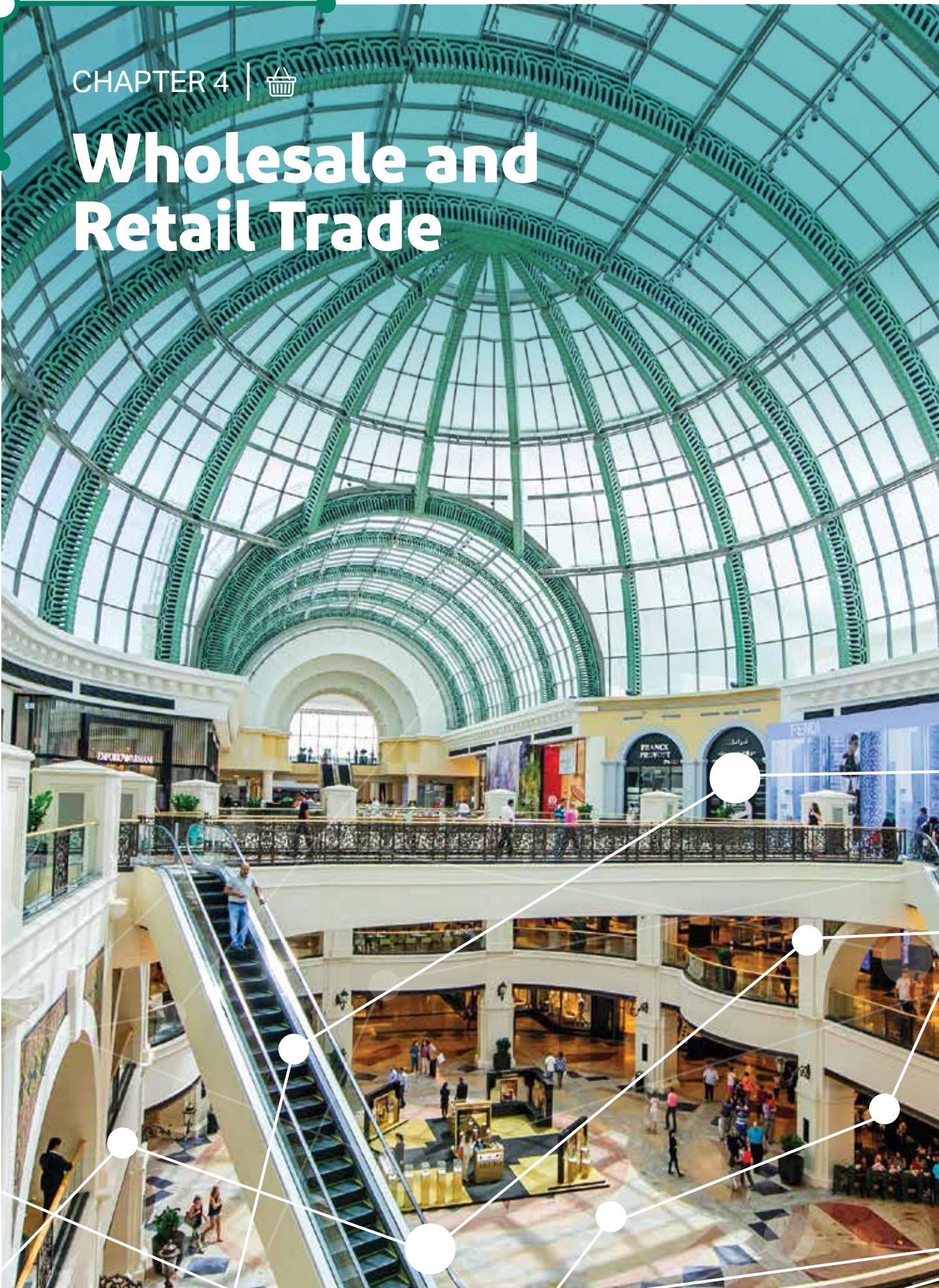


CHAPTER 4 | 

Wholesale and Retail Trade



No.1
Shopping Destination

1

Tourism drives Retail Sales

Dubai is the #1 shopping destination, with 62% of the world's luxury retail brands available to international visitors.



62%
of World's Luxury
Retail Brands Available

Wholesale and Retail lead Dubai's GDP

This sector produced value added of AED 105.1 billion in 2018 (US\$28.6 billion), and was the second largest employer in the economy.

**Threats to
Retail & Services:**



E-commerce



Oversupply
of Retail Space

Challenges to the sector

The growth in popularity of e-commerce and an oversupply of retail space are perceived threats to Retail & Services.

