DUBAI
CHAMBER OF COMMERCE & INDUSTRY

The Economic Bulletin

February 2007 Volume 4 - Issue 32

Marketing Services Sector in Dubai

The membership database of the Dubai Chamber of Commerce and Industry (DCCI) as of the 2nd quarter of 2006 contained information on 622 companies engaged in marketing services. These companies have jointly invested approximately AED 529 million in Dubai.

In October 2006, the DCCI conducted a survey to gain insight into the Dubai business services sector's conduct, structure and performance. The survey collected information on 95 companies engaged specifically in marketing services, thus representing a response rate of 15.3 per cent (95/622). Among the respondents, 52.6 per cent are actively involved in advertising, whereas only 33.7 per cent in direct marketing, 17.9 percent in market research and 23.2 per cent in other activities.

Employment and Skills

The marketing services sector is dominated by small sized enterprises; about 63 per cent of companies involved in this sector only employ between 1 to 9 employees. 27 per

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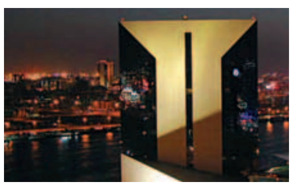

SELECTION OF PUBLICATIONS FROM DATA MANAGEMENT & BUSINESS RESEARCH DEPARTMENT (DCCI)	PUBLICATION REFERENCE NO.
1. Rettab, B. & Istaitieh, A. & Abu Fakhar, T. (2006): *Implications of FTA on UAE Banks, An explorative assessment* , DCCI	**ISBN9948-430-08-5**
2. Abdelgalil, E. (2006): *Dubai Real Estate Sector and its Relationship to Financial Sectors, DCCI*	**ISBN 9948-430-15-8**
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13. DM & BR (2004): *How to Develop Marketing Plan for your Business,* DCCI	**ISBN9948-8547-7-2**
14. Rettab, B. & Morada, M. (2005): *Outlook Survey of Dubai Traders,* DCCI	**ISBN 9948-8547-9-9**
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21. Abdelgalil, E. (2005): *How to Develop Business Plan,* DCCI	**ISBN 9948-430-05-0**
22. Abdelgalil, E. & Rettab, B. (2004): *Guide for Dubai Exporters,* DCCI	**ISBN 9948-8547-3-X**
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cent are medium sized companies with 10 to 49 employees and the remaining 10 per cent are considered large in size with 50 or more employees. The majority (89%) of workers within marketing services sector are skilled with at least a university degree and the remaining 10 per cent are low skilled having attained a high school diplomas and 1 per cent having no school qualifications.

Market Performance

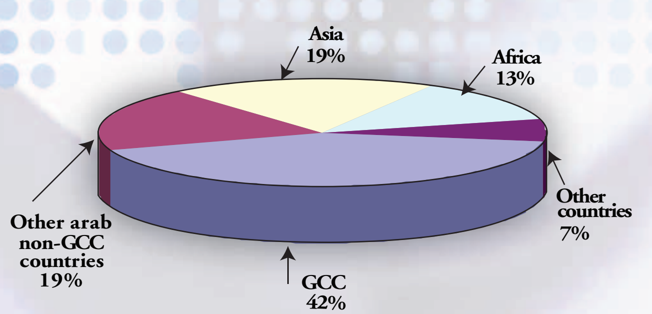
Survey results show that about 65 per cent of companies in the marketing services sector estimate an annual turnover below 5 million thus highlighting the fact that majority of businesses involved in this sector are small sized businesses. Only about 35 per cent of companies earn above 5 million. However, it is important to note that almost 98 per cent of companies are making positive profits, while only 2 per cent are making negative profits. In view of the current market performance with regards to perceived annual growth and profits, almost 86 per cent of businesses within this sector are extremely optimistic about the growth and expansion within this sector.

Market Expansion

Dubai's marketing services operates on an international basis. As shown in Figure 1, over the last 5 years, majority of services have been tendered within the GCC (42%). However, Asia and other Arab non-GCC countries employ a significant proportion of Dubai's marketing services with 19 per cent each.

Dubai uses a variety of methods to acquire new assignments within this market. The most successful means through business contacts with 47 per cent of the market adopting this strategy. Personal networking is the second most favourable strategy (25%) followed by tendering (17%), business associations (9%). Assignments acquired by 45 per cent of companies within the sector are undertaken fully in-house, whereas 46 percent are partly subcontracted and 3 per cent are entirely subcontracted.

