CHAPTER II

GROWTH AND DEVELOPMENT OF SELECTED SECTORS

2.1 INTRODUCTION

Seven leading sectors from both India and United Arab Emirates (UAE) are selected for the study. An attempt is made to document the growth and development of these sectors. In this era of cut-throat competition in every segment is needed to strive hard and put in their best. The effort made by various agencies in upliftment of relevant sectors is summarized in this chapter. The chapter is divided into two sections ‘A’ and ‘B’. Section A deals with the Indian sectors and Section B deals with the United Arab Emirates (UAE) sectors.

2.2 Section “A” INDIA

2.2.1 BANKING SECTOR

Indian banking had come a long way since India adopted reforms path. Today Indian Banks are as technology savvy as their counterparts in developed countries. The competitive and reform force have led to the emergence of internet, e-banking, ATM, credit card and mobile banking too, to let banks attract and retain customers. This apart retail lending has emerged as another major opportunity for banks. As result of this innovation banking products are a reality now. Even saving accounts, personal loan accounts and home loan account has become subject of innovation. Due to globalization, liberalisation and privatization mode, Indian banks going global and many global banks setting up shops in India, the Indian banking system is set to involve into a totally new level it will help the banking system grow. Banks IPO will be lifting the market to increase their capital and gearing up for the Base I, II norms. Their will be increased pressure on small private banks which are not doing well merge with public sector banks and one can expect the pace of consolidation to increase. It means it is certain that a greater presence of international players in the
Indian financial system and some of the Indian banks will become global players in the coming years. [1]

As Indian banking had come a long way since nationalization and after adopting reforms model, FDI inflow is now both a challenge and an opportunity for Indian bankers to gain strength in the domestic market and increase presence in the global market. In order to fortify the Indian banking sector against the risks involved in globalization, appropriate regulatory, prudential and supervisory framework need to be adopted. This will help in strengthening the domestic banking system in a global environment.

FDI in the banking sector has been liberalized by raising FDI limit in private sector banks to 74 per cent under automatic route including investment by foreign investment in India. The aggregate foreign investment in a private bank from all sources will be 74 per cent of paid-up capital of the bank. [2]

FDI and Portfolio investment in nationalized banks are subject to overall statutory limit of 20 per cent. The same ceiling also applies in respect of such investment in State Bank of India and its associate banks.

2.2.1.1 TECHNOLOGY TRANSFER:-

As due to the globalization local banks are competing in the global market, where innovative financial products of multinational banks is the key limiting factor in the development of local bank. They are trying to keep pace with the technological development in the banks. Now day’s banks have been prominent and prudent in the rapid expansion of consumer lending in domestic as well as in foreign markets. It needs appropriate tools to assess (how such credit is managed) credit management of the banks and authorities in charge of financial stability. It may need additional information and techniques to monitor for financial vulnerabilities. FDI’s tech transfers, information sharing, training programs and other forms of technical assistance may help meet this need. [3]

2.2.2 CEMENT SECTOR:-

- First unit was setup in Kolkata in 1889, but the industry started getting the organized shape in the early 1900s.
- India Cement Company Ltd. was established in 1914 with production capacity of around 10,000 tonnes.
World War I gave a major impetus for the industry in India.

Price and distribution control system in the year 1956 was established to ensure fair price model for consumers as well as manufacturers.

Later a three tier pricing system was introduced in the industry for cement produced in high, medium and low cost plants

2.2.2.1 CEMENT PRODUCTION AND GROWTH

Domestic demand plays a major role in the growth of the sector. Demand has surpassed economic growth rate in India. Consumption is expected to rise more than 22 percent in 2009-10. Production grew at the rate of 9.1 percent against the total production of 147.8 MT during 2006-07. Companies have seen a net profit growth of 85 percent. Cement Industry has contributed almost 8 percent to India’s economic development.

Infrastructure accounts for 35 percent of cement consumption in India. And with increase in government focus on infrastructure spending, such as roads, highways and airports, the cement demand is likely to grow in future.

There has been increase in the purchasing power of emerging middle-class with rise in salaries and wages, which results in rising demand for better quality of life that further necessitates infrastructure development and hence increases the demand for cement.