2

Overview

The Wholesale and Retail trade sector, (including motor vehicles and motorcycles repair) is the largest part of Dubai's economy measured in terms of output. In 2018 this sector generated value added of AED 105.1 billion or 26.4 per cent of GDP. The sector is also the second largest employer with a workforce estimated at 573,007 persons (20.65 per cent of Dubai's workforce) in 2018. The sector plays an important role in upholding consumer expenditure in Dubai and through backwards and forward linkages it helps to sustain economic activities in other sectors, such as transport and storage, food and accommodation. In 2018 this trade sector was the largest in terms of attracting investment (capital formation), worth AED 15 billion, with 20 per cent of the total investment in that year.

The rate of growth of real value added in the Wholesale and Retail sector, at 1.3 per cent in 2018, was below the economy's rate of growth of 1.9 per cent and sector employment actually fell by 1.9 per cent. The sector's growth is forecast to rise to 1.9 per cent in 2019, just below the expected rate of expansion of Dubai's GDP. However in 2020, growth in this sector is expected to rise by 4.5 per cent, partly bolstered by the rise in the number of visitors to the Emirate for Expo 2020, a rate in excess of the 3.6 per cent expansion of the economy as a whole. In anticipation of the positive impact of Expo 2020 the total retail space available in the Emirate has expanded and the future capacity of the sector will have to adapt to face the growing challenge of e-commerce.

The Economic Importance of the Wholesale and Retail Sector

4.1 Wholesale and Retail is the largest component of the tertiary or services sector in Dubai, ahead of Transport and Storage, Housing, Accommodation and Food, Financial and Insurance, and other service activities. The services sector as a whole is the largest contributor to the GDP of Dubai, accounting for

79.9 per cent of the total in 2018 compared to 78.8 per cent in 2014. The services sector has maintained a relative contribution to Dubai's economy consistently above 78 per cent of GDP since 2010. Wholesale and retail trade activities account for about one-third of the total services sector, (Table 4.1).

Table 4.1: Contribution of the Services Sector in GDP (in constant prices, %)

	2010	2011	2012	2013	2014	2015	2016	2017	2018
Main Sector	15	19	2.4	2.2	21	19	1.8	18	17
Secondary Sector	20.4	19.7	19.4	19.5	19	18.5	18.4	18.4	18.3
Tertiary sector	78.1	78.4	78.2	78.3	78.9	79.5	79.7	79.7	79.9
Wholesale and Retail Trade	27	28	27.4	28.1	27.5	27.8	27.1	26.6	26.4
Total	100	100	100	100	100	100	100	100	100

Source: Dubai Statistics Center

Contribution of wholesale and retail trade to GDP

4.2 The wholesale and retail trade's significance in Dubai's economy is reflected in its share of GDP over time. In 2018, the sector represented 26.4 per cent of GDP (in constant prices), the largest sector

share of GDP, although it slightly fell by 0.8 per cent from 26.6 per cent in 2017. Wholesale and retail trade had accounted for 28.1 per cent of GDP in 2013, but this share has declined since then in every year apart from 2015, (Figure 4.1).

Value added in the Wholesale and Retail Sector

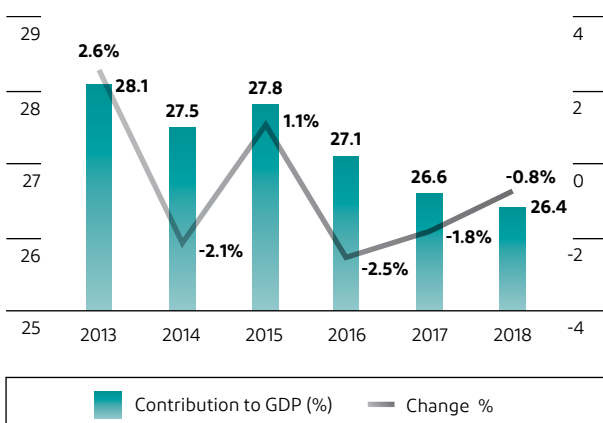
4.3 The value added (in constant prices) generated by the Wholesale and Retail sector in the economy of Dubai reached AED 105.6 billion in 2018, up by 1.3 per cent on the AED 103.7 billion attained in 2017, (Figure 4.2). Growth in the sector in 2018 was below the rate of growth of real GDP in Dubai's economy, but output expanded at the fastest rate of growth since 2015. Growth was below 1 per cent per year in 2016 and 2017 as this sector faced a challenging time with retailers experiencing sluggish sales.

negatively impacted sentiment among residents, reducing domestic consumer spending growth. At the same time the supply of retail space expanded, with retailers increasingly providing price cuts to entice consumers to spend, dampening down growth in the nominal value of sales.

