



UNIVERSIDADE CATÓLICA PORTUGUESA

The United Arab Emirates Case of Economic Success

The Federal Government Economic Policies

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by

Pedro Alexandre Azevedo Dias Lima Delgado

under orientation of
Alexandra Pinto Leitão, PhD

Católica Porto Business School
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Abstract

Within 44 years the United Arab Emirates (UAE) evolved from the backdrop of a subsistence economy into an innovation-driven economy characterized by a high-mass consumption society. Prudent policy-making by the UAE Federal Government was vital in providing proper guidance on the how, where and when to apply hydrocarbon revenues and support the much needed process of economic diversification. Due to its astonishing economic development the UAE has become a role model in economic diversification for oil-producing countries. In this sense, the present Master's Final Work sheds light on the following research question - "What were the policies adopted by the United Arab Emirates Federal Government that made the Emirates economy a case of success?".

A "two building-block" rationale was adopted in order to address the research question at hand. The first "building-block" allowed us to verify that the UAE is a case of economic success. Within 44 years, the country has now one of the most competitive economies in the world and is at par with most advanced economies in terms business regulations, infrastructure and technological advancement. The second "building-block" focused on the understanding of the UAE's Federal Government policies that fostered such success. By adopting the single-case study methodology it was possible to verify that within the UAE's set of macroeconomic policies, diversification played a leading role and has allowed the economy to divest away from hydrocarbons dependence. Trade, Investment, Fiscal and Monetary policies have worked as tools to foster and promote both economic growth and diversification.

Keywords: United Arab Emirates; Economy; Development; Policies

Resumo

Em apenas 44 anos os Emirados Árabes Unidos (EAU) progrediram de uma economia de subsistência para uma economia orientada para a inovação e consumo em massa. A formulação de políticas económicas pelo Governo Federal dos EAU tornou-se fulcral para direcionar a utilização de receitas provenientes da exploração de petróleo e apoiar o processo de diversificação da economia. Os EAU tornaram-se assim num modelo de diversificação económica a seguir por países produtores de petróleo. Neste sentido, o presente Trabalho Final de Mestrado tem como intuito abordar a seguinte questão de investigação – “Quais foram as políticas adotadas pelo Governo Federal dos EAU que tornaram a economia dos Emirados num caso de sucesso?”.

De modo a endereçar a questão de investigação mencionada, foi adotada uma lógica bipartidária constituída por dois momentos chave. Assim, num primeiro momento foi possível analisar e verificar que a economia dos EAU constitui um caso de sucesso. Em apenas 44 anos os Emirados detêm uma das economias mais competitivas a nível mundial, estando já em igualdade com as economias avançadas. Num segundo momento foram analisadas as políticas delineadas pelo Governo Federal dos EAU que promoveram o caso de sucesso. Através da adoção metodológica de um único estudo de caso, foi possível verificar que de um conjunto de políticas macroeconómicas apresentadas, a diversificação económica desempenhou um papel predominante. Já o conjunto de políticas comerciais, investimento, fiscais e monetárias funcionaram como catalisadores do crescimento económico e processo de diversificação da economia dos EAU.

Palavras – Chave: Emirados Árabes Unidos; Economia; Desenvolvimento; Políticas

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List of Abbreviations

- BRIC -Brazil, India, Russia and China
- CBU - Central Bank of the UAE
- DIC - Dubai Internet City
- DUBAL - Dubai Aluminum Company
- ESCWA – Economic and Social Commission for Western Asia
- FDI - Foreign Direct Investment
- FTA - Free Trade Agreement
- GCC – Gulf Cooperation Council
- HH - His Highness
- IMF - International Monetary Fund
- LNG - Liquefied Natural Gas
- NGDP/ Nominal GDP – Nominal Gross Domestic Product
- OECD - Organization for Economic Co-operation and Development
- RBI – Resource-based Industries
- Real GDP – Real Gross Domestic Product
- TIFA - Trade Investment Frame Agreement
- UAE – United Arab Emirates
- UNCTAD – United Nations Conference on Trade and Development
- USA - United States of America
- USD – United States Dollar
- UK - United Kingdom
- WEF - World Economic Forum
- WTO – World Trade Organization

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1. Introduction

The United Arab Emirates (UAE) was established as a Federation of 7 emirates in December 1971, no more than 44 years ago. The country emerged against the backdrop of poverty and socio-economic underdevelopment. With a population of no more than 180,000 inhabitants in 1968, the UAE was still deeply marked by its subsistence economy which was characterized by agriculture, pearling extraction, fishing and trading activities (Al Abed, 2001; Butt, 2001). Infrastructures during the late 1960's were barely non-existent and the Trucial States – the present UAE – relied on foreign monetary aid to begin its elusive socio-economic development. Yet, within 44 years the UAE was able to evolve from a subsistence economy into an innovation-driven economy (World Economic Forum [WEF], 2015a).

At the outset of 2015 the UAE has 9,6 million inhabitants and is considered the 17th most competitive economy in the world by the World Economic Forum, (International Monetary Fund [IMF], 2016; WEF, 2015a). The country achieved record-breaking growth rates and was able to increase its Real Gross Domestic Product from United States Dollar (USD) 27, 545 billion in 1972 to USD 249, 578 billion in 2014 (Wam, 2014; United Nations, 2015). The UAE is now at par with the world's advanced economies in terms of macroeconomic environment, infrastructure, technological advancement and innovation (WEF, 2015a). The

country even has the tallest infrastructure in the world, the 878 meter-high Burj Khalifa.

Undoubtedly hydrocarbon resources played a major role in “feeding” the economic development. However, prudent policy-making by the UAE Federal Government was also crucial in providing proper guidance and use of such natural resource endowments. Due to its achievements, the UAE is now a role-model for the oil-producing countries (Hvidt, 2013). It is in light of the aforementioned that it becomes increasingly relevant to understand the policies that guided the UAE’s economic success. In this regard, the present study intends to shed light on the following research question - “What were the policies adopted by the United Arab Emirates Federal Government that made the Emirates economy a case of success?”.

To address the present research question a “two building-block” rationale was adopted. The first “building-block” will focus on understanding why does the UAE constitute a case of economic success. The second “building-block” will delve deeper into the understanding of the UAE’s framework of policies that propelled such success. Additionally, the time frame of the present work will be from 1971 to 2015. Such an extensive period was required in order to understand the extent of the UAE’s success and the impact of the economic policies adopted by the Federal Government.

In order to address the first “building-block” and understand how the UAE became a case of economic success, it will be necessary to (1) understand the UAE’s economic past by taking a more qualitative approach and look at the country’s history in the 1950’s and 1960’s; (2) identify and comprehend the features of the economy (both past and present); (3) analyze how the UAE

achieved such economic growth by looking at its economic performance; (4) identify the main drivers (or key-sectors) that propelled such economic performance, and (5) assess the extent of the UAE's current economic success when compared to world economies.

The second "building-block" will shed light on the framework of policies designed and implemented by the UAE Federal Government that led to the Emirates economic development. In this regard, a set of economic policies will be presented. Within this set of policies, economic diversification plays a major role as it has been guiding the country's economic development ever since its foundation. For this matter, a theoretical discussion of economic diversification will be presented and will also lay the framework of analysis to understand the structural changes the UAE economy has suffered. Following this analysis, a set of general economic policies adopted by the UAE government will also be presented and they too, contributed deeply to the economic success. In a final moment, Dubai will be showcased as a model to follow in terms of economic policies that promote diversification and long-term sustainable growth avoiding the risks of hydrocarbons dependence that characterized the UAE and its neighboring countries.

2. The Case Study

2.1. Methodology

According to Yin (1994), when doing social science research an Investigator has a varied range of research strategies at his disposal. Experiments, surveys, histories or even case studies are all part of this range of strategies. However, the type of research question will determine the research strategy to be followed. As Yin (2004) mentions, «...case studies are the preferred strategy when “how” or “why” questions are being posed...» or even «...when the focus is on a contemporary phenomenon within some real-life context.». Additionally, in the words of Fidel (1992): «The primordial goal of the Case Study is to understand the event being studied and at the same time develop more generic theories in respect to the observed phenomenon.».

Following Yin's rationale (2004), the case study method becomes feasible when the research being conducted addresses a descriptive question (What happened?) or an explanatory question (How or Why did something happen?) as well as when «...the need or want to get a close understanding of a particular situation.» arises. Going further into the understanding of the case study method, one observer noted that «...the essence of a case study, the central tendency among all types of case study, is that it tries to illuminate a decision or set of decisions: why they were taken, how they were implemented, and with what results.»

(Schramm, 1971, apud Yin, 2004). By taking into account the above mentioned arguments, the case study method arises as the most suitable strategy to address the research question at hand - "What were the policies adopted by the United Arab Emirates Federal Government that made the Emirates economy a case of success?"

Addressing the present research question implies the need to understand both "Why is this a case of success?" and "what were the set of policies that led to such economic success?". For this purpose, it becomes mandatory to comprehend and delve deeper into the understanding of the country's economy and the set of decisions taken by local authorities that led to the current success. In the words of Yin (2004), it becomes necessary to get a close understanding of a particular situation. Furthermore, it is also necessary to understand why these set of decisions were taken, how they were implemented, and what were their results. Ultimately, the present research question demands the strength of the case study method suggested by Yin (2004), which is «...its ability to examine, in depth, a "case" within its "real-life" context.».

Delving deeper into the case study methodology, Yin (2004) states that there are two types of case study designs: single-case studies and multiple-case studies. The single-case study design focuses the analysis on one unique case, allowing the investigator to focus and devote careful attention to that case alone. On the other hand, the multiple-case study design allows the analysis of various cases which, according to Yin (2004), may strengthen the findings of the study. Having the goal to analyze and understand what motivated the success through local policies of the UAE economy, the need to focus on one unique case became mandatory. For this purpose, the present work adopts the single-case study methodology as its research strategy.

Having the case study methodology rationale as a starting point, the techniques used for data collection and data analysis in the present work were the following:

- Direct observation.
- Documental analysis, such as reports, research works and scientific articles/papers.
- Quantitative and statistical data analysis published by Government Authorities, International Agencies and Organizations.

2.2. The United Arab Emirates – A Case of Economic Success

2.2.1 From Trucial States to United Arab Emirates – The Economic past of the 1950's and 1960's

More than 44 years ago, on 2 December 1971 «The United Arab Emirates achieved formal Independence as a federal state...» (Al Abed, 2001). This date signaled both the end of the treaty relationship of the former Trucial States with Great Britain as well as the beginning of a new era of cooperation, political stability and unprecedented economic prosperity between the seven emirates that established the federation to be known as the United Arab Emirates (UAE).

Although Ra's al-Khaimah would be the last to join the federation in February 1972, Abu Dhabi, Ajman, Dubai, Fujairah, Ra's al-Khaimah, Sharjah and Umm al-Quwain, they all recognized that due to their various deficiencies and the departure of the British Empire, cooperation among them, and thus, the establishment of the federation, would be of paramount importance to face present and future challenges (Peck, 2001).

Before the rise of the United Arab Emirates in 1971, the seven emirates were known to the World as the Trucial States (or Trucial Oman). The Trucial States were a grouping of distinct Sheikhdoms (or emirates), each one having a distinct recognized ruler, different needs and aspirations. Furthermore, they managed their internal affairs independently from each other and had control over their domestic and commercial activities. For this reason, the Trucial States were never

a single entity with one unique and recognized ruler. However, since 1892 until 1971, Great Britain had full control over each Sheikhdom's foreign affairs (BBC, 2015).

The formalization of several of Great Britain's agreements with Sheikhs and rulers of the Gulf region made since 1820, culminated in a final agreement made in 1892 to protect British interests and hegemony in the Gulf region from foreign threat (Heard-Bey, 2001). For the emirates themselves, this meant that they were under Great Britain's protection and the British Government had to defend them from any external aggressions. In turn, the Sheikhdoms conceded to Great Britain exclusive rights in the states. Politically, the seven emirates composing the Trucial States were locally independent but regionally and globally dependent. The rulers and Sheikhs of these emirates could still decide local policies and take local actions, but only in regards to their own Sheikhdom's interest.

It was only during the 1950's with the creation of the Trucial States Council – led by the British Government - that political and economic cooperation between the emirates was truly emphasized. It was also during this time that «...commercial quantities of oil were first discovered in Abu Dhabi emirate in 1958 and oil exports commenced in 1962...» (Ghanem, 2001). «Oil was subsequently found in Dubai and exports began in 1969.» (Ghanem, 2001). The 1950's and 1960's were politically relevant to the emirates, but they were economically vital for the decades to come. As Al Sadik (2001) mentions:

«The UAE economy has witnessed several phases of growth and development. Up to the end of the 1950's, the economy was characterized by limited natural and human resources. Economic activities were centered mainly on agriculture (date cultivation, locally consumed vegetables and fruits), fishing, the raising of livestock, mostly camels, traditional manufacturing (tents, rugs and carpets, gowns, daggers and swords and some dried foods)

and pearling. The UAE population is estimated to have been 72,000 and 86,000 inhabitants in 1950 and 1958 respectively.»

With a population of 86,000 inhabitants in 1958 and a tribal culture economically still very reliant on agriculture, fishing and pearling, the Trucial States could only hope to make good use of their scant 'natural wealth' to sustain its inhabitants (Heard-Bey, 2001).



Figure 1. Aerial view of the Abu Dhabi ruler's palace (1962)
Source: Heard-Bey, 2001

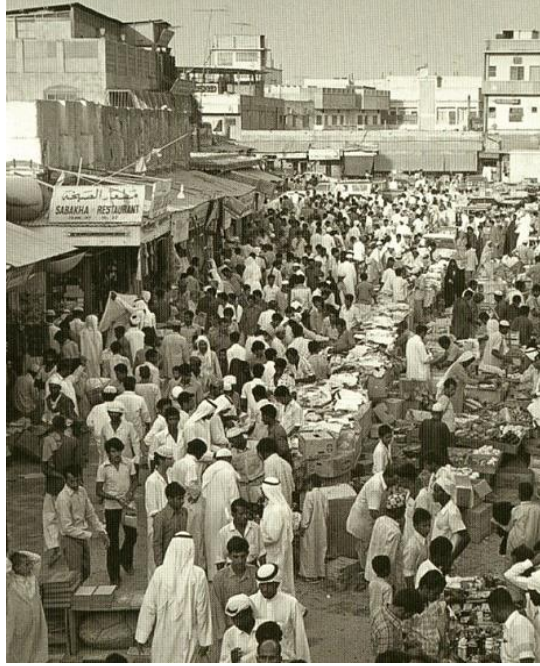


Figure 2. Open market in Deira (Dubai) during the late 1960's
Source: McQueeney, 2012

The discovery of oil in the 1950's would put an end to the idea of scant "natural wealth". As Shihab (2001) suggests, «...improvement in agricultural productivity is normally a necessary condition for successful development...». However, «...there are exceptions when a developing country (particularly richly endowed with minerals) produces what he terms "food substitutes" – mineral or forest products, which can be exported to world markets...» (Ghareeb & Al Abed, 1997). The ability to export oil (mineral products) would allow the Trucial States to compensate for the low agriculture productivity of the region and initiate the development of the undeveloped desert.

Great Britain's support in establishing the Trucial States Council and in discovering oil in the region allowed the rulers of the seven Sheikdoms to start planning the development of the Emirates. As Heard-Bey (2001) argues:

«The rulers of the seven Trucial States were brought together in the “Trucial States Council”, which met regularly and decided upon the priorities for the “Trucial States Development Office”. Modest beginnings in health care, road building, agricultural extension work, vocational training, statistics and surveys of water and soil resources were made in the 1950’s. Such efforts accelerated and brought visible results in the 1960’s, when Abu Dhabi began to pay the lion’s share for these development projects. This leading role taken by Abu Dhabi already pointed the way forward to the foundation of the Federation of the United Arab Emirates in 1971, an independent state which benefited from the oil wealth of its member states.»

Since 1966, when His Highness (H.H.) Sheikh Zayed bin Sultan Al Nahyan became ruler of Abu Dhabi, the emirate started to serve as a catalyst of the socio-economic development by utilizing its oil revenues to support the development of the poorer emirates. (Al Abed, 2001) Furthermore, «Under Sheikh Zayed, the steady oil revenues resulted in an infrastructure overhaul with the construction of schools, housing, hospitals and roads throughout Abu Dhabi» (Embassy, 2015). By this time, Abu Dhabi also became the single largest contributor to the Trucial States Development Fund (Al Abed, 2001). According to Von Bismarck (2013), «This was to be a central bank account, administered and controlled by the Trucial States Development Office, through which all development aid to the Trucial States (beginning with Britain’s annual contributions) would be channeled.».

As previously mentioned, it was only from the 1950’s onwards that the development of the Trucial States began. In the words of Hawley (1970) «Trucial States development, however, started late. Until the late 1940’s none of the states had sufficient resources, and nothing was forthcoming from elsewhere.» The discovery of oil in Abu Dhabi and the establishment of the Trucial States Development Fund during the 1950’s would provide the seven emirates with the resources to begin their socio-economic development.

The funds which constituted the Development Fund came from different sources, however, Great Britain and Abu Dhabi were the largest contributors by late 1960's (Hawley, 1970).

«Kuwait made generous provision, particularly in the educational and medical sphere. Qatar and Bahrain also made donations towards education and other specific projects. Saudi Arabia provided funds for roads and education; and the United Nations Agencies also played a part. From 1965 onwards the Trucial States Council administered their own budget and Development Fund, to which several governments made contributions.».



Figure 3. The Clock tower roundabout (built in 1964) in Deira (Dubai) surrounded by undeveloped areas

Source: Mcqueeny, 2012

The Development Fund played a major role in boosting the social and economic development of the Trucial States. Its early beginning was even considered by the British Government a “scheme of success” (Hawley, 1970). It was not only Great Britain who viewed the establishment of the Development Fund as a

success. H.H. Sheikh Zayed and the other six emirs understood the potential of the development funds for future economic development.

During the 1960's, as Heard-Bey (2001) suggested, results from the discovery of oil and efforts made towards the Development Fund started to become visible. By the year of 1968, according to Hawley (1970):

«A census was carried out with funds provided by the ruler of Abu Dhabi in 1968, and this showed a total Trucial States population of 180,000; Dubai having a population of 59,000 and Abu Dhabi of 46,500. 13,541 people out of a total working population of 78,071 were found to be engaged in agriculture and fishing; 3,029 in manufacturing, mining and quarries; 19,874 in construction; 3,062 in the oil industry; 8,028 in wholesale/retail business; 730 in banks; 8,534 in transport and communications; 12,683 in government services; and 8,590 in other occupations.»

In just over ten years, the Trucial States population increase from 86,000 to 180,000, its economy was starting to change and its society was becoming more developed with access to health infrastructures and new education opportunities (Hawley, 1970). However, the Trucial States still faced a scenario of poverty and had many deficiencies (Al Abed, 2001). Furthermore, it was also at the beginning of 1968 that the British Government «...announced their intention of withdrawing from the Arabian Gulf by the end of 1971» (Embassy, 2015).

With the sudden announcement by Great Britain of its departure in 1971, the rulers of the Trucial States «...were faced for the first time with the prospect of determining and securing their own destinies.» (Peck, 2001). In the words of Peck (2001), «...there had been little preparation for Independence and its challenges.» and «...virtually the whole governing structure of the new federal state had to be devised and constructed in a short time with few relevant precedents and

traditions to draw upon.»). To make matters worse, the Trucial states and its rulers recognized their individual challenges, understanding they could not survive alone. As both Al Abed (2001) and Peck (2001) suggest:

«The decision to establish the federation followed the gradual evolving of a consensus that their small population, their small size, (only Abu Dhabi being larger than 1500 square miles), and their poverty (only Abu Dhabi and Dubai being oil producers) did not permit the emirates independently, or in smaller groupings, to establish a viable, independent, political and constitutional entity. This is not to mention those objective factors, whether cultural, religious and social, which the various emirates hold in common.» (Al Abed, 2001)

On a complementary view, Peck (2001) also suggests that the creation of the Federation was also accelerated by acknowledgment of the seven rulers that their emirates presented several deficiencies, and thus, they could not survive alone. Dubai had considerable wealth from its mercantile activities and oil resources. However, not even its efficient state administration could compensate for their small territory. On the other hand, Abu Dhabi possessed over 80% of the territory and dominated hydrocarbon resources. Nonetheless, it was only starting to establish its own administrative structure. The remaining emirates, Ajman, Fujairah, Ras al-Khaimah and Umm al-Qaiwain, has very small populations and lacked both natural resources and wealth (Peck, 2001).

