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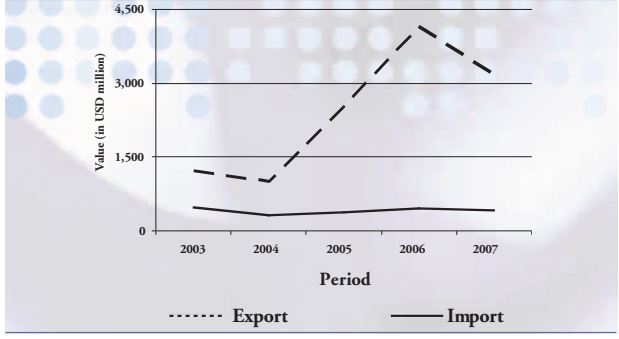
US total export to UAE dips in the first 4 months of 2007

USA's exports to UAE in the first 4 months of the 2007 dipped to USD 3.2 bn, lower by 24% than the USD 4.1 bn recorded in the same period in the previous year (Fig. 1). This followed the surge during the previous years, 2005 and 2006, when total exports for the same period of the year jumped by 153% and 65%, respectively. Although relatively much lower, a slight dip of 6% in USA's imports from UAE in the same period of 2007 could also be noted, to a total value of USD 422 mn, from USD 450 mn in the previous year.

Fig 1: Value of USA's Trade with UAE form January to April, 2003-2007



Sourse of the data: US Bureau of the Census (www.census.gov)

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1. Rettab, B. & Istaitieh, A. & Abu Fakhar, T. (2006): *Implications of FTA on UAE Banks, An explorative assessment* , DCCI	ISBN9948-430-08-5
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Aircrafts and motor cars are USA's largest exports to UAE

USA is UAE's major supplier of aircrafts. In fact, the surge in USA's exports to UAE in 2005 and 2006 could be attributed to the large exports of aircrafts, amounting to USD 3.3 and 5.3 bn, respectively, from less than half a mn USD in earlier years. In 2006, UAE was the destination of 8% of USA's world exports of aircrafts.

In 2005, 30% of the total exports of the aircrafts to UAE were made during the first four months of the year, while corresponding share of the 2006 figure was 44%. Thus, the decline in the 4-month exports of USA to UAE in the first 4 months of 2007 was primarily due to the 65% decline in exports of aircrafts, which reached only USD 825 mn during the period, leading to a decline in the share of USA's exports of aircraft to UAE to only 4%

Substantial respective growths of 123% and 20% in exports of motor cars to UAE were likewise posted for the whole year of 2005 and 2006, reaching respective values of USD 0.9 and 1.1 bn. During these two years, exports of the products for the first 4 months of the years accounted for 28% and 40% of the respective annual total exports. Corresponding 4-month year-on-year growths were 326% and 72%. However, the value of exports of the same products for January to April of 2007, valued at USD 377 mn, represented a year-on-year decline of 17%.

Other major exports of USA to UAE in the first 4 months of 2007 included civil engineering and contractors' plant and equipment, valued at USD 223 mn; ships, non-electric engines and motors and parts thereof, USD 88 mn; telecommunication equipment, USD 86 mn; and non-monetary gold (excluding ores and concentrates), 80 mn.

From a share of 60% of the major exports groups to the total exports during the first 4 months of 2005, the share went up to 74% in 2006, before declining to 53% in 2007.

Table 1: Year-on-Year Growth (GR) and Share (SH) to Total Export of Major Export Product Group, Jan-Apr 2005 to 2007

(Growth and Share are in %)

Product Group	Jan-Apr 05		Jan-Apr 06		Jan-Apr 07	
	GR	SH	GR	SH	GR	SH
Aircraft and associated equipment spacecraft/launch vehicles; and parts thereof	2,053	39	141	56	-65	26
Motor cars and other motors vehicles (not public Transport), including station wagons and racing cars	326	11	72	11	-17	26
Civil engineering and contractions' plant and equipment	32	5	33	4	31	7
Engines motors, non-electronics plate thereof	224	2	-39	1	194	3
Telecommunications equipment, and parts and accessories	12	2	35	2	18	3
Gold, non monetary (excluding gold ores and concentrates *	5,724	2	-98	0	7,765	3
Total (Major groups, in % of All Groups	60		74		53	
Total (All Groups, in USD millions	2,512		4,145		3,165	