Retailers experienced softer demand in 2018 as a result of a strengthening dollar which impacted tourist spending throughout the year. Furthermore, the imposition of VAT

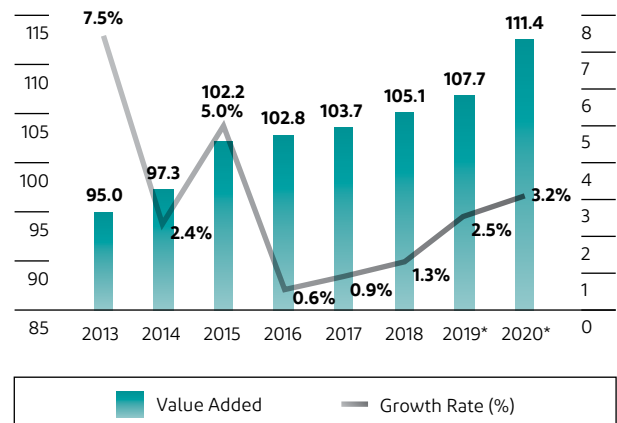
The sector's real rate of output growth is forecast to rise to 2.5 per cent in 2019, although still just below the expected rate of growth of Dubai's GDP. In 2020, growth in the sector is expected to be partly bolstered by the rise in the number of visitors to the Emirate for Expo 2020, rising to 3.4 per cent in excess of the projected expansion of the economy as a whole at 3.2 per cent.

Figure 4.1: Contribution of Wholesale and Retail Trade to GDP (in constant prices)



Source: Dubai Statistics Center

Figure 4.2: Value Added of the Wholesale and Retail Sector (AED billion, in constant prices)



Source: Dubai Statistics Center

*Forecast of Dubai DED

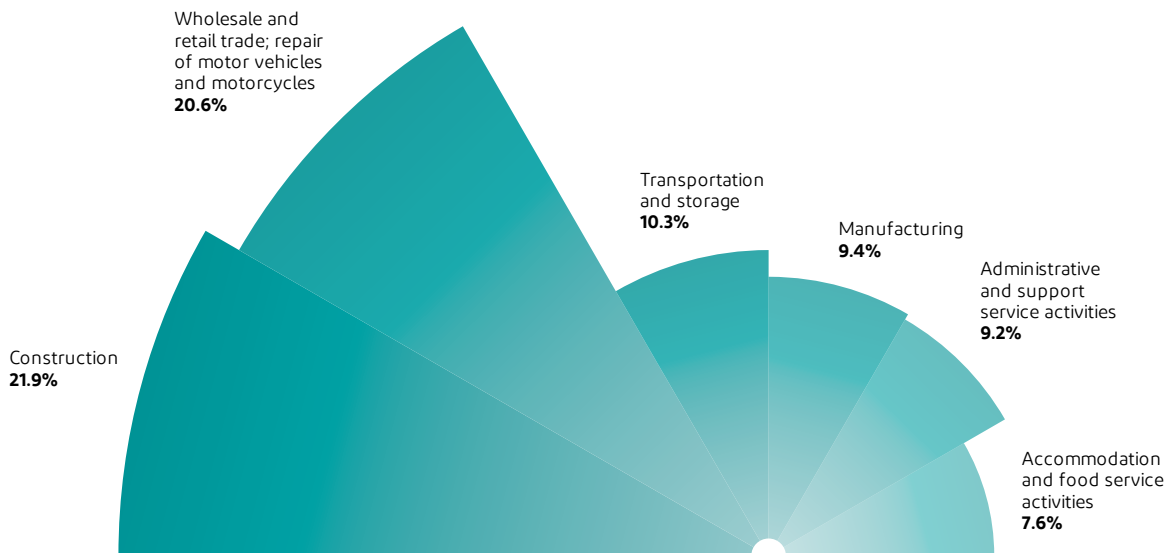
Employment in the Wholesale and Retail Sector

4.4 The number of people employed in this sector reached about 573,007 workers in 2018, down from 584,105 workers in 2017. The sector's share in total employees in Dubai's economy accounted for 20.6 per cent in 2018 slightly declining from 21 per cent in 2017. The Whole and Retail sector is the second largest employer after the Construction sector, (Figure 4.3).

Whereas a small number of companies own the main shopping malls, the Wholesale and Retail sector is dominated by Small and Micro-enterprises — SMEs — employing between 1 and 49 workers. These enterprises, numbering about 65,000 companies, play an important role in the Wholesale and Retail sector in Dubai. They represent 98 per cent of the total number of enterprises operating in this sector in Dubai and employ about 350,000 workers or 66 per cent of total workers in the sector.¹

The Wholesale and Retail sector is the second largest employer employing 21 per cent of Dubai's workforce in 2018; Expo 2020 is expected to generate 95,000 jobs during the event — mostly to serve in this sector and others.