Being the wealthiest emirate of the seven with the largest territorial area, Abu Dhabi, under the leadership of H.H. Sheikh Zayed soon realized the paramount importance of the Federation. In fact, for Abu Dhabi, the Federation could bring more security and political stability both locally – due to territorial disputes – and regionally. This was also relevant to the other six emirates, including Dubai which also enjoyed wealth from oil revenues. However, the other five emirates

needed both the security and the wealth that Abu Dhabi and Dubai enjoyed if socio-economic development was to be achieved.

Abu Dhabi's Sheikh Zayed soon assumed a leading role in establishing closer ties with the emirates, calling for a Federation that would include the Trucial States – composed by the seven emirates – as well as Qatar and Bahrain. However, due to divergent visions, the possibility of a union with Qatar and Bahrain soon crumbled (BBC, 2015). Sheikh Zayed was able to maintain the Trucial States unified in their creation of a Federation with the pledge «...that his emirate's oil resources would be used for the benefit of all of the federation's members. "Abu Dhabi's oil and all its resources and potential are at the service of all the Emirates"» (Heard-Bey, 2001).

According to Peck (2001), the generosity of Sheikh Zayed coupled with his leading role in forming the new Federation and his vision to «...take full advantage of the extraordinary new source of wealth to promote the development of both Abu Dhabi and the poorer Trucial States. » turned him into the most probable figure to lead the Federation that was about to emerge. On 2 December 1971 the seven Trucial States would merge to form the United Arab Emirates, a country whose economy was now reliant on hydrocarbon resources and was still making its transitioning out of subsistence activities. As Al Abed and Hellyer (2001) suggest «...the process of modern development had still to get properly under way. Many observers felt, indeed, that the new state [UAE] had little chance of surviving as a viable entity.». Nonetheless, the UAE would soon rise to achieve astonishing economic endeavors.

2.2.2. Major Economic Features

According to Shihab (2001), the economic development progress of «The UAE did not pass through the hypothetical development “*stages*” that most developed countries seem to have experienced.». As suggested by Al Sadik (2001), Beblawi (2011), Ghanem (2001), Omaira (2001), and Shihab (2001), the massive oil revenues allowed the Emirates economy to take a leap in the various “*stages*” and «...have enabled the UAE to short-cut the usually difficult and lengthy process of saving and capital accumulation necessary for economic development.» (Shihab, 2001).

Unquestionably, the fast paced economic development the UAE achieved would not be possible without its hydrocarbon resources. Due to this fact «...the UAE has embraced resource-based industries (RBI) as a development strategy, an industrial strategy that is based on utilization of natural resources.» (Shihab, 2001). With the boom in oil prices between 1973 and 1984 the UAE’s public revenues increased substantially, allowing the government to have the necessary capital to finance several public projects, most importantly, infrastructure projects.

By taking into account Rostow’s (1990) five stages of economic growth and development we are able to understand the hypothetical development “*stages*” mentioned by Shihab (2001).

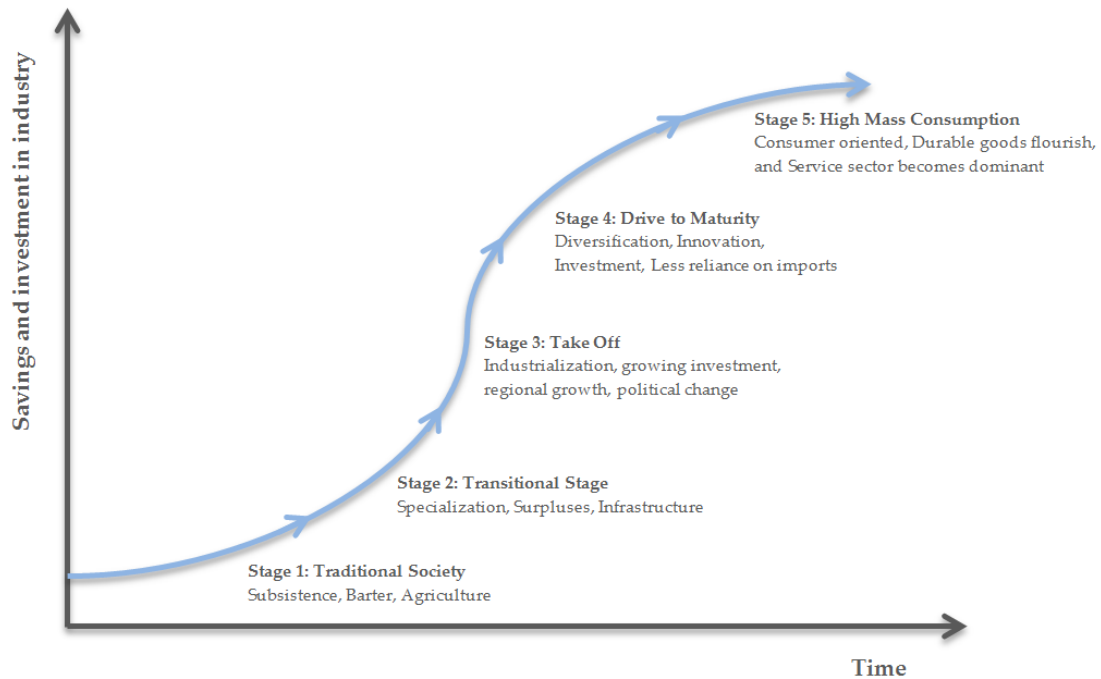


Figure 4. Rostow's (1990) five stages of economic development
Source: Rai, 2013

History allow us to verify that the UAE economy took a leap in Rostow's (1990) development "stages" as suggested by Shihab (2001). In 1971 the UAE was still one of the least developed countries in the world with little prospects of survival as a Federation (Shihab, 2001). It was still a traditional society. Nonetheless, as Abed and Hellyer (2001) also suggest, «...the accessibility to revenues from the oil and gas industry has permitted the UAE to compress decades of economic growth into a relatively short period.». In thirty years, the UAE was able to move from a traditional society (stage 1) to a society of high mass-consumption (stage 5). As accurately depicted by Abed and Hellyer (2001):

«Yet, 30 years later, the United Arab Emirates is the longest surviving successful experiment in federation anywhere in the Arab world, and has matured to become a country which not only offers its population a modern lifestyle but also is widely recognized as having a significant role to play within the global community of nations.»

Delving deeper into the argument of Abed and Hellyer (2001) it is possible to relate it to Rostow's (1990) description of a society of high mass-consumption:

«The third possible direction opened up by the achievement of maturity was the expansion of consumption levels beyond basic food, shelter, and clothing, not only to better food, shelter, and clothing but into the range of mass consumption of durable consumers' goods and services...»

Furthermore, Rostow (1990) also advances the idea that a society of high mass-consumption increases its interests in the «...national pursuit of external power and influence...». An idea also shared by Abed and Hellyer (2001) when mentioning the significant role played by the UAE within the global community of nations.

Undoubtedly, hydrocarbon revenues allowed the UAE to fasten the process of increasing national savings and capital accumulation needed to foster economic development. As Pinto (2014) suggests «...most countries catch up by growing the old-fashioned way, by increasing national savings and investment, and by increasing exports...». The UAE was able to do this, but in an impressive short period of time. The sudden rise in oil production and export activities during the 1970's and early 1980's coupled with the boom in oil prices during this decade, allowed the country to have the necessary capital to invest in the development of the economy. As Kjöllnerström and Dallto (2007) argue:

«...while in many countries the discovery of natural resources has led to conflicts, and/or very little of the significant rents have been used to invest in people or infrastructure, elsewhere the same discovery has been a "blessing" rather than a curse, as economies have flourished building on the income generated by natural resource exports...».

The duality presented by Kjällerström and Dallto (2007) leads us to the understanding of resource-based economies, one of the five main features of the UAE's economy (Omaira, 2001). According to Ahrend (2006) «Resource-based economies are often defined as economies where natural resources account for more than 10 per cent of GDP and 40 per cent of exports [revenues].».

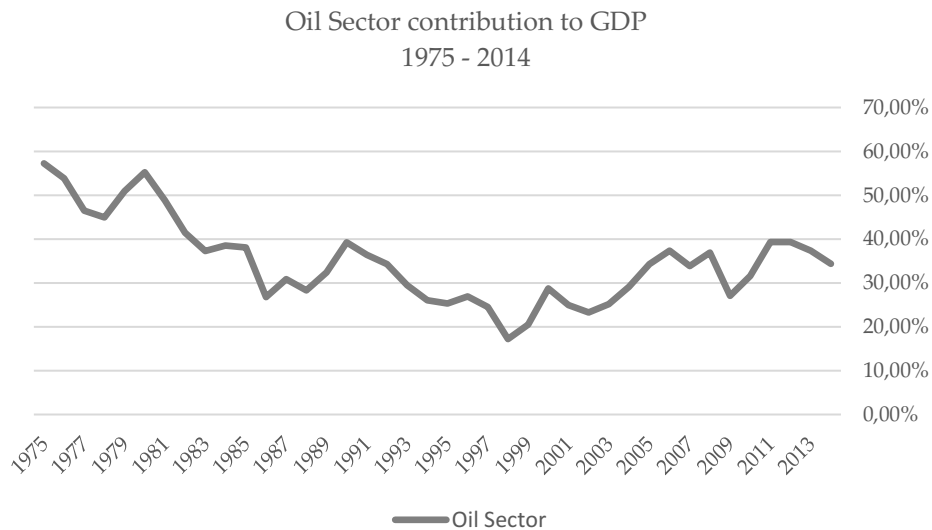


Figure 5. UAE Oil Sector contribution to GDP - 1975 to 2014
Source: UAE National Bureau of Statistics, 2016



Figure 6. UAE Oil Export revenues contribution to Total Export revenues - 2000 to 2015
Source: Central Bank UAE, 2015

As illustrated in figures 5 and 6, from 2000 to 2014 the UAE has been a resourced-based economy, where the oil sector's contribution share to GDP was always higher than 10% and oil export revenues were always higher than 40%. However, there is no official statistical data to demonstrate that from 1971 to 1999 oil export revenues were always higher than 40%. Nonetheless, as shall be subject of analysis later on the present work, from 1972 to 1999 oil revenues averaged 85,46% of total government revenues. This could possibly indicate that oil export revenues were also predominant, thus the UAE had a resource-based economy. In addition, there is also qualitative data to support the aforementioned argument as previously suggested by Al Sadik (2001), Beblawi (2011), Ghanem (2001), Omaira (2001), and Shihab (2001).

In 2015 oil export revenues decreased significantly due to the fall of oil prices in international markets, thus making its contribution share drop below 40%. As Ahrend (2006) suggests, «...commodity prices are often particularly volatile, a situation in which export revenues depend significantly on commodity price developments implies that resource-based economies are particularly vulnerable to external shocks». The vulnerability to external shocks is not the only underlying risk.

Ahrend (2006) also notes that resource-based economies tend to lag behind other economies in terms of technological advancement. This is usually associated with the rationale that natural resource exploration is a low-tech activity. However, the UAE has been able to contradict this rationale by developing upstream and downstream activities within the oil sector. In addition, off-shore and on-shore exploration of crude oil and natural gas in the UAE enjoys of the latest high-tech developments within the Industry (Taylor-Evans & Coyne, 2013).

According to Ahrend (2006) «...resource-based development can also become a driver of modernization.». By developing resource sectors and directing those sectors towards the increase of exports can be a strong driver for economic growth as it can contribute to increasing national incomes. In addition, increasing national incomes can lead to the growth of the non-oil sector, namely the service sector (Ahrend, 2006). Ahrend's (2006) rationale clearly depicts the case of the UAE, as the country has always strived to accompany the latest high-tech developments in the oil and gas industry and then directed its revenues to finance public projects that have led to the growth of the service sector.

Reliance on hydrocarbon resources has been one of the major economic features since the establishment of the Federation in 1971. As Omaira (2001) suggests, the UAE's economy is characterized by five major features, having one of them – reliance on oil and gas – been already explored. In this sense, (1) adoption of free market system, (2) narrowness of the domestic market, (3) reliance on foreign labor force, and (4) geographical location constitute the remaining major economic features of the UAE (Omaira, 2001).

According to Omaira (2001), by adopting a free-economy with a market-based system, the UAE followed a different path than most developing economies. In general, a free-market economy presupposes that demand and supply determine economic factors such as prices and investment throughout the various sectors that compose the country's economy as well as foreign and domestic trade. In addition, it also presupposes that the country's government does not have a significant intervention in the functioning of the economy and, thus, regulation is as limited as possible. As it shall be presented later in the present study, the UAE has adopted an open economic policy through which has promoted

freedom of investment and trade supported by fiscal and monetary policies that favor foreign trade and investment.

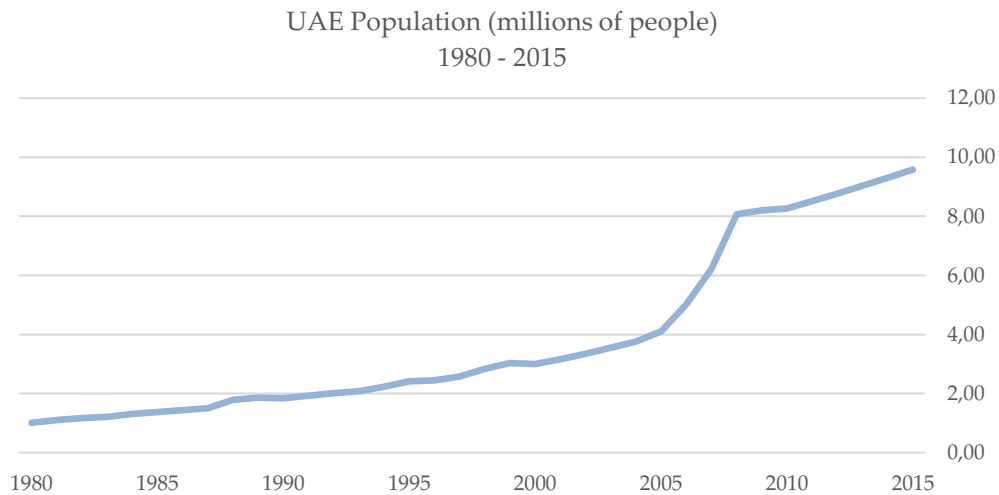


Figure 7. UAE Population (in millions of people) - 1980 to 2015
Source: IMF, 2016

As shown in figure 7, the UAE population (including foreigners) increased considerably during the period of 2000 to 2015. As Omaira (2001) pointed out in 2001, the UAE was characterized by a small domestic market with a population of nearly 3 million people. As such, the UAE needed to expand its market scope and local demand by increasing exports to foreign markets. Relying on such a narrow market would limit the expansion of production and service projects (Omaira, 2001).

Through its economic policies – trade, investment, fiscal and monetary - the UAE Government was able to attract more foreign investment and enlarge the scope of foreign markets, increasing its trade activities and local demand. In turn, this led to an increasing influx of skilled, semi-skilled and unskilled foreign workers. As such, total population increased to 9,6 million people in 2015 leading to a

consequent increase of the domestic market. Nonetheless, the UAE economy still relies on foreign trade to increase its local demand and promote further economic growth.

Due to the shortage of national labor force, the UAE economy has been characterized by its high dependence on foreign labor force. Incoming labor allowed the Emirates to carry out development projects, both in the oil and non-oil sectors as well as in the public and private sectors, that otherwise would not be possible to achieve. In fact, this has always been an issue to the UAE dating back to the 1950's with the initial discoveries of oil that were only possible by bringing British expertise to lead the hydrocarbon exploration (Butt, 2001). Most recently Free Zones and Foreign Direct Investment (FDI) have brought the technology and know-how the Emirates did not possess. In this sense, foreign labor «...contributed effectively to the rapid economic, social and cultural development of the country and to the creation of a market to activate the various sectors of the national economy.» (Omaira, 2001).

Lastly, the UAE's geostrategic location has enabled the country to transform itself into a regional business-hub and a transshipment platform (National Media Council, 2001). This has allowed the Emirates to establish several trade agreements with Arab, Gulf, Asian and Western countries (mainly Europe). Due to its geographical position, the UAE is close to suppliers of raw materials and less costly productive industries, such as India and China. But it is equally close to markets such as Europe, to where it can supply finished goods. As Omaira (2001) points out, this enables the UAE to cater for these markets much more rapidly and at a much lower cost, which in turn enhances the growth of export activities.

2.2.3. Economic Performance Overview

To understand why the UAE has been remarked as a case of success «... an analysis should be made of the development of the Gross Domestic Product (GDP)...», which will provide us an overall picture of the UAE's economic performance during the period of 1972 to 2015 (Omaira, 2001). According to Bondarenko (2016) the GDP is an economic indicator that represents the «...total market value of the goods and services produced by a country's economy during a specific period of time. It includes all final goods and services [...] that are produced by economic agents located in that country.».

GDP has the ability to reflect the value added by the economic sectors that make up its economy. As such, development of the value added «...is a response to domestic and foreign demand on locally-produced goods and services.» (Omaira, 2001). In this sense, «...the more productive a nation is, the easier it is to develop sustainable growth.» (Anderson et al., 2015). For this purpose, two GDP measures could be taken into account: Nominal Gross Domestic Product (NGDP; Nominal GDP) and Real Gross Domestic Product (Real GDP).

While NGDP values are not adjusted for inflation, Real GDP values are. This means that NGDP values can change over time due to changes in the quantities of goods and services produced by a country's economy and/or changes in price levels. Although NGDP is measured in current prices (or market prices) Real GDP is measured in constant prices, meaning that it is adjusted for differences in price levels. As a result, Real GDP will allow us to establish comparisons between different time periods and assess the UAE's economic growth. In this sense, only Real GDP measure will be taken into consideration.

2.2.3.1. Real GDP Evolution: 1972 – 2014

As previously mentioned, Real GDP is measured in constant prices, as such, it is not affected by variations in price levels. It only takes into account changes in the quantities of goods and services produced by the economy. This will provide a clearer picture of the UAE's economic growth evolution.

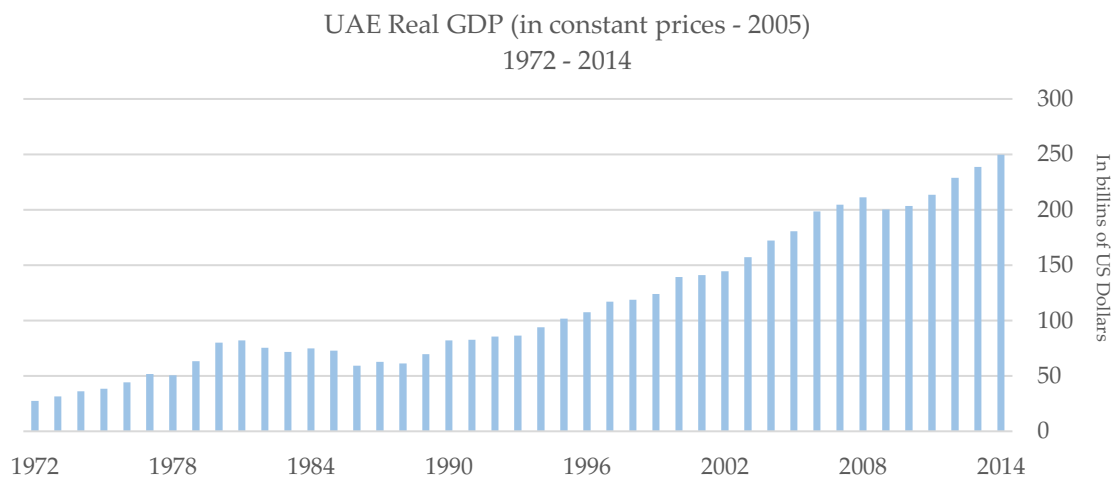


Figure 8. UAE Real GDP in constant 2005 prices (billions of US dollars) - 1972 to 2014
Source: United Nations, 2015

By taking into account statistical data shown in figure 8, it is possible to note that the UAE's Real GDP increased from United States Dollar (USD) 27,545 billion in 1972 to USD 249,578 billion in 2014. This was in fact an amazing economic development that happened mainly from late 1990's onwards. During the period of 1980 to 2014, the lowest Real GDP value registered was in 1986 with USD 79,909 billion, which was due to the drop of oil prices in the international markets. On the contrary, the UAE registered its highest Real GDP value ever in 2014 reaching USD 249,578 billion.

It was indeed in the late 1990's early 2000's that the UAE economy started a rapid development and increase in its growth. If the UAE's Real GDP recorded USD 139,150 billion in 2000, the Emirates were able to almost double its Real GDP value in just fewer than 15 years – and amidst a global financial crisis - reaching USD 249,578 billion in 2014 as previously mentioned. According to statistical data provided by the United Nations (2015) regarding Real GDP values of 220 economies, the UAE ranked 32nd in 2014.

