

Role of Foreign Trade and Foreign Direct Investment in the Process of Open Economy in the Emirate of Abu Dhabi

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Abstract

An open economy is the opposite of a managed economy. It is characteristically market-oriented, with free market policies rather than government-imposed price controls. In an open economy, industries tend to be owned by the private sector rather than owned by the government. In the area of international trade an open economy is one whose policies promote free trade over protectionism. Even on a standalone basis, Abu Dhabi already has the second-largest economy in the region, but has the potential to further enhance its international position. In order to reach this goal, it must be equipped with a legislative environment that is both efficient and business-friendly. The Government is committed to the ongoing evaluation of its legislation, legal systems and government processes to ensure the Emirate is an attractive investment destination. This paper will discuss the impact of foreign trade and foreign investment towards an open economy in Abu Dhabi Emirate. The open economy strategy is one of the vital strategies for development of nation economies. This paper is based on two kinds of data: administrative data for foreign trade statistics, and a questionnaire (annual survey) for foreign direct investment. The results revealed that the main imports during 2013 were 'Machinery, sound recorder, reproducers and parts'. Also it shows that the main exports of non-oil were in 'Base metals and articles of base metals' in the same year. The results revealed that the value of FDI increased at the end of 2013 mainly attributed to 'Mining and quarrying'. The investments of the Gulf Cooperation Council (GCC) formed the highest percentage of the total FDI in Abu Dhabi in 2012. This paper suggests broadening the sectors of economic activity, enlarging the enterprise base, and growing external markets. Also, attract a skilled workforce from abroad, improve the efficiency of labour market and adopt fiscal policy, to create a safe monetary and financial system.

Keywords: Trade Balance (TB), Exports (E), Imports (I), Gross Domestic Product (GDP).

1. Introduction:

Abu Dhabi emirate is the federal capital of the United Arab Emirates (UAE) and the largest of the seven emirates. Abu Dhabi emirate consists of three main regions, Abu Dhabi Region, Al Ain region and Al Gharbia region.

Throughout the last few decades. Abu Dhabi Government devoted outstanding efforts, to promote the emirate's profile and reputation fledged by the most up-to-date systems, on all levels (economic, social and excellence in government performance,) and laid down a number of plans and initiatives, ensuring an appropriate and effective alignment of development gains/ benefits, and build a sustainable economy serving all the Emirate's regions. (The Government of Abu Dhabi, 2007)

Statistics Centre – Abu Dhabi (SCAD) established in accordance with Law #7 for the year 2008 as the main authorized body concerned with official statistics in the Emirate of Abu Dhabi. SCAD is responsible for the collection, classification, storage, analysis and dissemination of official statistics covering social, demographic, economic, environmental and cultural indicators.

It is widely recognized that in today's world, that no matter how different the political systems are in the various countries of the world they cannot fully create a lasting self-sufficiency policy over the long term. That is because self-sufficiency policies determine that countries produce all their needs without factoring in the economic and geographical conditions that will prevent them from achieving success. Hence, countries cannot survive in isolation from other countries. Therefore the importance of specialization and division of labor between different countries has become a necessity, and closely linked to foreign trade. (www.startimes.com)

Foreign trade is one of the vital sectors in society; whether it is an advanced or developing society, foreign trade is linking the countries and societies with each other. Foreign trade helps to expand the marketing capability by opening new markets for production of any country, and helps increasing the well-being of a country by expanding the base of choices with respect to consumption and investment and the allocation of productive resources in general. (Al- Zoubi, et al, 2013)

It is also a fundamental indicator of the ability of country productivity and competitiveness in the global and regional markets, because it links with available possible productivity and the foreign currency ability for the country and its effects on the balance trade. (Al- Zoubi, et al, 2013)

The Emirate of Abu Dhabi's economy economic initiation which aspires to achieve the emirate's goals "vision 2030" by developing the concept of commodity, service production , provide optimal social services, and build an economy based on production in all focus sectors. This will not be achieved only by increased

economic rates, but through working towards increased access to global markets and efficient production methods using modern technology, and organization and management of production in all focus sectors. (The Government of Abu Dhabi, 2007)