The Cement industry has made tremendous strides in technological upgradation and assimilation of latest technology. At present ninety three per cent of the total capacity in the industry is based on modern and environment-friendly dry process technology and only seven per cent of the capacity is based on old wet and semi-dry process technology.\[4\]

2.2.2.2 CEMENT DISPATCHES

Industry has successfully maintained almost total capacity utilization, and maintained a growth rate of 10 percent yoy. In 2006-07, the total dispatch was 155 MT, which raised up to 170 MT in 2007-08.
2.2.2.3 ROLE OF CEMENT INDUSTRY IN INDIA GDP-FACTS:-
The infrastructure development of the country in the recent years is the demand driver for the cement industry. The Industry is experiencing the entry of many foreign players in the Indian market and the average monthly capacity utilization during the year 2006-07 at 94 percent. In the year 2006-07 at 155 million tonnes cement dispatches and the growth total output was 10 percent. And growth rate of production is 9.1 percent. India ranks second in the production of cement in the world. The export of the cement in the year 2006-07 at 9.3 million tonnes. An industry in India constitutes of 365 small cement manufacturing units and 130 large cement manufacturing units. The total installed capability of the cement manufacturing is 165 million tonnes per year. [5]

2.2.3 INSURANCE SECTOR:--
Insurance plays a crucial role in expediting a nation's socioeconomic growth. It enables entrepreneurs to take financial risks that create wealth and jobs for its people. This also ensures social security for ordinary people. Insurance can also be considered as an investment medium. It acts as a medium of collateral security for the smooth functioning of trade and commerce across and within borders. Insurers invest policyholder's funds in the national economy that assures continued investment in a dynamic economy.

2.2.3.1 INSURANCE SECTOR REFORMS:--
Insurance Regulatory & development Authority (IRDA) Bill was passed by the Indian Parliament in December 1999 and the IRDA become a statutory body in April 2000 & has been framing regulations & registering the private sector insurance companies. The insurance sector was opened up to the private sector in August 2000 with Some Indian & Foreign private companies entering the insurance business. There are about 7 general insurance & 11 life insurance companies operating in the private sector in India in early part of 2004, Including LIC, GIC and its four subsidiaries (The Oriental Insurance Co. Ltd., The New India Insurance Company Ltd.) there are 24 organizations doing life & general insurance business in India in 2004. [6]

2.2.3.2 FOREIGN DIRECT INVESTMENT (FDI) IN INSURANCE SECTOR:--
- Government of India intended to raise the cap on foreign investment in insurance to 49 percent & give foreign banks a "great role" step by step.
• The insurance portal Insure magic went one step ahead in saying that the government has finally shown keep interest in raising the Foreign Direct Investment cap to 49 percent in insurance companies and the government has pitched for 100 percent FDI cap for those insurance companies who serve the rural population.

• After the passage of IRDA in the parliament, nearly a dozen foreign companies with a tie up with Indian partner started insurance business in India with lot of expectations of tapping the hitherto untouched vast market availability in India.

• Those companies were of the opinion that grabbing of even a small fraction of insurance market could fetch them a huge profit.

• What they expected was withering away of LIC and GIC, like in other industries. But it was not to be, they have not withered away. Particularly in the case of LIC, even a miniscule of what they expected has not happened.

• Insurance sector in India is one of the booming sectors of the economy and is growing at the rate of 15-20 per cent annum. One of the key service industries in India would be health and education Insurance sector in India grew at a faster pace after independence. In 1956, Government of India brought together 245 Indian and foreign insurers and provident societies under one nationalized monopoly corporation and formed Life Insurance Corporation (LIC) by an Act of Parliament, viz. LIC Act, 1956, with a capital contribution of Rs.5 crore.

• The (non-life) insurance business/general insurance remained with the private sector till 1972. There were 107 private companies involved in the business of general operations and their operations were restricted to organised trade and industry in large cities. The insurance sector in India has come to a position of very high potential and competitiveness in the market. Indians, have always seen life insurance as a tax saving device. [7]

2.2.4 PHARMACEUTICALS SECTOR:-
The Indian Pharmaceutical industry has grown from a mere Rs. 1,500 crore turnover in 1980 to over Rs. 78,000 crore in 2008 with about 10 per cent of share volume of global production. High growth has been achieved through; the creation of required infrastructure, capacity building in complex manufacturing technologies of active production ingredients(APIs) and formulations, entering into drug discovery through original and contract research and manufacturing (CRAM) and clinical trials and

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product specific strategies of acquisition and mergers. The domestic sector had a production turnover of Rs. 47,241 crore from about 10,000 small-scale and 300 large and medium manufacturing units in 2008.

