



Market Report

Potential Business Services in the UAE

July 2018

**Economic Research Department
Dubai Chamber of Commerce and Industry**



Outline

Section I: Overview

Section II: Analysis of business services market

Section III: Computer and related services

Section IV: Architectural and engineering services

Section V: Labor recruitment and provision of personnel

Section VI: Research and experimental services

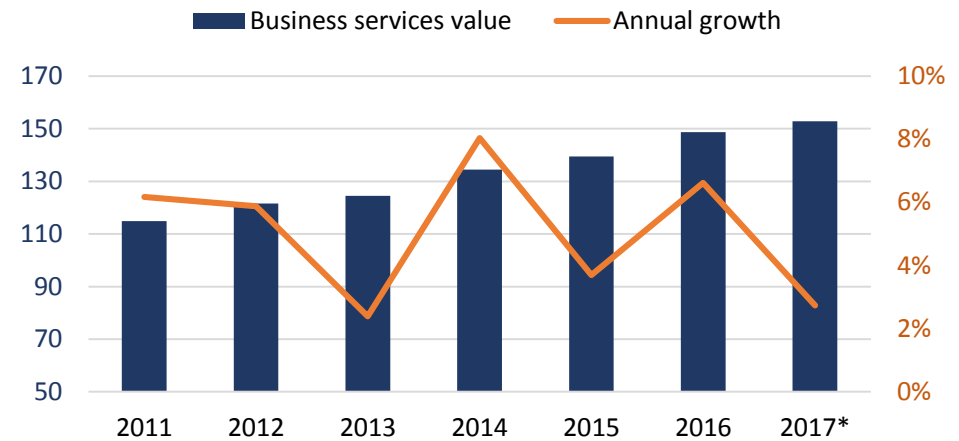
Section VII: The state of the market in the UAE

Overview

Business services in UAE

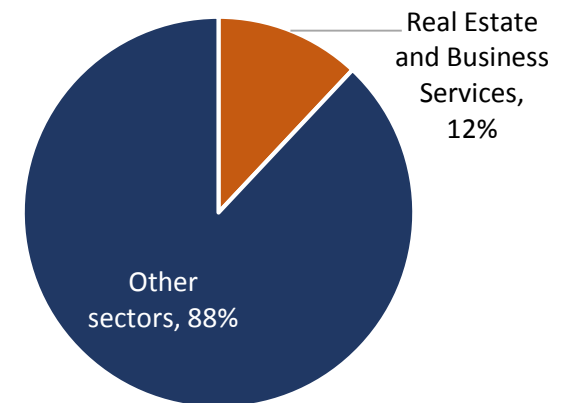
- In this report business services of UAE include real estate activities, professional, scientific and technical activities, administrative and support service activities and activities of households as employers.
- According to Federal Competitiveness and Statistical Authority (FCSA), the value of business services in UAE valued at AED152.8 billion in 2017, a 2.7% growth in comparison to 2016. Moreover, the share of business services in non-oil GDP of UAE was around 15% in 2017. The data shows that the growth of business services in UAE has been very volatile over the period 2011-2017.
- According to Ministry of Human Resources and Emiratization (MOHRE), in 2016, the share of UAE's real estate and business services employees in total employment was around 12% and it was the 3rd largest sector in UAE in terms of employment size, after construction, and trade and repair services.

UAE's business services value (constant prices, AED bn) and its annual growth rates (%), 2011-2017



Source: DCCI, FCSA

Share of UAE's real estate and business services employees in total employment, 2016