Figure 4.3: Sector's Share in the Total Workforce in Dubai (2018)



Source: Dubai Statistics Center

¹ Source: Dubai Statistics Center

Productivity

4.5 Labour productivity in the Wholesale and Retail sector as measured by value added per worker rose by 3.3 per cent in 2018 to AED 183,397 in constant prices mainly due to a fall in the numbers employed. The value added per worker in this trade sector in constant prices rose to 183,397 in 2018 increasing from

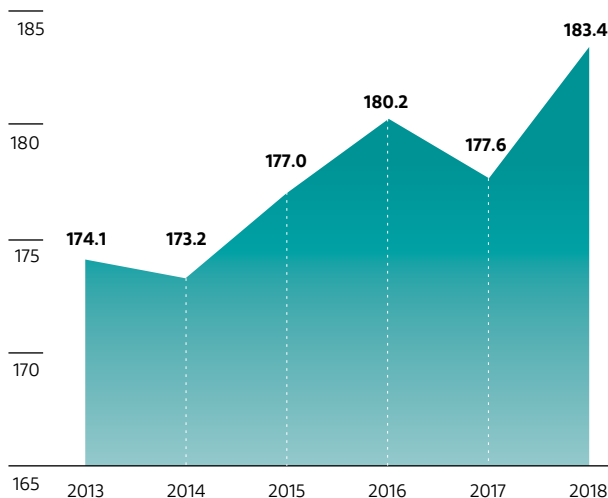
AED 177,558 in 2017 at a rate of 3.3 per cent. Output per worker rose by about 4.5 per cent in 2018 to reach AED 302,726. In general, worker productivity in the sector is dominated by small businesses, characterized by intensive use of labour and low use of modern technologies, and is below the average for Dubai's economy, (Figure 4.4).

Fixed Capital Formation in the Wholesale and Retail Sector

4.6 Fixed capital formation, i.e. investment expenditure, is one of the most important levers affecting the rate of real output growth in an economy.² As shown in (Figure 4.5), capital formation in the

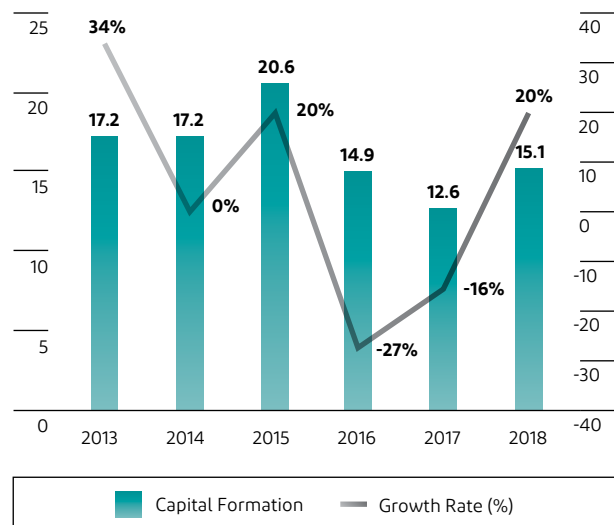
Wholesale and Retail sector in 2018 was the largest sector in Dubai's economy in terms of attracting investment (capital formation) worth of AED 15 billion, representing 20 per cent of the total investment in that year.

Figure 4.4: Value Added per Worker in the Wholesale and Retail Trade Sector (AED million constant prices)



Source: Dubai Statistics Center

Figure 4.5: Capital Formation in the Wholesale and Retail Trade Sector (value in billion AED)



Source: Dubai Statistics Center

² Capital formation represents investment expenditure by businesses to build factories and buy capital goods. For example, machinery and equipment used for the production and marketing of other goods or providing other services that support all sectors, including the wholesale and retail, as well as investment in buildings, properties and various equipment used in production, shipping and marketing. Hence, fixed capital formation is one of the most important indicators of the extent of success for any economic sector in attracting capital for investment.