2.2.4.1 ROLE IN FOREIGN TRADE:-

Pharmaceutical exports have grown from Rs. 6,256 crore in 1998-99 to Rs. 30,759 crore in 2008. Exports of pharmaceuticals have been consistently outstripping the value of corresponding Imports in the period 1996-97 up to 2007-08. Exports registered a growth rate of 25 per cent in 2007-08 over 2006-07. The sector attracted FDI amounting to US$ 1,401.60 million during 2000-01 to September 2008, of which, US$ 125.30 million occurred during April-September 2008. [8]

2.2.4.2 INVESTMENT:-

Investments in pharmaceutical company are now expanding into areas of innovative R&D focused outsourcing opportunities like clinical trials, data management services, pharmaceutical informatics, lead discovery and optimization, Pharmaceutical co-kinetics and Pharmaceutical co-dynamics and pre-clinical drug discovery in combinatorial chemistry, chiral chemistry, new drug delivery Systems, bioinformatics and phyto-medicines. The Indian drug discovery market has grown from US$ 470 million in 2005 to US$ 800 million in 2007. Automatic approval for up to 74 percent foreign equity in the case of bulk drugs, their intermediates and formulations (except those produced by the use of recombinant DNA technology).

2.2.4.3 ROLE OF GOVERNMENT IN FDI INFLOWS IN INDIA:-

The Government of India has granted permission to foreign investors to set up Joint Venture companies with various private sector units in India. This task is carried out with the aim to establish country-specific investment promotion centers in India and overseas countries. The ten countries who will be involved in setting up country-specific investment promotion centers in India include, US, Japan, Taiwan, UK, Germany, Singapore, France, South Korea, Switzerland and Italy. [9]

2.2.5 TELECOMMUNICATIONS SECTOR:-

India's telecom company has shown massive upsurge in the recent years in all respects of industrial growth. From the status of state monopoly with very limited growth, it has grown in to the level of an industry. Telephone, whether fixed landline or mobile, is an essential necessity for the people of India. This changing phase was possible
with the economic development that followed the process of structuring the economy in the capitalistic pattern. Removal of restrictions on foreign capital investment and industrial de-licensing resulted in fast growth of this company. At present the country's telecom industry has achieved a growth rate of 14 per cent. Till 2000, though cellular phone companies were present, fixed landlines were popular in most parts of the country, with government of India setting up the Telecom Regulatory Authority of India, and measures to allow new players country, the featured products in the segment came in to prominence. Today the industry offers services such as fixed landlines, WLL, GSM mobiles, CDMA and IP services to customers. Increasing competition among players allowed the prices drastically down by making the mobile facility accessible to the urban middle class population, and to a great extends in the rural areas. Even for small shopkeepers and factory workers a phone connection is not an unreachable luxury. Major players in the company are BSNL, MTNL, Reliance, Bharti Teleservices, Vodafone Essar, BPL, Tata, Idea, etc. With the growth of telecom services, telecom equipment and accessories manufacturing has also grown in a big way. Indian Telecom Company, like any other industrial sector in the country, has gone through many phases of growth and diversification. Starting from telegraphic and telephonic systems in the 19th century, the field of telephonic communication has now expanded to make use of advanced technologies like GSM, CDMA, and WLL to the great 3G Technology in mobile phones. Day by day, both the Public Players and the Private Players are putting in their resources and efforts to improve the telecommunication technology so as to give the maximum to their customers.

**2.2.6 IRON AND STEEL SECTOR:-**

The heavy investment by the government on infrastructural facilities could be easily justified since they had provided the necessity impetus fir rapid development of the infrastructure, it would have been impossible to register the three fold rise in agricultural production and seven fold rises in industrial production.

The overwhelming emphasis was on the provision of infrastructural facilities mainly for the urban areas, neglected the rural areas. This neglect in rural areas regulated in inadequate development and therefore, of inadequate employment opportunities in rural areas. [10]

The infrastructural development has not only shown an urban - bias but it has also shown a bias in favour of rich and the more affluent. In the energy sector India
requires at least 412 million tonnes of oil equivalent (m. tonnes) in the year 2006 - 07 and 564(m. tonnes) by the year 2011 - 12. The trend in the production of commercial energy since 1950 -51 to 2005-06.

2.2.7 INFORMATION TECHNOLOGY:-
Information Technology Industry in India has the potential of tremendous growth as a global IT solutions provider. Increasingly, India is being regarded as the hub and the base for worldwide IT solutions. In addition to the global market that the Indian IT industry is well placed to tap, there is also a huge market within India to transform conventional brick and mortar industry through IT solutions. Likely economic and industrial growth and a large consumer base are the additional and significant growth drivers for Indian IT industry. Convergence of Information Technology, Communication, Entertainment, consumer Electronics and the increasing penetration of internet, PC, desktop sets, mobile phones, cable TV etc. should result in a massive surge in world-wide demand for IT solutions for internet based activities and e-commerce. India today is well placed to offer quality and competitive IT products and services. India's international-class manpower, which creates high quality software and services solutions, The Government too is getting IT enabled and using state-of-the-art technology solutions to bring greater benefits to Indian citizens and improve its internal efficiencies.