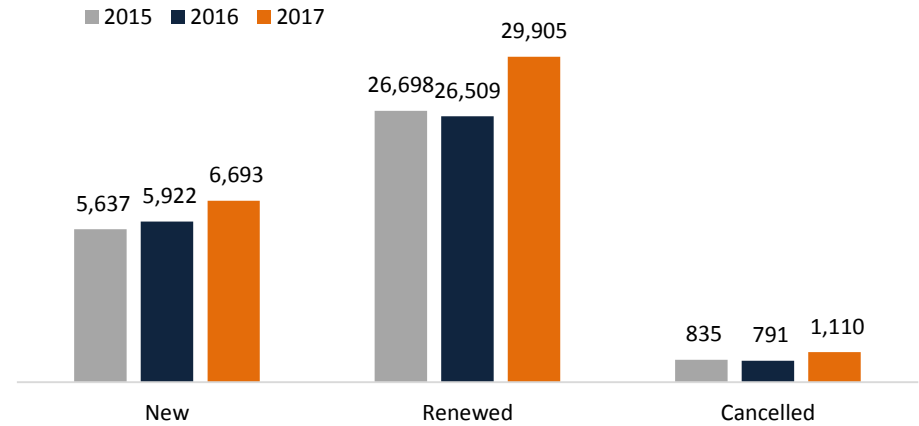
Source: DCCI, MOHRE

Overview

Business services

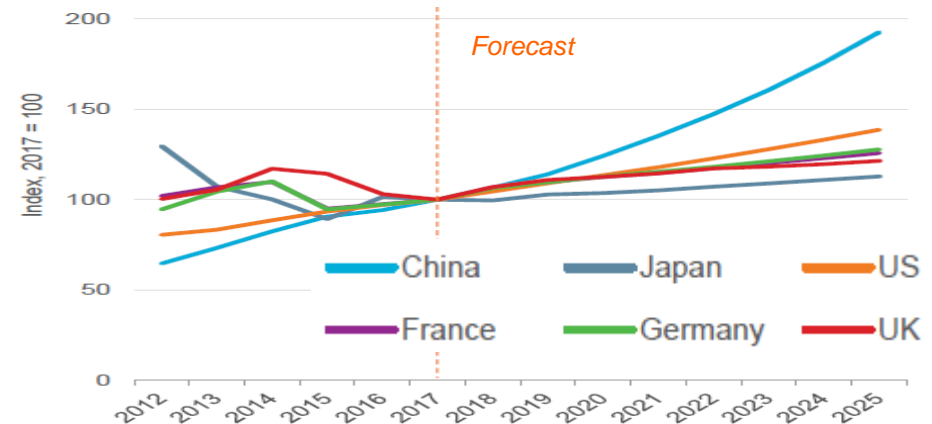
- According to Dubai Statistics Center, the number of cancelled professional licenses increased between 2016 and 2017, but there was a significant growth in new issued and renewed professional licenses in Dubai from 2016 to 2017, 13% and 22%, respectively. The growth of new issued professional licenses over the past three years indicates that professional, scientific and technical services are improving in Dubai.
- According to Euromonitor, China will become one of the top five business service centers in the world by 2025. Moreover, government initiatives to lower regulatory barriers, expanding business activities and increasing demand caused by a growing middle class should add to business services' growth in China.
- In USA, digitalization and restructuring of healthcare and financial companies will drive business consulting industry growth over the coming years.
- Japan's business service industry is also expected to grow over 2016-2025, due to the adoption of innovative products, such as AI, robotics, cloud computing and big data.

