



## Imports of Dubai Automotive Sector exceed AED 17 billion in 2005

The high standards of living and increasing population in Dubai has led to the dynamic growth of the automotive sector. The DCCI membership database as of February 2007, reveals that approximately 365 companies are actively involved in trading of motor vehicles and related items, 2,018 companies are involved in trading of motor vehicle parts & accessories, 204 of the companies involved in the maintenance and repair of motor vehicles while 73 companies are involved in other activities (trading, maintenance and repair of motorcycles & related parts & accessories). As of the first quarter of 2007, these companies employed about 14.4 thousand people, invested a collective paid up capital of AED 3.1 billion and together reaped an annual turnover of AED 8.6 billion. Figure 1 shows the percentage-distribution of these companies by trading activity:

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### Sector Monitor



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### Current Issue



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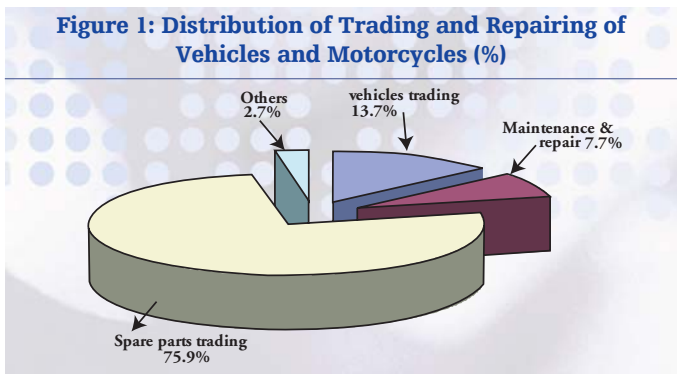
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Source: DCCI Membership Database

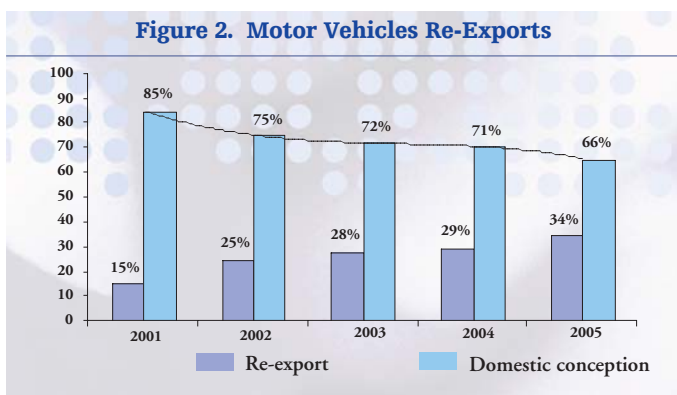
The number of traders in spare parts and maintenance represents about 83.5 per cent of the automotive market, however these activities are predominantly dependant on the trading of vehicles which accounts for 13.7 per cent of market activity. The vehicles trading companies employ a total of 4,127 people and have collectively invested a paid up capital of AED 1.3 billion and reaping a collective annual turnover of AED 5.5 billion.

### Foreign Trade

In 2005, total trade within this sector accounted for AED 24.4 billion of which 70.6 per cent are imports, 29.1 per cent are re-exports and less than 1 per cent are exports. Locally manufactured vehicles, spare parts and accessories are sparse. As regards the 2005 distribution of total trade within this sector by activity, motor vehicles accounted for 74.6 per cent, spare parts and accessories for 22.3 per cent and the remaining for other related goods and services.

### Trade of Motor Vehicles

This activity includes the trade of tractors, motor vehicles for transport of goods and people, cars, special purpose vehicles. The total imports within this activity increased by a CAGR of 30 per cent during 2001 to 2005, while on the other hand re-exports increased by CAGR of 60 per cent during the same period, thus indicating that although imports have witnessed a positive growth, the re-export growth has superceded the import growth. Figure 2. below shows the decrease in motor vehicles domestic consumption as a result of growing motor vehicles re-exports.