UAE Real GDP Ranking						
1975	1980	1990	2000	2005	2010	2014
36th	36th	45th	36th	36th	36th	32nd

Table 1. UAE - Real GDP ranking position (of a total of 220 countries) – 1975 to 2014
Source: United Nations, 2015

Adopting a more holistic perspective towards the evolution of the UAE's Real GDP (figure 8) allows us to identify three possible stages of economic growth. The first stage would be in the period of 1975 to 1984 when a boom in oil prices occurred and led to overall increase of the UAE's revenues. The second stage was from 1985 to 1999, however, it was not a period of growth but instead it was a slowdown due to the fall of oil prices and government revenues. In fact, the UAE registered its lowest Real GDP value ever in the period of 1980 to 2014. It was indeed a period of slowdown where every sector of the economy experienced much lower growth (Omaira, 2001). The third stage of economic growth has been from 2000 to 2014, where undoubtedly the UAE registered record-breaking growth rates (Wam, 2014).

2.2.3.2. Real GDP Annual Growth Rate – A comparative analysis with world economies from 1980 to 2015

A clearer understanding of the UAE’s economic performance and growth can be obtained through a comparative analysis between the UAE and world economies. For this purpose, a comparison with 15 countries was conducted.

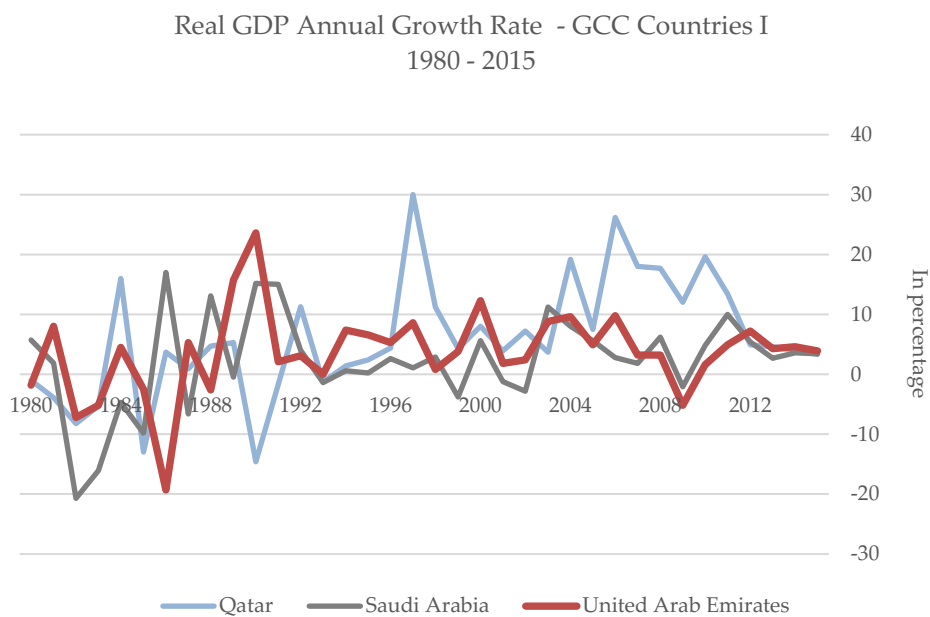


Figure 9. Real GDP Annual Growth Rate (%) - GCC Countries I (UAE, Qatar and Saudi Arabia) - 1980 to 2015
Source: IMF, 2016

Real GDP Annual Growth Rate - GCC Countries II
1980 - 2015

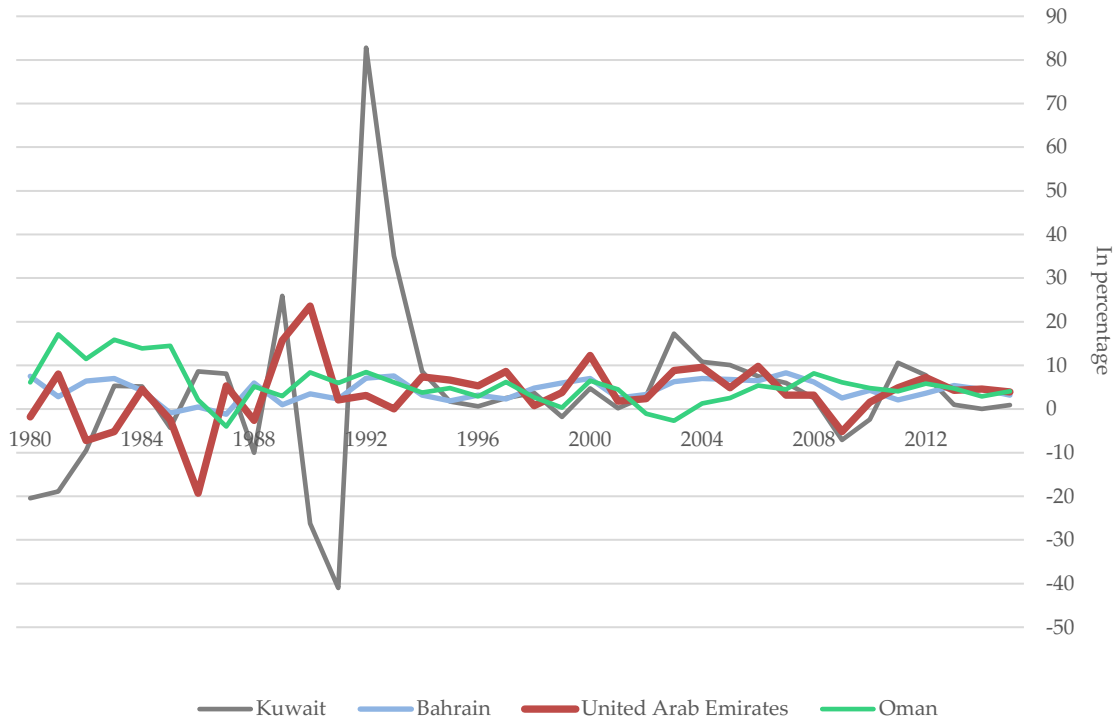


Figure 10. Real GDP Annual Growth Rate (%) - GCC Countries II (UAE, Kuwait, Bahrain, Oman) - 1980 to 2015
Source: IMF, 2016

By comparing the Real GDP growth rate of the GCC countries it is possible to pinpoint some similar trends. Real GDP growth rate's fluctuated heavily within these economies. These are due to the fact that these are resourced-based economies heavily reliant on hydrocarbon resources. A decrease in demand in the international markets will be reflected in the economic growth of the country. To note is the evolution of Qatar which increased considerably due to the considerable increase in natural gas production and international demand.

Nonetheless, from 2010 to 2015, the UAE has presented the most stable annual growth rate within GCC economies and ranks 3rd in terms of average annual growth rate in this period. Qatar leads the way with an average of 8% Real GDP annual growth rate for the period of 2010 to 2015, Saudi Arabia takes 2nd with

4,9% average Real GDP annual growth rate and the UAE comes in 3rd with 4,4%. Much effort has been done by the UAE Government to achieve these levels. In fact, not long ago in the late 1960's and early 1970's the UAE was economically way behind economies such as Saudi Arabia, Qatar or even Bahrain, whom at this time were funding the development of the Emirates.¹

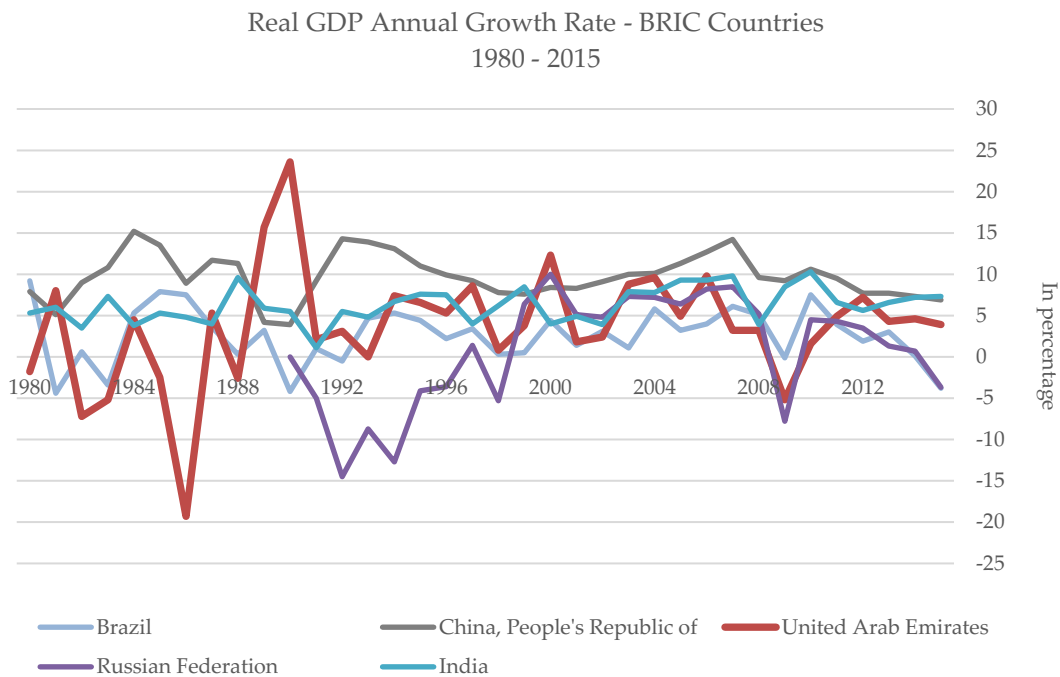


Figure 11. Real GDP Annual Growth Rate (%) - BRIC Countries - 1980 to 2015
Source: IMF, 2016

Comparison of the UAE's Real GDP growth rate with that of Brazil, India, China and Russian Federation evidence even further the fluctuation trend previously mentioned. While BRIC economies present a much more stable growth, the UAE has several upwards and downwards spikes. In addition, the Russian Federation also presents the same trend, as natural gas production plays a key role in its economy. Nonetheless, since the late 1990's the UAE has been able to sustain a similar growth trend to that of the BRIC countries. In addition, the UAE was also

¹ For further information on funding the development of the UAE please refer to Section 2.2.1.

able to achieve higher Real GDP growth rates than Russia and Brazil in the period of 2010 to 2015.

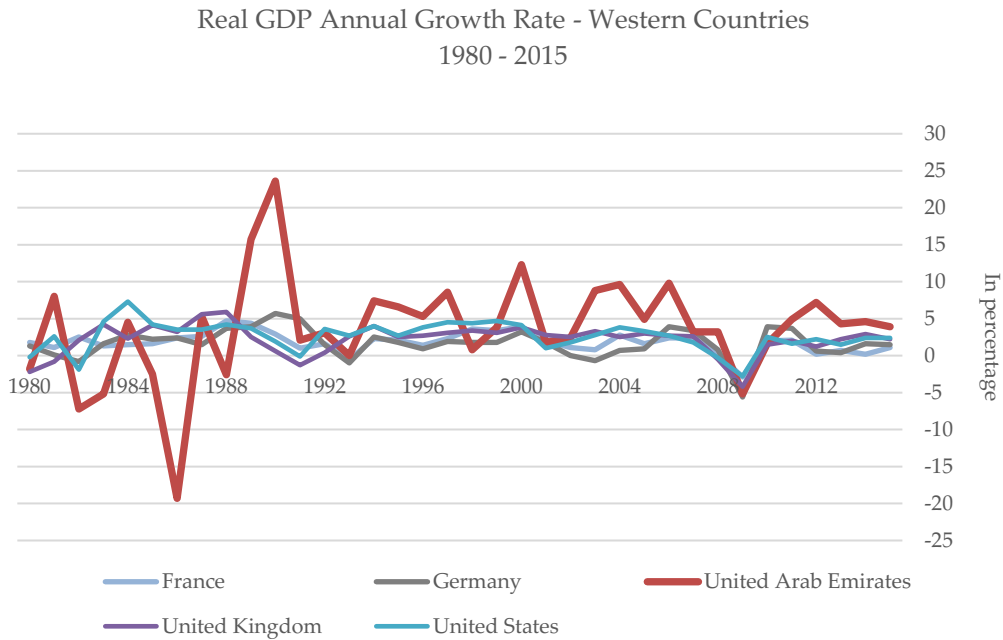


Figure 12. Real GDP Annual Growth Rate (%) - Western Countries - 1980 to 2015
Source: IMF, 2016

Once more, the fluctuation of the UAE's Real GDP growth rate is even more noticeable when comparing it to that of western economies such as the USA, UK, France and Germany. Notwithstanding, since the early 1990's the UAE presents various time periods where its Real GDP growth rates were higher than that of the USA, UK, Germany and France. In fact, from 2000 to 2015 the UAE's Real GDP annual growth rate has been superior to that of western economies, which signals that the Emirates economy has achieved a higher economic growth over the last 15 years.

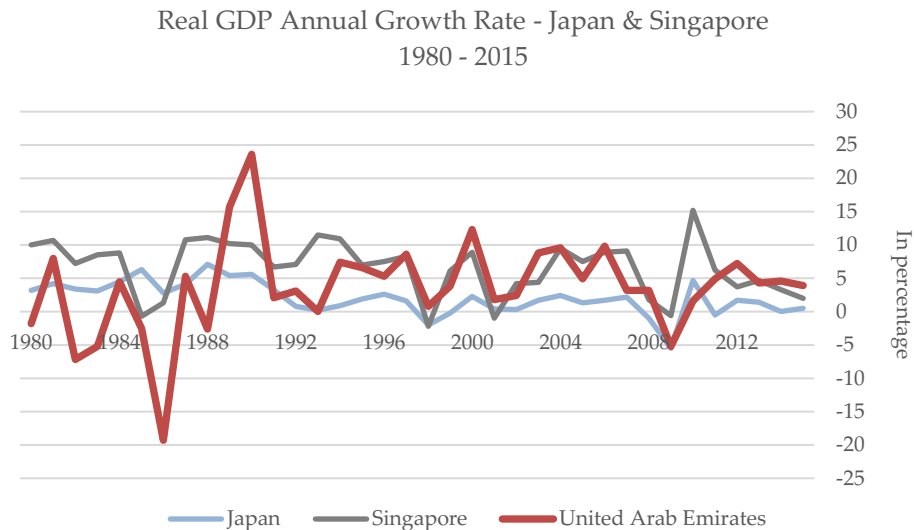


Figure 13. Real GDP Annual Growth Rate (%) - Japan & Singapore - 1980 to 2015
Source: IMF, 2016

Figure 13 provides a comparison with both Japan and Singapore’s Real GDP growth rate. Although from 1980 to 1988 the UAE’s Real GDP growth rate was mostly negative, it started to grow and sustain a positive record since late 1990’s and early 2000’s consistently surpassing that of Japan and accompanying that of Singapore. In the period of 2010 to 2015 the UAE’s Real GDP growth rate surpassed Singapore’s Real GDP growth rate.

This again, indicates that in the early 1990’s the UAE was able to turn the negative trend into a new phase of positive growth and most recently between 2011 and 2015 it was able to record a sustained Real GDP annual growth rate. In light of the aforementioned, the UAE economy has been registering higher growth, especially in the last 5 years after the global financial crises and its fast economic recover. The UAE has also been able to surpass several world economies such as the USA, Germany, UK, Brazil and Japan in terms of Real GDP growth rates.

2.2.4. Main Economic Drivers - Key Sector Overview

2.2.4.1. Early Key Sectors and Economic Drivers – 1971 to 1999

Since the establishment of the federation in 1971 hydrocarbon resources have been the main economic driver of the UAE's economy by providing the "fuel for growth" (Abed & Hellyer, 2001). According to statistical data provided by the UAE National Bureau of Statistics and the UAE's central bank, the oil sector's contribution share to GDP (in current prices) in 1975 was 57,26%, almost two-thirds of the country's GDP. In addition, oil revenues contributed to approximately 90% of total government revenues, which demonstrates the importance of the oil sector.

The UAE Government started by investing and developing the oil sector as hydrocarbon revenues and contribution to the overall economy were crucial. The Federal Government decided to enhance the role of the public sector in the economic development of the country and started by investing in manufacturing associated with oil and gas (Ghanem, 2001). In this sense, upstream and downstream developments were undertaken.

Upstream developments in the hydrocarbon sector were related to the exploration, development and production of oil and gas. Downstream developments included refining, distribution and marketing of petroleum products and liquefied natural gas (LNG) (Ghanem, 2001). The initial economic growth as well as the need to divest away from reliance on hydrocarbon resources led to the development of the non-oil sector.

According to Ghanem (2001), development of the UAE's non-oil sector started in the late 1960's and early 1970's with the construction boom – associated with the rapid development in infrastructure - and the expansion of the food industry in order to cope with the increase in population. The number of industrial establishments related to building and construction activities increased rapidly (Ghanem, 2001). The first cement factory was established in Ras al-Khaimah in 1975, which would soon become an important industry of the UAE's economy. The food industry expanded its activities in late 1960's and early 1970's and started functioning as an import-substitution industry² ever since. By 1985 the «...number of factories for food processing and beverages with a labor force of more than ten people reached 80...», while in 1996 this number had increased to 130 factories (Ghanem, 2001).

Other industries also registered further developments. By mid-1980's the Textile industry reached 150 factories employing ten or more persons. According to Ghanem (2001), by mid-1990's this was considered the 2nd largest manufacturing industry which constituted approximately 15% of the non-oil exports. By the end of 1999 the Metal products and Machinery industries were composed by 312 factories in total that dealt with products such as metal furniture and air-conditioners. The Basic metal industries also played a major role, mainly since the establishment of the Dubai Aluminum Company (DUBAL), which initiated its activities in 1979. By mid-1990's this would become the largest manufacturing industry in the UAE (Ghanem, 2001).

From the 1980's to 1990's the Banking and Insurance sector as well as the Real Estate sector started to emerge as result of the increase in population and

² Import Substitution Industrialization is a Trade policy that aims to reduce a country's foreign imports by replacing them with domestic production.

construction boom. In addition, the demand for credit loans also grew as a result of the expansion of the private sector and manufacturing-related businesses. It was also during the 1980's and early 1990's that the emirate of Dubai «...took a strategic decision to emerge as a major international-quality tourism destination.» (Government, 2016). «This was followed by the launching of the world-famous Burj Al Arab hotel in 1999 and the flood of hotels, resorts and entertainment facilities that have since been developed.» (Taylor-Evans & Coyne, 2013). Nonetheless, until the mid-1990's it was the manufacturing industry that assumed a major economic role outside the oil-sector.

2.2.4.2. Main Economic Drivers – 2000 to 2015

According to Taylor-Evans and Coyne (2013) the UAE's main economic drivers as of 2013 have been the (1) Energy Sector, (2) Industry, (3) Tourism, (4) Transports and Logistics, and (5) Real Estate and Construction. This has been in accordance with both previous economic drivers – although Tourism is an important newcomer – as well as the Federal Government's policies towards economic development. A review of the 5 main economic drivers is presented below.

Energy Sector

The energy sector comprises oil-related industries, natural gas and most recently renewable energies. According to Taylor-Evans and Coyne (2013) the UAE had in 2013 the world's 7th largest proven oil and gas reserves and as such, «...the UAE's 97.8 billion barrels of proven oil reserves will offer a steady flow for another 80 years at current production rates.». In addition, this turned the UAE

into the 5th largest producer of oil in the world, with 3,8% of global production, up from 3,2% in 2010 (Taylor-Evans & Coyne, 2013). Regarding gas production, the UAE was estimated to represent 1,6% of global gas supply in 2012. Nonetheless, reserves accounted for 3,2% of the world total.

In terms of development of the energy sector, the UAE has made efforts to maintain both upstream and downstream development by keeping the pace with the latest technological advancements within the industry. In addition, the UAE Government started to devote close attention to renewable energy and energy efficiency programs which aim at reducing the reliance on hydrocarbon resources (Taylor-Evans & Coyne, 2013). Clean energy projects in the UAE such as the Shams 1 and the Masdar City Solar Photovoltaic Plant are currently the two largest renewable energy projects in the Middle East (Masdar, 2016).

Industry

Industrial development has always played a vital role in promoting economic diversification and growth within the UAE. According to Ghanem (2001) industrial development was the engine of the economy by promoting forward and backward linkages that would stimulate growth and promote diversification. Industries such as cement manufacturing and metals kept its importance while new ones gained momentum, such as the automotive sector. In fact, the UAE emerged as what Taylor-Evans and Coyne (2013) coined of “metals production powerhouse” in the Middle East in recent years by having 46% share of total Middle East aluminum production and the largest single-site smelting facility in the world³.