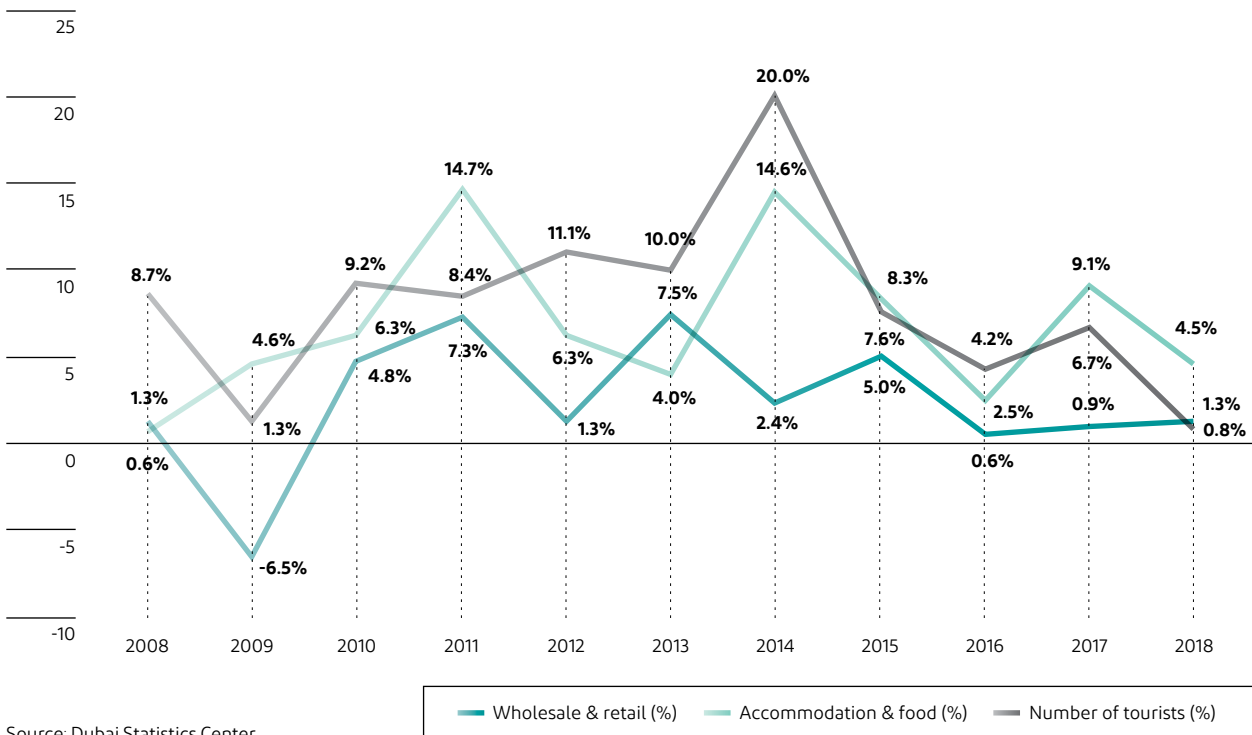


The Retail Sector and Tourism

4.7 Demand growth in the Wholesale and Retail sector in Dubai has been driven by domestic population growth and disposal income, but also by tourism. In the past decade, the success and development of the retailing sector through investment in shopping centres has made Dubai a global shopping destination. The performance of the sector has been influenced by the tourism sector’s development indicators in terms of the number of visitors to the Emirate and the annual growth in numbers, as well as the performance of the more directly impacted Accommodation and Food services. The number of tourists visiting Dubai in 2018 rose to a total of 15.8 million visitors, an increase of just under 1 per cent from 2017. However visitor numbers have risen continuously from just under 7 million in 2007, with an average rate of growth of 8 per cent per annum.

According to the Dubai Statistics Center, the value added of the tourism sector, measured by the Accommodation and Food services sector as defined in the national accounts of Dubai,³ rose from about AED 9.8 billion (in constant prices) in 2007 to AED 20 billion in 2018, an increase of nearly 56 per cent. The value added of the Wholesale and Retail sector rose from about AED 72 billion (inconstant prices) to about AED 107 billion, an increase of around 28 per cent during the same period. Partly driven by the growth in visitors over the decade 2008 to 2018, real value added in Accommodation and Food rose by an annual average rate of 6.9 per cent compared to an average rate of growth of 2.4 per cent in the Wholesale and Retail sector. There is a close correlation between the annual rate of change of tourists and the output of both sectors, (Figure 4.6).

Figure 4.6: Growth in Annual Value Added in the Wholesale and Retail, Accommodation and Food sectors, and the Number of Tourist Arrivals (%)



Source: Dubai Statistics Center

3 Source: Dubai Statistics Center

Global Retail in Dubai

4.8 Dubai has become a magnet for tourists because it has invested in a wide variety of shopping centres with access to world-class luxury retail brands, making it a global competitor for major shopping destinations. According to a recent CBRE⁴ market research report titled “How Global is the Business of Retail?” (2018), Dubai is the top destination for shopping, offering 62 per cent of the world’s retail brands. Shanghai ranks second with 55.3 per cent, followed by London, 51.7 per cent, Abu Dhabi (51 per cent) and then Paris, 48 per cent. Markedly, Dubai and Abu Dhabi ranked among the top five cities, which highlights the UAE’s success in enhancing its position on the global map of tourism and retail, (Table 4.2).

Table 4.2: The Top Five Cities by Highest Percentage of Global Retail Brands

Percentage of retailers in 2017	City	Rank
62	Dubai	1
55.3	Shanghai	2
51.7	London	3
51	Abu Dhabi	4
48	Paris	5

Source: CB Richard Ellis (CBRE), 2018

Wholesale and Retail and Expo 2020

4.9 Expo 2020 will be organized under the theme “Connecting Minds, Creating the Future”, which reflects Dubai’s history of initiatives, pioneering ideas, innovation and future vision. Expo 2020 is expected to attract about 25 million visitors, 70 per cent of whom will come from abroad, making it the most global event in the history of exhibitions in the Emirate. This huge trade and economic event will have a positive impact primarily on retail, tourism and real estate which are anticipated to reap the most benefits.

The performance of the retail sector has been influenced by the number international visitors into Dubai; There is a high correlation between growth in Wholesale and Retail trade and tourism measured by the Accommodation and Food services sector.

