

# Current strengths and weaknesses of the uae economy



Overall the economy is recovering day by day, although with many fluctuations in growth but still seeing rise in economy and GDP, mainly due to the growth in construction industry, communication, production and service sectors. Especially the immigrants make it possible because of their high percentage in the UAE workforce.

## **PRESENT ECONOMIC SITUATION**

The economy of the UAE at present is fairly recovering from downfall and diversifying in different sectors to enhance growth. Due to the rise of oil prices, oil sector represent the more than one third of the GDP. Demand from its neighbouring countries has also strengthened its export activities.

UAE is likely to see real GDP growth of 2.5% in 2010 and double to 5% next year which is 2011, as a risk appetite grows and investments began to flow in Dubai in real estate sector. Investors who were shying away from committing their money have once again started to show interest in long term investments. 2010 is considered a year of recovery and it is also a year of consolidation. Increasing oil prices will continue to be fundamental to original recovery in the short term. Over the next 12 months energy, technology and green sectors would see maximum interest with an increased appetite for mergers. Oil is still the number one sector contributing 63.6% to GDP in Abu Dhabi. Dubai's GDP rose to 0.3% in the first quarter of year 2009. In the first quarter of 2008 it was DH 68.21m rose to DH 68.397 million in 2009. The five most pre dominant sectors which have shown resilience to the economic downturn and led to the first quarter rise are wholesale trade, retail trade, manufacturing, restaurants and hotels. Dubai's

inflation eased to 4.1% in 2009 from 11.3% in 2008 which was the highest inflation rate in over 20 years.

Due to the diversification strategy of the UAE, economy growth will be more dependent on the non-oil activities such as manufacturing, construction, transport, tourism, financial services and trade services.

## **GOVERNMENT POSITION ON TRADE**

UAE sits between the east and the west and will continue to maintain a global competitive position in trade and investment. UAE government is focused more on creating a friendly environment for the investors worldwide to invest. Government of UAE is led by bureaucracy and is fast in processing licenses and other requirements. This specially creates a high quality life in Dubai which is the business hub. More and more companies are going to invest in Abu Dhabi and it will turn out as a mode of attraction of the knowledge or skilled workers from all over the world.

## **SHORT-TERM OUTLOOK FOR THE UAE**

The short term outlook of the UAE economy is expected to be fairly favorable, because of rapid development in the fields of construction, manufacturing and tourism. But the real GDP growth rate is expected to fall from its current level of growth. It is expected that GDP growth rate will be an average of 7% during the span of 2008-2012. Because of the diversification strategy of the UAE economy it will be more dependent on the non-oil sectors such as manufacturing, construction, transport, tourism, financial services and trade services. In UAE Abu Dhabi plans 26 new infrastructure projects in 2010 valued at 19 billion dh. As per the fact it is

spending the most money than any other six nations throughout the world.

The UAE GDP per capita is dh. 162000.

## **SWOT ANALYSIS**

### **STRENGTHS**

#### **Economic strengths:**

Consistent high oil prices supports the government injecting large amounts of windfall oil revenues into the local economy to stimulate the non-oil sector, increasing the disposable incomes of the poorer segments of the population.

Recovering & Robust Economy.

World's third largest exporter of crude oil with 22. 2m barrels of crude oil export per day.

Stable, freely convertible currency pegged to the US dollar.

No foreign-exchange controls.

Healthy balance of payments

No trade barriers.

Competitive labour costs.

Competitive real estate costs.

### **Geographical strengths:**

Strategically located in the Middle East, with easy access to not only key Middle Eastern and European markets but also to China, South Asia, Malaysia, Indonesia, Philippines and other Asian markets as well.

Highly developed ports and access to major sea routes.

Image as a regional leader and trendsetter with other countries in the area looking to it as a model of development.

### **Commercial strengths:**

Zero personal and corporate taxation.

No taxation information exchange agreements with other countries.

Free Trade Zones, relative ease of business start up.

Pro-business immigration policies.

### **Business environmental strengths:**

Business friendly environment.

High level of administrative support from authorities.

No need to file any accounts.

Stringent IP laws and enforcement.

No levy on exports and imports.

100% ownership of business allowed.

100% repatriation of capital allowed.

Established tourism hub.

### **Socio-cultural strengths:**

Primary business language – English.

Tolerant, stable, progressive society.

Ease of hiring.

Cosmopolitan/Progressive Work Environment.

### **Infrastructural strengths:**

Full range of ultramodern and sophisticated banking sector providing a variety of services for its wealthy expatriate clientele.

Banking system is so private that it is now often compared to that of Switzerland.

High-end telecommunication facilities and IT infrastructure.

Efficient transport and distribution facilities.

Well-planned amenities – roadwork and waterworks.

100+ airlines connecting to 146+ destinations.

Premiere Logistics Infrastructure.

An abundant and inexpensive energy supply.

## **WEAKNESSES**

Many of the strong service sectors reserved for UAE nationals.

Real Estate Services.

Rental/Leasing Services relating to Cars.

Services Incidental to Agriculture.

