

Economic Bulletin

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International Trade in Services:
Mapping Dubai's Advantages in
Exports of Commercial Services
in the Post-COVID-19 Pandemic



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Online Economic Bulletin, analyses economic topics with impact on Dubai's growth path, trade and investment. All queries on contents should be addressed to: jamel.zarrouk@dubaided.gov.ae

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Introduction

This issue of the Economic Bulletin was written as Dubai is overcoming the global health and economic crisis caused by COVID-19. Disruptions of Dubai's core services, such as air transport, travel and related services, have occurred. But on a positive note, the overall resilience of its economy can support a rapid recovery as soon as travel restrictions and shut down of borders start to ease. The insights presented in this issue regarding Dubai's ability to pursue profitable trade opportunities in digital age services are particularly relevant now. Tapping the potential of these services can steer the Emirate's economy to a successful track of sustainable growth and prosperity.

The first part of the Economic Bulletin analyses data compiled to understand the key role that Dubai's exports of commercial services play in the Emirate's economy. Then, the issue addresses Dubai's opportunities as a trade hub for commercial services in the digital era as the world is experiencing accelerating use of new technologies, including blockchain. This rapidly evolving environment makes it important to assess where Dubai can achieve a leading trade role in commercial services that leverage its current and emerging comparative advantage in key global value chain activities. These areas will serve as a core source of growth for Dubai and a broadly focused economic driver for the UAE in the future.

Dubai a Dynamic Trade Hub in Goods and Services

Dubai is one of the most open economies in the world and has a strong reliance on foreign trade for economic growth. The value of total trade flows (exports, re-exports and imports) in merchandise trade account for over three times the Emirate's GDP and there are significant and growing trade flows in services.

The Emirate has a long history of leveraging its geographical location as a trade hub. Excellent sea and air connections and free zones facilitate streamlined distribution of re-exports to the region. The Emirate is also a strategic connection point for trade flows originating in other regions (Asia, Europe and Africa) with each other. In addition, and partly due to its important position in

Dubai's excellent geographic location, combined with a robust infrastructure of trade-related services, makes it a dynamic modern trade hub.

international merchandise trade, the Emirate has built up an infrastructure of excellent trade-related services such as shipping, air transport and financial services. Until recently, and before international tourism plunged as a result of the recent spread of COVID 19, tourism ranked as one of the Emirate's fastest growing sectors in the domestic and global economies.

How Trade in Services Fuel Growth and GDP

To understand the key role that the services sector plays in Dubai's economy, here's a short overview of services and their impact on international trade.

Services are an important part of increasingly complex modern economies, already accounting for around two-thirds of GDP, and comprise the fastest growing sector. International trade in services is defined as the supply of services through cross-border trade. There are many ways that services can be traded internationally. The WTO General Agreement on Trade and Services (GATS) categorizes services trade according to four¹ modes of supply. Examples include transportation (shipping mainly by sea and air) cargo handling, storage and warehousing, travel and spending by tourists in other countries. Trade in information and communication technology (ICT) services also has emerged as a high growth category in international trade. International education is another emergent range of services in global trade, including online distance education, and trade in health services as medical treatment for foreign travellers.

According to the WTO, the growth in services is transforming international trade with the share of services growing from just 9 per cent of world trade in 1970 to around 23 per cent in 2018. Moreover, in value terms, international trade in services is growing at three times the growth rate of merchandise trade. The WTO expects services to account for one third of world trade by 2040.²

The Importance of Dubai's Foreign Trade in Commercial Services

The service sector in Dubai's economy is the largest contributor to the Emirate's GDP, accounting for almost 80 per cent of the total, in 2018³. Trade in services can help Dubai's economy diversify and

According to the WTO, services have risen to account for 20 per cent of world trade, and globally are growing three times faster than merchandise trade.

achieve more rapid growth; it also enhances Dubai-based companies' competitiveness.

Exports of commercial services encompass activities in which Dubai has a comparative advantage such as transport (shipments, air transport and other transportation services), travel (including tourism), and other private services, such as brokerage, communication and financial services, technical and professional services.

Unavailable Data on Dubai's International Trade in Services

Data on cross-border trade in commercial services are provided in a country's balance of payments statistics and these are compiled only for the UAE as a whole not for Dubai. Furthermore, the UAE balance of payments statistics embody only the country's total cross-border services traded at the economy level and further disaggregation is limited. Data on the geographic destinations/sources of services exports and imports is also not available.