Number of professional licenses in Dubai by status, 2015-2017



Source: DCCI, Dubai Statistics Center

Business services sector expansion in selected countries, 2012-2025

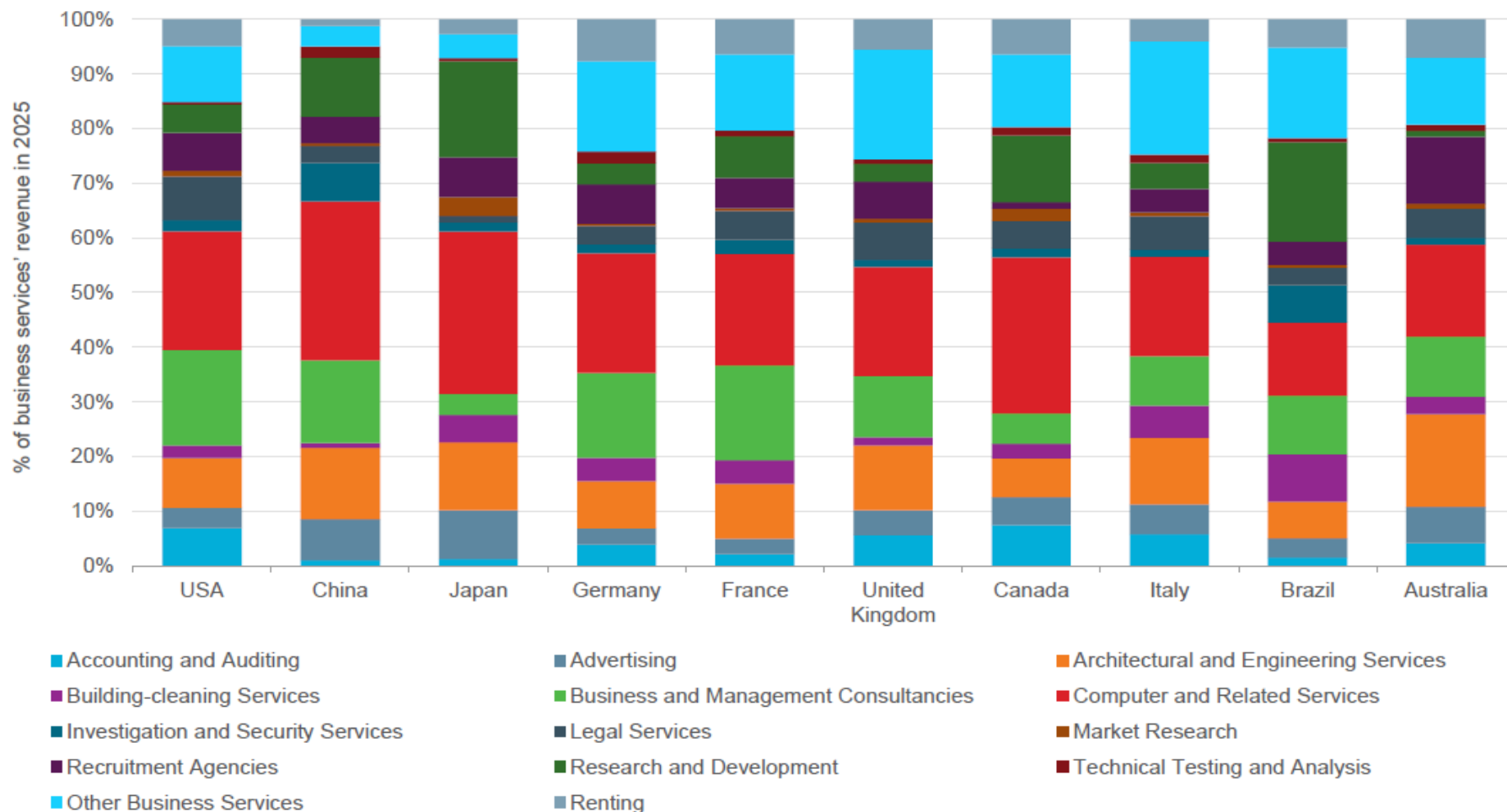


Source: DCCI, Euromonitor

Overview

Business services in the world

Business services' revenue structure in top 10 countries globally, % in 2025



Source: DCCI, Euromonitor



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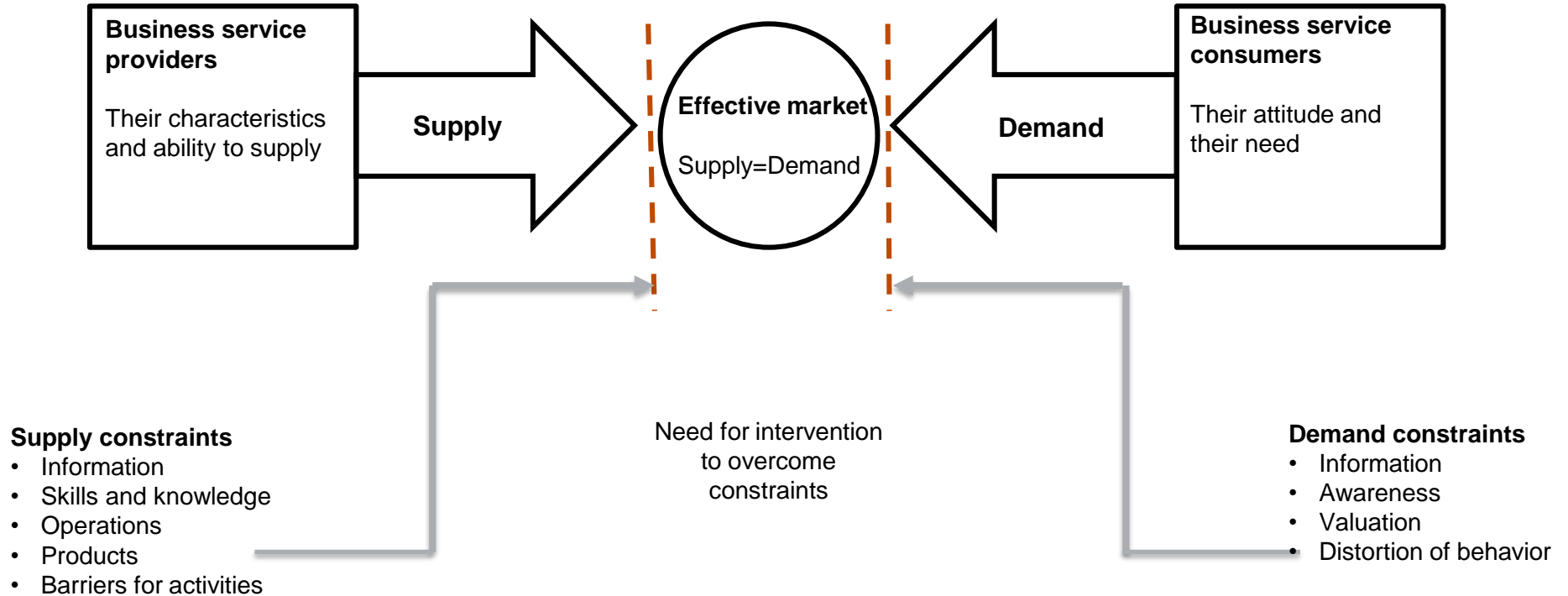
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Analysis of business services market

Business services market system (1)

Market system for the supply and demand of business services



Source: DCCI, UK Department for International Development

Analysis of business services market

Business services market system (2)

