

# Navigator

Now, next and how for business

United Arab Emirates



Together we thrive

# Overview

## Going against the grain

Increased investments and activity in preparation for Expo 2020 Dubai is helping bolster business confidence in the UAE<sup>1</sup>. Weaker global growth, fluctuating oil prices, and overreliance on the hydrocarbons sector remain key concerns in the current market climate.

# State of play

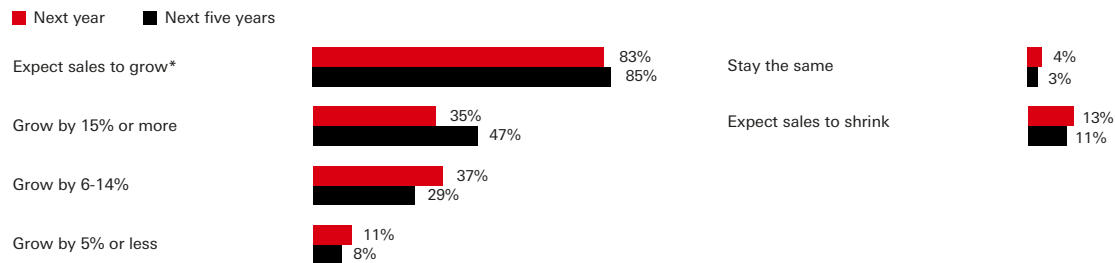
## Improving productivity, seizing new opportunities

UAE businesses are upbeat about growth, with 60% saying they are more optimistic now than they were a year ago. More than four-fifths expect growth in the year ahead, with 85% envisaging further expansion over the next five years, beating the global norm.

The majority (83%) predict sales growth over the next 12 months; of these, one-third – the high-growth companies – believe sales will increase by 15% or more. In addition, 92% of businesses are positive on international trade prospects over the next two years, a 7% jump on the previous two.

Driving this positive business outlook, improving business productivity is the top internal consideration, while the top external factor is new markets opening up.

### Expectations for future business growth



\*This is the sum of grow by 5% or less, 6 - 14%, 15% or more.



## What you need to know

- 1 83% of UAE businesses predict sales growth over the next 12 months, which is 1% more than the MENA average.
- 2 92% of businesses are positive on international trade prospects over the next two years, which is well ahead of the global average (81%).
- 3 Three-quarters of firms anticipate that their business will change substantially over the next five years.

## What your business can do



Expand into new markets in order to overcome the potential decline of domestic business. 42% of companies say this is their strategy.



Improve the quality of products and services. One-third of UAE businesses consider this to be a top priority.



Tighten cashflow management. 26% of UAE firms say they will adopt this practice compared with 17% globally.

# Trade outlook

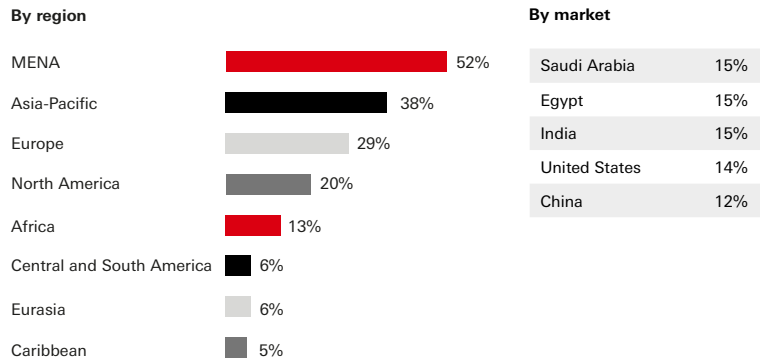
## Asia on the up amid Western decline

MENA is the UAE's most important trading partner and this will remain the case for at least the next five years. Within the region, Saudi Arabia is considered the top trading partner by almost a quarter of businesses, followed by Egypt, which leapfrogged Oman with a 7% increase in 2019. Outside of MENA, APAC is the UAE's strongest trading partner increasing from 40% in 2018 to 47% in 2019, with India and China leading the way there.

Looking to the next five years, it is expected that MENA, APAC and Europe will continue to be the UAE's most influential trading regions, with Saudi Arabia, Egypt, India, the US and China being its top markets.