At the present time, there is limited data to capture foreign trade in services, both exports and imports, so it is not possible to quantify cross-border services in which Dubai has a comparative advantage over similar economies (open and small), such as Hong Kong and Singapore. In contrast, customs data provides a more precise reckoning of merchandise trade.

Recording and estimating existing external trade in services for Dubai, and increasing the policy focus on expanding the services sector that could enhance further economic diversification to support higher and sustained growth, is an important statistical priority.

Enhanced data capture of external trade in services is a top statistical priority, along with increased policy focus to drive diversification and growth of the services sector.

Dubai's Estimated Exports of Commercial Services

In order to compile data on Dubai's exports of services, the Input-Output (I-O) table, developed by the Dubai Statistics Center and covers 39 industries, was used to estimate⁴ the value of exports of services by each industry to the rest of the world. The estimated aggregate of Dubai's exports of commercial services would have reached a value of AED 123.6 billion in 2018 representing almost 30 per cent of Dubai's GDP and 53 per cent of total value of exports (Dubai's merchandise direct exports + commercial service exports).

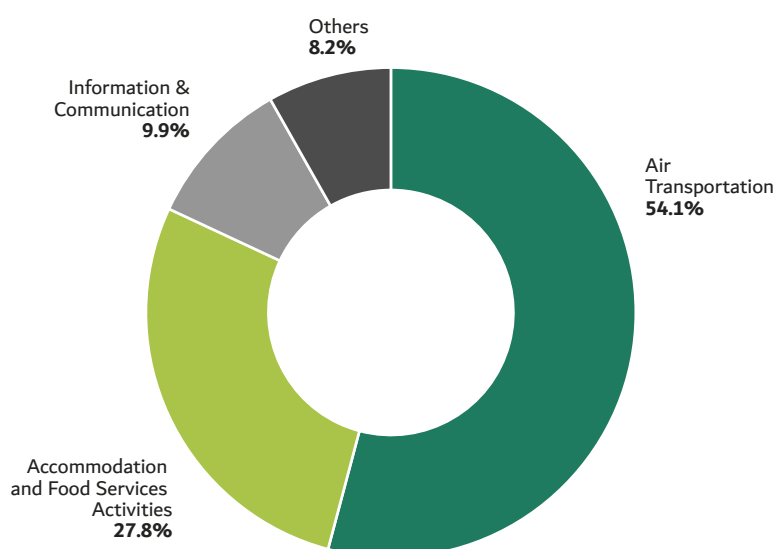
DUBAI'S EXPORTS OF
COMMERCIAL SERVICES
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AED 123.6 billion



Main Categories of Dubai's Exports of Commercial Services

Dubai's cross-border trade in services was dominated by two main categories: air transport accounted for 54.1 per cent and travel 27.8 per cent of total value of exports. The category of "other commercial services", which includes information and communications, contributed 9.9 per cent in 2018. "Others" such as financial services, professional and technical consultancies, entertainment and recreation contributed 8.2 per cent. Data on receipts (exports) from maritime transportation services is not available.

Figure 1: Breakdown of Dubai's Exports by Main Services Item in 2018



SOURCE: DED STAFF ESTIMATES CONSTRUCTED FROM THE 2015 INPUT-OUTPUT (I-O) TABLE, PREPARED BY DUBAI STATISTICS CENTER.