Hunting and Forestry.

Services Incidental to Fishing.

Placement and Supply Services of Personnel Investigation and Security Services.

Passenger and Freight Road.

Each Emirate has its own business setup rules and regulations.

Not an English common law jurisdiction.

One needs a network of people in order to expand opportunities.

## **OPPORTUNITIES**

Gateway to 1.5 Billion Middle East and African markets.

Huge export market.

Trade missions and agreements with major industrial countries (Japan, Singapore, EU, Mercosur, India, Turkey, China and many more upcoming).

Serve existing markets in Europe and Asia while setting up for access to growth markets in Middle East, Indian Subcontinent, & Africa.

UAE is seeing increase in international trade with imports growing steadily at eight per cent year-on-year over the forecast period.

Improved bilateral trade with the US, Iran and South Africa, among others.

Drive to boost the tourism industry through major expansion projects in hotels and airports.

The next decade will witness a transformation of education, healthcare, culture and tourism. Services will make an increasing contribution to GDP, with growth in air and maritime transport, tourism, financial services and a host of other services.

Abu Dhabi plans 26 new infrastructure projects in 2010.

Upcoming projects like world's biggest arc bridge, Dubai moving sky scrapers, trump hotels, towers and various other projects.

## **THREATS**

Rising cost of living in key emirates

Perceived real estate-induced economic volatility as potential risk.

And being a part of a volatile region, the country's risk profile could be affected by issues concerning regional and international relations. (regional militant groups and Iran's nuclear programme)



Heavy government subsidies on utilities and agriculture and its obsolete tax system. (BMI report)

Sandstorms and dust storms occur frequently.

#### **4) Industry and customer analysis:**

The industry is dominated by a few very large companies, such as Caterpillar, Komatsu, Terex, Deere and company, Ingersoll Rand, and Linde AG. Of these major competitors, Caterpillar is the largest, with approximately 33% market share followed by Terex and Komatsu with 6%. Last year, Caterpillar reported sales of approximately \$32.396 billion and Komatsu, Ingersoll Rand, and Linde AG each reported around \$8-9 billion for 2009. Each of these giants has large or multi segment marketing strategies that provide general equipment for large blocks of customers.

The construction machinery industry experienced revenue of approximately \$30174 million last year 2009. The construction machinery industry is a recovering market with expecting approximately five percent annual growth. Global demand for construction machinery is projected to increase 5.3 percent annually through 2013. This study analyzes the \$108 billion world construction machinery industry by products like cranes, excavators and draglines; loaders; off-highway trucks and tractors; mixers and pavers; graders and rollers, world region for 23 major countries.

Customers who purchase machinery equipment require reliability, rapid servicing/availability of parts, and versatility for a variety of anticipated and unanticipated uses. Customers are influenced by reputation and cost, since

equipment purchases can be the most significant portion of the customer's long-term assets.

### **5) Market entry strategy:**

Primarily focuses on its target market, the large construction companies in Abu- Dhabi and Dubai, through distributors and via its various relationship and referral networks to build goodwill in the initial 2 years and change our strategies further according to the achievements and success in the UAE. Further most we will also expertise in selling all types of construction spare parts 24/7 which will act like a one stop shop. This would enhance our credibility and will also play as catalyst in selling our primary product “ Tower cranes”. In addition, a significant amount of investment will be made in advertising to promote product awareness through various social networks like facebook, twitter and YouTube. Another essential element would be to provide feasible donations to government charitable funds of UAE. Selling through distributors of particular construction machinery is far more effective in closing sales as well as in terms of sales and marketing costs.

Potential clients' travel cost to site or any other charges which occurred during contacting or meeting with company management for establishing current sales and future sales or we can say that product demonstrations is covered by our company .

Product demonstrations are a critical step in the sales process. This is the opportunity to prove the capabilities of our products, educate the potential client, and establish a relationship. Our strategy in this current scenario is to give low price with premium quality and services. Company finds distributors

for their products with the help of department of international trade, foreign affairs Canada, and other institutions those advice on selecting agents and distributors abroad to promote country's overall exports.

### **Competition and buying patterns of customers and a way to overcome it:**

Cropac faces approximately 55 major competitors in Canada and U. S. The top player is Caterpillar and has been in the market for 42 years. Their name is very well known and

Their products are trusted. Their products practically sell themselves. Large construction companies typically look for the most widely used equipment that has an established name and reputation for quality, durability, and versatility. Our strategy in this current scenario is to give low price with premium quality and services. Product demonstrations are a critical part of the buying process, especially when a buyer is working with a smaller, less known company. Beside with this we apply all value propositions during business that even a small company will definitely get success and will be able to compete with its powerful competitors.

Main competitive edge is that we are going to export and will just concentrate on few product lines only, rather than dealing in many manufacturing machineries. Lastly, we are going to give 5 years repair and replacement warranty, which is the best way to attract our customers and the best way to retain our existing customers so that we achieve a quality standard in particular field in the industry and whenever anybody in UAE, (Dubai being our hub) wants the machinery, he will contact our company

because of goodwill in the market having number of grades in the product line.