The economy of India is the fourth largest in the world as measured by purchasing power parity (PPP). India is the second fastest growing major economy in the world, with a GDP growth rate of 9.2 percent at the end of the second quarter of 2006–2007. The economy is diverse and encompasses agriculture, handicrafts, textile, manufacturing, and a multitude of services. Although two-thirds of the Indian workforce still earns their livelihood directly or indirectly through agriculture, services are a growing sector and are playing an increasingly important role of India's economy. The advent of the digital age, and the large number of young and educated people fluent in English, is gradually transforming India as an important destination for global multinationals for the outsourcing of their customer services and technical support. India is also a major exporter of highly-skilled workers in software services. India's IT industry ranks among the fastest growing sectors within the country's economy. Driven primarily by software exports, the industry has been logging in extremely impressive year on year growth. The software industry in fact has been
growing well with a CAGR exceeding 50% over the last five years. The Government of India projects an export of US $ 50 billion by the year 2008 for the Indian software industry.

India is one of the worldwide leaders in Information Technology products and services. A significant portion of the IT industry's revenue comes from overseas customers and predominately on account of customized services to its customers, the day is not far when the Indian IT industry would compete on global scale in the mass market product area. The annual growth rate of India’s software exports has been consistently over 50 percent since 1991. As per the projections made by the National Association of Software and Services Companies (NASSCOM) for 2000-2001, India’s software exports would be around $ 6.3 billion, in addition to $ 2.5 billion in domestic sale. Today, India exports software and services to nearly 100 countries around the world. The share of North America in India’s software exports is about 61 per cent. In 2005-06, more than a third of Fortune 500 companies outsourced their software requirements to India. According to a NASSCOM-McKinsey report, annual revenue projections for India’s IT industry in 2008 are US $ 87 billion and market openings are emerging across four broad sectors, IT services, software products, IT enabled services, and e-businesses thus creating a number of opportunities for Indian companies. [11]

India’s most prized resource in today’s knowledge economy is its readily available technical work force. India has the second largest English-speaking scientific professionals in the world, second only to the U.S. It is estimated that India has over 4 million technical workers, over 1.8 thousand educational institutions and polytechnics, which train more than 67 thousand computer software professionals every year. Government of India is stepping up the number and quality of training facilities in the country to capitalize on this extraordinary human resource. It is the knowledge industry that will help take the Indian economy to a sustained higher rate of growth. Software development and IT enabled services’ have emerged as a niche opportunity for India in the global context.

The Indian Government is committed in its efforts to maintain the 8 plus growth rate and provide a conducive policy environment to the enterprises, both public and private, to invest and grow their business in the country. To this end, the Government has liberalized the foreign investment regime substantially over the last decade.
The Reserve Bank of India has prescribed the administrative and compliance aspects of FDI. According to a recent World Bank study, India is the preferred location for software vendors for its quality and cost. Recognizing the special advantages and opportunities in India, many leading IT multinationals have set up operations in India. The FDI policy rationalization and liberalization measures taken by the Government have resulted in increased inflows of FDI over the years. FDI inflows stood at US $4.0 billion during April-August 2006 and were 62 percent higher than in the corresponding period of the previous year. The 10 sectors attracting highest FDI into India since 1991 are: computer software & electronics; services sector, telecommunications; transportation industry; power and fuels; chemicals; food processing industries; drugs & pharmaceuticals; cement and gypsum products; and metallurgical industries. The 10 top investing countries are: Mauritius, USA, Japan, Netherlands, UK, Germany, Singapore, France, South Korea and Switzerland.

In addition to FDI, Foreign Institutional Investment (FII) is also flowing into India. Qualified foreign entities seeking to undertake portfolio investments in India are regarded as FIIs. Eligible institutional investors that can register as FIIs include asset management companies, pension funds, mutual funds, banks, investment trusts, nominee companies, institutional portfolio managers, power of attorney holders, university funds, endowment foundations, charitable trusts and charitable societies.
2.3 Section "B"  UNITED ARAB EMIRATES (UAE)

2.3.1 BANKING SECTOR:-

The UAE banking and finance sector enjoyed an extremely active year in 2007 with the aggregated balance sheet of banks operating in the UAE increasing by 42.3 per cent to reach Dh1223.07 billion against Dh859.57 billion at the end of 2006. Cash and deposits with the Central Bank increased by 273.5 per cent to reach Dh236.85 billion. Net foreign assets of banks reversed during the year, with a 15.1 per cent decrease in assets and an 80.6 per cent increase in liabilities resulting in a negative figure of Dh124.04 billion. As already noted above, credit issued to residents increased quite sharply, by 36.6 per cent, mainly in the form of loans, advances and overdrafts.