³ According to Taylor-Evans and Coyne (2013) DUBAL is the largest single-site smelting facility in the world.

By 2012, Industry as a whole accounted for 16% of the UAE's GDP. This has been possibly mainly through the significant strides the UAE has been undertaking in adopting the latest technologies and best practices from world economies such as Germany and Japan (Taylor-Evans & Coyne, 2013). Petrochemicals, metals, ceramics and cement still dominate the UAE Industry sector. Nonetheless, sub-sectors such as the automotive, chemicals, electrical machinery and power equipment, and food processing are gaining momentum, which has been propelled by the influx of foreign enterprises that bring to the UAE the most up-to-date technologies and know-how (Taylor-Evans & Coyne, 2013).

Tourism

Tourism became one of the main key drivers of economic growth in the UAE since late 1990's as the country also became one of the fastest-growing travel destinations being ranked 31st in the world in 2012. It was also in the year of 2012 that tourism's contribution share to GDP reached 14% and attracted approximately Dh 82,8 billion in investments, almost 23% of the country's total investments (Taylor-Evans & Coyne, 2013). As a result, tourism has also «...benefited from, and helped spawn, a number of high-growth areas of the UAE's economy, most notably hotels, airlines and airports, and retail»(Taylor-Evans & Coyne, 2013).

Dubai has been the engine of tourism within the UAE registering 10,2 million visitors in 2012, followed by Abu Dhabi with 2,3 million visitors. Abu Dhabi has made efforts to further develop its tourism sector with mega-projects such as Saadiyat Island which will have the Louvre Abu Dhabi museum. Yas Island is a similar mega-project in Abu Dhabi that currently hosts the venues for the Formula 1 Abu Dhabi Grand Prix and «...the Ferrari World Abu Dhabi, which is

the world's largest indoor theme park and the first ever Ferrari theme park in the world.» (Taylor-Evans & Coyne, 2013).

Transport and Logistics

Since the early birth of the Federation, the UAE Government strived to develop the country's transport and logistics infrastructures. With the tourism boom and the increasing in visitors, the aviation industry started playing a major role in the country. It is estimated that in 2012 the aviation industry contribution share to GDP reached 15% of total GDP (Taylor-Evans & Coyne, 2013). Due to the increase in air passenger numbers and freight volumes the UAE has been investing heavily in its airports and ports. In addition, the UAE is currently home to two of the ten safest airline companies in the world, Emirates Airlines, which ranks 2nd and Etihad Airways, which ranks 8th (Jet Airliner Crash Data Evaluation Centre [JACDEC], 2016).

In 2012 Dubai's International Airport reached 58 million passengers and figures are estimated to increase to 98 million passengers by 2020 (Taylor-Evans & Coyne, 2013). It was in light of the aforementioned, that Dubai's International Airport has been expanded and a new airport is being built in order to cope with the increase in air passengers. The Dubai World Central Al Maktoum International Airport is expected to be the world's largest airport with a capacity of 160 million passengers (Taylor-Evans & Coyne, 2013).⁴ In addition, to support Trade activities, Dubai hosts the Jebel Ali Port, which is «...is the largest port in the Middle East and the largest [port] situated between Europe and the main Asian Markets.» (Taylor-Evans & Coyne, 2013).

⁴ Although it is operating for cargo purposes only, Dubai World Central Airport is expected to be fully completed by 2025.

Real Estate and Construction

The construction sector continues to play an important role within the UAE economy, while the real estate sector has grown. By 2012 it is estimated that the construction sector accounted for approximately 10% of total GDP and the real estate's sector contribution share to GDP was of approximately 9%. Together, real estate and construction have accounted for 19% of the UAE's total GDP (Taylor-Evans and Coyne, 2013). In addition, «The total construction market in the UAE at the end of 2012 stood at Dh 375 billion, which was almost 44% of the entire GCC market.» (Taylor-Evans & Coyne, 2013).

Dubai and Abu Dhabi lead the way in terms of construction and real estate mega-projects, which have contributed largely to attract foreign investment, tourism activity and boast the country's image on a global scale. As previously mentioned, Abu Dhabi has been developing the Saadiyat Island, a mega-project which will host several museums such as the Louvre Abu Dhabi. In addition, several luxury residential complexes have been built along with five-star international hotels both in Saadiyat Island and Yas Island. As part of Abu Dhabi's mega-projects the expansion of its airport is also underway. With an estimated value of USD 2,94 billion, Abu Dhabi's airport will feature the world's longest indoor arch (Taylor-Evans & Coyne, 2013).

Since 1999 Dubai is host to the Burj Al Arab, one of the most luxurious hotels in the world, and has the world's tallest infrastructure (building) in the world, the 830 meter high Burj Khalifa. Most recently, Dubai has initiated a series of multi-billion dollar projects, such as the Mohammed bin Rashid City, which has an estimated value of USD 65 billion (National, 2015). Other mega-projects include Akoya by Damac, a compound of 2,600 luxury villas with an estimated value of

USD 6 billion and Dubai Parks and Resorts, which is a Theme Park complex comprising attractions such as Legoland, Motiongate and Bollywood Parks with an estimated value of USD 3 billion (National, 2015). These multi-billion dollar projects not only have been boosting the real estate and construction sector, but they have also been contributing heavily towards other sectors such as tourism.

2.2.5. The United Arab Emirates Achievements– The year of 2015 in Review

The UAE's economy of today bears little resemblance to that of late 1960's and early 1970's, when the Federation was established. In 1968 the former Trucial States – which today form the UAE – had a population of no more than 180,000 inhabitants, being the emirate of Dubai the most populated with 59,000 inhabitants followed by Abu Dhabi with 46,500 inhabitants (Hawley, 1970). Infrastructures were almost non-existent as Butt (2001) suggests, in the 1960's «...there were no roads or basic amenities.» in the country.



Figure 14. Aerial view of Abu Dhabi during the early 1960's
Source: Langton, 2013

The UAE economy was witnessing the very modest beginnings of a transitioning phase propelled by the discovery of oil. Nonetheless, the country was still heavily marked by its subsistence economy which was characterized by subsistence agriculture, pearling extraction, fishing and trading. The UAE still faced poverty and presented several deficiencies within its seven emirates (Al Abed, 2001). It was in light of such a scenario that during the 1960's the former Trucial States received financial support from Great Britain, Kuwait, Qatar, Bahrain and Saudi Arabia in order to begin its socio-economic development (Hawley, 1970). On the outskirts of its establishment as a Federation in 1971, the UAE had indeed little prospects of survival as a viable State (Al Abed & Hellyer, 2001). If the Emirates faced the risk of not being a viable nation, how could they be a viable economy?

More than 40 years later, by undergoing an impressive economic transformation, the UAE achieved «...record-breaking rates of growth in all fields, which has placed it at the top in terms of global competitiveness.» (Wam, 2014).

Furthermore, the UAE has earned the status of one of the most developed countries in the world, with sustainable growth in the several sectors and fields that constitute its economy, such as trade, investment, tourism, infrastructure and human and social development (Wam, 2014). As Anderson et al. (2015) suggest «...the UAE is today a politically stable country that has achieved high-income status and plays an active role shaping regional and global affairs».

As of 2015 the UAE presents the following characteristics:

UAE - COUNTRY INFORMATION	
Area (km²): 83,600	Prime-Minister: Mohammed bin Rashid al-Maktoum
Population (in millions): 9,6	Credit Risk: 2 (1 = lowest risk; 7 = highest risk) - (as of April 2016)
Capital: Abu Dhabi	Country Risk: BB (AAA = lowest risk; D = highest risk) - (as of April 2016)
Official Language: Arabic	Currency: United Arab Emirates Dirham (AED)
Head of State: Khalifa bin Zayed al Nahyan	Currency Rate: 1 USD = 3,67 AED / 1 EUR = 4,18 AED (as of June 2016)

Table 2. UAE - General Country Information
Source: AICEP, 2016; IMF, 2016

UAE - MACROECONOMIC INDICATORS						
	Units	2013 (a)	2014(a)	2015(b)	2016(c)	2017(c)
GDP (in current prices)	in billion USD	387,1	399,4	298	284	324
GDP (in current prices)	in million AED	1,421,963 (b)	1,466,985 (b)	-	-	-
GDP per capita	USD	48 850 (b)	47 360 (b)	34 110	31 840	35 510
Real GDP Growth	% Change (CHG)	4,3	4,6	3,3	1,1	1,7
Public Sector Balance	% GDP	10,4	5	-3,9	-7,6	-2,9
Public Debt	% GDP	41,2(b)	43,5(b)	63,8	76,3	72
Exports of Goods & Services	in billion USD	392,3	391,2	262,1	224	249,9
Exports of Goods & Services (CHG)	% CHG	4,4	-0,3	-33	-14,5	11,6
Imports of Goods & Services	in billion USD	297,4	311,2	302,5	295,4	303,6
Imports of Goods & Services (CHG)	% CHG	5,7	4,6	-2,8	-2,3	2,8
Current Account Balance	%GDP	18,4	13,7	0,7	-4,0	-0,8
External Debt	%GDP	46,1(b)	48,2(b)	68,6	77,7	72,4
Inflation Rate (average)	%	1,1	2,3	4,1(a)	4	4,3

Notes: (a) Actual Values; (b) Preliminary/Estimates; [c] Forecasts

Table 3. UAE - Macroeconomic Indicators: 2013 to 2017
Source: AICEP, 2016; IMF, 2016, UAE National Bureau of Statistics, 2016

To pinpoint is the fact that one of the most notable achievements of the UAE in terms of economic development has been the increase of its Real GDP from USD 27,545 billion in 1972 to USD 249,578 billion in 2014. In addition, due to the high influx of foreign workers (skilled, semi-skilled and unskilled) the UAE experienced a massive increase in its population size from 180,000 in 1968 to 1 million in 1980, and to 9,6 million people in 2015 (Hawley, 1970; IMF, 2016). To understand the real extent of the UAE's economic achievements, comparative data with world economies is presented below.

UAE - WORLD TRADE OF GOODS - 2015*		
	Exports	Imports
World Ranking	20th	19th
Share of World Trade of Goods	1,60%	1,37%

Table 4. UAE - World Trade of Goods - Ranking of 2015 according to WTO

Source: AICEP, 2016

*Estimated

UAE - FDI WORLD RANKING - 2014		
	World Ranking	Total Value (in million USD)
FDI Inflows	25th	10 065
FDI Outflows	40th	3 071

Table 5. UAE position in the FDI World Ranking for the year of 2014

Source: AICEP, 2016

UAE - BUSINESS ENVIRONMENT - INTERNATIONAL INDEXES	
	Rank
Overall Economic Competitiveness (Global Competitiveness Index Ranking 2015-16)	17th
Transparency (Corruption Perceptions Index Ranking 2015)	23rd
Ease of Doing Business (Doing Business Report Ranking 2016)	31st
Global Ranking (The Economist Intelligence Unit (EIU), among 82 countries)	23rd

Table 6. UAE - Country Business Environment ranking in various International Indexes (as of 2015)

Source: AICEP, 2016

According to the World Economic Forum's (2015a) "Global Competitiveness Report" of 2015-16, the UAE ranked 17th (among 140 countries) in terms of overall economic competitiveness in 2015.⁵ Interestingly, the UAE's economy was able to surpass economies such as Saudi Arabia, Kuwait and Bahrain, when less than 50 years ago it was receiving financial aid from these countries to initiate the Emirates development. It is also important to note the 25th world position in terms of FDI inflow, 20th position as the world's biggest exporter as well as the 31st place in terms of easiness in doing business. These global-level economic successes have been the result of prudent and wise policymaking adopted by the UAE Government, which transformed the country from a factor-driven economy into an innovation-driven economy in just over 40 years (WEF, 2015a).⁶

Through the WEF's 'Global Competitiveness Report' of 2015-16 it is possible to have a more detailed global-scale perspective of the UAE's economic success. This additional view is depicted below:

⁵ The "Global Competitiveness Report" has been issued annually by the World Economic Forum since 2004 and provides an analysis of the various drivers that enable an economy to achieve long-term sustainable growth and prosperity. The rationale is that the more competitive economies usually produce higher levels of income, have higher growth potential and thus, are more capable of achieving higher economic prosperity and development.

⁶ Factor-driven economies – competition between countries is made primarily by using unskilled labor force and natural resources; Efficiency-driven economies – countries achieve growth by developing production processes to improve product quality; Innovation-driven economies – competition between economies is made by using the most advanced processes to produce new and different products and services (WEF, 2015a).

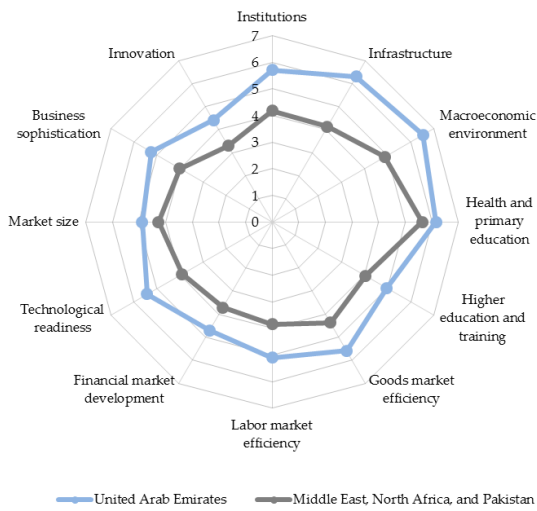


Figure 15. Global Competitiveness Report 2015-16 - Key Indicators Score - UAE & Middle East, North Africa and Pakistan
Source: WEF, 2015b

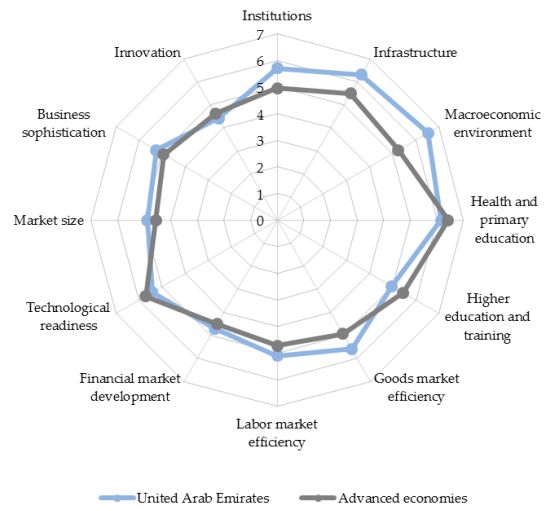


Figure 16. Global Competitiveness Report 2015-16 - Key Indicators Score: UAE & Advanced Economies
Source: WEF, 2015b

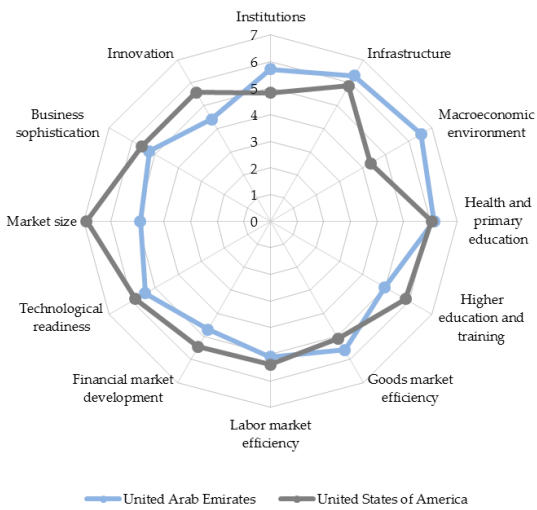


Figure 17. Global Competitiveness Report 2015-16 - Key Indicators Score: UAE & United States of America
Source: WEF, 2015b

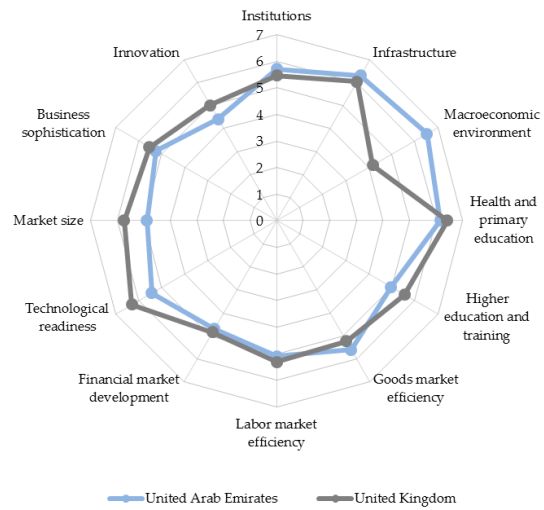


Figure 18. Global Competitiveness Report 2015-16 - Key Indicators Score: UAE & United Kingdom
Source: WEF, 2015b

UAE - GLOBAL COMPETITIVENESS INDICATORS

Part I	Rank/140	Part II	Rank/140
Institutions		Labor market efficiency	
Division of public funds	8	Flexibility of wage determination	4
Public trust in politicians	2	Effect of taxation on incentives to work	1
Wastefulness of government spending	2	Pay and productivity	6
Burden of government regulation	5	Country capacity to retain talent	5
Infrastructure		Country capacity to attract talent	3
Quality of overall infrastructure	2	Financial market development	
Quality of roads	1	Availability of financial services	22
Quality of port infrastructure	3	Ease of access to loans	3
Quality of air transport infrastructure	2	Technological readiness	
Macroeconomic environment		Availability of latest technologies	9
Government budget balance, %GDP	4	FDI and technology transfer	3
Gross national savings, % GDP	13	Market size	
Inflation, annual % change	1	Domestic market size index	34
General government debt, %GDP	8	Exports as a percentage of GDP	11
Higher education and training		Business sophistication	
Quality of the education system	12	Local supplier quality	24
Internet access in schools	9	Control of International distribution	5
Goods market efficiency		Production process sophistication	28
Total tax rate, % profits	7	Extent of marketing	5
Prevalence of non-tariff barriers	2	Innovation	
Prevalence of foreign ownership	10	Capacity for innovation	28
Business Impact of rules on FDI	7	Quality of scientific research institutions	30
Burden of customs procedures	3	Gov't procurement of advanced tech product	2

Table 7. Global Competitiveness Report 2015-16 - Further Indicators - UAE rank out of 140 countries

Source: WEF, 2015a

As of 2015, the UAE in terms of the country's infrastructure, macroeconomic environment and institutions scores higher than the group of advanced economies as well as the USA and UK (WEF, 2015b). Interestingly, the UK was one of the largest providers of financial aid to the former Trucial States Development Fund in the 1960's, which aimed at supporting the development of the seven emirates that today form the UAE. By surpassing countries such as the UK, the UAE now rank 2nd out of 140 economies in terms 'Quality of overall infrastructure and 1st in 'Quality of roads'. The country is also ranked 1st in terms of lack inflation and 2nd in the world in terms of effectiveness of government spending (WEF, 2015a).

In fact, policy-related factors such as the lack of government bureaucracy and regulations (5th out of 140), efficiency of customs procedures (3rd out of 140) and lack of tariff barriers (2nd out of 140) have made a huge contribution to increase trade activities and attract FDI into the country, which has brought substantial benefits in terms of technological advancements and know-how (WEF, 2015a). In this sense, the UAE is not only a regional business-hub (with a 5th place in terms of 'Control of international distribution' and 11th as the contribution of Exports to its total GDP), but it is also a technologically advanced country with a high capacity to attract and retain specialized talent aiming to build a knowledge economy. By looking at the most well-ranked indicators it is possible to note that the economic success of the UAE has not been only due to abundant oil resources. Prudent and wise policy-making by the UAE Government has played an unquestionably vital role in fostering the country's economic development.

2.3. Economic Policies

During the Economic Planning Forum in October 2015, Sultan Saeed Al Mansouri, UAE's Minister of Economy, clearly stated the aim of UAE's economic policies:

«The UAE economy has maintained positive growth levels despite a decline in oil prices and a slow global economic performance. This has come about as a result of our resilient economic policies that aim to increase diversification and decrease reliance on oil.» (John, 2015)

As pointed out by Omaira (2001), the pillars of economic policy for the UAE have been policies that favor a free market economy and diversification of income sources. It is in this sense that the UAE's main goal has been to formulate economic policies that (1) stimulate growth; (2) allow the diversification of the economy away from hydrocarbon resources; (3) attract investment, both foreign and local; (4) create a business-friendly environment with few or no restrictions/barriers that support trade liberalization, (5) and create employment opportunities for all its citizens (World Trade Organization [WTO], 2006b).

Throughout the years the UAE Government has promoted a progressive economic agenda that has its general policy framework built around economic diversification and liberalization. For this matter, to understand the economic policies adopted by the UAE Government that stimulated its economic success, it is necessary to comprehend first the process of diversification and structural change the UAE witnessed which, in turn, shaped its general economic policies such as Trade, Investment, Fiscal and Monetary.