Export Growth in Air & Maritime Transport Services

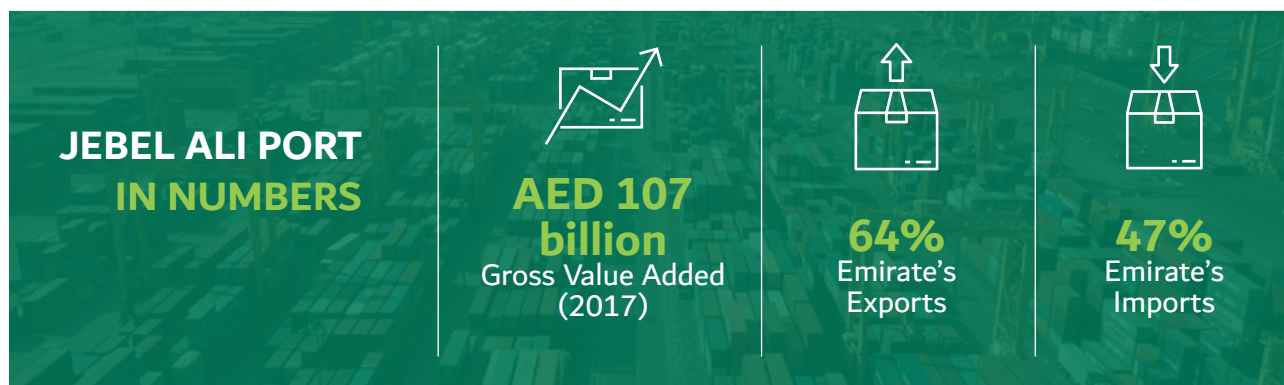
Air and maritime transport services have played an increasingly important role in Dubai's economy. The share of air transport exports was estimated at 15.9 per cent in Dubai's nominal GDP and 54 per cent of the value of commercial services exports, in 2018. Air transport exports grew at a faster rate than GDP growth in recent years.

Air transport exports accounted for 54 per cent of the value of commercial services exports in 2018 and 15.9 per cent in Dubai's nominal GDP.

Transport is essential for shipping goods and is also vital to move people around the world, for business or for leisure. Over the past decade, the rise of the Emirates Airline as one of the world's leading carriers, spanning 161 destinations in 85 countries with a fleet of 270 airliners, has fostered impressive growth in Dubai's tourism. Overall, Dubai has achieved parallel growth in both air passenger transport services and in tourism.



Maritime freight is another major economic activity, contributing to Dubai becoming a leading maritime centre and being ranked in 9th place in the world by Menon Economics.⁵ However, statistics on this service activity are not available in the UAE Balance of Payments Statistics. A recent study by Boston Consulting Group (BCG) estimated that Jebel Ali Port generates approximately AED 107 billion of Gross Value Added, or 26 per cent of Dubai's 2017 GDP⁶. Jebel Ali Port also is the main port through which 64 per cent of the Emirate's exports and 47 per cent of its imports are shipped.



Despite the worldwide slowdown in maritime transport exports in 2018, due in large part to the economic uncertainty generated by the trade tensions between China and the US, and more recently in 2020, due to COVID-19 global spread, Dubai remains a vibrant

maritime centre that is growing and diversifying rapidly. DP World, a major operator of ports and terminals, logistics and economic zones, has been playing a major part in the region's economic activity: DP World operates more than 78 marine terminals around the globe and integrates multimodal hub offers sea, air and land transport to the rest of the world. It contributes significant impetus for solidly positioning Dubai in the top tier among the world's most important maritime centres now and in the future.

Export Growth in Travel-Related Services (Tourism)

Travel receipts, covering expenditures on goods and services by international tourists during their stay in Dubai, is the second largest category in Dubai's commercial service exports and contributed a share of 27.8 per cent in total commercial services exports in 2018.

The number of overnight international visitors rose from 7.6 million in 2009 to 15.9 million in 2018 and is a major source of international tourists' expenditures during stays in Dubai. Such expenditures enter the tourism value chain directly via the hospitality sector as well as transport, retail, entertainment, leisure and cultural activities. In addition, as Dubai expands to business tourism, this has contributed to the development of other sectors such as conference and exhibition events management. Tourism has also been an important economic driver for investments in hotels and other forms of accommodations for visitors.

The travel-related activities have been hardly hit as a result of borders and travel restrictions due to COVID 19 global spread. The full extent of the fall in international tourism will depend on the duration of travel restrictions and borders shutdown. Based on previous crises, travel-related activities, including leisure travel is expected to recover quicker, especially for visiting relatives and friends. Dubai as a top international leisure and entertainment destination would be well positioned for a quick recovery and rebound in international tourism in the look up to Expo 2020 expected to take place one year later.

Export Role of Other Commercial Services

Statistics on exports of other commercial services show that telecommunications, computer and information services, and professional and technical activities lead this category. It is also worth noting that trade in commercial services tends to be complementary to foreign direct investment (FDI). As FDI occurs, transactions

Travel receipts is the second largest category in Dubai's commercial service exports and contributed a share of 27.8 per cent in total commercial services exports in 2018.