The total value of deposits with banks operating in the UAE at the end of 2007 amounted to Dh716.02 billion or 38 per cent more than at the end of 2006. The rise was mainly due to sharp increases in deposits by both residents and non-residents. Meanwhile, private sector deposits from business, industries and financial institutions increased by 54.6 per cent. Excluding government deposits and commercial prepayments, bank deposits increased in all categories: current account deposits by 52.4 per cent; time deposits by 36.5 per cent and savings deposits by 36.4 per cent.

The capital position at the end of 2007 indicated that the total of capital and reserves accounts at these banks reached Dh130.88 billion, an increase of 25.7 per cent compared to the position at the end of 2006. As a result the position of capital and reserves to total assets reached 10.7 per cent. Meanwhile, unclassified liabilities fell by just over 41 per cent.

In fact, net profits of UAE banks were up by nearly 40 per cent. This was due to a surge in credits and investments resulting in net earnings of the country’s 24 national banks and 28 foreign units reaching Dh16 billion in the first six months of 2008 compared with Dh11.4 billion in the first half of 2007. But the UAE’s banking sector is not immune from global forces or from the general downturn in the financial sector that was triggered by the sub-prime mortgage crisis in the US and the subsequent downturn in property values. Investor sentiment, influenced by the recessionary trends that began to hit western economies in 2008, fed through to UAE investors and affected many local companies despite their strong fundamentals. This, in turn, fed
through to the banking sector, resulting in a lowering of expectations for regional banks performances during 2008. Strong loan growth, due largely to the increased spending on public and private infrastructure and construction projects, and the boost they have given to the property market, left some banks potentially vulnerable to any reversal of these trends. Concerned that bank could find them in dangerous territory. It was hoped that this would ease inflation and prevent banks from overexposure to the property market. At the same time, a tightening of available credit avenues in international markets, linked to the global slowdown, made borrowing more difficult for local banks. Meanwhile, the Dubai government issued new regulations requiring property buyers to have paid at least 30 per cent of the price of a property before they can sell it.

Ministry of Finance set the terms for two tranches of emergency funding of up to Dh120 billion that was made available to local banks to enable them to tide over the inter-bank liquidity squeeze, but warned them not to use the cash being made available for speculative activity. The Government funding was provided on the basis of interest payable every three months calculated on the prevailing interest rate for five-year US Treasury bonds, plus 120 basis points or 4 per cent, whichever is higher. The move was targeted at underpinning the stability of the UAE’s financial model and banks were required to use the money to participate in the inter-bank loan market and ensure credit facilities were available to small and medium enterprises at reasonable cost. Banks were also told to invest in their risk management practices to ensure they meet the requirements of the Central Bank. On 13 October 2008 the UAE Cabinet made a momentous decision to guarantee banking deposits held in the UAE for three years. The decision covered national banks and foreign banks that ‘have significant operations in the UAE’. Despite such measures, the global financial roller-coaster placed considerable pressures on UAE markets.

Although, for the UAE, FDI is the highest in the region at around US$19 billion, the government has been active in its efforts to improve conditions to meet with the aspirations of international, regional, and local investors. Among key incentives to investors is the very favourable tax environment especially in the free zones where in most cases there are no corporate and income taxes. It helps that the UAE per capita income is one of the highest in the region. Coupled with this, its population growth rate is among the highest worldwide. These factors create a ‘virtuous cycle’: i.e. a market with very high, and rapidly growing, purchasing power, which attracts further
FDI. 800 foreign companies in the UAE identified a range of pluses and minuses in terms of the country’s FDI attractiveness. Among major attractions were the UAE’s political stability, its excellent access to regional markets, its favourable geographical position and the convenience of access to world markets. Among significant negative factors were rising operating costs, fuel prices and tough foreign competition. However, smooth investment procedures, sufficient space for activity, strategic assets, high market value of shares, low cost of finance, and appropriate commercial values of investments bolstered the argument for investing in UAE based companies. The value of foreign direct investment (FDI) in Abu Dhabi was predicted to reach Dh27 billion (US$7.35 billion) in 2008 compared to Dh17 billion (US$4.63 billion) in 2007. Abu Dhabi’s share of foreign investment in the UAE as a whole is relatively low at around 24 per cent of total foreign investment in the UAE, contrasting with its 58 per cent contribution to GDP. The primary aim of attracting FDI is not so much to do with money but more to do with expertise, technology and experience, contributing to the improved production methods and enhanced infrastructure. Among measures being considered by the Abu Dhabi government were plans to pass legislation revising ownership rights for foreign investors, allowing up to 100 per cent in many sectors [13]