Source: compiled from trade data, 2005 Dubai World

### Trade of Spare Parts and Accessories

It is important to note that trade of spare parts, and accessories is cotingent to the trade of motor vehicles. The trade activity of

spare parts and accessories includes the trade of chasis, bodies, and parts and accessories of motor vehicles. During the period 2001 to 2005, imports within this activity increased annually by 19 per cent, while re-exports grew by 23 per cent, however, on the other hand exports (trailers and semi trailers for transport of goods & parts and accessories of motor vehicles) witnessed an extraordinary 77 per cent growth. In 2005, re-exports of spare parts and accessories represented almost 70 per cent of imports.

### Trade of Other Related Items

The trade of other related items includes the trade of handling equipment trucks, motorcycles, bicycles, carriages, trailers and related parts and accessories. In 2005, import trade within this activity accounted for 68 per cent of total trade, where as re-exports accounted for 30 per cent and only 2 per cent accounted by exports. Furthermore, only 44 per cent of imports are being re-exported within this activity.

### Top Trading Partners

It is internationally known that Japanese, German, Swedish and American motor vehicle manufacturers dominate the world market. As a result, a similar representation can be seen with respect to the top import partners of the Dubai automotive market (See table 1).

**Table 1. Top Trading Partners by Activity**

Rank	Imports	Re-Exports	Exports
<b>Motor Vehicles</b>			
1	South Korea	Qatar	-
2	USA	Libya	-
3	Sweden	Iran	-
4	Germany	Afghanistan	-
5	Japan	Iraq	-
<b>Parts and Accessories</b>			
1	Japan	Iran	Bahrain
2	Germany	Russia	LIBYA
3	China	Iraq	UK
4	USA	Libya	Morocco
5	Sweden	Tanzania	Sudan
<b>Other Related Items</b>			
1	USA	Tanzania	Iraq
2	India	Algeria	Sudan
3	Japan	Kuwait	Algeria
4	Germany	Libya	Kuwait
5	Finland	Iran	Ghana

On the other hand, the top destinations of motor vehicles are Qatar, Libya, Iran, Afghanistan, and Iraq, respectively. This can be attributed to the fact that Dubai's political stability and strategic location within the Middle East has helped it establish and emerge as regional headquarter for many international market players. With respect to parts and accessories, the top recipients are Iran, Russia, Iraq, Libya and Tanzania, whereas for other related items, the main recipients are Tanzania, Algeria, Kuwait, Libya and Iran, respectively.

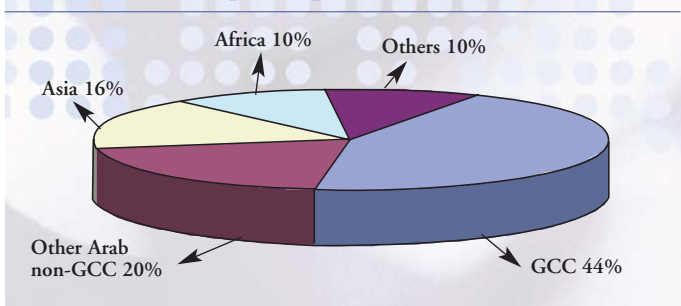
In view of above, the buoyancy of the automotive trade market is a result of the increasing domestic and neighboring countries consumption of vehicles and related goods and services. However, to further boost this market, avenues surrounding the encouragement of local manufacturing and assembling of motor vehicles needs to be stimulated in order to gain an edge over the competitors and market players from other neighbouring countries.

# Dubai Renting and Leasing Services

In October 2006, the DCCI conducted a survey to gain insight into the structure, conduct and performance of the renting and leasing services in Dubai. 89 renting and leasing companies have responded to the survey, out of which, 57 per cent are actively involved in automobiles, 16 per cent in engineering equipment, 2 per cent in personal and household goods and 25 per cent in other renting and leasing activities.