The economic development policy adopted by the Emirate of Abu Dhabi, led to high growth rates as a result of the establishment of development projects in the focus sectors such as; agricultural, industry, real estate, service production and development projects. The private sector has had an important role in the development initiatives because of its efficiency and organization, and participated in all economic areas while relying on trade and the free zones support in the Emirate to increase the revenue due to the exports and re-exports. (The Government of Abu Dhabi, 2007)

The economic activities in the Emirate focus on several strategic objectives; including the improvement of standards of living, and building the foundations of a strong modern economy, establishing a knowledge-based economy, and raising the efficiency of all economic sectors; in addition to diversifying sources of income. Investments have become more diverse, and many advanced production institutions were established with the private sector playing a leading role in many of these developments. (The Government of Abu Dhabi, 2007)

2. Foreign Trade (FT):

Foreign trade represents one of the strategic priorities of the Government of Abu Dhabi, to promote the status of the Emirate regionally and globally by building a competitive economy that's able to meet the domestic demand as well as the development of its exports. The Emirate has adopted this strategy based on building an open economy and trade liberalization, which enhances the importance of the Emirate in the global trade map. Hence, the Abu Dhabi Emirate economy has several competitive advantages, such as integrated and advanced economic infrastructure, which are supported by effective legislation and policies. (Statistical Year book of Abu Dhabi, 2014)

In the framework of the Government policy to participate in the international business environment and to benefit the national economy, AD Emirate became member of international and regional organizations such as the WTO and the Gulf Cooperation Council for the Arab States and the Greater Arab Free Trade Area. The Emirate has signed several bilateral free trade agreements for cooperation with various countries, all of which has supported advancements in international competition reports at national level. International competitiveness reports indicate that the Emirate achieved high ranks in the "Enabling trade" index, issued by the World Economic Forum, and ranked third in "Efficiency of custom procedures", fourth in "Least import expenses", fifth in "Least export container expense", and seventh in the index "Ports infrastructure" at the global level. (Ministry of Economy, 2012)

3. Foreign Direct Investment (FDI): (SCAD, FDI publication , 2010)

FDI has particular significance in light of the economic openness characterizing today's world. FDI is instrumental in upgrading the infrastructure of the economy, diversifying the means of production and introducing modern technology in production.

FDI reflects a long-term and continued interest on the part of non-resident economic entities through the ownership of a percentage of the capital that entitles foreign investors to influence the decision-making process in a manner that serves their interests. It is often entered into by international companies that can contribute to the transfer of modern technology and expertise, development of management styles and the opening of new markets for the products of such investments.

World countries generally encourage free movement of capital to take advantage of the massive flows of foreign direct investments by relaxing relevant restrictions. In this regard, the Emirate of Abu Dhabi has been successful in selectively attracting the types of investment that would serve its actual development needs. The Emirate seeks to reduce dependence on oil, and there is growing recognition of the need to promote foreign investment as one of the instruments of economic diversification.

The Foreign investments contribute to laying foundations for further economic growth, creating and generating domestic savings, foreign currency, and provide the host countries the advantages of the following features: (Al-Zahrani, 2004)

1. Allows the governments to indirectly decrease the gap between the national savings and national investment requirements through taxes collected from investing companies.
2. Take advantage from the advanced technology and skills that are transferred by the investing companies in the host country.
3. Take advantage of the modern management and production techniques.
4. Train the national workforce and develop their skills in the different production domains and modern management techniques.
5. Change the local market structure, which leads to increased competition to serve the national consumer.

6. Assist in the development and the creation of the spirit of innovation in the citizens of the host country.
7. Contribute to the reduction of unemployment directly and indirectly, through the provision of job opportunities for the citizens of the host countries in direct and indirect ways.
8. Opens international markets for national products, contributes in building links between foreign banks, international capital markets and the host country.