⁴ CB Richard Ellis (CBRE), 2018

Sector Challenges

E-Commerce

4.10 The retail business faces current and future challenges, due in part to increased competition from e-commerce within and outside the Emirate. E-commerce, where consumers can shop online to choose from a vast selection of products without visiting a shop, is growing at a rapid pace across the world. E-commerce has been driven by access to the internet by broadband and smart phones, the rising penetration of digital payment systems, and the direct delivery model pioneered

by Amazon. The main economic impact of these technologies is that they threaten the economic viability of traditional shopping outlets and retail malls, where product selection and purchases are made by consumers in physical locations, and they also disrupt supply chains and impact on warehouse use, (see Box 4.1).

The e-commerce in Dubai has been growing rapidly in response to technological advances to internet access

The development of B2C (Business to Consumer) e-commerce offers both a challenge and an opportunity for Dubai's Wholesale and Retail Sector and its potential for value added growth to the economy.



MAJOR E-COMMERCE RETAILERS IN DUBAI

1



Dubai based online platform

2



Now Amazon.ae

3



Regional largest specialist online fashion retailer

and digital payments. Private sector investments and enabling government initiatives have also played a key role in promoting e-commerce in the Emirate. Established retailers are approaching the challenge of e-commerce in different ways. Many are launching their own online e-commerce platforms to expand the choice of products for customers while providing a sales platform for local businesses.

SOUQ.COM was founded in 2005 in the UAE and soon became the largest online retailer in the Arab world. SOUQ.COM later was acquired by Amazon in March 2017, and was officially launched in the UAE as Amazon.ae in May 2019. Amazon.ae is offering customers in Dubai access to over millions of products from the region and the rest of the world which can be paid for in Dirham by card or by cash on delivery.

In October 2017, noon.com, a new online platform was established and later in June 2018 it partnered with e-bay. The online retailer NAMSHI has become the region's largest specialist online fashion retailer offering nearly 600 apparel and footwear brands on its platform.

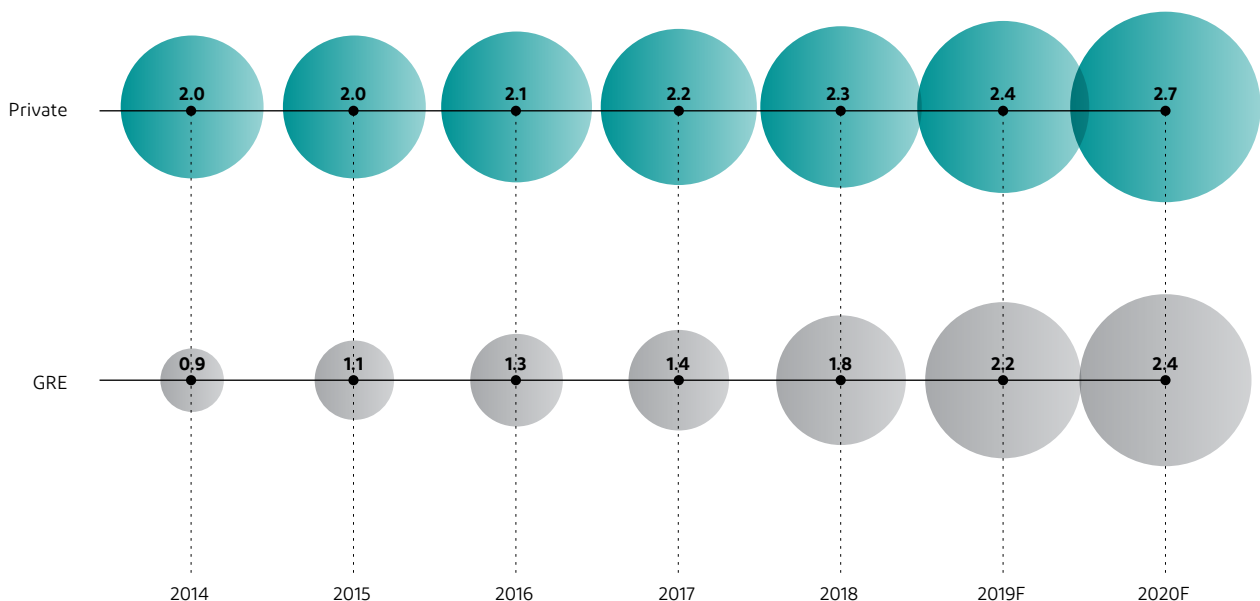
Some investors in the sector are also planning virtual malls that can be accessed digitally. Mall Global, a Dubai-based tech firm is developing a virtual mall due to launch in 2020 and featuring 2500 branded "stores" along with shopping experiences that will utilise artificial intelligence and offer virtual reality.

Retail Space Oversupply

4.11 Despite the growth of e-commerce and the threat of future store closures, the supply of offline retail space development continues to grow in Dubai. According to a report by JLL for the Dubai Economic Department⁵, large super-regional centres continue to dominate the Dubai retail market, both in terms of supply as well as demand, but this is changing with an increase in developers' interest in community and neighborhood malls.