Figure 1: Distribution of Dubai marketing services provided in the last 5 years by country (%)



Source: DCCI Survey, October 2006

Over the coming years, the sector looks to expand, with more than 66 per cent of business planning to penetrate into new markets. A further 16 per cent of businesses plan to engage in mergers and acquisitions and finally 15 per cent intend to expand through vertical integration.

Growth Constraints

Although businesses engaged in this sector exuberate great enthusiasm with regards to future growth expectations, they feel prevalent market limitations are retarding the growth within the sector. Competition seems to be biggest limitation for 31 per cent of businesses (See table 1) and about 97.8 per cent of companies perceive this competition level to be between high to medium.

Table 1: Distribution of companies according to most pressing issues faced by their business (%)

Pressing Issues	Per cent
Tough competition	31%
High set up costs	26%
Laws and regulations	18%
Market size too small	13%
Foreign market restrictions	11%
Others	1%
Total	100%

Source: DCCI Survey, October 2006

Additionally, high costs associated with day to day business operations, restrictive laws and regulations, poor quality market standards and lack of finance, logistics, and skilled labour are also making it difficult for existing companies and new market entrants to expand their business (See table 2).

Table 2: Distribution of companies according entry barriers faced by their business (%)

Entry Barriers	Per cent
High cost of doing business	27%
Restrictive laws and regulations	14%
Absence of quality standards	11%
Lack of skilled labor	13%
Access and parking	13%
Lack of finance	12%
Lack of Logistics	9%
Others	1%
Total	100%

Source: DCCI Survey, October 2006

It is clear from the above, that the marketing sector is a highly dynamic sector within the Dubai economy and although still in its infancy the prospects for growth are considerable. As highlighted from survey results, there are challenges currently facing the sector, however, overall growth looks set to continue provided a strong economic policy is instilled to effectively manage the challenges and changes facing the sector.

UAE and Dubai Trade and Investment Relations with Saudi Arabia

A high ranking Saudi trade delegation visited DCCI in December 2006. The main objective of the delegation's visit was to find ways to enhance bilateral economic cooperation between Dubai and Saudi Arabia. The trade and investment relations between Dubai and Saudi Arabia are discussed below.

UAE and Saudi Arabia trade relations

Trade between the UAE and Saudi Arabia is conducted within a multilateral framework of the GCC and the Greater Arab Free Trade Area (GAFTA) agreements. In 2005, total trade between the UAE and the GCC countries amounted to AED 28.2 billion. Among all trading partners of the UAE within the GCC framework, Saudi Arabia accounted for the highest share of trade (41.1%) in 2005.

Table 1: UAE trade with GCC countries, 2005

	Value in AED millions			
	Imports	Exports	Re-exports	Total Trade
Bahrain	1,060	496	5,223	6,779
Kuwait	980	1,080	2,250	4,310
Oman	177	490	1,404	2,071
Qatar	766	572	2,100	3,438
Saudi Arabia	7,691	857	3,021	11,569
Total	**10,674**	**3,495**	**13,998**	**28,167**

Source: UAE Ministry of Economy

The total trade between the two countries amounted to AED 11.6 billion in 2005, of which, AED 7.7 billion were imports, AED 3 billion were re-exports, and AED 0.9 billion were exports (See Table 1). During the course of 2000 to 2005, the re-exports to Saudi Arabia has increased by an annual growth rate of 20.3 per cent, whereas exports increased by almost 30 per cent. On the other hands imports from Saudi Arabia grew by 18 per cent during the same period.

Dubai and Saudi Arabia trade relationship

In 2005, the total foreign trade between Dubai and Saudi Arabia amounted to AED 4.1 billion of which exports and re-exports together accounted for a share of 57 per cent whereas imports accounted for a share of 43 per cent. Among the total exports and re-export products to Saudi Arabia from Dubai in 2005, the top three products were machinery, mechanical equipment and electronic equipment (31%) followed by imitation jewellery, pearls, precious & semi-precious stones & metals (15%) and prepared foodstuff (8%). On the other hand, among the total import products from Saudi Arabia to Dubai, the top three products were imitation jewellery, pearls, precious & semi-precious stones & metals (64%) followed by products of chemical and allied industries (14%) and mineral products (13%).