Sourse of the data: US Bureau of the Census (www.census.gov)
**- Value of exports of the product was USD 49mn in Jan-Apr 2005; USD 80 mn in Jan- Apr 2007, but only USD 1 mn in Jan-Apr 2004/2006.*

Aluminum leads USA's imports from UAE

USA's imports of aluminum from the UAE soared in 2006, when total imports of the products for the whole year reached USD 274 mn, for an annual growth of 65%. The value represented a share of about 2% to the USA's world imports of the products. Of this value, 33 percent were imported during the first 4 months of the year. USA's total imports of the products from UAE for the first 4 months of 2007 already reached USD 108 mn, for a year-on-year corresponding period growth of 26% (Table 2). This value likewise posted a 2% share to USA's world imports of the product during the 4-month period.

Table 2: Year-on-Year Growth (GR) and Share (SH) to Total Import of USA's Major Import Products Group, Jan-Apr 2005 to 2007

(Growth and Share are in %)

Product Group	Jan-Apr 05		Jan-Apr 06		Jan-Apr 07	
	GR	SH	GR	SH	GR	SH
Aluminum	51	12	99	20	18	26
Special transactions commodities not classified according to kind	12	18	4	15	13	18
Petroleum oils and oils bituminous minerals, crude	*	*	*	*	*	9
Pearls, precious and semiprecious stones, unworked or worked	38	7	109	12	-29	9
Nails, screws, nuts, bolts, rivets and similar Articles, of iron, steel cooper or aluminum	24	7	11	7	-50	4
Women's or girls' clothing (expert swimwear and coated etc. apparel)	5	11	-27	6	-29	5
Men's boys clothing of woven textile fabrics; except swimwear/ coated/laminated apparel	15	5	-2	4	-68	1
Articles of apparel, of textile fabrics whether or not knitted or crocheted	16	6	-40	3	-30	2
Total (Major groups, in % of All Groups)	65		67		74	
Total (All Groups in USD millions)	367		450		422	

Sourse of the data: US Bureau of the Census (www.census.gov)
**- no import during the period*

Among the group labeled 'Special transactions and commodities not classified according to kind' are product returns, goods manufactured from consigned materials, products imported for repair to be exported later, and machineries being returned after using in the partner country. Products belonging to this category constituted the major imports of USA from UAE, until 2006, when it was relegated to the second place. For the first 4 months of 2007, import of these products was valued at USD 76 mn.

The UAE is not a major supplier of petroleum oil to the USA, and the latter's importation of the product from UAE is not regular. During the first 4 months of 2007, crude petroleum oil was USA's third largest imports from UAE, amounting to USD 39 mn, for a share of 9%. Other major imports were pearls and precious/semi-precious stones, articles of iron, steel and aluminum, and garments.

While the statistics presented above showed the importance of USA as supplier of UAE's aircrafts, machineries and equipment, they also showed the importance of the country as market for UAE's major products – aluminum and metal products, garments and jewellery. .

Foreign Direct Investment and GCC Countries

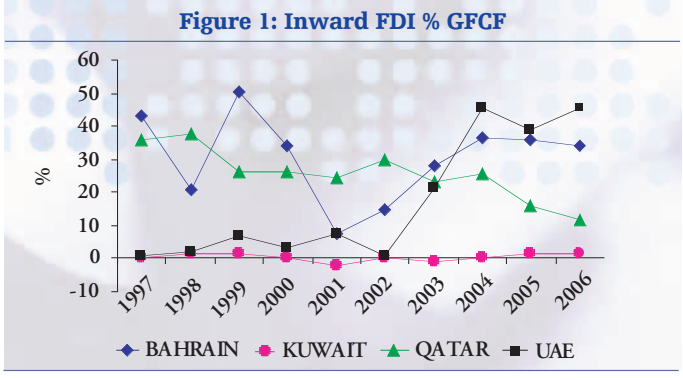
Recently, there has been a lot of research interest in foreign direct investment (FDI) in the Gulf Co-operation Council (GCC) member countries. Unfortunately, the scarcity of the data on FDI in GCC has hampered any in-depth research in this area of knowledge in the region. This article discusses the relationship between FDI and economic growth and the determinants of FDI from the viewpoint of the economic theory. In addition, it compares and contrasts the FDI flows and stocks in four, out of six, GCC countries. The other two countries are not included because there is no data available for them.