Trade in commercial services has complementary synergy with foreign direct investment: FDI typically boosts transactions in long-distance services such as telecommunications, technical services, and movement of intra-corporate transferees.

increase in long-distance services (communication services, technical consulting, and the like) and movements of service providers (intra-corporate transferees). Information and communications technology (ICT) has benefitted from technological changes in Dubai as the result of an increase in businesses moving to Dubai. The fast growth of the digital economy means that IT operations and computer services will remain the most dynamic commercial services sector in the future.

Dubai's New Exports Opportunities in Digital Age Services

The world is experiencing an accelerating trend towards digitisation, in emerging markets as well as the developed world. The WTO reports that a major driver of the growth of world trade in services are digitisation⁷, the growth in the internet and low cost telecommunications. This means that many services that could only be delivered face to face can now be transacted at a distance.

In the following, a brief discussion of other areas for the provision of digital age services, which will enable Dubai to strategically grow trade in commercial services and serve as a core source of growth in the future.

Smart Transport and Logistics Services

Dubai has been at the forefront of adopting digital technologies that have the potential to propel future economic growth. New technologies can reduce trade costs by optimising the tracking of cargo and shipment and increasing the efficiency of shipping and transport. A striking example is how DP World leverages digital technologies to optimise operations and reduce costs. DP World's facilities in the Jebel Ali free zone are an integrated multi-modal hub, capable of offering sea, air and land transport to the rest of the world.

DP World also launched DP World Cargospeed in 2018, a new global company created through a partnership between global trade enabler DP World and Virgin Hyperloop One, to provide hyperloop-enabled cargo systems to support the fast, sustainable and efficient delivery of palletised cargo. This technology, traveling at top speeds of 1,000 km/hour, will be able to transport on-de-

Distribution services have migrated to mail-order services and electronic commerce, giving Dubai the potential to become a major e-commerce fulfilment centre for the MENA region and beyond.

mand high priority, time-sensitive goods such as medical supplies, fresh goods and electronics, contributing to reduced costs of servicing supply chains.



DP World Cargospeed's hyperloop-enabled cargo systems operate at speeds up to 1,000 km/hour for **FAST, SUSTAINABLE** and **EFFICIENT** delivery of palletised high priority cargo and reduced costs of servicing supply chains.

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Strong Export Potential of E-commerce Logistics

Digital technologies have decreased traditional trade costs and serve to provide on-going cost reductions. Online platforms help reduce the search costs of matching buyers and sellers, of obtaining market information and providing information to potential consumers.

Dubai has built up a solid wholesale and retail trade sector, which is the largest contributor to its GDP. The sector not only caters to local residents but also attracts a large number of visitors from other countries (tourists) to shop in Dubai. Distribution services, which used to take place mainly through the commercial presence mode, moved to mail-order services and electronic commerce⁸. This new mode of business has reduced the cost of entry in individual markets. This development impacts the contestability of markets for the wholesale and retail trade services.

Dubai has the potential to become a major e-commerce fulfilment centre for the MENA region and beyond, given its transport connections and strength in the regional logistics market. The lockdown measures to reduce the COVID 19 spread has proven that online retail has now become a vital lifeline for business to survive and for customers forced to work and stay home to accelerate the use of e-commerce and related delivery platform. In a post COVID 19 such trend will accelerate, driven by digital technology and the incorporation of data and automation.

Leadership in Financial Services/fintech

Dubai has been boosting its financial service activities through the Dubai International Financial Centre (DIFC), which has increased its scale and attracted fintech companies, both start-ups and com-

The number of licensed fintech companies operating in the DIFC increased from 35 to more than 80 in the first half of 2019.

panies in their growth stages. The number of licensed fintech companies operating in the DIFC increased from 35 to more than 80 in the first half of 2019. The DIFC received 425 applications from start-ups operating in the Regtech, Islamic fintech, Insurtech and broader fintech sectors, for the third session of its DIFC Fintech Hive accelerator programme, a 42 per cent increase from the 2018 programme and a three-fold increase from its inaugural cycle in 2017. Approximately half of the applications received for the 2019 programme originated from the Middle East, Africa and South Asia.

