

**An Evaluation of Tourism Development as Diversification  
Strategy in the United Arab Emirates**

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**A thesis submitted in partial fulfilment of the requirements of Nottingham  
Trent University for the degree of PhD**

**December 2013**

## **ACKNOWLEDGEMENTS**

I would like to express my thanks and gratitude to my supervisors, Professor David Smith and Professor Paul Whysall, for their guidance and support throughout all the stages of doing this research. My thank also go to my family for their support and understanding. My thanks extended to my country and my workplace for giving me the opportunity to conduct this research and to help me to fulfill my dream to do it.

## **ABSTRACT**

The United Arab Emirates (UAE) has been transformed from a land of deserts into a land of opportunities within a span of four decades. The robust economic growth of the UAE is evident from the booming economic sectors such as real estate and construction, tourism and hospitality, telecommunications, shipping and logistics, retail and finance. This growth epitomises the success of an innovative state-led capitalist growth model, under an able leadership. The main objective of this study is to evaluate government policies towards diversification of the UAE economy away from its heavy reliance on oil.

The research examines the UAE Government's policies towards the tourism sector, especially the role of tourism in the diversification of its economy. For this purpose, the approach and methodology employed in this paper is qualitative in nature. A thorough review of the literature has been conducted to understand the historical perspective of resource abundance and oil curse theories and rentiers, city state and economic diversification concepts. Qualitative research methodology in the form of a case study was employed to obtain an in-depth analysis and evaluation of the performance and development of the tourism sector. For this purpose, the larger Emirates of Dubai, Abu Dhabi and Sharjah were selected.

The results revealed that the exceptional growth of the UAE since the 1970's has been triggered by the exploration of oil. The early realization of the resource curse by the government of UAE has resulted in various efforts being made to reduce the dependence and reliance on the oil sector for economic growth. The UAE has employed liberal and market oriented policies which laid a strong foundation for its successful diversification of the economy away from oil. The government has focused on non-oil sectors, particularly tourism, to ensure that the UAE becomes a regional hub for tourism and global investment. The UAE has invested billions of dollars into various non-oil sectors and has ensured that the oil sector's contribution to the country's GDP is reduced. The government has created a competitive as well as a coordinated atmosphere to ensure that all the seven emirates work towards the common goal of diversification and the development of the UAE economy as a whole.

The vision of the government in making the UAE a preferred destination for tourism is gaining momentum, which ensures a significant increase in the contribution of the tourism sector to the National GDP. However, among the seven emirates, only Dubai, Abu Dhabi and Sharjah have taken serious policy initiatives to ensure the development of the tourism sector to ensure the increase in competitiveness and economic growth. Further thrust is required to increase the investment and development of non-oil sectors by all the emirates to ensure sustained development of the economy in the long run. There is more emphasis to focus on non-oil sectors, especially tourism, as the continued dependency on the highly volatile oil sector for wealth will affect the growth and stability of the economy of the UAE in the long run.

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## LIST OF ACRONYMS

<b>Acronym</b>	<b>Meaning</b>
ADED	Abu Dhabi Economic Department
ADTA	Abu Dhabi Tourism Authority
Aldar	Aldar Properties Company ( Abu Dhabi)
Arabia (airline)	Air Arabia Airline (Sharjah)
DTCM	Dubai Commerce & Tourism Development Authority
Emaar	Emaar Properties Company (Dubai)
Emirates (airline)	Emirates Airline Company (Dubai)
Etihad	Etihad Airways company (Abu Dhabi)
GDP	Gross domestic product
GNI	Gross National Income
GNP	Gross National Product
Nakheel	Nakheel Real Estate Company (Dubai)
SCTDA	Sharjah Commerce & Tourism Development Authority
Shurooq	The Sharjah Investment and Development Authority (Shurooq)
Sorouh	Sorouh Real Estate Company ( Abu Dhabi)
TDIC	Tourism Development & Investment Company (Abu Dhabi)
UAE	United Arab Emirates
UAEME	United Arab Emirates Ministry of Economy

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# Chapter 1

## 1 Introduction

### 1.1 Purpose of the study

The economy of the UAE has been witnessing exceptional growth, mainly influenced by its enormous oil reserves. Realizing the increased dependency on oil for its economic development, the government has been taking various measures to diversify its economy. To ensure economic diversification, the government of the UAE has been focusing on non-oil sectors to improve its economic growth and sustainability. The purpose of this study is to examine the policies of the UAE government in diversifying its economy and reducing its dependency on oil. The government of the UAE has identified leisure and business tourism as an important sector in the UAE's future development. Since it is beyond the scope of this study to address all the economic diversification policies, only those policies intended to develop the tourism sector have been examined. Therefore, the focus of this study is to identify and analyse the contribution of the UAE's policies to promote the growth of the tourism sector and how these can be developed further in order to enhance the country's image. This is important for its future growth and development. The tourism industry is identified as a way of:

- improving economic growth and diversification
- ensuring development across the Emirates
- encouraging businesses from the private sector
- helping the change in the structure of the public sector
- improving the profile and standing of the UAE internationally
- supporting international friendliness and understanding

In addition, the study will focus on problems of tourism development and the UAE's approach for enabling the tourism sector to become sustainable and reap benefits.

### 1.2 Introduction to the subject and background

“The Arab world is defined by oil” (Elbadawi & Gelb, 2010). Other than the cultural and historical heritage, the different countries in the Arab world are related because of their heavy

reliance on hydrocarbon resources. More than 50 per cent of the countries that constitute the Arab world are oil exporters and they account for 55 per cent of oil reserves globally and 29 per cent of the world's natural gas reserves. According to the IMF (2009), the economies of these countries are dominated by the hydrocarbon sector, which accounts for 50 per cent of their GDP and 80 per cent of their government revenues. The non-oil Arab countries are also significantly influenced by oil because of their labour market, investment and tourism industry relationships with the oil economies. Hence, despite differences, both oil and non-oil economies have been facing similar challenges owing to the oil cycle.

Extant literature reveals that most of the Arab economies have experienced growth for a short period of time and stagnation for a longer period of time mainly because of their failure to take countermeasures in terms of economic policies and their lack of transparency and accountability. Further, the traditional state-led strategies for development have resulted in an unemployment crisis in most of the Arab countries. The failure to grow and to reduce the unemployment rate is further visible through the low level of diversification and advancement in exports and the manufacturing sector's limited role in most of these economies. Further, recent developments suggest that countries that have ensured significant and sustainable growth have done so mainly because of economic diversification and good governance as well as active performance in the manufacturing sector.

The general statements about the threats of high dependency on natural resources are no longer accepted in totality. The income from oil is basically temporary owing to declining stocks and highly unreliable because of volatile prices. Hence, the effective management of oil and proper utilization of the same to accumulate necessary tangible and intangible stocks and capital such as infrastructure, human and knowledge capital and good institutions is extremely important for the oil-rich economies. Oil has been an important natural resource which has been responsible for increased per capita incomes in many countries. Moreover, many oil countries have utilized the rents from oil to ensure higher consumption and welfare of the public as well as investments which are necessary for economic growth.

Arab countries in the Gulf region are preparing for the post-oil era after being heavily

dependent on crude oil and gas for their economic growth, which is particularly evident in the case of the United Arab Emirates. The UAE has devised its economic model in line with that of Singapore which had created and developed a services and tourism-based economy of world class, despite its limited natural resources.

### **1.3 Research Aims and Questions.**

#### **1.3.1 Research Aims**

This study aims to a) Examine the UAE's economic structure, b) Analyse the policies of the UAE government to develop the tourism sector and c) Evaluate tourism policy as a diversification strategy in the UAE.

#### **1.3.2 Research Questions**

Specific research questions have been established to accomplish the research aims. The research questions that are addressed include:

- 1- How dependent is the UAE on oil?
- 2- Why does the UAE want to diversify its economy?
- 3- What is the tourism policy for economic diversification in the UAE?
- 4- How effective has the UAE government tourism policy of diversification been?

### **1.4 Methodology**

Socio-economic research can be carried out using various research methods. The data collected during a socio-economic research study can be used later on as a source of information in this field. For this reason, the research approach and methodology used must be carefully selected. This is especially so if the research is in the field of tourism and travel as this is a wide area of study and needs to be properly exhausted. Any such study should be very in-depth (Lewis & Ritchie, 2003). Before carrying out such research, the researcher should evaluate the methods that have been used before by other researchers so as to ascertain that the research will be done in the right way. The most commonly used and most effective methods of research are as discussed below:

Just as the name suggests, qualitative methods do not need statistics or any form of measurement. Thus, qualitative data is usually not numerical in nature and cannot be measured (Myers, 2008). This is because qualitative methods of research seek to describe the behaviour, attitudes, experiences, interactions and beliefs of people in their environments. All of these cannot be measured. Many times qualitative research has been treated as a less scientific method of research. However, this is not a true statement, since the extensive use of qualitative research in natural sciences has resulted in rich research results. Studies also indicate that qualitative research has been used over the years in areas such as sociology, philosophy and history and even modern day researchers extensively apply qualitative methods in their data analysis (Walle, 2001).

Qualitative research is used across many different fields of study and in different subjects. As already mentioned above, qualitative research seeks to give in-depth information about human behaviour and attitudes and also tends to examine the factors and reasons behind such behaviour as well as the behaviour patterns (Myers, 2008). When carrying out qualitative research, it is usually advisable to have smaller and focused samples as opposed to large random samples. This is because qualitative research mostly answers the questions 'why' and 'how' rather than just 'when', 'where' and 'what' of the sample nature. There are various methods of qualitative research of which the most commonly used is the case study. A case study is descriptive in nature and also gives first-hand information. This is so because during a case study the researcher gets first-hand results, usually delivered by the sample being observed (Myers, 2008). The followings steps were taken to collect the data for this research:

1. To investigate the economic structure of the UAE (the first aim of the research), by means of government documents and desk research as the method of collecting secondary data. This method involves the collection of already existing data (Saunders, Lewis & Thornhill 2003). This covered the collection of documents and reports on tourism sector policies from the UAE government's official website and visiting UAE agencies and departments involved in the development of tourism sector policies. Desk research also involves library research to derive pertinent information from various secondary sources.



2. The United Arab Emirates is a federation consisting of seven states or emirates, and the policy for economic activity is designed and implemented at different federal and state levels. Therefore, in order to achieve the second aim of analysing UAE government policies towards the tourism sector, the researcher conducted:
  - Interviews with three senior officials at the federal level from the UAE Ministry of Economy to ascertain the Government Economic Policy in general and specifically towards Economic Diversification
  - Interviews with nine senior officials at the state level. Since Abu Dhabi, Dubai and Sharjah represent 95 per cent of the GDP of the UAE, and since the tourism sector in those three states represents most of the tourism sector in the UAE, three senior official from each of the Departments of Tourism in Abu Dhabi, Dubai and Sharjah were interviewed
3. To cover the third aim, that of assessing the tourism policies implemented by the government for diversification of the economy in the UAE, the researcher conducted:
  - Interviews with thirty senior officials at enterprises operating in the tourism sector of the UAE such as hotels and airlines: ten in Dubai, ten in Abu Dhabi and ten in Sharjah.
4. Documenting source from the UAE government and international agencies reports.

### **1.5 Research context**

The UAE has been depending heavily on its abundant oil resources for its economic development. Realizing the resource dependence and to avoid the oil curse, the government of the UAE has focused on diversifying its economy into non-oil sectors, especially into the tourism, trade and services sectors. Since the UAE is a federation, a collection of seven city-states, which enjoy significant autonomy, the key challenge for the federal government of the UAE is coordination among the seven Emirates towards achieving the common goal of economic diversification into non-oil sectors. Hence, the research is aimed at examining the diversification policies of the UAE towards the non-oil sector. Since the government of the

UAE has identified tourism as an important sector for diversification, the research focuses on the UAE's policies towards the tourism industry to ensure economic development.

## **1.6 Indication of the contribution**

The study is anticipated to provide a detailed examination of the UAE's tourism policies towards diversification of its economy from an oil base. The research will present a thorough analysis and investigation of the performance and growth of the UAE tourism sector which could assist current as well as future research. In spite of the critical role of tourism in the UAE economy, there are limited resources available which evaluate the policy of diversifying into the tourism sector in order to promote the growth and development of the economy as a whole. Hence, this study is an attempt to fill this gap by analysing the contribution of the UAE's policies for the growth of the tourism sector. It is also expected to provide valuable information and help for further research in the future.

## **1.7 Thesis Structure**

The structure of this thesis as follows:

- **Chapter One:** The first chapter presents an introduction to the study. It sets out the importance, scope and the objectives of the study.
- **Chapter Two:** This chapter provides a detailed study of the history as well as the geography of the Middle East, its topography and development, religion, culture and language. The region's source of income, the basic industries and sectors from which the income is generated and the economic policy and its reforms are discussed in detail. The chapter presents the history and composition of the United Arab Emirates in relation to economic development, its policy reforms and its plan for diversifying the economy. This chapter also highlights the UAE's primary economic sectors, export development and trade performances, trading partners in exports and imports and the infrastructure to support trade.
- **Chapter Three:** This chapter presents a detailed review of theories such as resource abundance, oil curse theory and economic base theory as well as concepts such as concept of

rentiers and city-state concepts with necessary examples. Further, the concept of economic diversification and various types of diversification, specifically diversification from oil base is reviewed in detail. The usefulness of tourism in diversifying the economy and promoting economic development is elaborated on and critical attitudes towards tourism as a means of diversification are also analysed and reviewed from the literature. Finally, the chapter presents the conceptual framework for the analysis of the UAE's economic diversification from the oil base through tourism.

- **Chapter Four:** This chapter discusses the methodology used for guiding this study. It outlines the research approach and the research strategy used in the study. The data collection (Primary and Secondary) and analysis methods used are described, as well as aspects relating to reliability, validity and ethical considerations.
- **Chapter Five:** This chapter presents individual case studies on Abu Dhabi, Dubai and Sharjah. The chapter lays out the policies taken by these Emirates in diversifying their economies with specific focus on the role of the tourism sector in the economic diversification of these Emirates.
- **Chapter Six:** This chapter presents and reports the findings of the secondary and primary researches conducted. It discusses the findings, drawing interpretations with the help of the reviewed literature.
- **Chapter Seven:** This chapter summarizes the main issues that emerge from the study. Finally the chapter also suggests recommendations for further study.

## **Chapter 2**

### **2 United Arab Emirates: Country Profile**

#### **2.1 Background on the Middle East**

The United Arab Emirates (UAE) is part of a region named the Middle East, and in order to understand the UAE it is necessary to understand its region first. This section will provide an overview about that part of the world.

##### **2.1.1 History and Development**

The Middle East stirs interest because of its important historical and contemporary role in global affairs. Many of the early civilizations emerged from the region, such as the Assyrian, Babylonian, Egyptian and Sumerian civilizations. Influential religions such as Christianity, Islam, Judaism and Zoroastrianism developed in the Middle East. The region also formed part of various empires, in succession, as territorial control changed from the Persian, Greek, Roman, Arab, Mongol, Tatar empires and then to the Turkish empire. The succession of empires led to the fusion of civilisations and cultures leading to various radical changes in the region and human history (Peretz, 1994).

During the Middle Ages, Europe took an interest in the Middle East in opening pilgrimage paths to the Holy Land through the Crusades. This increased trade with Western European countries and opened contact between the Middle East and Asia. Napoleon occupied parts of Palestine in the hope of defeating the British Indian Empire which was growing in Asia. Tsarist Russia also moved southward in attempts to take control of Iran and Turkey (Peretz, 1994). These events expressed recognition of the region's value as Europe's gateway to the greater Asian region.

After the collapse of the Turkey/Ottoman Empire, the Suez Canal trading route opened opportunities for various European countries to establish interest in the Middle East. Competing interests fuelled various wars and diplomatic conferences to settle control of the Turkish Straits. Nazi Germany also sought to gain a foothold in the Middle East and then in Asia. During the First and Second World Wars, weapons and supplies passed through the

trading routes of the Middle East. In the 1940's the Middle East gained more importance with the discovery of its vast oil reserves, particularly in the Arabian Peninsula and Iran.

The Middle East gained strategic value not only for its trading routes but also for its massive oil resources. Many foreign companies sought concessions to extract oil from the region. Oil exports supported the growth of industries in European countries and the United States since at least eighty per cent of oil consumed in these western regions came from the Middle East. In the early 1960's, the states comprising the Arabian Peninsula and Iran produced one quarter of the total global oil production with an unknown volume of reserves. During the Cold War, the clashing ideological interests sought to capture the acquiescence of the Middle East, with Russia exerting pressure from the north and the United States exerting pressure from the west (Peretz, 1994). Due to these events, the Middle East became an important region in world affairs.

Middle East is the regional name given by Western European states to the block of territory located at the South Western border of Asia, North Eastern border of Africa, and Western border of South Asia. As a collective term, Middle East is a large region comprised of the countries Bahrain, Cyprus, Egypt, Iraq, Iran, Israel, Jordan, Kuwait, Lebanon, Libya, Oman, Palestine, Qatar, Saudi Arabia, Syria, Turkey, United Arab Emirates, and Yemen. This area, previously called Near East, is located in between the European and East Asian regions. The term also connotes countries sharing a predominantly Islamic culture (Middle East, 2007).

### 2.1.2 Topography and Geography

Topographically, a common characteristic of the Middle East is the arid to semi-arid climate, although there are also forested areas and valleys. There are also grasslands and rangelands alongside the wide desert area. Shortage of fresh water for irrigation and consumption is a uniform problem for Middle Eastern countries. Countries through which the Nile and Euphrates rivers pass are able to tap water to support irrigation for agriculture. Nevertheless, while some countries are able to engage in agriculture, the supply is not sufficient. This need supported the development of trade with neighbouring countries (Anderson & Fisher, 2000). However, while the region lacks sufficient fresh water and

agricultural products, it has a sizable supply of oil and gas resources, which receive high demand from the global economy. This gave the Middle East an advantage in trade relations.

### 2.1.3 Culture, Religion and Language

Culturally, the Middle East hosts diverse ethnic groups defined by religion, language and historical roots including Arabs, Turks, Persians, Jews, and Kurds. Nevertheless, the region has a long experience with various cultures resulting in better inter-community relations. This became important in the establishment of trade routes. Religion is another unifying factor for countries in the Middle East. The leading religion is Islam but other faiths such as Christianity and Judaism also abound, together with minor religions such as Zoroastrianism and Yazdanism. The countries contiguous to the bodies of water had access to traded goods while the landlocked countries usually engage in oil and gas extraction. Strong trade relations are important to ensure the flow of goods and wealth across the different countries. Religion as a unifying factor was also important because of the diverse languages spoken in the countries comprising the Middle East such as Persian, Arabic and Turkish together with many dialects. Some groups also speak English and French, especially the middle and upper class (Ruthven, 2000).

### 2.1.4 Demographics

Demographically, the Middle East faces the challenge of handling rapid urbanisation and the decay of traditional systems with a large population of the younger generation. The contemporary Middle East is experiencing a continuing process of change unique to its situation. Three per cent of the world's population reside in the Middle East with the population expected to double by 2030. Half of the population are below fifteen years of age and seventy per cent of the population are below thirty years of age. The population explosion created infrastructural problems in public services and education. The depletion of water led to the decline in agricultural activities with this sector contributing ten per cent to the region's gross domestic product, down from forty per cent over the last four decades. This meant a shift from agricultural to manufacturing and services apart from the persisting oil and gas industry. Literacy rates in the Middle East vary, with Egypt having a literacy rate of fifty-one per cent and Jordan a literacy rate of eighty-six per cent. This is reflected in the high unemployment rate averaging twenty per cent for the male population and unknown for the

female population. However, the varying levels of literacy and significant rates of unemployment evolved from the unique socio-cultural, religious, political and natural resource context in the Middle East, which is in part different from the reason for low rates of education and unemployment in many impoverished countries in Africa or Asia (Karoui, 2006).

#### 2.1.5 Politics

Politically, the Middle East has a rich political history because of the diversity of the forms of government of the states. Presidential-parliamentary democracy is the structure of government in Turkey. Iran also has a presidential-parliamentary democracy but the process of administration has close ties with Islamic control. The form of governance in Iraq was one-party presidential dictatorship until the change to an electoral democracy in 2003. Monarchy is the form of government while Kuwait has a constitutional monarchy. Syria has a democratic government dominated by the military. The United Arab Emirates has a federal form of government (Anderson, 2001). The variance in forms of political leadership, strongly tied to cultural and religious contexts, affects inter-state relations and stability in the region as expressed in the Gulf War involving Iraq and Iran and the continuing Arab-Israeli conflict.

#### 2.1.6 Arabian Peninsula

The Arabian Peninsula is at the core of affairs in the Middle East. The Arabian Peninsula plays an important role in trade owing to its proximity to both Africa and Asia, together with vast reserves of oil and gas. The Kingdom of Saudi Arabia dominates the land area of the Arabian Peninsula with control of nine-tenths of the total land surface. Apart from Saudi Arabia and the United Arab Emirates, the other countries in the Arabian Peninsula are Bahrain, Kuwait, Qatar, Oman and Yemen. Towards the west of the Arabian Peninsula is the Red Sea and Gulf of Aqaba, on the South-eastern side lies the Arabian Sea that meets the Indian Ocean, on the North-eastern border is the Arabian Gulf, Gulf of Oman, and Strait of Hormuz. Access to these bodies of water supported the development of trade. The northern border of the Arabian Peninsula is the mountain range bordering Iraq and Iran. This comprised the demarcation of the Arabian Peninsula territory and buffer zone for security purposes (Anderson & Fisher, 2000).

## **2.2 Economy of the Middle East**

### **2.2.1 Aggregate Income and Sources of Income**

The economies of the states forming part of the Middle East varies from low income countries such as Yemen and the Gaza region to high income countries such as Kuwait and the United Arab Emirates. Nevertheless, even with the variance in income generation, all countries experience growth levels, albeit in varying degrees. This makes the Middle East a formidable economy. Reports of the International Monetary Fund (2008) showed that the three largest economies in the Middle East in terms of nominal gross domestic product (GDP) are Turkey with \$663.42 billion, Saudi Arabia with \$376.03 billion and Iran with \$294.09 billion. The strongest economies in terms of gross domestic product at per capital purchasing power parity (GDP-PPP) are Turkey with \$887.96 billion, Iran with \$752.97 billion and Saudi Arabia with \$564.56 billion. In terms of purchasing power parity (PPP) alone, the top ranking economies are Qatar with \$80,000, second Kuwait with \$39,000 and third United Arab Emirates with \$37,000. The lowest ranking economies are the Gaza Strip and West Bank with \$1,000 (International Monetary Fund, 2008).

The economic structures of the states forming part of the Middle East also vary depending on the predominant economic activities. Whereas some economies are concentrated on a single sector such as Kuwait, Qatar and Saudi Arabia which are heavily dependent on oil production and export, others, such as Egypt and Turkey, have diversified sectors engaged in agriculture, manufacturing, services and tourism (Middle East, 2007).

### **2.2.2 UAE Main Industries or Sectors**

The primary industry in the Middle East is the oil industry controlling sixty-five per cent of oil reserves in the world. Early 2000 saw the third surge in the oil industry as stock markets of Arab oil companies spiralled upwards. The importance of the oil industry in the Middle East is due to the dependence on oil of other industries, not only in the Middle East, but also across the globe. Many industrial states in Europe, North America and Asia comprise the market of the oil industry. China is a developing economy and it should become a top customer in the next ten years. Moreover, the growing demand relative to the decreasing supply of oil increases the price of oil, leading to continuously high revenues for the industry. The countries dependent on the oil industry such as Kuwait, Iran and Saudi Arabia are also



the top economies in the Middle East (Federal Research Division, 2007). Revenue generated from the oil industry has supported infrastructure building in Middle East economies such as the United Arab Emirates, as evidenced particularly by Dubai's budget allocation for development projects as a long-term contingency plan. The future economic strength of the Middle East will be determined by the extent to which policies aiming to take advantage of high current liquidity in developing emerging industries using revenue from the oil industry are able to develop industries and augment long-term hydrocarbon production.

An interlinked industry is the natural gas sector controlling twenty-six per cent of the aggregate volume of existing natural gas. Key countries engaged in the mining of natural gas are Kuwait, Iran, Qatar and Saudi Arabia and natural gas strongly supports these economies. Another parallel sector is petroleum mining, which is dominant in Bahrain, Oman and Qatar (Federal Research Division, 2007).

Another major sector is exporting. The Middle East has a rich history and trading and exporting remains an important economic sector. During the middle of the 19<sup>th</sup> century, many of the states without an oil sector in the Middle East focused on the production of cash crops for trading with other countries in the Middle East as well as for overseas markets. Primary export products were the outcomes of agricultural activities such as grains from Iraq, Syria and Turkey, cotton from Egypt, and silk from Lebanon. In the 20<sup>th</sup> century, the primary exports of oil producing countries were oil and gas. The influence of the USSR during the 1950s led to the introduction of economic policies to manage trade, such as exchange rate controls and subsidies. During the wars, the region also became involved in the arms trade as recipient and distributor. Although oil exports remain the primary commodity traded by the Middle East, food and non-food exports continue to contribute to economic growth especially for non-oil producing countries (Commit FZE, 2008).

A related contributing industry is the manufacturing sector, although limited in growth potential. The Middle East has limited natural resources or raw materials to support the growth of the manufacturing sector. Nevertheless, in non-oil producing countries or diversified economies, the manufacturing sector significantly contributes to economic growth. Egypt and Turkey are two countries with a significant manufacturing sector focusing on food processing, textile manufacturing, and production of chemical products. The oil producing

countries also engage in the production of petrochemicals but to a lesser extent than in the processing of crude oil (Commit FZE, 2008).

The agricultural sector, or what has remained of the industry, has a strong alignment with the food export sector. The agricultural sector declined in importance during the 1950's because of dwindling resources, especially fresh water. By the 1990's, the Middle East was already importing half of its food needs. The shift to the importation of agricultural goods finds justification from the growing population and higher demand for food, the heightening rural-to-urban migration of farmers, and the focus on other industries such as manufacturing. Nevertheless, the agricultural sector remains a significant contributor in non-oil producing and diversified economies such as Egypt, Syria, Turkey and Yemen. The two oil-producing economies of Iran and Iraq successfully engaged in diversification and entered into agricultural production. The agricultural sector contributes from fifteen to twenty-five per cent of gross domestic product. (Federal Research Division, 2007)

A third major developing industry is tourism. Egypt and Turkey are the only countries in the Middle East with a developed tourism industry. The other countries are largely unexplored as tourism destinations. Moreover, the other countries in the Middle East have an undeveloped environment for tourism with the conservative culture and political turmoil constituting a disincentive for tourists. However, in the past decade, many countries in the region such as Jordan, Bahrain and the United Arab Emirates have developed facilities and policy structures for tourists (Federal Research Division, 2007). To work with the environment, these countries not only developed outdoor tourist destinations, such as beaches and sand recreation activities, but also indoor tourism attractions, especially the vibrant markets and shopping centres together with luxury hotels.

Another developing industry is banking, specifically in Bahrain and the UAE. This is not surprising since wealthy countries in the Middle East require a stable banking and finance sector. A number of factors would fuel the growth of this sector, which are 1) the increase in bank loans with growth opportunities in the other sectors; 2) the increase in deposits coinciding with business growth; 3) the opportunities in the insurance market; 4) the opportunities in microfinance for small and medium business firms; and 5) the growth in the credit card market especially with seventy per cent of the population made up of young

people (Research and Markets, 2007). The development of the banking and finance sector should establish Bahrain and the United Arab Emirates as financial centres in the region.

### 2.2.3 Policy Reforms

With these industries, the Middle East is engaging in investment plans and reforms to address emerging problems and provide infrastructure support for the thriving economic sectors. To fuel foreign investments, the Middle East has strengthened trade relations with key countries such as the United States and the United Kingdom in order to attract investments from these countries for the development of sectors such as banking and finance and construction. Concurrently, many countries in the Middle East are also considering reforms in policies to create a more appealing business climate in the region, especially in the areas of corporate creation, taxation, and other areas of regulation (British Chamber of Commerce, 2008). These reforms should improve the overall economic infrastructures of the different countries in the Middle East, including both oil and non-oil dependent countries. With these developments and impending future changes, there is much dynamism to expect from the Middle East. These developments have taken the interest of the other regions because of the expected impact of future changes on the stability of the world economy.

## 2.3 Background on the United Arab Emirates

### 2.3.1 Composition

The United Arab Emirates is a seven-emirate state, namely Abu Dhabi, Dubai, Sharjah, Umm al-Qaywayne, Ajman, Al-Fajayrah, and Ras al-Khaymah. The seven emirates were part of the former Trucial Coast under the British protectorate. When Britain ended its treaty relations with these seven states, the six states excluding Ras al Khaymah agreed to form the United Arab Emirates. Ras al Khaymah eventually joined as the seventh emirate. The capital city is Abu Dhabi. The history of the United Arab Emirates expresses its rich trading history and close trading ties with Britain (Federal Research Division, 2007).

### 2.3.2 History

The sheikhdoms of the United Arab Emirates emerged along the Persian Gulf's Southern coast and the Gulf of Oman's North-western coast. As coastal sheikhdoms, these eventually yielded to the influence of Islam during the seventeenth century. These tribes also

engaged in disputes over control of strategic areas, especially the trade routes. Nevertheless, most of the residents of the United Arab Emirates traced their roots from two tribal groups. One is the Qawasim, who mainly engaged in trade by land and sea with their agriculture and livestock products. This tribe populated the present emirates of Sharjah and Ras al Khaymah. The other is the Bani-Yas whose livelihood also revolved around agriculture and livestock and who dominated the present emirates of Abu Dhabi and Dubai. The coast of the United Arab Emirates was popular for rampant pirate activities during the seventeenth up to the nineteenth centuries with Arabs and Europeans alike attacking foreign ships. This led to a campaign by the British government to frustrate the pirates leading to the attack on the pirate headquarters at Ras al Khaymah. The British made the attack to safeguard the ships of the British East India Company and perhaps even to establish its influence in the region (Goldschmidt Jr., 1999; Held, 2000).

In 1820, Britain entered into a peace treaty with the major sheikhdoms of the Pirate Coast extending to Bahrain to stop piracy by tribes engaged in plundering and to desist from trading of workers by Europeans. However, the tribes themselves engaged in constant conflict over inter-tribe hostilities. In 1835, the sheikhdoms sought to end the conflict through a common agreement to report pirate attacks on them to the British authorities, instead of retaliating themselves. This arrangement continued until 1853 with the creation of the maritime truce treaty ending sea conflicts, with British authorities handling emerging issues. After the maritime truce, greater cooperation led to the reference to this group of sheikhdoms as the Trucial Coast. The maritime truce treaty remained in force until the area achieved independence in 1971. Another treaty emerged between Britain and the sheikhdoms for an exclusive agreement for the latter not to correspond or make agreements with other states, especially Russia, Germany and France, which were all expressing interest in the Trucial Coast. This agreement placed the Trucial Coast under British protection against external attacks and the sheikhdoms applying monarchical domestic rule (Goldschmidt Jr., 1999; Held, 2000).

During the early 1950's, Britain encouraged the leaders of the sheikhdoms to establish an administrative council for the Trucial Coast as a prelude to the formation of a federation. Dubai hosted the biannual meetings of the sheikhs to discuss this political agenda. The period of negotiation coincided with the discovery of oil reserves in Abu Dhabi in 1960 and

petroleum reserves in Dubai in 1966. This shifted the focus of these two sheikhdoms from trade to oil and petroleum exploration. The commercial exploration of these valuable resources provided income for these two sheikhdoms leading to their early economic development, sustained growth, and welfare service provision when compared to the other sheikhdoms. These developments directed the role of Abu Dhabi as the pivotal centre in the negotiations for a federal state (Goldschmidt Jr., 1999; Held, 2000).

By 1968, Britain expressed its intention to withdraw its protectorate role in the Trucial Coast, leading to the achievement of independence of the Trucial Coast in 1971. The formation of the federal government depended on the relative strengths of the sheikhdoms. The sheikh of Abu Dhabi took the position of first president of the United Arab Emirates, which he fulfilled throughout his lifetime. The sheikh of Dubai took the position of vice president and his son received the position of prime minister. Leadership followed intergenerational succession. The permanent constitution came about in 1996 with the effect of affirming a centralised government managing the affairs of the emirates but with the emirates exercising autonomous action (Goldschmidt Jr., 1999; Held, 2000).

### 2.3.3 Structure of UAE

The UAE is a federation of seven emirates – Abu Dhabi, Dubai, Sharjah, Ajman, Um Al-Qaiwain, Fujairah and Ras Al-Khaimah, which occupy the Arabian Peninsula's south eastern corner. With 67,340 square kilometres and occupying 86.7 per cent of the total country, Abu Dhabi is the largest of the seven emirates in the UAE. Primarily desert land, the emirate consists of a lot of islands, including the city of Abu Dhabi in the coastal region. However, the population is concentrated in three main regions – the city of Abu Dhabi, Al Ain city near the Hajar Mountains and Zaid city in the Liwa oases. The emirate of Abu Dhabi is ruled by the Al Nahyan family. With an area of around 3,900 kilometres, Dubai is the second largest emirate in the UAE. The emirate includes the Hatta enclave located near Oman in the Hajar mountain range with the capital city Dubai, a natural harbour along the creek. The emirate of Dubai is ruled by the Al Maktoum family.



**Figure 1: Map showing UAE's location in the Middle East**

Source: CIA the World Factbook



**Figure 2 Map of the UAE**

Source: <http://www.mediawiki.org>

The only emirate having its coasts in the Arabian Gulf as well as the Gulf of Oman is Sharjah, which is around 2,600 square kilometres in size, sharing its border with Dubai in the

south. The emirate of Sharjah is ruled by the Al-Qasimi family. Mostly surrounded by the emirate of Sharjah, Ajman, which is only 260 square kilometres in size, is the smallest emirate in the UAE. The emirate of Ajman also includes Manama and Musfut enclaves in the Hajar Mountains. The emirate of Ajman is ruled by the Al-Nuami family. With an area of 770 square kilometres, the emirate of Umm Al-Qaiwain is the second smallest emirate in the UAE. The emirate of Umm Al-Qaiwain is the least populated in the UAE, and is surrounded by the emirates of Sharjah and Ajman in the south and the emirate of Ras Al-Khaimah in the north. The emirate of Umm Al Khaimah is ruled by the Al-Mualla family.

Spread over an area of 1,700 square kilometres, the emirate of Ras Al Khaimah is situated in the northern part of the UAE. Renowned for its port and rich history, the emirate of Ras Al-Khaimah is located on an inlet, with water flowing from the Hajar Mountains. The emirate of Ras Al Khaimah is ruled by the Al-Qasimi family. The emirate of Fujairah, which is 1,300 square kilometres in size, is the only emirate in the UAE which does not have a coastline in the Arabian Gulf. The emirate of Fujairah, unlike other emirates, is dominated by mountains and plains, and receives abundant rainwater from the Hajar Mountains. The emirate of Fujairah is ruled by the Al Sharqi family.

#### 2.3.4 Topography and Geography

Topographically, the UAE has a desert territory and salt pans its coasts. Mountain areas connect to the desert or the shore but there are also sand beaches. The federal state has no permanent rivers but there are two oases areas in Abu Dhabi with significant volumes of underground water that can support both consumption and irrigation. With a desert territory, the UAE has a dry climate with a low rainfall. With its water resources and climate, only 0.6 per cent of land, or 720 square kilometres, is arable but 2.3 per cent of land is used for permanent crops. The UAE's primary natural resource is oil, natural gas and petroleum (Federal Research Division, 2007).

Geographically, the UAE territory comprises 83,600 square kilometres of land and three islands dotting the Hormuz Strait. Oman is at its northern and eastern border and Saudi Arabia at its western and southern border. The UAE made an agreement over the control of an oasis area and other territories with Saudi Arabia but this led to an impasse with the UAE not passing the agreement and Saudi Arabia not expressing recognition of the arrangement. The

shoreline of the UAE spans the Arabian Gulf and the Gulf of Oman. It is involved in an outstanding dispute over the three islands in the Hormuz Strait with Iran having taken control over the islands. The UAE received support from the Gulf Cooperation Council and the Council of Arab Parliamentary Union for its sovereignty over the three islands (Federal Research Division, 2007).

### 2.3.5 Demographics

Demographically, the United Arab Emirates has an estimated population of 4.76 million as of the end of 2008, indicating a 75 per cent rise compared to the 1995 census report and with an expected average growth rate of 6.31 per cent in 2009. More than half of the population resides in the largest Emirates of Abu Dhabi and Dubai. The population in Dubai is the fastest growing at a rate of 8.5 per cent. Similar to the general trend in the Middle East, the demographic distribution of the population is also of predominantly young people. Twenty per cent of the population is below 14 years old, lower than one per cent of residents are 65 years of age and above, and the rest of the residents are between 14- 64 years old. The population is predominantly male with a ratio of almost 2:1 (International Monetary Fund, 2008).

The United Arab Emirates is host to a large number of migrants. Only twenty per cent of the total number of residents holds the status of UAE citizens, 60 per cent are migrant workers from South Asia and Southeast Asia, and the remaining 20 per cent are expatriates from other countries in the Middle East and Europe. The cultural diversity of the population has brought about a proliferation of many languages in the UAE including Arabic, Hindi, Persian and Urdu. Because of the multicultural composition of the population, English has become a widely spoken unifying language, especially in business and trade (Federal Research Division, 2007).

Even with a multicultural population, the United Arab Emirates is predominantly Muslim. Around 96 per cent of the population adhere to Islam with 85 per cent Sunni Muslims and 15 to 16 per cent Shia Muslims. The government extends significant subsidies to the maintenance of Sunni mosques and provides employment to imams from both branches of Islam. Islam is the official religion as expressed in the constitution so that all residents, whether Muslim or not, are required to respect Muslim practices, especially during special



occasions such as Ramadan and even in their daily affairs. However, the UAE practices a tolerant attitude towards other religions as long as their religious activities do not interfere with public policy. Public distribution of religious resources is subject to criminal prosecution (Ruthven, 2000).

The UAE government reports a high literacy rate of 91 per cent, which aligns with the allotment of 25 per cent of the annual budget for subsidised public education until the university level. This also extends to expatriates attending public schools. The UAE government plans to achieve complete literacy by 2010. The education programme focuses not only on providing full access to education but also on encouraging self-learning in the areas of mathematics, the sciences, and English communication in order to build a skilled pool of manpower necessary to build the emerging service and technical industries of the UAE (Federal Research Division, 2007). Health and welfare are well taken care of in the UAE, with significant government expenditures on health and welfare benefits. This places the UAE at the 49<sup>th</sup> ranking relative to human development (Federal Research Division, 2007). Consequently being a UAE resident carries some advantages when compared to citizenship of many other countries in the Middle East.

## **2.4 United Arab Emirates Economy**

### **2.4.1 Economic Development**

The United Arab Emirates developed an open economy due to its history of trading that allowed the country to earn significant levels of trade surplus and high levels of per capita income. The foundation of growth in the economy is the export of oil and gas products contributing 30 per cent of the state's gross domestic product. The heart of hydrocarbon production is in Abu Dhabi. Due to the discovery of oil more than four decades ago, the state has been transformed into a wealthy country (Commit FZE, 2008). As such, the UAE has gained the second largest economy in the Middle East next to Saudi Arabia. This finds justification from its control of the third most bountiful reserves of oil and fifth most abundant natural reserves of gas in the world, making the UAE a noteworthy participant in the global energy industry (Department of Foreign Affairs and Trade, 2008). However, as oil production and trade matures, the country is focusing on investments in other industries as a long-term economic strategy of diversification. With oil and gas as scarce resources, the economic

sustainability of the UAE means that it needs to develop alternative sectors. Abu Dhabi and Dubai are the focal points of the diversification plans.

#### 2.4.2 Policy Reforms (Diversification Plan)

In the short to medium term, the United Arab Emirates will continue in its aims to improve oil production in order to optimise the revenue benefits from its oil and gas exports and boost future economic growth. Medium-term plans of the UAE include the expansion of its oil production from 2.8 million crude oil barrels per day to 4 million barrels per day via the Abu Dhabi National Oil Company (Oxford Business Group, 2008a). Oil and gas export revenue and foreign investments will fuel its long-term diversification plan, particularly the emergence of new industries such as tourism, banking and finance, re-export and ICT. To support these industries, the UAE has invested in the construction of luxury hotels, the development of large ports, and the establishment of various free trade zones catering to the production and service sectors (Department of Foreign Affairs and Trade, 2008). Investing in a broad range of sectors has increased the contribution of the non-oil sector to the gross domestic product, which has now reached 64 per cent. The progress of the diversification plan finds exemplification in the growth of real estate, retail and tourism in Abu Dhabi. An industrial free zone, the Industrial City of Abu Dhabi, is complete. Another industrial free zone should follow in the next few years. Directed efforts to make the real estate and tourism sectors better led to the establishment of government agencies, with the Abu Dhabi Tourism Authority (ADTA) and the Tourism and Development Investment Company (TDIC) taking responsibility for developing policies and implementing development programmes for these sectors. Projects included not only the construction of buildings but also other necessary infrastructures such as rail lines and airports connecting Abu Dhabi and Dubai. The securities market in Abu Dhabi also continues to thrive and expects growth in the next years coinciding with growth in the other sectors. The Abu Dhabi Islamic Bank has also experienced impressive growth and profits even after only a few years of operation (Oxford Business Group, 2008a). The diverse opportunities in promising industries will support major economic shifts in the United Arab Emirates in the next decades.

The Department of Planning and Economy of Abu Dhabi unveiled its five-year (2008-2012) programme in May 2008. The focus of the plan is to make Abu Dhabi an industrial

centre in order to augment gross domestic product from the non-oil based sectors. The planned budget allocation for this development plan would reach \$200 billion to cover a wide range of sectors and physical infrastructure. To achieve this goal, the Abu Dhabi government has established public-private ventures especially in the real estate sector, with the private sector referring to domestic and foreign entities. Many public companies are also looking towards international expansion as expressed through the support provided by the Abu Dhabi Investment Authority and the Sovereign Wealth Fund to Citibank to help alleviate the impact of the credit crunch in the United States in exchange for shares in the bank (Oxford Business Group, 2008a). This would enable the UAE not only to take part in global investments but also to establish networks to support its diversification plans such as building its banking and finance sector. Other investment areas include Europe and Asia, enabling the UAE to reach out to different key regions.

Dubai is the other major venue for the economic diversification plan of the UAE. Dubai boasts fast growth as an urban residential and business centre by offering favourable incentives such as stable economic infrastructures, advanced communication systems, an educated workforce, zero or very low tax rates, and wide-ranging service centres. These have given Dubai the capacity to provide value for individuals and businesses. As an economy, Dubai constitutes the third biggest host of export and re-export, following Hong Kong as first and Singapore as second, through the management of the Dubai Company Incorporation. Its development as a trading centre is due to its strategic location accessible to different world economic centres. As such, 120 shipping companies and 85 airlines pass through Dubai, going to and coming from at least 140 international locations. The building of luxury residential buildings and leisure facilities together with sufficient health and educational facilities makes Dubai the foremost tourist destination in the UAE and residential choice in the country. These also make Dubai attractive as a venue for foreign investments (Commit FZE, 2008).

With an economy supportive of the non-oil sector, the economic framework for Dubai relative to the diversification plan 2015 involves the investment of income from the hydrocarbon trade to the service sector. The non-oil sector of Dubai experiences a high average growth rate of 15 per cent. There are two prominent service sectors, the real estate and tourism industries. While these comprise independent sectors, these have close links. An

example of the integration between the real estate and tourism sectors is Dubailand, an extensive high-value project that involved the establishment of an entertainment complex. This has drawn around 1.8 billion visitors to Dubai. The success of these two industries is also by reason of the construction of first-rate ports contiguous to free trade zones to support not only transportation services for the tourism sector but also logistics support for the export sector. As a tourist and trade centre, Dubai has attracted the Chinese and Indian markets. Dubai International Capital has also gained stakeholder interests in HSBC Holdings as well as Standard Chartered together with the European Aeronautic Defence based in Munich (Oxford Business Group, 2008b).

