

Macroeconomic indicators between saudi arabia and uae



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INTRODUCTION

The increasing economic development in UAE and Saudi Arabia has made these developing states an excellent nation for those people who choose to expand overseas or are interested in Foreign Direct Investment (FDI).

Globalization aids to strengthen their distribution channel and their economies. Saudi Arabia is rapidly gaining importance as a manufacturer and economic leader in the world. These countries have eliminated many of their trade barriers now and have a free trade economic system that attracts many business men from around the globe who seek new consumers and target market for their products.

UAE PEST ANALYSIS

POLITICAL

The stable political situation of UAE enough to attract almost any major financial institution that needs to invest. These financial institutions can assist in accessing capital markets emerging within the UAE economy. the banking system developed my emirates is a relationship based system of banking with the monetary policy and system capable enough to fulfill funding supplies of a later stage that may be equity leasing or loans.

ECONOMIC

Out of three million population of UAE 60% of them are in the workforce. In the UAE economy the level of FDI is very high. Globalization has helped improve the UAE economy greatly by bringing in thousands of workers, services and products from throughout the world. UAE has been a member of World Bank, WTO and IMF for seven years. The country has huge wealth and

has experienced trade surplus of approximately over 100 billion dirham in the past year.

SOCIOCULTURAL

All of UAE citizens have high living standard, a western lifestyle and continues rising financial positions. The society remains free and open to all types of restaurants, tourism, sport and recreational activities. The multicultural nature of society and economy existing in UAE allows fir many of the foreigners to work there in well paid positions (Cateora, 2007).

TECHNOLOGICAL

The UAE population comprise of young and extremely technologically knowledgeable professionals. The IT industry aids tourism, hotel and IT service sector. The IT software industries and internet usage in the gulf region is double the rate of Europe. The UAE population has the largest users of internet, satellite and mobile phone within the Middle East (Cateora, 2007).

PEST ANALYSIS FOR SAUDI ARABIA

POLITICAL

The politically stable government of Saudi Arab attracts many of the foreign investors and business men. The government also provides various incentives that attract many investors and tourism from around the globe (Shane McGinley, 2010).

ECONOMIC:

Saudi Arab accounts for the world's major oil producer and exporters. This allows Saudi economy to earn a high GDP. It also helps its current account to balance against the value of imports when the demand for oil is high (Griffin and Pustay, 2005).

SOCIAL:

The religious history of Saudi Arabia for the Muslim also holds great significance. In the religious seasons people from all over the world come to pay visit to the holy places. This accounts for much of the revenue for Saudi economy. Hotels, restaurants and residential places earn high revenue in these seasons (Shane McGinley, 2010).

TECHNOLOGICAL:

Saudi Arab is a country that keeps itself technologically updated as it needs to cater a massive population of tourists and visitors from around the world. Saudi Arab imports technological machinery from Japan and other countries which enables it to be established as well-technologically equipped country (Shane McGinley, 2010)

MACRO ECONOMIC INDICATORS OF AN ECONOMY

BALANCE OF TRADE

It refers to the difference in the VALUE of imports and the VALUE of exports when a country trades (Nouriel Roubini, 2004)

SAUDI ARABIA

Saudi Arabian economy reported a trade deficit of about US\$ 32638. 2 MILLIONS in the year 2009 in spite of being the world's largest producer and exporter of oil with more than 90% of exports being based on it. Major imports of Saudi Arabia include equipment, machinery, food stuff and chemicals with its main trading partners being European Union, China and Japan (Source: trading economics. com, indicators, international monetary fund)

Analyzing the trend we see a stable balanced of trade from the year 2000 to 2006. It then gradually increases till 2009 and falls very rapidly in 2010. we also see rapid rise from the year 2005 to 2006 and from 2008 till 20210.

BALANCE OF TRADE

UAE

The exports of natural gas and petroleum play an important role in the UAE export economy. It mainly imports chemical, machinery and equipment from its major trading partners: India, Japan, China and European Union

(Source: tradingeconomies. com, Ministry Of Economy)

Unlike Saudi Arabia, the BOT of UAE shows a positive upward trend. It grows steadily from the year 2001 to 2005 and rapidly reaches 211. 3 billion 2007. It then falls to 170. 85 billion in 2008 which is not too sharp a decrease as it has swiftly gone up in the year 2009-2010.

GDP GROWTH RATE:

It refers to the gross domestic product that is gained by calculating the difference between the imports and the exports (Ian Hobday, 1995).

SAUDI ARABIA

The economy of Saudi Arabia expanded over 0.6% last year. The worth of Saudi Arabia GDP is 0.6% of the economic world or 369million dollars

(Source: tradingeconomies. com, Saudi Arabian Central Department)

The trend shown for the GDP rate of Saudi Arabia is not stable. We see a sharp rise and a sharp fall from 2001 to 2002 and from 2003 to 2004 reaching up to 7.66% from 2004 we see a fluctuating GDP rate that falls to 0.6% in the year 2010. This downward trend is not favorable for Saudi Arabia.

GDP GROWTH RATE

UAE

Unlike the, Saudi which expanded over the last year, UAE Economy experienced contraction of 2.10% last year. The UAE GPD is worth \$ 261 billion and accounts for 0.42% of the total of the world economies.

(Source: tradingeconomies. com, Ministry Of Economy)

The UAE analysis of GDP growth shows a high GDP of about 8% from the start of 2001. UAE and Saudi Arabia has a similar trend till 2004. But UAE shows a 12% rise in GDP rate from 2001, unlike Saudi Arabia which shows just 8% from 2001. Saudi Arabia GDP falls to 0.6% by the end of the year 2010 while UAE experienced negative rate of -2.1%.