4. Open Economy (OE):

The world has been witness to a variety of changes most notably economic changes. All over the world, countries today follow the OE policy. Whether advanced or developed countries, capitalist or socialist, it involves opening up to the outside world in terms of economic freedom and the freedom of trade and open the economy to foreign investment and the migration of individuals. (AL-Habees & Khasawneh, 2011)

Jalal Amin believes that open economy, accompanied by psychological change to consumption patterns in poor countries, is needed to achieve similar consumption habits of industrial countries. He also clarifies what campaigns lead to promote these new consumption patterns without creating cultural alienation due to conflicts in these consuming values with the prevailing cultural heritage. (Salamah, 2002)

The concept of OE defined as the removal of existing restrictions on the flow of foreign capital and local investments by just-for-profit establishments, the gradual abandonment of public ownership in industry and the removal of state intervention in the economy, combined with gradual abandonment of the protection afforded to some local industries against foreign competition. (Central Bank of the Republic of Turkey, 2012)

Another definition: "OE is a set of economic policies that govern trade and encourage foreign and national capital movement to contribute funding economic projects and using modern technology to increase national output in a comprehensive cultural strategy framework to targeted self-capacity of the national economy; it works to correct the structural imbalance in the economic and social reconstruction." (Mesfona, 2005)

There are several benefits from an OE, including use of the latest experience in science and technology, which will result in high quality products and lower cost of production. It provides shipping services for passengers or cargo to serve foreign trade while the internal and external domestic air transport services provide public and private transportation. It also meets the needs of the local market from different goods in different prices. An OE also increases non-oil exports, reduces the volume of imports, and thus supports the trade balance. The sources of exports and imports become more diversified to achieve the independence of foreign trade. (Central Bank of the Republic of Turkey, 2012)

An OE will increase the size of valuable financial resources from the tourism sector because it is one of the sectors that earn income from foreign currency receipts. It also provides the necessary resources for construction processes and development by attracting and using modern technology.

5. Analysis:

5.1. Foreign Trade (FT): (SCAD, FT publication , 2013)

FT in goods has a paramount importance to the economy of the Emirate and contributes to a considerable proportion of the Emirate's GDP. In 2013, net trade in goods accounted for 44.3% of the GDP, reflecting the Emirate's robust and highly developed level of commercial activity and the significance of foreign trade to the economy in general.

The non-oil merchandise trade statistics comprise trade in goods, which entered or exited the territory of the Emirate of Abu Dhabi through the ports of Abu Dhabi (comprising air, sea and road ports). The FT data presented in this paper do not cover non-oil exports, re-exports and imports through ports of the other Emirates in the UAE.

Commodity imports in goods through the ports of the Emirate Abu Dhabi were valued at AED 100.3 Billion in 2013 compared with AED 119.0 Billion in 2012, (See table 1). The main imports during 2013 were 'Machinery, sound recorder, reproducers and parts', which accounted for 23.2% of the total value. The United States of America was the main country for imports, from which the Emirate received goods worth AED 12.7 Billion. Non-oil exports were valued at AED 16.0 Billion, with 'Base metals and articles of base metals' contributing 49.7% of the total. Saudi Arabia was the top destination of Abu Dhabi non-oil exports, receiving goods worth AED 6.7 Billion from the Emirate in 2013.

Re-exports in 2013 were valued at AED 16.4 Billion compared with AED 14.7 Billion in 2012, (See table 1). The top category during 2013 was 'Machinery, sound recorder, reproducers and parts', which contributed 48.8% of the re-exports total. The Kingdom of Bahrain was the top country destination for re-exports with goods valued at AED 3.4 Billion.

The value of imports in goods from Asian countries through the ports of the Emirate of Abu Dhabi was AED 43.9 Billion during 2013 compared with AED 54.4 Billion in 2012. The value of non-oil exports in goods to Asian countries through the ports of the Emirate of Abu Dhabi was AED 14.5 Billion while re-exports to Asian countries amounted to AED 14.1 Billion.