Although a smaller economy, Sharjah also plays an important role in the diversification plan of the United Arab Emirates. This emirate has a thriving manufacturing sector contributing fifty per cent of the industrial capacity of the UAE. Sharjah also has strong trade ties with its major export recipients and a developed infrastructure conducive to trade. The growth rate of Sharjah is high at 19.9 per cent per annum, exceeding even the growth rate of Dubai. The high growth of its manufacturing sector is the boost coming from the construction of the 10m square metres of space allotted for the Hamriyah Free Zone, which was completed and became operational in 1995. Around 1,100 business firms operate inside the free zone, reflecting the range of investments attracted by the project. In addition, the success of the free zone is also largely in part to relaxed policies. One policy is the allowance for complete foreign ownership of companies and physical or real estate assets within the free zone. Another policy is the total exemption from export and import duties. Still another is the competitive cost of energy and water, with prices kept at bay by substantial government subsidies. Last is the low price of land in Sharjah, compared to the land price in Dubai, to augment the long-term interests of foreign investors in the emirate. These are incentives which have led to the establishment of long-term foreign investments in Sharjah. This makes Sharjah an important player in the diversification plan. Areas for improvement forming part of the long-term focus of Sharjah are the establishment of public-private collaborations and the further improvement of its regulatory system to further provide value for foreign investments and trade. Currently, Sharjah is developing ties with potentially strong markets such as China, Pakistan and South Africa (Oxford Business Group, 2008c).

### 2.4.3 Primary Economic Sectors

As a unified economy and through the results of initial diversification efforts, the United Arab Emirates has various economic sectors contributing not only to its increasing gross domestic product but also to ensuring its long-term sustainability. By further developing these different sectors, the UAE expects to have a strong economy even with expected future declines in the oil and gas sector, with the dwindling scarce supply of hydrocarbons.

One sector that the UAE is seeking to maintain is the agriculture and fishing sector. Agricultural crops are not adequate enough to meet the rapid increase of the food requirements of the population, leading to heavy importation. Nevertheless, abundant agricultural crops such as dates are produced for export to other countries. Poultry products such as eggs, poultry and dairy products primarily address domestic demand. The pearl industry has waned with the introduction of cultured pearls. Fishing, although resulting in excess supply, primarily caters to domestic demand. The UAE does not have fish processing plants for the excess supply of fish so that these are exported to some extent. The agricultural sector contributes less than five per cent to the gross domestic product. However, its importance in addressing part of local demand for agricultural products and the still significant portion of the population engaged in the sector have led to government subsidies to support the continuity of the sector. Abu Dhabi has also included the development of the agricultural sector as a diversification target (Federal Research Division, 2007).

Another sector is minerals and mining encompassing crude oil, gas and petroleum extraction. This sector accounts for thirty per cent of gross domestic product. Although the UAE government is investing in economic diversification, the government still plans to optimise benefits from the industry. Abu Dhabi's crown prince, who is in charge of energy policy for the entire country, allocated billions to increase production levels of the sector to almost double by 2010. Although there are also considerable oil, gas and petroleum production in the other Emirates, Abu Dhabi contributes 94 per cent of total production in the UAE. The government plans to enhance production to optimise the benefits it has by controlling 8 per cent of global oil reserves and the fifth largest supply of natural gas. Moreover, domestic consumption has also increased, especially for natural gas, which creates a need to secure both domestic demand and maximise revenue generation from exports.

Revenue generated from the industry, together with foreign investments, should support the development of its diversification program (Federal Research Division, 2007).

Industry and manufacturing is another economic sector in the UAE. This sector includes manufacturing and construction activities that contribute 38 per cent of the UAE's gross domestic product and one-third of total employment. The huge contribution of the sector could find attribution to the processing of oil and petroleum products to produce distillate fuel oils, liquefied petroleum gas, and jet fuels. The export of these products contributes highly to revenue generation. Another major manufacturing activity is aluminium production by Dubai Aluminium with production reaching 850 tons annually making the company part of the leading ten producers of aluminium products in the world. Another smelter is set for construction in Abu Dhabi to further increase aluminium production in the UAE, primarily for export. Other smaller manufacturing activities are chemicals and steel production (Federal Research Division, 2007).

Energy constitutes another sector comprising water and electricity management. The UAE government has placed control of the water and electricity areas under public-private collaboration, through the Abu Dhabi Water and Electricity Authority, to improve productivity and efficiency. This initiative emerged because of the increasing demand for electricity together with the volatility of peak loads. The operation of power stations was either through private management or through semi-private control. Initiation of water and power projects would ensure continuous supply while simultaneously creating investment opportunities for the private sector. At present, there are already six major private sector water and power projects leading to an increase in production between 10 to 15 per cent annually. The UAE has also engaged in joint projects with Bahrain, Qatar and Saudi Arabia for the common interest of ensuring sufficient power supply in the long-term by pooling resources. The UAE also contracted a French firm to link all the power stations in the western territory to the central power grid and ensure efficient distribution of power especially in Abu Dhabi and Dubai with the highest demand for power (Federal Research Division, 2007).

Another important economic sector is services comprised of private sector services as well as government services. This sector contributes around 24 per cent to gross domestic product and employs more than half of the workforce. Outside of government services, the

significant contributor to services is the business service sector, which depends on professional knowledge and experience in technical areas of business. Business services include accounting, auditing, consultancy and research, IT services, legal services, and marketing skills. Leading the business services sector is marketing followed by professional services, renting and leasing services, and then by technical services. This sector provides the greatest opportunities for many private firms since even small and medium firms are able to operate in the sector (Zawya Business Development, 2008). This sector should contribute more to growth in the future, especially with the targeted 100 per cent literacy and subsidy support for higher education.

Banking and finance constitute another newly emerging sector in the UAE economy. This sector falls under the regulatory authority of the UAE Central Bank, which provides banking, credit and monetary policies. Apart from maintaining sufficient reserves of gold and currencies, the central bank also constitutes the representative of the UAE government in dealing with the financial institutions of other states. The UAE has many banks and financial institutions relative to its population. At present, there are twenty-one local banks, twenty-five foreign banks, two specialised financial institutions, and around fifty representative offices of many foreign banking firms. However, seventy per cent of bank assets fall within the control of the six largest banks (Central Bank of the United Arab Emirates, 2007). Profit levels of the banks greatly depend on changes in prices and economic shifts but the sector maintains significant levels of growth owing to the rise in credit card applications, personal loans, and real estate mortgages.

Growth in the banking and finance sector should also rise with the establishment of the Dubai International Financial Centre, which constitutes a free zone with permission to operate through self-regulation. Since its inception, many financial institutions have operated in the free zone outside of the regulatory authority of the UAE Central Bank. In 2005, the Dubai International Financial Exchange also emerged to provide a venue for bonds, derivatives, equities, funds and other financial products. Two inter-linked stock markets also came about, namely the Dubai Financial Market and the Abu Dhabi Securities Market. The establishment of these institutions should encourage foreign investments in the finance sector. However, even with the direction towards the encouragement of foreign investments, Islamic banks remain important players in the banking and finance sector. As such, many banks

established consumer products aligned with Sharia requirements. The government also engages heavily in Islamic bonds (Zawya Business Development, 2008). This sector should become a major contributor to GDP in the next decade with the establishment of sufficient infrastructural support.

Another equally important economic sector is tourism. This is a fast-growing sector, primarily because of tourism infrastructure developments in Dubai, which has built the tallest hotel in the world, the Burj-Alarab. The United Arab Emirates government recognised that the revenue from the tourism sector in Dubai is greater than its revenue from oil. There are 302 hotels in Dubai servicing 6.4 million visitors primarily from Europe, Australia and Asia. The primary attraction offered to tourists is the vibrant night scene, shopping, luxurious accommodations, and beaches. Future development plans should further boost the contributions of the sector to growth. Dubai plans to build four off-coast man-made structures costing \$3 billion to contain one hundred hotels, together with Dubailand, a theme park with an integrated thirty-one hotels. Big malls are also part of the plan to encourage consumption of visiting tourists as well as to provide additional tourist attractions. Airport facilities are also set for improvement and additions. In addition, a cultural district is also underway at the centre to comprise the extension of the Louvre Museum (Federal Research Division, 2007).

By simultaneously focusing on growth in these different sectors, the United Arab Emirates is expected to achieve strong sectors able to ensure economic sustainability by lessening the state's dependence on hydrocarbon trade. Diversification requires different degrees of change in government policies. By exercising flexibility in policymaking, the UAE government should expect to achieve its diversification goal.

## **2.5 Exporting in the United Arab Emirates**

### **2.5.1 Development of Exporting in the UAE**

Trading has a long history in the United Arab Emirates in terms of both imports and exports. The United Arab Emirates has a long tradition of engaging in importation and exportation because of its strategic location as commonly accessible from Europe and Asia. At present, trading remains an important economic activity in the state especially with the exporting of hydrocarbons and the importation of food and non-food needs. The country



export sixty-two per cent of crude oil and a significant volume of gas produced to Japan. However, the UAE is also looking at other large markets such as China. Apart from exports of oil and gas, the various free trade zones established also greatly contribute to exports and re-exports. The UAE constitutes the third largest re-export sector in the world. With re-exports concentrated in the free trade zones in Dubai, the sector contributes greatly to the revenue generation of the emirate. Re-exports and greater demand have led to increases in imports. Low prices of import products for domestic consumptions and re-export because of competition among Asian, European and American countries also fuelled the rise in importation (UAE Government Portal, 2008a). As such, exporting in the UAE has close ties with importing, not only relative to the balance of payments but also in relation to the growth of re-export activities. Moreover, there are three sub-sectors under exports, which are oil exports, non-oil exports, and re-exports, albeit there are overlaps between the sub-sectors.

#### 2.5.2 Trade Performance of the UAE

The growth in imports is moving towards continuous growth. Importation totalled \$80.2 billion in 2005 and increased to \$104.1 billion in 2008. Primary commodities imported are electrical equipment and other machinery for industries, prized metals and stones, and equipment used in the transportation sector. The UAE imports commodities from various countries to meet food and non-food needs. Many of its imports, around 9.9 per cent, come from China. Other sources of imported products are the United Kingdom, India and the United States (Central Bank of the United Arab Emirates, 2007).

Exports also move in an upward trend. The value of exports reached \$126.5 billion in 2005 and increased to \$143.7 billion in 2008. The growth is primarily due to the rise in non-oil exports. The primary market for exports are Asia, particularly Japan, which consumes the majority of crude oil and gas exports, South Korea, India Thailand (Central Bank of the United Arab Emirates, 2007).

By comparing import and export values, the United Arab Emirates has experienced a trade surplus, which means that the volume and value of exports is greater than that of imports. This reflects upon economic growth since a trade surplus means that the country is obtaining a greater amount of revenue than it spends on importation. One explanation for this is the high value of its oil export products relative to the value of its import needs. Another

explanation is the growth in re-exports so that a significant volume of imports leave the country as re-exports. The United Arab Emirates has maintained a trade surplus for more than two decades. Even with the oil price shifts, which affect the value of exports, the UAE has continued to increase its oil production capacity, resulting in greater volumes of oil exports. Even with a continuously increasing value of imports, the trade surplus would remain, although this reflects a decrease from the trade surplus of \$47 billion in 2006 to \$41 billion for 2007 and 2008. The lower value of trade surplus is primarily due to the increase in imports needed in the massive infrastructure projects in the UAE together with the shifts in the value of oil exports. Nevertheless, the UAE expects to achieve a growing trend even in its trade surplus in the next years with the stabilisation of its different economic sectors (Central Bank of the United Arab Emirates, 2007).

Two major factors determine the balance of payments of the UAE, particularly the surplus in its current account. One is the growth of the exports of services and the other is the higher returns from its large portfolio of diversified foreign assets. The inflow of export revenue would experience an offsetting effect on the increasing costs caused by the growth in import volumes and the reliance on migrant workers who remit their earnings to their families outside of the UAE, thus taking money out of the country. The surplus net current account surplus of \$27.2 billion in 2005 declined to \$25.6 billion in 2006. There was a further decline in the net current account surplus to \$20 billion in 2007 and a further decrease to \$16.4 billion by the end of 2008. The balance of payments in considering the net current account surplus is even lower than the gross trade surplus (Central Bank of the United Arab Emirates, 2009).

### 2.5.3 Export Sub-Sectors in the UAE

The leading sub-sector of UAE exports is the oil sector. The value of hydrocarbon exports has continued to increase with the relative increase in the price of crude oil globally stimulated by rising needs. There are fluctuations in price such as the surge in price to greater than \$100 per barrel in early 2008 which declined towards the end of the year. There are also parallel price shifts in the price of natural gas. However, the impact of price fluctuations also operates in an offsetting manner with decreases in price during a certain period offset by increases in price in the succeeding period. Moreover, there are also a number of factors affecting the growth of the oil export sub-sector, such as the rise in the cost of production as

the government heavily invests in boosting production, and the cost of transportation together with other costs related to exporting. Quota agreements through its membership with OPEC and the concurrent impact on price also affect revenue generation through oil exports (UAE Government Portal, 2008a). Overall, oil exports remain a revenue-generating sector for the UAE.

The second sub-sector under exporting is non-oil exports. This constitutes an umbrella term pertaining to the export of different non-oil products. The UAE government considers petroleum re-exports as part of non-oil exports. Estimations of the value of non-oil export commodities, including the export activities of the free zones, shows an increase of 10.9 per cent in 2006 translated to AED115 billion. Exports from the free zones account for greater than 65 per cent of total export value for non-oil exports. Almost 16 per cent of total non-oil exports come from petroleum exports. Export of other non-oil goods account for the remaining 19 per cent of total non-oil export value. Primary non-oil exports include aluminium, ready-to-wear garments, food products, and other items, including petroleum, steel and chemicals. Records of the registered products for export show that intermediary goods comprise 55 per cent of non-oil exports and consumer goods comprise the remaining percentage (UAE Government Portal, 2008a).

The third sub-sector of export activities is re-exports or the exporting of commodities originally imported, making the UAE an intermediary for these commodities. This sub-sector emerged because of the strategic location of the UAE. Local traders found it more efficient and less expensive relative to other countries in the Middle East to purchase these commodities from the UAE instead of directly importing these products. Estimations of the value of re-exports registered in Abu Dhabi, Dubai and Sharjah show a decline between 2005 and 2006. However, in considering all registered and unregistered re-exports to other countries, including the gold trade, there would be an increase in value between 2005 and 2006. This implies the presence of an informal sector engaged in re-exports that contribute to the growth in re-exports although not subsumed in the formal re-export sector. Nevertheless, this still supports the third position rank of the UAE as a leading re-export centre in the world. Re-export consumer commodities contribute more than half of the total value of re-exports, re-export capital goods find attribution for the less than half of total re-export value, and intermediary re-export goods contributed less than ten per cent of total re-export value. The

primary commodities with high demand for re-export are electrical appliances and equipment, machinery for industries, and precious metals and stones. The top destinations of re-exported products are Iran, India, Qatar, Saudi Arabia and Kuwait, according to the quantity and worth of re-exports. Oman is also a major destination for re-exports but these pass through the informal route so that the value is subject only to estimates (UAE Government Portal, 2008a).

#### 2.5.4 Trading (Export and Import) Partners of the UAE

Beyond membership with the Gulf Cooperation Council (GCC), the United Arab Emirates has established trade networks with many countries which are not part of the council. Relative to the other member countries of the GCC, the UAE exports a greater quantity to countries outside of the GCC than to its fellow member countries. Only 7.9 per cent of exports went to other GCC member countries. Nevertheless, the exports to GCC countries increased by as much as 60.3 per cent between 2005 and 2006 but this remains a small portion when compared to the imports of the UAE from other countries. This means that the value of imports of the UAE remains greater than the value of exports to the GCC countries. Moreover, non-oil exports to GCC countries also increased by 15.4 per cent to constitute 13.9 per cent of the total value of exports of the UAE (Central Bank of the United Arab Emirates, 2007).

The value of imported goods from GCC countries amounted to AED16.9 (1 US \$ = 3.65 Dhs.) billion in 2006, which translated into 5.9 per cent of the total imports of the United Arab Emirates. The major products that UAE imports from other GCC countries include the base metals iron and steel, different kinds of paper, dye components, precious stones and jewellery, consumable products, and miscellaneous commodities. The primary source of imports to the UAE is Saudi Arabia with the value of imports from Saudi Arabia amounting to AED 11.9 billion or 76.4 per cent of the total imports from the member countries of the GCC. Bahrain is also a huge source of UAE imports, amounting to 12 per cent of GCC imports. Kuwait and Qatar are also sources of UAE imports from GCC member countries (Central Bank of the United Arab Emirates, 2007).

The value of export goods from the UAE to GCC countries reflected an increase by 15.4 per cent. Of the total value of export goods to the GCC countries, this constitutes 13.9 per cent of the overall non-oil exports, including re-exported petroleum products. The major

export commodities to other GCC countries include mineral water, food items, plastic products, construction materials, cement, and other miscellaneous products. The majority of the demand of GCC countries for exported products include food and water together with materials needed in construction and finishing. In relation to the GCC countries comprising the primary market for UAE exports, Kuwait is the foremost recipient with 35 per cent of total exports in 2006 to the member countries of the GCC. Saudi Arabia is the second biggest recipient of UAE exports followed by Qatar, Bahrain and Oman (Central Bank of the United Arab Emirates, 2007).

The value of re-exported goods to the member countries of the GCC experienced a decline in 2006 when compared to the previous year with the value reaching AED 9.8 billion. The major re-export products to GCC countries include food items such as cereals, confectionary, fruits and vegetables, nuts, poultry products, and sugar together with non-food items such as carpets, chemicals, cosmetics, iron, lumber, pipes, steel, spare parts, vehicles, tires and other manufactured commodities. This means that the growth in the importation of the UAE for food and non-food products accounts for re-exports. Qatar is the foremost market for re-export of the UAE amounting to 26.8 per cent of the total value of re-exports to the member countries of the GCC. Other major markets are Bahrain and Oman (Central Bank of the United Arab Emirates, 2007).

The trade balance relative to the GCC countries reflects a trade deficit contrary to the trade surplus when considering the value of global trade of the UAE when considering values in 2005 and 2006. An explanation is the disproportion in trade with Saudi Arabia. An implication is that the cost of imports to the UAE, especially from Saudi Arabia, towers over gains from exports to the other GCC countries. Nevertheless, the UAE balances this through its trade surplus when considering its global trading performance (Central Bank of the United Arab Emirates, 2007).

#### 2.5.5 Infrastructures Supporting Trade (Import and Export) in the UAE

The diversification plan of the United Arab Emirates will have a significant impact on export performance. In line with the planned diversification are policies and programmes necessary to support growth in the developing industries that would also translate to growth in exports relative to imports. The factors affecting exports fall under political infrastructures,

particularly the adoption of international law and regulations, economic infrastructures, particularly liberalisation and monetary policies, physical and technological infrastructures to support export logistics, and regulatory infrastructures pertaining to exporting activities.

Political infrastructures conducive to trade revolve around membership in international organisations. Being part of international organisations contributes a number of trade benefits to member countries. The three international institutions or organisations closely linked to the encouragement of trade are the World Trade Organisation, the Organisation for Economic Co-operation and Development, and , the International Monetary Fund. The primary role of the World Trade Organisation is to persuade states to go with trade liberalisation. By adopting trade liberalisation policies and creating a competitive business atmosphere, economies expect to create opportunities for trade relations with other member countries or take advantage of emerging trade relations created by the membership of other countries. The International Monetary Fund takes the role of boosting trade through conditional loans. Providing loans to economies for the development of trade infrastructures in effect supports trade. The Organisation for Economic Co-operation and Development provides a negotiating field for policies that forward the common interests of countries to develop trade (Rose, 2005). The same benefits also apply to regional organisations that facilitate the ease in trade relations. The United Arab Emirates is an active member of the World Trade Organisation, Organisation for Economic Co-operation and Development, and International Monetary Fund. This has enabled the UAE to take advantage of opportunities in building trade relations with fellow states including India, Pakistan, Japan, South Korea, Thailand and other countries that are also members of these organisations and have adopted trade liberalisation policies. In addition, the UAE also became part of various regional organisations intended to facilitate economic cooperation through integration that also supports trade relations. These regional organisations include Gulf Cooperation, Arab League, Organization of Arab Petroleum Exporting Countries (OAPEC), and Organisation of the Islamic Conference. Membership in these organisations supports the creation of opportunities for trade through the relaxation of barriers for exportation into other economies in the Middle East and compounding of best standards for mutually beneficial trade (Federal Research Division, 2007).

Another political infrastructure that supports trade is the establishment of bilateral economic relations. The United Arab Emirates has bilateral relations with all of its major import and export partners. Bilateral trade relations not only open trade arrangements but also ensure trade partners in the long-term for the continuity of trade flows. The UAE has bilateral trade relations with the United Kingdom, France, Australia, United States, Japan, and India among other countries (UAE Ministry of Economy, 2008).

Economic infrastructures also support the growth of trade in the United Arab Emirates. One important economic policy adopted by the UAE that strongly supports trade is liberalisation. This has made the UAE a major venue for foreign investments in the region. Investments then allowed the country to develop its diversified industries creating the oil, non-oil and re-export sub-sectors. Part of the liberalisation policy of the UAE is the relaxation of ownership restrictions and taxation resulting in a favourable environment for business growth (Federal Research Division, 2007). This led to the entry of investors focusing on the non-oil sector, such as banking and finance, services and manufacturing sectors. These activities in turn boost exports and re-exports.

Another important economic policy pertains to the exchange rate. The UAE follows a fixed exchange rate tied to the dollar at the rate of 3.67 Dirhams to one dollar. This rate has remained static since the 1980's. The primary argument for implementing a fixed exchange rate is the establishment of a sense of commitment to the credibility of the central bank to manage foreign exchange shifts to provide a certain degree of assurance over expectations of prices, wages and capital flows. In effect, a fixed exchange rate provides a certain degree of predictability to traders and investors (Edwards, 2002). However, this also has adverse implications, particularly on inflation. As such, the UAE experienced a depreciation of the Dirham relative to the major currencies in the middle of 2007 but experienced little change relative to the other currencies of the GCC countries. The depreciation of the Dirham would increase the cost of imports to other countries outside of the GCC and increase the value of exports to non-GCC countries. This affects the balance of payments depending on the relative cost of imports and value of exports. Inflation rates would also affect trade performance. Nevertheless, the UAE has a strong central bank that supports the favourability of investing in the country to boost exports (Federal Research Division, 2007).

Physical and technological infrastructures also support trade, particularly exports and re-exports. The UAE has a modern transport system developed as early as the 1960's with major road networks connecting the different cities. Ports also emerged because of the historical ties with maritime trade. A light rail system also supports transportation in the cities. The airport system of the UAE is also well developed (Federal Research Division, 2007).

The primary mode of transportation around the UAE is through its roads leading to and connecting Abu Dhabi and Dubai with the other Emirates. The UAE has built a 1,088 kilometre paved road system and 253 kilometres of expressway. The Dubai Roads and Transport Authority managed to build infrastructures for transport to ease traffic congestion in Sheikh Zayed Road, which is the main thoroughfare in the UAE. Sharjah also took the initiative of widening roads leading to Dubai (Federal Research Division, 2007).

There is no railroad system in the UAE as of 2012, except for two light rail systems covering 70 kilometres of land in Dubai. This should relieve congestion of traffic in Dubai and will connect all the Emirates with neighbouring countries in a more affordable way (Federal Research Division, 2007).

The UAE has developed port systems. The country has built 15 seaports, including terminals for oil exports. The major ports are in Dubai. Mina Rashid, the first commercial port, built in 1972, is the leading port in the UAE. Through developments, the port has modern facilities capable of accommodating various passenger and commercial shipping cargo or containers. Mina Jabal, the second commercial port built in 1979, comprises the largest port in terms of capacity and land area, making it the third largest port operator around the world. The port primarily caters to bulk or industrial cargo, especially for business firms operating in the Mina Jabal Ali Free Zone, a major investment venue. An expansion plan is underway for Mina Jabal port to increase its capacity and throughput to be able to accommodate an expected increase in cargo traffic and volume in the next years with the diversification plan. Mina Zayid is the major cargo port in Abu Dhabi. Expansion plans are underway and subject to completion by 2010. Abu Dhabi also plans to build a new port, Jhalifa Port in Al Taweelah, to support the port service needs of the immediate area (UAE Government Portal, 2008b).



The UAE has also a developed and modern aviation system, with some 37 airports across the country. Out of this number, 23 operate with paved runways and 6 are international airports. There are also four heliports in Abu Dhabi and Dubai. Expansion and improvement plans are underway for the major airports. Dubai International Airport is set for expansion by increasing the number of terminals and concourses to accommodate the expected increase in the flow of passengers and volume of cargo in the next decade. Dubai is also building the Al-Maktoum International Airport located in the Jabal Ali area with the capacity to service 100 million people every year. Abu Dhabi is also engaged in the expansion of the Abu Dhabi International Airport to include a second runway and two additional terminals, an advanced traffic control facility, and wider cargo facilities. Expansion is also underway for the Al Ain International Airport in the Emirate of Abu Dhabi to expand its facilities so as to cater for more airlines. Abu Dhabi has also established Etihad Airways and Alarabia Airlines as alternatives to Emirates. Sharjah is also involved in aviation capability development through the establishment of Air Arabia Airlines, a low-cost airline providing transportation to major destinations in the Middle East and Asia. Two more airlines are set for launch, Fly Dubai and Rasalkima Airways (UAE Government Portal, 2008b). The increase in the number of airlines reflects competence in accommodating the expected increase in air transportation passengers as well as in the ability to develop a competitive aviation industry bent on providing a good value service to travellers.

Apart from transportation, the UAE has also developed a pipeline network for its oil, gas, petroleum, water and other exports. The state has built 6,511 kilometres of pipelines connecting the refineries with depots in its ports. Established pipelines ensure effective logistics support for exports and re-exports (Federal Research Division, 2007).

In addition to transportation systems and pipeline networks, the UAE has also engaged in massive and large-scale construction of buildings and facilities that support trade. Free trade zones such as the Jabal Ali Free Zone and the Zone-Corp I, II and III were constructed to draw investors to the manufacturing and industrial sectors. A financial zone also emerged to develop the financial capability of the UAE. An IT zone, Dubai Internet City, also emerged to support the growth of e-commerce. All these facilities directly and indirectly support the growth and expansion in trade commodities or the systems for trading (Federal Research Division, 2007).

Telecommunications was also an early development in the UAE. In 2000, Dubai Internet City emerged to make Dubai a hub for electronic commerce and draw the interest of international telecommunication companies to invest in the venture. This operates as a free zone with investors provided with complete ownership rights and zero tax on corporate earnings for a lease period of 50 years, zero payment of customs charges, and complete rights to repatriate earnings. Since 2006, the UAE has had two providers of telecommunication services; Etisalat and Emirates Company for Integrated Telecommunications. The UAE government has also established the Telecommunications Regulatory Authority to regulate anti-competitive practices between the telecommunication service providers. With these facilities and services, the UAE has the most developed telecommunications system in the Middle East, leading to a high user rate and low service rates (Federal Research Division, 2007).

Apart from political, economic and physical infrastructures, trade regulations also affect trade. The UAE Customs Council is the regulatory body for trade. The UAE applies sufficient but liberal customs regulations conducive to trade. The council enables cooperation between Abu Dhabi, Dubai and Sharjah to establish uniform customs standards. Each Emirate exercises autonomy in implementing customs policies. However, to streamline customs procedures as a value addition to the parties involved in trade, the three Emirates meet through the council for this purpose (Federal Research Division, 2007).

Abu Dhabi Customs plays a key role in customer regulations in the country intended to expedite trade flow. Over the past two years, Abu Dhabi has been undergoing reforms to improve customs procedures by modernising the custom posts. The improvement plan included the placement of high-technology computer systems that speed up customs processes, including a database for easy reference to commodities exempt from customs duties. Advanced equipment was also placed at checkpoints to allow the inspection of cargo without the need for unloading. This made monitoring more efficient and less burdensome for import and export firms. Employees in the Customs Department also receive training to improve customs services (Federal Research Division, 2007).

Dubai Customs also engaged in a project to modernise customs services. It contracted Cisco Systems, a software firm headquartered in the United States, to promote Mirsal, a

customs clearing system, for adoption in other countries in the Middle East. This system links various processes for easy reference, including cargo clearing and movement to and from the cargo community. Advanced systems enhance the efficiency of trade, covering exports and re-exports (Federal Research Division, 2007).

## **2.6 Conclusion**

From being the Trucial States for a long period, the United Arab Emirates is a federation of seven Emirates, formed by the withdrawal of the British from the region by the end of 1971. With a total land area of around 83,000 square kilometres, the United Arab Emirates includes 200 islands. In addition to the Federal government in the UAE, each of the Emirates is run by a local government, each maintaining a great deal of political and financial autonomy. The main source of income for the UAE is its rich oil resources, mainly contributed by the Emirate of Abu Dhabi. The UAE has achieved an unprecedented economic boom owing to its enormous oil wealth.

Following early realization in the 1980's of the risk of increased dependency on the oil sector for its economic development, the unified economy took various diversification efforts into non-sectors to ensure increased contribution to GDP as well as long-term sustainability. The UAE's efforts into developing other sectors include agriculture, minerals and mining, industry and manufacturing, energy, services, banking and finance and tourism. The diversified efforts into these sectors are expected to ensure a sustained economy in the long run and reduce dependency on oil. Despite the fluctuations in oil prices globally, the increase in exports over imports has ensured a trade surplus for the UAE for more than two decades. With its reforms and policies and necessary infrastructure facilities, the government of the UAE has ensured that programmes are in line with diversification plans. With its high quality resorts and hotels, entertainment and recreational facilities, long beaches and moderate climate, the UAE has also become one of the most sought-after destinations for tourism.

## **Chapter 3**

### **3 Literature Review**

#### **UAE Economic Development to Achieve Diversification**

##### **3.1 Introduction**

The United Arab Emirates (UAE) is one of those Middle Eastern countries that has shown high levels of economic and social development in recent decades. The main source of its export income remains oil exports that constitute 37 per cent of earnings in foreign exchange and 60 per cent of public sector revenue (Abed and Hellyer, 2001). The acceleration of FDI funding in the oil sector in the 1970's was among the main reasons for the UAE's ranking of 40 in 2006 in the UN Human Development Index (Oxford Business Group, 2007).

Notwithstanding the rapid pace of economic growth, the UAE has not avoided the problem of 'resource curse' widely addressed in the research literature. The concept of 'resource curse' negates the assumption that the generation of export revenues, based predominantly on natural resources, brings sustainable development and social welfare (Stevens, 2003). Moreover, the specific form of resource dependence reflected in the oil curse is widely addressed in the literature as the one of the most challenging barriers to stable economic growth and development (Ross, 1999). Apart from negative economic implications for the economy, the resource curse, and specifically the oil curse, is widely considered to be the main source of political conflict and authoritarianism, social disintegration, international political and economic dependence, and ethnic conflicts in developing countries (Panchok-Berry, 2005).

Constant fluctuations in oil prices, reflected in oil booms and shocks, as well as the non-renewable nature of oil resources, pose a substantial threat to the future economic stability of the UAE. At the same time, while oil revenues may generate large investments and spending on infrastructure, real estate and finance sector, these sectors may become particularly vulnerable to global instability.

To achieve the goal of the study, this literature chapter will cover the following aspects:

- Due to the fact that UAE as a federation is a collection of seven city-states, a major section of the literature review will provide an extensive treatment of the economic development of city-states. Based on case studies of Singapore and Hong Kong, as well as island city-states, such issues as city-state economic development, and the need of hinterland are to be discussed. The section specifically addresses the barriers to economic growth met by city-states and possible ways for them to be overcome. This section also provides a discussion of economic base theory that emerged from a series of frameworks that aimed to understand regional economics and how this can affect an economic base. This is to say that an economy, according to this theory, cannot be self-sustaining, even if a particular locality is concentrated on the production of certain products and services.
- The evolution of the resource abundance concept, the resource dependence concept and oil curse theory is studied in an historical perspective and from the viewpoint of their applicability to the situation in developing countries. Based on an analysis of related literature, the distinction between resource abundance and resource dependence is established. It is argued that resource abundance does not necessarily result in resource dependence as suggested by historical cases of the United States, Canada and other developed countries abundant in resources. In contrast, resource dependence should be described as a complex political-economic conjuncture between state, civil society and economy. In this view, resource dependence implications are addressed at two basic levels: macroeconomic impact and extra-economic (e.g. social, political and institutional) consequences of resource dependence.
- Furthermore, the specific situation of the oil curse is addressed, focusing on its negative consequences in developing countries, including the UAE. Moreover, the concept of oil curse is integrated into the framework of the Dutch disease paradigm that proved to be effective in explaining negative implications of limited export nomenclature on balance of trade, payments, fiscal and monetary stability in developing countries. Finally, in this section the concept of rentiers and rentier states is covered. The rentier state is described as a direct politico-economic consequence of a resource dependent economy, reflected in the dominance of external rent and revenues, low level of domestic economic

development, poor accountability of rentier states to domestic civil society, limited fiscal and development policies. In other words, the primary sources of state revenues are rents (such as those derived from permitting oil companies access to the resources) rather than from a surplus generated by productive activity or commerce. The concept of the rentier state has a particular relevance to developing countries of the Middle East that served as case studies for its application in research (Beblawi, 1990).

- Diversification will be examined in the Literature Review, in the light of the justification of why the UAE wants to diversify its economy, and how diversification into the Non-Oil Sectors will achieve sustainable development. This section provides the discussion of several basic concepts of diversification including North's stage concept (1955), developmental diversification approach (Petit and Barghouti, 1992) and the portfolio variance approach. Based on the analysis of these concepts, it is argued that successful economic diversification includes conscious governmental policies, aimed at developing secondary (manufacturing) and tertiary (service) sectors. One of the most crucial insights of diversification theory is that it should be balanced and complex to avoid crises in basic sectors and general economic instability, resulting from the shrinkage of revenues from other sectors. Further, this section addresses examples of diversification from an oil base. The case of Kuwait suggests that the main barriers to diversification lie in overvaluation of currency, and lack of private business initiative in new sectors (Looney, 1991). Successful diversification in the Middle East region was predominantly based on developing financial markets, investment funds, stabilization funds, gold reserves, as well as establishing new non-oil industries, such as fertilizers, metals and so on.
- Tourism as a means of diversification will be addressed, focusing on the implications of UAE government policies intended to develop its tourism sector. Focusing on the UAE experience as a destination of developing tourism supply and demand, it will be shown that successful tourism diversification is premised on comprehensive development frameworks, aimed at spreading benefits from tourism to other sectors of the economy, creating synergies between public efforts and private ones, and between federal government policy and local governments' policy. All these basic steps correspond to the Sustainable Tourism approach.

- Finally, based on the analysis of the above described aspects, the review of related literature provides a general conceptual framework for research on diversification in the UAE, focusing on the tourist sector. The conceptual framework aims to synthesize all the core concepts analysed in the Literature Review.

### **3.2 City-state Concept**

A city-state, which may be defined as an independent state with a territory consisting of mainly city, played a crucial historical role. For instance, Greek city-states (polis), such as Thebes, Athens, and Corinth were traditionally centres of arts, philosophy and science development. The small size of these states encouraged democratic tendencies and progress (Rhodes, 2007).

Middle Age city-states in Italy, such as Genoa, Florence, Venice and Siena were the birthplace of the market economy and banking. They managed to develop complex social and economic structures through trade and finance. Due to their pragmatic management and innovativeness, small Italian city-states became the places where the most sophisticated goods were produced and traded. Sea was often the main source of city-states' profit – it was the premise of their trading activities. Additionally, it made it possible to oppose large hordes of foreign powers (Rhodes, 2007).

City-states have emerged in different parts of the world and in most cases their economic performance and wealth creation has been effective in comparison with vast empires and countries. Taking this history of city-states in consideration, it may be argued that the concept of the city-state is extremely important in terms of understanding possible strategies for overcoming the oil curse in such countries as the UAE through diversification. Indeed, city-states managed to achieve great economic performance through developing high surplus industries and technologies, a diversified economy, and developing their banking sector and institutions, which are crucial for developing a modern economy.

The type of modernization they promote may be either democratic, as in the case of such historical examples as Croatian Dubrovnik, or authoritarian, as in the contemporary example of Singapore (Chiu, Ho & Tai-lok, 1998). For instance, local authorities in Singapore's districts have no legislative and executive autonomy from national government.

### 3.2.1 Hinterland and development

The importance of hinterlands is stressed in the modern concept of the city-state and urban economics in general. For instance, Barrell (2006) argues that, ‘Whatever its first function – city-state, sea port, market-town, imperial capital – an urban centre always needs a hinterland to support it. Cities on every continent have disappeared into desert or jungle because the lands that surrounded them were lost, stolen or worn out’ (Barrell, 2006, p. 189). The importance of hinterlands has several important dimensions: strategic, economic and recovery. Strategic importance is connected with security issues. Economic significance of hinterlands is directly tied with the issues of developing a competitive economic base. Hinterlands are used as the proxy directions of export, as possible markets for cheaper labour and diversification of a local production base (Medovi, 2005, p. 172).

The importance of hinterlands for urban development is also stressed by Harvey (1973), who argues that cities’ urban systems are built on appropriation and redistribution of surpluses. The relationship between urban core and its hinterland (or periphery) are unequal and hence a hinterland is needed for a city to accumulate wealth and redistribute produced goods. In these conditions, the absence of a hinterland may prove to be a crucial problem for city-states in terms of development. As Wee (1995, p. 68) argues, ‘This presents a unique situation of the absence of a traditionally termed hinterland, that is, the land beyond or the region within the same political boundaries from which a central place draws its resources and over which it distributes goods and services’.

However, the notion of hinterland may be widened for island-city-states such as Singapore, as their sphere of influence is in the immediate vicinity (the case of Indonesian territories used by Singapore as a hinterland). ‘The question is then whether a city can sustain itself in the long-run without a hinterland that is administered by a regional or national government of which the city is a political entity’ (Wee, 1995, p.69). The capitalization of city-states’ opportunities and overcoming of structural deficiencies, such as absence of hinterland, and developing a balanced approach to the economic base are the basic ways of fostering economic growth, exemplified by Singapore and Hong Kong. The absence of a hinterland is among the basic impediments to economic exchanges between city-states and the outside world. Hinterlands provide regional economies with additional sources of



labour, trade and investment. However, for the majority of city-states the only possible solution is construction of artificial hinterlands and regional integration. Another option is developing comparative advantages, based on an advantageous geo-economical position.

For instance, Wee (1995) argues that Singapore's economy managed to achieve such remarkable progress through playing the role of gateway and 'middleman' in relations with other influential regions, such as Japan, China, Malaysia and Indonesia. Partly, this economic success was achieved through integration into ASEAN, which allowed Singapore's products and services to be exported in this vast regional union (Regnier, 1991). Singapore also played an important role as a port through which goods from all over the world were distributed to enormous Asian markets. The creation of a triangle of growth by linking Singapore to Indonesia's Riau Island and the Malaysian state of Johor was an important factor in Singapore's economic development integration. The possibility of such sub-regional cooperation was caused by Singapore's city-state status. As Wee argues, ' Three key elements required to establish a sub-regional economic cooperation have been identified: first, a highly developed city that has run out of land and labour; second, a surrounding area plentiful in both of these sectors; and last but not least, the political will to eliminate visible and invisible barriers dividing city from hinterland (Wee,1995, p. 72).

Hence, Singapore, having no administrative hinterland, managed to use its strong economic potential to create an artificial hinterland, servicing its development interests as a city-state. This example brilliantly shows that through attracting other regions to cooperation and economic development, the problem of hinterland for city-states may be resolved. Singapore's economic potential is reflected in multiple employment opportunities for growth in industrial and technological sectors that are proposed for labour force in such countries as Indonesia. Opening its labour market for the Indonesian labour force, located in immediate proximity to Singapore, this city-state managed to resolve the problem of labour force scarcity and hinterland absence (Wee, 1995, p. 72). Such cooperation, however, proved also to be effective in terms of resolving unemployment problems in certain Indonesian regions, and, hence may be regarded as mutually advantageous cooperation. Such a role of middleman, vividly demonstrated by Wee (1995), allowed the Singapore city-state to become the influential agent of manufactured goods' distribution, the centre for financial and banking services, air traffic and a sea traffic hub. The strategy chosen by Singapore may be modelled

by city-states with no direct control over hinterland: 'For such a city, which has no political control over its hinterland, its prosperity has to be achieved through cooperation and its middleman role, not domination or conquest, characteristics of the surplus-extracting core in hinterland literature' (Wee, 1995, p. 72). City-states may use proxy states and regions as economic, rather than political, hinterland, which will bring prosperity and stability.

Many scholars argue that hinterland is central to the development of small island territories, such as Singapore and Hong Kong. For instance, Baldacchino (2006, p. 45) contends that 'a small territory is especially obliged to use extra-territorial resources as its hinterland for economic success. Such resources extend over a whole range of goods and services and include access to investment, welfare, security, stable currency, international relations, specialized labour power, transfers, markets and higher education'. As Baldacchino (2006, p. 46) argues, 'the absence of a natural domestic endowment is an intervening variable in the development of a territory'. Such observations were also provided by Hintjens (1991) in relation between the Indian Ocean colonies and their colonialist France. These islands were marginalized because of the lack of hinterland to exchange with and they conserved their underdevelopment with 'virtually no physical or cultural hinterland to retreat to' (Hintjens, 1991, p. 38). Caldwell, Harrison and Quiggin (1980) suggest that island microstates had a greater tendency towards 'westernization', reflected in intensified migration ties with former metropolises and their language. (Caldwell, Harrison and Quiggin, 1980, p. 953).

In the same vein, Streeten (1993) contends that a local rural hinterland has crucial importance for economic development. However, the absence of hinterland was the main engine for such city-states as Singapore, Bermuda, Hong Kong or Malta to promote modernization and globalization of their economies: 'industrialization or tartarisation has been the inevitable growth poles, obliging a quick shift of mind-frame towards export promotion and the penetration of export markets' (Streeten, 1993, p. 47). Another positive implication of hinterland absence is noted by Baldacchino (2006). He suggests that the absence of a hinterland has negative implications in terms of developing local land-owning farmers, who lobby import protection and 'high cost of food items to consumers' (Baldacchino, 2006, p. 47). The absence of hinterland in small island territories is also recognized as a significant problem by such influential organizations as the UN (Griffith and

Inniss, 1992). Many scholars suggest that sustainable development is impossible in small islands: 'speaking of sustainable development is a contradiction in terms' (Connell, 1988; Bertram, 1993; Baldacchino, 2004, p. 6). This occurs due to the fact that insular territories cannot survive without hinterland resources and exchange practices. Moreover, they are dependent on external conjuncture fuelling their economic base. However, such a model may be faulty as is the case with Briguglio, who contends that such states survive only through 'artificial props' (Briguglio, 1995, p. 1622). Such analysis ignores cases of city-states, such as Hong Kong and Singapore, which manage to achieve high levels of development and growth through diversification and using their comparative advantage.

Such scholars as Bertram (1993, p. 248) argue that sustainable development is impossible because of the lack of productive activity within island city-state territory. However, this thesis also contradicts Singapore's example. Indeed, many island states are underdeveloped; but this is connected not with their geographical position, but structural economic, political and social problems. More pragmatic views concerning city-state development are expressed by the further claim that factors such as integration, openness, free market, and innovation are crucial factors for development of these territories (Bertram and Watters, 1986; Baldacchino, 2000).

It should be noted that in city-states, such as Hong-Kong or Singapore, where resources are often scarce, 'real estate has an important role in the functioning of the whole economy' (Haila, 2000, p.2241). Transnational real estate firms bring significant benefits for governments' revenues, economic growth and individual well-being. Real estate may play a key role in diversifying the economic base of city-states dependent upon natural resources. Contemporary city-states are predominantly situated in Asia. They significantly vary in area, population, density, GNP and birth rate (see Table 1 Contemporary City-States.).

**Table 1 Contemporary City-States**

	<b>Area</b> Sq. km	<b>Population</b> million	<b>Density</b> per sq. km	<b>Birth</b> <b>Rate</b> per 1,000	<b>GNP</b> per capita	<b>CNP</b> per capita in US\$
<b>Kuwait</b>	17,718	2.26	128	19.1	29.3	15,000
<b>Qatar</b>	11,437	0.6	52,2	19.4	15.1	20,300
<b>Bahrain</b>	712	0.51	914	20.2	10.1	13,900
<b>UAE*</b>	77,700	3.49	44.9	16	54	22,800
<b>Singapore</b>	660	4.2	6,310	11.3	109.8	26,500
<b>Hong Kong</b>	1,098	6.4	6,181	7.1	166.5	24.,759
<b>Macau</b>	26	0.44	16,926	7.5		
<b>Pondicherry</b>	480	0.97	2,029			

\* The United Arab Emirates are made up of seven sovereign state

Source: Parker (2004, p. 221)

The city-states mentioned in Table 1 are present in the contemporary international system: Kuwait, Qatar, Bahrain, UAE (made up from seven city-states: Abu Dhabi, Dubai, Ajman, Sharjah, Fujairah, Ras al-Khaimah, and Umm al-Qaiwan), Singapore, Hong Kong, Macau, and Pondicherry.

It should be noted that the majority of listed city-states may be described as resource dependent. The notable exclusions are Hong Kong, Singapore and Macau, which are the most successful in terms of economic performance among all city-states.