- In the previous slide, the figure shows that in a functioning market, there should be a balance between supply of a service that responds equally to a paying demand for that service. In **effective market**, business service providers understand who the buyers are and what their needs are.
- Moreover, the supply side need to have the right products to meet those needs (defined by service and quality) and make them available at a price that makes business sense to the buyers.
- On the demand side, business service consumers need to understand that they have a problem and accept that it can be fixed with an outside service. They also need to know who the possible service providers are, how to find them, and be able to place a value on the service that they require, so that they know how much they should be paying for that service.
- Any factors that either contribute to a lack of supply or an absence of demand represent a constraint or **market failure**.
- Equally, the market failure could be that certain services are over supplied because business services providers have offered a service that is not appreciated or needed by the customers.
- Market failure could also result when high demand is not being met by an appropriate business service because service providers have failed to respond to market signals.
- Many UAE companies are not using high technology business services. However, UAE businesses need to understand that they can keep/increase their competitiveness by applying modern business services. On the other hand, UAE's business service providers still offer the services which are not up to date. There is a need to improve or bring new business services which can provide high quality and modern services. The next sections will discuss UAE's business services which have potential to improve both in demand and supply side.

Source: DCCI, World Bank



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Computer and related services

E-commerce

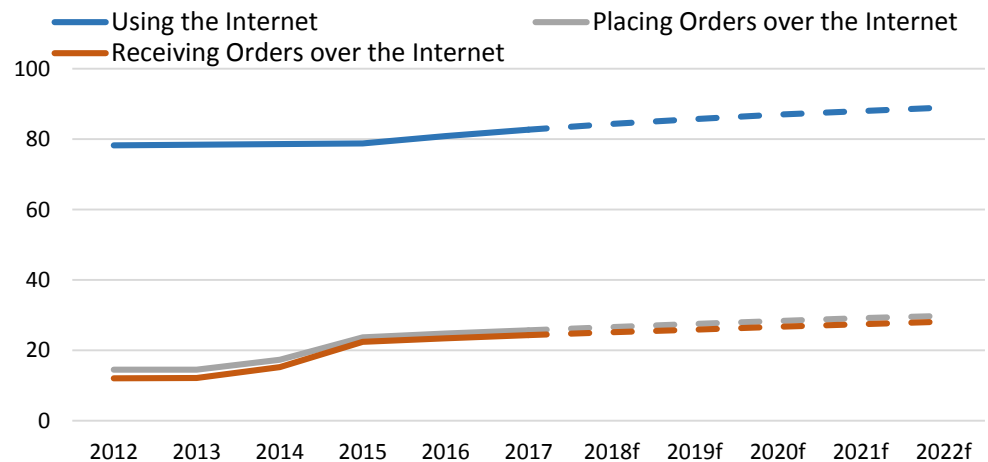
- As e-commerce market develops in UAE, it creates a need for business services which provide e-commerce services (e.g. web design and web development). According to market research firm Frost & Sullivan, in 2014, UAE e-commerce market was USD2.5 billion and it is expected to reach USD10 billion by 2018. But KPMG reported that 58% of online purchases in UAE were imported of which 80% coming from Asia, North America and Western Europe. The reason can be trust, price, quality of product and website, and user friendliness of the application.
- According to Euromonitor, over the period 2012-2017, on average around 80% of the UAE business used internet in their activities. However, for the same period, on average only 18% received order from internet and on average 20% placed the order over the internet.
- UAE businesses should understand that there is a demand for development of e-commerce websites. Also, web development providing services should offer high quality services and meet the local demand.

UAE's online purchase distribution (%)