Businesses in the UAE overwhelmingly see trade as a force for good, agreeing that international trade will improve efficiency (UAE: 90%, Global: 78%), drive innovation (UAE: 87%, Global: 80%) and provide new business opportunities (UAE: 84%, Global: 79%).

### Future trading expansion markets over the next three to five years



## What you need to know



Saudi Arabia is the UAE's top trading partner within MENA, accounting for 23% of regional business.



In the next five years, MENA, APAC and Europe will continue to attract trade from UAE firms.



The UK became the UAE's main market across Europe and North America in 2019, accounting for 15%.

## What your business can do



Focus on future developments. UAE trading expansion is expected to be carried out predominantly in Saudi Arabia, Egypt and India.



Improve quality. UAE businesses deem their products and services to be superior to those of their MENA counterparts (46%) and those in APAC (59%).



Think beyond established markets. UAE businesses intend to reduce trading in Egypt and the US over the next two years.

# Protectionism and geopolitics

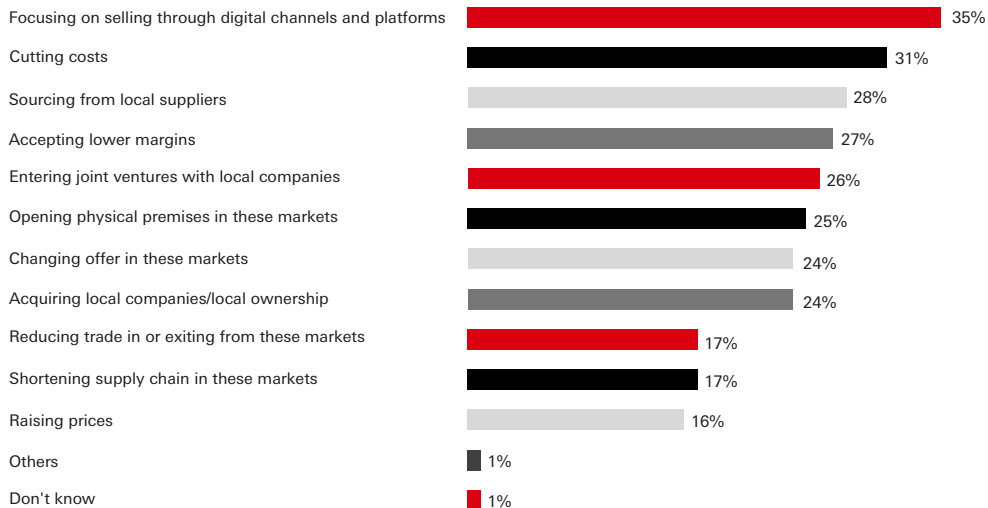
## No gain without some pain

Protectionism is escalating on a global basis and in the key markets that UAE businesses operate in. However, this growing trend has been viewed in a positive light in the Emirates, with 72% of firms perceiving the advantages gained through this process as outweighing any disadvantages – more so than elsewhere in the MENA region or on a global basis.

As positive upshots of protectionism, over a third of UAE companies pointed to increased levels of business competitiveness. Some negative outcomes are perceived to be restrictions on foreign ownership, controls on moving money between markets, supplementary business tariffs and regulatory changes making it difficult to conduct business.

Similarly, geopolitics has had a major impact on UAE companies. More than four out of five say geopolitics has affected their operations, which is the highest in the MENA region and well above the global average. In addition, 46% specified that they had felt the impact of geopolitics “very strongly”.


### Ways in which businesses are coping with protectionism



## What you need to know

- 1 35% of UAE businesses believe protectionism has increased the competitiveness of their operations.
- 2 83% of companies in the UAE think their key trading markets are becoming more protective and these views have not changed since 2018.
- 3 84% of UAE businesses versus 64% globally say they are impacted by geopolitics and this is the highest level across MENA (77%).

## What your business can do

-  Focus on selling through digital channels and platforms to cope with protectionism. 35% of businesses surveyed intend to do this.
-  Cut costs and source from local suppliers – key strategies for success during protracted protectionism.
-  Look to develop local relationships, partnerships and joint ventures to mitigate geopolitical risk. 32% of UAE businesses consider this to be the best course of action.