2.3.2 CEMENT SECTOR:-

The UAE cement sector, one of the oldest manufacturing industries in the country, continues to be extremely buoyant. Per capita cement consumption (PCC) in the UAE during 2005 was 2920 kilograms against the GCC’s 2025 kilograms and a world average of only 320 kilograms. Contributing factors have included rising oil prices, an increase in inbound investment, both by nationals and by fellow Gulf Cooperation Council (GCC) nations, low interest rates and access to credit, a relatively free economy and liberal real estate laws. These have contributed to an unprecedented rise in construction activities and associated cement consumption. Demand for cement increased from 5.8 million tones per annum in 2001 to around 14 million tones per annum during 2005. Cement manufacturers increased their capacities extensively to meet the sharp rise in demand. But despite these measures there was still a shortfall in the supply-demand chain and this was met by imports from India and the Far East. The shortage led to a rise in the cement prices from Dh265 to Dh270 per tone compared with Dh135 to Dh145 during 2000/01 when there was excess supply. At
times during 2004 and 2005 the cement market was frenzied and demand was so high that the retail prices of the standard 50 kilogram bag reached Dh25–27 as compared to the mid-2006 level of around Dh16. In April 2006 cement and clinker production were estimated at 14.7 million tones and 8.4 million tones, respectively. Limestone is available locally, but bauxite, iron ore, and gypsum are imported. Factories operating throughout the country produce clinker and Portland cement; one factory in Ra’s al-Khaimah manufactures white cement. Approximately 70 per cent of the market is concentrated amongst the top six companies. There are around eight integrated cement companies (with clinker and grinding facilities) in the UAE and another four to five grinding units. Gulf Cement Company (GCEM) was the market leader with a 17 per cent share of the total cement capacity of the UAE during 2005, followed by Sharjah Cement and Industrial Development Company (SCIDC) with 15 per cent share. Fujairah Cement and National Cement followed next with 12 per cent and 10 per cent share respectively. However, by late 2006 the Union Cement Company (UCC) had become the largest player in the market, followed by SCIDC and GCEM. Other developments in this field are being revealed on a regular basis. In mid-2006 the Emirates Cement Factory, owned by Abu Dhabi’s General Holding Company, announced a new plant to be set up in Fujairah. The new unit, Arkan Building Materials Company, was to be capitalised at Dh1.75 billion (US$476 million), of which Dh857.5 million (US$234 million) would be raised through an initial public offering (IPO). The new plant will have a capacity of 3.1 million tones per annum. Fifty-one per cent of Arkan is to be owned by GHC and 49 per cent by the public shareholders. Also in 2006 Ro’ya Industrial Company announced that it would establish the Ro’ya Cement Factory at a cost of Dh1.5 billion (US$408 million) and a planned production capacity of 3.6 million tones a year. This plant is to be located at the Hamriyah Free Zone in Sharjah. Ro’ya leased 1 million square meters at HFZ for 25 years to build its new factory, whose construction is expected to take two years. Pioneer Cement Industry Company also announced a new project for Ra’s al-Khaimah with a 1 million tones production capacity.

2.3.3 INSURANCE SECTOR:-
Insurance sector grew by a CAGR of 20.8 percent in gross premiums for the period 2000-2005. The boom in both oil and real estate had much to do in the sector’s performance. In fact, Dubai and Abu Dhabi are considered the hub of insurance
industry. In Abu Dhabi insurance sector focused on servicing the needs of the fast growing hydrocarbon and construction industries, while Dubai insurance sector was focused mainly on servicing real estate.

UAE insurance sector outlook is bright as it is expected to be one of the booming sectors within the economy in the medium term. Despite the bright outlook for the sector, challenges for such growth are reflected in the need for an organized regulatory framework for the sector. Such regulations will tackle main issues of concern as capital requirements, consolidation and opening the sector for foreign players. Currently, UAE insurance industry is still underdeveloped and less regulated, but, has a high growth potential. Recently, the government allowed foreign presence in the sector. In the long run, the sector is expected to be more competitive allowing foreign companies to participate freely as a part of the country’s policies and commitments within WTO and other regional agreements.

Presently a penetration ratio is as low as 0.28 percent for life insurance and 1.25 percent for non-life insurance as compared with world averages of 4.34 percent and 3.18 percent respectively. Compared to other GCC countries, the UAE insurance sector is ranked the first in penetration ratio at 1.53 percent followed by Qatar at 1.1 percent. However, by international norms, UAE is still below world average of 7.52 percent. On the other hand, UAE ranked the second highest density in the GCC standing at US$414.2 just below US$442.2 reported by Qatar. Despite this high rank within GCC, UAE insurance sector is still small by international standards thus suggesting a huge potential for growth. Data for 2005, the UAE insurance sector gross premiums stood at AED7.86bn or 35.9 percent growth over 2004. UAE insurance sector had the largest gross premiums among GCC countries during 2005.