Source: DCCI, KPMG

IT use in Business in UAE, % of total business, 2012-2022



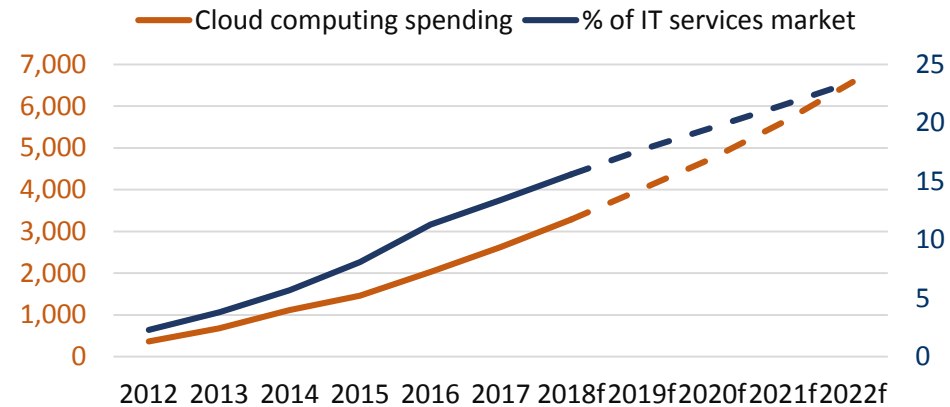
Source: DCCI, Euromonitor

Computer and related services

AI, big data, blockchain, cloud computing

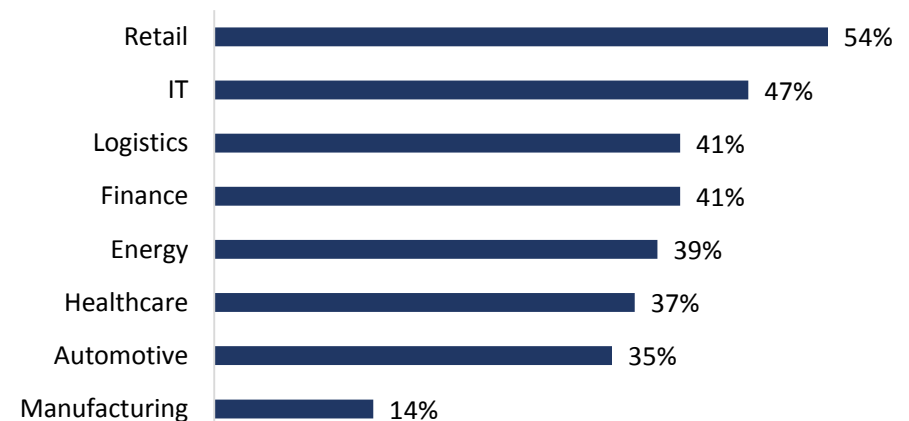
- Many sectors in UAE are going to transform their operations by adopting the latest technologies, including artificial intelligence (AI), big data blockchain and cloud computing. The UAE has AI and blockchain strategies, which encourages businesses to adapt latest technologies.
- According to BMI, in 2017 cloud computing spending of UAE businesses reached AED2.6 bn, which was around 13% of total IT services spending. BMI forecast that by 2022 the share of cloud computing spending in total IT services spending will reach 23.5% (AED6.6 bn).
- Companies which provide AI development services could focus on sectors which will adopt AI system faster. According to PwC, the retail, IT, logistics, finance and energy will be the top 5 fastest sectors in adoption of AI in near term.
- UAE businesses can increase their competitiveness by adopting these new technologies, but the local IT service providers should be ready to meet this future demand.

UAE cloud computing spending (AED mn) and its % of IT services spending, 2012-2022



Source: DCCI, BMI

Percentage (of total sector) of AI adoption in near term (0-3 years) by sectors in the world, 2017