With respect to company size, about 57 per cent of the companies involved in this sector are considered to be small sized companies as they employ between 1 to 9 employees, 26 per cent are medium sized companies with 10 to 49 employees and the remaining 17 per cent are considered large in size with 50 or more employees. About 53 per cent of the workers within this sector are skilled with at least a university degree, 36 per cent are low skilled having attained a high school diplomas and the remaining 11 per cent have no school qualifications. Dubai renting and leasing companies are also providing their services at a regional and international level (See figure 1). Over the last 5 years, the majority of services have been tendered within the GCC (44%). It is important to note that other Arab non-GCC and Asian countries also use a significant proportion of Dubai renting and leasing services with 20 per cent and 16 per cent, respectively.

**Figure 1: Distribution of services provided in the last 5 years by market (%)**



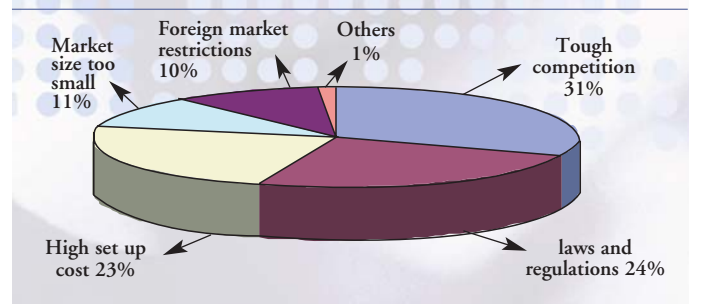
Source: DCCI Survey, October 2006

With respect to market performance within this sector, survey results show that about 70 per cent of the companies in the renting and leasing sector have an annual turnover below AED 5 million whereas, 30 per cent of the companies have an annual turnover of AED 5 million and above, thus highlighting the fact that the majority of businesses involved in this sector are small sized businesses.

Survey results further indicate that almost 95 per cent of the renting and leasing services companies are making profits, while only 5 per cent are making losses. Additionally, almost 96 per cent of the businesses within this sector are extremely optimistic about future growth and expansion. Ideally, to acquire assignments within the market the Dubai renting and leasing services companies use a variety of methods, of which, the most successful strategy adopted by 46 per cent of these businesses, is the use of business contacts. Other strategies also commonly used are personal networking (28%), tendering (12%), business

associations (11%) and others (4%). Almost 54% of these companies undertake these assignments on a fully in-house basis, whereas 32 percent partly subcontracted their assignments and 10 per cent entirely subcontract them. Over the coming years, the sector is expected to expand. More than 74 per cent of the businesses are planning to penetrate into new markets. A further 9 per cent of the businesses plan to get engaged in mergers and acquisitions and about 11 per cent intend to expand through vertical integration. However, although businesses engaged in this sector show great enthusiasm with regards to future growth expectations, they feel that prevalent market limitations are retarding the growth within the sector. Competition seems to be biggest limitation for 31 per cent of the businesses (See figure 2) and about 93.7 per cent of these companies perceive this competition level to be between high to medium.

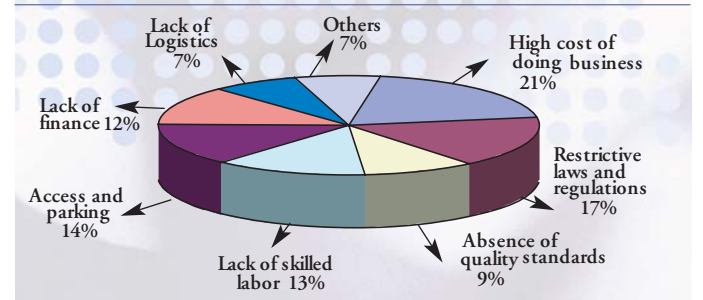
**Figure 2: Distribution of responses regarding most pressing issues (%)**



Source: DCCI Survey, October 2006

Issues of 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 figure 3).

