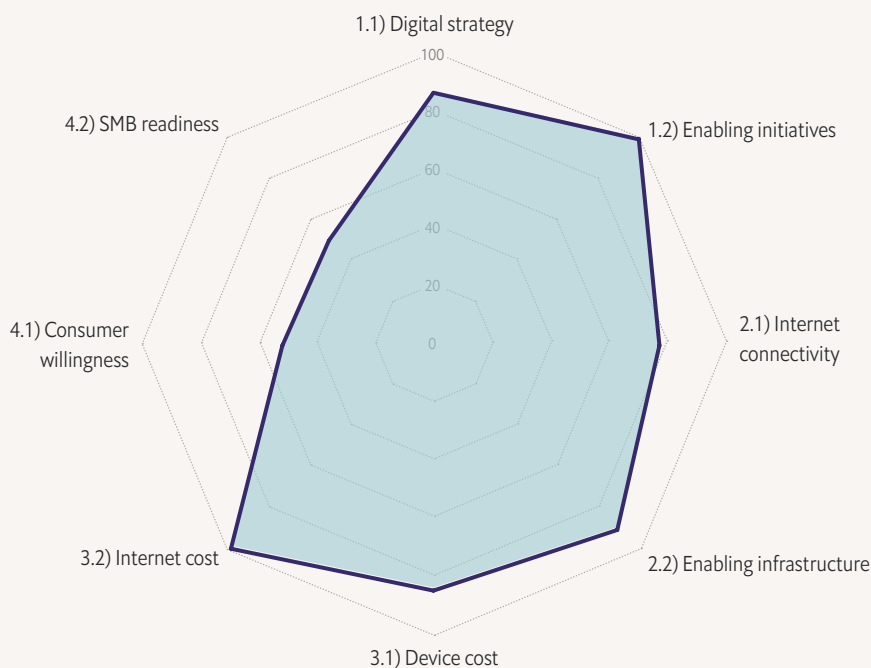


United Arab Emirates

- The UAE has the requisite infrastructure for a thriving digital economy, across both internet connectivity and enabling infrastructure. Among the nine countries under study, the UAE has the highest scores for the infrastructure and affordability pillars.
- SMB readiness can be enhanced by focusing on business-model and workforce readiness.

Figure 1: Category-level scores for United Arab Emirates



Digitalising to diversify

For the past 50 years, the UAE’s economic resilience has stemmed from its ample oil reserves. However, over the past two decades, the country has been focused on diversifying its

economy. As a result, the UAE has established itself as the most diversified of the Gulf oil economies, owing to its progress in the tourism, business services and logistics industries.⁵²

¹EIU country report, September 2022

Importantly, the UAE is also now one of the most digitally developed of the nine countries under study. Home to regional digital giants, such as ride-hailing firm Careem and e-commerce platform Noon, the UAE's digital economy currently contributes 9.7% to the UAE's GDP, with the government aiming to double this to 19.4% within the next decade.² This push is driven by the government's efforts to diversify the economy away from oil, prioritising boosting non-oil exports to major markets and building on its reputation as a business hub.³

This can be seen in the UAE government's policies—the country scores 93.3 out of 100 in the policy and regulation pillar, driven primarily by the presence of enabling initiatives such as open data policies, a digital ID system and data protection legislation. Importantly, the country receives the highest scores on the infrastructure (82.9 out of 100) and affordability (89.9 out of 100) pillars. To continue to accelerate digital economy growth, the UAE must focus on readiness, which earns a score of 51.4 out of 100, by enabling consumer willingness and SMB preparedness to participate in the digital economy.

Infrastructural integrity continues to drive progress

The UAE has undergone rapid modernisation over the past 50 years. An essential component of this has been the physical infrastructure that lends itself to digitalisation. Compared with other countries under study, the UAE scores highest in both categories under the infrastructure pillar—internet connectivity (77.8 out of 100) and enabling infrastructure (89.5 out of 100). In terms of internet connectivity, the UAE has almost universal 4G coverage (99.8% of the population) and is only one of three countries under study to

have deployed 5G networks in at least one city for commercial or public use.⁴ “We are nearly never disconnected wherever you are, whether you are on your data or on Wi-Fi”, emphasises Khalid Al Shamsi, executive director, Dubai Chamber for Digital Economy. Besides coverage, internet quality is notably higher compared with other countries under study, with the UAE leading in both mobile and fixed broadband latency.

The UAE also leads in other enabling infrastructure components: smartphone penetration is 88% of the population and there is universal access to electricity. The country continues to attract global technology giants, driven in part by government incentives such as NextGenFDI, which aims to encourage over 300 global technology firms to relocate to the UAE.⁵

Progress in the UAE's infrastructure capacity indicates that government ambition has indeed translated into action. This has played and will continue to play a considerable role in driving its digital economy agenda, especially in minimising potential infrastructure-driven access gaps. A necessary next step here is to ensure that infrastructure, and associated technologies, are updated to maintain momentum and continue attracting foreign companies, investment and talent.