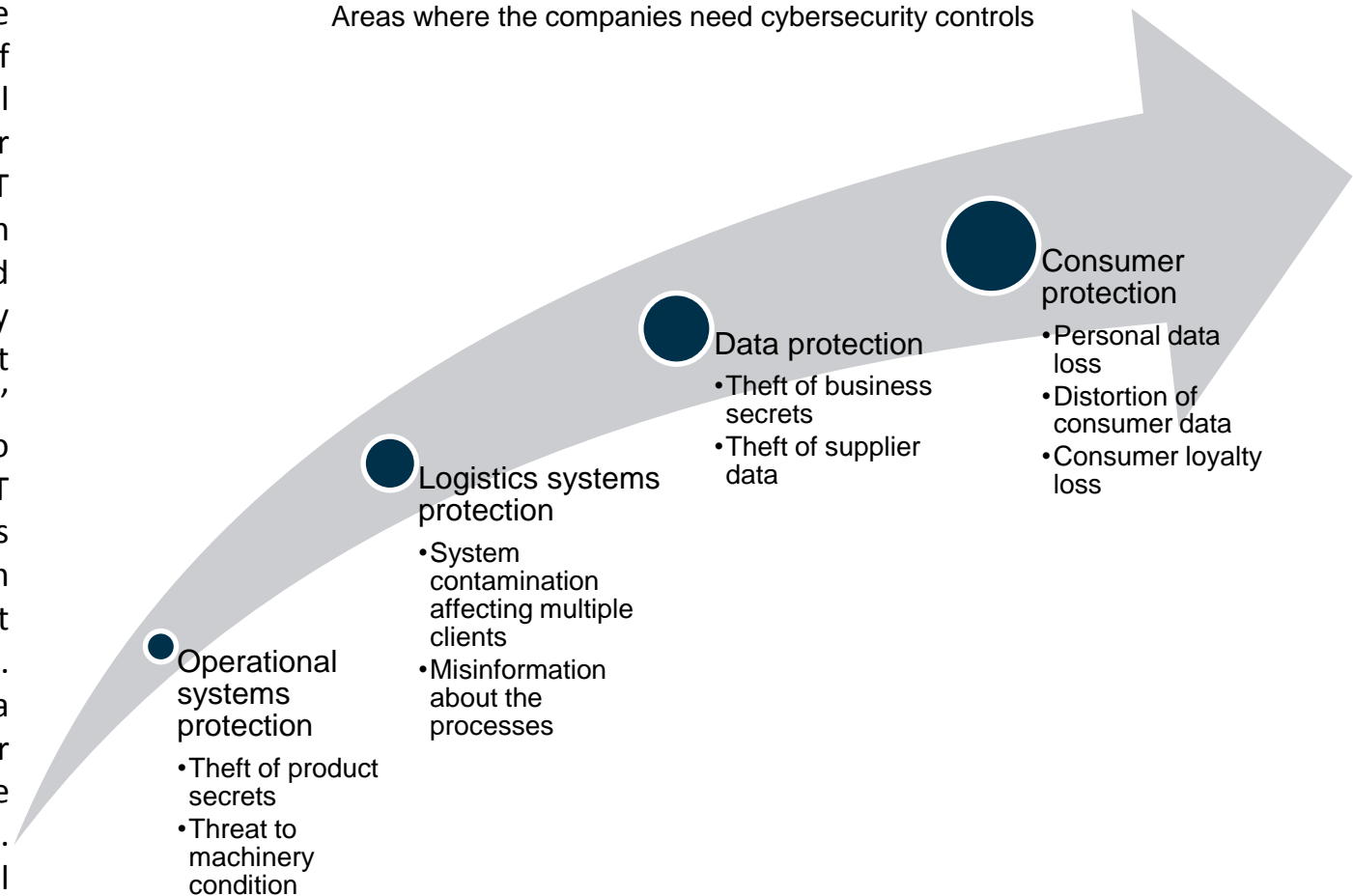
Source: DCCI, PwC

Computer and related services

Internet security services

- As UAE companies are adopting Internet of Things (IoT), it will increase the demand for cybersecurity, because IoT systems rely heavily on infrastructure quality and security systems. Any breach could harm not only the main users' operations, but also everyone linked in the IoT chain. This makes cybersecurity an increasingly important issue for IoT adopters. Therefore, there will be a huge demand in UAE for businesses which provide cybersecurity services. Areas that companies will need in cybersecurity are described in the figure.

Areas where the companies need cybersecurity controls



Source: DCCI, Euromonitor



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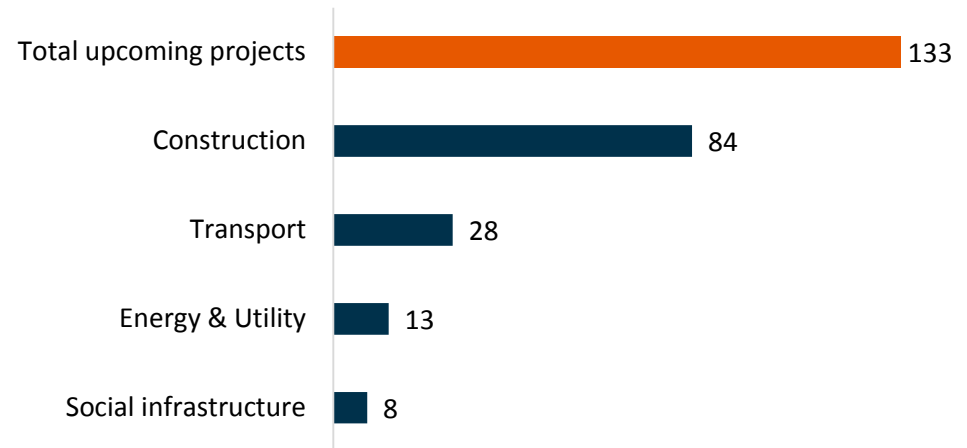
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Architectural and engineering services

- Architectural and engineering services are one of the important business service providers in UAE. As public and private spending on infrastructure increases, it will create a huge demand for architectural and engineering services in the future.
- According to BMI's latest data, there are 133 key infrastructural projects in UAE which are at the planning stage, announced and in tender. Among them construction projects has the highest number (84), followed by transport (28), energy & utility (13) and social infrastructure projects.
- EXPO 2020 will be also a driving force of the growth of architectural and engineering services in the UAE. EXPO is expected to welcome more than 200 participants, including more than 180 nations, multinational organisations, businesses and educational institutions. Moreover, the government of Dubai has launched eSourcing portal, an online procurement system, that lists tender opportunities for EXPO 2020, and the main focus are the SMEs. Architectural and engineering companies can actively participate in these projects and offer their services.