Saudi Arabia investments in Dubai

The DCCI membership database for the 2nd quarter of 2006, accounts for 1,497 active registered Saudi companies, of which, 89 companies are fully owned by Saudi companies (please refer to Table 2 below).

Table 2: Registered Saudi Companies in DCCI, 2003-2006*

Value in AED millions		Labour	Number of Companies	Years
Paid–up Capital	Income			
3.8	2.0	3,806	57	2003
4.0	2.5	3,121	73	2004
4.4	3.1	3,963	86	2005
5.0	3.1	4,035	89	2006

Source: DCCI membership database
** Till 2nd quarter, 2006*

Saudi Arabia investment laws

The new Foreign Investment Law, passed in April 2000, allows international companies 100 per cent ownership of projects . The law gives international companies full ownership of the properties required for the project or for housing company personnel giving them the same incentives given to national companies. The law also permits foreigners to invest in all sectors of the economy, except for specific activities contained in an exclusive list called the 'negative list'. In other words, foreign investors are no longer required to take local partners and may own real property for company activities. They are also able to transfer capital to and from their local and external enterprises and sponsor their own choice of labor as well. With regards to corporate taxes, foreign companies with annual profits over AED 97,928 (SR 100,000) are required to pay 20 percent in taxes.

Mutual investments opportunities

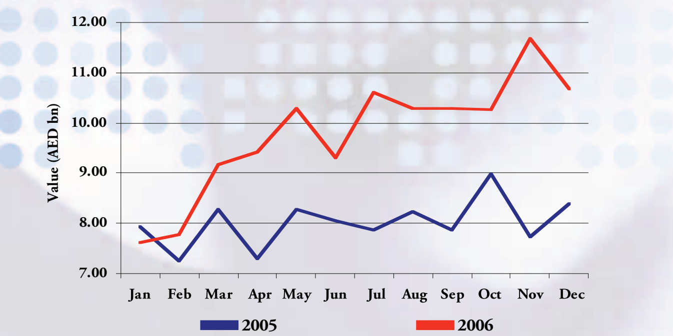
The availability of outstanding mutual investment opportunities being provided to investors, excellent facilities (i.e. ports, airports, infrastructure), liberal economic policy and leadership based on free market principles, free repatriation of profits and free movement of capital and the booming of different economic sectors (construction and real estate) within the UAE and Saudi Arabia has placed them at par with each other. Thus, outlining the roadmap for further enhancement of economic ties and trade relationships between the two countries.

[1] Saudi Arabia General Investment Authority www.sagia.gov.sa

Exports[1] of DCCI members for 2006 reaches AED 117.4 bn

After the initial setback in January, exports of DCCI members rebounded, registering highest monthly value of AED 11.7 bn in November (Fig. 1). Total exports for the whole year reached AED 117.4 bn, for an annual growth of 19 % from the total export value in 2005.

Fig. 1. Monthly exports, 2005 & 2006



Source: DCCI Certificate of Origin Database, December 31, 2006

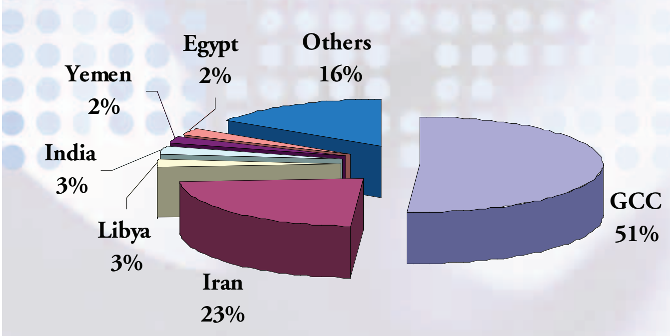
Exports to the GCC exhibited an impressive gain as total value for 2006 reached AED 60.1 bn, for a growth of 39.4% percent over the previous year's record of AED 43.1 bn, and accounting for 51% of the 2006 total exports (Fig. 2). Although Saudi Arabia continued to remain as the largest market for exports of DCCI members, it was trade with Qatar, which expanded significantly. Exports to Qatar in 2006 reached AED 15.5 bn, representing an impressive growth of 157%. With the new record, Qatar became the second largest export market in the GCC.

