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Subject Area - Economics

UAE Economy

Introduction

The economic development of the UAE and China make these developing nations excellent choices for overseas expansion, globalization and foreign direct investment (FDI). Globalization of developing nations strengthens their economies and global distribution channels. The UAE is now considered one of the wealthiest and fastest developing nations worldwide. China is fast becoming an economic leader and manufacturer in the world, famous for its cheap labor factory workers. The UAE's wealthy economy has been increasing at a rapid pace due to its real estate boom attracting huge FDI. China has eliminated many of its trade barriers and now has an open free trade economy that appeals to many global nations seeking new target markets and consumers for their products. Both the UAE and China are quickly becoming significant growth economies that attract global FDI from countries all over the world wanting to expand and find new import/export partners for their goods.

UAE PEST Analysis

Political

The UAE Government is made up of a Federation of the seven Emirates ruled by President, Sheikh Khalifa bin Zayed Al-Nahyan, who is also the ruler of Abu Dhabi. The UAE government is very supportive of their free trade open society and encourages FDI and globalization. The court system is still being established since its rulings are not always enforceable due to the large foreign population. The legal regulations are similar to the western world and becoming stricter each year (Ahmed, 2007, 1-2).

Economic

The UAE population consists of three million people and 60% of them are in the workforce. The UAE population growth rate is currently 9.4%, with only 13% of UAE Nationals making up the workforce and 87% foreigner expatriates taking over the Emirates market. With such a large expatriate workforce (87%) entering UAE due to the real estate development and investments in the region. The UAE GDP increased by 15% to 450 billion dirhams in 2007, and the economy grew even faster at a pace of 16.7%. Its GDP real growth rate is 10%, and it shows \$99 billion in oil revenues, and \$121 billion in non-oil revenues.

The UAE exports equal \$48 billion with partners in Korea, Singapore, India, Thailand and Japan. The oil and gas exports equal \$75 billion. The UAE imports equal \$30 billion of manufactured goods, transportation equipment, animals and food products from the UK, USA, Europe and Japan. The primary language is English, however, Arabic, Farsi, Hindi, Urdu, Chinese, Tonga and Russian are also common. The dominant religion in the country is Islam, however, there are also many Christians in the nation. The minorities include the local UAE Nationals, Russians, Chinese and westerners, while Indians are the dominant nationality. The minorities' religious rights are respected by the majority. It is a very multicultural society and Hofstede's cultural dimensions framework can be used to describe the culture of the country.

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UAE is showing high economic growth that is attracting new foreign investors, which helps to generate more revenues and demand for the real estate sector (20%) (Ahmed, 2007, 1-3).

The level of foreign direct investment (FDI) in the economy is very high, with the majority of it going into real estate development and trade. The primary suppliers of FDI to the country include Europe, the USA, UK and Russia. Globalization has greatly improved the situation in UAE by bringing in thousands of products, services and workers from all over the world which has helped to develop the economy worldwide. The UAE legal system is honest and fair for local citizens. Foreign firms operating in the country do not face any political risk. The UAE belongs to the GCC regional trade bloc and has been a member of the WTO, World Bank and the IMF for almost seven years. The country's huge wealth has resulted in not needing to borrow funds from the World Bank or the IMF. The UAE has experienced a balance of payments trade surplus in the past year of over 100 billion dirhams, due to the construction and real estate markets. Its official reserves account has increased by over 50 billion in the past year. The country's currency is called dirhams and its value relative to the dollar is 3.67, and 3.98 to the euro. The currency's value has increased a bit in the past five years relative to the dollar and the euro because it is relying on a fixed exchange rate policy. The has no trade barriers to imported goods because they are encouraging all products to be imported and exported from the UAE since it re-exports 75% of its imports for profit (Ahmed, 2007, 1-3).