This set of general policies will also be subject of analysis. However, it is of relevance to note that the present study and most importantly, the UAE Government, recognizes and emphasizes the importance of trade and investment policies in supporting the process of economic diversification (WTO, 2006b). Furthermore, it is the «... [UAE] Federal Government [that] provides the broad framework for policymaking...», being most key decisions made at the emirate level (WTO, 2006b).

Within the seven emirates economic policies differ as is the case of Dubai and Abu Dhabi. Due to its declining oil industry, Dubai has pursued a strategy of diversification much more aggressively than Abu Dhabi. In this sense, it has been involved with most new initiatives, which include developing further the tourism sub-sector, media, and technology, financial and commercial services, shipping and extending the number of its free zones to attract more foreign investment. Meanwhile, Abu Dhabi has been investing heavily on the oil sector, both in its upstream hydrocarbon resources and downstream industrial projects while continuing to finance the development of the non-oil sector through oil revenues. In this sense, a more general approach towards UAE's economic policies will be followed. Lastly, a model of economic diversification shall be presented based on Dubai's experience.

2.3.1. Economic Diversification - The Framework of Analysis

In general, economic diversification can be understood by the simple rationale of making a country's economy transition from a single or few sources of income to an economy that has multiple sources of income generated across the primary,

secondary and tertiary sectors (Hvidt, 2013). However, this is a restrictive view of diversification. For instance, as Hvidt (2013) explicitly demonstrates:

«In political economy, diversification normally refers to exports, and specifically to policies aiming to reduce the dependence on a limited number of export commodities that may be subject to price and volume fluctuations or secular declines.».

Hvidt (2013) keeps delving deeper into this subject by suggesting that within political economy, diversification can take two forms: horizontal and vertical. Through horizontal diversification, new opportunities are sought for new products within the same sector. Vertical diversification means adding more stages of processing of domestic or imported inputs. In other words, vertical diversification will ultimately create the above mentioned multiple sources of income across the three different sectors (primary, secondary and tertiary). The shift from one sector or industry to another will then encourage «...forward and backward linkages in the economy, as the output of one activity becomes the input of another, thus upgrading the value added produced locally.» (Hvidt, 2013).

An interesting interchangeability of concepts regarding diversification and industrialization is raised by Hvidt (2013). In fact, the argument of Shihab (2001) regarding the case of the UAE clearly exemplifies the proximity between diversification and industrialization:

«In the process of economic development, industrialization has been considered crucial to the transition. Industrialization is linked to the idea of stimulating forward and backward linkages with the rest of the economy. In common with other developing countries, the UAE, whose economy has been significantly dependent on the export of one primary product, namely oil, pursued a strategy of industrialization to diversify the sources of its national income and reduce its dependence on oil.»

The process of industrialization can easily be associated with the idea of «...accumulation of productive capacity within either the manufacturing sector and/or the service sector» which, according to Hvidt (2013) is the rationale behind a process of vertical diversification. Furthermore, industrialization is not only linked with Industry and the establishment of enterprises with productive capabilities. Industrialization is a much broader process. It «... entails the process of creating service industries such as tourism, financial services, insurance, banking, real estate services, transportation,...», among others (Hvidt, 2013).

The concept of industrialization can then be used interchangeably with vertical diversification, because both processes entail the accumulation of productive capacity on both the manufacturing and the service sectors. This, in turn, will stimulate forward and backward linkages in the economy. The following interpretation of Hvidt (2013) allows a more holistic understanding of the UAE's economic diversification process. It reinforces the idea that «the aim of diversification is spreading risk by creating a variety of income sources...», while «...industrialization in its broadest understanding is the process of creating these diverse income sources.» (Hvidt, 2013).

By having the UAE's economy as a guiding point as well as its heavy dependence on hydrocarbon resources, it is possible to adjust even further the concept of economic diversification. As Hvidt (2013) quotes, «Within the context of the GCC countries, economic diversification means reducing heavy dependence of the oil sector by developing a non-oil economy, non-oil exports and non-oil revenue sources.» (Economic and Social Commission for Western Asia [ESCWA], 2001, apud Hvidt, 2013) This vision allows the integration of the political economy interpretation of diversification, where it includes the diversification of exports and the need for the creation and development of multiple sources of income

across the manufacturing and service sectors, thus, making it possible to have a clearer picture of the UAE diversification evolution.

Ultimately, it is of relevance to understand that diversification can occur both within the oil sector as well as in the non-oil sector. As Hvidt (2013) suggests «In addition to the extraction of oil and gas, the oil-based industries include refineries, the vast petrochemical sector and energy-intensive industries such as aluminum.». Diversification towards these industries is easier since they rely on the low cost and ample supply of oil and gas of the country and they might reduce the disadvantages of the capital intensive oil sector. However, they are still heavily reliant on oil and gas, and as such, if these resources come to an end, it will not be feasible to sustain them with imported resources (Hvidt 2013).

In order to divest away from hydrocarbons, it is crucial to broaden the base of the economy by diversifying the non-oil sector. Food processing and the manufacture of construction materials are clear examples of industries within the non-oil sector that should be targeted for development. In fact, the UAE economy started registering growth in these industries due to its rapid population growth as we shall see in the next section. These industries rely mainly on imported goods that will be transformed for the value-added creation. Furthermore, they are not capital-intensive, they are labor-intensive and usually privately owned, which will contribute for the creation of jobs, broadening of the GDP contribution share and thus, for the diversification and long-term sustainable development of the economy (Hvidt, 2013).

Having laid the conceptual foundations for the analysis of the evolution of the diversification process in the UAE, it is mandatory to also lay the guidelines for

the measurement of this process. As such, the following measures suggested by Hvidt (2013) will be taken into consideration for the upcoming analysis:

1. The percentage contribution of oil versus non-oil sectors to GDP;
2. The percentage contribution of GDP by economic activity;
3. The percentage contribution of oil revenues as a proportion of total government revenues;
4. The percentage contribution of non-oil export to total export revenues.

2.3.2. Economic Diversification Policy – The UAE evolution

The following analysis of one of the main goals of the UAE's economic policy aims at depicting the evolution of the process of diversification as well as understanding the extent of such policy. For this matter, it will be possible to (1) provide an indication of the structural change in the economy; (2) understand how the non-oil sector evolved throughout the years; (3) verify if dependence on oil revenues has been reduced, and (4) have an indication of diversification.

2.3.2.1. Percentage contribution of oil vs. Non-oil sectors to GDP

Comparing the percentage contribution of the Oil Sector versus the Non-Oil Sector to GDP will provide us with an indication of the structural changes that occurred both in the economy and in the society of the UAE (Hvidt, 2013). Furthermore, this will allow us to understand how the structure of the UAE's GDP changed over time, which will ultimately tell us how the productive structure of the economy evolved throughout the years.

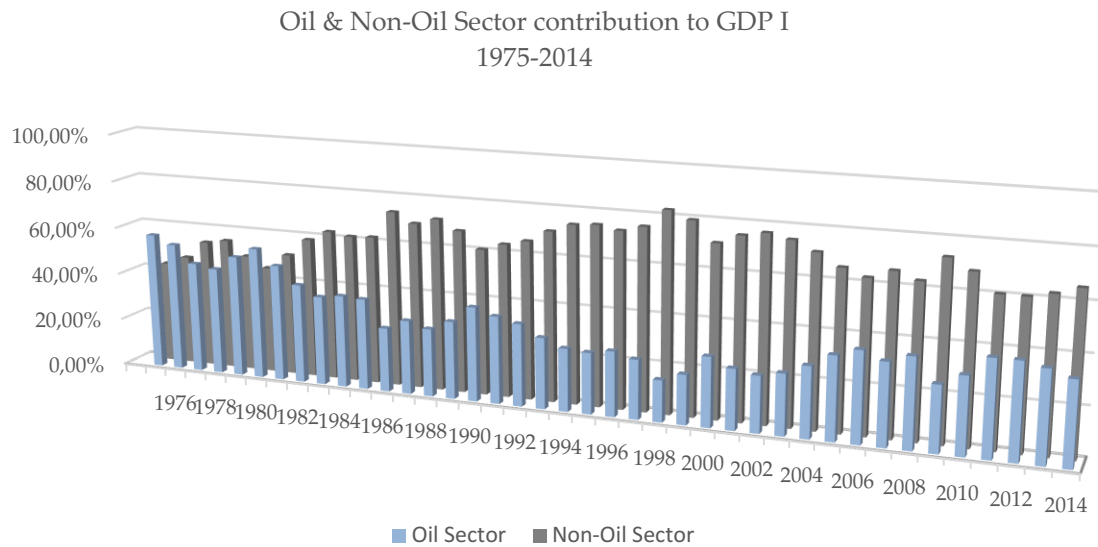


Figure 19. United Arab Emirates – Oil & Non-Oil Sector contribution to GDP I – 1975 to 2014
Source: UAE National Bureau of Statistics, 2016

It was possible to collect data regarding the sectorial origin of the UAE’s GDP from 1975 to 2014, which will provide us with a clear picture of structural changes since the early birth of the United Arab Emirates. Figure 19 shows that in 1975 the non-oil sector’s contribution share to GDP amounted for 42,74%, reaching 65,55% in 2014. In addition, the years of 1998 and 1999 reached 82,97% and 79,52% of the total GDP, the highest values registered until 2014. On the other hand, 1975 was the year where the non-oil sector contributed the least to total GDP, with only 42,74%. By taking into account figure 22 it is possible to note that there was a probable structural change in the economy and that it was slowly reducing the output of the oil sector to the GDP.

The UAE economy has been increasing the non-oil sector contribution share to GDP, meaning that the process of diversification has been implemented as we shall see next by looking at each sector. Although the oil sector⁷ output to GDP has been decreasing from 57,26% in 1975 to 34,35% in 2014, this does not guarantee us that the economy has reduced significantly its dependence on hydrocarbon resources. As Ghanem (2001) noted, although in 1998 the oil sector contribution share to GDP was very low (17,21%) the economy was still heavily reliant on oil and gas.

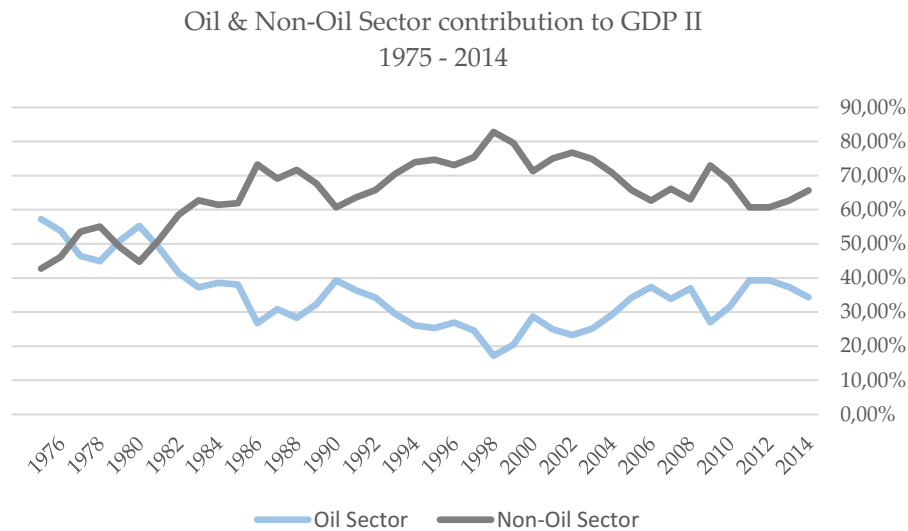


Figure 20. United Arab Emirates – Oil & Non-Oil Sector contribution to GDP II – 1975 to 2014
Source: UAE National Bureau of Statistics, 2016

Figure 20 depicts exactly this underlying scenario. Although there is an obvious inverse relation between the oil and non-oil sector contribution share, it is the oil sector that drives the high or low peaks of each sector. For instance, from 1980 to 1986, there was a significant decrease of the oil sector’s output to GDP. This was due to the sudden fall of oil prices in the international markets, which lead to the

⁷ The oil sector comprises Crude Oil, Natural Gas and Quarrying. The last economic activity relies heavily on the consumption of hydrocarbon resources and benefits from its low prices, which means it is also subject to price fluctuations.

decrease of both oil exports and revenues. As a consequence, the non-oil sector registered an increase in its contribution share from 44,76% in 1980 to 73,26% in 1986.

The period of 1990 to 1998 was a similar time frame where both oil prices and revenues dropped, albeit not so sharply as in the years of 1980-1986. This is because there was also an increase in the contribution share to GDP of several sectors, such as manufacturing, construction or financing and insurance, which suggests that the productive structure of the economy was changing. However, this change was not as sharp as figure 20 might suggest. The years of 2001 and 2002 were also marked by a decrease in oil prices, exports and revenues. However, the total exports and re-exports registered an increase and there were no significant changes in the various non-oil sectors contribution shares to GDP.

This demonstrates that the oil sector still has considerable impact in the productive structure of the economy. Furthermore, 2009 was also an interesting year on the outskirts of the world's financial crisis. The Nominal Gross Domestic Product (NGDP) - at current prices – contribution of the oil sector had a sharp decrease which caused the contribution of the non-oil sector to increase once more. However, few were the non-oil sectors that registered an increase in its NGDP contribution despite their small but illusive increase in percentage terms.

At this point it is possible to understand that throughout the years the oil sector always played a major role in the structure of the GDP. Nonetheless, by taking into consideration an overall perspective towards non-oil sectors, it is possible to notice change and, thus some degree of diversification. In 1975 the non-oil sector's contribution share was 42,74% of GDP while in 2014 it reached 65,65% of

the GDP. In this sense, it is relevant to look at the evolution of the distribution of GDP by economic activities.

2.3.2.2. Percentage contribution of GDP by economic activity

Distribution of GDP by economic activities (in current prices) 1975 - 2014									
Sectors	1975	1980	1985	1990	1995	2000	2005	2010	2014
-Agriculture, Live Stock and Fishing	0,54%	0,49%	0,93%	1,06%	1,79%	2,26%	1,40%	0,86%	0,68%
-Mining and Quarrying :	57,26%	55,24%	38,07%	39,26%	25,31%	28,74%	34,40%	31,80%	34,58%
*Crude Oil and Natural Gas	57,10%	55,11%	37,88%	39,10%	25,09%	28,57%	34,26%	31,56%	34,35%
*Quarrying	0,16%	0,14%	0,20%	0,16%	0,22%	0,17%	0,15%	0,23%	0,24%
-Electricity, Gas and Water	0,46%	1,04%	1,86%	1,71%	1,73%	1,55%	1,90%	2,45%	2,46%
-Construction	15,37%	12,66%	12,39%	10,83%	11,73%	9,15%	8,73%	11,65%	9,01%
-Wholesale and Retail Trade	15,20%	15,35%	15,96%	16,95%	19,73%	17,20%	15,60%	14,61%	13,51%
-Transports, Storage and Communication	3,17%	3,40%	4,17%	4,91%	1,61%	2,31%	7,87%	8,52%	8,66%
Financing, Insurance and Real Estate	6,59%	6,68%	12,72%	12,02%	6,42%	6,62%	17,09%	17,77%	18,65%
*Financing and Insurance	2,23%	2,72%	7,17%	5,71%	13,50%	10,32%	6,36%	7,05%	8,32%
*Real Estate and Business Services	4,36%	3,96%	5,55%	6,31%	1,68%	1,59%	10,73%	10,72%	10,33%
-Other Services	0,78%	0,60%	1,31%	1,57%	4,34%	4,60%	1,83%	2,25%	2,46%
Government Services Sector	1,52%	2,40%	4,78%	4,51%	4,49%	4,32%	3,49%	5,44%	5,97%
-Domestic Services of Households	0,07%	0,12%	0,24%	0,26%	0,50%	0,42%	0,42%	0,44%	0,51%
Less: Imputed Bank Services	1,85%	1,71%	1,35%	2,06%	2,56%	2,14%	3,33%	4,78%	5,50%
Gross Domestic Product*	58,313	161,638	149,056	186,125	241,345	383,179	663,318	1,050,516	1,466,985
Total of Non Oil Sectors	42,74%	44,76%	61,93%	60,74%	74,69%	71,26%	65,74%	68,44%	65,65%

*In million dirhams

Table 8. United Arab Emirates – Distribution of GDP by economic activity (in current prices) – 1975 to 2014

Source: UAE National Bureau of Statistics, 2016

Table 8 provides us an extensive overview of the evolution of the distribution of the GDP by economic activity between 1975 and 2014. This is mainly relevant to understand how the non-oil sector changed over time as well as the extent of the

process of diversification.⁸ Furthermore, it is also worth mentioning again that the oil sector comprises Crude Oil, Natural Gas and Quarrying.

As previously mentioned, in 1975 the oil sector still accounted for 57,26% of the GDP. This meant that non-oil economic activities had less relevance to the country's GDP, thus, to the growth of the economy. However, as Ghanem (2001) points out, «...development in the 1960's and 1970's, and to a lesser degree after that, focused on physical infrastructure such as roads, ports, airports, water and electricity supplies and on social infrastructures such as schools and hospitals. ». By this time the UAE was indeed experiencing a booming infrastructure development.

Both the increase in the development of infrastructures and the high influx of expatriate workers lead to the rapid growth of the Construction industry and the Wholesale, Retail Trade and Repairing Services. This is clearly depicted in both sectors' output to GDP. By this time, in 1975, Construction accounted for 15,37% of GDP while Wholesale, Retail Trade and Repairing Services registered 15,20% of GDP. These were the most relevant industries within the non-oil sector and also right after the oil sector in 1975. The Real Estate industry was also growing due to the increase in population and the need for housing but it accounted for only 4,36% of total GDP. However, the Manufacturing industry – one of the drivers of the process of diversification as well as industrialization – accounted for only 0,91% of the GDP in 1975.

According to Ghanem (2001), «The difference in the output and the contribution to GDP of the industrial sector in developing countries as opposed to its place in

⁸ By understanding the process of diversification it is also possible to comprehend the process of industrialization.

developed countries was seen as the main manifestation of economic backwardness and dependence.»). In a similar line of thought, Economy Watch (2010) also suggests that there is a trend among economists which are of the opinion that the manufacturing industry creates wealth and thus it promotes economic development as well as social upward mobility. Seznec (2011) clearly explains the role and importance of the manufacturing industry as well as the service sector to the UAE economy:

«...it was obvious that because the region's geography does not permit much growth in agricultural jobs, service jobs would be the solution. However, service jobs need something to service. Much effort was placed into developing industry, which would create manufacturing jobs and in turn many times more service jobs.»

The engine of the process of diversification for the United Arab Emirates would be the manufacturing sector⁹. However, many efforts had to be taken to increase and develop an industry that contributed with less than 1% to the country's GDP. In addition during the 1970's and early 80's, due to the booming Infrastructure development, industrial development outside the oil sector was mainly linked to the construction sector's growth as well as the expansion of the food industry to cope with the high influx of expatriate workers (Ghanem, 2001).

Although value added growth rate in the UAE oil sector fluctuated throughout the period of 1975 to 2000, the manufacturing sector was able to sustain the steady increase of its value added growth rate. From 1975 to 1985 the manufacturing sector value added increased from Dh 531 million to Dh 13,307 million, reaching Dh 49,982 million in 2000. As a result, the manufacturing sector

⁹ For the present study, the Manufacturing sector comprises industries that (1) acquires raw materials supplied by primary industries and transforms them into consumer goods, or (2) further processes goods that other industries have transformed into products. For further information, see e.g. Hvidt (2013).

contribution to GDP increase from 0,91% in 1975 to 8,93% in 1985, and to 13,04% in 2000. Moreover, by the year of 2000 the manufacturing sector value added surpassed that of the construction sector which reached Dh 35,064 million. In terms of contribution share to GDP construction accounted for 9,15%.

During the period 2000-2014 the manufacturing sector value added increased considerably from Dh 49,982 million to Dh 132,231 million respectively. On the contrary, manufacturing contribution share to GDP decreased from 13,04% in 2000 to 9,02% in 2014. «Nonetheless, it is obvious that the substantial increase in the manufacturing value added has made a modest contribution to the UAE's total output growth.» (Ghanem, 2001). Similarly, other non-oil sectors spurred alongside with the growth of the manufacturing sector.