Although there is no complete agreement among economists on the relationship between FDI and economic growth, but there is a growing consensus in the literature that FDI is positively correlated with growth. From economic growth theory view point, this positive correlation between FDI and growth is based on the assumption that FDI brings about improvements in technology, efficiency, and productivity and these in turn stimulate economic growth. In this view, the contribution of FDI to economic growth comes through the transfer of technology and management practices from the developed to the developing economies. It has been argued that there is knowledge diffusion from FDI firms to local firms. In FDI literature, this is known as contagion, externalities or efficiency spillovers. This efficiency spillovers lead to improvements in the productivity and efficiency of the local firms. This transfer of knowledge happens when local firms enhance their productivity by simply copying the technologies of the FDI firms operating with them in the local market. Also, these spillovers happen when the local firms are impelled by the tough competition in the local market from the FDI firms to be more efficient in the use of their resources, otherwise they have to exit the market. Moreover, this contagion happens when well trained local employees of FDI firms move to work for the local firms or establish their own firms.

FDI literature points to a number of factors that determine FDI. These are namely market size, infrastructure and industrialization, labour cost, laws and regulations, free trade zones, business and investment climate, economic and political stability, open trade regime, fiscal incentives, transport cost, and regional economic integration.

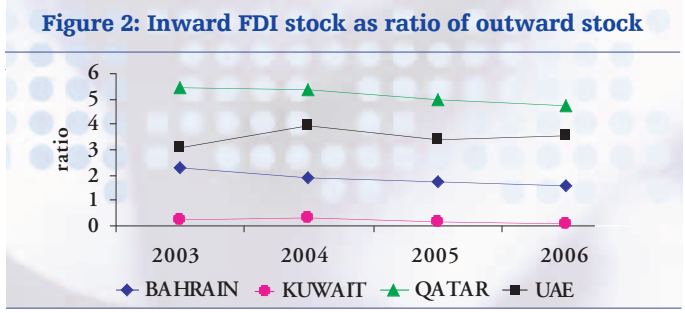
Figure 1 shows the net inward flows of FDI as a percentage of gross fixed capital formation (GFCF) during the period 1997-2006. During this period, the average net inward FDI flows as percentage of GFCF is 31 per cent for Bahrain, 26 per cent for Qatar, 17 per cent for UAE, and less than 1 per cent for Kuwait. The figure shows that Bahrain and Qatar were outperforming UAE during the period 1997-2003, but UAE has been outperforming both Bahrain and Qatar since 2004. FDI flows to UAE have been picking up since 2003, refer to figure 1.

Figure 1: Inward FDI % GFCF



Source: DCCI calculations based on data from EIU

Figure 2: Inward FDI stock as ratio of outward stock



Source: DCCI calculations based on data from EIU

Figure 2 shows the stock of inward FDI as a ratio of the stock of outward FDI during the period 2003-2006. During this period, this ratio is 5 for Qatar, 4 for UAE, 2 for Bahrain, and 0.20 for Kuwait. These ratios show that Qatar, UAE and Bahrain have more inward FDI stock by foreigners than their nationals' outward FDI stock in foreign countries. For Kuwait, the Kuwaitis have more FDI stock outside Kuwait than foreigners have FDI stock in Kuwait. According to the United Nations Conference on Trade and Development (UNCTAD) classification of countries based on their actual and potential FDI performance, Bahrain, Qatar, UAE are classified as front runners, that is, countries with both high FDI potential and high actual performance. Kuwait, Oman and Saudi Arabia are classified as below potential, that is, countries with high FDI potential but low actual FDI performance.

Since financial capital is abundant in GCC countries, thanks to rising oil prices, the GCC are not so reliant on FDI for its financial contribution. Much more, the GCC require FDI to act as a conduit for technology, management, distribution services, and information about foreign markets. Should GCC countries like to attract more FDI then, the empirical evidence both econometric studies and investors' surveys, suggests that they need to improve infrastructures; streamline and simplify laws and regulations; bolster business and investment climate; strengthen macroeconomic stability; establish liberalized and business friendly industrial free zones to generate clusters effects; and engage in wider regional economic integration.