# The sustainable future

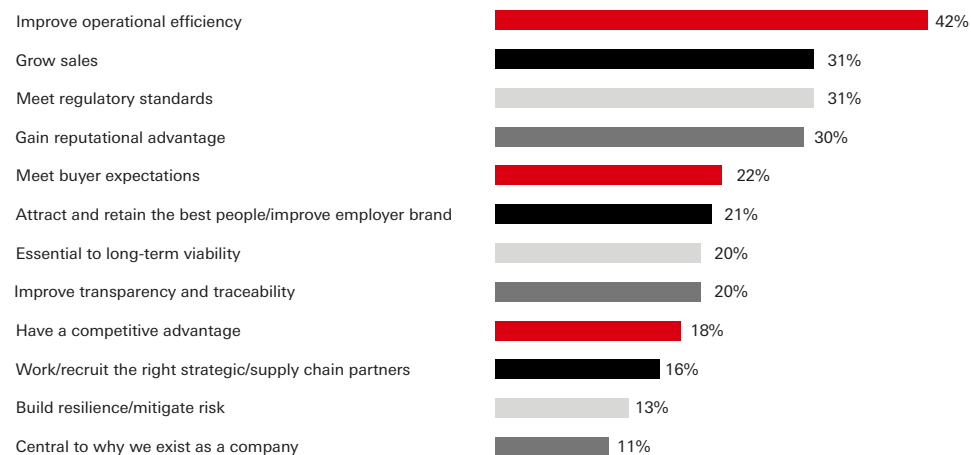
## Good corporate citizenship

The top three motivating factors for UAE businesses to implement sustainable practices are to improve operational efficiency (42%), increase sales (31%) and adhere to regulatory standards (31%). Over the next five years, the pressure on businesses to become more sustainable is certain to increase, especially from governments, investors and competitors.

Key challenges for companies will be the additional costs they incur when adopting sustainability, the extra time and work it takes to implement sustainable practices and difficulties they encounter when employing the technology to support them. These are compounded by the lack of consistent measurement and reporting set by regulators.

UAE businesses are monitoring some environmental, social and governance (ESG) metrics. The key environmental factors they consider relevant and measure to some extent are energy usage (relevant to 32%, measured by 19%) and raw material sourcing (relevant 21%, measured 10%). In terms of social factors, companies are mainly looking to monitor workplace safety standards and conditions (relevant: 27%, measured: 21%). While for governance, executive salary and compensation (relevant: 36%, measured: 23%), and anti-competitive behaviour (relevant: 29%, measured: 17%) come in for the closest scrutiny.

### Motivations for implementing sustainable practices



### What you need to know

- 1 UAE businesses will come under pressure from governments (46%), investors (43%), and competitors (41%) to improve sustainability in the next five years.
- 2 38% of UAE businesses consider financing to be the biggest challenge in implementing sustainable practices.
- 3 Over the next five years, 41% of UAE businesses aim to improve energy efficiency and source more clean energy.

### What your business can do



Look to play a role in delivering the UN's Sustainable Development Goals. 47% of UAE businesses say they have a significant role to play.



Implement sustainable practices in order to improve on operational efficiency – this was the top motivation for 42% of the UAE businesses surveyed.



Invest more in energy efficiency, promoting employee health, wellbeing and safety, and technology, innovation and infrastructure to improve sustainable production.

# Breakthrough tech

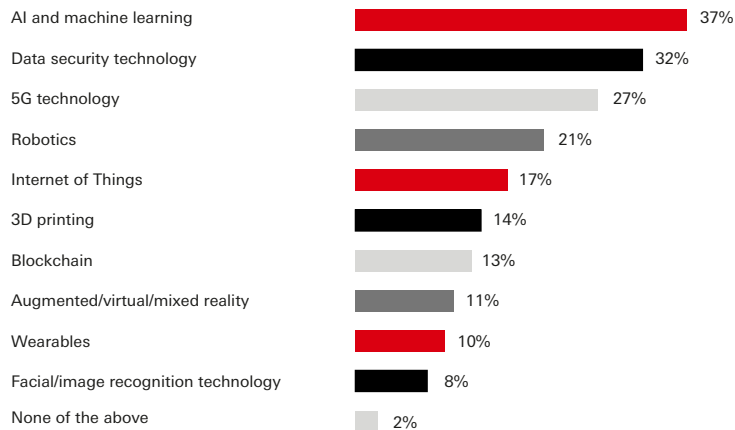
## Tomorrow's world today

Businesses throughout the world have been quick to realise that they can gain a huge competitive edge through leveraging new technology. UAE companies are no different and they have pinpointed artificial intelligence (AI) (37%), data security (32%) and 5G (27%) as the top three technologies to enhance their operations over the next five years.