Based on the analysis of the structural characteristics of city-states, Parker (2004, p. 224) comes to the conclusion that ‘these city-states represent more than just some kind of geopolitical residue left over from the fall of the empires in the late twentieth century. It suggests that they are a part of the wider phenomenon of globalization. They are phenomena that are in their economic and trading patterns and in some cases at least, in their cultural diversity, transcend their immediate geographical environment’.

### 3.2.2 Economic Base Theory

Economic base theory is useful in terms of the analysis of economies, comparable with city-states. It may be described as the application of economic knowledge to the analysis of a local economy in terms of its growth capabilities, interrelations with the national economy and regional positioning.

Following the main premises of economic base theory, economists divide local or regional economies into two sectors: the basic (non-local) sector and the non-basic sector. Basic sectors have national and global significance, because they produce goods, consumed by foreign importers and which are not usually consumed by local households and firms. It should be noted that basic sectors usually include local mining and resource-oriented firms and manufacturing. Proceeding from this fact, the discussed resource-dependent economies have the dominance of the basic sector in their economic base. In contrast, the non-basic sector includes firms oriented towards local consumers. Examples of such activities include restaurants, supermarkets, drug stores and so on.

The basic sector is defined in the majority of studies on economic base theory as the 'engine' of the local economy. This is particularly true of modern city-states, such as Hong Kong and Singapore: "The economic base technique is based on a simple causal model that assumes that the basic sector is the prime cause of local economic growth, that it is the economic base of the local economy"(Klosterman,1993, p.115). The basic sector, in the case of Hong Kong and Singapore, is, however, diversified and technologically developed.

In other cases, as economic base theory contends, an economy entirely dependent on basic sectors would suffer significant problems during economic crises. Such a conceptualization shows that economic base theory uses assumptions similar to the resource curse concept discussed earlier. In economic base theory the impact of the basic sector on an entire economy is estimated through base multiplier, showing how many non-basic jobs are created by one base job. Moreover, various economic base techniques are used for the analysis of a local economy's specializations, diversity, strengths and weaknesses.

The Location Quotient Technique estimates the levels of employment in the basic sector through comparing the local economy with larger geographical units. Minimum Requirement

Technique is based on comparing a local economy with similar units. The discussed basics of economic base theory shows that it is extremely applicable to the analysis of regional and city-state economies. Utilization of economic base theory is a means for understanding the current economic situation, problems, existing economic linkages and possible exit strategies for diversification.

### 3.2.3 A comparison between Singapore and Hong Kong

The majority of city-states have similarities in terms of challenges they meet in global economy and economic base development. This is particularly true of Hong Kong and Singapore, both island city-states having similar colonial heritage and development patterns. Chiu, Ho and Tai-Lok (1997) argue that these highly developed city-states had significant challenges of cost increases, competition from low labour-cost neighbours and the necessity of effectively using their economic base in global markets. However, these challenges were differently addressed by Hong Kong and Singapore. Hong Kong preferred offshoring its production to low-wage regions of China, while Singapore focused its efforts on technological upgrading, and developing new high-tech production lines. In this way, Singapore made policies to strengthen its production base by diversifying the source of export revenues and increasing the number of industries with high added-value. Such a route may prove to be effective for resource-dependent city-states. Unlike Hong Kong, Singapore managed to maintain its manufacturing base and combine it with highly developed financial and banking services. In contrast, Hong Kong's manufacturing base was not upgraded.

As Chiu, Ho and Tai-Lok (1997) suggest, such success was based on the state's role in strengthening internal economic linkages and developing industries with the highest returns on investment. As far as Singapore has no vast natural resources, a state was not expected to adopt rent-seeking behaviour and instead it played the role of strategic planner and major investor in development.

The development of city-states is significantly affected by their economic and institutional relationship with neighbouring states or, as is the case with Hong Kong – hinterland of inland China after Hong Kong became part of it in 1997. For Singapore and Hong Kong their economic ties with corresponding hinterlands of Guangdong and the 'growth triangle' is very intensive. Guangdong is the intensive development region of South

China with the highest levels of productive activity. The same may be said about the 'growth triangle'. Singapore particularly benefits from the 'availability of relatively cheap land and labour in the Malaysian state of Johor and, more markedly, on the Riau islands (chief among them Batam and Bintan) of Indonesia' (Bunnell, Muzaini and Sidaway, 2006, p. 2).

Hong Kong's hinterland particularly influences its economy through family ties: many Hong Kong firms are owned by Chinese families, who have connections with firms in inland China. This stimulates the development of the economic base through joint enterprises. Some scholars, such as Khan, argue that a productive base in city-states should be diversified into agricultural sectors because in the long run agricultural diversification may be crucial in terms of import-substitution strategies (Khan, 1988).

The analysed concepts of city-states and economic base theory suggest that notwithstanding structural barriers to growth and development in city-states, what may be overcome by means of diversification, productive utilization of base sectors, fostering regional integration and technological change. The absence of hinterland is among the problems hindering economic growth in city-states, particularly as far as small island territories are concerned.

Hinterlands, as the literature suggests, are crucial for the development of economic exchange between a city's core and periphery. However, as the case of Singapore suggests, such a problem may be overcome by regional integration and developing artificial hinterlands in proxy countries. Another conclusion, derived from economic base theory, is that too much emphasis on a base sector may negatively affect economic stability and result in the 'Dutch disease' yet to be discussed. Basic sectors have to be either technologically developed industries or a diversified set of sectors, interconnected with strong economic linkages. Diversification may be the most effective option for balancing between the basic and non-basic sectors.

As the previous analysis suggests, city-states may tackle their structural problems in different ways. In the conditions of a globalized economy, the problem of labour force scarcity and expense may be resolved by offshoring. Moreover, economic cooperation with the outside world may be promoted through joint ventures and investment opportunities for

foreign businesses. If a city-state borders with a developing economy with significant unemployment, this city-state may effectively develop through attracting the foreign labour force and hence resolving the problem of its scarcity. At the same time, such policies would stimulate artificial hinterland development. Another option is development of capital-intensive high-tech industries with high added value, as suggested by the Singapore case. Such an approach would generate profits and investment needed for resolving domestic social problems.

The discussed strategies and case studies are applicable to the analysis of diversification strategies in the UAE's seven city-states. However the UAE is comparatively developed in terms of GDP per capita and human capital, both regionally and globally, though the prevalence of oil exports may be detrimental to the sustainability of the economy. As will be shown recently, many efforts have been made by Dubai and Abu-Dhabi to diversify their economies through integration, real estate projects, attraction of sport events and competition, and tourism. Tourism along with real estate has recently become the main diversification strategy in the UAE and particularly in Dubai, which has managed to become one of the main centres of tourism in the Middle East and Asia. The analysis of the effectiveness of this strategy should be based on a careful examination of the diversification paradigm.

### **3.3 Resource Abundance, Oil Curse Theory, Concept of Rentiers**

#### **3.3.1 The genesis of resource abundance and resource curse theories**

The concepts of resource abundance and resource curse became prominent in the mid-1970's, as a response by scholars, economic planners and experts to the 1973 oil embargo, organized by the Organization of Arab Petroleum Exporting Countries (OAPEC) (Hammes and Douglas, 2005). Their decision (and the subsequent crisis) was a reaction to the U.S. support for the Israeli military in the Yom Kippur war. The rising importance of oil in international politics and economics was understood as a threat to market economies in the West and cooperation and hence many scholars drew attention to the correlations between resource economies and stability, conflict, democracy, economic development and growth.

However, far from being a political outcry against the monopoly of the Arab world over 'black gold' and its political instrumentalization, the resource abundance paradigm was an



attempt to account for far-ranging economic and developmental implications of the prevalence of natural resources in the formation of national GDP (Auty, 1993).

A consensus emerged concerning the negative correlation between natural resource dependence and economic growth and economic development, empirically supported by a path-breaking study of Sachs and Warner (2001). Widespread utilization of resource abundance and resource curse concepts may be attributed to the fact that, unlike neoclassical models, they embraced and synthesized concerns relating to different spheres of society, not simply economic aspects. This gave the resource abundance concept the status of an interdisciplinary paradigm, based on the development of institutional economics, political science, sociology and classical economics. The implications of natural resource dependence were assessed not only for economic growth, but institutional development, democracy and even security (Collier, 2003; Le Billon, 2005). Based on these assumptions, the analysis of resource abundance and the resource curse literature is subdivided into two main parts: studies on macroeconomic implications of resource dependence and discussion of other economic aspects e.g. social, political and institutional consequences of resource dependence.

### 3.3.2 Resource Abundance Paradigm: Basic premises and assumptions

Generally speaking, the resource abundance concept contends that countries with abundant natural resources experience slower rates of economic growth than those where productive base and tertiary service sectors predominate. This occurs due to the fact that resources belong to the category of primary goods that give less surplus and added value than produced goods. Resource dependence hinders investment in productive sectors of an economy, results in a slower pace of innovation, and negatively affects competition.

These negative implications, which are only part of the multiple effects of resource abundance, are developed in a number of studies, including Auty (2001), Ross (1999), Gelb (1988), Lai and Myint (1996). The resource abundance concept may be best expressed in the metaphor of the paradox of plenty, developed by Karl (1997), which shows that while oil booms are associated with dramatic export revenues, they are just an illusion of development and prosperity and often result in the destabilization of resource dependent regimes and weaken states' capacity to comprehensively manage economic development.

While the majority of studies focus on structural analyses of resource abundance conditions, Sachs and Warner (2001) made an attempt to present the main conclusions of the resource curse concept in econometric terms. They define resource scarcity in terms of primary exports proportional to GDP. As a result of a cross-sectional analysis of 87 countries, the economic models used in this study include traditional economic factors such as GDP, and inflation, and institutional factors, such as ‘openness’ etc. Sachs and Warner (2001) found out that mentioned variable is negatively associated with economic growth in per capita incomes.

Following Sachs’ and Warner’s contribution, but adding a new dimension of human capital, Bravo-Ortega and De Gregorio (2005) also validate the hypothesis of negative correlation between growth and resource abundance. Hence, Bravo-Ortega and De Gregorio (2005) demonstrated that resource abundance does not only negatively affect economic growth, understood in traditional macroeconomic terms, but hinders human capital development. The described model of resource abundance was harshly criticized by Ding and Field (2004) for the narrow focus on exports as the basic reflection of resource abundance, while neglecting general economic and technological structure. This methodological position was seen as leading Sachs and Warner to confusing resource abundance with resource dependence. As Ding and Field (2004) suggest:

‘As a measure of resource abundance, primary exports as a proportion of GNP is a misleading index. It registers primarily the sectorial importance of primary industries, in the economy and in terms of exports. A country heavily dependent on primary industries would be regarded as a resource-rich country by this variable. But the resource dependence of the economy and resource endowment are different things. It is possible for a resource-abundant country to have a small primary sector (the United States is a leading example), and on the other hand, for a resource-poor country, nevertheless, to have an economy that is heavily dependent on primary sectors (several good examples are in Tanzania and Burundi)’ (Ding and Field, 2004, p. 497).

This important observation by Ding and Field (2004) clearly demonstrates that resource dependence is based on a disproportional correlation between resource exports and

manufacturing and service exports. If primary exports dominate, a country abundant in resources becomes resource dependent. Correspondingly, resource abundance is itself not the main cause of the resource curse. Abundance in natural resources may be equally accompanied by highly developed productive, service and technological sectors, as in the case with the United States, Canada, China etc. Hence, the causes of resource curse should be traced in wider social and economic structures, making natural resources the barriers to growth and development. To reflect upon this reality dilemma, Ding and Field (2004) propose distinguishing between Resource Dependence and Resource Endowment with the former negatively affecting economic growth, while the latter is positively associated with it.

The abovementioned distinction is particularly fruitful in terms of locating primary and secondary causes of resource curse in oil-dependent countries and possible avenues towards diversification. In the same vein, Stijns (2001) and Lederman and Maloney (2003) distinguish between resource abundance and resource dependence. Stijns (2001), while using Sachs and Warner's (2001) model, replaces their measurement with data on reserves of natural resources, concluding that stocks of natural resources have no significant impact on economic growth.

Argument between the two main strands in the resource abundance debate vividly demonstrates that natural resources are not neutral vis-à-vis economic and political structures existing in a given society. Under certain conditions, natural resources may culminate in resource dependence, which is associated with empirically validated economic and institutional deficiencies which are difficult to overcome.

### 3.3.3 Negative effects of resource dependence in developing countries: Causes and implications of the resource curse

Taking these facts into consideration, it may be argued that the greatest problem of developing countries is not resource abundance, but resource dependence. It has multiple negative effects for their economies. Auty defines 'mineral economies' as those developing countries which 'generate at least 8 per cent of their GDP and 40 per cent of their export earnings from the mineral sector' (Auty, 1993, p. 3). As Auty (1993) argues, counter-intuitively, resource dependent countries have significant problems in taking the path of industrialization due to their 'mining sector's production function (i.e. ratio of capital to

labour), domestic linkages and deployment of mineral rents'. Unlike most (but not all) developing country primary product exports, mineral production is strongly capital intensive and employs a very small fraction of the total national workforce with large inputs of capital from foreign sources' (Auty, 1993, p. 3). In this situation, resource dependent economies are characterized by entrenched enclave tendencies and low levels of production linkages, which is the corner stone of forming a national market for produced goods. In its turn, mineral resources export revenues are not reinvested, but instead, fuel national debt and conspicuous consumption by local elites.

The degradation of economic linkages is partly explained by the fact that 'mines in developing countries tended to function as economic enclaves. They transmitted a strong growth stimulus to distant metropolitan regions but their local economic impact was only modest' (Auty, 1993, p.13). So, as Hirschman (1977) suggests, mineral production provides positive effects for the economy only through external rent, not taxes on domestic economic agents. Such a situation is connected with underdevelopment of domestic industries and correspondingly, low levels of tax revenue by state. In its turn, fiscal deficits prohibit the state from realization of effective socio-economic policies and infrastructural projects. External rent means that the state receives the bulk of its profits from foreign economic agents that are interested in investing predominantly in resource sectors.

Unlike Auty, Girvan (1971) provides a structural explanation of resource dependent countries' slow pace of economic development and reform. He attributes negative economic impact to transnational corporations (TNCs). This term refers to corporations that are registered and operate in more than one country at the same time, whose vertical structure, oligopolistic market and integrated production results in small revenues for the developing countries in which they operate. Moreover, TNCs tend to offshore processing from developing countries, limiting tax incomes. Evans (1975) took the same critical stance on TNCs' negative impact on Brazilian industrialization in mining sectors. However the described negative impact of corporations often takes place; it cannot explain multiple examples of rentier states, which hold state control over mineral resources. Its detrimental role to economic growth and development that is to be described further far outweighs the negative effects of TNCs in the developing countries.

Another negative implication of resource dependence, addressed in the literature, is resource dependent countries' vulnerability to volatility in international mineral markets. Countries with underdeveloped domestic markets, weak import-substitution industries and small nomenclature of exports are the most likely candidatures for default and economic crisis. As Wheeler (1984) suggests, in the case of mining exports the implications may be the most damaging, because of the increased vulnerability of oil exports to international price volatility, monopoly price and production regulation by major OPEC producers and others.

There has been substantial research exploring any correlation between poor economic management and the false feeling of security and stability originating from immense resource revenues (Gylfason, 2000). Indeed, governments that fill their budgets from natural resources feel no need for innovative and infrastructural projects, aimed at modernization. Such a situation aggravates their inability to react to unusual situations during economic crises. The lack of innovative and infrastructural projects is connected with the existence of relatively stable and easy resource revenues that create fiscal stability in the country. The capital intensive nature of the resource sector and its rent character reduces government policies to attracting new foreign direct investment into the development of new mines. Economic transition towards a more technological economy is often regarded as ineffective, because it requires wide-ranging investments and its fruits cannot be seen in the short term. Such short-sighted policies are particularly detrimental during economic crises during which resource demand decreases together with export revenues for resource dependent countries.

Another negative impact of the resource curse is excessive borrowing by governments. The rationale behind borrowing by governments that gain enormous profits from exporting mineral resources is that due to appreciation of the national currency exchange rate, the interest payments for debt become cheaper. For instance, such countries as Nigeria and Venezuela significantly expanded their borrowing during the oil boom of the 1970's but encountered severe problems paying interest rates during the oil downfall later (Auty, 1993). Such a tendency is vividly shown by Mansoorian (1991), focusing on resource discovery implications for labour and asset holders. According to Mansoorian, asset holders' debt increases as a result of resource discovery why aggregate expenditures should be smaller, than before discovery. The over-indebtedness of resource dependent countries is also discussed at length by Manzano and Rigabon (2003). Inextricably linked with over-indebtedness is the

unstable nature of consumption in resource dependent economies, described by Rodriguez and Sachs (1999).

Resource dependence also negatively affects trade balances and the balance of payments. Balance of payments is characterized by an unstable structure due to excessive external borrowings, a disproportional balance between foreign direct investment and a country's own investments in other countries. Trade balance gravitates towards dependence on limited export activities. In periods of crisis the imbalance between imports and exports becomes severe due to falling export revenues. Short-sighted economic management and innovation often results in lack of sustainability and stability of economic development with wide-ranging consequences for social welfare and human development.

To sum up, resource dependence is associated with negative macroeconomic implications for fiscal policies, economic planning and management, trade balance and balance of payments, national debt, stability and sustainability, which are crucial for economic growth and development in developing countries. However, the nature of resource dependence also makes it threatening for political and institutional spheres of society as well.

#### 3.3.4 Negative extra-economic impacts of resource dependence

Negative extra-economic impacts of resource dependence are also widely discussed in the literature. For instance, Gylfason (2000) argues that rent-seeking behaviour, often present in resource dependent economies, results in corruption, nepotism and money-laundering:

‘...natural-resource-rich economies seem especially prone to socially damaging rent-seeking behaviour on the part of producers. For instance, the government may be tempted to offer tariff protection to domestic producers, among other privileges. Rent-seeking may also breed corruption, thereby distorting the allocation of resources’ (Gylfason, 2000, p. 2).

Linking resource dependence with poor systems of education, Gylfason rightly suggests that resource dependence is directly linked with low levels of human capital development. Indeed, that the degradation of economic linkages and the underdevelopment of productive, innovative and service sectors results in low demand for qualified cadres and science. In this way, economic stagnation in resource-dependent countries is often accompanied by degradation of education and technological development (Gylfason, 2000).

Among others, Bardhan (1997) empirically showed that import protection and corruption are among the basic impediments of economic growth. Corruption is often fostered by the existence of offshore tax havens, used by corrupt elites and their cronies for money laundering and theft.

The neglect of education in resource-dependent countries is empirically shown by Gylfason (2000). For instance, as his research suggests:

‘the OPEC countries send 57 per cent of their youngsters to secondary schools, compared with 64 per cent for the world as a whole, and they spend less than 4 per cent of their GNP on education on average, compared with almost 5 per cent for the world as a whole’ (Gylfason, 2000 p. 10).

Such a situation is in sharp contrast with policies pursued in such states as Singapore, South Korea, or Taiwan, where investment in technological change, education and science became the major engine of economic development and modernization.

### 3.3.5 Resource Curse’s Impact on Democracy

Corruption and nepotism, facilitated by a resource dependent economy, is regarded by many scholars as a direct threat to democracy. Developed civil society and liberal freedoms contradict clandestine practices of money-laundering and corruption. Non-accountability to citizens is the basic principle of elites, capitalizing on national resources. Strengthening authoritarian regimes with large repressive apparatuses in such conditions is the most effective tool for elites to protect their economic interests. The correlation between authoritarianism and resource dependence has been empirically studied by Wantchekon (2004), Ross (2001), and Panchok-Berry (2005), among others.

For instance, Wantchekon (2004), using data from Polity III, and studying resource-dependent regimes in Africa, found a direct correlation between resource dependence and authoritarian tendencies. Ross (2001) comes to the same conclusion, based on his study of Nigeria, Chile, DRC, Botswana and other oil-dependent countries and a total of 113 countries all over the world during the period between 1971-1997. The results of the study show that Persian Gulf states, being the most dependent on oil, are among the most authoritarian regimes in the world.

In sum, lack of democracy and political corruption in resource-dependent countries are among the main causes of 'bad governance' and economic mismanagement (Asongu, 2009). In the absence of an internal stimulus for innovative thinking, resource-dependent states' expertise and information gathering practices are limited. They do not have sufficient knowledge of existing economic problems in the country and possible problem solving strategies. State departments and agencies oriented at the social sphere and human development are among the most marginalized in resource-dependent countries' state machinery.

### 3.3.6 Oil Curse

The oil curse concept should be regarded as a direct application of resource abundance/dependence theory in situations where oil exports dominate. The main founders of resource curse theory, such as Auty (1993) and Ross (1999), consistently argued that oil and gas curses are the most detrimental for developing countries due to the vast sums of revenues they generate, their rent-seeking nature and weak linkage with other sectors of the economy. The oil curse is often connected with changing waves of growth and downfalls at a time of general stability and growth. For instance, the worsening of all major petro-states performance was characteristic of the 1990s period (Karl, 1997, 1999).

Most scholars agree that oil-exporting countries, more than others, operate in conditions of internal and external conflict, due to a never-ending war for rentier status (Kaldor, Karl, and Said, 2007; Klare, 2002). Rentier status is linked with the state's control over non-renewable oil resources that are often located in foreign countries. Access to them often presupposes armed conflicts and warfare. Hence, international and interstate warfare often takes place in regions dominated by oil-dependent countries (Ross, 2002). In such conditions, an authoritarian regime is the most likely political form in oil dependent countries (Ross 2001). It happens because of the colossal size of the state apparatus and the repressive machinery of oil rentier states, which is necessary to suppress all kinds of protest and opposition.

Recently, attempts have been made to understand the underlying causes of warfare and conflict caused by oil dependence. Such economists as Collier and Hoeffler contend that greed, understood in terms of economic opportunities of new rents, is the basic explanation of



conflicts during 1960 and 1999: “opportunities are more important in explaining conflict than are motives” (Collier and Hoeffler, 2001, p. 2).

Behrends and Reyna (2008) identify five basic explanations of the oil curse existing in literature: including ‘ (1) a resource curse, (2) the Dutch Disease, or (3) Collier and Hoeffler’s greed hypothesis; or, according to political scientists, that it is caused by (4) rent-seeking/institutional or (5) patrimonial theories.’ (Behrends and Reyna, 2008, p. 9). As the previous analysis showed, such explanations are not exclusive, but complementary in many important respects. They presuppose a complex political economic approach to the problem of the oil curse.

Gelb (1988), one of the major contributors to the concept, vividly shows the paradox of the oil curse using the concept of Oil Windfalls – dramatic rises of export revenues as a result of favourable international causes. The paradox is that such ‘windfalls’ often play a destabilizing role for the economy and hence cannot be beneficial. The lack of structural preconditions for industrialization, modernization and development results in a situation when immense inflows of money are used for repaying vast borrowings and indulging in conspicuous consumption by elites.

The examples of Ecuador, Indonesia, Algeria etc., discussed by Gelb (1988), demonstrate that if oil export revenues are concentrated in private hands, it results in further deterioration of the public good. In this way, immense oil revenues result in further concentration of wealth in an elite’s hands and further degradation of the public sphere. In the same vein, Khan (1994) postulates that the non-taxable features of oil revenues make Rentier-states independent of and unaccountable to their citizenry. Perala (2003) argues that oil resources are more negatively connected with growth than agricultural or tourist endowments. In a similar vein, Murshed (2004) contends that ‘diffuse’ mineral economies are more likely to be effective than economies where one resource, such as oil, predominates. Moreover, negative implications of the oil curse are particularly evident in the human development sector. For instance, Ross (2001) in his analysis of oil dependence development outcomes shows that oil dependence is associated with deficiencies in the spheres of child mortality, nutrition, literacy, and human rights.

To sum up, oil dependence may be described as the worst possible type of resource dependence due to the fact that ‘black gold’ is among the most expensive natural resources. Oil curse is not just economic dependence as such, but state and elite dependence on easy incomes and wealth generation. Therefore, combating oil dependence is not just about the issue of an alternative economic strategy, but the formation of democratic institutions and decision-making in the developing countries. Oil-dependent states’ lack of accountability to the citizenry has deeply entrenched economic origins, including external sources of fiscal revenues, poor public-private cooperation, and underdeveloped domestic markets and manufacturing sectors. These factors often result in a state’s authoritarian trends. Building up military and security forces is considered by state officials as a more effective way of bringing social stability and control over societal processes. The state apparatus, hence, serves the interests of those who receive oil revenues, but not the citizenry as such.

### 3.3.7 Oil Curse and Developing Countries

There exists a growing literature on specific examples of the oil curse in developing countries. The particular interest of scholars is drawn to the Middle East, Africa, Central Asia and Latin America. Case study is the most widespread method of research helping to analyse multiple negative effects of oil dependency in these countries.

Asongu (2006), based on empirical facts, argues that oil wealth has failed to generate stable development and growth in Equatorial Guinea and other oil-producing countries in Africa, such as Nigeria, Cameroon, Gabon and Angola: ‘Contrary to what one might expect, this revenue has not wiped the scourge of poverty has bedevilled the masses in these resource-rich nations’ (Asongu, 2006, p. 8). The author explains such situations by economical structural deficiency of oil-producing states, which engage in rent-seeking behaviour:

‘While oil production has increased since 1996, the production of agricultural products has dropped, and most people in the country make a living through agriculture. With poor development performance, entrenched authoritarianism, and political instability, Equatorial Guinea is basically replicating the experiences of other countries with an abundance of natural in the under developing world’ (Asongu, 2006, p. 10).

In the same vein, McSherry (2006) argues that Equatorial Guinea's experience replicates traditional patterns of oil curse in the developing world, including high levels of corruption, lack of economic linkages and innovations. Such scholars as Wood (2004) argue that the oil curse in Equatorial Guinea is accompanied by the criminal nature of government.

Among other scholars, Amuzegar (2008) studies the implications of oil dependence for Iran, based on the rentier state relationship with the citizenry and its impact on the economy, Amuzegar notes that oil dependence immediately results in degradation of market economy: 'With larger resources at the government's disposal, the size of the public sector automatically increases, and the free-market private sector is correspondingly reduced' . Simultaneously, the external nature of rent results in 'the necessity of exacting funds from the public in the form of taxes and levies correspondingly diminishes, the state's discretionary over its people and often arbitrary power increases' .

The effect of the same patterns of oil dependence on democracy, economy and the public sphere are shown by Ross (2001), based on his study of 113 countries all over the world including oil-producing ones, including Botswana, DRC, Nigeria, and Chile between 1971-1997. Several scholars, such as Shaxson (2007), came to the conclusion that oil dependence had gone so far in certain countries that it would prove extremely difficult to diversify their economies without inflicting colossal damage on the entire economy. This is particularly true of such countries as Angola, Nigeria, Guinea and Equatorial, in which, 'oil and gas now account for between 95 and 99 per cent of exports (in Angola, oil and diamonds now account for over 99.5 per cent of exports, according to IMF data)' (Shaxson, 2007, p. 1124). Another valuable observation made by that author is that the majority of sub-Saharan oil-producing countries are at the bottom of all international ratings of corruption and democracy, including Transparency International's Corruption Perceptions Index (CPI).

It should be noted that oil and gas dependence often paralyzes economies of countries with a developed technological and productive base. This is particularly the case in Russia which inherited highly developed Soviet industry, space and weapons technologies. However, due to its increased dependence on oil and gas as the basic sources of revenue it experienced tremendous de-industrialization during the last 15 years. Rutland (2008), in his study of the oil boom in Putin's Russia, argues that Russia is currently suffering 'Dutch disease' due to

significant appreciation of the Ruble currency (by 80 per cent) since 1999. According to Rutland, such a tendency ‘makes Russian manufacturing and farming uncompetitive—unable to find export markets, and unable to compete with foreign imports’ (Rutland, 2008, p. 1163). The implications of oil-based ‘Dutch disease’ are evident not only in the exchange rate, but in domestic pressures on non-oil industries, which suffer a lack of investment due to higher returns in the oil sector. In the Russian case we see all the basic symptoms of ‘Dutch disease’. Apart from this, the Russian case vividly demonstrates that even countries with high industrial and technological potential may be hostage to the oil curse.

Carneiro (2007) provides the study of temporal relationship between real government spending, oil revenues and real output during the oil cycle in Angola. The econometric analysis proves the validity of the tax-spend hypothesis and oil curse in Angola. The proposed changes include economic diversification and more accurate fiscal regulation in order to avoid budget imbalances.

Extensive research on the oil curse in developing countries touches upon the complex interrelationship between oil dependence, civil conflicts and good governance. Guenther (2008) shows such connections, focusing on the Democratic Republic of Congo. Guenther’s framework includes an analysis of the role of international actors in stimulating oil dependence.

So and Un (2009), focusing on the case of Cambodia, show that while oil may bring huge revenues for the budget, weak democracy, political institutions and corruption often result in unequal distribution (So and Un, 2009, p. 124). Such a situation may be associated with the main feature of oil rent, discussed by Beblawi: (1990) the elite character of oil rent distribution and its external origin. Zounmenou (2008) argues that the possibility of overcoming the resource curse in Ghana is by strengthening its weak democracy and institutions.

Unless effective institutional reforms are made, the problems of poverty and conflicts are likely to perpetuate. Poverty is often connected with economic implications of oil dependence in developing countries. Oil dependence takes the form of an enclave economy, producing no strong economic linkages and domestic market. Oil sectors are capital-intensive

and hence their use of labour forces is limited in scope. It is limited in geographical terms, as well: only those workers who are located in the immediate proximity of oil fields have privileged access to permanent employment. In a situation when the bulk of revenues are received from oil, other economic sectors have no incentives for development: they lack investment. Correspondingly, employment opportunities for the majority of the labour force are absent, resulting in mass unemployment. In its turn, mass unemployment results in the creation of the informal economy, criminal activities and social instability. No social web of services or employment opportunities is usually proposed by the state due to the underdeveloped character of the public sector and its one-sided direction on security, military build-up and receiving of oil revenues. Oil dependence, hence, is one of the main barriers to industrialization and modernization, which are the cornerstones of mass employment and the formation of a skilled labour force.

In the same vein, Gary and Karl (2003) contend that the oil curse may be averted if oil-revenue management were based on accountability, transparency and fairness. Another proposal was that oil revenues be initially distributed to citizens and then taxed by the government in order to prevent mismanagement and corruption (Salai-Martin and Subramanian, 2003). The mentioned strategies, however, seem to overlook structural causes of oil dependence. Extracting rent from natural resources would not be likely to change the rules of the game. So, if the proposed reforms are possible they may be made only through wide participation of the masses and a protagonist democracy.

The literature on oil dependence in developing countries pays much attention to the application of the rentier state concept in the analysis of special case studies. For instance, Sandbakken (2006) engages in a critical debate with certain aspects of the rentier theory, such as the link between taxation and representation:

‘In none of the cases does the link between taxation and representation appear to be a significant determinant of regime type. Although the study confirms that oil wealth is associated with autocracy, the causal mechanisms of rentier state theory could benefit from being refined’ (Sandbakken, 2006, p. 1).

Much research on oil dependence also focuses on an interdisciplinary analysis of interrelations between conflict, instability, international pressure and oil curse. For instance, Looney (2006) applies such a framework in his analysis of post-war Iraq oil policies.

To sum up, the oil curse theory is particularly effective when applied to the analysis of developing countries. A number of studies show that oil failed to generate growth and development in the majority of oil-producing African countries, including Equatorial Guinea, Nigeria, Gabon, Angola and Cameroon (Asongu, 2006). Based on the analysis of Iran, Amuzegar (2008) shows that oil-dependence negatively affects the market economy, dramatically increases the size of the public sector and reduces private initiative. The empirical findings vividly demonstrate a deep connection between oil dependence and nepotism, corruption and authoritarian trends. Some scholars argue that democracy and modernization are based on a state's ability to extract taxes from domestic businesses, thereby strengthening public-private partnership in a society. Such a possibility is often absent in oil-dependent countries with an underdeveloped internal market.

The same economic implications of oil dependence may be found elsewhere – in Latin America, South-East Asia, Central Asia etc. For instance, in his comprehensive study of 113 countries in all regions, Ross (2001) demonstrates the negative impact of oil dependence on the economy and public sphere. Shaxson (2007), among others, argues that the negative implications of oil dependence are difficult to avoid, because they bring deep structural deficiencies to the economy.

Once oil dependence becomes the corner-stone of an economy, it is very difficult to diversify and modernize it without tremendous social and economic shocks. Oil dependence may prove to be detrimental for economies with a long history of technological and industrial change. This is particularly true of Russia, having inherited a highly modernized economy from the Soviet Union, only to experience de-industrialization and Dutch disease due to increased oil and gas dependence during the '90s. Among other conclusions, which may be drawn from the literature, one should point out the negative impact of oil dependence on accountability and equality in the developing countries.

### 3.3.8 Rentier states

The concept of rent and rentier was very influential in the political economy of Ricardo and Marx. Ricardo (1821) defined rent as a gift of nature, which gives profit for its holder, while requiring virtually nothing in terms of investment. Ricardo noted, that "Mines, as well as land, generally pay rent to their owners and this rent ... is the effect and never the cause of the high value of their produce." (Ricardo, 1821, p. 590) Marx defined rentiers as a group within the capitalist class, who receive profit in non-productive and parasitic ways. In both cases rent is understood as an extra economic gift of nature, appropriated by property owners and used by them as a source of surplus value. Rentiers in classical political economy are usually subdivided into two groups: land rentiers and financial rentiers. The first usually belonged to landed aristocracy, renting its land to new class of agricultural farmers and businessmen. Land aristocracy had virtually no incentives for investing into agricultural technique development: all expenditures were taken by businessmen. Financial rentiers are usually described as owners of financial capital, whose profits are generated by financial operations of lending.

Such classical understanding of rent and rentiers found its direct application in the modern concepts of 'rentier state' and 'rentier economy'. The concept of rentier state and rentier is very helpful in terms of understanding the political economy of resource dependent states. The term was coined by Hussein Mahdavy in relation to pre-Pehlevi Iran and all countries that 'receive on a regular basis substantial amounts of external economic rent' (Yates, 1996, p. 11). Such a tendency develops due to government control over natural rent, such as oil or gas and the absence of a developed productive economy as a source of tax income for government. Rentier states are most widespread among oil and gas producing countries, such as Iran, Nigeria, Saudi Arabia, the UAE and where governments receive the bulk of their income from hydrocarbon exports.

Beblawi and Luciani (1987) argue that the 'rentier state' concept neglects the wider implications of rent-seeking behaviour for society and, hence, prefer the term 'rentier economy', describing a condition in which rent is external to the economy and is the main source of state income. Beblawi (1990) outlines four main characteristics that should be in place in order to classify a state as rentier. (i) Rent situation dominates; (ii) External origin of

the rent (it should come from foreign sources). (iii) Elite character of rent generation (the majority of country population is not participants in the creation of wealth in the country). The situation is different for tourism and other types of diversified rent, an activity in which many economic agents may participate. (iv) Authoritarian tendencies arising from state monopoly on natural rent. In the same vein, Luciani (1987) places more emphasis on interrelations between the rentier state and its economy. According to this scholar 'the key characteristic of rentier states is that externally received rent liberates a state from the need to obtain income from the domestic economy' (Luciani, (1987) p. 53). In rentier economies, governments' expenditures comprise a great share of GDP due to the fact that GDP is mainly made through external rent. Such a situation results in states tightening control over economy and civil society.

Panchok-Berry (2005) clearly postulates that a rentier state, due to structural conditions, is unlikely to foster social welfare and democracy:

'A unique characteristic of the resource in Rentier states is its labour-free profit base. The state is unconstrained by labour forces in making decisions. Resources such as oil are not labour intensive and therefore no collective bargaining will form to make the state accountable to the public. Governments that have this non-labour resource are non-responsive to the collective bargaining of the citizenry and therefore usually have a small minority of people in control of the government. The state does not worry about potential strikes and therefore, no public goods are distributed to please the labour force' (Panchok, 2005, p. 8).

In the same vein, Ross (1999) defines three direct effects of a rentier state for society: 'Rentier state' effect; 'Repression effect', and 'Modernization effect'. The first effect results in decreasing accountability of a state through the use of patronage and low taxes for cronies. The second explains a state's tendency to spend much money on repressive apparatus in order to repress opposition and common masses. Finally, the third shows a state's lack of ambition to promote modernization through infrastructural, educational and social welfare projects.

If the general characteristics of the resource curse and rentier states/economy are compared, it seems that the rentier state/economy issue is a direct consequence of the resource curse. All the basic negative implications of the resource curse, such as de-industrialization,



underdevelopment of productive industries and the service sector, poor human and social capital as well as authoritarian tendencies are common in rentier states.

### 3.3.9 Dutch Disease

Resource dependence may take a specific form known as the Dutch disease. It manifests itself in the national economy as a crisis due to negative international proceedings for natural resources and agriculture supply and demands. It is often accompanied by underdevelopment of the manufacturing sector, currency appreciation and high volatility due to the instability of export revenues.

This terminology was first coined in 1977 in *The Economist* to interpret the drop of the manufacturing sector activity in the Netherlands as a result of the discovery of vast natural gas fields in the country in 1959, which negatively influenced the Netherlands' currency, balance of payments and domestic market. The discovery of gas in the Netherlands resulted in the establishment of the influential company Exxon Mobil. In this way, Dutch disease is not a phenomenon specific to developing countries, since it can paralyze the economy of modernized countries. For instance, the renowned economist Paul Krugman argues that exchange rate appreciations, which are the symptom of Dutch disease, result in losing competitive advantages in international markets, which is difficult to restore (Krugman, 1987).

Dutch disease in resource-dependent countries often takes the form of the oil curse. As Gelb (1988) showed in his analysis of six oil-exporting states during 1974-8 and 1979-81, oil booms may be harmful for the economy. This comes about due to a structural inability to reinvest export revenues in new productive sectors and due to a difficulty in restoring economic growth after a period of oil price collapses (Gelb, 1988). The negative role of recurrent booms and downfalls in exchange rate volatility is also stressed by Gylfason (2000). Nowadays, during a global financial and economic crisis, such a situation may be seen in Russia, one of the major world exporters of oil and gas. Due to the decreased demand for hydrocarbons it had to significantly reduce expenditures on its national development projects and social services.

In the same vein, Cordon and Neary (1982) showed that shrinkage of export revenues as a result of falling demand on mineral commodities is the main negative influence of Dutch disease on developing countries. Cordon and Neary's model of Dutch disease can be described as the most successful attempt to understand its implications. The model includes non-traded goods sectors (including services) and two traded good sectors: lagging and booming sectors. Booming sectors include the extraction of gas and oil, but may be expanded to any primary industry, including copper, gold, diamonds or agriculture. In these conditions, manufacturing is described as the lagging sector. A resource boom affects an economy in two distinct ways. First of all, it increases demand on the labour force, attracting it from lagging to booming sectors. As a result, the economy experiences so-called direct de-industrialization. The effects of such de-industrialization vary between different mining industries. The labour movements result in increased demand for non-traded goods and hence growth of their price. However, in conditions in which prices of natural resources are set internationally, such a situation may often result in the increase of a real exchange rate (Cordon and Neary, 1982). In a situation of Dutch disease, the traditional macroeconomic concept of comparative advantage does not work. The theoretical assumption that a country specializing in the extraction of natural resources would have comparative advantages does not account for the detrimental effects of the shift away from the manufacturing industries. In the case of a downturn in commodity prices, the competitiveness of manufacturing industries would not be restored in the short run. This is connected with the slowdown of technological growth in manufacturing sectors due to the lack of investment funds. The discrepancy between import costs and export revenues as a result of Dutch disease were also vividly demonstrated by Wheeler (1984) in his econometric study of sub-Saharan African countries.

The Dutch disease may be tackled in two distinct ways: by slowing down the appreciation of the exchange rate and by promoting competitiveness of the manufacturing sector. A path to the first strategy may be found in stimulating the re-investment of export revenues abroad or in the domestic economy to avoid spending. Such a decision may be effective in providing a country with stable revenue inflow, not tied to export revenues. Moreover, appreciation may be hindered by creating stabilization funds and programs, directed at the development of innovation and infrastructure projects, a step taken in Russia and some Arab oil-producing countries. Moreover, developing states may resort to creating

new infrastructural projects and welfare programs, aimed at stimulating domestic markets and increasing domestic consumption. The intensified economic and spending activities may stimulate internal credit and consumption through mobilizing more financial resources. In turn, the intensified economic exchanges would increase the share of saving in an economy, bringing stability to the national currency. Dutch disease and resource dependence may also be tackled through diversification from the resource base, a policy recently promoted in a number of oil-producing countries. In Gulf States, such as the UAE, Saudi Arabia etc., such attempts proved to be partially successful – the share of oil revenues in GDP has been steadily reduced through the development of tourism, real estate, infrastructure projects and service sectors. These attempts and the diversification strategies underlying them are addressed in subsequent sections.

### **3.4 Economic development models**

To understand the models of economic development, one needs to understand economic growth and development. Economic growth is distinct from economic development since it entails quantitative sustained increase in a country's output together with an expansion in its capital, capacity to trade, consumption and labour force (Adelman, 1961). This can be taken to mean an increase in a country's gross domestic product (GDP).

On the other hand, economic development is not only quantitative, but also the qualitative changes in the economy and gives a description to technological and structural changes in the economy as determinants of growth (Adelman, 1961). Hence, one can conclude that an economy cannot develop without growing but in contrast can grow without developing. Economic development can be measured using various elements such as gross domestic product, gross national product per capita, economic welfare and social indicators such as health and education.

There are numerous models and theories of economic development that offer opposing views but all seek to contribute to this area of economic development. However, it is important to note that all the models agree that the use of technology is an important contributor of economic development of any country. The models can be classified into four categories of classical, Marxist, Neoclassical, and endogenous growth theories (Adelman, 1961).

According to the classical economists, such as Smith, David Ricardo and Malthus, economic development depended on three factors of production. These three factors are labour, land and financial capital that are combined to produce output (Chang, 2004). Classical economists argued that economic growth would not be realized unless capital was accumulated since it is the scarce factor among the three factors and its accumulation increases the real wealth of society. Smith further argued that, in any society, there are three production agents - landlords, merchants and labourers - who control capital, land and labour in order to earn rent, profit and wages.

### **3.4.1 Neo-liberal and Planned Approaches**

Neo-liberal or free market approaches are structures where there is minimal government control (Burkett, 2003). The intervention is left to the participating individuals and the self-regulating markets. Private firms and individuals own the means of production, determine what to produce, how to produce commodities and for whom to produce. However, though they are free markets, the government has a minimal role to play. This is by providing policing services in order to maintain security and legislate to protect consumers and businessmen. The state also prevents firms from dominating the market (monopolies) and provides repair and maintenance to transport systems. These free markets have several advantages. There is no need for a regulatory or overriding authority to determine the distribution of goods and services. Competition in these markets assists the players in the markets to produce quality goods and fosters innovation. The firms have to produce high quality products in order to survive in the market. In addition, the market responds to consumer demands faster and provides a variety of goods and services for consumption.

However, free markets have disadvantages in that they lead to inefficiency in service provision and hence market imperfections. They also create inequality of incomes and lead to misallocation of resources to those who have more money or financial muscle. Moreover, they are inefficient in the provision of public and merit goods.

On the other hand, planned economies or markets are markets where the state owns all means of production (Burkett, 2003). The state makes decisions on what to produce, how to produce it and for whom to produce. The role of the government in these markets is deeply embedded; the state is the employer of most workers and gives them directions on the

performance of their duties. It organizes and coordinates the production process in most industries and makes most decisions regarding the production process.

Planned markets have numerous advantages in that there is a more equal distribution of income and resources than in free markets. Production is done on the basis of market needs rather than profits as in the case of free markets while taking into account future needs such as environmental and population changes. Planned markets, just like free markets, also have disadvantages such as shortages of basic commodities, working people are poorly motivated to work, and there are typically low and poor standards of living.

### **3.4.2 Developmental State in East Asia**

As earlier stated in the definition of economic development, economic development cannot occur without economic growth, productivity and competitiveness. These conditions warrant government intervention since it is in the interest of society. However, to avoid collision in economic development, there must be a clear outline of the state's roles and those of the private sector. There must be an established link between the state and the private sector in order to set the path for consultation and cooperation. This link, in addition, provides the base for information exchange that assists in policy formulation and implementation.

This relationship between the state and the industries forms a strategic industry policy that is an essential factor in a developmental state model as is the case with most Asian countries (Johnson, 1982). The formulation and implementation of strategic industrial policy is furthermore been facilitated by specific political and institutional arrangements. The power of the East Asian developmental state has been influenced by the formation of political coalitions with the private sector and at the same time reducing the power of labour unions.