Saudi Arabia, the largest export market of DCCI members in the GCC, was the destination of shipments with total value of AED 23.1 bn, or 21% higher that the AED 19.0 bn recorded a year earlier. Trade with Bahrain and Kuwait both posted double-digit growth of 27% and 20%, respectively. Respective value of exports to the two countries in 2006 was AED 1.9 and 7.1 bn. However, exports to Oman declined by 0.4% to reach total value of slightly less than AED 4.1 bn.

Iran continued to be the largest export market for DCCI members, with exports in 2006 reaching AED 26.9 bn, or 23% of the total exports during the year. However, the downswing noted since the beginning of the year continued, leading to an annual decline of 10% from the previous year's exports valued at AED 29.9 bn. Similarly, despite being in the list of major destinations of DCCI members' exports, total value of exports to Egypt declined by 6.8%, to a total value of AED 2.4 bn.

Other major export destinations were neighboring countries. Exports to India were valued at AED 2.2 bn, represented a growth of 7.1%, while exports to Libya recorded an impressive upswing of 38.3% to reach AED 3.3 bn. Completing the major export markets with export value exceeding AED 2.9 bn was Yemen, with export value of AED 2.8 bn, 19.8% higher than the corresponding figure for 2005. Total exports to all other countries in 2006 of AED 18.7 bn accounted for 16% of the total value of exports and represented a growth of 18.6% over than the previous year's level of AED 15.7 bn.

Fig. 2. Largest export destinations, 2006



Source: DCCI Certificate of Origin Database, December 31, 2006

Nationality of exporters

Of the 9,679 exporters in 2006, only 721 were not UAE nationals, while the other 8,958 were local companies. Total exports of local companies amounted to AED 94.9 bn.
Among the non-local exporters, the largest group, consisting of 143 companies, was registered as nationals of Virgin Islands (Jersey). They posted a total export value of AED 5.5 bn. United Kingdom nationals numbered to 73, exporting goods valued at AED 3.3 bn. Although 49 exporters were registered as Isle of Man nationals, their export value totaled to only a billion, while the 46 US national exporters had export value of AED 1.5 bn.

The 56 exporters registered as GCC nationals had total exports of AED 880 mn. Other foreign exporters with total exports exceeding AED 1.0 bn were registered as nationals of Panama, 30 exporters with total export value of AED 2.6 bn; and Switzerland nationals, 14 exporters with total export value of AED 1.8 bn.

Improvement in coverage

Total exports[2] of Dubai and its free zones in 2005, as reported by Dubai's Ports, Customs and Free Zones Corporation (PCFC) was valued at AED 168.8 billion. Compared to this value, total exports covered by COs issued by the DCCI represented but 57 percent.

Foreign trade statistics for 2006, recently released by the PCFC, showed a significant slowing down of total export growth of Dubai and its free zones, from an annual growth of 41.5% posted in 2005 to only 6.2% in 2006. Total exports in 2006 stood at AED 179.2 bn. The figure implies significant improvement in the CO coverage rate to 65.5% during the year.

[1] 'Exports' refers to both exports and re-exports covered by Certificates of Origin

[2] 'Total exports' refers to combined exports and re-exports.

Dubai Land Transport Cost

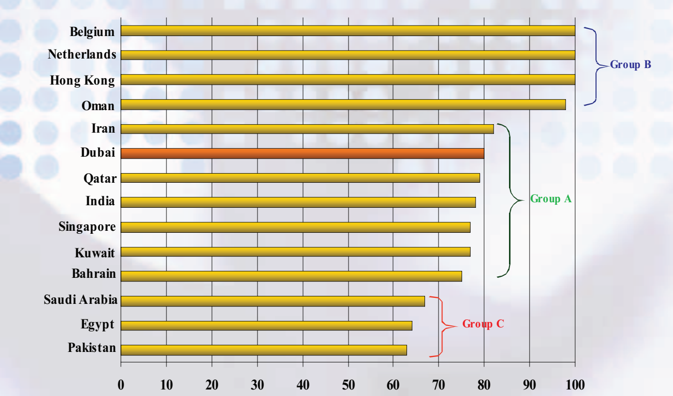
Dubai's entrepot economy finds its strength in its competitiveness in the global market, both as a tourism destination and as a trade hub. Foreign trade statistics in recent years show that Dubai's re-exports has been growing steadily. In 2005, re-exports accounted for more than 30% of its total foreign trade. Thus, it is imperative for Dubai to maintain its competitive advantage in re-export cost to continue playing its privileged intermediary role.