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INFLATION:

Inflation refers to the general increase in the price levels over the period of time (Stanlake, 1995)

SAUDI ARABIA

The inflation rate through the year 2010 was reported at 5. 51%. It touched historical heights in 2008 with inflation of 11. 08 %

(Source: tradingeconomies. com, Saudi Arabian Central Department)

The inflation rate of Saudi Arabia shows an upward trend. It is 0. 31% in 2001 and continues to rise till 2009. The economy then faces a gradual decrease in the inflation rate and it falls to 3. 5% near 2010, from 11. 08% same year. By the end of 2010 and the starting of 2011 we see inflation again expected to rise to 5. 51%.

INFLATION:

UAE:

The average inflation rate of UAE is 6. 27%. The historical highest inflation recorded for UAE had been 11. 10 %

Source: tradingeconomies. com, Ministry of Economy)

The inflation rate of UAE has grown steadily over the years. The trend shows no downward trend but it continues to grow from 2003 till 2008. Unlike Saudi Arabia high shows fluctuation and steady growth of inflation, UAE economy has faced an upward trend for inflation for the past years.

UNEMPLOYMENT:

The unemployment rate is defined as the number of people of the total labor force who are unemployed or/and seeking for work.

SAUDI ARABIA:

According to the last report the unemployment rate in Saudi Arabia was 10.5% in Saudi Arabia. From 1999 till 2009 Saudi Arabia's unemployment rate reached to the average of 10.5%. The historical height of Saudi Arabia's unemployment rate was recorded at 12%.

(Source: tradingeconomies. com, Saudi Arabian Central Department)

The unemployment rate illustrated above shows an upward trend of rising unemployment in the Saudi economy which is definitely not a favorable indicator for the overall economy. We see the percentage of the labor force unemployed falling from the year 2007 to 2009 sharply but it fails to keep it lower and rises again to 10.5% by the end of 2010.

UNEMPLOYMENT:

UAE:

The unemployment rate of UAE far exceeds of that of Saudi Arabia. It was calculated as 20.60 in 2004 which was the historical height achieved for the UAE economy according to arabian news (2010).

Source: tradingeconomies. com, Ministry of Economy)

For UAE economy the unemployment rate shows an upward trend but not as rapidly and sharp as for the Saudi Arabia. But the total percentage of the

rate of unemployment in UAE is higher than of Saudi Arabia which has a fluctuating trend for unemployment.

INTEREST RATE:

It refers to the price of borrowing and lending.

SAUDI ARABIA:

The decisions making authority regarding the interest rates lies with the Saudi Arabian Monetary Agency (SAMA) (Stephen Turnovsky, 1977).

(Source: tradingeconomies. com, Saudi Arabian Central Department)

The interest rate trend shown above illustrates a downward initial trend and then a slight increasing graph followed by a sharper fall with a stable and constant rate from 2009 till 2010.

INTEREST RATE

UAE:

The UAE interest rate decision making authority lies with the Central Bank of the United Arab Emirates (Moza Ahmed, 2004)

Source: tradingeconomics. com, Ministry of Economy)

The interest rate trend for the UAE economy and Saudi Arabian economy is very different. Unlike Saudi Arabia UAE faces many fluctuation through the years from 2007 till 2009. It starts at a higher rate, remains stable, falls and then rises quite sharply. It then experiences little fluctuations and rests at 1.80 with the starting of 2011.

FORCASTING THE ECONOMIES AND SUGGESTIONS FOR IMPROVEMENT.

SAUDI ARAB ECONOMY:

The over analysis of past trends suggest that the inflationary pressures might stay manageable and stable over the period of 2010-12. This inflation will reflect the weakened interest rate . A weakened interest rate will compel people to spend more. Demand for money will rise as indicated by the monetarist view. The increased supply of money will eventually increase the price levels as the quantity theory of money explains. There may be a fear of inflation which may exist then. Population growth will be generating some local price pressures. The economy is expected to grow by an average 3. 7% in the upcoming year 2010-14. Resources reveal that the Saudi economy is expected to be greatly supported by extensive spending by the government thus absorbing a large proportion of the job market. A strong increase in investment projects by the government is also expected. There will be good domestic consumption of oil but weaker oil export due to higher oil prices (khalil hanware, 2010). Due to stronger investment projects from the government the economy will face greater injections into it which will result in falling unemployment rate and rising income levels. This will leave a favorable and positive impact on the Saudi economy in the upcoming years. But looking at the Saudi economy from the Keynes view/Classical theory of income and employment we see as the employment and income levels will rise due to injections in the economy, there will come a certain level, that aggregate demand will no longer bring any changes in the income and employment levels but prices will begin to rise which will indicate inflation in the long run.

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The growth forecast for UAE is lowered by the IMF to less than 1%. (Hugh Tomlinson, 2010). UAE economy is expected to grow 2.9% following year. The investment activity is expected to be weak as the emirate is trying to redefine its economic objectives (Bloomberg, 2010). As the UAE economy will try to reduce its rate of inflation unemployment is expected to rise as defined by the Phillip's curve and his short theory of two devils that exist in the society. For the longer run, the monetarist view can also be taken into account when we will see UAE economy will try to reduce its rate of unemployment. The offered higher wages will ultimately be raising the cost of production in the long run and instantly growing inflation continuing the trend the economy showed for the past years. This will result in falling income levels and higher rate of unemployment as the withdrawal and injection approach suggests (Shihab, 1996)

Experts suggest that the above economies should try to reduce their rate of inflation especially in case of UAE. This may reduce the unemployment level and the levels of income will eventually raise giving people higher living standards. As for Saudi Arabia expert suggests the government to precede with its investment projects and attract other investors from throughout the world. As the current account of Saudi Arabia has been greatly affected by the rising oil prices, Saudi government should concentrate on developing trade and other export product that may cover the current account deficit.