There are distinct benefits to be had from different technologies, cited by those who will be impacted by them. Between them, they deliver improved productivity and lower operating costs, while enhancing the quality of the firms' products and services. They will also enrich customer experience and employee wellbeing, boost sustainability and increase speed to market.

UAE businesses believe these top technologies are at their most advanced stages in China and the US and these two countries are widely considered to be the world's biggest technology hubs.

### Technologies businesses think will be important over the next five years



## What you need to know



For businesses in the UAE, APAC is the hub for all technologies. China (AI: 43%, data security: 11%, 5G: 36%) and Japan (AI: 36%, data security: 6%, 5G: 15%) are the go-to destinations.



58% of UAE businesses who say AI will impact their business believe it will improve their productivity.



5G will help increase speed to market, according to 48% of the UAE businesses who cited its impact.

## What your business can do



Reduce costs by implementing AI and machine learning technologies.



Improve on compliance and transparency through the adoption of data security technologies.



Work from the ground up. Before introducing new technology, businesses should evaluate if it will be a good fit for the organisation.

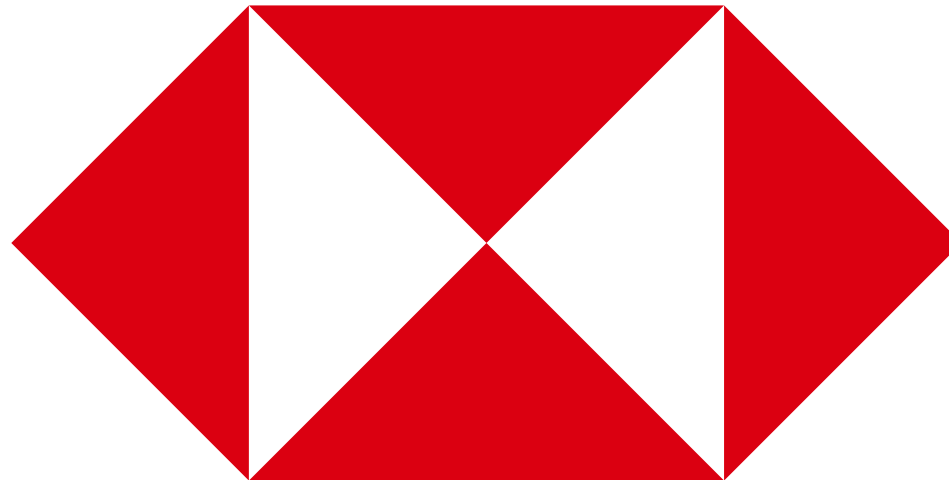
## About HSBC Navigator United Arab Emirates

The HSBC Navigator survey, which is the largest of its kind, is conducted on behalf of HSBC by Kantar. The study gauges sentiment and expectations of businesses in the near to mid-term future on topics including: business outlook, international trade, geopolitics, sustainability, technology and wellbeing. It is compiled from responses by decision-makers at 9,131 businesses – from small and mid-market to large corporations – across a broad range of industry sectors in 35 markets. Sample sizes for each market were chosen to ensure the statistical accuracy of results, with 151 businesses surveyed in the UAE. Global results are based on an average of the 35 markets (using weights based on each market's share of world trade). The survey was conducted between August and September 2019. Interviewees were polled on a range of questions including expectations around future growth in trade, attitudes toward trade policy developments and strategic business plans. The survey represents a timely source of information on the fast-evolving international business environment.

Data visualisations based on the following:

Page 2, 3, 5 & 6: all companies. n=151

Page 4: companies who think governments are becoming more protective. n=126



### For enquiries please contact:

Kate Woodyatt

HSBC Global Communications

[katewoodyatt@hsbc.com](mailto:katewoodyatt@hsbc.com)

Or go to [www.business.hsbc.com/trade-navigator](http://www.business.hsbc.com/trade-navigator)

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