To benchmark re-export costs in Dubai, DCCI conducted surveys of re-export costs in the leading trade hubs of Europe and Asia and in the other port-cities in the region. Among the factors covered in the surveys were land transport costs, being vital to the movement of goods to and from the ports.

Overall Land Transport Cost Index

For benchmarking purposes, overall land transport cost indices were calculated for all areas included in the analysis. Results, shown in Figure 1, placed Bandar Abbas (Iran), Doha (Qatar), Mumbai (India), Singapore, Kuwait City (Kuwait), and Manama (Bahrain) in Group A, or port-cities where overall land transport indices were at the same level as Dubai's. On the other hand, Antwerp (Belgium), Rotterdam (Netherlands), Hong Kong, and Muscat (Oman) formed Group B, or the port-cities with significantly higher land transport cost indices; while Dammam (Saudi Arabia), Alexandria (Egypt), and Karachi (Pakistan) were classified as Group C, the port-cities with significantly lower overall land transport indices.

Table 1: Source of production inputs



Source: DCCI survey on Dubai food processing industry, 2006

In terms of overall land transport cost index, therefore, it appears that Dubai enjoys competitive advantage over Group B, is competing on equal footing with Group A, but is at a relative disadvantage with Group C. Nonetheless, Dubai remains a preferred location of the center of operation of traders, implying that costs are not the only considerations in selecting location of business

Road Conditions

Time is one of the most important factors re-exporters need to have control over in transporting goods. Dubai's roads and infrastructure are in excellent condition, even by international standards. However, adequacy in terms of meeting the demands of road users is a different issue. Traffic condition in Dubai's thoroughfares is increasingly becoming a major concern for re-exporters as they move goods from the ports to their warehouses and vise versa. Inability to manage transport time imposes constraints on the efficiency of re-exporting process.

About 45% off Dubai re-exporters responding to the survey found that delays to their businesses caused by traffic congestions were manageable, while 16% noted that traffic congestions do not cause any delay at all to their land transport process. However, more than a quarter (26%) complained of considerable delays in their businesses due to traffic congestions, while 13% preferred not to comment on the issue. Thus, of those who gave direct responses, the majority (61%) still found adverse effects of Dubai's road congestions to be at least manageable. On this basis, the negative effect of Dubai's road conditions on land transport cost could be classified as 'Medium'.

Although several transport infrastructure projects are currently being implemented in Dubai to address road congestions, the continuing economic development of the emirate is expected to lead to further increases in road users; thus, posing continued pressure on roads. In fact, road congestion is part of the normal feature of progressive trade hubs and busy cities.

Availability of Land Transport

Handling of goods during transport depends on the nature of the goods. While some goods can be transported using regular modes, others require special handling during transport and adequate control of temperature at all times. For example, highly perishable goods require refrigeration, while electronics require more specialized handling than textiles and garments and metal products. Finding adequate transport conditions for goods is generally not a problem in Dubai. The survey results show that both normal and refrigerated trucks are available in Dubai at the time of need (around 93% and 85%, respectively). Only a small minority complained of considerable waiting time for availability of trucks.

Weight of Land Transport Cost

Price is an important dimension of competition in the international market. In case of re-export, major pricing considerations include the import cost and the added burden of all the processes the goods have to undergo before reaching the re-export market. The survey shows that in Dubai, 65% of re-exporters find that land transport costs add 5% to the total import cost, and only 5% say that the burden exceeds 10%.

In the other areas surveyed, majority likewise say that added burden of land transport to import costs do not exceed 10%, indicating the generally low burden of land transport on import costs in all the areas.

Findings of the study, therefore, do not point to land transport as an issue in differentiating the re-export competitiveness of Dubai to other international port-cities and trade hubs. Instead, Dubai is seen as typical of a busy trading hub, where the growing economy exerts a constant pressure on roads and infrastructures and where facilities and services are generally available. Dubai, therefore, must continue to be a step ahead in continually addressing the growing development pressures.