The Emirate of Abu Dhabi exported 1.0 Billion barrels of crude oil in 2013. Japan was the top importer receiving around 36.5% of the Emirate's total crude oil exports. In 2013, the Emirate exported 10.0 million metric tons of refined petroleum products, of which Netherlands bought 24.7%, followed by Japan, which purchased 15.8%.

Liquefied Natural Gas (LNG) exports increased by AED 1.8 Billion in 2013 compared with 2012, reaching AED 20.1 Billion. Japan was the most significant importer with 54.6% of the LNG exports value. The Emirate imported 833.2 Billion cubic feet of natural gas in 2013, at a daily average of 2.3 Billion cubic feet.

5.2. Foreign Direct Investment (FDI): (SCAD, FDI publication , 2013)

The Abu Dhabi Government is taking steps to establish favorable conditions that will enhance investor confidence in the economy. A transparent tax structure, with a supporting judicial system, investment encouraging business legislation and industrial zones enhances international investor perception about business opportunities in the Emirate.

The value of FDI at the end of 2013 was AED 67.7 Billion, up from AED 60.9 Billion at the end of 2012, (See table 4). This increase could mainly be attributed to 'Mining and quarrying', which attracted FDI worth AED 72.7 Billion at the end of 2013, compared with AED 60.8 Billion at the end of 2012, (See table 4). 'Real estate accounted for the largest share of FDI, namely 38.4% at the end of 2012 compared with 34.9% at the end of 2013. "Manufacturing industries" accounted for the second largest share of total FDI, with 19.3% at the end of 2013 and 19.0% at the end of 2012.

FDI from the GCC region amounted to AED 1.9 Billion or 3.0% of total FDI at the end of 2012 compared with AED 2.2 Billion or 4.3% at the end of 2011. Investments from other Arab countries totaled AED 4.8 and AED 6.1 Billion or 9.2% and 10.1% of FDI for the years 2011 and 2012, respectively. European countries accounted for the largest proportion of FDI in the Emirate of Abu Dhabi. Investment from these countries decreased from AED 13.7 Billion at the end of 2011 to AED 11.7 Billion at the end of 2012.

Other investment (excluding debt securities) amounted to AED 128.1 Billion at the end of 2013 compared with AED 145.3 Billion (including debt securities) at the end of 2012, (See table 5).

5.3. Open Economy (OE):

The stated vision of the Emirate is to move towards an open economy as seen in the following statements:

"Seeking to ensure the continued success of the Emirate's development, the Government of Abu Dhabi has set guidelines and priorities for the Emirate's socio-economic progress in its Policy Agenda. Taking these guidelines as its parameters, the Abu Dhabi Economic Vision 2030 has been developed by the Government, in consultation with the private sector, as a 22-year strategy to achieve these aims, and to ensure that all stakeholders in the economy are moving in concert, with a clear view of the long-term goals." (The Government of Abu Dhabi, 2007)

"The Abu Dhabi Policy Agenda 2007/2008 defines the priorities for public policy in the Emirate. These priorities have been set to achieve what the Government of Abu Dhabi sees as its primary goals: a safe and secure society and a dynamic, open economy". (The Government of Abu Dhabi, 2007)

The most important indicators that express the healthy extent of an OE over 6 years are a declining trend for both "Import reliance" and "Export- import gap" indicators (See table 6). On the other hand, "Export effort" and "Degree of OE" indicators were increasing. While the "FDI growth rate" indicator had an average of 10.65%.

The statistics provided in this paper demonstrate that Abu Dhabi Emirate is moving quickly towards achieving its stated vision of moving towards an open economy.