The FDI data used in this article is from the Economist Intelligence Unit (EIU) based on IMF and UNCTAD data. GCC national sources do not officially record or publish data on FDI inflows and outflows. FDI by definition refers to investments made abroad where the investor gains an effective voice in the management of the enterprise; this is often proxied using a threshold of 10% of equity ownership. Using this proxy means that all FDI data has its inherent limitations. High liquidity in GCC countries would imply that the GCC is a net exporter of foreign investment. However, whether this investment is indeed FDI, or not, is indistinguishable and, to a certain extent, a grey area for GCC countries. The IMF and UNCTAD data reports that GCC countries, with the exception of Kuwait, are net importers of FDI. Whilst the IMF and UNCTAD definition and the measurement methodology for FDI are clear, it is unclear whether it is being applied effectively to GCC countries. The regulatory business environment in the GCC, where business is heavily dominated by family businesses, means financial dealings are not always transparent and are, therefore, less likely to be officially recorded as FDI outflows when appropriate. This, combined with the poor FDI national databases, means that the IMF and UNCTAD may actually be underestimating FDI outflows from the GCC. If FDI data in the GCC is to improve, governments are advised to set specialized databases that meticulously record all the FDI flows in and out of the GCC countries and not leave that task for the guesstimate of the IMF and UNCTAD.

Benchmarking the UAE Educational Sector

The increasing population of the UAE and growing concern for strengthening the economy, particularly that of Dubai, has put direct emphasis on education. Education is an essential ingredient to the development of human capital, and it is considered to be the third most important factor of production.

UAE Educational Sector

Over the years, the UAE has progressed rapidly in the development of both public and private sector education. However, there is a real need to understand and assess the growth of this sector collectively in terms of policy and continual investment in the infrastructure and to finally ensure that graduates are prepared to enter the labor force and assist in the country's development.

Schools

Currently, in UAE there are 1,238 schools offering Kindergarten to 12th grade education. 61 per cent of these schools were public and 39 per cent were private (See Table 1).The most number of schools are in Abu Dhabi, accounting for 37 per cent of total number of schools in the UAE. Dubai followed with 28 per cent, Sharjah with 21 per cent and the other emirates with 15 per cent.

Education in Dubai is reliant on private education as private schools accounted for 60 per cent of the total number of schools in Dubai. However, although Abu Dhabi has a greater number of private schools than Dubai, it is still more reliant on public schools. Public schools in Abu Dhabi accounted for 64.4 per cent of the total schools in the emirate.

Table 1: Number of Schools by Type and Emirate

Emirates	Year 2004/2005		
	Private Schools	Public Schools	Total
Abu Dhabi	177	319	496
Dubai	132	90	222
Sharjah	100	128	228
Other Emirates	71	221	292
Total UAE	**480**	**758**	**1,238**

Source: UAE Ministry of Education

Employment

Employment in UAE schools is mainly divided into two main categories: teachers and staff (administrative and technical). Employment in UAE schools amounted to 52,000 in 2004/2005 of which 83 per cent were teachers and 17 per cent were staff. The employment in UAE schools increased by 3,711 employees or grew by a rate of 8 per cent from 2002/3003 and 2004/2005. The growth is mainly attributed to the increase in employment at private schools (17%) and to a very insignificant level an increase in employment at public schools (0.8%).

Students

In the year 2004/2005, the number of students in UAE schools totaled 630,000 of which 55 per cent were in private schools. In line with the above facts, the number of students in Dubai private schools are relatively more than those in public schools. This is indicative of the fact that private school education is in demand as a result of its efficiency. Total number of students in Dubai represent 24 per cent of total number of UAE students. In the case of Abu Dhabi though, the number of students in the public schools exceeds that of the private schools.

Measuring Educational Development

Currently, there are only a few methods to measure human capital development. Efforts are being made by the World Bank, the Organization for Economic Co-operation and Development (OECD) and the United Nations Education, Scientific and Cultural Organization (UNESCO) to achieve standardization within the educational sector worldwide using a variety of internal and external efficiency, quality, and equity indicators.