Sociocultural

UAE citizens have a very high standard of living, western lifestyle, and their financial positions have continuously increased over time. This has allowed for a very materialistic high society with lots of money to purchase houses, cars and other material items. The society is open and free with all types of hotels, restaurants, tourism, recreational activities and sports. The multicultural nature of the country allows for many foreigners to go there to work in well-paying positions. An overall country analysis shows the future trends of development and expansion that the UAE is undergoing will lead to an estimated 4.8 million people living there by the year 2010 (Cateora, 2007, 68).

Technological

The UAE region is composed of a large population of very young professionals who are extremely technologically-knowledgeable. The IT industry relates to the tourism, hotel, computer and IT service sectors. The number of Internet users in the GCC region has increased ten-fold since 1998. The Internet and IT software solutions industries in the Gulf region have doubled the rate of Europe. Estimates of personal computer sales in the GCC show about 12% growth in the quantity of units sold by 2003, compared to the global growth of 8%. The UAE has the most satellite, Internet and mobile phone users in the Middle East (Cateora, 2007, 68-69).

China External Environmental Analysis: Pest Analysis

Political

The People's Republic of China's current political system is Communism, with the capital city being Beijing. There are 23 different provinces (including Taiwan) and five separate regions in China. Their independence day was 221 BC under the Ch'in Dynasty, January 1, 1912 under the Manchu Dynasty, and October 1, 1949 when the People's Republic

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was formed, which is their national holiday. The Chinese constitution was created on December 4, 1982, and their legal system involves a very complicated set of cultural statutes and customs for criminal law. The government is trying to upgrade the commercial laws to adapt to the new needs required due to an increase in foreign trade (Forsyth, 2004, 35-38).

Economic

China's population is 1.3 billion people, 22.3% aged 0-14, 70.3% aged 15-64, and 7.5 aged 65 and over. China's GDP is \$6.449 trillion, with the GDP real growth rate at 9.1%, and GDP per capita at \$5,000. The GDP by sector is 14.8% for agriculture, 52.9% for industry, and 32.2% for services. Investments make up 43.4% of the GDP in China. However, the Chinese population has 10% of its people living in poverty, with the lowest 10% equaling 2.4% of the household income, and the highest 10% equaling 30.4%. The inflation rate is 1.2%, labor force 778.1 million, unemployment rate 101%, and budget for revenues at \$265.8 billion, with expenditures at \$300.2 billion. The labor force includes 50% in agriculture, 22% in industry, and 28% in services. Over 75% of all toys sold in the US are made in China and it controls almost 25% of the globe's foreign currency reserves. As for per capita income, China has 6% growth (Fouquin, 1998, 105-108).

Agriculture and industry are the major markets in China, especially in larger cities like Hong Kong and Shanghai, where there is a lot of foreign investment. The public debt is 30.1% of the GDP. The agriculture products are wheat, rice, peanuts, tea, potatoes, cotton, barley, fish and pork. The industries include coal, textiles and apparel, iron and steel, automobiles, telecommunications, electronics, cement, chemical fertilizers, petroleum, and food processing. The industrial growth rate is 30.4%, with \$436.1 billion in exports, and \$397.4 billion in imports. Their current export partners include 21.1% USA, 17.4% Hong Kong, 13.6% Japan, 4.6% South Korea, and 4% Germany. Their import partners include 18% Japan, 11.9% Taiwan, 10.4% South Korea, 8.2% USA, and 5.9% Germany. The majority of the Chinese people are not very religious and considered atheist, with only 3%-4% being Christian and 1-2% being Daoist, Muslim or Buddhist. The country is not very culturally homogenous and the majority of the people are Chinese. The official Chinese languages include Chinese, Mandarin and Cantonese (Yin, 2007, 1-2).