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7. Appendix:

7.1. Tables:

Table (1): Statistics of Foreign Trade in Goods through the Ports of the Emirate of Abu Dhabi
 (Million AED)

Item	2008	2009	2010	2011	2012	2013
Total trade in goods	463,122	308,699	383,276	561,908	600,583*	623,160*
Total exports of goods	372,845	214,827.20	296,703	445,534	481,612*	522,905*
Oil, gas and oil products	360,350.90	196,632.20	274,106	422,489	451,455*	490,460*
Non-oil exports of goods	6,252	9,501	11,611	11,478	15,412	15,996
Re-exports	6,242	8,694.20	10,985.90	11,567	14,745	16,449
Imports of goods	90,277	93,872.20	86,573.70	116,374	118,972	100,255
Net trade in goods	282,568	120,955.00	210,128.90	329,160	362,640*	422,650*

Source: Statistics Centre - Abu Dhabi

* Preliminary estimates

Table (2): The Components of Foreign Trade in Goods as a Percentage of Total Trade in Goods through the Ports of the Emirate of Abu Dhabi
 (%)

Item	2008	2009	2010	2011	2012	2013
Total trade in goods	100	100	100	100	100	100
Total exports of goods	81	70	77	79	80*	84*
Oil, gas and oil products	78	64	72	75	75.2*	79*
Non-oil exports of goods	1	3	3	2	3	3
Re-exports	1	3	3	2	3	3
Imports of goods	19	30	23	21	20	16
Net trade in goods	61	39	55	59	60*	68*

Source: Statistics Centre - Abu Dhabi

* Preliminary estimates

Table (3): Key Indicators of Non-oil Exports of Goods of the Emirate of Abu Dhabi
 (Million AED)

Non-oil Exports of Goods	2008	2009	2010	2011	2012	2013
Total	6,252	9,501	11,611	11,478	15,412	15,996
Agricultural raw materials exports	16	17	21	47	51	23
Food products	521	386	494	510	526	526
Manufactured products	5,550	8,838	10,320	9,884	12,646	10,956
Ores and metals	97	216	738	989	2,149	4,429
Other goods	68	43	38	48	40	61

Source: Statistics Centre - Abu Dhabi

Table (4): Foreign Direct Investment by Economic Activity
(Million AED)

Activities	2008	2009	2010	2011	2012	2013
Total	38,855	43,171	48,446	52,232	60,898	67,694
Mining and quarrying (includes crude oil and natural gas)	1403	1559	1749	1886	6084	7267
Manufacturing	6829	7587	8515	9180	11556	13043
Electricity, gas, and water supply; waste management	4778	5309	5957	6423	6740	6904
Construction	2944	3271	3671	3958	4727	5789
Wholesale and retail trade; repair of motor vehicles and motorcycles	110	122	137	148	155	293
Transportation and storage	1620	1800	2020	2178	604	1992
Accommodation and food services	7	7	8	9	22	14
Information and communication	12	14	16	17	154	145
Financial and insurance	4563	5070	5689	6134	5898	6002
Real estate *	15052	16724	18767	20234	23357	23599
Professional, scientific and technical	975	1083	1216	1311	1227	1782
Administrative and support services	381	424	476	513	273	355
Education	14	16	18	19	75	452
Human health and social work	144	160	179	193	21	11
Arts, recreation and other services	22	25	28	30	5	46

Source: Statistics Centre - Abu Dhabi

Note: Figures may not sum to totals due to rounding

* Includes real estate sales to non-residents

(Million AED)

Activities	2008	2009	2010	2011	2012	2013
Total	194,275	186,739	160,943	179,662	145,294	128,127
Mining and quarrying (includes crude oil and natural gas)	115	110	95	106	1,454	1,779
Manufacturing	1,888	1,815	1,564	1,746	813	12,043
Electricity, gas, and water supply; waste management	13,667	13,137	11,322	12,639	12,243	10,916
Construction	1,045	1,004	865	966	235	498
Wholesale and retail trade; repair of motor vehicles and motorcycles	46	45	39	43	194	166
Transportation and storage	8,927	8,581	7,396	8,256	2,330	2,166
Information and communication	5,356	5,148	4,437	4,953	5,806	10
Financial and insurance	150,735	144,888	124,873	139,397	122,053	100,152
Real estate	2,413	2,320	1,999	2,232	0	230
Professional, scientific and technical	9,983	9,595	8,270	9,232	156	156
Administrative and support services	90	87	75	84	3	9
Education	11	10	9	10	7	2