Dubai is also well positioned to enhance its opportunities in the financial and technology sectors in the context of regional cooperation. In particular, fintech has the potential to disrupt, simplify and grow the trade finance market by the use of blockchain and securitisation. According to the Asian Development Bank, there is an unfulfilled US\$1.6 trillion global trade finance credit gap which fintech can help reduce by lowering risk.⁹

Intellectual Property (IP) related services

Services are not only traded cross-border, but also through the movement of people and capital. Examples of Intellectual Property (IP) related services include fees for the reproduction and distribution of copyrights on computer software, audio-visuals and books, broadcasting and recording of live performances. At the UAE level, the balance of payments statistics show IP-related services receipts (exports) accounting for AED 13.6 billion in 2018.¹⁰

Innovation and Creative Services Network: The Film Value Chain

The film industry provides a good example of how innovative audio-visuals can deliver a variety of different services: the movement of people through film production or specialisation in specific activities such as dubbing or visual effects, as well as destination marketing by becoming a filming location. In addition, the industry generates a new value of appropriation such as copyrights, brands, exclusivity agreements and overall the creation of jobs and increased economic activity.

Dubai Studio City & Abu Dhabi-based Twofour 54 provide illustrative examples of such a service network. Dubai Studio City in particular, aims to cater to the production needs of the MENA region by building Hollywood-like movie studios with sound stages and back lots for various production needs. It also plans to house film and television academies, entertainment and retail spaces, hotels and residential facilities to accommodate crews and casts.

Dubai Studio City addresses the production needs of the MENA region with Hollywood-like movie studios with sound stages and back lots for various production needs.



Conclusion

Dubai has been at the forefront of adopting digital technologies that have the potential to propel future economic growth. In the post-COVID-19 global health crisis, Dubai will face a new evolving environment. But Dubai is well positioned for the challenge of transforming its economy for the digital era, supported by a long and successful track record of capturing opportunities that give rise to new markets and increase productivity.

Dubai has been proactive in already adopting digital technologies such as artificial intelligence, the Internet of Things, additive manufacturing (3D printing) and blockchain. This digital foundation will play a catalysing role in enabling the Emirate to strategically grow trade in goods, services, finance, people and data in the future.

In the post-COVID-19 era, Dubai will leverage its existing adoption of digital technologies such as artificial intelligence, the Internet of Things, additive manufacturing (3D printing) and blockchain, to strategically grow trade in goods, services, finance, people and data in the future.

Endnotes

1. Cross-border supply (mode 1) such as providing service through internet; Consumption abroad (mode 2) such as tourism; Commercial presence (mode 3) such as a foreign bank supplies services to local consumers; Presence of natural persons (mode 4) such as a consultant moving abroad temporarily to provide services.
2. https://www.wto.org/english/res_e/booksp_e/02_wtr19_1_e.pdf
3. Dubai Economic Report 2019 (page 67): http://dubaied.gov.ae/StudiesAndResearchDocument/DER2019_EN_Report_f4.pdf
4. Further details on the estimated value of Dubai's exports in services are found in Dubai Economic Report 2019 (page 55); http://dubaied.gov.ae/StudiesAndResearchDocument/DER2019_EN_Report_f4.pdf
5. <https://www.menon.no/wp-content/uploads/Maritime-cities-2019-Final.pdf>
6. BCG "Economic Impact Assessment of Jebel Ali Port and Jebel Ali Free Zone on the Economies of Dubai and the UAE" July 2018.
7. WTO "World Trade Report 2018" & "World Trade Report 2019".
8. For further details on E-commerce in Dubai, refer to Economic Bulletin Issue 1/2020/January 2020
9. <https://www.adb.org/news/15-trillion-trade-finance-gap-persists-despite-fintech-breakthroughs>
10. Central Bank of the UAE "Central Bank Annual Report 2019".