The real estate sector's contribution share represented 4,36% of GDP in 1975. While during the 1990's it suffered from a slowdown and a consequent drop both in its value added as well as in its output to GDP, the high influx of foreign workers and expatriates during the 2000's increased the output of the real estate sector. In 2005 it represented 10,73% of the total GDP and in 2014 10,33%. Finance and Insurance sector also saw an increase in its contribution share from 2,23% in 1975 to 8,32% in 2014, reaching its highest share in 1995 with 13,50% in 1995. This sector's growth was mainly due to the increase in the real estate sector as well as businesses and industries – in the private sector – that started spurring and led to the need for financing (Ghanem, 2001; Shihab 2001). In addition, the banking sector also started to grow.

The Transport, Storage and Communication's sector is also an interesting sector that recorded a growth in its contribution share from 3,17% in 1975 to 8,66% in 2014. With the foundation of the Emirates Airlines in 1985 the UAE started to

exploit its privileged geographic position, turning itself into a hub for airline transportation connecting Europe, Middle East, Africa and Asia. In 2003, under the umbrella of the Abu Dhabi government, Etihad Airlines was founded increasing the relevance of the transportation sector. Most recently, in early 2000's the communications sector also saw further development associated with the technological advancement. Dubai was indeed a pioneer in this sector with the development of Free Zones such as Dubai Internet City, established in 1999 with the purpose to create a Telecom hub.

In a similar way as the aforementioned sectors, Government Services also registered an increase in its contribution share to GDP. In 1975 it represented 1,52% of total GDP, while in 2014 it contributed to 5,97% per cent of the country's GDP. As this sector also comprises education and health services, it is expected that with the increase in population, the development of these services would follow, increasing the output of government services sector to GDP. In addition, the expansion of the federal administrative structure as well as the public sector – through the increase in public schools and hospitals – also contributed to the increase in work force, thus promoting the growth of the sector's output to GDP.

As Ghanem (2001) argues, it is possible to notice a conspicuous sectoral shift and contribution to GDP in the service sector – commerce (wholesale, retail trade and repairing services); Transport, Storage, Communications; Finance and Insurance; Real Estate Business and Government Services. In this sense, the service sector¹⁰ contribution to GDP increased from 27,5% in 1975 to 45,34% in 1995, and to 49,25% in 2014. As pointed out by Seznec (2011), with the growth and

¹⁰ According to the UAE federal government, the service sector comprises the following sub-sectors: commerce (wholesale and retail trade), restaurants, hotels, storage, communications, finance, insurance, real estate and government services (National Media Council, 2001).

development of the industry as a whole, the manufacturing sector would evolve and create manufacturing jobs that would, in turn, “service” the service sector.

2.3.2.3. Percentage contribution of oil revenues as a proportion of total government revenues

One of the main aims of diversification in the UAE has been the reduction of the dependence on oil revenues which are subject to fluctuations. As previously mentioned, this is an underlying risk that can only be solved by increasing the variety of national income sources through the process of diversification of the economy. For this matter, to understand if the UAE government has been able to divest away from dependence on oil revenues it is necessary to analyze the percentage contribution of oil revenues to total government revenues (Hvidt, 2013).

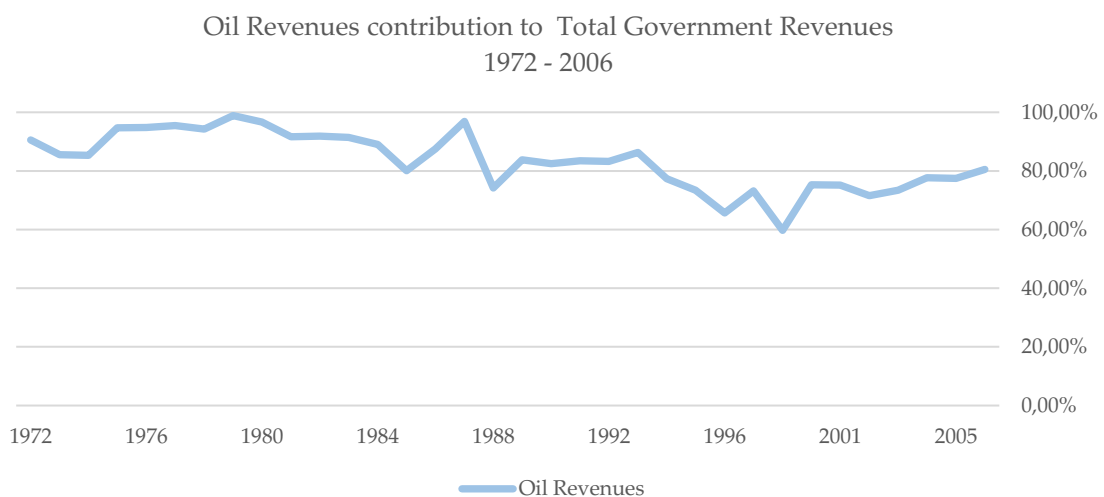


Figure 21. UAE – Oil Revenues contribution to Total Government Revenues – 1972 to 2006
Source: Al Sadik, 2001; Central Bank UAE, 2015

Figure 21 displays data from the period of 1972 to 2006. Unfortunately, since 2007 the UAE Central Bank stopped mentioning government revenues as well as oil revenues in its Annual Economic Reports. For this reason, it is not feasible to analyze the period from 2007 to 2015. Nonetheless, it is possible to note two important trends. First, oil revenues vary whenever oil prices and demand change in the international markets. The year of 1998 is the perfect illustration of this trend. Second, from 1972 to 2006 there was only a small reduction in the contribution of oil revenues to total government revenues. In fact, in 1972 oil revenues accounted for 90,5% of total government revenues while in 2006 they accounted for 80,5%. In this regard, the UAE government still relies heavily on hydrocarbon revenues to finance economic growth and development. In turn, this is still a barrier to sustainable and long-term economic growth.

2.3.2.4. Percentage contribution of non-oil export to total export revenues

Due to the small domestic market of the UAE, export activity has long assumed major relevance. Furthermore, in the early ages of the Emirates, revenues of oil exports played a dominant role both in its contribution to oil revenues as a whole and to total government revenues. In this sense, analyzing the percentage contribution of non-oil export revenues to total export revenues will provide us an indication of the extent of diversification in the UAE economy. In addition, for the present analysis total export revenues will only consider earnings resulting from oil and non-oil exports, thus excluding re-export revenues.

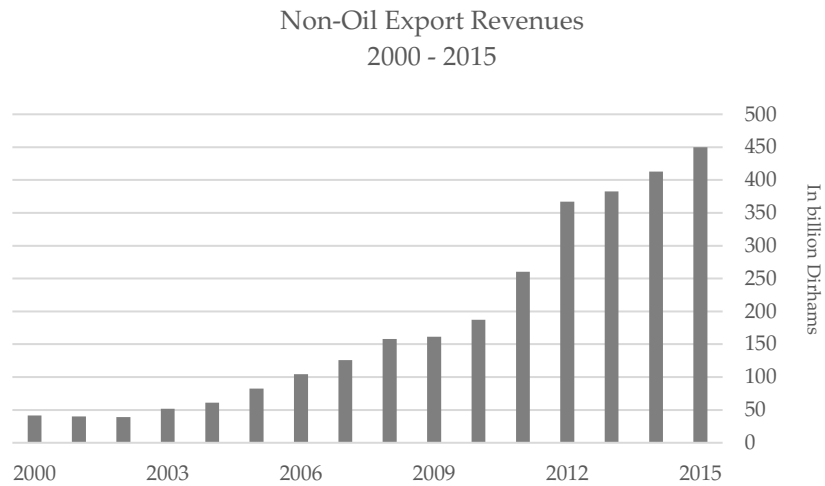


Figure 22. UAE – Non-Oil Export Revenues (In billion Dirhams) – 2000 to 2015
Source: Central Bank UAE, 2015

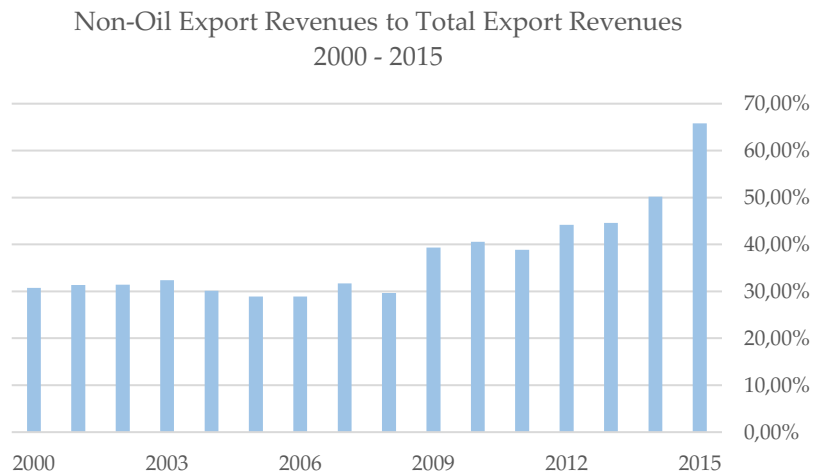


Figure 23. UAE – Non-Oil Export Revenues to Total Export Revenues – 2000 to 2015
Source: Central Bank UAE, 2015

From 2000 to 2015 non-oil export revenues (figure 22) have sustained a very positive and continuous trend of growth with only a few minor slowdowns. In fact, since 2010 they have doubled, from Dh 187 billion to Dh 450 billion in 2015.

This translates into an increase in the overall activity of the non-oil sector. On the other hand, non-oil export revenues contribution share to total export revenues increased from 30,73% in 2000 to 65,75% in 2015. However, such growth might be illusive as oil exports and revenues have decreased considerably due to the fall of oil prices in international markets in 2014. Nonetheless, if we consider the contribution shares of 2012 (44,17%) and 2013 (44,59%), it is possible to note an increase, which indicates that the UAE economy has been subject of diversification.

2.3.3. Trade Policy

The United Arab Emirates has adopted an open trade policy ever since the foundation of the federation in 1971. In fact, this posture towards free trade constitutes one of the pillars of the open economic system that still prevails in the UAE and has brought tremendous benefits with it (Omaira, 2001). The adherence to the World Trade Organization in 1996 marked the openness and harmony that still constitute today both the UAE's trade sector as well as its trade policies. In essence, the general framework of the Emirates trade policy aims to liberalize the State's foreign trade (Omaira, 2001). As reported by UAE officials:

«The UAE believes that free trade is a necessary condition for increased competitiveness and productivity in the long run. Protectionism, in the form of high tariff barriers and technical barriers to trade, would only result in a stagnant and inefficient private sector. It is in this spirit that the UAE has signed several free trade agreements...» (WTO, 2012)

As suggested by Omaira (2001) as well as the UAE authorities' report to the WTO (2012), the belief in free trade and the avoidance of protectionism have led to a trade policy that intends to open the UAE's economy as much as possible to

international economies. This has been possible by eliminating quantitative, technical and tariff barriers on commercial exchanges between nations and by adopting extremely low customs duties¹¹ as well as efficient customs procedures. No technical, quantitative or tariff barriers are imposed on national non-oil exports as well (Omaira, 2001).

As of 2012 the UAE government emphasized that it perceived the foreign trade sector as the cornerstone of any economy. For this matter, both federal and local authorities have developed efforts in promoting and increasing exports of goods and services and re-exports, establishing bilateral and multilateral agreements as well as reducing barriers to trade. In light of the aforementioned, to understand the general framework of the UAE's trade policy it is relevant to comprehend (1) the institutional framework behind the development and implementation of such policies, (2) bilateral agreements and treaties on double taxation, (3) understand the degree of easiness attached to foreign trade activities, and (4) acknowledge the advantages of having effective customs procedures and few barriers to trade.

Institutional Framework

In terms of institutional framework, the development and implementation of the UAE trade policy was under the direct responsibility of the Ministry of Economy and Planning since 1971. As of 2008, the Ministry of Economy and Planning no longer has direct responsibility over trade policy matters. It is now under the sphere of influence of the Ministry of Foreign Trade which is responsible for developing and implementing the UAE's trade policy (WTO, 2012). Furthermore, The Ministry of Foreign Trade is also responsible for coordinating Federal Government policies with Local Government's policies (WTO, 2012). According

¹¹ For further information on UAE's customs duties please see WTO (2006b, p.25).

to the WTO (2006b) Secretariat report, the private sector has always been included in policy-making by providing «...inputs to trade policy formulation by communicating its views through the chambers of commerce and industry.».

Trade Agreements

According to UAE authority reports, it is with the premise of an open and free economy that the Emirates have «... signed several free trade agreements and embarked on negotiations, either individually or with the GCC, on different regional trade agreements.» (WTO, 2006a). As a major economic player in the region as well as an important transshipment and re-export center, the UAE has thrived in establishing several bilateral agreements and treaties on avoidance of double taxation across the globe.

From the several agreements that can be mentioned, it is of relevance to detach both the Free Trade Agreement (FTA) and the Trade Investment Frame Agreement (TIFA) that the UAE has signed with the USA. In addition, in 2005 the UAE authorities were also negotiating an FTA with Australia (WTO, 2006b). With access to raw materials from Asian countries as well as skilled and semi-skilled labor force, it was of paramount importance for the UAE to ease trade with western economies. As of the end of 2011, the UAE had already signed 39 bilateral investment agreements and 58 treaties on avoidance of double taxation and it is estimated that at this time, the government had established bilateral economic agreements with more than 50 countries (WTO, 2012).

Foreign Trade - Export and Re-export activities

The World Trade Organization's Secretariat report (WTO, 2006b) clearly depicts the current status of the UAE's export policy. According to the WTO's (2006b) report, the UAE's policy on export and re-export of goods and services relies on Free Zones, where there are few to no restrictions or obligations. Notwithstanding, there are no financial, insurance, guarantee or promotion programs to support foreign companies in export activities (WTO, 2006b).

The UAE's economic free zones are the center for foreign trade activity both for foreign enterprises and state-owned companies. In essence, a foreign company is exempt from income taxation, has extremely low customs duties (5% for every good except tobacco and related products), and does not need specific licensing as opposed to non-free zone areas. Export and re-export activities in general are subject to few licensing procedures. In fact, «Customs procedures are simple in order to facilitate the flow of trade, which includes a large re-export activity.» (WTO, 2006b).

Exports of crude oil and natural gas have been directed mainly towards East-Asian countries (being Japan the largest customer), while non-oil exports have been flowing to Europe, Middle East and India. In addition, the main destinations of re-exports have been Iran, India as well as Arab countries (WTO, 2006b). Imports are very diverse and are usually destined for consumption or re-exports activities, being Japan, United Kingdom, Germany, India and China the main suppliers (WTO, 2006b).

From 2006 to 2010 the UAE exports market penetration increased from a network of 175 countries to 198 countries worldwide. Nonetheless, according to UAE

authorities, by 2010 more than 77% (USD 17,32 billion) of exports were concentrated in only 12 markets, which have been playing a major role in the development and growth of the UAE’s export activities (WTO, 2012). Of these 12 major markets, India and Switzerland were the largest export destinations (WTO, 2012).

In light of the above mentioned facts, it is estimated that the UAE still needs to diversify its share of exports through its large network of markets in order to decrease possible fluctuation risks.



Figure 24. United Arab Emirates Total Exports (Excluding re-exports) and Total Exports Annual Growth Rate – 2000 to 2015

Source: Central Bank UAE, 2015

The trend in total exports – including oil and non-oil exports – has been of continuous growth with a few slowdowns in 2009 and most recently in 2014. This is mainly due to fluctuation prices in international oil markets. Despite these slowdowns, the UAE was able to increase its total exports from Dh 134,87 billion in 2000 to Dh 684 billion in 2015, reaching an all-time high of Dh 857,6 billion in 2013. In addition, the average annual growth rate of total exports in the period of

2001 to 2015 has been 13,33%. This reflects the UAE's government commitment to the formulation and implementation of free trade policies as well as the results promoted by these trade policies.



Figure 25. United Arab Emirates Total Re-Exports and Total Re-Exports Annual Growth Rate – 2000 to 2015

Source: Central Bank UAE, 2015

In par with the total exports, UAE re-export activities recorded a similar trend. In terms of nominal values, total re-exports have been steadily growing since the slowdown registered in 2009. From Dh 48,15 billion in 2000, re-exports registered an all-time high in 2015 with Dh 540,3 billion. Although the annual growth rate has been decreasing since 2011, it has achieved an average annual growth rate of 18,77% between 2001 to 2015. As UAE government authorities reported in 2012:

«This steady growth is a result of the Government's ongoing support to this vital sector through a variety of different initiatives. The ease of customs procedures, low administrative import and export costs and the country's advanced seaport and airport infrastructure and facilities, have all reflected the high competitiveness that the UAE enjoys. Today, the UAE is a major global re-export hub, ranking first among Arab countries and sixth globally.» (WTO, 2012)

2.3.4. Investment Policy

Until the year of 2000 the UAE government adopted an investment policy that encouraged private sector investments and strengthened the government's developmental initiatives; encouraged foreign investment «...through the provision of various facilities, incentives and exemptions to investors (e.g. the establishment of industrial and free zones in the various Emirates and the provision of benefits to investors therein.)» (Omaira, 2001). More than fifteen years have passed and the Emirates investment policy framework has not changed.

It is in this regard that the main pillars of the UAE's investment policy have been the successive creation of economic Free Zones and its benefits, which have attracted foreign enterprises to invest and establish themselves on the country through FDI. Although «... the UAE's economic environment is generally liberal and business-friendly, its investment policy continues to discriminate between local and foreign investors, except in the free zones.» (WTO, 2006b). As shall be explained this has been one of the major barriers for foreign companies to invest in the UAE.

According to Santander Trade (2015) there are no incentive schemes for investments or special aids. However, the creation of Free Zones and the benefits they provide to foreign companies is perceived as an incentive scheme. In spite of all the pros and cons, foreign enterprises and investors still view the UAE as an attractive market. According to Partner and Group (2015) «Multinational companies cite the UAE's political and economic stability, rapid population and GDP growth, and efficient and fast-growing capital markets as positive factors maintaining the state's attractiveness to foreign investors.» In this sense, it

becomes mandatory to understand the general framework of FDI in the UAE, mainly FDI inflows, as well as comprehend the institutional framework of Free Zones and the benefits associated to this privileged economic areas.

Foreign Direct Investment (FDI)

According to Drahokoupil (2014) Foreign Direct Investment is an «...investment in an enterprise that is resident in a country other than that of the foreign direct investor.». As a common practice, «...the investment is made to acquire lasting interest and control of the economic entity, with an implied influence on the management of the enterprise.» (Drahokoupil, 2014). As defined by the Organization for Economic Co-operation and Development (OECD) (2008), for an investment to fall under the category of FDI, the foreign investor must own at least 10% or more of the voting stock or ordinary shares of the investee company (OECD, 2008). FDI can also take three basic forms: Greenfield investments – an «...investment made to develop a production or manufacturing plant from the ground up...», mergers and acquisitions, and joint ventures.

Foreign Direct Investment is also considered a recent trend, one that started in early 1980's within the sphere of developed economies. As suggested by OECD's (2008) Benchmark report on the definition of FDI, this form of investment presents crucial benefits for economies:

«FDI provides a means for creating direct, stable and long-lasting links between economies. Under the right policy environment, it can serve as an important vehicle for local enterprise development, and it may also help improve the competitive position of both the recipient (“host”) and the investing (“home”) economy. In particular, FDI encourages the transfer of technology and know-how between economies.»

Within the Emirates, as Mina (2014) points out, «FDI is considered an important factor in the UAE efforts to reduce reliance on natural resources and diversify the economy in the long term.». Mina (2014) advances to argue that according to UAE authorities, «...FDI is envisaged as one of the pillars for structural transformation of the economy.» as it needs to be stimulated and attracted to promote the government's economic agenda leading up to 2021. By taking into account the encouragement of the transference of technology and Know-how between economies promoted by FDI, one can clearly understand the overall importance of foreign investment to UAE's aim to achieve a "Knowledge-Economy" (UAE Cabinet, 2010).

According to the 2015 Global Investment Report published by the United Nations Conference on Trade and Development (UNCTAD), the UAE ranks 2nd as the largest FDI receptor in the West Asia region, being Turkey in 1st place. Its main investors have been Britain, Japan and Hong Kong, not surprisingly, one of its main trading partners as well. As suggested by the UAE's «...Ministry of Economy Statistics, FDI contributed five per cent to the UAE's GDP in 2014 and grew 25 per cent to more than Dh 47 billion.» (John, 2015). As of 2015, the UAE attracted USD 13 billion in terms of FDI flows, which represented a 25% increase from 2014 (Santander Trade, 2015). The bulk of UAE's FDI is now «...concentrated in the sectors of hydrocarbons, water and electricity production.» (Santander Trade, 2015).