Number of UAE's upcoming* infrastructure key projects by type, 2018



*Note: Upcoming projects include projects which announced, at planning stage and in tender.
Source: DCCI, BMI*

Some facts about EXPO 2020



180 countries
will participate



Dubai South
district, 438 ha
site



20 October
2020-10 April
2021

Source: DCCI, EXPO 2020



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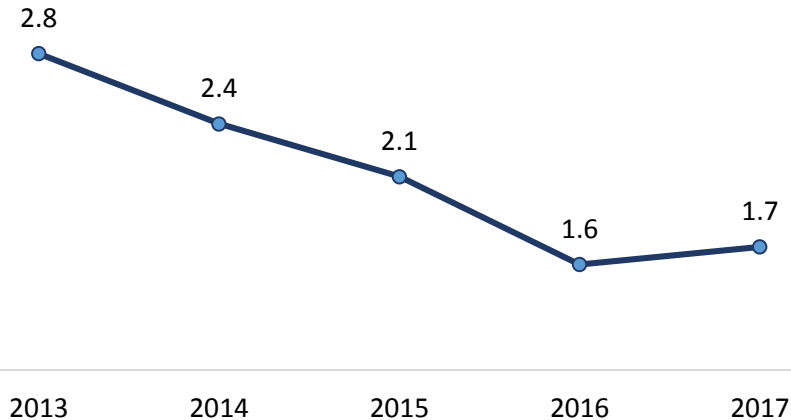
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Labor recruitment and provision of personnel

Development of labor market in the UAE

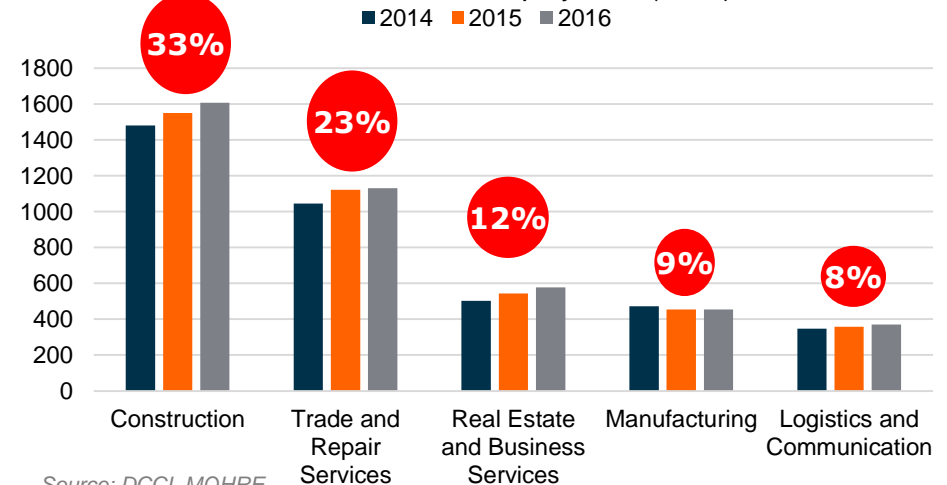
- Many companies, especially SMEs, which do not have enough sources for HR, are using the services of recruiting agencies to find new employees and train their workers. According to FocusEconomics, demand for labor increased, as unemployment rate in UAE had a downward slope between 2013-2016.
- According to the UAE Ministry of Human Resources and Emiratization (MOHRE), the top 5 largest sectors of the UAE economy account for around 85% of total employment. Between 2014 and 2016, in all the top 5 sectors employment increased, except for manufacturing.
- According to Recruiterbox, the cost of recruiting a new employee in the world on average is more than USD4,000 per worker. Therefore, for SMEs it is usually costly to hire a new worker through recruitment agencies. Although the recruiting agency market in UAE is quite competitive, still the cost per worker is high. There is a need in UAE for online recruiting agencies, which use sharing economy principle and charges small fee per worker. The new low cost agencies can significantly reduce the cost of hiring new employees for SMEs and meet the local demand.

UAE's unemployment rate (% of active population), 2013-2017



Source: DCCI, FocusEconomics

UAE's total labor force by major economic sectors (thousand, 2014-2016) and their share in total employment (2016)



Source: DCCI, MOHRE

Labor recruitment and provision of personnel

Government policies to support this industry

- MOHRE issues a license for brokerage employment agency and temporary recruitment agency which wants to operate in UAE. Even though the time of issuing these licenses is short (15 days), the license fee and bank guarantee for these companies are very high. A reduction of the license and bank guarantee fees may attract many recruiting agencies to UAE.
- A recent government decision with regards to foreign workers' insurance in the private sector, as well as a legislative package of visa facilitations can help the development of the labor market in UAE. In particular, according to new rules the previous mandatory deposit of Dh3,000 per worker is now replaced by a new insurance that costs only Dh60 annually per worker. Moreover, the insurance coverage amounts to Dh20,000 per worker. Also, releasing the current bank guarantees for companies will bring AED14 billion back to private sector companies. This new decision will motivate companies, especially SMEs, to hire the new employees and help the development of labor recruiting agency market.