Management mindset hinders progress

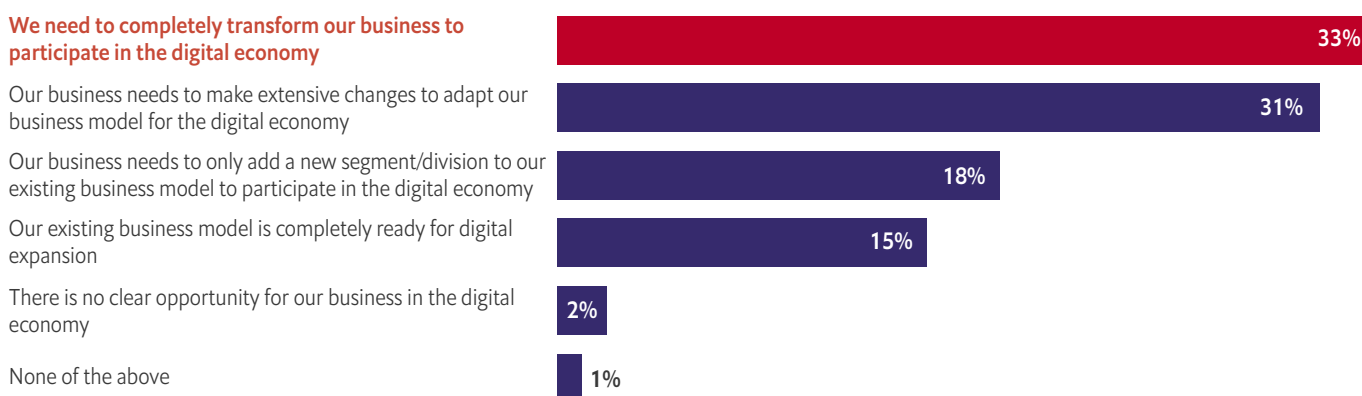
Despite strong government intent, SMBs still struggle to navigate the digital economy successfully. Contrary to expectations, our results show that the UAE's SMB readiness score follows that of other countries under study, middling at 50.9 out of 100. Only 15% of business executives surveyed claim that their existing business model is completely ready for

² <https://www.khaleejtimes.com/government/uae-new-digital-economy-strategy-to-double-gdp-contribution-to-19-4-in-10-years>; Interview with Khalid Al Shamsi, Dubai Chamber for Digital Economy

³ EIU country report, September 2022

⁴ <https://u.ae/en/about-the-uae/science-and-technology/the-fifth-generation-5g>; <https://www.zawya.com/en/business/technology-and-telecom/uae-tops-gcc-region-in-5g-download-speed-says-study-ih2xuzti>

⁵ <https://gulfbusiness.com/uae-launches-nextgenfdi-to-attract-worlds-top-digital-companies/>

Figure 2: Preparedness of existing business models to participate in the digital economy

Source: Economist Impact executive survey, July-August 2022

digital expansion. Despite exhibiting a strong digital competitiveness landscape, according to IMD Business School's Digital Competitiveness Ranking, the UAE has relatively lower scores on business agility and IT integration.⁶ This is corroborated by studies that have shown that 85% of UAE businesses do not sell products and services online or through e-commerce platforms.⁷ Management buy-in is imperative to boosting readiness, but 34% of executives we surveyed cite limited understanding within management of digital opportunities as the top impediment.

Government-led collaborations with the private sector and academia could prove helpful in providing management training courses that are tailored to UAE entrepreneurs. An example of this is the Mohammed bin Zayed School for Artificial Intelligence, which concluded its second executive programme in July 2022. The programme provides its student cohort of over 40 professionals with knowledge on the commercial, ethical and policymaking elements of AI.⁸

Not only will such training help management to refine business models, it may also drive greater investment in advanced technologies within businesses. In our survey, the UAE performs well relative to other countries under study: almost 70% of SMBs surveyed have adopted digital payment platforms and a little over 40% are using cloud computing and 5G-enabled solutions. In the Network Readiness Index, the UAE has the highest rank among the nine countries under study (17th out of 131) on the adoption of emerging technologies (although this includes views from large businesses as well). Ultimately, greater adoption of technologies will better equip SMBs to increase engagement in the digital economy.

