

Dubai as an import hub economics essay

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Executive Summary

In the last four decades, Dubai has emerged as a leading player in world economy. Due to the free zone and ports, the trading in the area has grown many folds. Today, it is looked at as an import and export hub with its world class ports and efficient customs processes. The product mixes and import countries have varied over the years depending on the value seen by the corresponding countries in using Dubai as a channel. Imports are dominated by the gold, precious metals, diamonds etc which are either re exported or exported. A maritime and transport industry has developed due to the trading activities in Dubai. Imports directly get impacted by the global economy as was faced during the slowdown of past few years and it also grows as the economy will pick up speed

Dubai as an Import Hub

Dubai over the last few decades has evolved into a service economy where they have created infrastructure to become world's trading hub. They have

built significant capacity for imports and logistics, developed world class maritime and air transport facilities. Foreign trade today accounts for a significant portion of Dubai's GDP. Dubai is also the center of re-export in the world. The ratio of foreign trade to GDP is almost 250%. In the last four decades, Dubai has managed to become a global trade super power from just being a patch in the desert. They have created infrastructure for the businesses and invited them to setup facilities. This helped increase the trade in the region. Dubai has managed to bank on its advantages of location and port area, by creating free trade zones and world class ports. In the year 2009 Jebel Ali port for ranked as the seventh busiest port in the world. This port lies in the free trade zone. Port Rashid is the other important port of Dubai. Through the Free trade zone, Dubai created an opportunity to become a major re-export center. Dubai maritime city will further establish Dubai as the maritime hub. The work on the initiative was halted due to the economic crisis of 2010. Dubai started as oil driven economy but today oil accounts for less than 6% of revenues. Dubai's forward looking leadership has converted Dubai into one of the leading world economies with a high disposable income. With trade being such an important part of Dubai's economy, Dubai continues to improve its custom clearance procedure to save time and effort for the clients and authority.

Location Advantage

Dubai is very strategically located mid way to the eastern and western side of the world, helping it to act as a trading hub. Lot of times, the ships are not available for longer routes and thus, a port like Dubai steps in to import and then re-export the same goods at a profit. As it is also a free trade zone, it

does not attract import duties and thus used a channel to save on duties and taxes. Modern ports and efficient customs process further enhances its appeal as a gateway for products from Europe, US, Asia, and Africa. Dubai is also a very effective gateway for the MENA region, which can be seen from the re-export figures. Dubai was considered a channel for consumer goods entry into other Saudi countries like Iran.

Losing Iran Business

Dubai was once considered the channel through which other countries could supply goods to Iran, not just because of inaccessibility but also to bypass US sanctions. Iran was the largest re export country for Dubai till 2004. A lot of products like foodstuffs, machineries, and electrical/electronic equipment, textiles, and transport equipment were supplied. India became the largest re export country in 2004, due to large shipments of diamond and gold. Iran re exports were stopped due to sanction from late 2011, leading to Iran trade falling from 36 Billion AED to 25 Billion AED. This would slightly affect Dubai's import and export figures. Iran had been the largest re-export market of Dubai. Re-exported to the country were a wide variety of products, including. In 2004, India overtook Iran as large shipment of diamonds and gold were re-exported to the country.