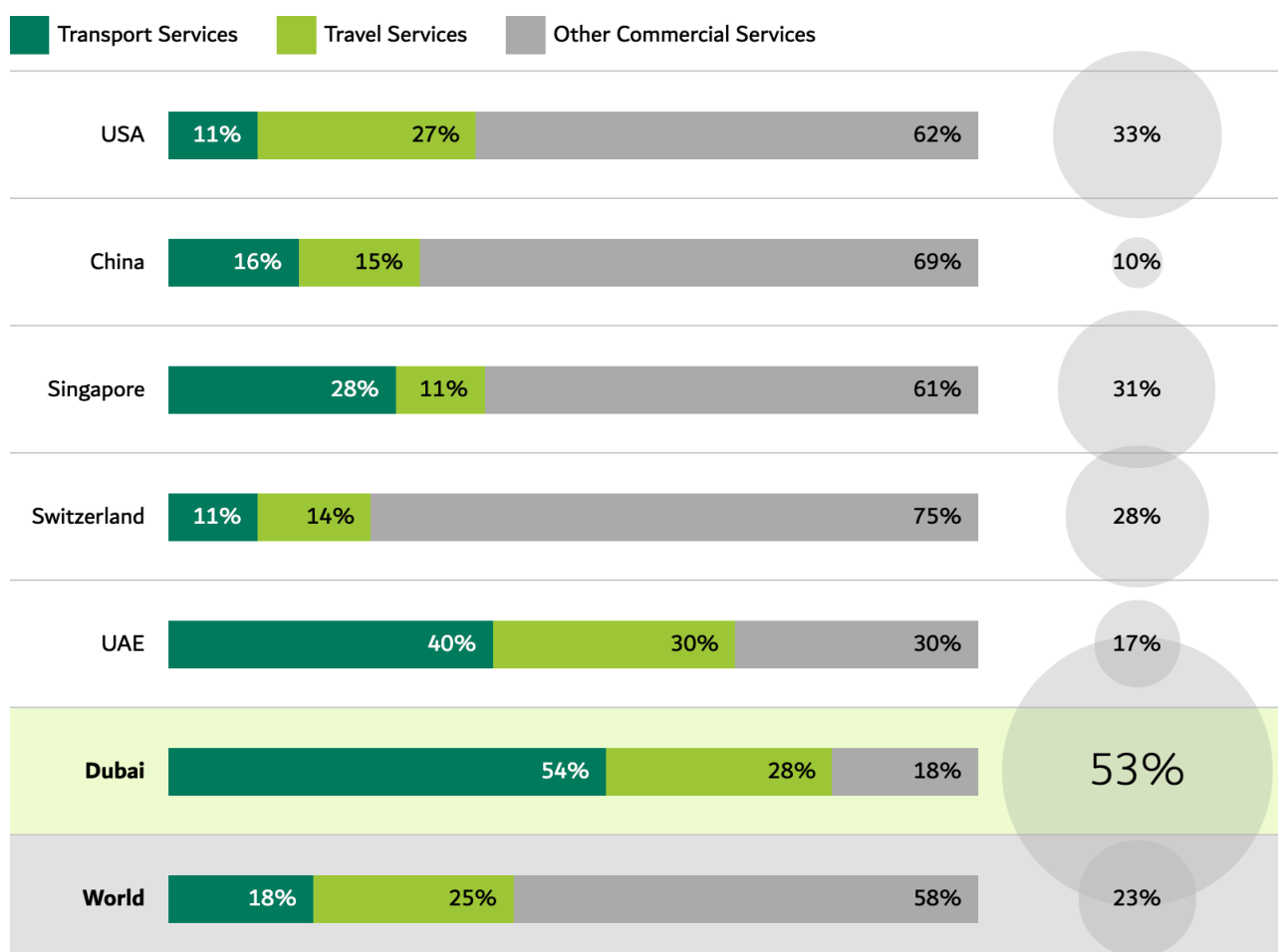
Datawatch

The share of services reached 23% of the value of world total exports (goods + services) in 2018, and has grown from just 9% in 1970, 3 times that rate. For Dubai, the share of services accounted for 53% of total (goods and services) exports, highlighting the strong reliance of the Emirate's economy on the service sector.

Transport services is a key export sector for Dubai representing 53% share of total exports of commercial services in 2018, a higher share than the world exports; Travel services (covering travellers' expenditure on goods and services during their stay abroad) accounted for 28% share of total exports of services in 2018, is in line with the travel services share (25%) in world services exports; Other commercial services, including financial services, business services and charges for the use of intellectual property, continued to be dominated by developed countries (USA, Switzerland, Singapore); Dubai's share of other commercial services (18%) is even lower than the share (58%) of other commercial services in world services exports.

Leading World Exporters of Commercial Services and Dubai
Breakdown by Main Services Categories (2018)

Leading World Exporters and Dubai
Share of Commercial Services



SOURCE: WTO. "WORLD TRADE STATISTICAL REVIEW 2019"; FOR DUBAI DATA, DED STAFF ESTIMATE BASED ON DSC'S INPUT-OUTPUT TABLE OF 2015 AND UAE BALANCE OF PAYMENTS STATISTICS.