In view of the universally accepted indicators and given the inconsistency of UAE educational data, only one such indicator, the student/teacher ratio (internal efficiency), can be applied to compare both public and private schools in the UAE. The student/teacher ratio is usually used as a proxy to estimate the class size. In 2004/2005 the ratio was 15:1 for the UAE. A further breakdown into private and public schools results in a different scenario. The ratio in public schools and private schools was 12:1 and 17:1, respectively.

Benchmarking UAE Education

Based on the above, the World Bank maintains a Knowledge Economy Index (KEI) which measures a country's ability to generate, adopt and diffuse knowledge. It takes into account the economic incentive, education, innovation, and information and communications technologies (ICT) performances of 132 countries and ranks them according to their economic efficiency in terms of economic development. According to the World Knowledge Economy Index (KEI) of 2007, the UAE placed 47th and ranked 3rd amongst the GCC countries with an overall score of 5.69; Kuwait and Qatar scored 5.85 and 5.83, respectively (See Table 2).

Table 2: World Bank KEI for the GCC countries, 2007

World Ranking	Countries	Economic Incentive	Innovation	Education	ICT	Overall Performance
44	Kuwait	6.18	5.17	5.19	6.85	5.85
45	Qatar	6.02	5.47	5.23	6.59	5.83
47	**UAE**	**6.15**	**6.39**	**3.33**	**6.88**	**5.69**
55	Bahrain	5.60	2.71	5.74	6.87	5.23
62	Saudi Arabia	5.08	5.36	3.57	5.80	4.95
77	Oman	4.88	3.19	3.78	4.48	4.08

Source: World Bank - Knowledge Economy Index, 2007

With respect to education, UAE scored 3.33 points which was below the world average of 4.13 points. Surprisingly all other GCC countries scored much higher than the UAE in this regard. However, it is important to mention that the KEI takes into account only public school education. In other words, the KEI education indicator does not capture the efficiency of private schools in the UAE. Nevertheless, it is most definately indicative of the fact that the public school educational system in the UAE is extremely weak and needs improvement in order for the country to be more competitive.

Educational Reforms

In line with UAE Vision 2020, the Ministry of Education has proposed the 'Education 2020 Strategy' to progressively improve the educational options being made available to the population. So as to suit the needs and be competitive in a globalized world, it is actively implementing educational reforms such as curriculum change, technology based knowledge learning and training, educational councils and environmental programmes. The strategy intends to upgrade the quality of the primary, secondary and higher educational sub-sectors by urging institutions to attract and admit high calibre teaching candidates by offering meaningful professional development opportunities and higher salaries in addition to forming alliances with internationally recognised educational institutions. In conclusion, the strategy will help in boosting the over all prestige of the schools and the desirability of the programmes and thus the overall educational sector. However, in addition to the latter, it is strongly recommended that the ministry put into place a transparent and sound, monitoring and regulating mechanism to track the progress of these institutions.

Trade and Investment Opportunities in South Africa

In 2006 South Africa's (SA) GDP was US$588 billion, four times the size of the UAE. It has been in the upward phase of its business cycle since 1999. In 2006 SA grew by 4.5% compared with 10.2% in the UAE. In both countries the agrarian sector accounts for less than 3% of GDP. However, in SA the service sector is the main contributor to GDP (67%), whilst in the UAE the industrial sector contributes most significantly (62%), predominantly due to oil. The population size of SA (44 million) is more than ten times that of the UAE; therefore the average per capita income is much less in SA than the UAE.

In its endeavour to help UAE investors identify potential business opportunities worldwide, below the DCCI classifies some promising trading and investment opportunities in SA.

Trade Opportunities (Potential Thrust Products)

Trade flow analysis is used to identify thrust products. Table 1 displays product categories which are, on the one hand, classified as UAE top exports and re-exports to the world, and, on the other hand, show promising potential in the SA market as they are among its major imports with growing demand. In the table, market potential represents the value of SA's imports by product category in 2005.

It is evident from Table 1 that the most attractive products for the UAE to export to the SA market are minerals, fuels, oils, waxes and bituminous substances. The share of UAE exports to SA of this product category as a share of SA's total imports is insignificant (0.01%). This therefore indicates significant potential for the UAE to increase exports of these products to the SA market. SA demand for this product category is fairly high, estimated at US$12.7 billion, and grew at an impressive 62% in 2005.