Source: Statistics Centre - Abu Dhabi

Note1: Figures may not sum to totals due to rounding

Note2: The result of 2012 excluding bonds but in 2011 included

Table (6): Open Economy Indicators
(%)

Indicators	2008	2009	2010	2011	2012	2013
Import reliance, growth factor	30.9%	31.7%	26.8%	32.2%	30.4%	23.4%
Export effort	2.1%	3.2%	3.6%	3.2%	3.9%	3.7%
Degree of openness of the economy	33.0%	34.9%	30.4%	35.3%	34.4%	27.1%
Export / import gap	-28.7%	-28.5%	-23.2%	-29.0%	-26.5%	-19.6%
Growth rate FDI	5.0%	11.1%	12.2%	7.8%	16.6%	11.2%

Source: Statistics Centre - Abu Dhabi

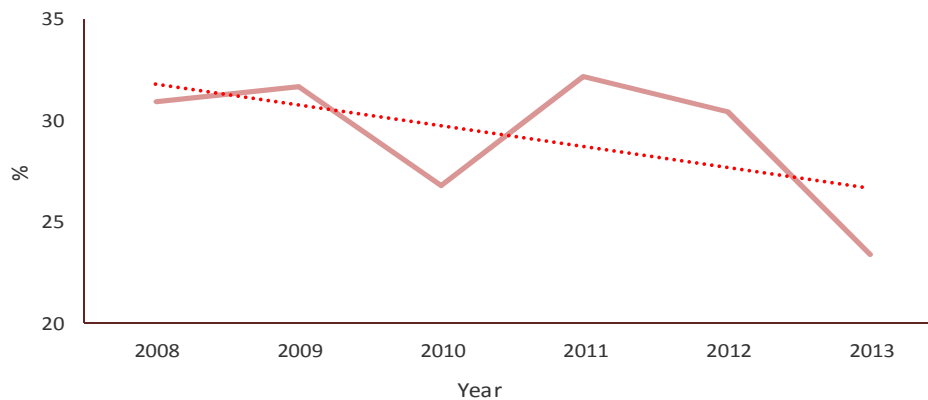
Table (7): Equations Calculating Indicators

Indicator	Equation
Import reliance	Imports / GDP
Export effort	Exports / GDP
Degree of openness of the economy	(Exports + imports) / GDP
Export / import gap	(Exports less imports) / GDP
Growth rate Foreign Direct Investment	(present year / last year) - 1