FDI is beneficial to the host country because it brings in foreign business, products and services that would otherwise not be available. However, FDI can also result in small local businesses going bankrupt due to not having competitive advantages over larger companies. FDI is the key to underdeveloped nations improving their economy and strategic alliances. China's currency is called yen, and its value relative to the US dollar is 100 to 1. Its value relative to the euro is 110 to 1. The currency's value has only changed a small amount in the past 5 years relative to the dollar and the euro? The country uses a fixed exchange rate policy. China experienced a balance of payments trade surplus in the past year of over three billion yen due to increased globalization and FDI. Its official reserves account have changed a lot in the past year, increasing by over 20 million yen. China does not yet belong to any regional trade blocs and has been a member of the WTO, World Bank and the IMF for 10 years. The country has borrowed billions of dollars from the World Bank and the IMF in the past year, and how has huge debts totaling over 300 billion dollars.

Sociocultural

China still maintains many of its most traditional values and beliefs of Confucianism, which is taught at many schools and academies. Confucianism is a social order and almost considered their religion since most Chinese do not follow any

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other doctrine. The basis of Confucianism for the Chinese culture involves family organization and many values related to social life. Social harmony is a major rule to this belief, which also includes many cultural rituals and ceremonies that are thousands of years old and still practiced by the older generation today. However, many of the younger generation are less strict in their Confucianism beliefs, due to modernization of the country and influences by other cultures like America (Redinger, 2003, 1-2).

Technological

China has 263 million main line telephones, 269 million mobile phones, 160,421 Internet hosts, and 94 million Internet users (which is good for e-commerce and online vendor ordering, shipping and tracking for Sharjah companies). China is undergoing many new technology changes, especially in their banking sector, which still concerns its leaders due to its effect on the stability of the economy. As China learns how to integrate new IT methods into its different sectors, they are still trying to upgrade the skills and knowledge of their workers to meet the technology needs (Rashtchy, 2004, 1-3).

Hofstede's Cultural Dimensions

Hofstede's cultural dimensions can be applied as a framework for understanding the cultural society of both the UAE and China:

Power Distance: the extent to which people accept unequal distribution of power. In higher power cultures, there is a wider gap between the powerful and the powerless (both nations).

Uncertainty avoidance: the extent to which the culture tolerates ambiguity and uncertainty. High uncertainty avoidance leads to low tolerance for uncertainty and to a search for absolute truths (China).

Individualism: The extent to which individuals or closely-knit social structures such as the extended family (collectivism) are the basis for social systems. Individualism leads to the reliance on self and focus on individual achievement (both nations).

Masculinity: The extent to which assertiveness and independence from others is valued. High masculinity leads to high sex-role differentiation, focus on independence, ambition, and material goods (UAE) (Gibson, 2003, 55-58, 303-306).

Necessity for MNC CSR & FDI

Multinational Corporations (MNCs) have a definite duty to practice corporate social responsibility (CSR), especially during globalization into developing nations like China and the UAE. Corporations today are impelled to conduct their global business with integrity and social consciousness to improve their images with the international public. The potential benefits of FDI include helping transfer technology and skills, providing management and training of local workers, aiding in the creation of original skills in administration, marketing and other business techniques, and contributing to the growth of local entrepreneurship. FDI also improves competitive markets, provides access to international markets, contributes to tax revenues and helps input foreign exchange problems. FDI produces employment opportunities for developing nations' citizens, and raises the rate of domestic wages (Kobrin, 1997, 7-10) (Hay, 1995, 59-63).

Conclusion

The UAE economy has a free trade policy which allows for all products to be globally traded to increase profitability

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opportunities. However, China has a strategic trade policy that allows for most products to be traded, yet restricts the main goods that the Chinese manufacturers produce from being imported to reduce global competition. Both the UAE and China are very attractive for FDI, however, for different reasons. The UAE is a famous tourist and hospitality destination, with huge profit potential as a real estate and construction investment. China is famous for its cheap manufacturing labor, raw materials and supplies. China recently opened up its trade market allowing FDI and global trade, which attracts international producers wanting new target markets. Both these nations have very appealing societies that foreign investors and MNCs are focusing on to increase their globalization potential.

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