Political and institutional requirements have been the two major features of the developmental state in the form of strategic policy, which includes bureaucratic autonomy and public private partnership. The co-existence of these two conditions allows the state, and the private sector, to develop independent national goals and policies to transform these broad national goals into effective policy action. The absence of bureaucratic autonomy and public-private cooperation easily degenerates into situations in which state goals are directly reducible to private interests.

In the East Asia developmental state, the size of the bureaucratic instruments has been kept extremely small by international standards. The constrained size of the bureaucracy assisted in consolidating the elite position of the bureaucrats in society and also to contain the challenges involving lack of control and accountability associated with massive bureaucracies. The powers granted to pilot agencies such as a ministry of International Trade and Industry (MITI) in Japan and Economic Planning Board (EPB) in Korea, which emerged as the principal institutions responsible for the implementation of industrial policy, had to be checked. This was to help in finding the appropriate authority required by the pilot agency without monopolizing it, to avoid inefficiency. The situation was solved by limiting the powers of MITI to a selected number of sectors in the economy. This ensured consistency in MITI's pattern of involvement in the economy with industry policy, based on upcoming industries that had not yet developed and the logic of finding a balance between bureaucratic autonomy and effectiveness (Johnson, 1982).

Executive independence is critical for the system's operation since it allows bureaucrats the freedom to act for effective policy intervention. The task performed by the military in Korea and Taiwan has been similar to the role performed by the executive or the political elites in the context of post-war Japan. A key factor in ensuring the effective deployment of bureaucratic power has been the commitment by the military elites to developmental goals as a means of securing national survival and independence. The final mechanism for developmental state efficiency has been the student movement in Korea that has assisted in curtailing abuses by bureaucratic and state powers.

The logic of the developmental state depends on the combination of bureaucratic autonomy with an unusual degree of public-private cooperation. Key among the factors for combination in East Asia has been the effort of the state to forge such cooperation. Common educational backgrounds of the bureaucratic and business elites have also played a critical part in enhancing the combination. In both Japan and the other East Asian states that have emulated the Japanese model, the state elites have consciously sought to create cooperative relationships with private business via the creation of a series of unusual institutions. For instance, the state has played a leading role in nurturing the peak organizations of private business. Businesses such as the Keiretsu of post-war Japan and the Chaebols in Korea attributed their growth to state incentives. This leads to the awareness that, public-private

cooperation is as a result of state influence and not a result of voluntary compliance by the business elite.

The degree of government-business cooperation and consensus on national goals, unique to the developmental state, is not purely the product of a given cultural environment but has been as a result of state elites themselves through the creation of a special set of institutions relying on a significant element of compulsion.

### **3.4.3 UAE Developmental State Model**

Many theories of economic growth and development such as Rostow's theory (1960) suggest that, there are stages that a country has to go through in order to realize economic development. Most of the western countries underwent these stages, but the UAE made a shortcut to these stages. This was facilitated by the huge mineral and oil deposits that led to the accrual of massive oil revenues. The boost of economic development in the UAE started in the early 1970's, the federation's formation on 2 December 1971 and the establishment of its formal economic, social, and political institutions coinciding with a massive increase in oil production and oil exports, followed by the explosive rise in oil prices in 1973 (Ministry of Planning (1987), UAE),

'Developmental State' is in-between two opposing views: Neo-liberal v. Planned, where Neo-liberal is free market with very little governmental intervention while Planned is a socialist model where the state does most things and has a high degree of control. In the Developmental State, the state takes an active role but in partnership with the private sector, particularly in the early stages of economic development/catch-up. It has been used in SE Asia e.g. Japan, Korea, Malaysia as well as in the UAE.

The massive revenues were used for social and economic infrastructure, which enabled the UAE to achieve a significant degree of economic development within the very brief timeframe since 1973, a period of relatively high oil prices. In addition, given the abundance of natural resource endowments of oil and gas, the UAE embraced resource-based industries (RBI) as a development strategy, an industrial strategy that is based on utilization of natural resources. Remember, economic development can be described in terms of structural changes within the economy as earlier stated. The UAE carried out structural changes within its

sectors of agriculture, industrialization, demographic transition, urbanization, transformation of domestic demand and production, tourism, foreign trade, finance, and employment.

The agricultural sector grew as a result of the UAE government's commitment to fund and provide incentives. Incentives included offering free plots for agricultural use, provision of seeds at half price, technical services such as pump installation and loans for agricultural purposes. Though the UAE had agricultural constraints such as its harsh climate, unsuitable water and water scarcity, this did not hinder its economic development. The government would sell mineral products and in turn purchase food substitutes to supplement its agricultural sector.

The UAE also developed its industrial sector. This was evidenced by the growth of the sector by establishing 84 new industrial units in 1977 (Ministry of Planning, UAE). The education system was also improved through the establishment of public and private sector schools, military schools, higher education and vocational training establishments. The Higher Colleges of Technology were established to offer courses of three years' technical training in skills such as business administration, accounting, banking, information systems, computers, engineering, aviation technology, and health sciences. The UAE Government offers free education to all UAE citizens, and primary school education is compulsory for all children.

Other sectors such as health were also improved through the establishment of quality health centres with qualified nurses. In addition, the UAE Ministry of Health provides special medical centres for school children, and there are health units in every school throughout the UAE.

In general, the UAE has utilised the developmental state type approach; the developmental state combines features of both free market and planned approaches to economic development, similar to the approach used by the Far East countries and proven to have worked for them to help them catch up with the Developed Countries, specifically in the case of Japan, South Korea, Singapore and China.



### **3.5 Economic Diversification**

The theory of diversification breaks with the dogmatically understood concept of comparative advantage, which often led to a limited focus on ‘monoculture’ exports and resource dependence. Comparative advantage is often narrowly interpreted as the imperative of concentrating economic efforts on developing a limited number of industries and businesses at the expense of others. While such an approach obviously contradicts recent developmental economics, which appeal to social welfare and development, it is also at odds with the neoliberal paradigm, focusing on growth. The latter argues that economic growth results in development through the effect of wealth diffusion. Diversification focuses on a balanced approach to development, aimed at reducing the risks of ‘Dutch disease’. As it was noted above, Dutch disease originated from dependence on a limited set of natural resources. Its implications include de-industrialization, manufacturing underdevelopedness and currency overvaluation.

Contrary to common sense judgments, diversification does not imply reducing trade in old goods or commodities: it is, rather, centred on decreasing their percentage share in exports through focusing on new goods and services. It is based on a new balance between basic and non-basic sectors, in which the inequality between them is reduced. A balanced approach to diversification requires gradual equalizing of these sectors in favour of economic stability and social development. In this way, diversification helps avoid negative implications of international conjuncture, break-offs in supply and production and so on.

The concept of diversification by no means contradicts the idea of specialization. Specialization may also be detrimental if it is fostered at the expense of economic sustainability and differentiation. However, it should be noted that diversification has to be clearly balanced against specialization and comparative advantage. For instance, as De Rosa (1992, pp. 590-591) argues, ‘efficiency considerations will continue to place important bounds on diversification, especially in respect to the expected factor content of the country's trade. In other words, the initial factor endowment of primary factors of production, ‘will continue to dictate the efficient possibilities for diversification of production and exports’.

The literature on rentier states vividly demonstrated that rentier-seeking behaviour through promoting oil dependence has far-ranging negative consequences for developing

countries' economies. Economic sustainability and development are impossible in a one sector economy. Economically, sustainability is based on the ability to diversify budget revenues through developing import-substitution industries and diversified sources of export revenue. If a government's budget is built on oil-based rent and revenues, the economy becomes particularly vulnerable to fluctuations of international prices and conjuncture. As Gelb showed, sharp oil 'windfalls' generated by international oil cycles make it difficult to stabilize economic management for developing countries. Oil revenues during oil booms do not offset vast losses during oil crises, resulting in inflation, underemployment, lack of economic activities and investment (Gelb, 1988).

Moreover, economic sustainability cannot be achieved due to the structural deficiencies of rentier states, as discussed in the Ross model (Ross, 1999). Modernization is usually difficult to promote, because of elites perpetuating rent-seeking behaviour. Shortage of investment funds and their use in the resource sector is one of the main reasons for slow modernization in resource-dependent economies. Economic history vividly demonstrates that modernization was primarily state-promoted development through public investment into new industries and infrastructural projects (Ross, 1999). In rentier economies, however, the state has no incentives to invest into innovation and modernization due to easy resource revenues.

Economic linkages and an innovative sector of the economy are usually the main hostages of rentier economies. In these conditions, diversification should be considered to be the only effective strategy of overcoming the resource curse in the developing countries. Resource dependence is often accompanied by limited economic specialization. Increased economic specialization is usually regarded as a result of modernization and innovation, when economic linkages develop between new industries, specializing in the production of certain goods and services, consumed by other economic section. Such a situation results in the development of wide productive cycles and chains, stimulating credit activities and new investments. In resource dependent economies, due to their short-term nature, economic specialization and linkages are hard to achieve. As a result, the domestic market of goods and labour is underdeveloped and non-competitive.

Rentier economies tend to conserve the dominant economic structure, because it coincides with their dominant political interests. The challenge against oil dependence for

them is simultaneously a challenge against their monopoly over natural rent. However, even in such conditions permanent crises caused by oil dependence and rising economic interests of the middle classes often move rentier elites towards diversification as a means of stabilizing the economy and hence social relations. The movement towards diversification is often affected by shrinking revenues as a result of a crisis. In the current conditions of global financial and economic crisis, rentier-states are likely to feel international from such as the World Bank reports and internal pressure to diversify and create effective domestic market to stabilize employment and social polarization.

### 3.5.1 The Concept of economic diversification

The concept of diversity and diversification is widely used in several disciplines and theories, including economic base theory, industrial organization theory, economic development theory, regional and location economics theories, trade theory, and portfolio theory (Siegel, Johnson and Alwang, 1995). Our main interest should be focused on the meaning of diversification in economic base theory and economic development theories, which address the national policies of diversification.

Economic diversification is widely addressed in the economic literature. Two basic units of economic diversification theory analysis are the individual firm and the entire economy. Corporate diversification is widely discussed in Lamont (1985), and Amit and Livnat (1988). They argue that, for an enterprise to be effective in diversification, its goods/services should be as wide as possible to prevent profit shrinkage due to decreased demand for certain goods and services.

The founder of institutional economics, North (1955), argues that diversification is inevitably linked with modernization and industrialization of the economy. According to North's sector theory of economic growth, diversification passes through gradual states. The first one is a self-sufficient agricultural economy. The second stage includes commercialization and trade, which affect diversification in the direction of manufacturing and the industrial base. Finally, the development of highly qualified personnel and cadres stimulates diversification towards banking and service sectors (Thompson and Lanier, 1988, p. 77).

Whereas this stage theory of diversification may prove to be effective in describing the path of developed economies, it fails to account for former colonial countries, including the majority of city-states. Their path of economic development differed from that of the core of the Western world. Capitalism developed in these societies as a result of colonial rule and its deficiencies and irregularities resulted in unequal exchange and development, as well as resource-dependent patterns of growth. Hence, evolutionary theories of diversification are inappropriate to utilize due to the fact that diversification in developing countries should be based on subjective strategies and governments' involvement in the process. The majority of resource-dependent societies have implemented only limited patterns of modernization, primarily linked with the oil sector. However, the rest of the economy is characterized by the dominance of pre-capitalist patterns of production. Those societies have uneven development within sectors of the economy and regions. Evolutionary patterns of diversification, hence, cannot be applied in their case, and fail as a result of the economy's structural deficiencies.

The importance of diversification is celebrated because of its alleged link with stability. For instance, Killian and Hady (1988, p.45) argue that "diversity is expected to increase the stability of local economies and enhance their potential for growth.". Akpadock (1996) advocates the same position in relation to community policies, according to him "diversify their economic base so that they could survive any future structural changes in the national economy." (Akpadock, 1996, p.64). Diversity is addressed by Killian and Hady (1988), as well as Akpadock (1996) as a necessary precondition for economic growth, development and stability. Economic stability is associated with diverse sources of export revenues, which is particularly useful during economic crises and shocks in the international arena. Moreover, it creates enhanced specialization, which is the cornerstone of a sound and developed domestic market of goods, services and labour force. Specialization, based on diversity, also creates strong economic linkages within the economy and, hence, is the main prerequisite for the formation of an effective civil society.

However, as Wagner and Deller(1998) suggest, growth and stability are not conflicting in the short and long term. Short-term diversification is more growth-oriented, because it commonly focuses on growth perspective sectors and industries. However, any such approach may have negative consequences in terms of abandoning sustainable projects in the long-term perspective. If target industries are not supported after diversification has been boosted, the

economic implications may be worse than before these policies were applied. Hence, it may be summarized that short-term diversification policies are oriented at growth, while long-term diversification is oriented at growth and stability.

Key and Lockard, unlike North, stress the necessity of government intervention and strategic planning in promoting effective diversification. According to these authors, diversification would not occur as a natural process, but should be promoted through infrastructural projects, investment etc. One of the major debates in the literature on economic diversification is mixing diversity and diversification. As Malizia and Ke (1991, p.7) suggest: 'some researchers do not make distinction between diversity and diversification, as if these terms were interchangeable'. Hence, diversity is an objective condition of a given economy, while diversification is a policy directed at making an economy diverse. As was noted above, diversification as a governmental policy should be regarded as the only effective stimuli towards diversity.

The concept of diversification is widespread in developmental economics. Schuh and Barghouti (1988) and Petit and Barghouti (1992) regard it as a process of structural transformation from resource dependence into secondary manufacturing or the tertiary service sector. Syrquin (1988) acknowledges that the process of structural transformation measure on objective types, being connected with industrial and technological revolution. Another current in the diversification literature, presented by Harris (1989) and Scitovsky (1989) considers that development and diversification are based on an effective correlation between growing and declining sectors. Diversification should not be promoted at the expense of a growing basic sector, since it would inevitably result in economic instability. The most effective balance should be found in order to guarantee stable fiscal policies and export revenues in the short and long run. Public investment in diversification should also not divert funds from crucial social programmes and services. This would help to prevent diversification programs from resulting in social conflict and instability. This correlation between diversification and instability is widely addressed in the existing literature (Wundt, 1992; Brewer and Moomaw, 1985). According to these studies, diversity quotients help predict economic sustainability in the long run. The formation of such predictions should be based on sufficient knowledge and expertise by government institutions. Every decision concerning diversification should be calculated in terms of possible gains and losses.

Economic base theory views diversification as being determined by the development of basic/export sectors as the most effective drivers of the economy (Miller and Blair, 1985). In these conditions, diversification should be premised on preservation of the central role of exports in GNP creation. As Isard (1976, p.252) suggests, 'For a regional analyst seeking to implement the policy of diversification, a series of localization coefficients could be useful. It could provide the basic for preliminary and tentative judgment about the industries to seek and encourage...Industries with low coefficients are relatively non-concentrated regionally, and are thus presumably amenable to location in a region, seeking industrial diversification'. Such a position is criticized by Siegel, Johnson and Alwang (1995) for equating a low quotient with irrelevance of a given sector. The thing is, as they rightly claim, that one should understand the causes of a low coefficient, which can be either the absence of competitive advantage or missed opportunities. This observation is particularly relevant in the case of resource-dependent countries, where the underdeveloped state of certain sectors is connected with missed opportunities and rent-seeking behaviour, rather than the lack of competitive advantage. The location and regional economic approach to diversification focuses on economic linkages as the basic mechanism of securing stability during diversification (Hoover and Giarratani, 1985). This approach contends that diversification is likely to be effective in agglomerations with developed economic linkages, which may offset the possible negative impact of instability. The case is that in the absence of strong economic linkages diversification may result in short-term instability as a result of changing patterns of policies. However, if strong economic linkages are present, the implications of instability and revenue loss may be less evident.

Diversification of economic activities in these conditions is likely to be a positive exit strategy. It should be noted that this approach is extremely relevant in terms of the analysis of city-states because they have no hinterland in the strict sense of the word. Hence, their diversification initiatives are unlikely to be hindered by hierarchical relations between Core (city) and periphery (hinterland) (Harvey, 1973). In the context of development economics, diversification is affected by the change of production patterns (Petit and Barghouti, 1992). Economic diversification may be accompanied by unbalanced growth, having negative consequences for the economy in general and hence, the most genuine strategy is government planning, adjusting diversification to specific economic and social goals. Such an approach is

extremely important, because it acknowledges the critical role of state institutions in diversification. This is particularly relevant for developing countries, where diversification cannot be developed as a natural process because of structural barriers and where conscious intervention of the state is needed. In all successful cases of diversification, including the UAE and Botswana, government planning was crucial for stimulating private initiative and providing a favourable investment climate.

Wagner and Deller (1993) also establish their assessment of diversification strategies based on intersectoral linkages through the use of an input-output matrix. Such an approach may be helpful for testing economic stability in a given set of diversification initiatives. Diversification in resource-dependent rentier states, as the research suggests, is accompanied by intrinsic problems and difficulties. While rentier states have enough export revenues and resources to foster investment and diversification of domestic economies, they do not want to do so due to structural causes. Several structural problems of diversification in rentier economies may be outlined. First of all, in most developing countries, since the manufacturing sector is not efficient due to the unhealthy business climate, imports become more and more monopolized by import-oriented businesses, which have a direct interest in perpetuating the underdevelopedness of the domestic market. The import lobby may be difficult to struggle with, because of corrupt governmental agencies, nepotism etc. Moreover, it is difficult to achieve a balance between the basic sector and the sector targeted to develop. Reallocation of resources to other sectors is difficult because the entire economy is structurally dependent on resource revenues, which are not linked with other sectors of the economy. Such a decision may be very difficult in terms of short-term problems. Secondly, resource rents breed corrupt and strong institutions, which protect their benefits from resource rent distribution and sharing. The political elite's feedback to initiatives from civil society and private initiatives is feeble and prejudiced. Such inability is structurally determined by the structure of rentier economies, which includes firstly a resource sector, secondly corporate parts of the resource sector (for instance government employment) financed from rents, and, finally, an informal semi-chaotic economy. The informal sector fills the niche created by the absence of domestic manufacturing and organized economic linkages. The deficit of certain goods, unregulated small and medium businesses and corruption make it difficult to develop

effective tax relations between the government and domestic business. These two factors are one of the most detrimental to a successful diversification strategy.

Proceeding from this, Hirschman (1989) offers a linkage approach, providing an understanding of types of economic linkages in a given economy. The first one is a consumption linkage, which fuels domestic production of goods. It is rather weak in resource-dependent economies, because the majority of goods are imported. The second is a productive linkage, which is the most crucial for the purpose of economic diversification. It includes developing private initiative and securing the efficiency of public investments. Thirdly, fiscal linkage creates the source of domestic development and public-private cooperation. Productive and fiscal linkages are also underdeveloped in resource dependent economies. As noted above, rentier states' domestic fiscal policies and tax revenue link are very weak due to the fact that rent has an external character, because the bulk of revenues are received from foreign states and corporations, while domestic business functions in the informal sector. The absence of tax relations between state and domestic business make the formation of common internal market and perspective domestic projects difficult. Moreover, as noted above, the absence of a tax link is the main cause of authoritarian trends in resource-dependent countries. Hence, the absence of political will to develop domestic non-oil industries is often caused by structural factors.

To sum it up, various approaches to diversification stress policy difficulties in its realization. To be effective, diversification should promote both growth and balance. It requires professional expertise and knowledge, as well as developed predictive techniques. However, in any case, diversification is connected with short-term risks of instability. Moreover, accumulated financial resources may be directed at diversification of the economy, if political motivation and effective strategies are established. Liberalization of rentier states may become a trigger for future development and diversification through investing into new sectors and business activities. However, until recently such developments were the exception, rather than the rule. Among exemplary cases of rentier state diversification, one should point to recent policies of tourist diversification in the UAE, which are to be discussed later.



### 3.5.2 Types of diversification

As Hirschman's classification of economic linkages suggests, there can be several distinct approaches to diversification. The first one fosters the development of a productive base through investment, subsidies, educational programmes, attracting foreign direct investment and multinational corporations. The premise behind such diversification is strengthening economic linkages and creating well-developed domestic market, which can diversify budget revenues. Stimulating manufacturing simultaneously results in the reactivation of banking credit and small and medium businesses.

The second approach is focused on attracting the private initiative of small and medium businesses and households in the creation and sharing of non-oil rent. As was noted above, a type of rent generated by tourism may be more democratic because it benefits a wider group of citizens, unlike elite-controlled oil rent. Tourism, being a growth industry, could also be an effective strategy in terms of promoting economic growth. Moreover, tourism intensifies international business and educational and cultural exchanges, which are often central to comprehensive development of human capital.

Another type of diversification is diversification in services, including finance and tourism. Financial services may be viewed as an important contribution into the financial stability of a country. They are crucial in attracting domestic and foreign investment, and may be used for preventing risks. Developed financial services are crucial for stimulating economic activity through credit. This is especially true of small and medium businesses. Based on the possible diversification opportunities, they may be classified in three distinct categories: diversification of production base, diversification of service sector, and rent diversification.

Different cases of diversification in oil-dependent countries, reflecting the existing literature on the topic are analysed in the subsequent sections.

### 3.5.3 Diversification from oil base

The issues of diversification of oil-dependent economies are extensively analysed in the literature on diversification. For instance, Looney (1991) studies the prospects of diversification in oil-dependent Kuwait's economy. Looney argues that Kuwait's economy

was negatively affected by several Dutch disease symptoms, such as exchange rate overvaluation and sectorial inflation. Diversification in Kuwait, according to Looney (1991), should be based on currency devaluation and expansion of industrial output through stimulating manufacturing and real estate projects.

In the same vein, Eltony (2002, pp. 197-198) argues that diversification in Kuwait should be premised on developing non-oil economic sectors: 'In the case of Kuwait diversification means reducing heavy dependence on the oil sector by developing the non-oil sectors of the economy. It also implicitly includes the reducing the direct role of public sector, while increasing private-sector activities, and hence, its size and role in the economy'. Moreover, as Eltony suggests, economic diversification in Kuwait requires the increase of non-oil exports and labour participation in various sectors of the economy.

Flejtersky and Kolenda (2008) link the need to diversify with the unbalanced nature of oil revenues, affected by international conjuncture, which is difficult to predict. One of the possible avenues of diversification according to these authors is service-oriented diversification, focusing on the development of the banking sector, investment and other services. Service diversification is needed, because the service sector is one of the most booming and bringing the largest surpluses.

Moreover, it may be used as a source of new investment in non-oil sectors and for hedging the risks of oil dependence in the future. The examples of Abu Dhabi and Dubai vividly demonstrate that oil-producing states may be successful in accumulating wealth through investment funds, stabilization funds, gold reserves and investing money in profitable treasuries and national bank obligations. Saudi Arabia and the UAE were so successful in developing their financial sectors that the United States asked them to give loans to restore the American economy, which was suffering from the financial mortgage crisis. The UAE may be characterized as an example of re-investment of oil revenues into infrastructural projects and real estate.

The issue of economic diversification in the Gulf region is extensively studied by Baroudi (2002). The author argues that notwithstanding the unsteady character of diversification, a certain success was achieved in establishing non-oil industries, such as fertilizers, metals and petrochemicals, agriculture and manufacturing (with the help of heavy subsidies) and services, such as tourism and financial institutions. The reduction of the oil sector contribution in GDP in comparison with the 1981-1985 period may be observed during

1996-98 in certain countries such as Kuwait and Oman (from 60 per cent to 40 per cent), from 40 per cent to 35 per cent in the UAE and Saudi Arabia. To intensify diversification, according to Baroudi, privatization and liberalization of financial markets, reduction of subsidies, enhanced integration and market-based education should be promoted in Persian Gulf countries.

Diversification efforts in Saudi Arabia are studied at length by Abdel-Rahman (2002). Saudi Arabia used a planning approach as the corner-stone of its diversification initiatives. Five-year plans were created to move from an oil-dependent economy. According to Abdel-Rahman, such efforts resulted in growth of non-oil GDP at the rate of 5.6 per cent annually, with simultaneous growth of the oil sector at only 0.7 per cent. As of 2002, the non-oil sector in Saudi Arabia accounted for about 62.4 per cent compared with 72.0 per cent in 1984. Abdel-Rahman also shows that diversification had positive consequences for attracting FDI investment through partial devaluation of the national currency. In order to fully diversify its economy, Saudi Arabia had better pay more attention to such sectors as tourism and manufacturing.

The discussed studies vividly demonstrate that diversification efforts may be realized in oil-dependent countries. Their successful realization was based on liberalization of the private sphere, effective governmental planning and support of target industries, and developing human capital needed for new industries through education and training.

#### 3.5.4 Conceptual Synthesis

Based on the analysed literature on economic diversification, it may be argued that it is the most effective tool for overcoming oil dependence. Different approaches and strategies to diversification are present in the literature. The main debate between these approaches may be formulated as follows: should diversification promote *prima facie* economic growth or social stability? A balance should be found to secure the development of new sectors of the economy, while preserving stability in the economy and society as a whole. Diversification planners should be well aware that effective diversification should be based on the assessment of economic linkages and synergies, arising from different configurations of diversification initiatives.

This is particularly true of oil-dependent rentier states, where sectorial development of certain industries and services was not due the lack of comparative advantage, but to the structural inability of rentier states to diversify their economic base. One should also point out the crucial role of professional expertise in determining the most perspective sectors to be diversified. Moreover, the balance between short-term growth priorities and long-term sustainability should be created. The case of planning efforts, realized by Saudi Arabia in the form of 5-year plans, may be illustrative in terms of an approach needed to prevent palliative diversification.

Once diversification efforts are made, government managers should forget the interests of emerging firms and industries, but in contrast should monitor their performance. Moreover, diversification strategies should not neglect the country's comparative advantages, which constitute its economic base. Diversification should be primarily focused on economic activities, which would guarantee vast high income employment, development of economic linkages and of the domestic market. In this view, the development of tourism and manufacturing may be the most effective measures.

However, one should remember that in a globalized economy, based on credit and investment, the formation of strong and healthy financial institutions is also urgently needed. Free financial resources, formed from export revenues, may create various funds, designed for stimulating private initiative and innovation. Such an approach may foster the increased activities of small and medium businesses. The discussed attempts of diversification in oil-producing countries show that such efforts may be successful if public-private cooperation is in place and if government programmes subsidise the sphere which promises the development of economic linkages and non-oil sectors. The majority of Arabian Gulf countries have to some extent diversification programmes, focusing on real estate, tourism and financial services. The UAE, Bahrain and Saudi Arabia were able to manage to some extent to raise the standard of living, per capita GDP, and foreign direct investment inflow. These initiatives could not be achieved without vast oil resources, which helped them collect immense investment funds for diversification. This fact clearly demonstrates the effectiveness of the discussed diversification paradigm. What follows discusses the positive and negative aspects of tourism as a means of diversification, focusing on case studies of different resource-dependent countries.

### **3.6 Tourism as a means of diversification.**

The usefulness of tourism in diversifying an economy and promoting economic development was for a long time recognized by development scholars and institutions, such as the UN. The influence of international tourism on development was acknowledged already in the 1940s (Mihalic, 2002). Starting from the 1960s, in-depth research was made into the developmental function of tourism (Diamond, 1977) and (Gray, 1982). In the period of 'modernization' paradigm dominance (1950s-70s), tourism was regarded as a 'growth pole' effective in stimulating growth through employment, developing economic linkages, diffusing development through less developed sectors and, finally, eliminating regional disparities in a given country (Opperman, 1993). Tourism diversification became particularly relevant for developing societies. The inflow of Western tourists into newly independent countries boosted the development of various tourist services, hotels, the restaurant sector, and food and beverage industries. In turn, such developments stimulated the formation of new employment in the country, while resolving some of the most burning problems of poverty and social marginalization. In many developing countries, tourism was among those sectors which stimulated economic growth and development through increased quantity of foreign investment and foreign currency inflow with tourists.

Tourism was important as an international development agenda in the context of a sustainable development framework. Employment benefits of tourism diversification were well addressed in the study of Farver (1984). Tourism's contribution to bringing stability to the balance of payments was also discussed by Baretje (1982). The author argued that tourism is a crucial tool in bridging the gap between imports and exports. Tourism could stimulate supplementary earnings through stimulating domestic and foreign investment. In this way it was instrumental in strengthening economic linkages. Sinclair (1998) regards tourism as a lead factor of development in rural areas, in urban centres, dominated by tertiary sector services etc. Rural areas may capitalize on their natural wealth, reflected in rivers, leisure places, fresh air, local national traditions and holidays. Tourism may be an additional source of income for farmers, local artisans and art masters. Moreover, tourism diversification in rural areas may be an effective tool for maintaining national customs and promoting local culture at the global level. In highly developed urban areas, tourism may be very helpful in terms of stimulating consumption, cultural and educational exchange. Moreover, tourism in

urban areas may be a positive factor in the development of recreation areas, such as parks, museums, cultural centres etc.

Although tourism fosters foreign direct investment, employment and revenues it does not explain why it is often preferred to other types of economic activities. Brown (1998, p. 59) argues that such an emphasis on tourism in developing countries is connected with the absence of real alternatives, because of the lack of financial resources, productive industries and technological resources. Notwithstanding this reality, several reasons for tourism being used as a diversification strategy are often referred to in literature on the topic:

- 1) Tourism brings economic growth. The growth rate of tourism was dramatic since the 1950s when the industry grew at about 7 per cent annually. The trend is predicted to be maintained due to continuing globalization and liberalization of borders and enhanced interpersonal exchanges between nations. The immense growth of tourism may be explained by the important role of traveling and cultural exchange in people's lives. Recreation, being a part of lifestyles, has intensively developed with the rise of modern civilization, associated with heavy pressures on individuals at work, university and elsewhere. The development of traffic and communication has made it possible for people to travel in different parts of the world, which were earlier inaccessible. Moreover, the increased role of migration and transnational business was among the central factors affecting economic growth, as a result of implementing tourism diversification.
- 2) Redistributive function of tourism. WTO and many developmental economists consider tourism to be an important factor in redistributing wealth between developed and developing countries. The widening gap between them is difficult to bridge; however, the tourism industry seems to be one of the most effective in terms of generating the inflow of private and corporate money into developing economies. However, one should mention that international tourism is regionalized and polarized with developed countries attracting 70 per cent of tourists, while many countries of the South are not ready for mass tourist attraction due to lack of infrastructure, instability and conflict (Shaw and Williams, 1994). Polarization is also explained by effective policies of developed states, directed at the preservation of cultural and historical heritage and their organization in museums, exhibitions etc. Moreover, tourism in the developed world is often stimulated by frequent festivals, tournaments, sports

competitions, and film and music awards, which attract tourists from all parts of the world. The absence of structural capacities in the developing countries to organize such events is the basic cause of poor tourism development.

- 3) Absence of trade barriers for tourism. Among other services, tourism is relatively free from trade limitations. As Jenkins suggests, tourism in most countries is ‘an export opportunity free of usual trade limitations’ (Jenkins, 1991, 84). However, as noted above, export opportunities are often polarized by unequal distribution of tourism resources and power relations among countries and regions.
- 4) Economic linkages. It is argued that tourism requires the development of additional products and services, which generate intensive economic ties in a domestic economy. As Telfer (1996) suggests, tourism may foster the development of direct linkages – for instance, farmers may supply food for tourist restaurants and hotels, or indirect linkages through cooperation in the construction industry. However, it should be noted, as Sharpley (2002, p.224) contends, that ‘not all destinations may be able to take advantages of these opportunities, the diversity and maturity of local economy, the availability of investment funds or the type/scale of tourism development being amongst the factors may limit an extent to which backward linkages occur’. Therefore, structural factors and free financial resources often play a critical role in government-promoted diversification.
- 5) Rent origin of tourism resources makes them free, because they are not created or built. Their value is already created by nature and local resources (Jenkins, 1991). In this view, the main advantage of tourism is its low start-up costs, which make it attractable both to domestic and international investors. Here, however, also exists differentiation between countries in terms of the richness of their recreation resources, such as sea, sun, rivers, forests, deserts etc. However, the facts show that, even in the absence of exotic landscapes and nature, a country may be successful in attracting tourists to its territory by man-made attractions.

The discussed factors contribute to the fact that tourism is one of the most effective diversification options, because of its continuous growth, ability to generate economic linkages, low start-up costs, rent character, attraction of investment and involvement of vast number of small and medium businesses.

The importance of tourism in generating growth in the developing world was also acknowledged by World Tourism Organization's Manila Declaration on World Tourism in 1980, which argued that 'World Tourism Organization's Manila Declaration on World Tourism declared that 'world tourism can ... ensure the steady acceleration of economic and social development and progress, in particular in developing countries' (WTO, 1980, p. 1). The discussed positive aspects of tourism are suitable to make it one of the most perspective options for diversification.

### 3.6.1 Critique of Tourism as a Diversification Strategy

Recently, a number of studies showed critical attitudes towards tourism as a means of diversification for developing economies. For instance, Sharpley (2009, p. 337), based on the examples of Gambia, shows that 'tourism is not immune to the factors that determine a country's LDC (Least Developed Countries) status but that, although claims of tourism's developmental role should be treated with caution, the economic contribution of tourism may be enhanced in a number of ways'.

The majority of developing countries did not always manage to begin the path of growth and development through tourism, since it did not boost socio-economic development and modernization. Tourism's inability to dissolve structural handicaps for development in the South has been acknowledged by many scholars. However, one should point to notable examples of countries where tourism contributed to growth: Egypt, Mexico and Thailand (Clancy, 1999). In these countries, however, growth was mainly generated by investment and infrastructural projects, attracted from domestic and external sources. Moreover in the case of Egypt the success was partly achieved because of proximity to Europe and the former Soviet Union. In other developing countries, tourism was not associated with a comprehensive development framework, generating local economic linkages. Tourism development was reduced to certain regional clusters and remained a partial phenomenon in the majority of African and Asian countries.

Tourism diversification in developing countries is prevented by structural challenges and traps, including colonial history, dependency status in the global political economy, and a number of internal challenges, including poverty, population growth, lack of economic growth, dependence on food imports, limited technological and scientific resources, and



authoritarian trends. (de Rivero, 2001, pp. 118–131). For instance, as Sharpley (2008) argues ‘Between 2000 and 2005, international tourist arrivals in The Gambia increased by an annual average of 7.5 per cent; over the same period, however, per capita GDP in the country declined from US\$320 to US\$290 (World Bank/UN, 2006, p. 72) whereby, following a trend established in the 1990s, poverty continued to become more widespread (Sharpley, 2008). Such examples vividly demonstrate that tourism diversification does not directly affect growth and development if not accompanied by deep structural transformations. Poverty reduction and creating basic infrastructure and institutions should be regarded as the sine qua non of tourist diversification. This initial stage is critical to any form of diversification in developing economies. In the same vein, Mow forth and Munt (2003) argue that particular political, socio-cultural and economic characteristics may negatively affect opportunities for development generated by tourism diversification. The following factors limiting the impact of tourism diversification are outlined by Sharpley (2009):

- 1) Geographical factors: remoteness, smallness, ‘land-lockedness’, which limit tourism access, foreign investment and infrastructure development. However, such difficulties often have a place in the developed countries, and they are resolved because of the higher levels of technological development which these developed countries have.
- 2) Vulnerability to internal and external shocks, such as natural disasters and political and economic conjunctures. International sanctions, trade barriers and embargoes, non-accession to influential economic organizations and forums may indirectly affect tourism diversification in the developing countries.
- 3) Structural deficiencies, including the lack of accommodation and transport facilities; poor telecommunications, reduced access to global systems of distribution; weakness of human resources, professional cadres and inter-sectorial linkages.
- 4) Ineffective political and institutional structures, preventing developing countries from creating a favourable investment climate for foreign investment in tourism. The absence of national capabilities for planning and managing national tourism development projects and plans (Sharpley, 2009, p.342).

While unquestionably important, this list of limitations may be supplemented by another two factors. The first one is vulnerability to internal political instability, including

civil conflicts, terrorism, coups d'état. The lack of security for foreign tourists is among the basic challenges for developing tourism in many regions of the world. The second factor may be characterized as structural polarization between developed and developing countries. Developed countries possess more resources to market their tourism industry through the Internet, global communication, investment etc. Their infrastructure is already developed and has a long history of tourism, and cultural heritage in arts, music etc., which makes it attractive to tourists from all parts of the world.

Moreover, tourist activity in the West is often accompanied by business relations, educational and cultural exchanges which multiply the positive effects from the tourism industry. In contrast, the majority of developing countries are regarded as exotic places by the majority of tourists. In this way, it is difficult to develop multi-faceted tourist activities, which would generate development in other sectors of the economy. Tourism in the developing countries rarely diffuses development to other economic sectors. The incomes are either consumed or accumulated, but not reinvested in economic activity.

Some scholars, such as Brown (1998) and Lea (1988), argue that positive results of tourist diversification are hindered by the fact that in many cases it is a strategy of 'last resort', used when all other strategies for development do not work. Cronin (1990) and Telfer (2005) point out that tourism as a single economic sector cannot be used as a means for development. It can produce economic growth in the form of revenues for the narrow group of hotel owners but the majority of the population do not benefit. Moreover, as Ascher (1984) contends, the dependence on tourism presents a potential barrier for the long-term development of tourism. Indeed, tourism development is based on a wider economic and institutional progress, attainable only in the case of establishment of a comprehensive framework for overcoming the problems of poverty, poor communications and infrastructure. The environmental policies of multinational corporations and the pressure of foreign governments may also be factors negatively affecting the development of tourism in a given country. For instance, as Sharpley (2009, p.343) argues, 'the 1994 military coup itself in The Gambia had little impact on tourism; however, the response of the British government had a major impact'.

A growing body of literature specifically criticizes tourism's contribution to development, including Brohman, (1996), Mowforth and Munt (2003), Sharpley (2009). As Sharpley suggests, based on the case of Gambia, the increased number of tourist arrivals is not always accompanied by an increase of per capita incomes and economic growth (2009). As Brohman (1996) argues, tourism may also function as an 'enclave sector', located in limited coast areas. While its increase brings new employment and economic activities in these areas, the development is not always diffused to other, often underdeveloped, regions due to the absence of effective governmental policies designed to include tourism in a development agenda in general.

The critique of tourism diversification is also based on the expanded notions of development, including human capital, growth and empowerment. As Telfer (2005, p.190) suggests, in the dominant neoliberal literature, tourism was often praised due to its potential for generating economic growth. However, the latter does not necessarily lead to development if certain structural and political transformations are not realized. This is particularly true of the discussed oil-dependent countries, where economic growth was not accompanied by the development of human capital and social welfare. In many African oil-producing countries, such as Angola, the tremendous oil revenues did not result in eradication of poverty, decrease in the rates of child mortality or success in combating HIV/AIDS. Such changes were difficult to achieve because of the continuing curse of colonial heritage, natural resources, rent-seeking behaviour of local elites and unfavourable international conjuncture. This suggests that in many cases economic growth is not the key factor for boosting development in the developing countries. In contrast, a more comprehensive framework should be created to channel economic growth in the right direction. In a more sustainable development, tourism is balanced as a profit-driven and resource-consuming activity with wider development goals, environmental and communal approaches (Telfer, 2005).

Poor ecology and contamination of recreational zones as a result of mining activities, may become a severe problem for tourism diversification. Many developing countries have experienced these challenges. One of the most resonant cases is the Niger-delta, which suffered severe contamination by multinational oil-producing corporations, such as Exxon Mobile. To minimize the negative implications of the oil industry for recreational resources,

governments in developing countries should actively regulate the activities of international corporations and local companies.

As Sharpley (2009) suggests, the limited regional nature of the tourism industry in developing countries makes its contribution to development at least modest. For instance, in Gambia tourism is spatially limited to a small coastal strip, which limits employment opportunities and revenues for other regions of the country. In this way, internal polarization and inequalities are generated and perpetuated. The organizational part of tourism development lacks coherence with no sufficient investment in cultural sites, infrastructure, tourist guides, supporting literature, excursions etc. The tourist sector does not generate profit for Gambian citizens and households: tourist businesses use a low-skilled and low-paid labour force. The tourism sector is often informal, which implies that taxes do not go to national or local budgets and do not support development projects. Another factor contributing to the insufficient impact of tourism on development is its seasonal character. In developing countries this means that employment is also seasonal with many hotels and restaurants firing their staff when the tourists' inflow is low. As Sharpley (2009) suggests, the seasonal nature of tourism also makes it difficult to develop supply chains, with the agricultural sector suffering severe losses. Vast numbers of products needed for servicing the tourism industry are imported, which means that tourism does not provide any stimulus for the development of domestic economic linkages.

Tourism diversification is also adversely affected by poor governance and governmental lack of involvement. Tourism is exploited by developing governments as a source of easy income; however, they do not re-invest money in the development of this industry or any connected social and human capital projects and any investment in the improvements or development in such societies are based on international aid. It should be noted that domestic investment in the tourism sector is often hindered by high levels of taxation, while international involvement is difficult because of poorly regulated property relations and an unfavourable investment climate. In the same vein, the attraction of local small and medium businesses to the development of tourism is often hindered by the high interest rates in developing countries. In the oil-dependent countries the comprehensive development of tourism is often hindered by the absence of available investment funds: the bulk of funds are used in the profitable and high-returning oil sector, thus perpetuating dependence and the oil

course. Hotels, restaurants and other components of the tourist industry pay enormous taxes and fees for using water, electricity and other utilities which are sometimes very scarce in developing countries.

Moreover, the development of a tourist industry is often prevented by the lack of knowledge and information. This makes it difficult for governments and tourist businesses to be aware of existing problems, possible opportunities and priorities. Planners and tourist businesses do not understand tourists' behaviour, interests and needs. As a result, policy decisions are taken based not on evidence, but false intuition.

To sum up, the positive role of tourism diversification is based on its contribution to economic growth, strengthening economic linkages etc. However, tourism diversification's positive influence on development is conditional upon comprehensive strategies for developing infrastructure, investing into traffic and global communications, improving government planning and stimulating private initiative. In many cases tourism diversification is hindered by the lack of professional governmental expertise, environmental problems of recreational zones caused by transnational corporations, international sanctions, internal instability and conflict. Moreover, poor governance prevents developing countries from effectively organizing tourism diversification through the establishment of cultural exchange programmes, tourist organizations, councils, and institutions for the preservation of historical and cultural heritage. Among objective factors negatively affecting tourism diversification in the developing countries one should point out international polarization between developed and developing countries, which makes the former more attractive for international tourists. The critics of tourist diversification rightly contend that it does not necessarily bring positive changes, unless deep structural problems and handicaps are addressed by all stakeholders in the process.

### **3.7 Tourism Policy Demand and Supply Factors**

Tourism is an example of the invisible trades in various economies. Tourism refers to the visiting of places that are outside the usual locations of residence or work with an aim to satisfy leisure needs. It follows that people who engage in tourism always look forward to achieving set objectives. The needs may include leisure, exposure, and scenery enjoyment. Two factors influence the tourism market. Just like other commodities markets, tourism also

has supply and demand sides of the market. This part comprises of the motivational factors and the behaviours of different people. These factors also interact efficiently to enhance the achievement of equilibrium tourism standards (Lyssiotou, 2000).

### 3.7.1 Definition of tourism destination demand

Tourism destination demand refers to the number of people who are willing and wishing to move from their residence to a place away from their residence or workplace (Lyssiotou, 2000). They have an aim of establishing leisure. This side of the market attempts to explain the consumer's side of the trade that takes place between different groups. There are places that achieve a high level of tourism attraction. On the other hand, there are also places that can only attract few tourists. There are at times when the demand for tourism need is at its peak, and there are times where the activity is under a depression (Claveria & Datzira, 2010). All these variabilities in tourism demand exists due to different factors. These factors are the determinants of tourism destination demand. They attempt to explain why there are locations that always have high demand for tourism, and other that have difficulties attracting tourists.

### **3.7.2 Factor determinants of tourism destination demand**

#### 3.7.2.1 Factor of availability of tourist attraction elements

Tourists typically visit different destinations so that they can enjoy different things. They might want to enjoy the climate, the people's culture, wildlife, and many other elements that will give satisfaction to them after use (Lyssiotou, 2000). These are key motivators to the attraction of tourism to numerous destinations. Different people prefer different elements of tourism. The availability of numerous attraction elements in one area can make people attracted to such areas.

Different customers like different facilities. This means that the same tourist attraction element cannot offer a similar level of satisfaction to different people. This also implies that customers are always choosy in terms of the services that will satisfy their needs. If the services that a tourist industry offers are in accordance with a large number of tourists' tastes and preferences, then the destination will have a high demand as compared to other places.

This variability in consumer tastes and preferences in conjunction with the availability of tourist attraction elements will influence tourist destination demand (Goeldner, Ritchie and McIntosh, 2000). Additionally, there are places that have a variety of tourism attraction elements. This increases the chances of a destination offering a good level of satisfaction. This makes the place enjoy high demand since the tourists can receive wider satisfaction at one location. For example, a place with different scenery elements will attract different tourists because it is diverse. This variability also explains the demand for tourism to different places.