The data for 2005 showed that insurance sector in UAE was the largest within GCC employing more than 4,100 people. The sector comprised of 46 companies, 23 of which are national companies incorporated in UAE, while the rest are foreign Companies incorporated abroad. Local companies work mostly in the general non-life segment supplying services to state owned companies. This helped national companies to contribute around 65 percent of the sector’s gross premiums on average for the period 2000-05. The sector premiums grew at 25.9 percent on average for the last three years. This has been the result of excellent growth in both life and general insurance segments. Life insurance reached an all time high of AED1.2bn in 2005. This was a growth of 15.6 percent recorded in 2005 following the growth of
26.5 percent reported in 2004. On the other side, general insurance grew uniformly by 40.4 percent reaching AED6.65bn by the end of 2005. It is important to note that, the high growth for both segments helped to double the size of gross premiums reaching the AED7.9bn limit in 2005 as compared with AED3.3bn in 2001.

On the general insurance front, premiums’ break down according to official figures reported that accident and liability premiums represented 57.5 percent of total general premiums in 2005. Premiums from accident and liability policies stood at AED3.82bn by the end of 2005 as compared with AED3.02bn in 2004. Premiums from fire followed representing 15.7 percent of general premiums.[14]

2.3.4 PHARMACEUTICALS SECTOR:-
The leader is Gulf Pharmaceutical Industries, known as Julphar, which is based in Ra’s al-Khaimah. Julphar opened two new plants to produce antibiotics as part of the company’s ambitious expansion plan. Julphar 8 and 9, which cost Dh30 million, are initially producing over 50 kinds of antibiotics with a total capacity of 30 million syringes a year. The two facilities produce injection ready units of penicillin and cephalosporin. Meanwhile, work was under way on building seven new state-of-the art manufacturing plants in Ra’s al-Khaimah at a total cost of Dh800 million. The company also announced that it would be opening a chain of retail pharmacy outlets across the MENA region. Until recently Julphar was the only notable UAE-based manufacturer, but it has been joined in the last few years by relative newcomers, including Neopharma in Abu Dhabi, Globalpharma and Gulf Injects in Dubai and Medpharma in Sharjah. The biotechnology field is also bringing new pharmaceutical companies to the United Arab Emirates, principally to DuBiotech, the specially created free zone in Dubai that is mentioned above.

2.3.5 TELECOMMUNICATIONS SECTOR:-
Fostering telecommunications is a major part of UAE Government strategy, based on the awareness that connectivity is a key component of public infrastructure. Today, telecommunications across all platforms in the UAE are fast and effective with fixed-line, internet and mobile connectivity among the best in the world. This was underlined in the latest edition of the Global Information Technology Report, produced by the World Economic Forum, which lists the UAE in twenty-ninth place in its Networked Readiness Index (NRI) 2007–2008 rankings, marking it out as one of the highest rated networked economies in the world. The NRI measures economies’
capacity to fully leverage ICT for increased competitiveness and development. Recent research underlines the UAE’s leadership in the Middle East when it comes to expenditure on ICT: the country is currently spending Dh41.8 billion (US$11.4 billion) on ICT, and that figure is set to rise to Dh54.3 billion (US$14.8 billion) by 2011. [15] The UAE’s telecommunication market has shown tremendous growth over the recent past, mainly propelled by the government initiatives aimed at the deregulation of the market and introduction of competition. The TRA (Telecommunication Regulatory Authority) remains at the forefront of the success of the country’s telecom sector. It is continuously considering and evaluating ways to further intensify competition in the UAE telecom market. In line with the increasing education and business in the region, the demand for Internet services has also increased in recent years. Although dial-up subscriptions currently dominates the Internet market, project broadband subscribers to account for nearly 65 percent of Internet subscribers in coming few years. Keeping in view that the UAE telecom market remains duopoly of Etisalat and their importance in the success of the country’s telecom sector. [16]

2.3.6 STEEL SECTOR:-
The UAE steel industry has been through very buoyant times with strong market fundamentals supported by large-scale developments occurring throughout the UAE, all of which require steel in their construction. Market forces have been impacting on the price of steel with the 2008 average price over Dh4000 per ton compared with around Dh2500 in 2007. Indeed, figures from Dubai Chamber of Commerce and Industry (DCCI) indicated that the price of steel had increased by as much as 14 times in five years. Massive structures such as Burj Dubai, the world’s tallest building, consume huge quantities of steel rebar. Thirty-nine thousand metric tons of steel rebar were used to construct the building, enough to extend a quarter of the way around the earth if laid end to end. The UAE produced 1.7 million tonnes in 2007 and this output is expected to more than double by 2012. UAE Government exempted reinforced steel (together with cement) from custom duties. [17]