Market Needs: UAE's economy at present is recovering from a downfall and diversifying it in different sectors to enhance growth, expecting a GDP of 2.5% in 2010 and 5% in 2011. Abu Dhabi is coming up with new 26 infrastructure projects in 2010 which all need construction based machinery, which can be considered as a biggest opportunity for our company. Our strategy in this current scenario is to give low price with premium quality and services. As we all know that UAE is the fastest growing economy in regards to its infrastructure and spends most of its money than any other six nations throughout the world, its key industries are construction, real estate, and oil and gas industry. One of the important thing is that out of every 100 buildings on 70 buildings construction work is going on and there are number of man-made lands that are going to be built up over there i. e.(palm, world's biggest arc bridge, moving sky scrapers, and Disney world, etc. ) and Dubai has a great number of tourists visited per year. So conclusion from this all is that we have great opportunities and there is fair level of market demand of the construction machinery in UAE. Modern complex designs, earthquake proofing, and other factors have increased demand for higher precision and accuracy in controls of heavy machinery equipment in commercial construction operations.

## **6) Marketing strategy:**

### **product:**

Cropac will export tower crane parts for construction needs. Primary focus will be placed on product engineering and manufacturing processes to ensure the highest quality, a high level of product features, and the most efficient manufacturing process possible.

### **Brief description of product:**

Our product for the business plan is:

### **Tower cranes:**

The construction crew uses the tower crane to lift steel, concrete, large tools like acetylene torches and generators, and a wide variety of other building materials.

We are going to export two types of tower cranes:

HDT80:

SK315:

Offering multiple mast heights and jib lengths, Continuous operation whether you're on a spacious job in the country Or a highly congested site in the city. Along with its physical versatility, both features electrical operation, providing a quiet, clean lifting Solution to customers who may be limited by noise and emissions regulations.

### **price:**

Cropac is going to export

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And sell their products with the help of agents appointed in their respective emirates. As our company has 30 years of core experience in the field of construction machinery and has earned goodwill in the massive markets, we have to build our name by influencing potential buyers over there by fixing low prices in the beginning by lowering down our profit margin so that consumers get attracted towards our products and buy our product, and also enhance long term customer relationships in the market by serving the previous clients. Therefore after a period of time, we will attain success in our business; we will change our price strategy too and increase our profit margin on the later stage. So according to all of these strategies, we decided to select a penetration strategy of pricing.

Our company is going to start business with low prices by lowering down our profit margin, which is the most competitive edge in the pricing of our company in comparison with the other competitors.

We used the marginal cost pricing method because in this method, the price of an item is kept to a minimum, reflecting only the extra cost of labor and materials.

### **place:**

The Company is going to appoint an outside resource (freight forwarder) for this entire task as their third party logistics. So, due to this reason we do not need to take care of the shipping strategy and other issues. It is the responsibility of freight forwarder to do the tasks like warehousing, packing, transportation, labelling, etc.

We select a freight forwarder that has a great experience in that field; name of our freight forwarder is fast freight forwarders co. ltd. And they have 35 years of great experience with a quality service. They are located in Toronto itself.

As Tower crane is a high end product and it is huge in size, we cannot ship it directly, hence we have to ship them in parts from Canada to Dubai. For the storage of our tower crane parts in Dubai we are going to rent a public warehouse named Jabel Ali Industrial Warehouse.

With the help of internet service, we are taking orders and sending quotes online to potential customers in the whole of UAE.

### **promotion:**

Our company will educate or provide awareness of our products through referral networks, trade fairs, etc. to our potential customers. A significant amount of investment will be made in advertising to promote product awareness through various social networks like facebook, twitter and YouTube. As there is a saying that as “ more and more public hears about you, the better your chances are for achieving brand recognition, credibility, and greater market share”.

### **Service:**

We will provide quality after sales service to our customers in the best and cost effective way. We are going to give 5 years repair and replacement warranty, which is the best way to attract customers and an efficient way to retain existing customers.

## **7) Value propositions:**

Keys to success will include:

A high level of quality in its product line.

Maintaining and growing its referral networks to generate new and repeat sales.

Significant investments in research and development and engineering with the aim to focus on precisely controlled equipment.

Improving efficiencies of operations.

Providing better after sales services i. e. (repair or parts replacement warranty).

Establishing trust with customers so that future sales will be protected and communication skills among management should be excellent so that they cannot go anywhere else and also referring the name to their further contacts (we mean to say that company's first dealing should be that much trustful and attractive so that's goodwill in the foreign market will be grooming).

8) Operations: Cropac buys key components like engines and gears, hydraulic pumps and hosing, and structural steel, machine screws and castings from parts suppliers some of these are:

Amaco construction parts Inc. (Mississauga, Ontario)

Amre supply co. ltd. (Brampton, Ontario)

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Afterwards performs various finishing operations, and assemble the components. Materials represent 60 percent of finished product costs.

In the brief manner we are going to buy some parts of the machinery from the given supplier above and some parts are produced by themselves in the factory itself.