### 3.7.2.2 The factor of price of tourism

There are costs that go with leisure. The people who visit places with an aim of satisfying leisure must always consider the costs that they will incur. Tourism industries differ from one destination to another. This implies that they will obviously charge different prices for the service that they offer to the people who come to visit (Donald, 2006). The prices that they charge also depend on different factors within the tourism sectors. The tourists are also always sensitive to price. This is because money is a scarce resource and most people wish to achieve many things with the little income that they have within their reach (Lyssiotou, 2000). Since this is the situation, tourism's customers will evaluate the extent of the price that they pay for the leisure that they receive. For example, when the prices are too high, the mass tourists will move to other destinations that have moderate prices. On the other hand, when the tourism destination attracts relatively low prices, then the tourists will prefer the place since it favours their income capability.

### Factor of accessibility of the tourism destinations

There are different tourism destinations in the world. Some of them are accessible while some of them always look difficult to access. Accessibility may be in the form of transport factors and the accessibility of tourism attraction elements and sites (Lyssiotou, 2000). There are locations that are always not easy to access using the various transport systems. This may be because the place has poor infrastructures and other difficult elements that deter easy

access. There are also areas that have some elements like the wildlife that may be a deterrent to visiting given sites.

#### Knowledge of tourists about the destination/ and tourism marketing

The level of information that a person has in relation to the place or destination is a critical concern in this case. Some tourists industries are effective in the ways they advertise their locations and services to the tourists (Țigu & Calarețu, 2013). This means that visitors have a good knowledge about such destinations. On the other hand, there are some tourist attraction sites that visitors may not be aware of. A person is also selective on the services that they consume. They will not consume the services that they do not have information concerning their existence. This also applies to tourism sectors as a service. The tourists will go for the tourism destination that they are aware of.

#### Political factors

Political factors affect the level of tourism demand in different locations. Some of the political factors include the laws, political stability, and political relations with the rest of the world. Stability refers to the level of political equilibrium within a country. A stable political condition enhances a high demand for tourism activities. This is because, tourists who come to different countries for a period greater than twenty-four hours always check on particular elements like safety (Goeldner, Ritchie and McIntosh, 2000). They consider a stable political situation to be peaceful and, therefore, enhance security. This perception makes the tourists take advantage of the safety element. On the other side, a political condition that is unstable does not attract many tourists. This is because tourists always consider such places to be unsafe. They view these places as not having adequate security. This factor deters tourists from exploiting leisure in such locations.

The other way in which the political factors affect the demand for tourism is through the laws that exist at a destination (Țigu & Călărețu, 2013).. Suppose the destination in questions has set laws then the tourists may decide to visit or not to visit. For example, if there are laws not just, the tourist will relax their demand towards such destinations. This is because



tourists always want a place where they treated fairly (Lyssiotou, 2000). This is because tourists like places where they can enjoy their leisure without interferences. They also prefer places where they find it easy to be compatible with the existing laws and regulations.

Additionally, past political experience in particular destinations also affects the demand for tourism of particular destinations. These factors act like the motivators to the people who wish to visit a particular destination. For instance, when there was good political governance in the tourism destination, then it means that consumers will still enjoy the political conditions. They always look at the history of any destination that they wish to visit to find out whether the place has a good record of stability (Lyssiotou, 2000). On the other hand, when the place has a history of unstable political conditions, then it may not attract many visitors.

The seasons of the year/ climate factor

A key factor in tourism demand is where the tourists travel and stay in different places due to difference in climate (Colin, 2006). This situation varies the demand for tourism services in different locations. There are seasons when the tourist from the other countries may yearn for a category of leisure. For example, there are at times when there is cold weather in other countries. Since tourists come from diverse geographical locations, they may tend to vary their climates. They resort to look for conditions with a contrasting climatic condition to that existing in their place of residences. This implies that there will always be variability in terms of weather conditions in different destinations. For example in hot seasons, tourists always tend to go for destinations with cold temperatures. This is because the tourists always go for what they cannot get in their own places of residences. This, therefore, implies that the variability in terms of seasons and climates affect the demand for tourism activities (Țigu & Calarețu, 2013).

### **3.7.3 Factor determinants of tourism destination supply**

There are sectors all over the world that provide tourism services to different visitors that come to the countries to satisfy their desire for leisure, education, shopping, medical

treatments..etc. and exposure. These sectors have different services that they provide to customers depending on their areas of specialization (Țigu & Calarețu, 2013). Some specialize in offering beautiful scenery, wildlife, cultural practices, or beach climates for example. This refers to the supply side of tourism where the industries attempt to provide different services to customers. Tourism supply destination, therefore, refers to the different provisions for visitors that enhance their stay in set tourism destinations (Țigu & Calarețu, 2013). This comprises the infrastructure and capability side of tourism activities. For example, when the visitors go to certain destinations they have to receive certain services and commodities that make up the tourism system complete (Țigu & Calarețu, 2013). These resources can support only given number of people. The tourism industries provide services like transport, accommodation, and foods. These factors determine the amount of products and services that the tourism industries will provide to the visitors. The supply side comprises of the factors that the industries present to the visitors.

#### **3.7.3.1 Infrastructure factors**

Tourism infrastructure is pivotal to tourism development. It determines the service that can be provided to customers who visit their locations for leisure (Țigu & Calarețu, 2013). The industries providing tourism services are, therefore, keen in improving the level of development of transport systems that are in place. The suppliers of tourism services and products will be eased to provide transport services to its visitors who may suppose the destination has a good infrastructure. Transport and infrastructure development are two variables that affect each other positively. This implies that a tourism industry would be willing to provide transport services to visitors when there good transport facilities. This is because there is ease of movement of visitors from one place to another. This is the opposite in case of poor transport facilities. The industry will not easily move their visitors from one place to another due to poor road networks.

Transport is also a key issue concerning visitor's perception. The customers perceive a good transport system to be part of ability comfort (da Costa & Carvalho, 2011). They view leisure to go hand in hand with comfort ability. Having a good, transport system will mean that the industry will provide a good service concerning transport and other movements. This

implies that good transport facilities determine the level of provisions that a tourism industry can offer to its visitors (da Costa & Carvalho, 2011).

### **3.7.3.2 Factor of availability of accommodation**

The resources of hotels and different accommodation facilities determine the number of tourists that a destination can accommodate (Colin, 2006). This means that accommodation is a key factor that influences the supply of services that a tourism industry can provide to its visitors. When there is adequate accommodation for the visitors, then this implies that the industry can offer good services to the visitors. This, in turn, leads to a high supply of tourism services within a given destination. On the other hand, when there are limited accommodation facilities, then it means that the industry may not be at a position to offer adequate services to visitors that come to have leisure that they offer (Țigu & Calarețu, 2013). Accommodation also determines the comfort ability of the tourists who come to different destinations. This also means that good accommodation facilities lead to a higher supply.

### **3.7.3.3 Factor of availability of appropriate food, water and energy**

People from different ethnic backgrounds have different tastes for various categories of foods. This imposes a liability on the tourism industry to match food with the community of origin. It is also certain that different communities visiting certain destination always choose the groups of foods that they wish to consume while enjoying their leisure (Colin, 2006). The industries offering services to the visitors will consider the foods that are available to the different classes of tourist. This is also an important aspect of supply since the tourism entrepreneurs must be able to afford and offer the class of foods and beverages the consumers demand.

#### **Availability of water and energy**

Water and energy are also key resources that the tourist destination use in offering efficient services to the visitors (Colin, 2006). They are the essential resources that the visitors make use of during their stay in the regions. On the other hand, lack of these primary commodities would create bottlenecks in the provision of different services to the customers.

#### **3.7.3.4 Factor the price of tourism**

. This is an important aspect of supply. When the tourists are always willing to pay high prices for the services, then this means that the tourism industries will be willing to supply a large amount of products and services to the visitors (Claveria & Datzira, 2010). These factors determine the level of materials that the tourism destination is willing to provide to its visitors. This, therefore, implies that the tourism industry will always be willing to supply tourism provisions to the visitors as long as they are able to provide favourable prices.

#### **3.7.3.5 Factor of the existence of cultural practices**

Tourists visit certain places due to reasons like destination of cultural experience. The availability of cultural activities is a key supply determinant in the industries. They provide additional leisure to the tourists who come to maximize leisure during their holidays (Goeldner, Ritchie and McIntosh. 2000). There are different cultural practices such as arts, songs, and other unique activities that may enhance tourism satisfaction. This factor is important since even the tourism industry is becoming competitive. This implies that the industries should find different services to supplement the existing ones. This leaves culture values as an essential factor in determining the service provision to tourists. In summary, the existence of cultural activities influence supply in the tourism destination since tourism industries is becoming competitive in offering services to visitors.

#### **3.7.3.6 Factor of political situation**

The political situation in a given destination will influence the supply of tourism businesses in a given destination, just like in the demand section (Goeldner, Ritchie and McIntosh. 2000). Therefore, the tourism industry must look on certain aspects of the current political system to facilitate their activities. For example, in a situation where there is instability in the political systems, the trading industries may not be willing to supply their services to their visitors due to risks of loss. Issues like wars during a given reign of government may pose a risk of loss to a trading tourism industry (Goeldner, Ritchie and McIntosh. 2000). All these factors may affect negatively on the industry and, therefore, inhibiting the ability of the companies to offer good services to the visitors. On the other

hand, when there are stable conditions, the tourism entities will enjoy providing services to their visitors due to minimal anxiety and worry. Anxiety and worry make the industry not to deliver services appropriately due to uncertainties.

### **3.7.3.7 Factor of availability of adequate health and security**

Visitors require attention in terms of security and health care, and tourism industries must always look onto a way to provide security and health care (Goeldner, Ritchie and McIntosh, 2000). This implies that, there be an existence of security and health care measures take care of tourists. The tourist destination must have these elements to facilitate smooth operations in the industry. Therefore, a tourism industry cannot operate without the existence of these crucial services since they are basic needs and a legal requirement. In summary, when there is adequate health and security, there would be increased supply of tourism in such destinations. Health benefits may be part of the tourist offer.

### **3.7.3.8 Factor of availability of appropriate labour**

The tourism industry requires certain category of labour that will facilitate the provision of services to visitors (da Costa & Carvalho, 2011). For example, there are tourists who come from different communities that speak different languages that may not be able to understand locals in the destination location, implying a need for translating. The person may act as an interpretation to the tourist so that they get to know all the relevant information that they may require. This also implies that the entities working in the tourism field must employ personnel who are able to handle the visitors in an appropriate way. The availability of the required labour to the tourism industry will enhance the level of provisions that it offers to its visitors (da Costa & Carvalho, 2011).

### **3.7.5 Conclusion**

Tourism activities involve the movement of people from their own residence to their other places the tourism destination. There are always a demand side of the business and the supply side of a business. The tourism industry also has these two sides and the factors

affecting each side and the interact in the tourism market and that both supply and demand are important in terms of the level of tourism activity and it is this activity that a diversification strategy is trying to create/ stimulate. For example, the demand factors attempt to explain the reasons why visitors look for different services/ destinations. On the other side, the supply side of the interaction looks at what the tourism industries can offer to the visitors. The tourism sector also acts as a system that consists of the demand side, the supply side, and the bridging components. These bridging components work efficiently to form a unitary system. The government policy ( i.e. its diversification strategy to promote tourism) need to be directed to influencing both demand and supply.

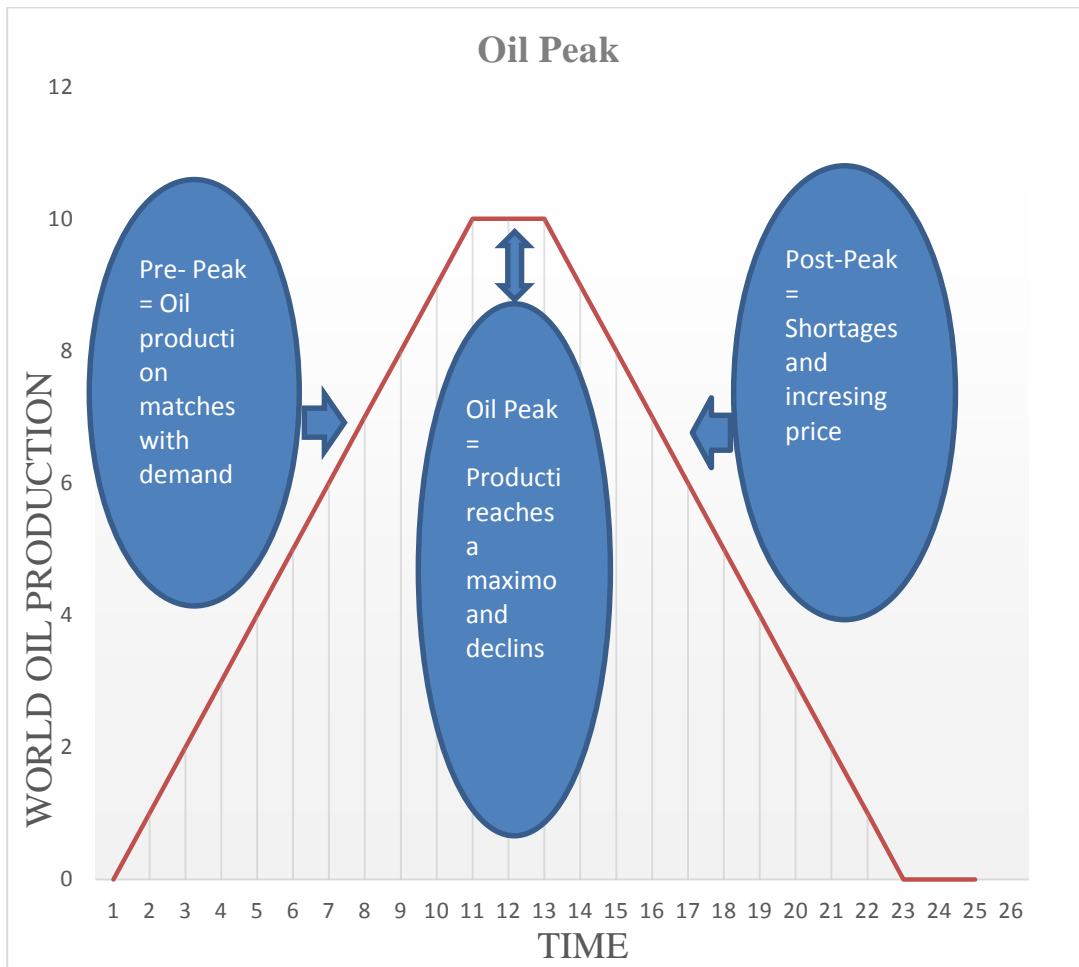
### **3.8 ‘Peak Oil’ and the Supply and Demand in Tourism Destinations**

As noted earlier, transport costs are a key element influencing tourism and oil prices in particular are central to that, tourism and oil prices is part of the on-going services that the tourism industry supplies to their visitors. The service prices is a variable to several issues that have a direct economic impact on the trade. For example, there is always a direct effect of prices of commodities towards these services. Some countries are tourism destinations and oil producer. Oil prices that have a direct effect on the level of tourism services that a country can offer to its visitors (Becken, & Lennox, 2012). An appropriate example of tourism destination that has oil price influence is the UAE. This section focuses on the study of the concept of peak oil. It also focuses on the effects of oil prices on the tourism activities in general and in the UAE particularly.

#### **3.8.1 The concept of peak oil**

##### **3.8.1.1 Definition and different arguments about peak oil level**

According to different theorists, peak oil refers to the point at which the extraction of oil activities is at its maximum (Heinberg, 2008). This means that the production of oil is at the highest level in terms of production. This point in oil production is subject to many debates and disagreements.



**Figure 3 Oil Peak**

Some economic theorists argue that peak oil is a point that has no existence. They assume that it is not possible to reach the highest point in oil production. They argue that peak oil is a point that is only imaginable since oil is a non-replenishing material. They assert that there is no one point when any region can fully discover its oil resources.

They argue that there is no one that knows the total amount of oil resources that exist in a place. there is a complete existence of this point. They claim that peak oil levels are real, and an oil producing country can estimate the exact barrels. Theorist like M. King Hubbert (1962), has formed various models to explain the approximate times when peak oil levels would occur. This follows that the theorists believe that the maximum oil levels is a reality.

There are at times when a country produces oil that is proportional to the highest oil resources.

When one talks of peak oil, many factors surround the argument of peak oil. There are accompanying issues that relate to this level of production some of the issues include things like demand, supply, and prices including most other commodities. These issues revolve around the economic activities that pertain to petroleum substances that influence life to greater extents. Maximum oil levels to be produce and its cost, therefore, affects several sectors of the economy (Graefe, 2009)

With the peak level, there are issues of transport costs that come into play. The main sector that uses oil and other petroleum products is the transport sector, although, their consumption depends on the prices of other substitute commodities. As stated earlier, the peak level comes along with an increasing of oil prices (Becken, & Lennox, 2012).

There would also be a general increase in prices of other commodities at the maximum production level of oil. The production of food and other materials always depend on the availability of raw materials that they require. These raw materials also imply several cost expenses in the processes of the production of these substances. The costs of these raw materials also have a direct impact on the prices of the same commodities. This means that, just like the other raw materials oil will affect the prices of commodities. At the peak levels, there would be a lower amount of oil resources and hence increasing prices. The peak level, therefore, comes along with an increase in prices of commodities (Graefe, 2009).

### **3.8.2 Criticisms of peak oil**

#### **3.8.2.1 Criticism in terms of period**

As stated earlier, peak oil is a condition that many theorists and researchers have debated about over the previous times. Some researchers are critical of this theory that attempts to explain oil fluctuation levels. Some studies indicate that peak oil is a situation that affects the future. This implies that there are not much effects of peak oil in the short term as compared to the future (Becken, & Lennox, 2012). This means that when half of the existing oil reserves have been exploited, then there is only an effect that interferes with the future oil



prices. At the same time, the critics hold it that the future is full of discoveries relating to oil reserves.

In the future, there could be additional discoveries of oil reserves that would supplement the oil levels. This means that the level of oil reserves available in the future would be no having changed much as compared to the peak oil periods. This ensures that a reasonable amount of oil always exists in the circulation in the economy. This also applies to the tourism sector in relation to prices. In the long run, there would be discovery of additional oil reserves that will supplement the existing ones. This will reduce the chances of oil crisis that may exist in the future (Becken, 2008). This would stabilize tourism activities. For example, certain oil and gas new production technology such fracking for “Oil Shale” in the next ten years will have additional available reservation sources of oil since it is indicated that production technology of oil shale substance is a slow and a gradual process. For example, the USA bureau of land management gave discovered that due to the Fracking technology there would be an increase of oil reserves in the coming years due to the Shale Oil and the new discovery of conventional crowd oil.

### 3.8.2.2 Criticism of peak oil effects because of the effect of increased efficiency

In the future, there is a likelihood of changes in the technologies that apply in making of the transport facilities such as the aircraft. The world is moving in directions when the every device used in all fields is as efficient as possible. This implies a criticism to the effect of peak oil situations in most countries. When there is an increased discovery and innovation, then it means that the aircrafts that the tourists use for transport will be modified in such a way to consume less fuel. This efficiency in operation will challenge the effects of peak oil on the prices of tourism. This means that there would be a self-adjusting mechanism where the technology levels would be forced to match the availability and prices of oil. The efficiency will mean that there would be less consumption of fuel. This factor will also imply that the tourists do not have trouble in terms of costs of travelling (Becken, & Lennox, 2012). This idea challenges the known effects of peak oil towards tourism activities.

### 3.8.2.3 Implication 'Peak Oil' with reference to United Arabs Emirates

The UAE is an international gas and oil supplier all over the world. This means that it has adequate resources to carry out all its major activities. This also implies that there are adequate predictable oil reserves that the country can always exploit in order to achieve its objectives. It is, therefore, very difficult for the country to experience oil peak due to its huge resources compared to the study carried on New Zealand. UAE is also a tourist destination for those who always want to satisfy their desire for leisure and exposure. This being the case, the country can use its vast resources to subsidize the airline costs. This means that in UAE, the effects of peak oil will not affect the tourism activities due to the costs of transport. The peak oil situation, therefore, applies to countries with unstable oil reserves similar to New Zealand the country subject for the research carried by Becken & Lennox (2012).

The location factor work also for the benefit of UAE compared to New Zealand due to the fact that UAE in central location between Europe And Australia, the Far East, and the Indian subcontinent, when New Zealand have been disadvantaged by being in the end of that route and very long way from Europe, which have an effect in the cost of airplane fuelling. According to the Peak Oil theory, the consumers will also tend to look for close destinations from their places of residences (Becken, & Lennox, 2012). The increase in the prices of petroleum products will make the cost of transport high. This means that only a few visitors will afford to pay the costs of travelling. As a result of this, there would be a tendency for the tourists who wish to satisfy leisure to resort to close destinations like UAE. This would imply that only domestic tourism would apply in most cases. The destinations, which are far from the tourists like New Zealand, will not receive visitors. The UAE as a destination in general targeting luxuries tourism which are by nature in its demand are less elastic to the prices.

### 3.8.3 Conclusion

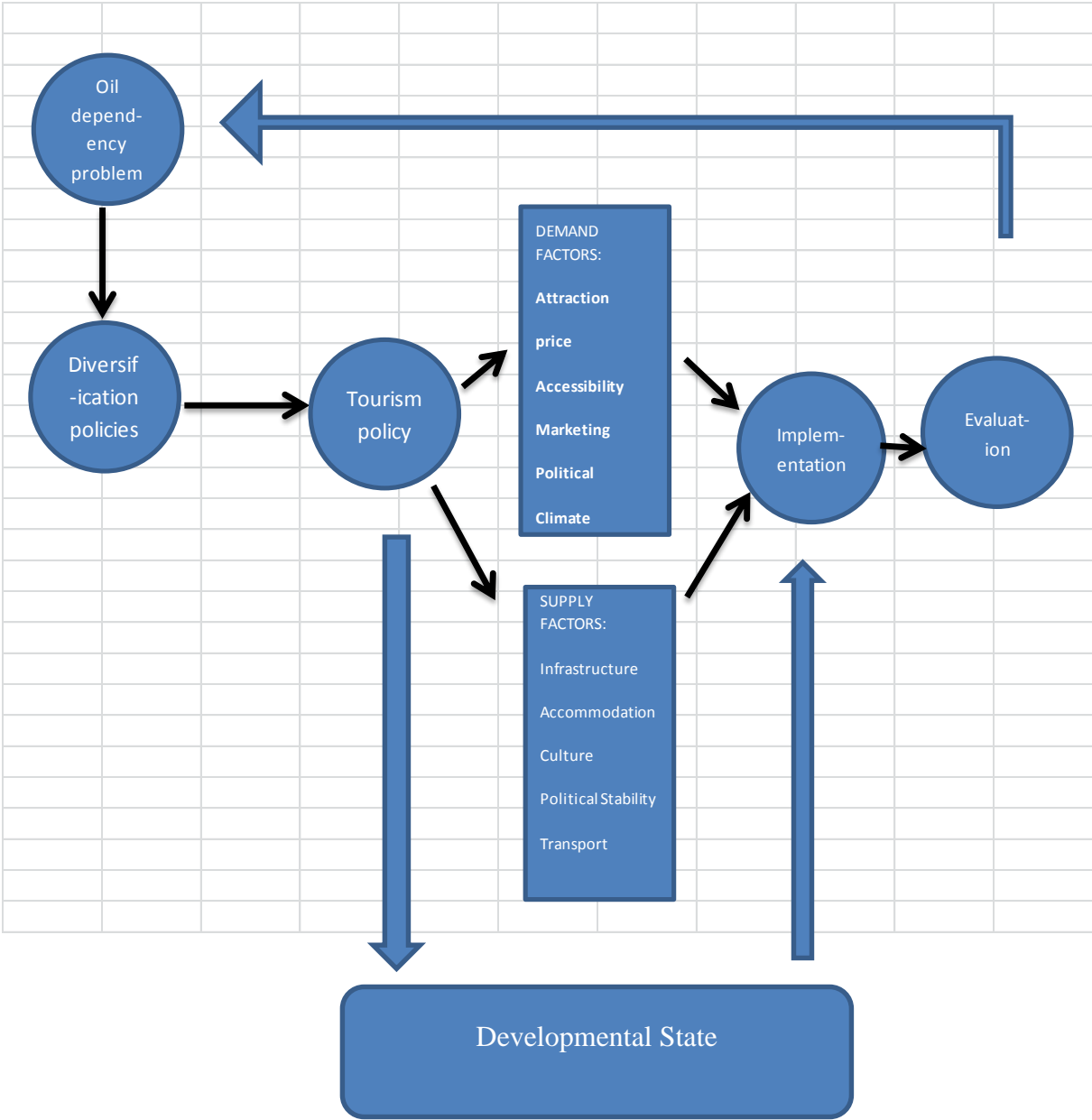
Oil is a finite resource that influences all sectors of the economy. Various theorists on 'Peak Oil' attempt to explain a level at which the production of oil reaches its maximum. This point is a good indicator of likely global oil shortages. This point comes along with rapid increases in prices of petroleum products. The rises in the prices of petroleum products will

have several impacts on the economic developments of most nations. Tourism is also one of the economic sectors that would suffer negative effects due to the increased costs of oil. Travel expenses form most part of tourism expenditures. Consumption of oil also points towards travelling as the central consuming factors. Countries, therefore, need to develop programs to facilitate tourism development alongside the rising prices of oil. In summary, when it come to the implication of peak oil on the UAE as tourist destination there are four factors have been identify as why the impact of oil peak in its tourist maybe significantly less suffer than some people may expected, and these factors as follows:

- 1- New oil technology for oil and gas production such shale oil, have added massive oil and gas reserves globally in the last few years.
- 2- The UAE is a leading world oil producer with significant oil and gas reserves.
- 3- Tourism in UAE targeting luxuries tourism which are not so price sensitive.
- 4- UAE geographically are in central location in the route between the West and the East, and in short distance from the European and Indian Subcontinent Markets.

### 3.9 Conceptual Framework

Diagram 3.1: Conceptual Framework,



UAE as a major Oil producer suffers from the problem of resource dependency. Economic diversification is the only way to deal with the negative effects of resource dependency and mitigate it. Until the end of the 1990s, the economic structure of the UAE

portrayed a limited economic base paralyzed by the “Oil Curse” or “Oil dependence”. The dependence on oil as a resource is more intensive due to the market volatility, the turbulent nature of the oil industry and the high revenues it brings. Once oil dependence becomes the cornerstone of any given economy, it is very difficult to diversify and modernize without tremendous social and economic shocks. The focus of this research was UAE’s shift from being an oil dependent economy to one of diversification through other profitable resources.

The Tourism policy in the UAE was studied as a case of economic diversification. The focus was put on government efforts to grow and develop the Tourism Sector, including creating responsible bodies and institutions, expressing a vision to develop projects, provision of investment funds and legislative change. The Tourism policy focused on two main factors: demand factors and supply factors. Various demand factors were looked at such as Attractions, Price flexibility, Accessibility, Marketing, Politics and Climate. Other factors of supply include infrastructure, accommodation, culture, political stability and transport.

The implementation of the tourism policy followed a Developmental State model where the government (Federal & Local government) plays an important role in developing the economy but in close collaboration with to the private sector which undertake most of the economic activity.

The implementation of the tourism policy is very important. In the past, many policies have been put on paper, but implementation was a problem. Either the policy was not suitable or practical, or it was over ambitious. Certain policies did not meet with the requirements or had no business or backup platforms to carry it out.

Streamlining the implementation phase is very crucial to help the later stage of evaluating the success of the policy. While developing the UAE economy as a world-class and modern tourism destination, the sector must continue to contribute to promoting, protecting and respecting the local culture and heritage. This includes the development of industry employees, engaging with the local community in its future development and ensuring that the industry is both inclusive and accessible to all through regulation.

The policies, plans and programmes relating to the evolution of a sustainable tourism sector aim to enhance the preservation of culture and heritage. International destination

marketing activities aim to work closely with all local, regional and international industry stakeholders to motivate and support product development and to enhance the country's leisure and business tourism propositions. In the developmental state model the state backed by a belief that service excellence is a key destination differentiator, a world-class licensing and regulation system aims to work in collaboration with private industry as a stakeholder. International investment and ideas should be encouraged to diversify and strengthen the economy further creating pro-tourism policies for national and international businesses.

In summary, the analysis of government policies and in the tourism sector shows that the tourism policy aims to stimulate demand and supply, reflect the UAE Government goal of creating a sustainable economy and take it away from the resource dependency.

## **Chapter 4**

### **4 Methodology**

#### **4.1 Introduction**

The methodology of the project is defined as under; divided into sub sections as follows:

- Introduction
- Research Approach
- Research Strategy
- Collection and Analysis of Data
- Data Reliability and Validity Issues
- Ethical Considerations.

Since all UAE policies of diversification cannot be analysed in a study of this scale, the tourism industry has been chosen as a case study. Specific research questions have been established to accomplish the research aim. The research questions that are addressed include:

- 1-How dependent is the UAE on oil?
- 2- Why does the UAE want to diversify its economy?
- 3- What is the tourism policy for economic diversification in the UAE?
- 4- How effective has the UAE government tourism policy of diversification been?

#### **Aims of the investigation:**

This study aims to

- a) Examine the UAE's economic structure,
- b) Analyse the policies of the UAE government to develop the tourism sector and
- c) Evaluate the tourism policies of the UAE government to ensure diversification of the economy in the UAE.

## 4.2 Research Approach

There are many methods to carry out social and economic research. Since the study may be used as an academic source to evaluate the impact of UAE policies on diversification of the economy from an oil-based to a service-based economy (especially in the travel and tourism sector) the research approach and methodology has to be selected with the utmost care. This entails evaluating different methods used by many researchers for such studies. Following are the most commonly and effectively used methods:

Various fields of studies are involved in finding different changes, opportunities and new discoveries. All these studies conduct research using different research methods. There are various research methods used by different researchers from various fields of studies to help them find out the different developments that have taken place in their areas of interest. During research studies, researchers always set out to measure different variables of interest and this can be done using varied research techniques.

The following section is an analysis of quantitative and qualitative research methods. It discusses these two methods in an in-depth manner.

### 4.2.1 The Quantitative Method

The quantitative method of research is used to collect numerical data or the type of data that can be changed into numerical form for proper statistical review (Slater & Curwin, 2007). Quantitative research seeks to answer the questions *how many* and *where* and hence the results of a quantitative study will always be given in mathematical or numerical values. For example, a quantitative research method can be used to collect data such as the number of customers from a given restaurant who find the services offered in that restaurant satisfactory and those who do not find the services satisfactory. Quantitative methods include surveys, telephone surveys, paper or mail surveys and questionnaires. Research shows that quantitative methods have been used for a long time and are a very reliable methods to use when a researcher wants to come up with the most reliable numerical data.

Currently in business and economics, the quantitative method is the major method deemed fit for this researches. In modern times, different names are used for quantitative approaches in the field of business and economics. For example, in management, words such



as Operations Research, Decision Science and Management Science are often used when making important decisions for any business (Martin et al, 2009). It is also used to develop models and come up with mathematical equations that will help analyse a situation such as stock levels in the market. In business, the quantitative method is used in problem solving and decision making. For example, a company can decide to conduct a survey on the increasing level of unemployment or on the rising retail price index. The results of the survey are then presented numerically on a chart or a graph and then analysed for final decision making. Taking retail pricing as an example, the breakdown model of the quantitative method will help to assess the relationship between the cost and the revenue of a business. For instance, the business makes a loss when cost surpasses revenue or the selling price; on the other hand, the business will make a profit when revenue exceeds cost and the business breaks even when these two are equal (Slater & Curwin, 2007).

#### 4.2.2 Qualitative methods

Qualitative research is a method of research that is commonly used in social sciences. Historically, qualitative research was developed in the seventeenth century by Isaac Newton, Francis Bacon and David Hume, who believed that in order to find in-depth knowledge about the world one needs to examine human experiences through direct observations (Lewis & Ritchie, 2003). They also believed that facts and knowledge about the world come mainly from human encounters with the realities of the world based on how humans sense the experiences. These philosophers and scientists believed that the study of natural science provided more knowledge about social sciences and that knowledge is what one can observe and not what one can measure. Qualitative research also came about due to the fact that its founders believed that knowledge should be inductively acquired through gathering and analysing verified facts. In qualitative methods, scientific theories are developed from hypotheses which are then examined using empirical methods (Lewis & Ritchie, 2003).

The qualitative method is a type of research method used to examine and understand behaviours, feelings, beliefs and attitudes of people towards something. For example, if a researcher wants to find out customers' attitudes towards a given product in the market, the researcher will use a qualitative method (Walle, 2001). Qualitative methods are also used to describe people's experiences and interactions. It is noted that a researcher will always use a

qualitative method to gather in-depth information about a study. In business, a qualitative approach to research, such as case studies, can be used to assess and describe consumer behaviour towards different types of products. For example, a business researcher can decide to find out the reason why most people prefer using HP laptops to Toshiba laptops. Qualitative methods can also be used to find out why the supply of a given type of product is high or low as compared to the supply of another product in the same category (Walle, 2001).

Qualitative research methods can also be used in business studies to ascertain customer behaviour and preferences. Such a research approach enables a business that is not competing favourably in the market to find out why this is happening. Using the case study method, the business owners can decide to monitor customer behaviour, such as their visits and how long it takes them to return to that hotel or if they never return at all (Myers, 2008). The researcher can then ask customers what makes them visit that hotel rarely but not frequently. The researchers can offer customers a chance to give their opinions about the quality of food and services available and suggest any changes they would like to see in that hotel. The researchers can use this qualitative data to analyse the weaknesses in the hotel and come up with proper solutions to the problem. This in turn will help the hotel to regain the confidence of their customers (Myers, 2008).

### **4.3 Research Strategy**

The strategy planned to achieve the aims of this study is to evaluate diversification policies. We chose to use a case study approach. Case studies of the tourism sector. The use of a case study methodology will permit an in-depth study of policy measures and their impact on the tourism sector. According to Yin (1984), the case study strategy engages an experiential investigation of an incident within the real-world situation “when the boundaries between phenomenon and context are not clearly evident; and in which multiple sources of evidence are used”. This context experiential means drawing on the experience of the researcher and his contact with the organisation being studied. For this study, the case study approach is better suited than quantitative because of three research reasons. The first of these is that the focus of the investigation is a phenomenon in its real life context, which is tourism sector in the UAE. The second is that the clarification of the phenomenon is the establishment of the link between UAE government tourism policies and their impact on tourism sector

performance. Insight into determination of nature, the extent and implications of the relationship. The third is reason of utilizing various different sources of data, industry various secondary sources such as government reports on policies a lot of them and accessible, and the primary data specifically semi- structured interview with people working in tourism sector.

#### **4.3.1 Justification For Use Of Case Study Approach**

One of the prime reasons for the accreditation of case study as a research strategy is that researchers were increasingly becoming more apprehensive about the confines of quantitative methods especially in providing a holistic and in-depth explanation of the social and behavioural technicalities of the study in focus. Through case study methods, researchers have been able to go beyond the confines of quantitative statistical inferences to understand the behavioural circumstances through the subject's perspective. By extension, both qualitative and quantitative data helps to explore the process and the outcome of an occurrence through a complete observation, analysis, evaluation, and reconstruction of those cases under investigation (Zainal, 2007). Case studies offer much detail to be collected, and that is not the case with other research approaches. Thus, the data collected is typically much richer in information than through other research designs such as experiments, questionnaires, surveys interviews, and observational trials.

In an opening commentary on the inaugural issue of the tourism sector in the United Arab Emirates, Franklin and Crang (2001) labelled tourism research as repetitive, lifeless, and stale. The anxiety with other research approaches in the tourism sector, especially in the UAE, seems to lie in the fact that its approach has cautiously tried to track and recount the staggering growth of the industry, generating a massive record of instances, variations, and assumptions. Part of the concern, these authors were consistent about, was quite attributable

to the researchers in the tourism industry whose disciplinary pedigrees may not necessarily include the tools necessary to theorize and analyse the intricate social cultural and regional ramifications that exist within the UAE block (Franklin and Crang, 2001).

Similarly, in the closing comments to the methodological reflection on triangulation, Oppermann (2000) advised that it was time for researchers in the tourism industry to take up 'new' challenges, by specifically trying to add new knowledge to the industry rather than merely going on to engage in fabricating more and more surveys with limited scientific value. Elsewhere, state-of-the-art literature on local and federal governance also suggests that, despite methodological and theoretical underpinnings, the knowledge of people's involvement in the execution of the public interest has been generally categorized by case studies, best practice examples, and subject matter discussions (Carter, Baxter, and Hockings, 2001; Hall, Williams, and Lew, 2004). Case studies occupy a vexed position in the discipline of governance and in the execution of civic duty among other fields in contemporary life. Through reports of previous research studies, a case study allows the understanding and exploration of complexities, it is a robust research technique that has withstood the test of time. Acknowledged as a powerful tool in most social science studies, the ideals of case study research become prominent when tackling issues with regard to sociology, education, tourism and other community-based concerns such as unemployment, poverty, illiteracy, drug addiction, etc. (Oppermann, 2000).

While it is not likely to insinuate that case study research at the reduced range is easier to manage or implement than at the extensive outlook, the frequency of case points identified in most analyses does seem to validate case study research, especially in tourism where it tends to a local focus. Considering the instances from a collection of journals on tourism in

the United Arab Emirates for example, these case studies encompassed a wide range of locations or geographical settings with a local focus on different countries or regions within the UAE. It included, for example, five local sites in Abu Dhabi; four local-scale studies in Ajman and Umm al-Quwain respectively; three local sites in Dubai; two local sites, respectively in Fujairah, Sharjah and the Ras al-Khaimah; and one, respectively in Qatar and Kuwait. In harmony with the geographical distributions of the authorship of the case studies so far explored, the results as per the place specificity also suggest a dominance of the English-speaking regions, economic considerations and political stability, which are essentially consistent with the overriding observations on the schematic coverage of the subjects of articles in social sciences journals (Xiao and Smith, 2006).

Case study research as a research approach readily surfaces as an obvious option for scholars and other researchers seeking to explore on modest scale projects based on either their workplace or the assessment of a limited number of establishments. Qualitative case study methodology provides tools that facilitate the study's multifaceted phenomena within various contexts. When this approach is correctly applied, it offers a valuable method of institutional research to develop concepts, evaluate theories, and conceptualize interventions. The purpose of case study methodology is to offer guidelines for novice researchers in identifying the basic elements for designing and implementing the fundamentals of the study in focus. By extension, case studies have often been viewed as a valuable facility for the preliminary, experimental stage of a research task, passing out as the basis for the progress of 'more structured' tools that are required in experiments and surveys. Over the years, case study research has witnessed tremendous success for present-day trends especially where the pertinent behaviour could not be manipulated whatsoever. Typically, case study approach

uses a variety of substantiation from different variables, such as data, artefacts, documents, observation and interviews and these transcend the range of sources of information that might be available as evidence in a given study (Zainal, 2007).

For some researchers, the case study methodology is perceived as a weak approach. This particularly, might be true when, at some point in history, quantitative or experimental methodologists criticized the application of this approach to the study of governance, sociology and comparative political science as a technique that often generated common sense rejoinders that could be in dire need of replication or verification (Xiao and Smith, 2006). In their view, methodologists by extension naturally evince that the case study method comes with undue circumspection. Case study as a research strategy or method has been viewed habitually as being somewhat deficient in objectivity and rigour when compared to other social study methods. Perhaps, the most challenging features of the application of case study research in the contemporary context is to explore the study in question from a descriptive purview of ‘what happens’ to a given piece of research work that can offer claim to being a valuable, if not a modest, addition to knowledge. Ideally, this is one of the main reasons for the need to be extra cautions in an attempt to articulate the thesis and its implementation strategy. On the other hand, regardless of this scepticism about case studies, they are used extensively because they readily offer insights that could not otherwise be achieved with other available approaches.

#### **4.4 UAE Tourism Sector Case Study**

The case study approach was used to study diversification policy in the United Arab Emirates (UAE) in this study. It is provided in three parts, giving an insight into the three biggest emirates of the UAE and their tourism sectors. The three emirates researched and presented on in this case study are Abu Dhabi, Dubai, and Sharjah in the order of their listing

here because they represent 95 per cent of the whole UAE economy and 93 per cent of the UAE tourism sector. This chapter of the case study is followed by the chapter of results and discussion of the research. The methodology of obtaining results for this case study was the conducting of semi-structured interviews. There were two interview types. First, interviews were conducted with various authorities that are in charge of the tourism sectors of their respective emirates. Second, thirty individuals, representing various tourism sector companies in their respective emirates, were interviewed.

This case study involved research using secondary and primary data. Although the data collected referred to the UAE, there were specific results obtained from respondents in each of the emirates involved in the study. To begin with, there were two levels of data collection on three groups, two of which represent the government officials and the third the private sector.

On the first level, the researcher approached the UAE Ministry of Economy, the economy departments of the local governments, and the relevant agencies that regulate and direct the development of the tourism sector in their respective emirates. To identify and gain access to government officials interviews were conducted with senior officials at the state level (State Departments of Tourism) since Abu-Dhabi, Dubai, and Sharjah represent 95 per cent of the GDP of UAE and the tourism sector in those three states represents the majority of the tourism sector in the UAE. There is the Sharjah Commerce and Tourism Development Authority (SCTDA), the Abu Dhabi Tourism Authority (ADTA), and the Dubai Tourism and Commerce Marketing (DTCM). The various authorities gave a breakdown of their roles, operations, and insights on the state and direction of the tourism sector in their respective emirate. In addition, they informed the first part of this case study, which handles the specific structures of the emirates and their strategies of economic diversification for tourism. The interviews with the senior government officials in the first and second groups which in total comprised seven respondents/ interviewees, were arranged by approaching the head of the government departments who assigned a senior official to answer the questions and in most of cases were very cooperative. The interviews with these two groups took an average of two hours each.

The second part of the research involved the direct participation of individuals identified by the researcher as important representatives of the various players in the tourism sector of the UAE (the third group). During this research, interviews were conducted with thirty senior officials at enterprises operating in the tourism sector of the UAE. They included hotels and hotel operation companies, as well as an airline company. In total, the thirty participants of this third group came from all of the three emirates of Dubai, Sharjah, and Abu Dhabi (ten from each emirate). The aim of the interview survey was to collect data about the impact of government policies for economic diversification in the UAE and the tourism sector in particular. The participants in the interviews come from personal relations, official relations, and on recommendation of friends.

The interviews with the third group took an average of one hour each. In general, there was moderate unwillingness compared to the responds from the first two groups ( government officials). Many of the third group refused to grant interviews, which was expected due to the fact that there was no incentive for them to participate. Semi-structured interviews were used for more interview data, and provided more in-depth and much more informative data than if a questionnaire had been sent out as part of a survey.

**Table 2 Interview: Number/ Time Average/ Transcript page average**

Type/ Total	Number	Interview Time/ Time average per interview	Interview transcript pages / average per page per interview
Government Officials	7	2 hours	7 pages
Private-Sectors representatives	30	1 hour	2.5 pages
Totals	37 interview	44 hours	124 pages

Interview data on the personal views towards the effectiveness of the government plan in diversifying the economy showed that the accomplishment rate was encouraging but left room for more development. It describes the roles of the tourism sector in the three emirates and elaborates on the policy of economic diversification in the UAE. In each case study, the



efficacy of the policies in promoting the growth of the tourism sector as a non-oil sector can be derived from the views expressed.

#### **4.5 Collection and Analysis of Data**

This section details all data necessary to accomplish the research aim and answer the research questions. The collection of data is the basic step in any investigation or examination. Being a difficult process, data collection can be from the entire population or from a selected sample. The data can be collected from two different sources namely, primary data and secondary data.

##### **4.5.1 Data Collection Methods and the Sample**

The data collected for the research took two forms: primary and secondary. The data collected from primary and secondary sources was further analysed by the researcher to derive the relationships among factors, and to lead to the findings and the emerged themes.

##### **4.5.2 Primary Data**

The original data collected by the researcher conducting the study framed the primary data. This was first-hand data collected by the researcher. For this research there were three groups of interviewees to gather primary data to cover the study's three aims:

- a) Examine the UAE's economic structure,
- b) Analyse the policies of the UAE government to develop the tourism sector and
- c) Evaluate the tourism policies of the government to ensure diversification of the economy in the UAE.

Two of the three groups represent the government officials' side and the third group represents the private sector. The first two groups were used to address the first two aims and the third group to address the third aim:

4.5.2.1 4.6.2.1. Primary Data; Sample nature and size

Since Abu-Dhabi, Dubai and Sharjah represent 95 per cent of the GDP of UAE and since the tourism sector in those three states represents most of the tourism sector in the UAE, consequently these 3 states were the focus of the study.