2.3.7 CONSTRUCTION SECTOR:-
Emaar Properties PJSC has been at the forefront of real estate development in the UAE where local projects include the US$20- billion Burj Dubai development with its majestic centerpiece tower approximately 800 meters in height. Across Dubai, Emaar
has launched more than 50 real estate projects and delivered about 13,000 residential units in projects such as the Arabian Ranches and The Greens. Its Dubai Marina project, when completed, will add more than 100 towers to the emirate’s skyline and it has ventured into neighboring Umm al-Qaiwain, where it teamed up with regional investors to develop a US$3 billion marina development. Two more huge Dubai developments are in the pipeline. However, at its 2006 AGM held in February, the company announced that the shift of focus from now on would be towards the larger global market and to a diversification of projects. The developer intends to become a global player not only in real estate but across a variety of other sectors, including hospitality, education, retail and health care. Emaar will expand its retail business through the construction of 100 malls across the region and Indian subcontinent at a cost of about US$4 billion. A further US$3 billion will go into creating a chain of ten Giorgio Armani-branded hotels across the world. But real estate will remain its core business. Asia, the US and Europe have all been targeted as areas of interest. Saudi Arabia makes up its largest commitment to date, with Emaar’s share of investment in the US$27 billion King Abdullah Economic City standing at about US$10 billion. Other major projects in the Middle East are planned in Egypt, Morocco, Syria, Pakistan, and Jordan. The company’s profits jumped 180 per cent to cross Dh4.73 billion for the year ended 31 December 2005, compared to the previous year’s Dh1.691 billion. Property revenues increased by Dh 3.11 billion or 59 per cent to Dh 8.36 billion for the year ended 31 December, compared to Dh5.24 billion in 2004. Earnings per share increased to Dh 0.85 per share for 2005 from Dh0.33 per share for 2004. 2005 was a significant year for the company whose regional expansion represents a total investment of more than Dh150 billion (US$40.87 billion). \[18\]

2.3.8 FDI IN FIGURES

UAE is the primary recipient of direct foreign investments in the Arabian peninsular. The main investors in the UAE are Great Britain, Japan and India. Although the FDI flow increased in 2007, it decreased in 2008 and mostly in 2009. This trend will extend into the coming years. The advantages the Emirates have are an easy access to oil resources, low energy costs, willingness to diversify the economy and high purchasing power. The country's main weakness is the small size of its domestic market. Dubai and the other emirates followed the same general system, whereby foreign companies operated in one of three ways: with a local sponsor, through a
partnership with a UAE national or company, or through a private limited company or public shareholding company incorporated by Ruler's decree. Since 1984, steps have been taken to introduce a codified company’s law applicable throughout the UAE. Federal Law No. 8 of 1984, as amended by Federal Law No. 13 of 1988 - the "Commercial Companies Law" - and its by-laws have been issued. In broad terms the provisions of the Law are as follows: The Federal Law stipulates a total local equity of not less than 51 percent in any commercial company and defines seven categories of business organization which can be established in the UAE. It sets out the requirements in terms of shareholders, directors, minimum capital levels and incorporation procedures. It further lays down provisions governing conversion, merger and dissolution of companies.\[19\]

Although the global FDI flows in 2006 represent a 34 per cent increase from 2005, it is still short of the record of $1.4 trillion set in 2000. FDI flows to developed countries in 2006 rose by 48 per cent, well over the levels of the previous two years, and reached $800 billion. FDI flows to developing countries and economies in transition (comprising South-East Europe and the Commonwealth of Independent States) rose by 10 per cent and 56 per cent, respectively, in 2006, reaching record levels for both groups of economies. "The UAE attracted the largest amount ($12 billion), followed by Turkey ($9.7 billion) and Saudi Arabia ($4.6 billion). Those three economies accounted for over three quarters of the region's inflows. FDI is taking place increasingly at the intra-regional level, particularly in the services sector (for example, in telecommunications and finance), reaching $14 billion in 2005 in cross-border mergers and acquisitions alone, as compared to $0.6 billion in 2004." "Increased levels of FDI have positive impacts on economies, reflecting increased transparency, stability, and creating a more dynamic and diverse workforce. Growth in FDI, both inward and outward, is viewed by economists and investors as a marker for the 'good health' of an economy, and provides a strong indicator of capacity for growth and development." \[20\]
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