**Figure 3: Distribution of responses regarding entry barriers (%)**



Source: DCCI Survey, October 2006

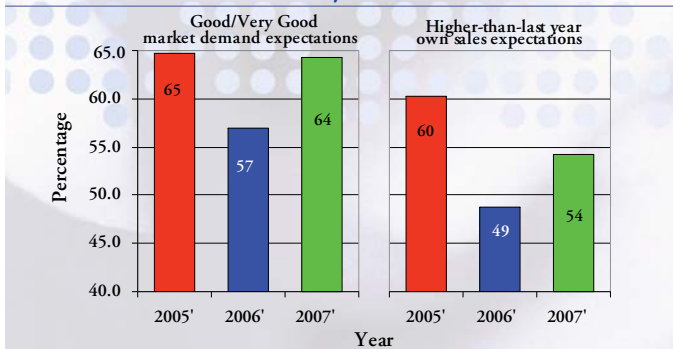
Irrespective of the challenges being faced within this sector, survey results indicate that businesses within this sector are extremely optimistic about their growth potential. It is important to note that some of this optimism can be attributed to the complimentary growth potential of related sectors, such as construction, real estate, logistics, etc. Therefore, in summation, growth within the sector seems to have outstanding potential.

# Demand expectations of Dubai traders up

Results of the Outlook Survey of Dubai Traders 2007, recently conducted by the Dubai Chamber of Commerce and Industry (DCCI), showed that percentage of traders expecting demand for the products they trade to be 'Good/Very Good' in 2007 increased to 64%, after declining by about 8 percentage points in 2006 from a level of 65% in 2005 (Fig. 1).

Similarly, expectations for 'Higher-than-last-year' own sales went up to 54%, after declining by 11 percentage points in 2006 from a high level of 60% in 2005.

**Fig. 1. Percentage with positive expectations for market demand for products traded and for own sales, 2005 - 2007**

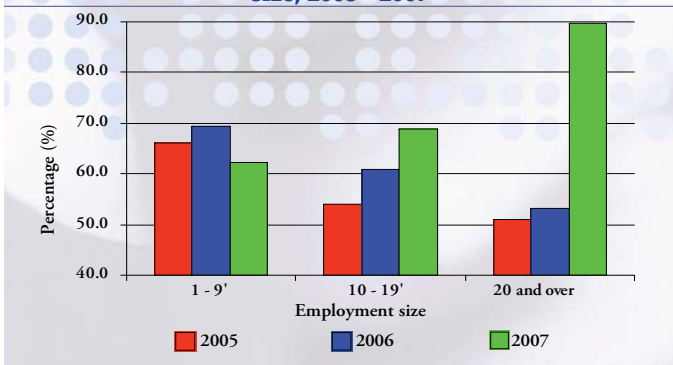


## Small traders wary of increasing competition

The survey, however, noted significant differentials in expectations by employment size of traders. While large traders tended to look positively at competition, smaller traders tended to look at increasing competition as threat to their own market.

Fig. 2 shows that small traders (with employment of 1 – 9), had the highest expectations for market demand in 2005 and 2006. For 2007, however, they had the lowest. In contrast, large traders (with employment of 20 and over), had the lowest expectations in 2005 and 2006. However, they had the highest market demand expectations in 2007, with almost all of them expecting demand to be at least 'Good'.

**Fig. 2. Percentage of traders with 'market demand expectations for their products by employment size, 2005 - 2007**



Market demand expectations of medium-size traders (with employment of 10 – 19), had been steadily going up since 2005. In 2007, nearly 70% have positive market demand expectations. Expectation for 'Higher-than-last-year' sales followed similar pattern, with relatively less number of small traders (52%) having the expectation for 2007; followed by the medium traders (59%); and the large traders (75%).

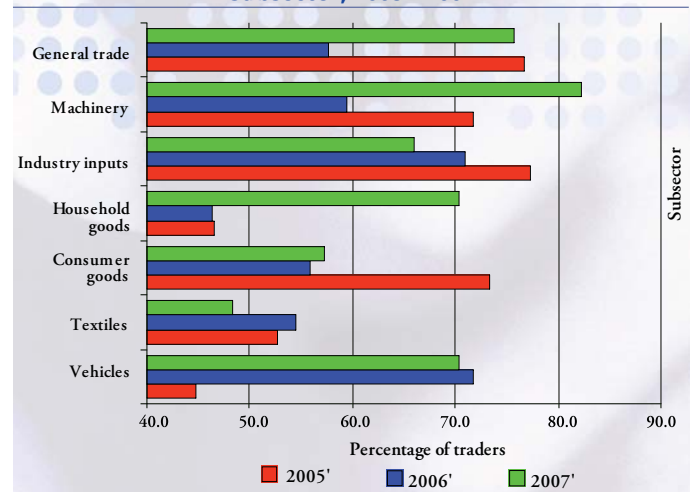
## Demand expectations of traders of commonly consumed goods rise with population