The total sample size was 37 interviews which broke down approximately to: Federal Government – 1 interviews; State Government – 6 interviews (2 in each of the 3 states); Enterprises – 30 interviews

**Table 3 show the Sample nature and size**

	Abu Dhabi	Dubai	Sharjah	Total
No. of interview with Federal Government*	<b>1</b>	-	-	<b>1</b>
No. of interview with Local government	<b>2</b>	<b>2</b>	<b>2</b>	<b>6</b>
No. of interview with people work in Organization operates in the tourism sector/ private sector	<b>10</b>	<b>10</b>	<b>10</b>	<b>30</b>
Total	<b>13</b>	<b>12</b>	<b>12</b>	<b>37</b>

- Abu Dhabi is the capital of the UAE Organization operates in the tourism sector/ private sector

The principal form of primary data for this study was interviews, which as noted earlier were conducted with three main groups - Federal government officials; State government officials and employees and managers of enterprises working in the tourism sector. Since the

United Arab Emirates is a federation of seven states and the policies for economic activity are designed and implemented at federal and state levels, the UAE's government policies towards the non-oil sector were examined through:

- Interviews with one senior official at the federal level from the UAE Ministry of Economy and six officials from the state government departments (Economic Planning Departments) to investigate the economic structure of the UAE and to find out the Government's Economic Development Policy in general and in particular towards Economic Diversification
- Interviews with six senior officials at the state level (State Department of Tourism) - since Abu-Dhabi, Dubai and Sharjah represent 95 per cent of the GDP of UAE and since the tourism sector in these three states represents most of the tourism sector in the UAE
- Interviews with thirty seniors officials in enterprises operating in the tourism sector in the UAE such as hotels, hotel operator companies and airlines (ten in Dubai, ten in Abu-Dhabi and ten in Sharjah )

As the list below shows, many interviews (37) were conducted with senior people at their organizations in public or private in order to help to draw a picture about the tourism sector in the UAE and to answer the research questions. Some of the interviewees were manager directors in their departments, others were assistant managers, some were heads of departments of planning and very involved in the decision making process. When it comes to the interviewees from the private sector it was the same case; some were general managers some assistants and some marketing managers. Most of them had international experience in different countries, some of them were managing a group of hotels, with thousands of employees, and with hundreds of millions of dollars in revenues. As senior managers they were well placed to explain about their businesses facilities and the impact of government policy. They were also confident and articulate. They were experienced in expressing views, providing and analysing data.

By the end of the 37 interviews 'saturation' was being reached with common themes repeating frequently.

**Table 3 Interview Details: Rankings/ Dates/Venues**

No.	Organisations	rankings/ responsibilities	Dates	Venues interviews took place
1	UAE Ministry of Economy (UAEME)	senior staff at the Ministry	14/12/2010	UAEME Building Abu-Dhabi
2	Abu Dhabi Department of Economic Development (ADDED)	senior staff at the Department	19/12/2010	ADED Building Abu-Dhabi
3	<i>Abu Dhabi Tourism Authority (ADTA)</i>	senior staff at the Department	18/1/2011	ADTA Building Abu-Dhabi
4	Dubai Department of Economic Development (DDED)	senior staff at the Department	15/2/2011	DDED Building Dubai
5	Dubai Department of Tourism & Commerce Marketing (DTCM)	senior staff at the Department	28/2/2011	DTCM Building Dubai
6	<i>Sharjah Economic Development Department (SEDD)</i>	senior staff at the Department	11/4/2011	SEDD Building <i>Sharjah</i>
7	Sharjah Commerce and Tourism Development Authority (SCTDA)	senior staff at the Department	16/5/2011	SCTDA Building <i>Sharjah</i>
8	Abu Dhabi interview(1)/ Organization operates in the tourism sector/ private sector	Assistant Manager	20/12/2010	Organization Premises
9	Abu Dhabi interview(2)/ Organization operates in the tourism sector/ private sector	General Manager	23/12/2010	Organization Premises
10	Abu Dhabi interview(3)/ Organization operates in the tourism sector/ private sector	General Manager	27/12/2010	Organization Premises
11	Abu Dhabi interview(4)/ Organization operates in the tourism sector/ private	Marketing Manager	10/1/2011	Organization Premises

	sector			
12	Abu Dhabi interview(5)/ Organization operates in the tourism sector/ private sector	General Manager	12/1/2011	Organization Premises
13	Abu Dhabi interview(6)/ Organization operates in the tourism sector/ private sector	Business Development Manager	17/1/2011	Organization Premises
14	Abu Dhabi interview(7)/ Organization operates in the tourism/ private sector	Duty Manager	24/1/2011	Organization Premises
15	Abu Dhabi interview(8)/ Organization in the tourism sector/ private sector	General Manager	27/1/2011	Organization Premises
16	Abu Dhabi interview(9)/ Organization operates in the tourism sector/ private sector	General Manager	2/2/2011	Organization Premises
17	Abu Dhabi interview(10)/ Organization operates in the tourism sector/ private sector	Marketing Manager	14/2/2011	Organization Premises
18	Dubai interview(1)/ Organization operates in the tourism sector/ private sector	business development manager	21/2/2011	Organization Premises
19	Dubai interview(2)/ Organization operates in the tourism sector/ private sector	Assistant Manager	21/2/2011	Organization Premises
20	Dubai interview(3)/ Organization operates in the tourism sector/ private sector	General Manager	24/2/2011	Organization Premises
21	Dubai interview(4)/ Organization operates in the tourism sector/ private sector	Corporate Director Sales & Marketing	7/3/2011	Organization Premises
22	Dubai interview(5)/ Organization operates in the tourism sector/ private sector	Assistant Manager	8/3/2011	Organization Premises
23	Dubai interview(6)/ Organization operates in the tourism sector/ private sector	General Manager	14/3/2011	Organization Premises

24	Dubai interview(7)/ Organization in the tourism sector/ private sector	Assistant Manager	28/3/2011	Organization Premises
25	Dubai interview(8)/ Organization operates in the tourism sector/ private sector	Business Development Manager	3/4/2011	Organization Premises
26	Dubai interview(9)/ Organization operates in the tourism sector/ private sector	Assistant Manager	5/4/2011	Organization Premises
27	Dubai interview(10)/ Organization operates in the tourism sector/ private sector	General Manager	7/4/2011	Organization Premises
28	Sharjah interview(1)/ Organization operates in the tourism sector/ private sector	Duty Manager	11/4/2011	Organization Premises
29	Sharjah interview(2)/ Organization in the tourism sector/ private sector	Assistant Manager	13/4/2011	Organization Premises
30	Sharjah interview(3)/ Organization operates in the tourism sector/ private sector	Marketing Manager	18/4/2011	Organization Premises
31	Sharjah interview(4)/ Organization operates in the tourism sector/ private sector	Marketing Manager	19/4/2011	Organization Premises
32	Sharjah interview(5)/ Organization in the tourism sector/ private sector	General Manager	20/4/2011	Organization Premises
33	Sharjah interview(6)/ Organization operates in the tourism sector/ private sector	Business Development Manager	25/4/2011	Organization Premises
34	Sharjah interview(7)/ Organization operates in the tourism sector/ private sector	General Manager	28/4/2011	Organization Premises
35	Sharjah interview(8)/ Organization	Marketing	2/5/2011	Organization

	operates in the tourism sector/ private sector	Manager		Premises
36	harjah interview(9)/ Organization operates in the tourism sector/ private sector	Assistant Manager	9/5/2011	Organization Premises
37	harjah interview(10)/ Organization operates in the tourism sector/ private sector	General Manager	23/5/2011	Organization Premises

A semi-structured interview agenda was designed for different stakeholders and Government functionaries. There were three different versions for the three different groups of interviewees; the questions were designed to cover the three aims of the research. The interview questions were developed over time, and reviewed and pre-tested by the supervisory team and some academic friends, which led to some changes specially in the language part (**Appendix A**). The semi-structured interview questions were piloted after the first interview of each of the three groups but no change was needed at that point because the questions as designed served their purpose well. The transcript of the interviews are available and can be consulted.

#### 4.5.2.2 4.6.2.2. *Secondary Data*

Existing data which already been collected for some purposes was available as secondary data. Secondary data was with internal and external to the organization concern. However, secondary data can have limitations because of different definitions, error prone and involved copyright issues. These data can be reported simply in their original form or analysed and interpreted before presenting them. Use of secondary data can be advantageous for the researcher as it saves a lot of time (Saunders et al, 2003). The secondary data can be collected from various sources such as government agencies and reports, statistics departments, associations, publications, articles from magazines and newspapers, annual reports, academic publications, libraries, journals, books, official websites and internet sources.

In this study, the secondary method covers the collection of documents and reports on tourism sector policies from the UAE official websites and from visits to the UAE agencies

and departments involved in the development and implementation of tourism sector policies. These were used to answer the first three research questions by building profiles of economic sectors, particularly tourism, which is the focus of the economic diversification policy. Desk research also involved library research to derive pertinent data from various secondary sources, such as published statistics on the tourism sector from the UAE government and the UN agency the World Travel & Tourism Council (WTTC). These are statistical data drawn from official statistics, designed to measure key economic variables for the tourism sector. The list of sources used for secondary data for this study are as follows:

- 1- UAE Central Bank
- 2- UAE ministry of Economy
- 3- Abu Dhabi Department of Economic Development
- 4- Abu Dhabi Tourism Authority
- 5- Dubai Department of Economic Development
- 6- Dubai Department of Tourism and Commerce Marketing
- 7- Sharjah Economic Development Department
- 8- Sharjah Commerce and Tourism Development Authority

#### 4.5.3 The Data Analysis

In accordance with the definition of Yin (1994), "Data analysis consists of examining, categorizing, tabulating, or otherwise recombining the evidence to address the initial propositions of a study". The first step of the research data analysis engages investigating whether data gathered are appropriate for answering the research questions and achieve the research aims. Assessment of data collected is necessary to ascertain whether the data can be integrated in the research and whether the data are sufficient to conduct the research, after removing the unwanted information from the collected data. Due to the well-developed interview questions for the semi-structured interviews, this stage went well.

The researcher utilized personal experience and interpretations in varying ways to present the evidence. The three case studies used statistical analysis for presentation and display of the collected data, presenting the frequency of events in a tabular form, presenting the information in an orderly manner and so on but this ensured the presentation of information and data in an unbiased manner. An analysis was carried out for the data obtained from government documents and from the three groups of interviewees. The interview data from the transcripts were treated and analysed by; careful reading and re-



reading; highlighting useful quotes; identification of illustrative vignettes; and coding. Simple numerical analyses were used, looking for patterns in relation for research questions, and these patterns were identify throw coding.

Data analysis also, included analysis of economic growth over time and changes in the economic structure of the economy for each of the three emirates (Abu Dhabi, Dubai, and Sharjah) and for the UAE economy as whole. There was focus on the growth of the tourism sector, which was analyzed in terms of factors such as number of hotels/rooms, revenue and share of GNP etc. The role of government policies in developing the tourism sector was the real focus of the analyses. In the end, a comparative analysis was carried out to show the similarities and differences between the three case studies in their experience in developing the tourism sector and the emerged theme.

#### **4.6 Reliability and Validity Issues**

Reliability and validity are issues affecting the credibility and quality of research. According to Easterby-Smith, Thorpe & Lowe (2002), reliability is the extent to which the methods selected will support consistent results. To ensure reliability in this study, the following steps were followed: using a uniform method of conducting semi-structured interviews to the three case studies; conducting the interviews at a convenient time and place for the respondents with respondents having a similar cooperative state of mind during the interview; using a uniform method of treating and analysing data. All of these steps helped to ensure consistency in the results for the three case studies ( Abu Dhabi, Dubai, and Sharjah).

Easterby-Smith, Thorpe & Lowe (2002) defined validity as the extent to which the data collected reflect the phenomenon under investigation. Developing a consistent and complementary methodological framework reflecting the study's three aims and research questions support validity. This study managed reliability by investigating whether data gathered is appropriate for answering the research questions and achieved the research aims. Assessment of data collected is necessary to guarantee whether the data can be integrated in the research and the data is enough to conduct the research and build the three case studies (Abu Dhabi, Dubai, and Sharjah), after removing the unwanted information from the collected data.

A second step was assessing the data in terms of reliability. The data collected and used in this research comes solely from governmental senior officials and from senior staff in the private sector. Furthermore all secondary data from past studies and other sources of secondary data presented and used came only from reliable sources. Then, after all these steps, the researcher incorporated the data into the current study without the risk of bias.

#### **4.7 Ethical Considerations**

Ethical issues also affect the quality of the research results. Robson (2002) explained ethical issues as involving research standards and ethical practice. This research followed good practice through employing an objective approach to capture different perspectives, using multiple sources, coordinating with the managers and exporting companies to obtain their agreement to participate, and keeping certain information confidential. This project has been guided by the Nottingham Trent University Graduate School's code on ethical research.

## Chapter 5

### 5 Case Study of the United Arab emirates (Abu Dhabi, Dubai, & Sharjah): Tourism Sector

#### 5.1 UAE Economy and Efforts to reduce Dependency on Oil

According to the UAE Ministry of Economy (UAEME), (senior civil servant interview, 2011) the consistent volatility of oil prices across the globe has highlighted the need for the UAE to eliminate reliance on oil as the single source of foreign exchange and income to finance the public expenditure “resource dependency”. Similarly, the fact that changes in oil prices are associated with changes in the global economic outlook implies that the country is bound to suffer changes in oil prices in a multiplicity of ways. Reliance on oil is instrumental to the inability of the balance sheet of the economy to support expansion and development in the country, thereby impacting the growth rate of the economy. In any country which is reliant on oil, most of the imports to that country are comprised of consumer goods and other necessary goods, which will have a huge impact on the balance of trade for that country.

Disproportionate rates of development in the various regions/emirates of the country have adversely affected the ability of the country to achieve anticipated growth rates. Regional imbalances affect the viability of small and medium scale investments which are the primary drivers of economic liberation. Inconsistent and irregular utilisation of available resources primarily originates from inability to predict periodic changes in revenue levels. Price volatility of oil has affected the expenditure plans, thereby affecting the implementation of crucial projects and development programmes. The fact that the most affected areas have been rural locations has affected access to social amenities, including health care and education, with electricity and water infrastructure lagging in standards and availability.

The need to maintain sustainably the high level of living of the national citizens has become a major aspect of the national development goals and policy plans. Dependence on oil resources, which can be depleted in the long run, is a major source of contradiction for this objective. Currently, the country has a confirmed 98.2 billion barrels of oil as well as 6 trillion m<sup>3</sup> of natural gas. At the current exploration and utilisation rate of 2.161 million barrels a day, these reserves are viable for the next century, after which oil will no longer be a viable source

of income for the country. The primary source of worry is the rate at which the depletion occurs with the backdrop of an increasing demand for oil from across the globe. In addition to this, most countries face a similar eventuality, with the discovered oil reserves facing depletion in the conceivable future. Changing production levels is bound to adversely affect daily production and the eventual level of revenues drawn from the sale of oil, thereby affecting the living standards of the country. Unless the country develops structures to divest from reliance on this sole source of income, there are bound to be significant challenges in the future.

Reliance on oil has reduced the ability of the country to develop industries and sectors to handle the production of other categories of consumer needs. Since most of these goods and services are imported, the country faces challenges in the future. The need to import consumer needs erodes the quality of revenues from trade in oil, thereby affecting the ability of the country to benefit from the comprehensive benefits. It is necessary for the country to develop competitive advantage in the production of such consumer goods, albeit for domestic consumption. In addition to the enhanced savings, such an investment would result in the creation of jobs and opportunities for the citizens. Unlike most other countries, the UAE is well endowed with resources to set up such sectors, which will complement and supplement the oil industry in the country.

#### 5.1.1 Federal (UAE) Diversification Policy

The senior civil servant referred to earlier reiterated that there is increased focus by the UAE government on policies aimed at diversifying the elements of the economy towards economies where relative competitive advantage and the potential for growth are able to foster overall growth in economy. This shift in balance is propagated by the need to stimulate growth in the economy owing to the stagnation that has occurred due to reliance on a single sector. Ultimately, these changes are bound to stimulate the elimination of intrinsic and extrinsic disparities. Similarly, the federal economy will be able to develop additional sources of income to supplement the revenues from the oil industry, provide sustenance for the status of the country in the regional and international bases, and enhance its competitiveness across the globe, as well as enhancing the living standards of its citizens.

The UAE federal government in its economic diversification policy focuses on the promising economic sectors which possess relative advantages and great components of development which are able to achieve the country's economic policy, reduce the internal and external imbalances, generate other sources of income other than oil, help in sustaining the country's position, its competition and develop its relations with the countries of the world, and maintain the high level of living of its national citizens.

The primary efforts of the UAE government are directed towards transformational sectors which have a multiplicity of positive influences on the performance of other sectors and the country at large. In addition to tourism, the country hopes to revamp trade, transport and communication, building and construction, as well as the financial and business services. Each of these sectors has widespread impacts on the overall economy, providing a catalyst for the development of the economy in the long run. There are seven aspects to the federal policy as follow:

The achievement of such transformations is dependent on the ability of the economy to benefit from the reliability of the public sector with the backdrop of the efficiencies of the private sector. Consequently, the government revenue has benefited from the increase in the level of privatisation. Privatisation, coupled with the enhanced partnerships with multi-nationals and domestic successful business entities, has extended the contribution of the private sector in the success of the public sector. Legislative changes to ensure seamless integration of these public and private elements in the economy were fast-tracked, as a sign of the commitment of the public institutions to the transformations to come. Auxiliary efforts in development of capital markets have fostered the rate of integration, with the ease in access to finance accelerating the targeted transformations.

Secondly, the exploitation of oil reserves to acquire resources for development of economic sectors in the processing industries outlined above is also instrumental in the enhancement of income levels. Since oil is the most reliable source of revenue to the country, most development strategies are based on the divesture and ploughing back of revenues from oil to other sectors. Ultimately, the revenues and savings originating from these sectors are bound to stimulate growth in the country, without necessarily relying on unreliable fossil fuels.

Thirdly, provision of a serene and pristine climate for attraction of foreign direct investment (FDI) plays a role in enhancing the income capacity of the country. Exploitation of oil resources is bound to provide sufficient revenues to finance the country. However, there is a glaring need for additional funds to drive the productivity of the country and rescue the country from stagnation in economic growth. FDI plays a major role in expansion of a country's growth rate owing to the fact that it is an injection of capital and finances from external sources.

Fourthly, the construction and establishment of customised industrial zones to drive economic growth is an imperative step. Development of certain industries is reliant on the availability of custom and tailor-made environments aimed at stimulating the growth and development of such industries. In addition, specialized zones are easier to manage and oversee, especially with regard to novel industries, which may require the input of expatriates under the close monitoring of the public institution.

Fifthly, revenues for services rendered by the government also provide a major source of income. In addition to the critical nature of such services, the market for services is always present across generations, thereby making it viable for the government to establish avenues of value creation in order to improve the utility to its citizens. Such services can be designed to achieve short or long term objectives, thereby making it possible for the government to improve the living standards of its national citizens through input of the very same nationals.

Sixthly, preparation of national standards and structures in order to handle the challenges and opportunities originating from technological advances in the country is necessary. Technology itself is a double edged sword, thereby providing the need for establishment of ways through which the positive impacts outweigh the negatives. Ultimately, improvement of market characteristics through application of technological advancements should provide the government with facets to enhance income levels across the board.

Finally, as a comprehensive step, the establishment of avenues through which Sovereign Wealth Funds (SWF) are invested is needed. In essence, this wealth, drawn from both internal and external sources as well as oil related industries, should play a major role in the enhancement of Joint Stock Entities formed between the government and other persons, in order to channel investments towards productive destinations. Sovereign wealth exists only to

the state, with the government acting as a custodian for the national citizens. As a result, investments ought to focus primarily on enhancing the income levels of national citizens.

#### 5.1.2 The Ministry of Economy-roles

The Ministry of Economy provides general policy guidelines to the local government with regard to establishment of paradigms through which the economic outlook of the country can be improved. By aligning the development in sectors with the needs of the citizens, this ministry provides a path through which the goals of the local and federal components of the government can be achieved. The need for diversification in the industries and sectors in the federation encompasses all aspects of the economy. In addition to the productive sector, the service sector provides huge potential at all levels, thereby providing opportunities for a wide array of individuals.

The many primary sectors contribute to the UAE's total GLP. For example, for 2009 where the rate of the processing industries contribution reached 22.8 per cent, building & construction 14.6 per cent , trade and repair services 12.6 per cent , property and business services 11.6 per cent , transport, storage and communication 10 per cent, and financial projects 8.2 per cent, and thus the total rate of the six sectors of contribution in the GLP reached 78.8 per cent. Each of these categories represents a catalogue of sectors and industries, each of which offers opportunities to a wide range of citizens, thereby making up the total GNP. "Strategic imperatives have contributed to the preference for formation of a knowledge competitive country. The senior civil servant acknowledged that the change in outlook of the country's policies is bound to impact on the level of contribution and importance of the various sectors and subsequent changes in their positioning. Such changes in the policies are mirrored in the emergence of information technology across the globe, with the materialization of the novel "Knowledge Sector" according to the civil servant. The UAE identifies the following sectors as the focus for its economic development on the future.

The knowledge sector is an intricate and composite sector. The importance of knowledge and information in the contemporary economic setting cannot be over emphasized. Information technology has accentuated the importance of knowledge and metamorphosed the term to information. Owing to the prominence of oil in the economy of the country and in the enhancement of production and efficiency, the country anticipates to roll out elements of the

“Sector of New & Renewable Energy”. This sector, formed at the expense of the Fossil Energy sector, has its primary origins in the environmental impacts of the Fossil Fuel sector. In a bid to counter the carbon footprints in the economy at large, the country hopes to establish the sector, and benefit from the facets of the transformational nature, once it achieves self-sufficiency. Achievement of self-sufficiency in domestic markets will provide the company with capabilities to reduce trade deficits through reduction of imports.

However, primary elements of success entail development and improvement of sectors closely related to trade, including transport, communication and the financial sectors of the local market and restriction of imports and open external markets for export so as to minimize the trade balance deficit. This is associated with the growth of the importance and development of trade sectors – transport , storage and communication and financial projects due to the increased trade terms and the movement of investments, payment settlements resulting from international transactions, the country trades to support its commercial, economic and investment relations with all countries of the world through treaties and international partnerships and sustain the country position as a global regional trade centre.

Responses from the senior civil servant indicated that the rate of contribution from the oil sector have been on a decrease in the past years. Non-oil sectors have yet to achieve prominence in the GDP, but have significant contributions, owing to the stability in the prices over time. As a result, the efforts of the government to enhance the relative contribution of the non-oil sectors are bound to result in lesser reliance on the oil sector, thereby offering a wider range of nationals to contribute to economic growth. A high GDP at the backdrop of low income levels per household is bound to result in reliance on government-sponsored transfer payments in order to offer the national citizens a chance of prosperity. However, such social policies are laden with numerous challenges, making them unreliable in the long run.

Observations of the senior civil servant were that:

“the contribution ratio of the oil-related sectors diminished in favour of other sectors. The diminishing trend in the contribution ratio of the oil sector was not as a result of a drop in its relative contribution, but an increase in the contribution by the other sectors. As a result, proportion of the change in contribution by the oil sector was lesser than the proportionate change in the other sectors, thereby creating the basis for the observed changes. Quantitative analysis indicated that in 2000, the contribution of



the oil sector was 33 per cent, changing to 29 per cent in 2009. Consequently, the non-oil sectors experienced an increase in proportionate contribution from 67 per cent in 2000 to 71 per cent in 2009”.

These changes are the product of a multi-pronged diversification policy applied by the UAE federal government. Economic diversification elements include but are not limited to: exploitation of the abundant oil revenues in development of the most beneficial sectors as a way of diversifying the sources of income to the government; provision of opportunities to the private sector through extending the opportunities for participation in the development of the country, thereby improving the income levels at household level; improvement and enhancement of infrastructure in order to enhance the ability of the country to attract and retain foreign investment by creating an enabling environment for enhancement of productivity; promotion of public-private sectors as an avenue to tap into the capabilities and interests of national and multinational entities for the transfer of the necessary technology in administration; alignment of the national and international legal systems to achieve parity and harmonisation and emergence of international relationships which are primary sources of trade ties; formation of befitting national frameworks to enhance the suitability and feasibility of labour markets in the provision of sufficient manpower for development; coordination of the integration of the local government and private sector in the formation of federal government institutions for handling development at the local levels; and, finally, the support of small and medium scale entities and projects with similar characteristics through extension of the economic scope as well as the establishment of models for development of links in commercial and investment programmes with the rest of the world.

Such efforts by the government will play a role in establishing avenues through which individuals and households are able to contribute to the GDP of the country in addition to enhancing their income levels. By empowering individuals and the private sector as well, the government of the UAE targets to motivate individuals to take up roles in economic activities. The extensive manpower and ingenuity among the national citizens will contribute to the prominence of the country in the global scene, thereby accruing the necessary credibility for world recognition.

### 5.1.3 Strategic plan for the UAE federal government “UAE Vision 2021”

The strategic plan for the UAE was launched in 2007 by its President under the aegis of the National Work Program, and it aimed at increased general welfare through higher government spending. Based upon this, the UAE Government Strategy 2011-2013 was launched with the aim of facilitating the UAE Vision 2021. The date 2021 signifies the Golden Jubilee and to mark the 50th anniversary since the creation of the federation in 1971. The Strategy 2011-2013 is the central enabler for all economic, strategic and operational policies, and has been designed with a pyramidal framework consisting of 7 general principles, 7 strategic priorities, and 7 strategic enablers (the use of the number 7 for grouping in the Vision 2021 signifies the number of the Emirates in the UAE federation, although a different number may be used in other categories). While the strategic roadmap does not aim to be comprehensive, it still lays down the main areas of focus for the federal government, specifying the main directions and their set of sub-directions, the fulfilment of which will lead to realization of the long term Vision 2021 (UAE Government Strategy 2011-2013).

Looking into the strategic roadmap more closely, the seven principles define the areas in which the UAE government intends to lay maximum emphasis over the next few years; the strategic priorities define the priorities of the government within these areas; and the strategic enablers define the resources that will enable the government to meet these commitments. Briefly, the seven principles are as follows:

- (i) increase the role of the Federal Government in creating and implementing regulations and policy framework;
- (ii) increase the co-ordination between federal and local government agencies;
- (iii) prioritize integrated government service delivery;
- (iv) increase human resources and enhance leadership development processes;
- (v) utilize resources more efficiently and promote closer co-operation between different government agencies at the local and federal levels;

- (vi) practice excellence in all activities, as reflected by improvements in the delivered results;
- (vii) increase transparency and accountability in the federal government.

The strategic governance plan developed by the UAE lays stress on several parameters. Some of these are:

- (i) developing a competitive knowledge economy;
- (ii) establishing a fair judicial system that enhances public safety;
- (iii) environment management integrated with global concerns, while at the same time promoting national infrastructure;
- (iv) increasing global participation and geopolitical influence. The knowledge economy will be strengthened by laying emphasis on Intellectual Property;
- (v) development as well as protection, and increasing partnerships with private domestic as well as international institutes.

Entities that are involved in research and development aligning with national goals will be encouraged through federal funding, and service sector exports will be encouraged (UAE Vision 2021). As part of IP development, the UAE government also plans to lay stress on higher education, as well as retaining entrepreneurial talent within the country.

#### 5.1.4 The UAE prominent sectors for the future

In accordance with the assertions of the senior civil servant, the most prominent nine sectors that are expected to drive these changes include the knowledge sector (information and technology), novel and renewable sources of income and the transformational sectors (including transport, trade and infrastructure, business and commercial services, tourism, real estate and properties, and storage) among others (there is no contrast between the key sectors referred by the vision 2021 as a seven and the key sectors according to the civil servant because the number seven in the vision presentation is simply used as a symbolic figure to

represent the number of Emirates in the federation). Accentuation of the contribution of these sectors is dependent on the presence of specific policies, including the following:

First, the comprehensive and extensive development of infrastructure and properties (with plans exceeding \$200 million expenditure projections) is a primary step towards accentuation of the knowledge sector. Infrastructural developments are necessary components of the knowledge sector, which is comprised of intangible assets.

Second, the completion of the custom industrial zones such as ( e.g. Ekad 1 ,2 , 3 , 4 , 5 ) and those located in Al Ain will provide a favourable location for all activities, thereby consolidating the efforts of the government and entities involved in the knowledge sector.

Third, focus is on the establishment and development of strategic industries, such as petrochemicals and aluminium, which will provide a suitable investment opportunity for the state and federal resources. Such industries offer reliable sources of income in addition to providing employment to the national citizens. Additionally, the most prominent raw materials are drawn from the oil sector, thereby reducing the catalogue of raw materials and overheads sourced from foreign locations.

Fourth, the establishment of tourist attractions and destinations in locations such as Yas Island, Al Saadiyat, Dubai, and Northern Emirates with a budget of AED 858 billion according to the Tourism World Council (although other reliable estimates place the budget at 1.9 trillion AED) will stimulate the generation of foreign currency. Tourism is the most viable source of foreign currency with long term reliability propelling it to the top of most preferred investments across the globe.

Fifth, steps are there to ensure the enhancement of the country's level in foreign investments through purchase of stocks and shares in foreign countries in order to eliminate the impacts of sovereign risks and benefit from the differences in environmental elements. Investment in foreign entities offers the federal and local governments the opportunity to diversify risks and enhance earnings owing to the differences in economic climate in these foreign countries.

Sixth, support is provided for the development of trade by enhancing ease of access to the country and capacity of handling logistics, with the main focus placed on enhancing airports and seaports (Khalifa and Al Taweylla). Over the past years, the country has

established policies to enhance the capacity of the country to handle air and sea transport needs, with the establishment of physical and strategic facilities. In addition to the physical development, the UAE has promoted international relationships, thereby easing the ability of foreign governments to benefit from engaging in trade with the country. In addition to export business, the import business has thrived under these efforts, thereby leading to value creation for national citizens.

Seventh, it is in the interest of the government to encourage competition among companies engaged in communication and information technology so as to enhance development and expansion. Favourable competition contributes to innovation and value creation as firms differentiate and package their products. In most cases, all forms of competition result in reduction in price and enhancement of quality, with the end consumer being the beneficiary. As a result, competition in the ICT sector is bound to benefit the end-consumer.

Eighth, the reinforcement of innovation and improvements through support for research and development will play a major role in driving change to the next level. Research and development entails creation of novel and more efficient ways of service delivery and production, thereby making it possible for industries to develop. Research and development also promotes the ability of organisations to appreciate the needs of consumers, and inculcate dynamicity in the production and service delivery systems.

Ninth, the enhancement of information technology infrastructure in order to create and develop an ICT hub for service delivery to the regional and global consumers is necessary. Development of ICT hubs creates the foundation for development and prominence in regional and global aspects. ICT is a driver of innovation in all sectors. The application of ICT in production of goods and services plays a role in the reduction of unit production costs as well as efficiency in production, thereby resulting in transfer of benefits to consumers. Finally, establishment of policies aims to enhance the adoption of renewable energy and the associated technologies so as to actuate the plans of development and completion of Masdar City of Energy which is primarily powered by this form of energy. The application of renewable energy is a novel idea in a country which ranks among the top producers of fossil fuels. However, changing environmental factors, coupled with the benefits of renewable energy to the environment, have propelled the country to find ways through which it can

eliminate the carbon footprints originating from its primary export. In addition, investment in renewable energy provides a viable destination for investments in a country where mild climatic conditions favour the exploitation of solar and other forms of energy.

#### 5.1.5 Diversification policies and income goals

Diversification policies to achieve income goals originate from the need to establish a wide base for the array of income sources. Diversified income sources reduce the risk of failure in the systems originating from breakdown in the single system relied upon. The UAEME senior civil servant reiterated the instrumental policies in the diversification of the economy in order to achieve goals relating to enhancement of incomes. Such policy initiatives include the following:

Reduction in the reliance on oil as the sole source of income and revenue for the country, as a way of reducing the effects of volatility in the supply and demand of oil across the globe is bound to stabilise income levels. Second, maintenance of rapid and coordinated development programs, both horizontal and vertical spread, so as to avoid the negative and widespread impact of changes in income from oil prices. Third, maintenance of sufficient oil reserves in order to protect the future for the coming generations. In essence, such oil reserves protect the primary resource from depletion at the backdrop of minimal benefits.

Fourth, maintenance of good living standards and a luxurious society even after the primary source of revenues is depleted. This is only possible through investment in income generating activities to ensure sustainability in the future, even in the absence of oil revenues. Fifth, enhancement of the capabilities of the economy and national systems to generate productive emblems for the achievement of self-sufficiency through provision of goods and services needed and consumed locally. Sixth, the activation of international trade through enhancement of the level of exports by improving the competitiveness of these exports in the global markets is necessary, so as to enhance the balance of trade. By diversifying the level and diversity of exports, the country will be able to limit the extent of imports, thereby enhancing the position of the country in the international trade.

Finally, creation of diversification policies in the productive bases in the national economy is necessary as it diversifies the sources of income. Diversified productive bases eliminate the risk of failure, since failure in a singular sector is not duplicated in the other

sectors. Ultimately, this diversification will play a major role in cushioning the changes in oil prices. The availability of alternatives will also reduce the reliance on oil, thereby resulting in a reduction in the rate of depletion of the oil reserves.

#### 5.1.6 Tourism as a key strand of UAE federal level policy

The UAEME senior civil servant contented that the country has experienced numerous changes in landscaping and infrastructural development, thereby offering a feasible tourist attraction and destination for holiday goers. In addition to the scenic views represented by infrastructural development, the country has a moderate climate across the year, offering an opportunity for escape from extreme weather in some parts of the country and he added that :

“tourism has risen to prominence in the UAE, playing a major role in the development and implementation of economic policy. In addition to being a promising industry in terms of revenue-generation, tourism offers an opportunity in the diversification policies of the country”.

In his view, the strategic geographical location in the centre of the east and west offers an outstanding destination for individuals from all corners of the globe, thereby making it a business and travel location. In addition to the climatic and geographical characteristics, the location is situated by the sea, thereby providing over 700km of sea and coastline for the recreational activities of choice to any individual who appreciates nature. The efforts of the government to elevate the country as a tourist destination have led to the development of 550 hotels and over 15,000 hotel apartments. The UAEME senior civil servant said:

“the capacity to accommodate tourists plays a major role in encouraging travel to such locations, especially considering that the accommodation facilities are relatively evenly spread across the country. As a result, visitors have the ability to select their preferred destination, with sufficient assurances of a favourable stay”.

Also, in the opinion of the civil servant, travellers to the country as well as domestic tourists are treated to a cultural, social and historic exposition of the country, with a therapeutic and recreational range of activities. Those who travel for business never lack a chance to sample the intricacies of the country in between conferences and meetings, with the

result being a comprehensive learning and entertaining experience. In addition to the travel destinations, the country has elevated the capacity of international and domestic travel, including the establishment of seven international airports. Roads and railway travel models are efficient and in good order to ease movement while in the country.

The opinion of the senior civil servant with regard to the government performance in the efforts to achieve economic diversification led to reference to the existing figures and quantitative aspects of the economy. Current progress was clearly painted in the quantitative changes in the economy, with economic and social variables indicating positive changes. The gross and net changes in oil and non-oil sectors indicate significant changes and improvements, affirming the suitability of the existing policies.

The figures of the economic and social variables in the country indicate the extent of success achieved by the policy of diversification, as shown by increases in the GDP and the growth of the non-oil sectors. The change in GDP in fixed prices between 2001 and 2009 was indicated as 262.4 billion AEDS to 514.5 billion AEDS respectively, representing an average growth rate of 88 per cent. Of this, the contribution of non-oil sectors grew to 360.8 billion AEDS in 2009, up from 175.7 billion AEDS in 2001, representing a mean growth rate of 9.6 per cent.

Further analysis indicated the change in proportionate contribution of the oil and non-oil sectors across the same period. The changes in GDP proportions between the oil and non-oil sectors are a clear indication of the success in economic diversification policies in the country. The GDP changes in the non-oil sectors increased from 67 per cent in 2001 to 71 per cent, with similar changes in the oil sectors. The contribution of the oil sector to the national economy dropped from 33 per cent to 29 per cent, thereby income per capita reaching 112,000 AEDS in 2009, considered one of the highest world income.

#### 5.1.7 Differences in roles: federal and local governments

##### 5.0.7.1. a-The federal government-roles

The senior civil servant at UAEME viewed the roles of the federal government and those of the different Emirates as different. Roles with regard to enhancement of the income



of the economy were categorised, with the contribution of the various entities highlighted, starting with the roles of the federal government.

First, the definition of the frameworks and direction of economic policies with regard to diversification is a function of the federal government. Such policies have wide reaching implications on the outcome of an economy. In addition to this, development of privatisation policies and support to the private sector in execution of projects, coordination and harmonisation of the role of financial and capital markets in collation of investments for enhancement of productivity, and adoption and the creation of support systems for private sector partnership with domestic and foreign entities targets to sharpen the capacity of the private sector.

Further on, the involvement of the private sector in the development of infrastructures to serve the rest of the country is a federal responsibility, culminating in the attraction of investments. The primary outcome of the enhancement in infrastructure is creation of an enabling environment for investment, with support from the umbrella body, which is the federal government. In essence, the local governments are entitled to direction from the federal government regarding the involvement of the private sector, through sponsorships and other forms of support.

The federal government also plays a central role in the support and strengthening of economic, commercial and investment relationships with the rest of the globe. Such a role requires the necessary authority and unity in command which can only be achieved at the deferral level. Although local governments are the beneficiaries of the resultant trade, investment and technological transfer from such relationships, the federal government is the oversight body and official sponsor.

The re-engineering of institutional frameworks, coupled with streamlining of laws, necessary to add legislative norms to regulate economic aspects of the private sector and local government, lies squarely on the shoulders of the federal government. Legislative standards have political implications, thereby necessitating the input of the federal government, as a way of enhancing and upholding the sovereign foundation of the country.

The contribution of the small and medium sized business (SMEs) is dependent on the input of the federal government as well. Basically, the federal government plays a role in the framing, supporting and sponsorship of these projects, thereby enhancing the contribution of national citizens in the economic growth of the country. Most of these small and medium ventures play a leading role in enhancement of the manufacturing sectors of the country, thereby promoting the contribution of the non-oil sector in the country.

The federal government is also mandated to provide strategies for the utilisation of electronic systems in completing governmental transactions. The adoption of Information and Communication Technology (ICT) in the country is the role of the federal government, due to the prerequisites of infrastructure and international relationships. Similarly, this role is closely linked to the prevention of illegal commercial practices and provision of protection to national citizens from exploitation. Exploitation could emerge in public-private partnerships, international and domestic partnerships, as well as other forms of partnerships. The federal government has the jurisdiction to handle such occurrences, thereby making it necessary for them to intervene.

The federal authority places the government in the most opportune position to prepare guide-books and databases relating to the existing companies and businesses, as an avenue of developing macro-level elements for decision making. Most of the information relating to entities is only available to the federal government, making it the only institution capable of handling such a task. Databases relating to businesses and other elements of the business environment play a significant role in the decision-making activities of domestic and international bodies.

Finally, the formation of a Higher Committee for supervision of the Information, Communication and Technology (ICT) sector and the launch of a related sector is a federal function. The higher committee seeks to enhance competition and innovation among businesses, especially though the elements of the information age. Involvement of the federal structures is bound to result in standardisation of the objectives and development, thereby contributing to harmonised growth.

Ultimately, the role of the federal government is an oversight one, with implementation of such policies trailing down to local government, which provides tailor-made solutions for the various businesses and sectors. Resource allocation and provision of direction for strategic plans plays a major role in the success of the various policies.

#### *5.0.7.2. b-Role of local government*

The roles of the local governments as indicated by the UAEME senior civil servant were categorised; each of the following roles mirrors the outcomes of the efforts by the federal government and the state governments because these roles are a reflection of the federal nature of the country and how the relations between the federal government and the local governments workout. The roles of local government are as below:

First, the local governments play a role in updating and maintaining the infrastructural elements such as air and sea ports in the respective emirates, in order to ensure parity in growth and development. Similarly, increase in the investments to enhance trade and capacity of the air and sea ports is managed by the specific emirates. This originates from the fact that different destinations handle different goods and elements of trade, making it beneficial for custom management of these facilities. It is also in the interest of each specific emirate to construct strategic facilities to handle transport and business needs, including metros and subways, in order to handle the transport needs of the national citizens.

With the support of the federal government, each emirate is mandated to develop connecting infrastructures to ensure that the federal state is interconnected. In essence, the ability to commute to and from and to access each emirate has local and federal advantages, thereby creating the need for each emirate to play its role. Public and private partnership has continuously played a major role in this form of development, with the construction of bridges, tunnels, roads and bypasses achieved through such partnerships. These elements of transformational sectors, including the development of human free zones continue to attract foreign and domestic investment owing to the level of sophistication, thanks to the efforts of the local governments.

The role of support to upcoming and large companies lies in the area of the local government. In essence, most of these organisations have entered into various partnerships with the government (local institutions), who have to play a leading role in supporting their objectives and the achievement of their goals. In essence, such support plays a role in the transfer of technology to the domestic levels, thereby stimulating growth in the knowledge sector as well as integration with multinational companies.

Local governments are also best placed to offer tourist attractions to visiting and domestic tourists. The resources available to the local governments include the scenic views and large tracts of landscape, which have been developed for the purposes of attracting visitors by providing a welcoming environment, in addition to delivery of services and products laced with value creation. Incomes generated from these activities are normally channelled towards maintaining the nature and features of these elements, thereby making it possible for growth in tourism to be achieved. The contribution of the federal government is crucial, but it is the input of the local government which makes the difference between financial resources and the existing tourist attractions.

Finally, the provision of incentives and other facilities is necessary to ensure that development in sectors is matched across the board. Of late, the government has implemented strategies to ensure that development of non-oil sectors is possible, with these efforts directed towards offering the local governments the opportunity to stimulate the growth on a local basis. The result has been the creation of environments for local and multi-national cooperation in the development of these sectors, including petrochemicals, consumer goods and ICT-based sectors. As a result, the local government plays a role in implementing the policies developed by the federal government.

Finally, the major role of the local governments in developing its economy and its infrastructure capability is a reflection of the federal nature of the country and how the relations between the federal government and the local governments as a “city state” workout.

### 5.1.8 Emirate policy adoption mechanism

The policy adoption mechanism and the process of decision making in the local government at the Emirates level in all the three emirates (Abu Dhabi, Dubai, and Sharjah) are very similar in many aspects. All three Emirates have an executive council which manages the Emirate's administrative affairs. Each council is chaired by the Crown Prince of the Emirate. Each Emirate has a representative on the Executive Council who is part of the strategic management team. Departments equivalent to ministries, Tourism Authority, Economic Department, and the Financial Department are represented on the Executive Council. This body is considered to be the highest authority under the Ruler of each Emirate and the Council reports to the Ruler of the Emirate on a regular basis and consults on important issues (UAE Interact, 2011).

The Executive Council plays a leading role in the Emirate from reviewing each department's policy through its different sub-committees to the final adoption of the policy. The council plays a role in monitoring the implementation of the policy and checks the result from time to time to see how effective the implementation is. The Executive Council also has the role to study the financial issues associated with implementing policies with the financial department and discussing all the options about that. In general terms, the Council is the overall umpire in the administrations of each of the three Emirates.