License issuance for brokerage agency/ temporary recruitment in UAE

	License fee	Bank guarantee	Duration of getting the license
Brokerage agency	AED 50,000	AED 300,000	15 days
Temporary recruitment	AED 100,000	AED 1,000,000	15 days

Source: DCCI, MOHRE

New system for workers in UAE



Source: DCCI, Gulfnews



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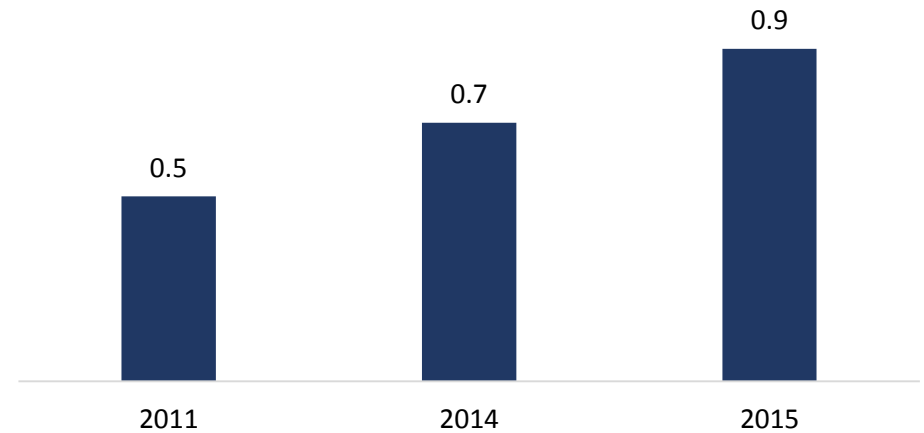
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Research and experimental services

Pharmaceutical researches and studies

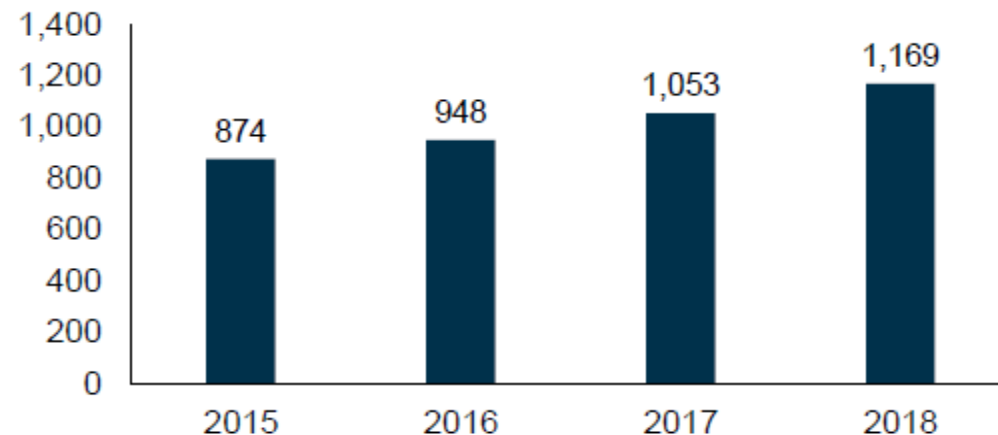
- The next phase of growth for the UAE may come through knowledge and innovation. One of the industries that government wants to focus on is the production of pharmaceuticals and medical equipment.
- For the development of this industry, there is a need for business services which can provide basic pharmaceutical researches and studies to do incremental innovation. Moreover, these services will encourage or promote scientific issues and research in the field of pharmacology and its advanced technologies and implement it in the manufacture of medicines and pharmaceuticals and also introduce raw materials that can serve the pharmaceutical industry.
- UAE can be successful in production of biosimilars (it is a biological product that have no clinically meaningful difference from the reference product) that has gone off patent. Another potential would be the production of biologics which is protein-based drugs made from living cells. Research service providers can help to find these biosimilars and biologics, and help the improvement of these products.

UAE's R&D expenditure as a % of GDP



Source: DCCI, World Bank

Production turnover in pharmaceuticals in UAE (AED million)



Source: DCCI, Euromonitor



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The state of the market in the UAE

Potential business services

Percentage of development



	Computer and related services	Architectural and engineering services	Labor recruitment and provision of personnel	Research and experimental services
Demand side - create awareness in business community				
Ensure business service providers meet the requirements of market				
Ability of business service providers to market their services				
Develop new product for market or improve range of products available				

Source: DCCI



References and useful links

- BMI: <https://bmo.bmiresearch.com/authentication/login/>
- Dubai Statistics Center: <https://www.dsc.gov.ae/en-us>
- EXPO 2020 Dubai: <https://www.expo2020dubai.com/>
- Euromonitor: <https://www.euromonitor.com/>
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- Gulfnews-Major Changes in UAE visa rules: <https://gulfnews.com/news/uae/government/major-changes-in-uae-visa-rules-1.2236712>
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- PwC's Global Artificial Intelligence Study: Exploiting the AI Revolution: <https://www.pwc.com/gx/en/issues/data-and-analytics/publications/artificial-intelligence-study.html>
- UK Department for International Development: https://www.dai.com/uploads/fnmd_analysis_1.pdf
- World Bank-R&D spending: <https://data.worldbank.org/topic/science-and-technology?view=chart>