Import Volumes

A closer look at the product mix of Dubai imports exports and re-exports makes it clear that these goods were not just for domestic demand and in lot of cases no value addition to the product is happening. One can also find a pattern in the product mix of imports, exports and re exports. In the first ten months of 2012, Dubai had achieved imports of 609 Billion AED which is 38%
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higher than the entire 2011 figure of 442 Billion AED. As Dubai economy is driven by trade, this is looked at as a very positive sign of recovery of economy. India emerged as the top destination for imports to Dubai at 127 Billion AED, followed by China at 94, Switzerland at 73, USA at 59 and Turkey at 42 Billion AED. Till 1999, Japan used to be the top supplier to Dubai, has long since been replaced by China and then India in 2009. Re exports in the year 2010 were 40% of the total imports. This became 36% in 2011 and in the first half of 2012, stood at 31%. Re exports bring in a lot of business for the ports and transport and shipment industry in Dubai. Exports as a % of imports have moved from 18.6% in 2010 to 22.2% in 2011 to 28% in the first half of 2012. This could also mean more imports are being processed before they are exported again. Also the gold values went up during the period and gold as a product is processed and exported, taking the export values higher. Looking at the import figures, Dubai remains a top destination for gold ore imports and finished gold exports. Gold is a high value item and is subjected to duties in several countries. It thus makes sense to process it in a trade free zone and export, thus saving on duties and taxes. Other important items are equipments, electronics and electrical goods. Besides India, other top destinations of re-exports were MENA countries, Hong Kong, and some European countries which are markets for gold and diamonds

Change in Imports over the years

Imports have grown at the rate of 22% from 2010 (364 Billion AED) to 2011 (442 Billion AED). In the year 2011, Imports contributed 63% to the direct foreign trade at 442 billion AED and grew at the rate of 21.4% from 2010. The product mix and also the import location have changed over the years.

The dynamics largely changed due to gold, precious metals and diamond, where India emerged as a major trading partner. Today, two major import sources are pearls, precious stones and metals followed by products of chemical and allied industry. If we see location wise imports, in the year 2011, East and south east Asia accounted for almost 26.3% of Dubai's imports followed by South and West Asia at 22.5%. South and West Asia account for almost 54% re-exports while Europe accounts for 11%.

Free Trade and Custom Warehouse Trade

Imports at 217 Billion AED contributed almost 56% to Free zone and custom warehouse trade, growing at 18.3% from 2010 to 2011. In free trade and custom warehouse trade, machinery, electronics and electrical account for almost 46% of imports while precious stones and metals account for 14.5%. 43.2% is imported from East and South East Asia, 25% exported or re-exported to south and west Asia and almost 45% to GCC and other Arab countries

Conclusion

A highly efficient customs process and modern top class infrastructure has given Dubai the status of a trade hub, where they import from various countries and then either, export, re export or absorb the goods in their retail and tourism industry. A free zone status to the port and duty free shopping has made them very competitive for re exports and retail, thus the imports over the years have grown. Free zone status has also led to Dubai being looked at as a hub for processing of gold and precious metals as well as for re export of diamonds and pearls. Dubai has continuously evolved its customs processes and offered free zone benefits to businesses. This has

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helped their maritime, transport and allied industries to grow. It already has a geographical advantage and friendly and efficient business policies will keep it a favorite amongst the traders.

Appendix-1: Direct Trade Data over the years

Direct Trade Data (Billion AED)

2010

2011

First Half 2012

Imports

364441242

Exports

689868

Re-exports

14416175

Appendix-2: Direct Foreign Trade by Top Five Sections in 2010 and 2011

Direct Foreign Trade for the top five sections in 2010 and 2011 (Billion AED)

2010

2011

Pearls, precious stone and metals 124. 8168. 5machinery, sound recorders,
TV and Electronic equipment 65. 767. 7Vehicles, aircraft and vessels 3847.

4Base metals and articles of base metals23. 627. 9products of chemical and allied industries21. 724. 3others89. 8105. 8

Total

363. 6

441. 6

Appendix-3: Direct Foreign Trade for the Top Five Regions in 2010 and 2011

Direct Foreign Trade for the top five regions in 2010 and 2011 (Billion AED)

2010

2011

East & South East Asia103. 4116. 2South & West Asia82. 999. 5Europe

West79. 894North America30. 943. 4Africa (Excluding Arab Countries)13.

624. 3Others5364. 2

Total

363. 6

441. 6

Appendix -4: Imports from Countries in first 10 months of 2012 (Billion AED)

India12720. 85%China9415. 44%Switzerland7311. 99%US599.

69%Turkey426. 90%Others21435. 14%Total609100%