### 5.1.9 UAE Policies to Develop the Tourism Sector

This section of the Case Study of the UAE tourism is presented in three parts. It provides an insight about the three biggest Emirates of the UAE and their tourism sectors. The three emirates researched and presented on in this case study are:

(i)- Abu Dhabi

(ii)- Dubai

(iii)- Sharjah

#### *5.0.9.1. Why choose the Tourism Sector in three Emirates for the Case Study*

Tourism is one of the major sectors of the economy of the United Arab Emirates for now and the near future according to the UAEEM senior civil servant and the UAE vision 2021. The

Tourism sector of the three major emirates including Abu Dhabi, Dubai, and Sharjah have been used for analysis. This is because the three emirates constitute 95 per cent of the GDP in the emirates. Table 4 shows that in 2008 Abu-Dhabi accounted for more than 55 per cent of the entire economy of the federation of UAE, Dubai accounted for more than 32 per cent, and Sharjah accounted for more than 7 per cent, which in total represent more than 95 per cent of the UAE’s federal economy, and the tourism sector in those three states represents the majority of the tourism sector in the UAE. According to Mohammed Khamis Bin Hareb Al Muhairi, Director General of UAE National Council for Tourism and Antiquities (NCTA); The three emirates represent 93 per cent of the UAE entire tourism sector, Abu Dhabi represents 16 per cent, Dubai 67 per cent, and Sharjah 10 per cent (Alithad, 2011)

**Table 4 UAE GDP Distribution by Emirates for Abu Dhabi, Dubai, and Sharjah**

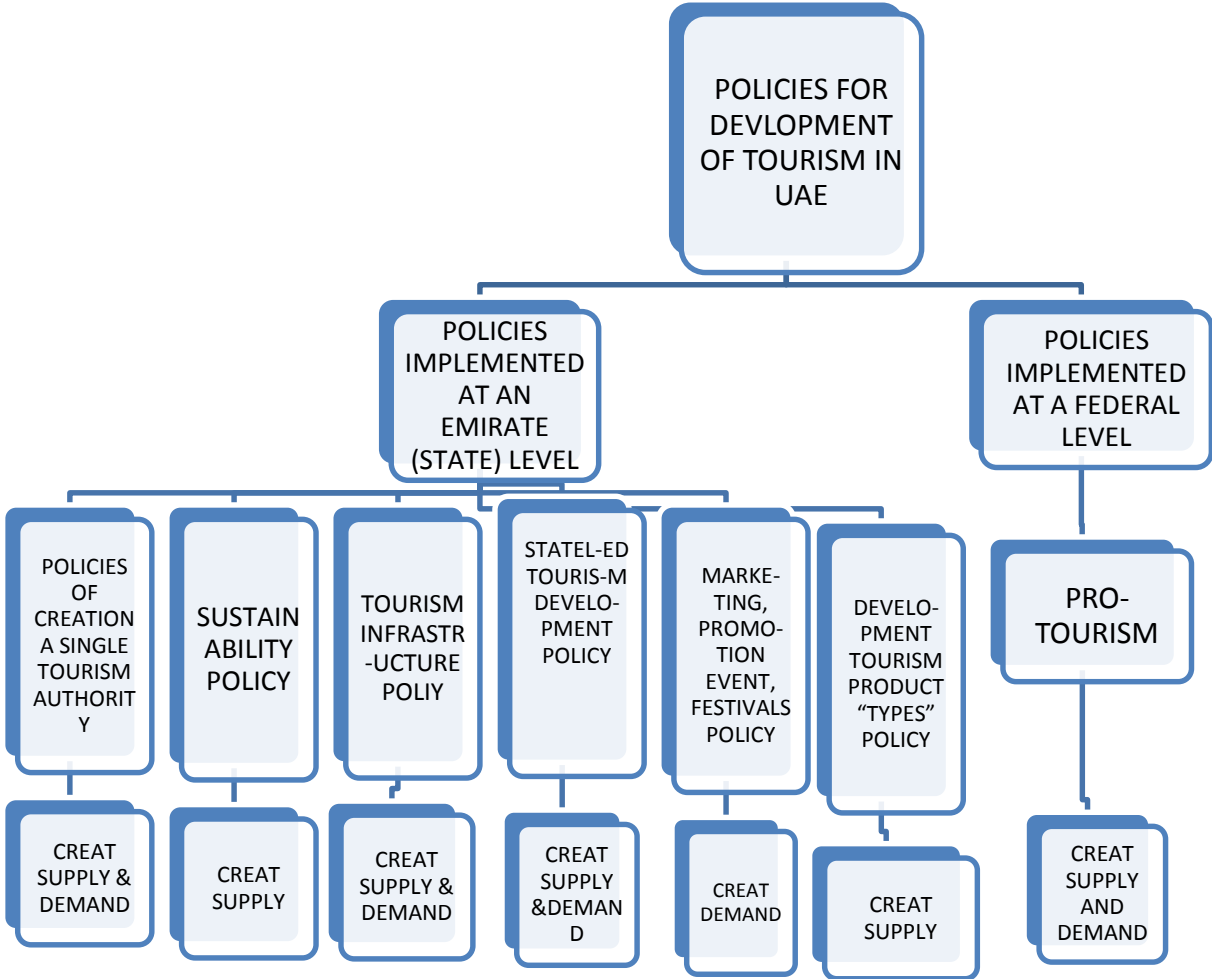
<b>per cent of GDP</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
<b>Abu Dhabi</b>	<b>55.70 %</b>	<b>57.30 %</b>	<b>53 %</b>	<b>52.80 %</b>	<b>55.70 %</b>
<b>Dubai</b>	<b>30.50 %</b>	<b>29.20 %</b>	<b>34.90 %</b>	<b>34.90 %</b>	<b>32.30 %</b>
<b>Sharjah</b>	<b>8.70 %</b>	<b>8.80 %</b>	<b>7.70 %</b>	<b>7.90 %</b>	<b>7.70 %</b>
<b>Total</b>	<b>94.90 %</b>	<b>95.30 %</b>	<b>95.60 %</b>	<b>95.60 %</b>	<b>95.70 %</b>

Source: UAE National Bureau of Statistics

*5.0.9.2. Policies for Development of Tourism in UAE*

This case study handles the policies of economic diversification for tourism, and the policy measures employed to implement diversification policies to develop the tourism sector with the goal of creating a sustainable economy are now going to be discussed. From the literature review and the interviews, it is clear that there is complexity in developing a sector in a federal state (where policies are drawn up and implemented at two levels (Federal and State)). Figure 5.2 shows the UAE Tourism Development Policies framework and how policies are implemented in the UAE to develop the tourism sector.

**Figure 5.2: UAE Tourism Development Policies framework**



The policies for development of the tourism sector in the UAE consist of the following elements, dividing implementation into two levels ( see figure 5.2):

### **Policies implemented at a federal level**

#### **Pro-Tourism Policies**

The tourism sector in all the Emirates enjoys general pro-tourism policies at the federal level, such as open skies in all the UAE airports. According to the UAE Economy Minister and Chairman of the Board of Directors of the General Civil Aviation Authority, Sultan Al Mansouri, the number of air transport deals signed so far by the UAE with different countries has reached 146, (of which 104 are open sky agreements). Sultan Al Mansouri has stressed the importance of the open sky policy being adopted by the UAE which has contributed to boosting the economic status of the UAE as a strategic business hub(UAE Interact, 2012). Relaxation of visa requirements was passed by federal law on March 31st 2003 (this applies to 34 countries whose citizens can obtain a UAE visa on arrival) (Dubai Airport Info centre, 2012). Furthermore, there are no corporate or personal taxes in the United Arab Emirates.

**Policies implemented at an Emirate (State) level** include the following Emirate government policies:

#### **Policy of creation a single government tourism authority at the Emirate “state” level:**

The role of the government department (Tourism Authority) is to become the lead authority in planning, setting standards for operators in the sector, supervising, promoting the tourism sector locally and internationally, and developing the tourism sector. In general terms, the role of the authority is to develop specific plans and policies for tourism development and also the creation of pro-tourism policies such as the open skies operation, and relaxation of the visa issuing process. With the role to guide and direct, bodies such as the Sharjah Commerce and Tourism Development Authority(SCTDA),was established in 1996 for Sharjah, the Abu Dhabi Tourism Authority(ADTA)was established2004 in for Abu Dhabi, and the Dubai Tourism and Commerce Marketing(DTCM)was established in 1997, replacing



the Dubai Commerce and Tourism Promotion Board (DCTPB) that was itself set up in 1989 for Dubai.

### **Tourism sustainability policy:**

A country can develop sustainable tourism for the long term for the benefit of its people. Sustainable tourism can be defined as a business enterprise that creates the least stress on the environment, local society and culture and yet achieves customer satisfaction and economic growth of the country. Others have defined sustainable tourism as “tourism that is developed and maintained in a manner, and such a scale, that it remains economically viable over an indefinite period and does not undermine the physical and human environment that sustains and nurtures it” (Harris, Griffin, & Williams, 2002, p. 46). Therefore, there are three aspects to sustainable tourism; financial, social and environmental. Sustainable tourism addresses not only the industry actions to reduce environmental and socio-cultural stress, but also the participation of the tourists in ensuring the success of the sustainable venture.

Effective management of tourists is essential for ensuring sustainable tourism. If not managed effectively, tourists stress the environment both biologically as well as culturally. Trash left behind by tourists not only degrades the environment but may also change the food habits of the animals residing in the habitat. Unrestricted interaction of tourists with indigenous cultures can destroy such cultures and thus require regulation. Strategies such as putting caps on tourist visitations (Weaver, 2006, p. 175) to a particular destination is one such option that can enhance the sustainability of a tourism enterprise. In such a case, the country has to carefully calibrate the limits on visitation, the economic payoffs and the environmental stresses that such caps seek to limit. Sensitization of the tourists also forms an important role in ensuring that sustainable tourism succeeds. Tourists must be encouraged to leave as small a ‘footprint’ as is required in the places that they visit (Ford, 2007, p. 40). This could include tips such as providing information on best non-stop flights, fuel efficient transport and tourist agencies that have a better ‘green’ record.

Sustainable tourism in the short term is not cheap. For any tourism industry to go ‘green’ requires high initial inputs that cannot be viable without adequate government support. So if the sustainable tourism sector has to acquire ‘critical mass’, the country must

provide adequate subsidies and incentives for the industry to invest. It must be remembered that the bottom-line for any industry is profits. It is only after profits are ensured that the tourism industry can envisage the finer points of Corporate Social Responsibility (CSR) initiatives. At the macro level, countries can also look at carbon credits to trade offsets for sustainable tourism (McCool & Moisey, 2009, p. 291). At the national and global level, sustainable tourism could gain a fillip if countries agreed to more direct air routings over national airspaces to reduce the amount of fuel burnt in reaching tourism destinations (Schwab, Blanke, & Chiesa, 2008, p. 35). Governments thus require studying Tourism Areas Life Cycle (TALC) concepts (Butler, 2006, p. 250) that holistically address the triad of financial viability, socio-cultural stability and environmental balance to make sustainable tourism a success. Abu Dhabi, Dubai, and Sharjah have individual policy initiatives for sustainability of the tourism sector.

#### **Tourism Infrastructure Policy:**

Well-established transport and infrastructural developments to serve the tourist sector, such as developing the airport, creating tourist attractions (including malls, resorts, museums, theme-parks, etc.), and creating a state-owned airline to connect the destination with the world in a convenient way, and to bring the travellers to the doorstep of the destination as visitors or in transit, which creates worldwide awareness of the city. Developing the hospitality facilities (hotels, furnished apartments, and restaurants) with an international standard of quality and tourist attractions through public and private sectors. As part of the tourism infrastructure policy initiatives, the Dubai government established Emirates Airline in 1985, Abu Dhabi established Etihad Airways in 2003, and the Sharjah government established Al Arabia Airways in 2003.

#### **State- Led Tourism Development Policy :**

Development for large scale tourism projects. Projects such as building museums, large malls, parks, theme parks, airports, unique resorts and so on sometimes are not attractive to the private sector due to the size or the location or lack of profitability of such projects in their own right. Government intervention could be very helpful to encourage private investors and to give them a lead when they hesitate to develop the tourism sector, to diversify tourism

products, and to play a crucial role which private investors could not play for different reasons. Dubai, Abu Dhabi, and Sharjah have many examples of State-led Tourism Development Policy such as The Palm Island in Dubai (the eighth wonder of the world as they like to call it in Dubai), the Guggenheim museum in Abu Dhabi, and Al Majaz Waterfront in Sharjah.

### **Marketing, Promoting, Events, Festivals Policy:**

Tourism, like any other product in the world, requires constant marketing to promote it across the traditional and new market segment through events ( sport, cultural, and musical, etc.). Organising various types of festival such as traditional, shopping, cultural etc. is a creative and attractive way of promoting a destination in order to distinguish it among the alternatives available to tourists regionally or internationally around the globe.

### **Develop Tourism Products "Types" policy:**

Tourism product development and diversification of tourism products ‘Types’. Each destination could develop the products or types it offers to tourists around the globe to become a destination of one or more of the following: Shopping Tourism, Health Care Tourism, Eco-Tourism, Sport Tourism, Educational Tourism, Cultural Tourism, and Business Tourism etc. For example Dubai hosts the Hours World Cup ‘The richest hours race in the world’ and the Dubai government built a state-of-the-art special hours track for this event with a big hotel and all the needed facilities. Abu Dhabi built a formula One race track The ‘Yas Marina Circuit’ to host one of the world F1 stages, and Sharjah developed a facility to host a world event for cricket which attracts spectators from around the world.

This section shows that most of the tourism development policies are dependent on and the responsibility of the local governments. The role of the federal government is more of a supporting role by providing flexible laws and bilateral agreements with other countries at a federal level in matters that the tourism sector needs to develop, such as relaxing visa issuing regulations for tourists and establishing open sky treaties with other nations. The reality is that tourism development policy equals state level policies.

## **5.2 Abu Dhabi Case Study**

### **5.2.1 Introduction**

Abu Dhabi is the governance capital of the UAE. It produces 90 per cent of the UAE's oil and has its own tourism sector in line with the strategy of the UAE to allow each emirate to act federally. The economic-diversification program of Abu Dhabi competes with similar diversification programs in other emirates of the UAE (Sharpley, 2002). The economic-diversification program of Dubai recognizes the potential of the tourism sector as an engine of growth. This realization informs Abu Dhabi's scaling of its developments in the sector to new heights while it still maintains its economic stability. The emirate is concerned with avenues that will nurture a non-oil GDP growth that would be higher than the GDP growth of its oil sector. Abu Dhabi aims to reach the equilibriums of the two GDP growths in 2028. This is in line with making its economy rank as the most successful in the world by 2030 (Seymour, 2010). To guide its development, Abu Dhabi is relying on the examples of other economies that are flourishing, such as Norway and New Zealand, which serve as its benchmark for growth (The Government of Abu-Dhabi, 2008).

Abu Dhabi takes a large portion of the sophistication of major tourist destinations such as Paris and Orlando in having theme parks and golf courses. On the other hand, Abu Dhabi also displays its other tourism strengths with buildings that mirror the urban heft of New York City. All these efforts aim at making the emirate the most sophisticated destination in the world (Townsend, 2008).

### **5.2.2 Background: Structure of the Economy of Abu Dhabi**

#### **5.2.2.1 Abu Dhabi economy structure and Efforts to reduce income dependency on Oil**

According to the Abu Dhabi Department of Economic Development (ADED), (senior civil servant interview, 2011), we find the structure of the UAE economy is made up of various sectors, although the extractive industries (crude oil and natural gas) are contributing the largest share in the gross local product with a percentage of 49 per cent, followed by other sectors contributing as follows: Building and construction - 10.1 per cent, Real estate and work services - 8.4 per cent, Transformational industries - 7.4 per cent,

Transport, storage and communication – 7.1 per cent, and Financial institutions and insurance – 5.8 per cent.

#### 5.2.2.2 Oil and gas ratio to the gross local product

The ratio of crude oil and natural gas to the gross local product of the emirate is a half (1/2) or (49/100), 49 per cent being the contribution of oil and natural gas to the GLP of the economy and that of the non-oil sectors being 51 per cent. This means that Abu Dhabi’s economy relies mainly on oil and natural gas, which contributes up to half of the economy’s GLP. The ratio of the oil sector to that of the non-oil sector is 1:1. Table 5 below shows that, in the past years, oil and natural gas have been contributing to a little more than half of Abu Dhabi’s GLP, supporting the statement that Abu Dhabi’s economy mainly relies on this industry.

**Table 5 Actual Contribution of the Activities in the Gross Local Product (%)**

Years	Oil and natural gas	Non-Oil
2005	56.19	43.81
2006	59.21	40.79
2007	56.37	43.63
2008	60.87	39.13
2009	49.38	50.62

Source: Economic report of the Emirate of Abu Dhabi, 2010

#### 5.2.2.3 Why Abu Dhabi wants to diversify the economy

Abu Dhabi’s economy is not sustainable as it relies greatly on only one sector, according to the senior civil servant. It is safer for the whole economy if it is diversified to free it from that dependence. It is mainly because of this that the Emirate of Abu Dhabi is trying to build a sustainable economy through economic diversification by increasing the contribution of the various economic sectors apart from the oil sector so as to reduce the effects of the shocks resulting from fluctuations in oil prices and stability of the economy (“economy”).

As a part of its efforts inducing to diversification, Abu Dhabi is endeavouring as well to accelerate the rate of the non-oil gross national product to surpass the growth rate of the oil sector. Moreover, the Emirate is trying to raise the rate of the non-oil sectors of the gross national product to reach 64 per cent in 2030 since it is going to focus on developing the non-

oil sectors which are being planned to develop all together at an annual rate of more than 7.5 per cent. The aim here is to achieve balance in the non-oil trade balance. The economic development implies achieving an average growth rate of 7 per cent until 2015 and 6 per cent thereafter.

### **5.2.3 Abu Dhabi economic vision 2030**

The Abu Dhabi plan of economic diversification and its main principles are guided by the Abu Dhabi economic vision 2030, according to the senior civil servant. The Abu Dhabi economic vision 2030 aims to establish diversity and a sustainable economy based on high added-value activities encouraging private projects and the investment spirit of individuals, and a high level of integration with the global economy, which leads to better opportunities for all.

The government of Abu Dhabi plans, through its economic vision 2030, to achieve sustainable development from which the whole population benefits through many goals distributed on a number of pivots covering all interrelated economic sectors. Abu Dhabi is trying to build a sustainable economy through economic diversification by increasing the contribution of the various economic sectors apart from the oil sector so as to minimize shocks resulting from fluctuations in oil prices and the stability of the economy; extending the base of works participation, since the vision of Abu Dhabi intends to extend the establishment of national companies and attracting direct foreign investment, particularly in the sectors of advanced technology; and, finally, by achieving the highest levels of competition in activating the role of small and medium-sized projects and pushing economic development into areas which are of less economic performance, and to focus on industries with intensive use of capital and whose end products are directed towards export.

According to the senior civil servant, the pivots on which the social, political and economic future of the Emirate depends are: an effective and influential private sector; an economy based on sustainable knowledge; a transparent and competent ideal legislative environment; maintaining distinguished relations with the rest of the countries in the world at all levels; the ideal use of the Emirate's resources; an international educational system, health care service, and infrastructure; interior and exterior secure stability; and maintaining the values, culture, and heritage of Abu Dhabi.

The seven areas on which economic policy shall focus continuously are: constructing an open, effective, influential, and integrated environment with the world economy; adopting controlled financial policies, which are able to respond to economic cycles; establishing effective and flexible environment for financial and monetary markets of controlled inflation rates; bringing about tangible improvements in the labour-market competency; developing strong, efficient infrastructure to be able to support the expected economic growth; developing workforce distinguished for its outstanding skills and high productivity, and enabling the financial markets to be the main financier or principal of economic projects and sectors.

#### 5.2.3.1 What the policy of the UAE focus in diversification of the Emirate economy

The most vital sectors which Abu Dhabi will be targeting to achieve economic diversification, according to the senior civil servant at ADED, are included in the goals of Abu Dhabi vision of 2030 which is to diversify the economy by investing in the sectors of the intensive use of capitals, and targeted to export. The vision has defined a number of targeted sectors in which Abu Dhabi has existing or optional competitive advantages which will represent the greatest motivators of the economic development in the Emirate, which are: power, oil and gas, petrochemicals, metals, aerospace industries and defence, pharmaceutical industries, bio-technology, and biology, tourism, devices and services of medical care, transport, trade and logistic services, education, the media, financial services, and communication services.

#### 5.2.3.2 Tool used to apply the policies of economic diversification

Administrative tool: To ensure achieving the standards of the economic vision 2030 of the Emirate of Abu Dhabi, the vision stipulates that the Emirate shall prepare and apply five-year strategies of economic development to guarantee its progress towards achieving this vision. Therefore, the Executive Committee of the Executive Council of the Emirate of Abu Dhabi issued in 2008 a decree for forming a Steering Committee of the five-year strategy of the economic development of the Emirate of Abu Dhabi 2008-2012 to be presided over by the Department of Economic Development.

The plan has estimated the total growth of the actual total local product of the Emirate of Abu Dhabi to be of 6 per cent - 7 per cent during 2008 -2012, and consequently it is expected that the actual total local product will reach \$150- 158 milliard in 2012. It is expected that the non-oil economy will grow at the rate of 8 per cent -10 per cent during the period between 2008-2012. It is expected that the per capita of the non –oil gross total product will rise at the rate of 3 – 4 per cent during the same period to reach 31000 – 35000 \$ in 2012.

According to the expectations of the five-year plan, the non-oil economy is expected to increase its ratio of contribution to the macro economy from 40 per cent in 2007 to 44 per cent - 48 per cent by the end of 2012. This comes in conformity with the planned aim in the vision 2030 which is represented in achieving a contribution rate of 47/53 in the economy. On the contrary, the representation of the oil sector in the macro economy will decline from 60 per cent in 2006 to 52 per cent - 54 per cent by the end of the five-year plan.

In the first years of the five-year plan, the economy will pass through a construction stage in which the targeted sector will invest to an extremely large extent to establish the base of their operations, but the oil sector will remain the powerful and main contributor in economic development, while the construction sector shall constitute the direct motivator of the development of the non-oil economy.

#### 5.2.3.3 Abu Dhabi Economy Diversification Plans

The targeted sectors which are tackled by the five-year plan are those which are originally considered of strategic importance for Abu Dhabi in the economic vision, and which are expected to lead to a high and sustainable development and to an economic activity in the non-oil economy. Some policies have been defined to develop and enhance the targeted sectors. The number of the sectors targeted to achieve the economic variation is ten.

According to the senior civil servant at ADED, the most vital sectors which will be targeted to achieve economic diversification are as follows: Tourism and activities, Transport and logistics, Civil Aviation, Basic and transformational industries, Petrochemicals, Oil and gas services, Renewable energy, ICT, Mass media, and Financial Services and insurance



According to the senior civil servant at ADED, the most significant policies which are defined for each targeted sector and their goals are as follows:

**Tourism sector:** The strategy of the tourism sector is focused on the reliance on cultural fundamentals and tourist products to help Abu Dhabi be the most luxurious, recreational and cultural destination for businessmen and tourists through build-up of awareness and interest in Abu Dhabi; increasing the number of visitors; reinforcing the experience of visitors in Abu Dhabi; powerful competition in the tourism sector and creative works development and the best recreational, tourist products; and increasing the number of posts and jobs in the sector focusing on the build-up of local competencies. Among the main players in the sector are Abu Dhabi Tourism Authority, Abu Dhabi National Exhibitions Company (ADNEC), Tourism Development & Investment Company (TDIC) and many other tourist companies.

**Transport and Logistics sector:** The strategy of the transport and logistics sector is focused on positioning Abu Dhabi as an international centre for commerce and industry through: Aerospace Industry: Al Etihad Airlines is to become the best airline in the world, and Abu Dhabi Co., for Airports is to become one of the pioneering companies in running the assets of airports; and Marine Industries: constructing Khalifa Seaport being the latest gate to export and import.

**Civil Aviation sector:** The strategy of civil aviation is focused on: establishing an international aviation centre to be the centre of basic industry in the UAE through financial wealth reserves to support an intensive, capital industry and long term investments; The growth of regional demand on aviation companies; and partnership with the international leaders of industry to encourage transference of knowledge and innovation. Among the principal players are Mubadala for Development, Abu Dhabi Co. For Aircraft Technology, Aviation Academy International Aviation, and other companies which comprise international companies such as Rolls Royce.

**Basic and Processing Industries sector:** The strategy of basic and transformational industry is focused on the construction of a solid industrial base depending on basic metals being the main motivator to achieve economic variation through: concentration on the industry of the basic metals (particularly aluminium, steel and possibly copper); and integrating activities

through value series from the extractive industries to the productive ones, through developing the Metal Complex in the region. Among the main players are the Emirates Iron Industries Co., Emirates Company for Aluminium, Abu Dhabi Co. for Basic Industries, Specialized Zones, and Abu Dhabi for Ports Co.

**Petrochemicals sector:** The strategy of the petrochemicals sector is focused on making Abu Dhabi a main player and producer of various petrochemicals in the region with the growth of the base of transformational industries through: Reaching the low cost raw materials / power, and the impacts within the scope of their productive capacity; Varying the portfolio of their products by taking additional production steps along the series of the added value; and Establishing and integrating the products of the Polymer Complex and plastic products to promote more supplementary activities. Among the major players in the sector are Freetel CoBorouge Co. Abu Dhabi Polymers Co. Abu Dhabi Basic Industries Company, Abu Dhabi Petroleum Co, and Abu Dhabi Chemicals Co.

**Gas and Oil Services sector:** The strategy of the Gas and Oil Services sector is focused on making Abu Dhabi a significant player in the gas and oil industry in the region and a centre for distinction through: Working as a centre of cost and growth through the extension of the products scope instead of establishing new companies; Extending the share of Adnoc Co. of project contracts and extending its activities in the region; and Constructing strategic, common projects with technology leaders to enhance the scope of services and the build-up of local competencies. Among the major players in the sector are Abu Dhabi National Oil Company, National Petroleum Construction Co. Services and Mubadala Petroleum Services Company LLC (MPSC)

**Renewable Energy sector:** The strategy of the renewable energy sector is focused on making Abu Dhabi an eminent centre for research into and development of renewable energy and its execution and to be a reference for sustainable development through: Acquisition of substantial shares of the current international players to occupy a position in the market more rapidly; Developing local offers of research, transformational industry and product opportunities; Developing high technologically sustainable regional complexes and raising the abilities of local innovation; and Endeavouring towards distinction and excellence in education and research to create scientists and local engineers of international level. Among

the major players in the sector are: Abu Dhabi Future Energy Co. (Masdar) and Enviromena Company.

**ICT sector:** The strategy of the Information and Communication Technology (ICT) sector is focused on developing activities to make Abu Dhabi possess high level technology to enhance the international and regional extension through: Telecommunication services - equipping Abu Dhabi with a high level technological infrastructure; Information Technology Services (ITS) - Establishing Abu Dhabi as a regional centre for IT and a centre for the Arabic Speaking Countries in the region; and Semiconductors: Abu Dhabi is to become a centre of a pioneering technology in development and production. Among the major players in the sector are: Etisalat, Du, and Al Thuraya.

**Mass Media sector:** The strategy of the mass media sector is focused on what is essentially available so as to make Abu Dhabi a leading source of the regional content of the global audience through the following: The motivator of innovation in the various sectors of industry; Establishing a leadership role in the new mass media; and Becoming the first option for business in the region. Among the major players in the sector are Abu Dhabi Media Zone Authority, and Abu Dhabi Media Company.

**Financial Services and Insurance sector:** The strategy of the Financial Services and Insurance is focused on playing its role as a helping factor for the growth of the comprehensive growth of Financial Services in Abu Dhabi and the other targeted sectors. The capital markets in Abu Dhabi aim to develop an advanced stock market in order to make the regional market the best choice for investors through: Extending the stock markets with more advanced products, and Developing the local Bond Market with the lists. Among the major players in the sector are Abu Dhabi Securities Market, Abu Dhabi Securities and Goods Authority, and more than 100 Brokerage Companies.

Finally, the tourism sector is one of the targeted sectors in the Abu Dhabi Plan for Economic Diversification 2030. Abu Dhabi has a systematic approach to developing each targeted sector with specific policies.

#### 5.2.3.4 The expected rate of growth for the targeted sectors

The volume of the expected participation of the targeted sectors in the gross national product is \$12 milliard, and four sectors may get 75 per cent of this growth. Moreover, the most recent sectors, for example, the sectors of Renewable Energy and Civil Aviation, show the highest rates of expected growth. Also, the volume of the double impact of growth throughout the various sectors is expected to reach \$43 milliard and thus raise the share of the targeted sectors to 20 per cent of the total economy.

#### 5.2.3.5 The expectations of non-oil local products

It is expected that the total of non-oil economy will grow at the rate of 8 per cent - 10 per cent of the gross national product of the Emirate during the period 2008- 2012 since the growth of the targeted sectors is expected to be between 14 per cent - 15 per cent during the same period. The targeted sectors plan to finance the necessary expenditure through international and local sources in the form of capital contributions and loans.

#### 5.2.3.6 Tourism as a key strand of Abu Dhabi economy policy

The Emirate has a strong attraction to tourists and visitors due to its possession of large numbers of natural islands and beautiful beaches besides cultural and heritage assets, a proper climate throughout the year and various landscapes., not to mention that it is relatively easy to get to the Emirate. With the growth of this quality and the increase of the ability to accommodate more tourists, the reputation of Abu Dhabi as a tourist destination will be enhanced remarkably.

The sector of tourism has been chosen as one of the targeted sectors for the economic diversification policy in the Emirate because the development of tourist activities connected with recreation and businesses will contribute in diversifying the gross local product and increase employment opportunities. Many of the companies working in this sector are classified among the small and medium sized projects, and this is the category that supports the goal announced by Abu Dhabi, which is represented by varying the base of the business establishments in the Emirate. Moreover, tourism shall contribute in the development of the Emirate revenues of foreign currencies, not to mention the enhancement of Abu Dhabi's reputation internationally.

According to the economic report of Abu Dhabi 2010 issued by the Administration of Studies of the Department of Economic Development, the Emirate has witnessed a leap in tourist activity during 2009, where a great number of tourist projects were announced: The number of hotels and hotel apartment units reached about 100 facilities in 2009 compared with 53 facilities in 2004, with an increase rate of more than 100 per cent within less than 6 years (Abu Dhabi Tourism Authority); the number of guests in hotel facilities witnessed a proportional increase in the period between 2004-2009 from 562–959 guests to 258-1,540 guests with an increase of 60 per cent (Abu Dhabi Tourism Authority); and the total of the formation of fixed capital rises in the activities of hotels and restaurants during the period from 2004- 2009 rose from 3121 million Dhs to 7106 million Dhs with an average annual growth rate of 22.8 per cent (uaestatics).

The strategy of the tourism sector is focused on reliance on cultural assets and tourist products to make Abu Dhabi the sophisticated cultural and recreational destination of businessmen and tourists. Among the goals of the strategy are: to build up awareness and interest in Abu Dhabi; to increase the number of visitors and enhance their experience in Abu Dhabi; to strongly compete in the sector of tourism and develop innovative works and the best recreational and tourist products, and to increase the number of jobs with a focus on building up local competencies.

The most valuable players in the sector are : Abu Dhabi Tourism Authority (ADTA); Abu Dhabi National Exhibition Company (ADNEC); Tourist Development and Investment Company (TDIC); Al Dar Real Estate (Al Dar); Surouh Real Estate.( Surouh); and Many developers and hotel operators.

#### *5.1.2.11. The role of the Federal Government in forming and applying the policies of economic diversification*

The role of the Federal Government in forming and applying the policies of economic diversification is important according to the opinion of the senior civil servant at ADED. The role of the Federal Government in forming and applying the policies of economic diversification is considered essential for achieving economic development at national level. Within the framework of making the UAE among the best countries in the world by 2022,

which coincides with the 50th anniversary of the UAE establishment, the Council of Ministers issued ‘The Emirates Vision’. The vision comprises four main elements which include detailed goals relating to the national identity, economy, education and health.

The ambition of the vision is to establish a competitive economy through achieving economic variation in the country and building up a knowledge economy of high productivity under the leadership of skilful and competent Emiratis distinguished for their knowledge and creation. However, economic diversification in the Emirates is considered the ideal solution to achieve sustainable development and to reduce dependence on oil resources. All this will be done through activating new strategic sectors aiming to go towards industries and services. The most vital sector is the sector of alternative energy, which includes nuclear energy. Included also in the strategy of vision in economic variation is motivating local works and attracting foreign investments.

According to the senior civil servant, the Abu Dhabi government monitors the process of policy application through the establishment of Administrative Units: the government monitors the process of policy application through the Secretariat General of the Executive Council of Abu Dhabi. They are following and monitoring the process of applying the economic vision of 2030 and the five-year plan through communicating with the authority concerned in each sector.

#### *5.1.2.12. The role of the private sector in forming and applying the policies of economic diversification*

According to the senior civil servant interviewed, the role of the private sector lies in forming and applying the policies of economic diversification analyses regarding the new-born private sector in the Emirate of Abu Dhabi and setting a reasonable ratio between the large and small establishments and establishing an appropriate distribution of employment. The ratio between large projects to small ones in the Emirate of Abu Dhabi varies to some extent in comparison with the prevailing ratio in the comparative economies.

There is some weakness in the balance between the economic production of small and successful establishments which is mainly due to the dominance of the oil sector. The contribution to the gross local product is focused to a good extent on the big-sized

establishments, a fact which indicates the possibility of raising the production of small and medium-sized establishments. In most of the Group of the Seven Economies, the small and medium sized companies acquire the biggest share of the GLP in comparison with the share acquired by the big ones.

Having a look at the performance of the non-oil sectors and the extent of their development and contribution in the GDP, we see an increase in the ratio of the non-oil sectors in the GNP of the Emirate of Abu Dhabi from 39.13 per cent in 2008 to 50.62 per cent in 2009. Some commodity activities have registered an increase in their growth rate during 2009 in comparison with 2008 such as the transformational industries and the building and construction sector, which have achieved a growth rate of 4 per cent and 5 per cent respectively. They also achieved an increasing contribution to the GNP in 2009, since they contributed about 7.4 per cent and 10 per cent respectively, even though their performance remained less than in 2008, which registered a growth average of 9 per cent. This was due to the degradation of the performance of the financial institutions, property activities and business services. The service activities registered an increase in their contribution in the GLP in 2009, with a takeover rate amounting to 29.3 per cent in comparison with 2008.

Despite the result of the decline in the oil price, which caused the decline of the contribution of the extractive industries activities, the service activities achieved a satisfactory growth rate, due to the success of the policy of economic variation, adopted by the Abu Dhabi government in addition to the competency of managing the period of financial crisis, and the assistance provided by the Emirati Government to the banks sector in Abu Dhabi, which had a double effect on the rest of the other commodity and service activities.

The most relevant targeted sectors have witnessed an increase in their share in the gross local product. Meanwhile, the relative importance of the activity of the financial institutions and insurance increased in 2009 from 4.5 per cent to 5.8 per cent, whereas the activity of property and business services rated third at the level of the relative importance at a rate of 8.4 per cent in 2009.

The following table (Table 6) refers to the rise of the volume of the non-oil commodity exports from 3.186 million Dhs in 2005 to 11.610 million Dhs in 2010.

**Table 6 Value of Commodity Exports in Abu Dhabi**

Description	2005	2006	2007	2008	2009	
Value of the commodity exports( in US \$ billion)						
Crude oil	147,840.0	154,563.1	194,047.0	306,967.4	164,077.2	
Gas Liquidation	20,184.0	23,420.0	22,575.6	16,771.2	8,911.0	
Petroleum products (Reweis , Um Al Nar )	19,961.0	30,143.6	35,463.1	14,244.2	15,904.4	
Non-oil commodity exports	3,186.4	4,586.6	5,805.3	6,252.0	9,500.8	
Re-Exporting	7,921.0	4,101.4	5,618.3	6,242.0	8,694.2	
Value of commodity exports without re-exporting	191,171.4	212,713.3	257,891.0	344,234.8	198,393.4	
Total of commodity exports value	199,092.4	216,814	263,509.3	350,476.8	207,087.6	

Source : Statistics Centre – Abu Dhabi.

#### 5.2.4 Abu Dhabi Tourism Authority (ADTA)

According to the Abu Dhabi Tourism Authority (ADTA) (senior civil servant, 2011), the ADTA was created in 2004 by the government of Abu Dhabi to handle the tourism sector in the Emirates and to propagate the ADTA policy. Its aim is to grow the tourism sector to levels that would deliver the diversification goals of the Government. These goals are aligned with the Economic Vision 2030 and supported through detailed urban plan frameworks and policies. In order to deliver these goals, the baseline performance of the sector and its current capabilities/infrastructure was considered in crafting long term targets for the sector. The potential of the tourism sector is immense and its full potential is yet to be attained. The ADTA has brought about much needed stability in diversity to the multibillion sectors due to its efficiency and its goal oriented progress. Some of the examples of how ADTA has turned



things around are: advertisements have been greatly invested in and the beauty of the scenery in Abu Dhabi has become renowned all over the globe, tourist security has been greatly increased, infrastructure has been increased and enhanced, marking Abu Dhabi as a techno-savvy destination. These development strategies have enabled the tourism sector to take a major step on the road to achieving its full potential.

He adds that the objectives and aims of the policy are to build a sustainable tourist destination by increasing the popularity of Abu Dhabi that will attract niche segments of specific profiles of visitors from targeted source markets such as America, Britain and Africa. The policy is also aimed at achieving the three significantly important outcomes set for the tourism sector namely; awareness of Abu Dhabi as an international tourism destination, which replaces the initial perceived notion that Abu Dhabi has nothing to offer when it comes to tourism; declaring Abu Dhabi as a high-end and exclusive destination for target segments of the high and mighty calibre of people, which brings about significant economic benefits from tourism, so benefiting the country and its people by attaining sufficient revenue for the development of infrastructure in the country (Sören, 2008, p. 30-32). This would lead to an overall improvement in the living standards of the citizens. Thirdly is the achievement of the aspirations dictated from the tourism and policy agenda such as the establishment of close diplomatic ties with foreign and powerful nations which would result in the state of Abu Dhabi benefiting from these relationships due to sharing of ideas in different economic sectors, thereby improving the country's stature and rank as a powerful and rich state (Sören, 2008, p. 32-33).

According to the senior civil servant, the ADTA cascaded the aspirations in the policy agenda into a set of service delivery priorities. These have measurable and quantifiable targets which reduced the time frame set for achieving the target goals and made it easier to achieve their objectives since they were broken down to easily workable units of development. The list of priorities was made clear and fixed time limits were defined, increasing the efficiency of the labour skillset put in place to achieve (Sören, 2008, p. 33-38). Some of the priorities that rank first are; to develop and administer a robust and transparent regulatory framework for tourism; to ensure that visitor experiences are delivered with consistent quality, to optimize visitor access to and within Abu Dhabi, to foster a vibrant tourism sector and a sustainable destination in partnership with stakeholders; to foster leisure and business tourism

attractions and events which cause and increase diversity in the reasons why tourists visit Abu Dhabi; to market Abu Dhabi as a visitor destination; to generate skilled tourism employment with high levels of Emirati participation (Sören, 2008, pp. 42-45).

The initiatives identified for every priority help us to execute the tactical strategies and projects for the organisation. In the last few years, the ADTA has played a very active role in setting up the tourism infrastructure, such as initiating regulatory developments which ban or limit any act by the public which may hinder or reduce the visitors' travelling activities. This has led the government to take measures such as licensing citizens who take part in acts that may raise foreigners' eyebrows, such as tree logging, which is one of the sensitive areas in most developed states, and which is not allowed in many countries. A further measure has been classification and front line staffing, introduced to give foreigners a very good time and guarantee that no complaint is aired and also to guarantee that the state's image is portrayed in the most positive of ways (Sören, 2008, p. 47-53). Additionally, developed also is a tourism brand which enhances foreigners' loyalty to Abu Dhabi as tourist destination. Collateral control agencies deal with any significant occurrence that may slow tourism in any manner possible, a setup office network, exhibition attendance has been greatly advised by staff working with tourists which has led to the tourists learning more about the culture and the traditions of the locals and the history of Abu Dhabi as a city. The ADTA also initiated the development of hard products such as hotels, attractions and soft products such as events, art shows among others. The ADTA will continue to foster the above activities while closing the gap on the expected targets against present achievement and performance of the tourism sector and thus enhance growth of the sector in all possible ways (Sören, 2008, p. 55-60).

Currently the ADTA planning horizon is a five-year rolling policy which is consistent with the direction and guidance provided to us by the General Secretariat of the Executive Council according to the ADTA senior civil servant. This synchrony of work objectives has made sure that the government puts policies in place which not only lead to the development of the state but also relate to the objectives and ideologies brought to play by the ADTA. These have led to immense overall growth of the economy, since the government goals, which obviously require financial aid, are provided by the tourism sector. ADTA will embark on a longer-term tourism sector master plan with a longer-term horizon to address a longer-term view of the government and also the longer-term infrastructure plans laid out in the UPC

2030 plans for Abu Dhabi, Al Gharbia and the Eastern Region emirates (Sören, 2008, p. 64-68).

The main motivation factor is the Government's aspiration and commitment to drive diversification of the economy through this sector, according to the senior civil servant. Several factors were considered prior to arriving at the conclusion that tourism could help the Government achieve its diversification goals. For example, the location of Abu Dhabi was seen as an ideal central geographical area for the convergence of different cultures and races; weather patterns were considered since they are ideal for tourists because of the calm and sunny pattern that they exhibit; abundant natural assets such as the water berths, which create a treat to the eye as they are breath taking, the natural hospitality of the people, political stability and more (Sören, 2008, p. 71-75).

The initial tourism policy, which was developed in 2004, involved all the key tourism players both in the public and private sectors, involving many influential players in the tourism sector such as hotel operators, tour operators, travel agents, public sector organisations such as the municipality, DED etc., according to the senior civil servant. Implementing the policy has brought all these different players together and this has contributed to them playing an active role in the development of the sector as they are made aware that the success of the tourism sector directly improves their lives in a major invaluable way (Sören, 2008, p. 84-87). This enables them to take individual affirmative steps to propagate the already existent development steps put in place by the ADTA. Some of the organisations that have brought these players together include; UPC, DOT, Etihad, ADM, AAM, WRDC. The senior manager has, however, confirmed that the tourism effort at this time is very Emirate based although efforts have begun at the federal level with the creation of the National Council for tourism and antiquities (Sören, 2008, p. 89-94).

In the senior civil servant's view, no direct correlation to the competitiveness index has been prepared at this stage in time since the destination is still working on the different aspects of competitiveness in relation to all the available factors affecting tourism in Abu Dhabi such as the change in seasons at different times of the year which affects tourists' influx to the state. The ADTA uses a multidimensional approach to policy development which includes benchmarking for other destinations. This creates the notion that Abu Dhabi is the best as the act of setting standards in tourism displays dominance in the sector, true to the

adage “the first is always the best” and also the basis it has set has been greatly enhanced with how it has managed to work closely with foreign organisations which share in its vision to become the greatest tourist destination in the world. Such organisations include Singapore Tourism Board (MOU signed with them for tourism cooperation) it also employs the best-in-class consultants to support policy development. This multidimensional approach to policy development has greatly improved Abu Dhabi’s dominance and attractiveness in the tourism sector by improving its outlook on what measures to put in place as it shares ideas with better established nations in this sector.

### **ADTA Promotion Policy**

The ADTA has established international offices in UK, Germany, France, China, Italy and Australia to ensure the achievement of its set target of 2.7 million hotel guests by 2012. The ADTA is involved in developing and executing marketing and promotional plans, promotions jointly with partners regionally and internationally, brand promotion distinctly at customer and trade fairs internationally and continues to conduct workshops and road shows as well at the international level. In order to ensure that visitors to Abu Dhabi long for exclusivity, authenticity and quality, the brand promotional activities by the ADTA carry an intrinsic ‘Travellers Welcome’ promise.

In a short span of time, the ADTA has developed into a leading initiator and award-winning organization, by bagging the ‘Best Tourism Board’ title in 2009 in the World Travel Awards. With the continuing efforts from the ADTA, the emirate of Abu Dhabi has developed from 960,000 hotel guests in 2004 to more than 1.5 million hotel guests annually because of its increased attractions and wide range of accommodation facilities which saw the leading travel guides such as Lonely Planet and Frommer’s recommending the emirate of Abu Dhabi in 2010 as one of the top ten destinations to visit.

To ensure attraction of more and more visitors and create awareness about the destination, the ADTA continues to organize and conduct a variety of annual events such as the Al Ain Aerobatics Show; the European Tour PGA with the support of Abu Dhabi Golf Championship, Gourmet Abu Dhabi, Abu Dhabi International Triathlon, Abu Dhabi Desert Challenge, Summer in Abu Dhabi, Abu Dhabi Adventure Challenge and Rally Abu Dhabi 2010, which is a World Rally Championship candidate event. The Abu Dhabi Yacht Show

and the Abu Dhabi Red Bull Air Race are also conducted with the Abu Dhabi Tourism Authority being the main sponsor. According to a hotelier in Abu Dhabi the most government policy measure that helped to grow the tourism sector in general is ‘‘ADTA Participation in International Trade Shows/ International Events/ Worldwide promotion’’( Abu Dhabi Hotelier 2, Interview). Table 7 shows Abu Dhabi targets figure until 2015 to develop the tourism sector by purpose and so far it has managed to deliver according to the plan.