The rise in capital investment in the sector in 2017 and 2018 is producing an increase in the supply of retail space in Dubai. The result of the recent expansion in supply has, using JLL estimates and Dubai Statistics data, produced a decline in real value added generated per square metre (GLA) of the order of 8.8 per cent in 2018 over the year before. Total space, which had been relatively stable averaging in Gross Leasable Area (GLA) 2.8 million square metres from 2011 to 2014, grew by 28.6 per cent to 3.6 million square metres by 2017 and is expected to have reached a capacity of 4 million square metres by the end of 2018. This represents an average rate of growth of supply of 5.5 per cent per annum between 2010 and 2018, a rate which is expected to rise to 8.2 per cent until 2022. As a result the supply of space will have reached 5.1 million square metres by 2020 the year of Expo 2020, of which the supply of Government Related Enterprises (GRE) space will have risen to 54 per cent of the total, up from a share of 31 per cent in 2014, (Figure 4.7).

Figure 4.7: Retail Supply by Category 2014-2020 GLA (million square metres)



Source: JLL

⁵ Real Estate Impact Study, Dubai Final Report, JLL, Department of Economic Development - DED (Dubai Economy) 17th February 2019, Unpublished study

BOX 4.1

Dubai & Global Trends in E-Commerce

The development of B2C (Business to Consumer) e-commerce offers both a challenge and an opportunity for the Dubai's Wholesale and Retail Sector and its potential for value added growth to the economy. The challenge arises from the need to respond to the negative impact that online retailing is having on so-called 'bricks and mortar' individual retail outlets and shopping malls throughout the world with in-store traffic falling and stores closing. This threat is often referred to as the so-called 'Amazon effect'. Amazon, founded in 1994, originally focused on being an online market place for books and expanded into electronics, video games, white goods, clothing, furniture, food, toys and many other products. The enormous success of Amazon, which had a market capitalisation of nearly US\$850 billion at the end of September 2019, has inspired many emulators across the world such as Alibaba, which dominates online commerce in China.

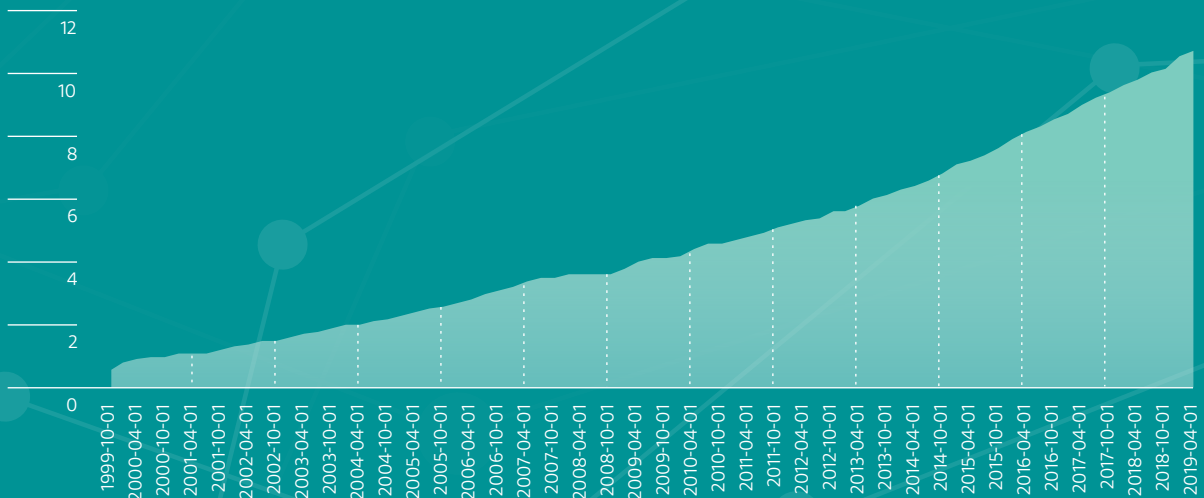
Option: such as Alibaba, founded in China and now the 4th largest internet-based company in the world.

In 2018, data from the United States Department of Commerce estimated that consumers spent US\$513.6 billion in 2018, a rise by 14.2 per cent on 2017 on online retail sales, an expansion faster than the 4.1

per cent rate of growth of total retail sales. Over the last two decades, differential growth rates between online and in-store sales has meant that the share of online retail sales in total retail sales in the USA has been grown steadily. Online reached 10.7 per cent in April 2019, compared with 0.6 per cent at the end of 1999, (Figure 1).

