Italian companies located in the UAE, with an aggregate turnover of over 650 million dollar (SRM estimate); the German presence in the Free Zones of the UAE has a slightly greater number of companies (400) and an estimated turnover of about 907 million dollar. According to other sources the overall number of Italian companies operating on the whole of the territory of the UAE is 800.
- Vice versa, according to the Reprint database, 33 Italian companies are owned by UAE capitals, in particular, there are 26 controlling shareholdings, of which 15 concern greenfield investments.
- According to our balance sheet analysis on a panel of Italian companies in the UAE, in the 2011-2013 period the companies showed positive profit margins and growth indices. In particular, in 2013 the average ROE of the panel amounted to 30.7%, while turnover grew by 4.3%.

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<sup>1</sup> "Made in Italy" is a compound aggregate that includes the following sectors: food and beverage, furniture and household appliances, fashion system, products and building materials, jewellery and costume jewellery.

Global ranking: the UAE ranks at the top in many socio-economic indexes

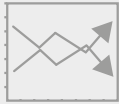


**5<sup>th</sup>** in the world for international openness  
(interchange/GDP: 163,1)

**1<sup>st</sup>** among the MENA Countries for commercial interchange  
( \$631,3 bn to 2013)

international  
openness

46.3% of UAE imports  
is re-exported; i  
n Free Zones,  
the percentage  
rises to 70%



**7<sup>th</sup>** in the world for GDP per capita (PPP) (\$64,479)

GDP



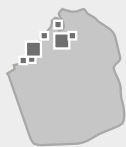
**1<sup>st</sup>** in the world in tax matters

**4<sup>th</sup>** in the world in electricity access

**4<sup>th</sup>** in the world in construction permits

**4<sup>th</sup>** in the world in registration of properties

doing  
business



**1<sup>st</sup>** of the 'Top 25 Middle East Free Zones of the Future'  
- Dubai Airport Freezone UAE

free zone

In the first  
4 positions of the 'Top 25  
Middle East  
Free Zones of the Future,  
there are 4 Free Zones of the UAE



**1<sup>st</sup>** port in the world in container productivity – Jebel Ali

**9<sup>th</sup>** port in the world in container handling – Jebel Ali

container  
handling



**2<sup>th</sup>** in the world in value of assets handled (\$ 773 bn) – Abu Dhabi Investment Authority

**13<sup>th</sup>** in the world in FDI growth (2003-2013 + 1497.4%)

sovereign funds  
and FDI



**3<sup>th</sup>** in the world in terms of hydrocarbon exports (\$220 bn)

**7<sup>th</sup>** in the world in reserves of natural gas

**8<sup>th</sup>** in the world in reserves of oil

oil and gas



**87.9% of citizens living in the UAE  
is of foreign origin**

population

Source: SRM elaborations on various data



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