Source: UN, National Accounts: A practical Introduction

7.2. Charts

Chart (1): Import reliance



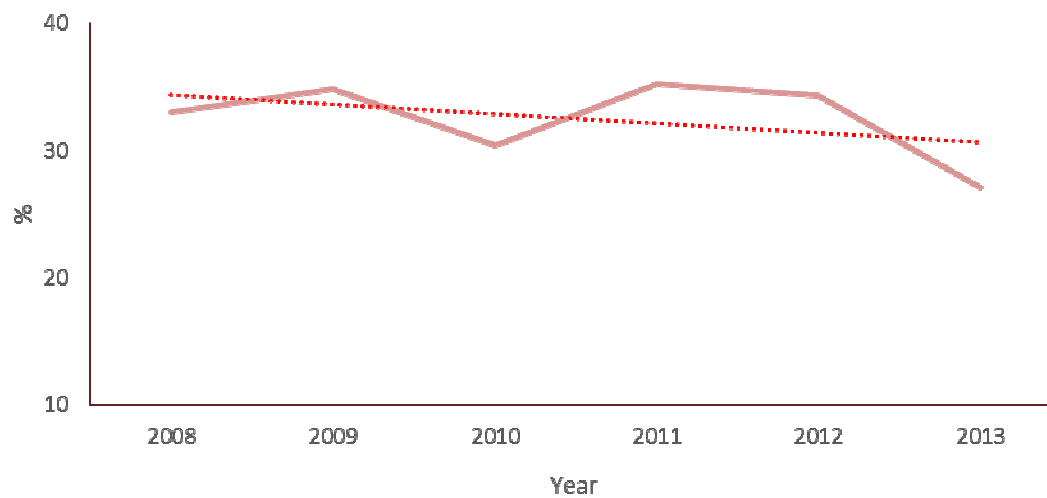
Source: Statistics Centre - Abu Dhabi

Chart (2): Export effort



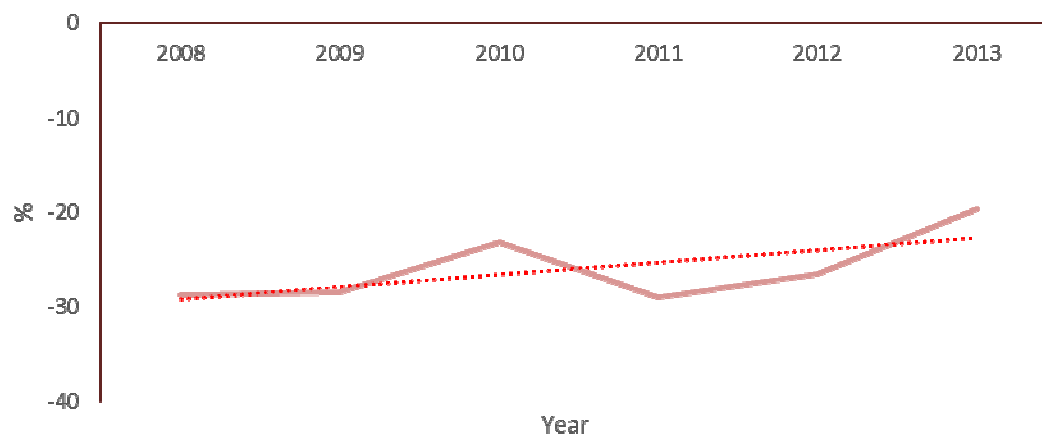
Source: Statistics Centre - Abu Dhabi

Chart (3): Degree of openness of the economy



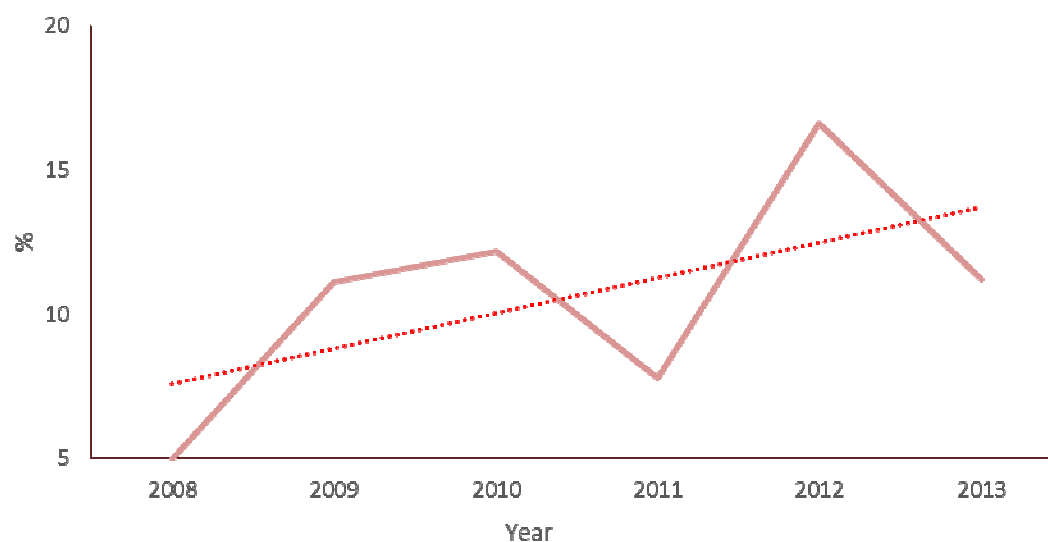
Source: Statistics Centre - Abu Dhabi

Chart (4): Export / import gap



Source: Statistics Centre - Abu Dhabi

Chart (5): Growth rate FDI



Source: Statistics Centre - Abu Dhabi

7.3. Glossary

International Trade: The exchange of goods or services along international borders. This type of trade allows for greater competition and more competitive pricing in the market. The competition results in more affordable products for the consumer. The exchange of goods also affects the economy of the world as dictated by supply and demand, making goods and services obtainable which may not otherwise be available to consumers globally. (www.businessdictionary.com)

Export: To send goods or services across national frontiers for the purpose of selling and realizing foreign exchange. See also exports. (www.businessdictionary.com)

Balance of Payment (BOP): Set of accounts that record a country's international transactions, and which (because double entry bookkeeping is used) always balance out with no surplus or deficit shown on the overall basis. A surplus or deficit, however, can be shown in any of its three component accounts: (1) Current account, covers export and import of goods and services, (2) Capital account, covers investment inflows and outflows, and (3) Gold account, covers gold inflows and outflows. BOP accounting serves to highlight a country's competitive strengths and weaknesses, and helps in achieving balanced economic-growth. (www.businessdictionary.com)

Open Economy: Market-economy mostly free from trade barriers and where exports and imports form a large percentage of the GDP. No economy is totally open or closed in terms of trade restrictions, and all governments have varying degrees of control over movements of capital and labor. Degree of openness of an economy determines a government's freedom to pursue economic policies of its choice, and the susceptibility of the country to international economic cycles. (www.businessdictionary.com)

Merchandise trade: Merchandise Trade statistics record goods, which add to or subtract from the stock of material resources of Abu Dhabi by entering or leaving its territory. Throughout this report, the term merchandise trade statistics refers to trade which moves through the ports of Abu Dhabi only, and do not capture inter-emirate trade activity. (www.investopedia.com)