In the United States and in many other developed countries, particularly where shopping malls are on the outskirts of town, the move to purchase online has had a depressing effect on the number of physical retail outlets, on the commercial value of retail real estate, the market value retail companies and on jobs. World wide data indicate that traditional retail outlets and shopping malls are economically suffering because of the steady rise in e-commerce. In the United Kingdom, for example, where online sales have grown rapidly standing at an estimated 18 per cent of total retail sales in 2018, e-commerce has led both to store closures and a reduction in the rate of investment in new store openings. According to data from PricewaterhouseCoopers (PwC), the rise in online sales has accelerated the net rate of store losses, (Figure 2)¹

Figure 1: Share of Online in Total Retail Sales in the USA 1999 to 2019



Source: US Census Bureau

1 <https://www.pwc.co.uk/press-room/press-releases/store-closures-hit-record-levels.html>

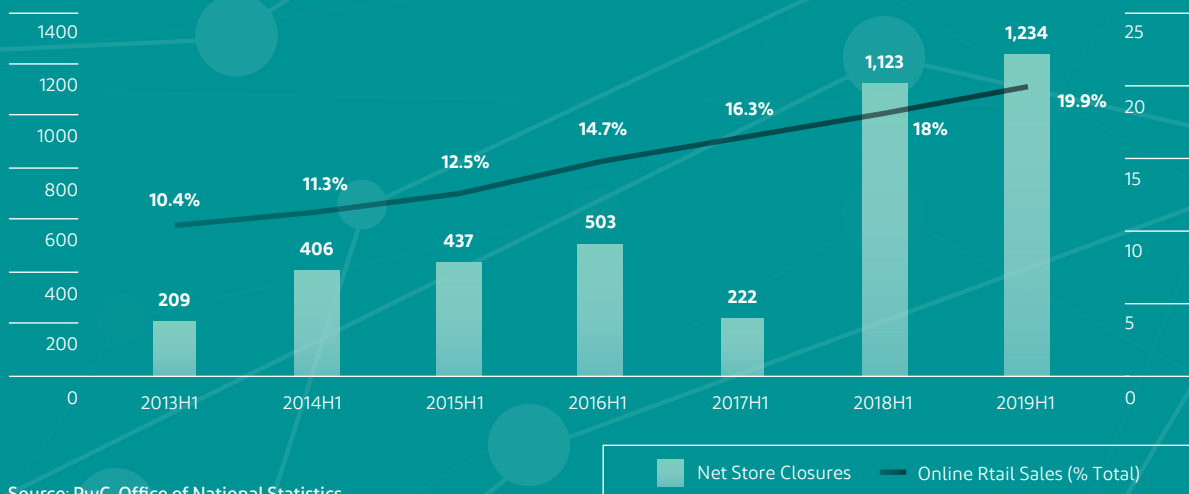
The e-commerce market has developed more slowly in the MENA region and among the GCC countries than in other parts of the world with similar fundamentals measured by demographics, disposable income, smart phone penetration and internet access. But it is now growing rapidly and the UAE is leading the region in e-commerce. Online sales growth is predicted to be the most rapid, with an estimated market size of online sales of US\$12.3 billion in 2019 up from US\$5.0 billion in 2015, and forecast to grow by 23 per cent per annum up to 2022 according to a joint report between Visa and Dubai Economy.² The UAE Ministry of Economy has estimated that e-commerce already accounted for 10.0 per cent of sales in the country in 2018.³

Retailers in Dubai, as in the rest of the world, will adapt to the challenge in various ways although the immediate strategic response has been for many large retailers to set up their own online shopping and delivery services. There will be emulation of the strategy that stores in other parts of the world, such as global furnishing retailer IKEA, which is turning its out of town centres into facilitation warehouses and opening city centre stores to persuade consumers to visit, see the items, and then go online to purchase them. Many retailers are concentrating on providing convenience and experiential unique elements to continue to attract

footfall into their physical stores. The positive growth opportunity from e-commerce arises from the ability of stores located in geographically concentrated top global prime shopping locations such as New York, London, Paris, Singapore and including Dubai, to enhance the shopping experience while benefiting from efficiency gains by separating the act of browsing and purchasing from delivery.

The growth of e-commerce is changing the nature of the logistics industry worldwide with the development of storage and fulfilment centres that deliver economies of scale. Another positive impact of e-commerce is how it is driving development of the wholesale and logistics segments of the sector through the evolution of supply chains. E-commerce logistics consist of delivery to a fulfilment centre, warehousing and packing and finally the last mile delivery to the customer. This logistics market will increase in size as online purchases rise to expand output and value added, with the potential to create jobs and investment in the Wholesale and retail sector. E-commerce will also have an impact on the Transport and Storage and the Real Estate sectors. Dubai, with its excellent air and sea transport connections and existing role within global supply chains, has a real opportunity to act as a facilitation centre for e-commerce within the GCC countries and the entire MENA region.

Figure 2: Net Store Closures and Share (%) of Online in Total Retail Sales UK, 2013 to 2019



² <https://ae.visamiddleeast.com/dam/VCOM/regional/ceema/unitedarabemirates/home-page/documents/visa-white-paper.pdf>

³ <https://www.export.gov/article?id=United-Arab-Emirates-ECommerce>