Demands for commonly consumed goods are expected to rise with Dubai's population. It is not surprising, therefore, that expectations of traders of household and consumer goods and of general goods were significantly higher this year than a year earlier (Fig. 3). On the other hand, the expanding industrial sector of Dubai pushed up expectations of traders of machinery. However, traders of inputs were not as upbeat as last year, as industries continued to import their requirements directly from sources.

On the other hand, traders of vehicles generally expect market demands to remain at comparable level to the previous year, despite the expected increase in population. This could be partly due to the expected decline in the average purchasing power of the population, with increasing entry of relatively lower-income workers coming into the emirate to operate the expanding industries and services sectors.

With the accession of UAE to WTO in 1995 and the concomitant opening of its market to global players, competition reached new heights. This is very evident in the textiles industry of Dubai, dominated by small players engaged in import-export activities. Fig. 3 shows the group to have the lowest demand expectations for 2007.

**Fig. 3. Percentage of traders with 'market demand expectations for their products by subsector, 2005 - 2007**



## Support for SMEs needed

SMEs play a vital role in the efficient conduct of economic activities. Although their contribution to the production of goods and services is relatively much lower than the contribution of large enterprises, they have the greater flexibility and accessibility that support the operations of large enterprises. They are also spread out over wide geographic areas, bringing the market closer to the consumers. However, they have less control over their external environment and they have limited resources, especially in access to market information and in research and product development. Thus, their resources are relatively limited to remain in competition. Mechanisms are, therefore, needed to support SMEs, in terms of greater access to financing, market information and training, research and development.

# New Export Markets for Dubai

It is well-known that Dubai's small and open economy has been mainly driven by external trade. Dubai's foreign trade has reached AED 281 billion in 2005 –with growth of 30% over previous year– of which imports, exports, and re-exports represent (68%), (4%), and (28%) respectively. During 2005, remarkable growth was witnessed in each of the foreign trade components: imports 27.8%, exports 16.4%, and re-exports 38.2%. In line with these arguments, Dubai played two major roles: first, as a direct exporter; and second, as an intermediary re-exporter. In order to help Dubai maintain its competitive role as exporter/re-exporter, DCCI has conducted a research to identify new export and re-export markets.

## Is it really important to find new markets for Dubai?

Despite the above facts, Dubai exports and re-exports are still modest in terms of values and share in total foreign trade. Exports and re-exports exhibit high dependency (or concentration) ratios on both trading partners and product categories. In 2005 Dubai's top 10 exported (re-exported) product categories based on 2-digits HS Code system represented 63% (80%) of total exports (re-exports) and their top 10 destination countries absorbed 51% (65%) of total exports (re-exports). Consequently, the need to further enhance the performance of exports and re-exports became necessary. Therefore, new markets for Dubai top 10 export and re-export product categories have to be identified.

A sophisticated methodology is applied to identify new export/re-export markets. Analysis makes use of “trade flow analysis” to identify top products exported/re-exported by Dubai to the world, identify markets with no Dubai's exports/re-exports, and identify the world imports of these markets from the product categories identified in step one.

## Where exporters can go?

For Dubai exports provided that supply is not constrained, the major new identified markets are presented in Table 1. Although Europe is already one of Dubai major trading partners as a bloc, several other European countries are identified to be potential new markets for Dubai. Dubai has been shown to have no foreign trade at all with these European countries for the product categories listed in the table 1.