The easy access to oil and gas resources, low energy costs, willingness to diversify the economy and a high purchasing power constitute the strengths of the UAE in promoting FDI flows (Santander Trade, 2015). On the other hand, the attractiveness of the Emirates to foreign investors lays in the harmony of its general economic policies, such as fiscal, monetary and trade policies, with the

investment domain. The absence of direct business and income taxation, of exchange controls and capital repatriation, «...as well as the existence of a strong and profitable banking sector, plus a large pool of expatriate labor are the country's undeniable assets.» (Santander Trade, 2015).

The importance of FDI to the UAE has long been recognized by its authorities as stated by UAE officials to the World Trade Organization in 2006:

«The UAE strongly believes that the private sector (both local and foreign) is the true engine of growth in the long run. Foreign direct investment (FDI) is regarded as crucial in order to transfer knowledge and expertise in areas that are not yet the country's core competencies, open new market opportunities by the creation of new networks and create employment in knowledge intensive and high value-added sectors.» (WTO, 2006a)

In accordance with the WTO, official statistical data on UAE's FDI inflows have not been available until 2006. However, it is suggested that FDI inflows have advanced rapidly since 2000. Furthermore, «The IMF estimates that net FDI inflows reached about US 11 billion in 2005.», and that the «...bulk of FDI has been directed into real estate projects, and into the free zones » (WTO, 2006b).

It is estimated that in 2004 alone, 156 Greenfield investments were made. Both the liberalization of the real estate subsector in Dubai and the resulting investment boom in housing and development projects – such as Dubai Internet City's free zone – contributed largely for the increase in inward FDI.

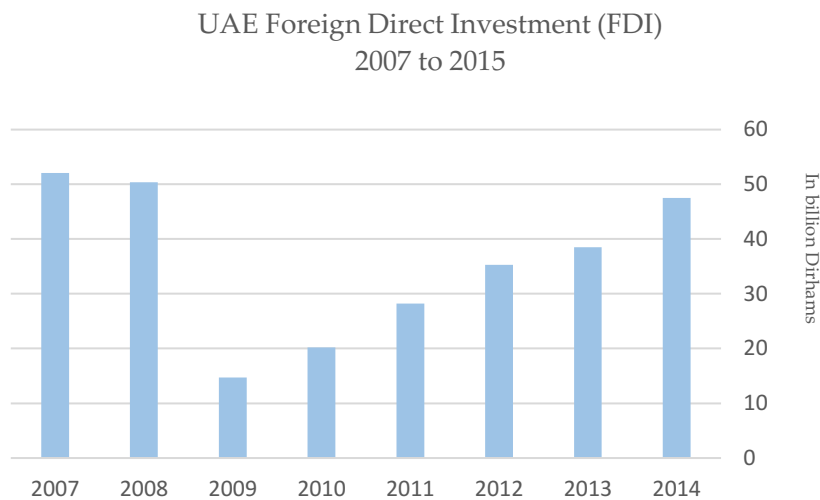


Figure 26. UAE Direct Investment (FDI) – 2007 to 2015
Source: Trading Economics, 2016b

Statistical data is available regarding FDI total values from 2007 to 2015. Foreign direct investment accounted for approximately Dh 52 billion, however, the values dropped considerably in 2009 mainly due to Dubai’s real estate bubble and the global economic slowdown. Nonetheless, from Dh 20,2 billion in 2010, FDI increased to Dh 47,5 billion in 2014, which represented 5% of the UAE’s total GDP. All in all, UAE policies towards FDI have been successful in attracting foreign enterprises worldwide. Notwithstanding, federal and local authorities still need to improve ownership rights for foreigners as well as the efficiency of the legal and institutional framework that deal with claims related to foreign investment (World Trade Organization, 2006b).

Free Zones

A perfect example of the UAE’s investment policy both to promote the private sector and to attract foreign investment that brings technology and know-how is the development and establishment of Free Zones. The basic success formula of Free Zones has been «...100% foreign ownership, corporate tax holidays, no

personal taxes, freedom to repatriate capital and profits, and no import duties or currency restrictions.» (WTO, 2006b). However, outside Free Zones foreign ownership has requirements, namely, the need for a local agent or sponsor, whom must have 51% ownership. In this regard, foreign enterprises outside Free Zones can only have 49% ownership, limiting their control over their activities. This has been a constraint in attracting foreign investment to the UAE.

According to the WTO (2006b), the UAE's first Free Zone was established in 1980 at Jebel Ali. Since then, Free Zones have been considered a success in attracting foreign investment and the most up-to-date technological know-how while promoting the growth of exports, re-exports and transshipment as major commercial activities (WTO, 2006b). This scenario led to the creation and growth of several Free Zones throughout all the emirates except Abu Dhabi with the aim to attract FDI inflows to foster inward investment and foster their economic development (WTO, 2006b).

An additional advantage of Free Zones is that there are no minimum quotas to be fulfilled within the labor force. This means that foreign companies are not required to have a minimum number of employed Emirati citizens. Outside Free Zones this quota still exists. Another advantage of these areas is that the Trade Agencies Law, which regulates domestic trade outside Free Zones, does not apply. This means that within the boundaries of Free Zones a foreign enterprise has access to several different types of licenses that stipulate the *modus operandi* of economic activities in these areas. As reported by WTO's (2006b) Secretariat, the available licenses are the following:

- (1) **General Trading License** – Allows the holder to import, export, distribute, and store any items in accordance with the zone's rules and regulations. Available in Jebel Ali Free Zone.
- (2) **Trading License** – Gives the holder access to import, export, distribute and store specific items only.
- (3) **Industrial License** – The holder may import raw materials, manufacture specified products, and export finished products.
- (4) **National Industrial License** – Allows the holder duty-free sales inside the UAE customs territory. Reserved for manufacturing companies with at least 51% GCC ownership.
- (5) **Service License** – the holder may only carry out the services specified in the license within the Free Zone.

After the success of Jebel Ali, the UAE government has increased considerably the number of Free Zones. It is estimated that in 2005 there were 22 Free Zones, a number that evolved to 32 zones in 2012. Although Dubai has been the major force in developing and boosting Free Zones, the remaining emirates have been following the lead in creating such areas. In addition, there are Free Zones fully dedicated to service sectors, such as Dubai Internet City (DIC) and Dubai Health Care City, while others are industrial areas, such as Ajman Free Zone or Ras Al-Khaimah Free Trade Zone (WTO, 2012).

According to Omaira (2001), since the early 2000's the investment policy in the UAE has focused on developing information technology in the various economic

activities. In light of the aforementioned, the establishment of Dubai Internet City (DIC) in 2000 rises as a perfect example of the benefit brought to the UAE's economy both by Free Zones and FDI. The DIC Free Zone became the Middle East's sales, distribution and trading center for goods sold over the Internet, attracting foreign companies such as Microsoft, Hewlett Packard, Oracle, MasterCard and IBM to operate in the country (National Media Council, 2001).

In 2000 the UAE was ranked 18th in the world in terms of its Internet structure by The Economist (National Media Council, 2001). At this time the UAE was «...particularly well placed to focus on electronic communications, with its established telecommunications infrastructure and its participation in broadband technologies and projects such as FLAG and Thuraya.». This was seen at the time as a possible competitive advantage for the UAE to strengthen its trading links on a global scale. (National Media Council, 2001).

Discussions have been underway since 2005 to re-examine the Federal Law on Commercial companies that imposes ownership restrictions. Although some progresses have been made, this federal law still applies as of 2015. This has been one of the major issues that has detracted foreign enterprises to invest in the UAE and as such, has been a barrier to the growth of Free Zones and FDI inflow.

In October 2015 the UAE Minister of Economy, Sultan bin Saeed Al Mansouri clearly summarized the importance of both free zones and foreign investment to the country:

«With 34 multi-specialty free zones in the country, full foreign ownership has now been made possible with zero tax rates and a 100 per cent profit transfer. All of these factors have significantly helped develop our infrastructure, attract greater foreign investment flows, transfer knowledge and technology to the UAE, and build a sustainable knowledge economy.» (John, 2015)

2.3.5. Fiscal Policies

According to *Encyclopedia Britannica* (2014) fiscal policies are «...measures employed by governments to stabilize the economy, specifically by manipulating levels and allocations of taxes and government expenditures.». For Omaira (2001) fiscal policy has a direct impact on a country's economy as well as in its overall socio-economic development process. It also has the ability to ease the process of achieving «...general strategic objectives of the economic policy through public spending, both current and developmental, and...» through the country's general revenues. Fiscal policy usually seeks to «...increase the State's public income to enable it to meet its increasing financial requirements...» as well as to reduce public spending so that it does not affect the general development process (Omaira, 2001).

Omaira (2001) provides us an overview of the UAE's government budgets from 1975 to 2000 through which the author suggests that in the period of 1975 to 1984 the UAE budget registered an annual surplus – public income exceeded public spending – due to high oil prices in the international markets. Nonetheless, from 1985 to 2000, the UAE budget «...witnessed an increasing annual deficit due to an increase in public spending and fluctuations in public income.» (Omaira, 2001). Once more, this was due to the fall of oil prices and the large dependence on the contribution of oil revenues to public revenues.

In spite of «...diligent efforts to rationalize public spending, both current and developmental...» public expenses were increasing between 1985 to 2000 «...due to the increasing financial burdens entailed by expenditure on various projects, salaries and wages, purchases of goods and services, and aids and subsidies to the various economic sectors and activities.» (Omaira, 2001). Reliance on oil

revenues and the growth of public spending were two of the main reasons for the deficit scenario the UAE faced in 2000.

It was also in this same year of 2000 that the UAE federal government adopted a new fiscal system «...for the management of public spending based on efficiency in the use of resources instead of the method of comprehensive development, with a view to rationalizing spending and increasing its effectiveness.» (Omaira, 2001). According to a report from the Secretariat of the World Trade Organization (2006b), the UAE Federal Government took steps in reducing public expenditure by containing the growth of spending, reducing agriculture subsidies and increase petrol prices by an average of 20% (WTO, 2006b).

As a result of a more prudent management of public spending, the UAE's public deficit decreased significantly to less than 1% of total public expenditures (WTO, 2006a). The UAE economy started to recover in 2010 benefiting from its prudent fiscal management reform as well as higher oil prices and increased demand from trading partners (WTO, 2012).

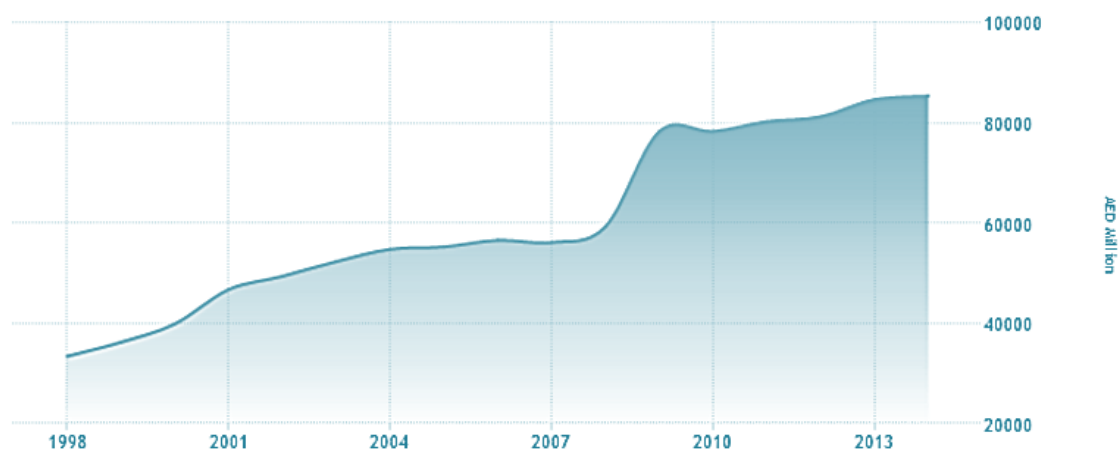


Figure 27. United Arab Emirates Government Expenditures from 1998 to 2014
Source: Trading Economics, 2016c

As figure 27 illustrates, the nominal values of the UAE's government expenditure stabilized throughout 2004 to 2007, which implies that the new fiscal system adopted in 2000 was producing results in slowing the growth of public spending. Although in 2010 the federal government was able to reduce public spending, from 2008 until 2014 the nominal values of government expenditures have in fact increased considerably.

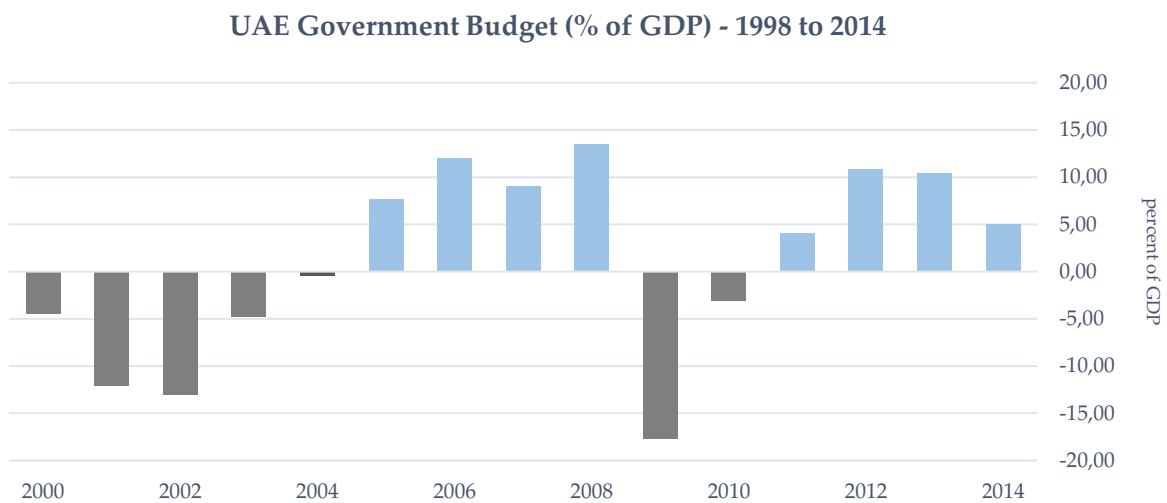


Figure 28. United Arab Emirates Government Budget (% of GDP) from 1998 to 2014
Source: Trading Economics, 2016a

Nonetheless, as «...a result of the prudent management of public revenue, the public deficit...» declined from 17,7% of GDP from 2009 to 3,1% in 2010, reaching a public surplus of 4,1 % of GDP in 2011 as depicted above in figure 28 (WTO, 2012). It is also important to note that, again, the increase in oil prices and, thus in oil revenues, contributed largely for the occurrence of fluctuations in the government's budget.

In addition to fiscal policies towards the management of public expenditures, the UAE government has also adopted highly attractive policies in the field of

income taxation that have contributed largely to foster both foreign investment and the private sector. As the Emirati authorities reported to the WTO (2006a):

«The UAE maintains the belief that income tax exemptions encourage an increase in FDI and a more vibrant private sector development. All free zones therefore benefit from zero income tax. Moreover, the UAE believes that a balanced public budget is conducive to economic growth in the long run.»

The above statement clearly demonstrates the linkages between the UAE's fiscal policies with the remaining policy fields, such as investment and trade policies that are mainly directed towards the private sector, the attraction of foreign investment and the development of commercial exchanges between countries. For this matter, it is possible to note that the UAE's fiscal policies have been enablers of the general strategic objectives of the government's economic policy (Omaira, 2001).

2.3.6. Monetary Policy

According to Omaira (2001) the UAE government adopts a «...monetary policy [...] that suits the open economic system and the objectives of the overall economic policy being followed.». Although this statement dates back to 2001, the overall goal of the UAE's monetary and credit policy have not changed much. As Omaira (2001) points out:

«The [UAE] monetary policy aims to preserve the strength of the dirham and its exchange rate against foreign currencies by applying a credit policy that seeks to meet local demand on

credits and hard currencies with a view to stimulating economic activity and encouraging private investments in the various sectors.»

The Central Bank of the UAE (CBU) is responsible for designing and implementing the country's monetary policies (WTO, 2006b). In this sense, one of the main aims of the CBU, as already suggested, is to preserve the strength of the UAE dirham, which is the national currency and is pegged to the US dollar. According to the WTO (2006b), «The mid-point between the official buying and selling rates for the dirham has been Dh 3.6725 per US \$1.». By pegging the dirham to the US dollar the CBU adopted an exchange-rate policy of pegging its (the CBU) rate of exchange to another country's currency, in this case, the US dollar.

A currency peg is a fixed exchange-rate, which facilitates trade by allowing both importers and exporters to know exactly what kind of exchange rate to expect for their transactions. Furthermore, according to the WTO (2006b) «The UAE's exchange system is free of restrictions on payments and transfers for international transactions», which in turn increases trade activities and attracts foreign investors. All in all, the UAE's monetary policy has been at par with trade, investment and fiscal policies in further developing the economy.

2.4. The Dubai Model

Since 1975 Dubai has been able to develop and sustain one of the highest GDP growth rates in the world, 9% between 1975 and 2011 (Al Faris & Soto, 2015). According to Callen et al. (2014), Dubai has also been showcased as a model not only for the UAE but to the neighboring GCC countries due to its «...business-friendly environment, light regulations, modern infrastructure, and efficiency in project implementation...». Of all the seven emirates, Dubai «...has been the most proactive and eager emirate in its attempt at diversification in the GCC region (Hvidt, 2013).

It was during the mid-1990's that Dubai authorities envisaged a new vision for emirate: to become the business hub of the Gulf region as well as the driving force behind reform (Al Faris & Soto, 2015). As suggested by Hvidt (2013) and Al Faris and Soto (2015) major initiatives were launched in late 1990's until mid-2000's that would introduce a series of "new's" and first's", change the structure of Dubai's economy and turn it into a business hub for the Middle East. According to Al Faris and Soto (2015) it is possible to detach various initiatives such as "Destination Dubai" which was focused on developing Tourism, "Hub Dubai" that intended to transform the emirate into a regional center for global trade and transshipment, and "e-Dubai" which had the major role of developing the city into a global capital for information technology and e-commerce.

It was also during this period that Dubai channeled its oil revenues to finance ambitious public investment programmes (particularly in infrastructure), and «... embarked on large-scale property development and overseas investments to accelerate the diversification of its economy.» (Al Faris & Soto, 2015). The contraction of oil production in early 2000's led to further efforts to diversify

Dubai's economy. According to Al Faris and Soto (2015) wholesale and retail trade, real estate, manufacturing, construction transport, storage and communication, and the financial sector were the six sectors that contributed the most for the diversification of Dubai's economy. Furthermore, «The share from these six sectors increased from a low of 40 % in the 1980's to 94% in 2011.» (Al Faris & Soto, 2015)

Due to Dubai's ambitious public investment projects to develop its infrastructures (roads, airports, seaports, among others) and business-friendly policies, it was able to transform itself into a regional business-hub. In fact, by 2012, Dubai's wholesale and retail trade sector had a contribution share of more than 31% of GDP. Both manufacturing and transports came right after contributing each to 14% of the GDP; real estate had a share of 13%, followed by the financial sector with a contribution share of 12% and construction 9% (Al Faris & Soto, 2015). By 2013 Dubai's GDP structure did not change much as suggested in figure 29.

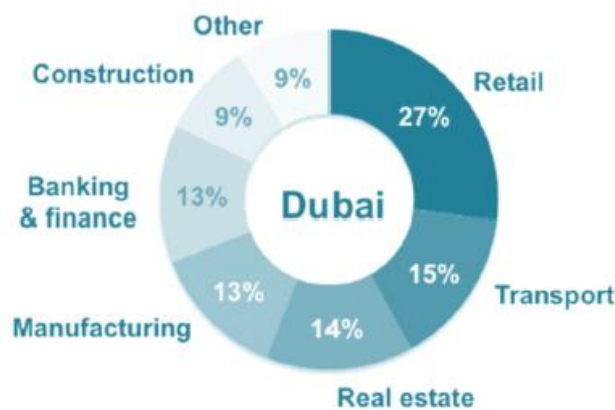


Figure 29. Contribution to GDP by Sector in the emirate of Dubai – 2013
Source: Anderson et al., 2015

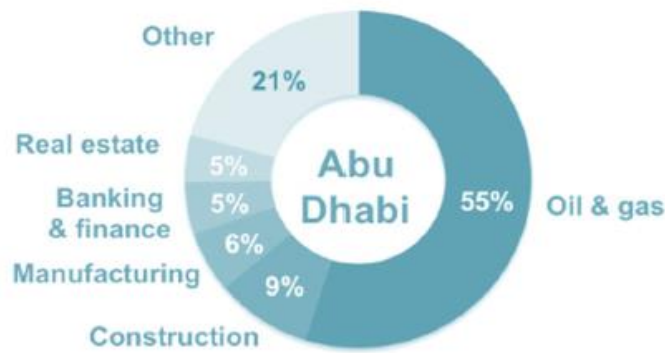


Figure 30. Contribution to GDP by Sector in the emirate of Abu Dhabi – 2013
Source: Anderson et al., 2015

Throughout the years Dubai has been able to diversify its economy, becoming the “non-oil engine” of the UAE’s economy, while Abu Dhabi still is the “oil engine” of the country’s economy. According to Al Faris and Soto (2015) Dubai’s economic development was achieved through four strategic pillars: (1) diversification of the economy; (2) development and expansion of the infrastructure; (3) development of the financial sector and establishment of Dubai Financial Market; and the establishment of Free Zones to attract foreign investment of multinational enterprises.