Imports: Imports are goods that enter Abu Dhabi's customs and economic district from various parts of the world excluding other emirates in the United Arab Emirates, and receive customs clearance. Goods considered imports regardless of whether they enter the Emirate directly or retrieved from customs warehouses, temporary entry areas or free zones inside the country. These goods receive customs clearance in order to become part of Abu Dhabi's merchandise balance. (www.investopedia.com)

Re-exports: Re-exports represent goods imported from abroad, enter Abu Dhabi's customs and economic district and become part of the Emirate's merchandise balance. These goods re-exported as they are, without any modification, outside the country. (SCAD, FT publication, 2013)

Non-oil exports: Non-oil exports include goods entirely produced locally or in whose production process local resources are used. Non-oil exports through the ports of Abu Dhabi may include goods produced in other Emirates in the United Arab Emirates. Oil is excluded from these goods. These goods leave Abu Dhabi's customs and economic district to the outside world, reducing the Emirate's non-oil merchandise trade deficit. (SCAD, FT publication, 2013)

Total non-oil exports: Total Non-oil Exports represent the combined value of non-oil exports and re-exports. (SCAD, FT publication, 2013)

Balance of trade: The balance of trade for this paper is the difference between the value of total non-oil exports and imports. (SCAD, FT publication, 2013)

Foreign Direct Investment (FDI): An investment made by a company or entity based in one country, into a company or entity based in another country. Foreign direct investments differ substantially from indirect investments such as portfolio flows, wherein overseas institutions invest in equities listed on a nation's stock exchange. Entities making direct investments typically have a significant degree of influence and control over the company into which the investment made. Open economies with skilled workforces and good growth prospects tend to attract larger amounts of foreign direct investment than closed, highly regulated economies. (www.investopedia.com)

Gross domestic product (GDP): The value of a country's overall output of goods and services (typically during one fiscal year) at market prices, excluding net income from abroad. GDP can be estimated in three ways that should yield identical figures. (www.businessdictionary.com)