**Table 1: New Markets for Dubai Top Exports**

HS Code	Product Category	New Markets
76	Aluminum and articles thereof	Europe.
17	Sugars and sugar confectionery	Europe, Japan, New Zealand, Asia, Africa, and Western Hemisphere.
27	Mineral fuels, oils, waxes and bituminous substances	Europe, Canada, Jordan, and Mexico.
39	Plastics and articles thereof	Europe and Western Hemisphere.
71	Pearls, precious metals, stones & articles thereof	Japan, New Zealand, Europe, China, South Africa, Mexico, Brazil, and Jordan.
72	Iron and steel	Europe, New Zealand, Indonesia, Mexico, Argentina, Brazil, and Syria.
73	Articles of iron or steel	Europe, Mexico, Brazil, and Venezuela.
69	Ceramic products	Europe, Western Hemisphere, Malaysia, Indonesia, and Jordan.
62	Articles of apparel, not knitted or crocheted	Europe, Ghana, Bangladesh, Thailand, Venezuela, Brazil, and Guatemala.
70	Glass and glassware	Europe, Japan, Mexico, and Thailand.

Moreover, the Western Hemisphere (especially Mexico and Brazil) is another potential new market for Dubai exports of many product categories. From the Middle East, Jordan appears to be a promising candidate for exports of many product categories while Syria could be

seen as new market for Dubai exports of iron and steel.

Some industrial countries such as Japan, Canada, and New Zealand, together with other Asian countries have also been identified as potential new export markets. However, although African countries are among the candidate countries for new export markets, their total market potential<sup>1</sup> is considered to be much lower than the rest of candidate countries making them relatively less attractive.

## Where re-exporters can go?

As regards re-exports, Table 2 lists countries identified as main potential new markets. Unlike exports, identified markets here are limited due to the fact that Dubai is known as re-export hub and many of its product categories are already widely re-exported to numerous countries. In addition, some main re-export product categories (i.e. those marked with an asterisk in the table) are already listed previously among Dubai major exports.

**Table 1: New Markets for Dubai Top Exports**

HS Code	Product Category	New Markets
71*	Pearls, precious metals, stones & articles thereof	China, Europe, and Mexico.
85	Electrical machinery, sound recorders and parts	Iceland and Jamaica
87	Vehicles other than railway or tramway; parts	Luxembourg.
84	Nuclear reactors, boilers, machinery & parts thereof	(None)
54	Man-made filaments	Denmark, Luxembourg, Mexico, Chile, and Peru.
62*	Articles of apparel, not knitted or crocheted	Hungary.
40	Rubber and articles thereof	Western hemisphere, Europe, and Indonesia.
94	Furniture, bedding, mattresses, lamps & fittings, signs	Croatia, Slovak Republic, and Slovenia.
73*	Articles of iron or steel	Mexico, Argentina, Austria, Slovak Republic, Croatia, and Slovenia.
39*	Plastics and articles thereof	Western Hemisphere.

\* Denotes top re-export product categories that are listed also as top exports as indicated in Table1.

Similar to exports, the European countries seem to be once again potential new candidates for Dubai re-exports, especially Ukraine, Ireland, Portugal, Luxembourg, Iceland, Denmark, Hungary, Austria, Croatia, Slovak Republic, and Slovenia. Furthermore, the Western Hemisphere is also a potential new re-export market. Major countries are Mexico, Argentina, Chile, Peru, and Jamaica. Lastly, China is the main new market from Asia for re-exports of pearls, precious metals, stones & articles thereof.

Finally, it is worth mentioning here that the new export/re-export markets identified in our report are general guidelines to potential opportunities while more in depth analysis must be conducted for each of the proposed markets. In line with this context, it is beneficial to establish “business information centers” whose responsibilities include providing exporters with detailed information about the potential markets identified earlier. This would help Dubai exporters prepare an effective “export plan” that assists in penetrating these new markets. In addition, it is recommended to expand the supply –throughout further investments– of the following product categories: aluminum & articles thereof; sugars & sugar confectionery; mineral fuels, oils, waxes & bituminous substances; plastics & articles thereof; pearls, precious metals, stones & articles thereof; ceramic products; articles of apparel, not knitted or crocheted; and Glass & glassware.

<sup>1</sup> This refers to the size of new exports markets calculated based on their total import value of specific product category.