Table 1: Potential Thrust Products for UAE Export and Re-Export to South Africa

Description	Share of UAE Total Exports	Share of UAE Total Re-exports	Market Potential (US$ billion)	Market Growth (2005)	UAE Exports to SA as a % of SA Imports	UAE Re-Exports to SA as a % of SA Imports
Mineral Fuels, Oils, Waxes and Bituminous Substances	4.5%	-	12.7	62%	0.01%	-
Plastics & Articles thereof	15.6%	-	1.6	15%	1.40%	-
Iron & Steel & Articals thereof	5.6%	1.0%	1.7	30%	0.08%	0.17%
Pearls, Precious Metals, Stones and Articles thereof	3.5%	29.0%	1.1	2%	0.00%	0.22%
Electrical Machinery, Sound Recorders & Parts	-	18.0%	6.9	21%	-	1.72
Vehicles other than railway or tramway parts	-	12.0%	6.8	21%	-	0.51

Source: Comtrade.un.org and Ministry of Economy and Planning

With respect to non-oil products, almost a sixth of the UAE's exports are in plastics and articles thereof. In 2005, SA imported US$ 1.63 billion worth of such products; a 15% growth rate. SA therefore provides an attractive market for the UAE to target its exports. In 2005, UAE's exports to SA represented only 1.4% of SA's total demand. The UAE's exports to SA only account for 0.88% of the UAE's total exports of plastics. Given that trade links are already established SA is a viable market for UAE export expansion.

The UAE both exports and re-exports to the world products classified as pearls, precious metals, stones and articles thereof; although the UAE only re-exports them to SA. In 2005 UAE re-exports to SA accounted for 0.22% of SA's import demand. Although growth in import demand is slow (2%), there is considerable room for the UAE to increase its re-exports. Interestingly, the UAE also imports this product category from SA; therefore this cycle generates attractive opportunities for trade links and partnerships. The SA market is potentially worth US$ 1.1 billion to the UAE; whilst the UAE's strategic positioning in the Gulf provides an opportune re-export market.

SA is also an appealing market for UAE re-exporters with regards to electrical machinery, sound recorders & parts as well as vehicles (other than railway parts). The SA market for these products is large (US$6 billion) and has been growing promisingly (21%). A similar case applies to iron & steel & articles thereof where SA's market is potentially worth US$ 1.7 billion and grew by 30% in 2005. The UAE share of total SA demand of this product category is only 0.17%.

Investment Opportunities

The regulatory environment in SA makes FDI relatively easy. The rights of foreign owners are in general not legally restricted; SA is a member of most international conventions for protecting intellectual property; and banking regulations rank among the best in the world.

However, UNCTAD's Inward FDI ranks poorly in SA, ranked 103rd out of 144 countries, in comparison with the UAE's 15th place. SA's Inward Potential FDI Index is slightly more promising than its performance index, ranked in 72nd place. The UAE ranks in 27th place. The majority of FDI into SA (64%) originates from the UK, with the majority concentrated in the mining, quarrying and petroleum sector, the industrial sector and the finance sector.

An attractive opportunity for UAE FDI in SA is in ports. Historically, the ports have been state-owned, however new government initiatives are inviting public-private partnerships (PPP) to help improve the efficiency and quality of services. South Africa's ports play an integral role as a gateway to the rest of Southern Africa.

Chemical products also account for a large proportion of manufacturing activity in SA. The downstream, fine and speciality chemical markets offer attractive opportunities for investors. There are also significant opportunities in product manufacturing, pharmaceuticals, household products and agro and industrial chemicals. The UAE has built up, in partnership with other foreign companies, considerable expertise in chemical processing. Given the high demand for such products in SA, the plastics market may be an attractive market for UAE FDI.

The SA tourism industry is valued at $10 billion a year and is expected to rise sharply as the government and private sector invest in a marketing and promotional drive. The country's tourism infrastructure is sophisticated and developed, but key opportunities exist especially with regards to eco-tourism. The UAE has, and continues to establish itself as a destination for international tourism. The UAE's experience in this sector may be transferable to the SA market with potentially high future dividends.

Overall, SA is an attractive market for UAE businessmen given the size and growth of the economy. Furthermore, SA has created a well-protected regulatory environment for FDI and is committed to improving its inward FDI performance to match its potential. Historically, SA and the Arab world enjoyed strong trading relationships. The opportunity now presents itself to reinforce these links.