On a complementary and broader view, Hvidt (2013) suggests the existence of a “Dubai Model” of economic development, which contains nine key elements as follows:

«(1) government led-development, 2) fast decision making and “fast-track” development, 3) a flexible labor force through importing expatriates, 4) bypassing industrialization and creating a service economy, 5) internationalizing service provision, 6) creating investment opportunities, 7) supply generated demand, 8) market positioning via branding, and 9) development in cooperation with international partners.»

Both the strategic pillars pointed out by Al Faris and Soto (2015) and the “Dubai Model” suggested by Hvidt (2013) encompass the general framework of policies through which Dubai has been able to succeed and thrive. In this sense, Dubai’s policy framework should be looked up to as a model to consider for the UAE economic development as a whole.

3. Findings and Contributions

3.1. Findings

By taking into account the present work's research question –“What were the policies adopted by the United Arab Emirates Federal Government that made the Emirates economy a case of success?”– as well as its underlying goals, it was mandatory to develop a framework of analysis. The “two-building block” rationale followed throughout the present work intended to address the “case of economic success” and then the economic policies that propelled such success. It was in light of the aforementioned that the first building block started by taking a more historical and qualitative approach to depict the economic background of the United Arab Emirates when it was formed in 1971. Through qualitative data it was possible to gather perspectives from various authors and consolidate it into one single interpretation of the UAE economy years before the country's establishment.

Findings suggest that between late 1950's and 1960's the Trucial States – which form the present UAE - were marked by a subsistence economy which was characterized by agriculture, pearling extraction, fishing and trading activities (Al Sadik, 2001; Butt, 2001; Shihab, 2001). With a population of no more than 180,000 in 1968, the former Trucial States still faced underdevelopment and presented several deficiencies within its seven emirates (Al Abed, 2001). Infrastructures such as roads and ports were underdeveloped and almost non-

existent (Butt, 2001). In the late 1960's oil exports were initiated and financial aid came from Great Britain, Saudi Arabia, Kuwait, Qatar and Bahrain. By late 1960's and early 1970's the UAE initiated its process of modern development.

In order to understand how the UAE evolved from a subsistence economy into an innovation-driven economy in no more than 44 years, it was necessary to (1) understand the features of the economy (both past and present), (2) analyze how the UAE achieved such economic growth by looking at its economic performance, (3) identify the main drivers that propelled such economic performance, and (4) assess the extent of the UAE's economic success when compared to world economies.

Considering Omaira's (2001) interpretation of the major characteristics of the UAE economy, it was possible to identify 5 main economic features: (1) heavy reliance on hydrocarbon resources and revenues, (2) adoption of a free market system, (3) narrowness of the domestic market, (4) reliance on foreign labor force, and (5) geographic location. An analysis was conducted to the UAE's dependence on oil and gas resources, which suggested that the UAE was and still is a resource-based economy because its oil sector's contribution share to total GDP were always higher than 10% and oil export revenues contribution share to total export revenues were always higher than 40%. In addition, qualitative data also suggested that the UAE has used its hydrocarbon revenues to finance its economic development.

Being a resource-based economy meant that economic performance would inevitably be subject to variations caused by external shocks. However, the UAE was able to achieve record-breaking rates of economic growth (Wam, 2014). To analyze the UAE's economic performance Real GDP was taken into account.

Considering Real GDP growth rate allowed a clearer analysis of the increase in the growth and total output of the Emirates economy as well as a comparison between world economies.

Findings suggest that from 1975 to 2014 the UAE experienced three stages of economic growth. The first stage was from 1975 to 1984 where the economy experienced positive and substantial growth. The second stage was in the period of 1985 to 1999 where the economy felt the oil hurdles with a major slowdown. The third stage was from 2000 to 2014 and it was where the UAE economy achieved astonishing growth rates. The Emirates economy grew from a Real GDP of USD 27,545 billion in 1972 to USD 249,578 billion in 2014, having registered its highest value in this same year. The highest growth period was unquestionably from 2000 with a Real GDP of USD 139,150 billion to 2014 with USD 249,578 billion.

Comparative analysis showed evidence that the UAE's Real GDP growth rate fluctuated heavily from 1980 to 1990. Notwithstanding, from 2011 to 2015 it has shown strong signs of stability. Comparison of Real GDP growth rates between the UAE and other countries also suggested that (1) GCC countries present similar trends in the growth rates, and (2) since 2011 UAE's Real GDP growth rates have been higher than economies such as Germany, United States, Japan or Singapore.

The UAE has been able to achieve astonishing economic performance and increase its economic growth. In this sense, it was of relevance to understand what have been the main economic drivers (or key-sectors) of the economy. As a resource-based economy, the oil sector (or energy sector) has always played a dominant role. In 1975 the oil sector's contribution share to total GDP accounted

for 57,26%. However, the diversification process put in motion by the UAE government led to the oil sector's contribution share to decrease in 2014 to 34,58% of total GDP. With the purpose to diversify the economy and reduce reliance on hydrocarbons, the non-oil sector has been expanding. In this sense, from 1971 to 1999 the UAE's key sectors were Energy, Construction, Food Processing, Manufacturing and Real Estate. From 2000 to 2015 the UAE's main economic drivers have been the Energy sector, Industry, Tourism, Transports and Logistics, and Real Estate and Construction.

The astonishing economic growth the UAE achieved was not only due to its hydrocarbon resources but also due to prudent policy-making undertaken by the UAE Federal Government that in many instances led to the expansion of non-oil sectors such as Tourism, which is now one of the main drivers of the economy. As of 2015, this has positioned the UAE as the 17th most competitive economy among a total of 140 economies according to the WEF's Global Competitiveness Report (WEF, 2015a).

While in the late 1960's the country barely had roads, it now ranks 2nd in the world in terms of overall quality of infrastructure and surprisingly 1st in quality of its roads (WEF, 2015a). In addition, the UAE is now the Middle East's business-hub by being equally well positioned in terms of light regulation that favors both trade and foreign investment activities. This economic development could not have been possible without the current framework of policies adopted by the UAE government (John, 2015).

The UAE's framework of policies that propelled such economic growth comes as the 2nd building-block of the present work's rationale and is the answer to the proposed research question. The set of policies designed and implemented by the UAE Federal Government that made the UAE's economy a case of success were (1) Diversification of the economy, (2) Trade policies, (3) Investment policies, (4) Fiscal and (5) Monetary policies. In this sense the main goals of these economic policies have been (1) stimulate growth; (2) allow the diversification of the economy away from hydrocarbon resources; (3) attract investment, both foreign and local, and (4) create a business-friendly environment with few or no restrictions/barriers that support trade liberalization (WTO, 2006b).

Research suggests that diversifying the UAE's economy to divest away from hydrocarbons dependence was the major policy adopted by the UAE Government to promote long-term sustainable economic growth (Hvidt, 2013; Omaira, 2001). In this sense, the rationale presented was that trade, investment, fiscal and monetary policies have been the tools to promote the process of economic diversification, the major aim of the UAE Government. The theoretical concept of diversification adopted for the present study implied that economic diversification meant increasing various sources of national income by developing a non-oil economy, non-oil exports and non-oil revenue sources (ESCWA, 2001, apud Hvidt, 2013).

To understand the extent of economic diversification the UAE achieved, a framework of analysis suggested by Hvidt (2013) was adopted. Findings suggest that the UAE was able to diversify its economy, increase the non-oil sectors dimension as well as increase non-oil export revenues. Statistical data supporting these findings shows that the oil sector's contribution share to total GDP decreased from 57,26% in 1975 to 34,35% in 2014. Economic sectors such as

manufacturing increased their GDP share from 0,9% in 1975 to 9% in 2014, which led to the non-oil sector expansion. In addition, non-oil export revenues to total export revenues increased its share from 30,73% in 2000 to 65,75% in 2015. Nonetheless, oil revenues to total government revenues did not experience significant changes, as they accounted for 90,5% of total government revenues in 1972 and 80,5% in 2006. As it was not possible to include the period of 2007-2015, this is an indication that although the UAE economy has been diversified, it is still reliant on hydrocarbons.

The successful diversification of the economy would not have been possible without a general set of policies designed and implemented by the UAE Federal Government. This set of policies is comprised by Trade, Investment, Fiscal and Monetary policies. Findings suggest that Trade and Investment policies have played a major role in boosting economic growth. The UAE adopted ever since an open trade policy and avoided protectionism in the form of heavy regulations and high tariff barriers. The elimination of quantitative, technical and tariff barriers on domestic and international commercial exchanges as well as the low customs duties and efficient customs procedures have contributed immensely to foster export activities. These policies have placed the UAE as the 5th economy (out of 140) with less government regulations, 10th in terms of prevalence of non-tariff barriers, and 11th in terms of the country's exports contribution share to total GDP (WEF, 2015a).

Investment policies have been directed towards the establishment of Free Zones and attraction of FDI inflows. With extremely attractive tax and ownership benefits, Free Zones have contributed immensely to attract foreign enterprises to establish themselves in UAE through FDI. In this sense, the UAE Federal Government views FDI as one of the main pillars of structural change of the

economy as it promotes transference of technology and know-how much needed by the country. In light of this scenario, in 2015 the UAE ranked 3rd in terms of FDI and technology transfer and 7th regarding business impact of rules on FDI (WEF, 2015a).

Both Fiscal and Monetary policies have worked almost as enablers and/or supporters of Trade and Investment policies. Research suggests that the UAE's fiscal policy has been focusing on income taxation and management of government spending. In this sense, the UAE government has strived to maintain income tax exemptions and promote prudent and efficient management of public spending, thus enabling and attracting foreign investment to boost the private sector. Regarding monetary policies, the UAE Central Bank has pegged the Dirham to the US dollar, maintaining the strength of the national currency and stability of exchange rates, which in turn has facilitated trade activities.

It is possible to verify that the UAE economy is a case of success and it also should be noted that hydrocarbon resources played a major role in promoting economic growth. However, the prudent policy-making adopted by the UAE Federal Government put to good use the country's natural wealth. In this sense, the set of macroeconomic policies designed and implemented by the UAE Government have also been an equally and important asset in promoting the economic success the United Arab Emirates achieved in no more than 40 years.

3.2. Contributions

The contributions of the present study are directed towards both the Academic and Business fields. For the Academic field, the study sheds light on the policies that guided the economic success of the United Arab Emirates, an oil-dependent

economy located in the troubling region of the Middle East. The study will provide a better theoretical understanding of how an oil-dependent country can use economic policy to foster diversification and long-term sustainable economic growth. It is also a starting point for further research and investigation on the UAE's economy.

For the Business field, this is also a starting point to better understand the history and economy of a country that is now the Middle East's business-hub. For enterprises, the present study should be interpreted as a complementary "guide" to approach the UAE market as the country's economic policies are also directed towards foreign enterprises.

4. Limitations and Further Research

Due to the extended time frame the present study took into account (1971 – 2015) there were several statistical data “gaps” which limited the scope of the analysis and more importantly, its conclusions. For instance, the IMF (2016) only displayed statistical data from 1980 onwards, while the UAE’s National Bureau of Statistics (2016) provided GDP data from 1975 to 2014. However, GDP data provided by the IMF (2016) is presented in US dollars while data provided by the UAE institutions is provided in Dirhams. This might lead to distortions of the study’s findings. As such, an effort was made to maintain consistency when making analysis based on statistical data. In addition, the present study only contended policies adopted by the UAE’s Federal Government. As such, local government policies – being Dubai the best example - were not subject of research during the present study, which could limit the extent of the study.

By taking the Dubai as an example of economic diversification and local government policies, it is possible to provide suggestions for further research. In this sense, an interesting comparative study would be to explore the “Dubai Model” mentioned in the present work, and compare it vis-à-vis the Abu Dhabi process of diversification, which is a clear example of differences in local government policies directed to economic diversification and growth. An equally interesting subject would be a more focused analysis of the UAE’s investment policies, focusing on Free Zones and/or Foreign Direct Investment.

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6. Annexes

6.1. Annex I – UAE Real GDP (in USD) – 1972 to 2014

United Arab Emirates Real GDP (in USD) - 1972 to 1999	
Year	USD
1972	27,545,709,599
1973	31,539,956,877
1974	36,112,662,705
1975	38,361,623,049
1976	44,131,836,268
1977	51,828,606,618
1978	50,612,867,583
1979	63,208,971,663
1980	79,909,195,372
1981	82,179,884,498
1982	75,399,829,399
1983	71,609,284,591
1984	74,702,107,235
1985	72,917,422,703
1986	59,088,812,745
1987	62,786,906,062
1988	61,281,117,569
1989	69,573,589,416
1990	81,923,548,813
1991	82,628,176,802
1992	85,392,322,048
1993	86,469,202,854
1994	93,907,566,835
1995	101,625,305,989
1996	107,580,782,768
1997	116,887,468,219
1998	118,792,651,690
1999	124,001,834,603

Table 9. UAE Real GDP (in USD) – 1972 to 1999

Source: United Nations, 2015

United Arab Emirates Real GDP (in USD) - 2000 to 2014	
Year	USD
2000	139,150,824,020
2001	141,065,061,316
2002	144,497,703,072
2003	157,214,336,283
2004	172,254,287,053
2005	180,617,467,954
2006	198,385,312,612
2007	204,702,719,930
2008	211,236,446,634
2009	200,161,465,895
2010	203,434,946,893
2011	213,373,388,209
2012	228,783,839,748
2013	238,670,413,669
2014	249,578,343,053

Table 10. UAE Real GDP (in USD) – 2000 to 2014

Source: United Nations, 2015

6.2. Annex II - Real GDP (annual growth rates) – 1980 to 1999

Real GDP growth (Annual percent change)	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
United Arab Emirates	-1,8	8	-7,2	-5,2	4,5	-2,5	-19,3	5,3	-2,6	15,7	23,6	2,1	3,1	0	7,4	6,6	5,3	8,6	0,8	3,8
Brazil	9,2	-4,4	0,6	-3,4	5,3	7,9	7,5	3,6	0,3	3,2	-4,2	1	-0,5	4,7	5,3	4,4	2,2	3,4	0,3	0,5
China, People's Republic of	7,9	5,1	9	10,8	15,2	13,5	8,9	11,7	11,3	4,2	3,9	9,2	14,3	13,9	13,1	11	9,9	9,2	7,8	7,6
Russian Federation	-	-	-	-	-	-	-	-	-	-	-	-5	-14,5	-8,7	-12,7	-4,1	-3,6	1,4	-5,3	6,4
India	5,3	6	3,5	7,3	3,8	5,3	4,8	4	9,6	5,9	5,5	1,1	5,5	4,8	6,7	7,6	7,5	4	6,2	8,5
Bahrain	7,5	2,8	6,4	7	4,2	-0,9	0,5	-1,2	6	1	3,5	2,3	7,1	7,6	3,2	1,9	3,2	2,3	4,8	6
Kuwait	-20,4	-18,9	-9,5	5,3	5,2	-4,3	8,6	8,1	-10	25,9	-26,2	-41	82,8	35,1	8,6	1,7	0,6	2,5	3,7	-1,8
Oman	6,1	17,1	11,5	15,9	13,9	14,5	2,1	-4	5,2	3	8,4	6	8,5	6,1	3,8	4,8	2,9	6,2	2,7	0,3
Qatar	-1	-3,9	-8,2	-5,3	16	-13	3,7	0,9	4,7	5,3	-14,6	-1,7	11,3	-1,3	1,4	2,4	4,4	3,0	11,2	4,3
Saudi Arabia	5,7	1,9	-20,7	-16,1	-4,7	-9,8	17	-6,6	13,1	-0,5	15,2	15	4	-1,4	0,6	0,2	2,6	1,1	2,9	-3,8
Japan	3,2	4,2	3,4	3,1	4,5	6,3	2,8	4,1	7,1	5,4	5,6	3,3	0,8	0,2	0,9	1,9	2,6	1,6	-2	-0,2
Singapore	10	10,7	7,2	8,5	8,8	-0,7	1,3	10,8	11,1	10,2	10	6,7	7,1	11,5	10,9	7	7,5	8,3	-2,2	6,1
France	1,8	1,1	2,5	1,3	1,5	1,6	2,4	2,6	4,7	4,4	2,9	1	1,6	-0,6	2,3	2,1	1,4	2,3	3,6	3,4
Germany	1,3	0,1	-0,8	1,6	2,8	2,2	2,4	1,5	3,7	3,9	5,7	5	1,5	-1	2,5	1,8	0,9	1,9	1,8	1,8
United Kingdom	-2,2	-0,8	2,1	4,2	2,3	4,1	3,2	5,6	5,9	2,5	0,6	-1,3	0,4	2,6	4	2,5	2,7	3,1	3,4	3,1
United States	-0,2	2,6	-1,9	4,6	7,3	4,2	3,5	3,5	4,2	3,7	1,9	-0,1	3,6	2,7	4	2,7	3,8	4,5	4,4	4,7

Figure 31. Real GDP Annual Growth Rates – 1980 to 1999 – UAE and World Economies

Source: IMF, 2016

6.3. Annex III - Real GDP (annual growth rates) – 2000 to 2014

Real GDP growth (Annual percent change)	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
United Arab Emirates	12,3	1,8	2,4	8,8	9,6	4,9	9,8	3,2	3,2	-5,2	1,6	4,9	7,2	4,3	4,6	3,9
Brazil	4,4	1,4	3,1	1,1	5,8	3,2	4	6,1	5,1	-0,1	7,5	3,9	1,9	3	0,1	-3,8
China, People's Republic of	8,4	8,3	9,1	10	10,1	11,3	12,7	14,2	9,6	9,2	10,6	9,5	7,7	7,7	7,3	6,9
Russian Federation	10	5,1	4,8	7,3	7,2	6,4	8,2	8,5	5,2	-7,8	4,5	4,3	3,5	1,3	0,7	-3,7
India	4	4,9	3,9	7,9	7,8	9,3	9,3	9,8	3,9	8,5	10,3	6,6	5,6	6,6	7,2	7,3
Bahrain	7	2,5	3,3	6,3	7	6,8	6,5	8,3	6,2	2,5	4,3	2,1	3,6	5,4	4,5	3,2
Kuwait	4,7	0,2	3	17,3	10,8	10,1	7,5	6	2,5	-7,1	-2,4	10,6	7,7	1	0	0,9
Oman	6,5	4,5	-1,1	-2,7	1,3	2,5	5,4	4,5	8,2	6,1	4,8	4,1	5,8	4,7	2,9	4,1
Qatar	8	3,9	7,2	3,7	19,2	7,5	26,2	18	17,7	12	19,6	13,4	4,9	4,6	4	3,3
Saudi Arabia	5,6	-1,2	-2,8	11,2	8	5,6	2,8	1,8	6,2	-2,1	4,8	10	5,4	2,7	3,6	3,4
Japan	2,3	0,4	0,3	1,7	2,4	1,3	1,7	2,2	-1	-5,5	4,7	-0,5	1,7	1,4	0	0,5
Singapore	8,9	-1	4,2	4,4	9,5	7,5	8,9	9,1	1,8	-0,6	15,2	6,2	3,7	4,7	3,3	2
France	3,9	2	1,1	0,8	2,8	1,6	2,4	2,4	0,2	-2,9	2	2,1	0,2	0,7	0,2	1,1
Germany	3,2	1,8	0	-0,7	0,7	0,9	3,9	3,4	0,8	-5,6	3,9	3,7	0,6	0,4	1,6	1,5
United Kingdom	3,8	2,8	2,5	3,3	2,5	3	2,7	2,6	-0,5	-4,2	1,5	2	1,2	2,2	2,9	2,2
United States	4,1	1	1,8	2,8	3,8	3,3	2,7	1,8	-0,3	-2,8	2,5	1,6	2,2	1,5	2,4	2,4

Figure 32. Real GDP Annual Growth Rates – 2000 to 2014 – UAE and World Economies
Source: IMF, 2016