Building capital from all avenues

Despite relatively lower scores for SMB readiness overall, access to funding mechanisms is strong, with 77% of executives, on average, saying that it is easy to secure funding for their organisation's digital expansion. "Both venture capital and angel investment existed in the UAE ten years ago, but was at the early stages,"

⁶ <https://worldcompetitiveness.imd.org/countryprofile/AE/digital>

⁷ <https://www.zawya.com/en/press-release/companies-news/digital-transformation-specialist-hod-doubles-business-in-2022-due-to-high-demand-for-e-commerce-in-uae-nk0puylz>

⁸ <https://www.khaleejtimes.com/education/uae-second-edition-of-mbzuais-executive-programme-to-begin-this-march>

highlights Jayesh Patel, Chief Executive Officer of Wio Bank, a UAE-based digital banking platform. “Over the past few years these have taken off significantly with both local and global players keen on the region,” he says. Today, executives find it easy to access funding from both sources (76% and 73%, respectively), higher than all other countries under study.

Moreover, the government has played a role in funding new entrants to the digital economy by establishing schemes to cultivate the local SMB ecosystem, including funding provision. For example, the Khalifa Fund for Enterprise Development encourages entrepreneurship and support for SMBs by providing financing and training.⁹ The fund has already disbursed AED1.32bn (US\$359.4m)¹⁰ in grants and held over 900 workshops as of 2019. Sustaining these

incentives will be helpful to develop further innovation locally and spur private and foreign investment.

Local innovation needs local talent

The UAE faces a longstanding problem—a shortage of skilled talent. Over a third of executives are concerned by the overall scarcity of the necessary digital skills in the UAE’s local workforce. The most noticeable gaps in the UAE workforce for these executives are collaborating with external (47%) and internal stakeholders (41%), followed by a dearth in programming and coding skills (38%). These challenges do not go unnoticed, with almost 90% of executives agreeing that their organisation is actively investing in and providing programmes for upskilling employees’ digital skills.

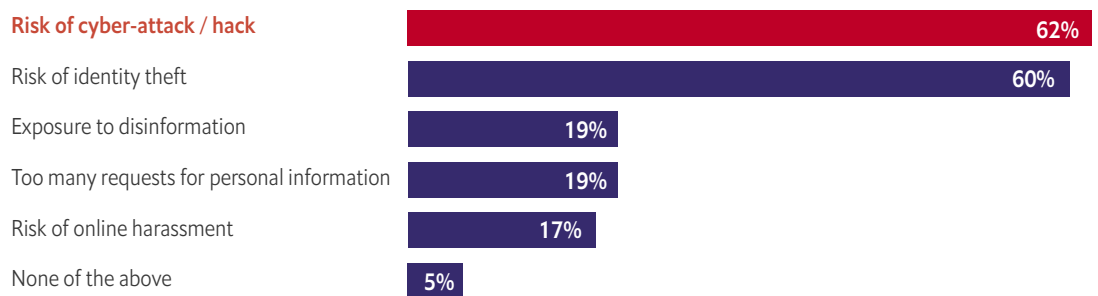


“Both venture capital and angel investment existed in the UAE ten years ago, but to a very limited extent. Over the past few years these have grown significantly.”

Jayesh Patel, CEO of Wio Bank

⁹ <https://www.moec.gov.ae/en/khalifa-fund-for-enterprise-development>

¹⁰ Mid-market rate of AED1 = US\$0.272294 on 5 October 2022.

Figure 3: Consumer concerns over digital economy participation

Source: Economist Impact executive survey, July-August 2022

Enhancing SMB readiness will require greater public and private sector attention on building talent. The UAE has traditionally relied on foreign talent. “The UAE punches above its weight just as much as London, Bangalore, and San Francisco,” explains Mr Patel. “It is a leading destination where talent looks to move, but now, the focus is on nurturing the organic talent in the country,” he says. As the country transitions away from its oil-based model, there is a need to build a sustainable stream of homegrown talent in the private sector and reduce unemployment risks.

The quest to cultivate consumer confidence

On the consumer side, willingness to participate in the digital economy is one the UAE’s lowest performing categories, with a score of 52 out of 100. This may be primarily due to low levels of trust consumers feel when conducting certain activities digitally, namely sharing their personal data (e.g. credit card information, address etc.), as indicated in our consumer survey. Over 50% cite the perceived risk of cyber-attack and

fraud as the most significant challenge to digital economy access. “As you digitalise more, you have new threats, including identity theft and new modes of digital fraud”, explains Mr Patel.

This is a critical obstacle. While the UAE is exemplary with its infrastructure, without a complementary level of consumer trust, participation in the digital economy will be limited. Moreover, there is a trust dividend—research shows that a 5% increase in digital trust contributes to an average increase in GDP per capita of US\$3,000 globally.¹¹ To capture this added value to the economy, communicating data privacy and protection efforts will be vital.

The UAE has made great strides in digital transformation, driven by strong government ambition. To make use of the momentum and success to date, policy and business action must converge to ensure sustainability of the UAE’s digital economy. This will depend on enhancing consumer trust while strengthening local workforce capabilities, at all levels.

¹¹ <https://programs.callsign.com/hubfs/digital-trust-index/Callsign%20E2%80%9320The%20digital%20trust%20index.pdf>

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