**Table 7 ADTA Tourism Targets - 2015**

Purpose	2003	2015
Leisure	167,000 (20%)	1,215,000 (41%)
MICE (Meetings, Incentives, Conferences, and Exhibitions)	40,000 (5%)	236,000 (8%)
Business	627,000 (75%)	1,554,000 (51%)
Total	834,000 (100%)	3,005,000 (100%)

Source: Abu Dhabi Tourism Authority

### 5.2.5 Policies to make Abu Dhabi a Tourist Destination

According to an interview with an AD hotelier ‘‘Any one of the policy measure alone cannot push the growth to correct direction, It’s a bag of policies which help to grow the tourism sector in overall, be it heavy marketing all over the world, connectivity to all highest no. of destination by the airlines, safe and cosmopolitan environment without losing the local values & culture, most advanced infrastructure and recreational options available to all age levels’’ ( Abu Dhabi Hotelier 3, Interview)

The ADTA’s plan for the sector is to create the region’s most distinctive and all-inclusive set of tourism facilities. The development would include a large and diverse selection of luxury hotels. There would be easy access to all business and convention services in the Emirate in addition to displaying its uniqueness in heritage. Within the development plans is the continual sophistication of the world-class airport and airline of Abu Dhabi. In addition, there are the beautiful beaches, desert serenity, as well as the warm hospitality of the

Emiratis of Abu Dhabi and its Arabian Peninsula that would benefit from additional development and promotion.

In 2007, a branding campaign began in Abu Dhabi to protect its national identity in the midst of increasing competition in the global tourism market (OBAD, 2011). The branding campaign encompasses the definition of the spirit and essence of Abu Dhabi. Moreover, it celebrates its uniqueness. The brand connects the people of Abu Dhabi with their culture and enables them to claim an identity that lets them focus on their strengths in promoting their destination. Thus, when visitors experience Abu Dhabi, they immediately interact with the distinctiveness of the people. This is a boon to the visitor experience and prompts them to stay longer or plan future visits. For the tourism authority and leadership, the brand provides the guidance needed in shaping the future of Abu Dhabi's tourism sector, which concerns the delivery of a consistent and high quality experience for visitors (OBAD, 2011).

The civil servant at ADTA said that the policy framework of ADTA outlines important roles and responsibilities for different government bodies. Each of the departments contributes to the social and economic development of Abu Dhabi in a different way. Here are the priorities of ADTA. The authority aims to regulate the tourism sector and works with all stakeholders in enhancing the overall quality standards of the sector. The authority also improves and transforms the improvements into standards of visitor experiences that are based in the uniqueness of the culture, sophistication, and expansiveness of what Abu Dhabi offers to visitors. Its main concerns are the improvement of transport access within Abu Dhabi. Overall, it promotes the emirate internationally as a destination for visitors and skilled expatriates so that its Emirati population learns more of international best practices and are equipped to sustain the sector in the future (Tourism Intelligence, n. d.).

Besides the above priorities, the authority is working on streamlining its corporate structure and having a well-documented process that incorporates latest technological advances. First, the authority has an online system for all licensing procedures and for all conferences and exhibition facilities. This allows the processes of organizing, booking, and setting up to be seamless, efficient, and fast (UAE Interact, 2011b). Additional efficacy of the operation of the authority would come from its continual strategy of recruiting and retaining

skilled employees. It also empowers employees to have a high professional and customer-focused attitude. The above priorities and initiatives eventually contribute to the betterment of local community values of productivity and quality. This goes further to cement the gains made by Abu Dhabi in its economic diversification programme.

As one of the hoteliers pointed out: “it’s a matter of time before Abu Dhabi become a capital to the cultural and museums tourism in the Middle East” (Abu Dhabi Hotelier 6, Interview).

The emirate is still building excellent attractions and connecting them to one another and to its airport to create a vibrant ecosystem of the businesses involved. The result is a growing culture and leisure provision that caters to the growing number of tourists who easily shift from business to leisure and back. Dubai is a bigger travel spot in the Middle East than Abu Dhabi. Moreover, the reputation of Abu Dhabi is that it is less ‘hip’ compared to Dubai. Abu Dhabi relies more on corporate-sponsored travellers visiting for business purposes. Nevertheless, the emirate continues to hold to its expansion plans of attracting more pure leisure travellers. It set up a tourism sector offensive initiative that will ultimately lure 2.7 million visitors annually by 2012. Its increased differentiation as a destination for sophistication and as a capital of modern culture in the region will lead it towards the 2012 target.

### **Example (1) of Tourism Infrastructure Policy**

Maintenance of its five-star traveller’s destination badge has forced Abu Dhabi to continue enticing cultural brand names for its new district built in Saadiyat Island (Townsend, 2008). The district is an island makeover project that is under the stewardship of ADTA. It is set for completion in 2018. On completion, it will host 29 hotels. The island would be an attraction to 1.5 million annual visitors. Its development plan consists of the 670-acre cultural district. The district will have the Guggenheim Abu Dhabi and a branch of the French Louvre museum. Another feature would be a maritime museum that has been scheduled for completion in early 2014 and a performance arts centre that will complete the cultural

experience offerings of the island. Another attraction to the island would be the nine miles of beach, three marinas, and two international championship golf courses that will be most attractive to leisure tourists keen on sampling the best facilities in the world (AME Info, 2008).

As another hotelier pointed out, " we are with Abu Dhabi effort, ambition and heavy spending to become a regional centre for museums and eco-tourism" (Abu Dhabi Hotelier 8, Interview). Other than the island project on Saadiyat, the Abu Dhabi Airport Company also has airport developments mentioned earlier. The company came up with a \$299 million terminal addition to the main airport of Abu Dhabi that will allow the airport capacity to increase from handling 7 million to 12 million annual visitors. The sole beneficiary of the new terminal would be the national airline, Etihad Airways. Exclusive use of the terminal will allow the airline to expand its capacity and realize a 30 per cent growth annually. The airline serves an important role of escalating the status of the national airport into a travel hub. In this regard, Etihad Airways is looking at the expansion of its network and an increase in the number of scheduled flights to major cities within its network, according to a senior manager at Etihad Airways. Since its creation in 2003, Etihad has gone on to become the fastest growing airline in the history of commercial aviation. Seven years on, having started from nothing, it now operates a fleet of 51 passenger aircraft to 66 destinations in 44 countries. The network schedule now stands at more than 1,000 flights each week, all of which originate or terminate in Abu Dhabi. The airline's loyalty program, Etihad Guest, now boasts more than one million members. In addition, Etihad Crystal Cargo operates six dedicated freighter aircraft to 24 destinations (11 of which the passenger network does not extend to). In 2010, Etihad generated revenues of AED 10.9 billion and carried 7.1 million passengers and 263,000 tonnes of cargo. Etihad's workforce has grown to just under 8,000 people from more than 121 nationalities. Around 7,000 of these employees are based in the UAE.

According to the senior manager at Etihad, relations between the airline and the Abu Dhabi City are as follows "The growth of our airline and of our tourism industry is complementary, the increased attractions in the UAE help fill our planes with people while our increased seats into the country help fill those hotels and attractions."

Throughout the world, the sophistication of the tourist market has led to an increase in concerns with the use of good tourism practices. Visitors are demanding that their destinations



should not be using practices that are degrading to the environment of operation. Hence, more tourists from developed countries that have public education initiatives on good environmental practices prefer to visit environmentally sustainable destinations. Companies in the tourism industry identifying themselves with good environmental practices are able to sell their brands to this niche tourist market. In capitalizing on the new tourism niche, Abu Dhabi extended its quest for sophistication by organizing the World Green Tourism Abu Dhabi conference. This was the first conference and exhibition to be held for the advocacy of a sustainable tourism sector (Gumbook, 2011). Other than the conference, the emirate continues to influence the perception of visitors about its environmentally friendly practices through the development of the Desert Islands project. This project covers eight islands that are close to the Bani-Yas nature reserve. It is an eco-tourism facility. When complete, it will have a wildlife component. In addition, it will host different programs that protect the marine life of turtles and dugongs (Heyer, 2009).

The small and medium sector constitutes 85 per cent of the total business establishments in the UAE. To ensure that it captures a greater share of this economic potential, Abu Dhabi offers no minimum capital requirement as a condition for the award of licenses to SMEs. The lack of capital restrictions allows easy setup of these business establishments and is essential for indigenous economic growth of a country (Dun & Bradstreet Inc, 2009). SMEs mainly contribute essential linkages that improve the overall business environment with services and products that would otherwise not make economic sense for a large corporation.

The ADTA launched an education initiative in 2009 for improving the perception and uptake of education courses relevant to the tourism industry among Emiratis. The program started as a pilot. It covers overseas school trips, enrichment of personal development programmes, and corporate training (Trade Arabia, 2009). Other than improving the education orientation of Abu Dhabi towards tourism, the programme also makes popular educational tourism. Educational tourism is another emerging niche of the tourism market. In addition, an early influence of the perceptions of visitors through educational trips influences their decisions on revisiting a destination (Trade Arabia, 2009).

### **Example (2) of Tourism Infrastructure Policy & State- Led Tourism Development Policy**

## **Etihad Airways**

According to the Etihad Airways (Etihad) (senior Manager interview, 2011), the airline was set up by Royal (Amiri) Decree in July 2003 and commenced commercial operations in November 2003 with an initial paid-up capital of AED500 million. Establishment of Etihad is one of the major steps made to support the Emirate's visions of improving its economy and society through tourism promotion and market integration. Etihad became the national airline of the United Arab Emirates (UAE) whose name, Etihad, means unity or union. Etihad Airways is committed to the brand they pose - "Abu Dhabi to the World" - to express promotion of Abu Dhabi tourism to the world. Etihad is now one of the leading airlines in the Middle East, even though they started less than a decade ago. This can be attributed to successful management of the business, as well as the presence of opportunities in Abu Dhabi itself.

In addition to the company's presence at Abu Dhabi International Airport and its global headquarters located in Khalifa City, Etihad operates properties across the United Arab Emirates, according to the senior manager in Etihad Airways. They also offer residential accommodation to more than 4,000 employees in 16 locations. And since its creation in 2003, Etihad has gone on to become the fastest growing airline in commercial aviation history. Having started from nothing, Etihad now operates a fleet of 51 passenger aircraft to 66 destinations in 44 countries. The network schedule now stands at more than 1,000 flights each week, all of which originate or terminate in Abu Dhabi. The airline's loyalty program, Etihad Guest, now boasts more than one million members. In addition, Etihad Crystal Cargo operates six dedicated freighter aircraft to 24 destinations (11 of which the passenger network does not extend to). In 2010, Etihad generated revenues of AED 10.9 billion and carried 7.1 million passengers and 263,000 tons of cargo. Etihad's workforce has grown to just under 8,000 people from more than 121 nationalities. Around 7,000 of these employees are based in the UAE.

The senior manager added that the figures above show that Etihad has become one of the most active and successful airlines in Abu Dhabi and that its passion to strive for business strength is also a translation of their commitment in achieving Abu Dhabi's economic and tourism visions. Abu Dhabi tourism is envisioning to attract 7.9 million tourists by 2030,

closer to the 10million annual tourists of its cousin Dubai. In order to accommodate such a number, it is imperative for the government to stipulate the addition and improvement of some infrastructures such as hotels and roads. With Etihad being the fastest growing airline, it contributes to transportation of tourists and cargos to and from other countries. In addition, Etihad not only transports but also promises service satisfaction to tourists. Aside from boasting 1 million Etihad Guest members, Etihad is already known to be the leading airline in the Middle East in terms of management and quality of service. In fact, Etihad won the best first class service (Etihad Diamond First Class) and in-flight entertainment with customers allowed to enjoy more than 600 hours of computer, television shows, movies and games. Also, in terms of Abu Dhabi's vision of reducing unemployment, Etihad employs and improves the lives of its employees with those residential accommodations. The company also serves as a catalyst for its non-employees to have an improved livelihood, though implicitly only as tourism growth is often linked with job and livelihood opportunities for the local population.

### **Etihad and its Role in Developing Tourism**

In the opinion of the senior manager, the Economic Vision 2030 Plan of Abu Dhabi is the benchmark of strategies that private and public sectors should observe in order to contribute to the vision of Abu Dhabi. It serves as the most important policy measure which concentrates on the holistic development of Abu Dhabi. Tourism is treated as one of the most important engines for Abu Dhabi's economic growth and diversification. That is why the Emirati government is focused on growing tourism and promoting Abu Dhabi as a tourist destination. Etihad adheres to the visions of the 2030 Plan since it will bring benefits to the company as well; "Abu Dhabi government efforts in growing tourism will mean more potential customers for the airline as well as income for the country and livelihood for the locals". The senior manager added that the relation is a mutual relationship between government, Etihad and other tourism related businesses. Etihad Airways sees these opportunities so they commit to strengthening the tourism sector. For example, the company

is taking advantage of the increasing attention to the large number of cultural and recreational attractions of the UAE, particularly Abu Dhabi. There are increasing numbers of attractions and activities that can be done in Abu Dhabi as well as numbers of hotels and grandiose infrastructures built. These increases translate into possible income for Etihad as benefits derived by Etihad Airways and the tourism industry are mutual – the increased attractions in the UAE help fill Etihad planes with people while Etihad’s increased seat accommodation helps fill those hotels and attractions.

Etihad, being the flag carrier of the Emirate, perseveres in becoming a role model in doing business in UAE. As a result of strong support from the government and commitment to providing excellent airline service, Etihad receives strong patronage from government travellers who can fly on business without any official, mandated requirement to be aboard the flights. This is another case wherein Etihad exhibits playing a role not only in providing airline service but also in taking part in the Abu Dhabi 2030 vision of grooming Abu Dhabi into a globally integrated environment. International affairs play a role in diplomatic relationships which, in turn, have also something to contribute to tourism promotions in other countries. But Etihad does not receive all government favours as there are no other specific business incentives that Etihad receives from government departments.

Another symbol of Etihad’s commitment to Abu Dhabi 2030 visions is that Etihad participates in the Abu Dhabi Awards for Excellence Program (ADAEP). Another reason why Etihad is very committed to the vision is because its Chairman of the Executive Committee, His Excellency Mubarak Al Muhairi, serves also as the Executive Director of ADTA (Abu Dhabi Tourism Authority) of the government. This government authority is the governing tourism authority of Abu Dhabi. However, Etihad as a company does not directly involve itself in setting public tourism policies.

The UAE Government fully understands the centrality of tourism to the future of the national economy, according to the senior manager. The UAE’s suitability for tourism is based on its natural geography, which allows it to deal with large traffic flows, and on the emergence of economic powers to its immediate east. The Government has harnessed both the geography and the shifting economic circumstances in a very effective tourism growth policy. The UAE government shares the same view that tourism should be accompanied by

developing tourist attractions and infrastructures, improving urban management and fighting crime rates (as stated in the 2030 Plan) because without this, tourists will not be attracted or first-time tourists will not return or make recommendations. There are so many products of tourism but the product Etihad contributes is mainly promotion. A tourist boarding an Etihad plane from the United States to Europe can be a target tourist for Abu Dhabi. Etihad is in a perfect position for promoting Abu Dhabi tourism.

In the opinion of the senior manager, Etihad Airways is successful in taking part in Abu Dhabi's vision in its own ways. Through excellent transport and airline delivery service, dealing with increasing numbers, government officials offer travel assistance, tour packages and most importantly Abu Dhabi tourism promotion across the world. Etihad can be considered as one of Abu Dhabi's key players in tourism development.

#### 5.2.6 Sustainability Policy - Abu Dhabi Tourism Sector

According to the Abu Dhabi Tourism Authority, they developed a Tourism Satellite Account (TSA), which is an international standard to measure how much the tourism sector contributes to the economy of Abu Dhabi. The TSA allows the ADTA to expand its analysis of the impact of tourism as an economic diversification strategy to the national economy. The TSA measures the industry's supply chain, income distribution and their effects, as well as the construction of infrastructure that is driven by tourism. The TSA is essentially a yardstick that gauges the economic drive of tourism. To make the measures of TSA reliable under different circumstances, it uses scientific methodologies. The TSA and, generally, the ability to measure the importance of tourism to the economy, allows the ADTA to make balanced and informed decisions that influence the development of its tour and travel industry.

As the world becomes conscious of climate change and its negative effects, many industries are evaluating their orientation towards the use of renewable energy. Moreover, as a country, the economic diversification program that incorporates the use of renewable energy ensures a sustainable future. Abu Dhabi continues to address climate change and environmental degradation concerns. It has a target of generating 7 per cent of its total energy from renewable energy sources (Lancaster, 2011). The economic vision of Abu Dhabi also has provisions for the use of renewable energy. Within the vision is the development of the world's first carbon neutral and zero-waste city, which will be the home headquarters of the

*International Renewable Energy Agency (IRENA)*. Apart from attracting renewable energy enthusiasts, the city will also attract companies that are keen to reduce their carbon footprints. Moreover, it will be a main attraction for renewable energy themed events and conferences. When complete, the city will house 40,000 residents and 1,500 green energy firms.

ADTA fulfils its mandate of developing the tourism sector by holding events to target new and existing tourist markets. Such promotions show the significance of Abu Dhabi's change from an add-on destination previously to a stand-alone destination. The first half of 2011 saw 58,724 hotel-guests arrive to Abu Dhabi from India. This was a 25 per cent jump from the same period in 2010. This increase is attributable to a promotional event that Abu Dhabi held in Mumbai, India in the beginning of 2011 (MENAFN, 2011). Chandran (2009) shows events and exhibitions as important opportunities. They positively influence the stability and sustainability of a state's tourism sector. They lead to the development of better infrastructure and a business travel sector that matches excellent standards.

Abu Dhabi's long-term strategy is to develop projects blending the harmony of its landscapes, culture, and nature. In this regard, the emirate is in competition with others in the international tourism stage. However, it is able to differentiate itself because it has an Arabic mystique and ambience in its offerings, which supplement its five-star facilities that are easily replicable (Al Majaida, 2008).

Any tourism sector relies on the support of appropriate institutional structures to maintain its stability and prosperity. Institutional support is most beneficial when it enjoys the commitment of the highest level of governance. The presence of a central authority that manages the development and sustenance affairs of the tourism sector is a prerequisite for further development of the tourism sector of Abu Dhabi. A single organization should be handling promotions and developments of infrastructure, policy, and the market facilities. Such an organization would embrace managerial and development roles within a sizable budget that allows it to achieve tangible objectives (Jenkins, 1991). Abu Dhabi used to have two private companies handling tourism affairs. The *Abu Dhabi National Hotels Company* (ADNHC) was established in 1978 and served as one of the sector's authorities. The *National Corporation for Tourism and Hotels* (NCTH), established in 1996, was the other authority in the sector (Sharpley, 2002). However, the dichotomy was corrected with the establishment of

the Abu Dhabi Tourism Authority, which became a statutory body in 2004. Currently, Abu Dhabi enjoys the economies of scale of having a single authority to deal with all issues concerning its tourism sector.

#### 5.2.7 Operationalizing Tourism in Abu Dhabi

Just like its counterparts, Abu Dhabi offers a favourable climate characterized by winter sun that attracts visitors from temperate European regions. It offers high quality accommodation facilities within a safe leisure and business environment. Abu Dhabi city's infrastructure is very modern and greatly supports the tourism industry. Attraction sites are located both along the coastline and within the mainland of the emirate. The emirate is home to two natural oases, the Al Ain and Liwa. The two oases are desert-gateway destinations which offer the opportunities of experiencing the traditional life and culture of Abu Dhabi. Al Ain is the larger and more established oasis of the two. It hosts the Hili Fun City and has a museum. It is accessible by road and air. Besides the oases, Abu Dhabi also has 200 islands that combine to form a great potential tourist attraction. One of the islands, Dalma, was the centre of the historic pearling industry, which now acts as a heritage attraction. Another notable island is the Sir Ban Yas that boasts an abundance of flora and fauna.

Apart from the natural features, Abu Dhabi also has over 16,000 square meters of exhibition space that is sub-divisible into conference areas. It hosts a world-class conference facility considered huge by international standards, the Abu Dhabi International Exhibition Centre (AIDEC). The facility is a major attraction for conference tourism. In the Sir Bani Yas Island, the emirate hosts the 64-room Desert Islands Resort & Spa Hotel, which is also a royal nature reserve. It offers visitors a multi-experiential destination that increases the uniqueness and sophistication of Abu Dhabi. The emirate is home to the five-star Qasr Al Sarab, also known as Mirage Place, which is located inside the desert and boasts a great retreat centre surrounded by sand dunes. They give visitors a complex desert experience combined with the amenities that the Mirage Place offers (AME Info, 2008).

The sophistication of Abu Dhabi is especially appealing to high-spending tourists and business travellers. The emirate hosts world famous sports and art events that make it top-notch at regional and international tour markets (UAE Interact, 2011). First, the emirate hosts a \$40 billion Formula 1 racetrack on Yas Island that is, by itself, a sophisticated attraction for

enthusiasts and great admirers of Formula 1 (Townsend, 2008). Visitors who are seeking a high-speed thrill get a chance of experiencing the racetrack when there are no major events. In addition to the racetrack, the Yas Island has a five-star hotel called the Yas Hotel, which offers a serene indoor infinity pool. Moreover, it is the only hotel in the world built halfway on land and halfway on the sea. More intriguing is that the hotel rests over the Formula 1 racetrack (Formula 1, 2009). Still concentrating on the attractions of Formula 1, the Yas Island has the world biggest indoor theme park. The theme park for Formula 1 features more than 20 rides, including the Formula Rossa. The Formula Rossa is the fastest of all roller coasters on the planet (ADTA, 2010). In 2009, Yas Island attracted very many first-time visitors when it hosted the finale of the Formula 1 Grand Prix season (AME Info, 2008). Another sport attraction on the island is the high-end Yas Links Golf Course set against the Arabian Gulf expansive view. Visitors and member users of the Yas Links Golf course are able to enjoy the many restaurants that the island hosts. Moreover, the Yas Island also serves as a business meeting-place when the concept of business meets pleasure is taken literally. It has dedicated conference and meeting room facilities for holding corporate and formal events (ADTA, 2010).

The strong financial backing brought about by the oil revenues allows Abu Dhabi to attract some of the best corporations in the world to build its main attractions and facilitate growth of the tourism sector. Investors understand that projects involving government contracts run a low risk of abandonment due to a lack of funds, however huge the project appears to be. For example, there is the Midfield Terminal Complex, which is a 45-gate facility being developed at the Abu Dhabi airport. It will cover 6.42 million square feet and allow the airport to handle a greater number of international passengers. The project is set for completion in 2015. It would not be affordable if Abu Dhabi did not have the oil revenues to back it (Hughes, 2010).

Developments with massive budgetary repercussions will always incur financing challenges. This arises because both investors and developers need appropriate laws that attract them to a particular destination. A remedy to such concerns is the Shari'ah-based financing laws that offer defence against common economic recessions that increase the cost of financing. The model of using Shari'ah laws in finance is a great attraction for investors and developers (Heyer, 2009). Another attraction of investment into the Abu Dhabi tourism



sector is the high room rate that makes returns on investments faster for investors. In the first quarter of 2008, the average room rate was \$252 and the occupancy rate was 86 per cent. Another factor that attracts investments in the sector is the international airport that promotes hotel occupancies by making them accessible to international visitors (Townsend, 2008). Abu Dhabi International Airport reports show a rapid increase in passenger movements in Abu Dhabi from 3.1 million on 1998 to a 11 million on 2010 (see Table 8)

**Table 8 Passenger Movements at Abu Dhabi International Airport, 1998-2010**

Passenger movements in millions			
1998	3,1	2004	5,4
1999	3,5	2005	6,3
2000	3,7	2006	7,0
2001	3,6	2007	9,0
2002	4,0	2008	9,0
2003	5,2	2009	9,7
-	-	2010	11,0

Source: *Abu Dhabi International Airport reports*

### 5.2.8 Abu Dhabi Government Policy towards Tourism

Abu Dhabi has a huge supply of quality rooms. The emirate positions its hotels and other tourism facilities in the international market as business and leisure locations. This way, Abu Dhabi exploits the conference and exhibition market that has a real potential of increasing occupancy in its hotels and resorts. The strategy to focus on business and leisure travels enables the emirate to keep on developing new tourism facilities as it continues to maintain its status as a business destination (Sharpley, 2002). ADTA focuses on five-star travellers. This segment of tourists spends up to ten times what regular tourists spend (Townsend, 2008).

The emirate is building a policy that would attract 3 million visitors by the year 2015 (ADTA, 2011). The policy would see it become the business and relaxation gateway of the world. Its Abu Dhabi Tourism Authority (ADTA) delivers and maintains a high quality of travel, accommodation, and tourist attractions. Moreover, the authority offers business

facilities as the main attraction of corporate tourists and this helps the tourism sector in moving towards its vision of being an exclusive high-end tourist destination (GSEC, 2011).

According to the senior civil servant at ADTA, another role of the ADTA is to coordinate government activities and functions dealing with the development and implementation of tourism sector licensing and classification. In addition, it handles visitor service programs and advocates for cooperation with other departments and agencies so that the whole sector meets the needs of travellers. ADTA also conducts comprehensive marketing advocacy to potential tourists and tour market partners. The marketing efforts happen both locally and internationally. The ADTA is responsible for tourism-sector policy development and also researches and monitors the influence of policy on the tourism sector. The authority relies on its extensive international representation network, which is a comprehensive promotion tactic for the competitive sector. Lastly, the authority executes the governance mandate assigned to it by the government of Abu Dhabi. Consequently, it executes its operations through its assessable corporate performance process.

The government of Abu Dhabi has a particular condition for foreign architects who are contracted on projects in Abu Dhabi. It requires them to have physical offices in the emirate and this improves the relationships between the client and the contractor. As a strategy, it ensures that the economic rents that accrue from the expenditures of the contracted party substantially remain in Abu Dhabi (Hughes, 2010). Presently, the emirate is home to U.S.-based hotel chains that are leveraging their global experience to step up the efforts of the Abu Dhabi tourism sector and meet its goals. For example, the Hilton Corporation and the Marriot are in different stages of increasing their Middle East portfolios. They are undoubtedly going to include Abu Dhabi in their new developments. The Marriot's ambitious plan built 64 new hotels in the region, which would have translated to an increase in its total room capacity to 19,482 in 2010 (Townsend, 2008). Its compatriot, the Hilton Corporation, is signing additional management agreements that are part of its ambitions of scaling up its management rights in the region. A large majority of the hotels owned and managed by the multinational corporations will be located in Abu Dhabi because of its lucrative rate of return on investment (Townsend, 2008).

“In Abu Dhabi the tourism sector is largely driven by Government Business Enterprises such as ADTA, TDIC, Etihad, Aldar and various others”, (Abu Dhabi Etihad Airline, Interview). As one of the Abu Dhabi Government’s initiative, the Mubadala Development Company was launched in 2002 by the ruler of Abu Dhabi with the mandate of undertaking development projects in the emirate as a private entity. The company is wholly owned by the government. It operates as an investment firm. It invests the government's energy-sector wealth into other sectors of the economy. It has a diverse interest in local, regional, and international investments. One of its investments is a 5 per cent stake in the Italian luxury car manufacturer Ferrari. The company combines its diverse and unrelated investments in creative ways to ensure that they result in growth in the service sector in Abu Dhabi. The Mubadal-affiliated Aldar Properties has the rights to create the world’s first Ferrari theme park, Ferrariland. Using its position as a shareholder in Ferrari, Mubadala lobbied for the privilege of joining the Formula 1 racing circuit. The combination of the two investments led the company to organize a grand prix in the emirate and create a name in the international sports tourist market as a destination for Ferrari and Formula 1. The Formula 1 is a motorsports event that serves as a main attraction to five-star travellers. Since 2001 until 2010 the number of hotels and rooms, and the occupancy rate show increases according to Table 5.12, and also Abu Dhabi hotel visitor numbers have increased between the years 2001-2010 (see Table 9 and Table 10)

**Table 9 Abu Dhabi Hotels and Beds, 2001-20010**

	2001*	2002*	2003*	2004*	2005*
No of hotels	49	50	52	53	55
No of rooms	6,562	6,856	7,668	7,857	7,986
Occupancy rate %	65	66	61	67	67
Revenue(Dh billions)	.88	.90	1.00	n/a	n/a

	2006	2007	2008	2009	2010
No of hotels	56	77	97	115	115
No of beds	7,758	10,192	12,727	17,424	18,832
Occupancy rate %	86	81	84	72	65
Revenue(Dh billions)	2,301	2,809	4,304	4,240	4,227

Source: UAE Ministry of Economy report & ADTA

**Table 10 Abu Dhabi Hotel Visitors Numbers, 2001-2010**

<b>YEAR</b>	<b>VISITORS(millions)</b>
2001	.71
2002	.77
2003	.83
2004	.96
2005	1.20
2006	1.35
2007	1.45
2008	1.50
2009	1.54
2010	1.81

**Source:** *ADTA report*

According to the ADTA, the Tourism Development & Investment Company (TDIC) was established in 2006. The TDIC is an independent state-owned organization authorized to manage tourism investments as part of the Abu Dhabi Tourism Authority, which develops and implements policy for the development of the tourism sector in the emirate. TDIC is involved in the development of real estate assets to support ADTA's mission of assisting economic diversification through the tourism sector. The activities of TDIC include creating and developing tourism-related concepts in specific sites and locations, disposing or repositioning of government owned tourism assets, entering into joint ventures with investment partners for assets such as hotels and residential complexes, and mainly serving as the master developer for large scale projects.

### **Example (3) of the Developments Projects by State-led companies**

The emirate of Abu Dhabi is dramatically evolving policy to become an attractive tourist destination with its world class development projects across Abu Dhabi such as luxury hotels, resorts, leisure attractions and shopping malls and even low, mid and high income residential communities. An example of such government policy initiatives to develop the tourism sector is provided by the following two developments of islands which used to be uninhabited:

#### **➤ Saadiyat Island**

Spread across an area of 27 square kilometres, Saadiyat Island is just 500 meters from the shore of the city of Abu Dhabi, which is being transformed remarkably to become a world class leisure, residential, business and cultural hub. The Cultural District of Saadiyat Island will accommodate premier cultural assets such as Zayed Museum, the Louvre Abu Dhabi and Guggenheim Abu Dhabi, which will be world's largest single concentration. This collection is further studded with a cultural arts centre and a maritime museum, which are designed by Pritzker prize winners.

Saadiyat, a natural island, is divided into seven different zones with diverse offerings and is a multifaceted destination. Currently the island features the Saadiyat Beach Golf Club and an advanced exhibition centre with a luxurious beach club and two extraordinary resorts underway. Saadiyat also offers a relaxed waterfront for residents with schools and the New York University Abu Dhabi campus, which adds to its emphasis on education. The island will prove to be an attraction for art lovers, housing architectural icons, a pristine coastline for a tourist destination and also an important venue for exciting sporting experiences.

Currently in operation in the Saadiyat Island is the Manarat Al Saadiyat (means a place for enlightenment in Arabic) which is the visitor centre, Monte Carlo Beach Club, Splendours of Mesopotamia – an exhibition about the ancient Mesopotamian civilization, Fanr Restaurant and the Saadiyat Beach Golf Club. The Central District Museums are yet to come, which house the Louvre Abu Dhabi – and a universal museum in partnership with France, Zayed National Museum – honouring the late founder Sheikh Zayed Al Nahyan and the Guggenheim Abu Dhabi – a landmark structure with galleries and space for exhibitions.

### ➤ **Yas Island**

Just 30 minutes' drive from the city of Abu Dhabi, Yas Island is emerging as a destination for entertainment. The island features the Yas Marina Circuit which hosts the annual F1 Etihad Airways Abu Dhabi Grand Prix. Overlooking the F1 circuit is the Yas Marina and Yacht Club, specifically designed as a Super and Mega Yacht venue, which is 400 metres long and can accommodate up to 25 yachts. Straddling over the F1 track is the breathtaking iconic five star Yas Hotel which is built half on land and half over the Yas Marina. The island also hosts the fast and furious Ferrari World Abu Dhabi, the world's first

Ferrari theme park, fun for all ages with its exhilarating and educational rides and attractions. Further, on the west shores of the Yas island is the Yas Links Abu Dhabi golf course, voted one of the top ten new international golf courses. A recent addition to Yas island is the sprawling IKEA store, one of the largest in the Middle East.

#### 5.1.8. Abu-Dhabi's Policies to Develop Tourism Products, Events, Marketing, Promotions, and Festivals

The Abu Dhabi government's policies to develop the tourism sector products take the following forms: Develop Tourism Products, Events, Promotions, and Festivals :

##### **Shopping Tourism**

In the recent few years Abu Dhabi has been increasingly growing as a shopping destination. However, it is yet to be as popular as Dubai. Abu Dhabi is well positioned as a destination for shopping tourists as it is between Asia and Europe, which means that people who are flying between the two continents can stop there and shop (Krannich, 2008). Shopping tourism in Abu Dhabi is boosted by the presence of many modern shopping malls as well as traditional souks in which people buy traditional products such as perfumes and carpets (Abu Dhabi Tourism Authority [ADTA], 2012). In souks, bargaining is entertained and so it is possible to get high quality items at fair prices. There is also a lot of gold jewellery in Abu Dhabi and one can even have gold customized jewellery in some of the gold malls that are available in Abu Dhabi (ADTA, 2012). The cost of jewellery is also fair compared to other countries (Krannich, 2008). An important aspect of the shopping malls in Abu Dhabi is that is possible for one to get even internationally renowned brands such as Marks and Spencer. The government's efforts to promote shopping tourism in Abu Dhabi include the development of the ADTA website in such a manner that it provides comprehensive information to shoppers on where to buy items, when to do shopping, and how to ensure that one has bought high quality items.

##### **Cultural Tourism**

For some time now, Abu Dhabi has been trying to “brand itself as an international destination for culture” (Oxford Business Group, 2007: 155). To do this the emirate has been attracting famous artists and producers. So far, international operas and theatre productions have been successfully organized in the emirate (Oxford Business Group, 2007). The emirate, in collaboration with Guggenheim Foundation which is based in New York, is also set to establish a large museum in the emirate and it is expected that the museum will act as a cultural centre for both classical and modern arts (Oxford Business Group, 2007). The emirate hopes to display some of the foundation’s collections which have increasingly been attracting visitors over the years (Oxford Business Group, 2007). Another recent development is that the emirate and France, through the French minister of culture, signed a deal in which some of the most famous museums in France would be allowed to open branches in Abu Dhabi (Oxford Business Group, 2007). The government of Abu Dhabi has been in the forefront to promote cultural tourism. To begin with, as mentioned above, the government has been signing deals to enable the opening of museums in the emirate. Further, through the Abu Dhabi Authority for Culture and Heritage, the government has been able to establish art facilities that meet the standards laid down by the United Nations Educational Scientific and Cultural Organization (Abu Dhabi Authority for Culture and Heritage, 2012).

### **Educational Tourism**

Abu Dhabi has been trying to promote educational tourism in the emirate. Abu Dhabi has been focusing on establishing exchange programs in which students from foreign institutions visit the emirate to interact with Abu Dhabi students as well as to learn the culture of Abu Dhabi and in turn the Abu Dhabi students visit other countries to learn their culture (ADTA, 2009). In the first ever exchange programme, students from Raffles Junior College in Singapore visited Abu Dhabi where they interacted with students from Al Shohub School and AlIttihad Model School (ADTA, 2009). According to the director of ADTA (2009), such programmes are meant to increase the awareness of Abu Dhabi and thus increase visitations. The government hopes to create a lasting impression on the students to encourage them to visit in future or to recommend the emirate to their friends, relatives and colleagues (ADTA, 2009). The Abu Dhabi government approach has also been to set up universities and colleges as a way of promoting educational tourism. Recently, the government signed a deal that saw a branch of the University Paris-Sorbonne opened in Abu Dhabi. In addition, the government

recently established a branch of New York University in Abu Dhabi. The government's role as explained above has been to establish student exchange programmes through the ADTA and to help in the setting up of branches of foreign universities.

### **Business Tourism**

Abu Dhabi has increasingly become a destination for business tourists and this has been due to the collaboration between the Abu Dhabi government and the private sector to build infrastructure that will attract business tourists (ADTA, 2012). These include world-class hotels and meeting facilities. In addition, the emirate has well-established leisure facilities for business tourists to relax when not attending business meetings. The fact that the emirate is easily accessible from Africa, Asia and Europe makes it strategically positioned (ADTA, 2012). One hotelier in Abu Dhabi stated that he valued "The efforts of ADTA in establishing and position Abu Dhabi as a tourism, business and MICE (Meetings, Incentives, Conferences, and Exhibitions) destination" (Abu Dhabi Hotelier 4, Interview)) There are several things that make Abu Dhabi an attractive destination for business tourists. These include political and economic stability, world class hospitality, a combination of modern and traditional lifestyles, well-established facilities for business and leisure, and world-class hotels (ADTA, 2012). Business tourism in Abu Dhabi has been boosted by the government's creation of the Abu Dhabi National Exhibition Centre (ADNEC), whose purpose is to attract business tourists into the emirate (Oxford Business Group, 2010). One of the achievements of ADNEC is the development of an exhibition centre that is the largest in the Gulf region. The exhibition centre has an exhibition room, hotel, offices, meeting rooms and conference rooms (Oxford Business Group, 2010). According to the Oxford Business Group (2010), in 2009 alone the ADNEC centre hosted 130 events. The government's role in the promotion of business tourism in Abu Dhabi has been effected through the creation of ADNEC which built an exhibition centre to attract business tourists. The government of Abu Dhabi has also enacted policies that create a business environment which attracts business-oriented tourists through such methods as tax exemptions, policies that make it possible for foreigners to set up wholly owned businesses in the emirate, and policies that make it possible for foreign business owners to repatriate all their business profits and capital (ADTA, 2012).

### **Healthcare Tourism**



According to a hotelier in Abu Dhabi when asked about Abu Dhabi's best policy to help the sector, "... capitalizing on Health Care and Sports Facilities to diversify the tourist traffic, and increase UAE market share in such non-traditional tourism activities, for example the 56 Billion global revenue only in Health Care Tourism." ( Abu Dhabi Hotelier 7, Interview)

Abu Dhabi has also in the recent past increasingly branded itself as a destination of choice for individuals who are seeking healthcare services. Just like Dubai, Abu Dhabi has focused on providing services of the highest quality possible by luring highly trained personnel from other countries (Jagyasi, 2011). In addition, hospitals in the emirate are well equipped with advanced technologies. However, when it comes to costs, healthcare services in Abu Dhabi are not cheap (Jagyasi, 2011). To promote healthcare tourism the government of Abu Dhabi has been allocating significant amounts of money to the healthcare system to improve its standards (Jagyasi, 2011). In addition, the government has been enforcing international healthcare regulations in Abu Dhabi's healthcare system as a way of making healthcare attractive to people from all parts of the world (Jagyasi, 2011). The government of Abu Dhabi has also been welcoming proposals to open branches of well-known hospitals in the emirate. For example by the end of 2012 it is expected that a branch of Cleveland Clinic will be opened in Abu Dhabi by the state owned Mubadala Company. The Abu Dhabi government has also invested greatly in hospitals and hotels as a way of promoting healthcare tourism.

### **Sports Tourism**

In sports tourism, Yas Island hosts the Abu Dhabi Formula 1 Grand Prix motor race, about thirty minutes from the capital city of Abu Dhabi. Yas Marina is the secondary Formula One track in the Middle East, with the primary track being in Bahrain. The Yas marina-based development includes a water park, a theme park, as well as residential living areas, resorts and sandy beaches. One of the unique features of the Formula One car racetrack is the hotel which Formula One drivers tears through on every circuit. The Yas Marina racetrack offers a unique experience for drivers and tourists alike. (Arte Acaro, 2012) The Abu Dhabi sports environment has transformed in response to people's diversified tastes in sports. Traditionally, sporting events in Abu Dhabi were mainly horse racing, football and camel racing. The Abu Dhabi government launched the Zayed Sports City to bring all leading sports

to one place. The proximity of India and Pakistan to Dubai influenced the incorporation of cricket in the sports facility. Golf was also introduced due to its perfect location in a tropic desert spot. Golf courses range from either delicately manicured green lawns, sand or both. An annual professional golf tournament held in Abu Dhabi every year attracts the leading players in the golf world. The sports club also offers a place to interact and meet people in the community.

### **Eco-tourism**

To promote eco-tourism, Abu Dhabi built the Qasr Al Sarab Desert Resort in the famous Liwa desert. The desert is one of the biggest never-ending sand deserts on earth. Set on the island of Sir Bani Yas is the Desert Islands Resort and Spa. The resort has several programmes such as habitat rehabilitation (Animal Management Consultancy, 2012). The resort has been built with the aim of making the desert islands financially self-sufficient and economically sustainable.

#### **5.2.9 Challenges Influencing the Success of Tourism in Abu Dhabi**

According to a senior manager at ADTA, there are several challenges facing the tourism sector in Abu Dhabi namely; Inability to adequately leverage our natural assets and create products that showcase our culture, Participation and interest of Nationals is low in the sector, Declining occupancy and room rates attributed to higher capacity of supply relative to demand, Service quality needs to be upgraded further to levels expected by tourists such as taxi drivers who have poor knowledge of geography and lack language skills, Visa processing process and efficiency could be further enhanced, Limited number and offering of educational programs in tourism sector, Limited SME companies operating in the sector, and products of tourism levels are still limited and not operated as such. The senior manager said that the solution to most of these challenges will come from coordination and communication with their stakeholders. Enhancing the reputation and awareness of the destination and increasing its monetary performance will help to attract investors and ultimately provide the incentive to enhance and improve customer service and product development.

Another challenge for Abu Dhabi is competition from Dubai and the emerging Sharjah, which has a richer cultural heritage to offer. Fujairah is also an emirate with

relatively good facilities for tourism. To shine above Dubai, Abu Dhabi has to make an extra effort. In fact, the tourism policy of Abu Dhabi recommends that the emirate becomes a complement of Dubai instead of a competitor so that it retains its focus on rich culture, traditions and heritage, as well as quality and not quantity of recreation and relaxation (Tourism Intelligence, n. d.).

During peak seasons for tourist arrivals, there is a shortage of hotel space in Abu Dhabi. The period needed to develop new hotels and make expansions of the existing hotels is not available in the short term. Current developments require more than one year to be ready for occupation. The emirate expects more than 30,000 new rooms to be ready by 2013. This is a conservative estimate and conforms to the ADTA strategy of having a measurable and realistic growth of the sector (AME Info, 2008). More property developments in Abu Dhabi are coming up because of the lucrativeness of its hotel and resort industry; however, this may lead to a surplus of accommodation facilities that eventually erode the quick returns on investments when rent rates slump. This would hurt the strategy of ADTA, which is to attract five-star visitors. As more hotels and resorts come up, there may be fierce competition for the available business, which will have a positive outcome for consumers and a negative one for the industry (UAE Interact, 2011).

As the regional interest in sustainable travel continues, the emirate continues to leverage its wide conference and business travel offerings as a way of influencing the current debate on having an environmentally sustainable tourism sector. The World Green Tourism Summit helped the industry players in the emirate to be more environmentally friendly through their product and service offerings. The summit offered practical steps for the industry to turn greener. The challenge remains for Abu Dhabi and other destinations to walk the talk by effecting necessary changes within their policy frameworks (Gumbook, 2011).

It is only recently that Emiratis started participating intrinsically in the execution of developments in the emirate. Previously, most preferred to outsource everything and consequently faced the risk of losing the cultural identity of Abu Dhabi. The emirate needs to entice more of its locals to take an active part in the development of the various economic sectors and influence the overall image of the country's developments as a way of safeguarding its sustainability. Otherwise, too much development by foreign entities and

foreigners might present reasons for conflict of labour or other economic resources. For the sake of long-term national cohesion, the emirate needs to turn the tide and increase employment of Emiratis in its tourism sectors (Lancaster, 2011).

The prosperity of the tourism sector is attracting many emigrant workers who are unfortunately unable to afford the high rental costs of houses in Abu Dhabi. Most of these emigrant workers are forced to commute from neighbouring Dubai (Hughes, 2010). As the situation in Abu Dhabi remains the same and that of Dubai changes such that there are more jobs in Dubai, these workers will find it affordable to get Dubai jobs. Moreover, for those who land lucrative jobs in Abu Dhabi and can afford its rents, there are not enough rental properties to serve them all. Vacancy rates in Abu Dhabi almost hit zero. The city's main design and plan was put up in the 1970s and only had a population catering of 600,000 people. Today, the city is full with an estimated 1 million people. Eighty per cent of the population is now composed of emigrants. The population poses a transport challenge for the city, which is served by taxis. It lacks an elaborate public transport system and the taxis increase its traffic congestion. However, various authorities in responding to market forces are addressing the situation (PropertyWire, 2011).

The current leadership of Abu Dhabi has embarked on a redesign policy plan. The Executive Council created the policy plan that would transform Abu Dhabi from a former trading post into a trading hub of the Middle East. The new plan will be most elaborate in covering Abu Dhabi City. It will include 81,000 hectares of land that would host at least 3 million people (Financial Post, 2008). However, the drawing up of the new plan was placed in the hands of expatriates with no former knowledge of the city. Moreover, many new developments are handled by expatriates. Although they are trusted for the quality and use of technology, little is known of their ability to recreate the cultural and traditional expectations of Emiratis. This may result in a regional development that loses its Arabic and Islamic claim of belonging. Without such identification, it would be almost impossible to sell the destination as unique (Financial Post, 2008).

The recent global financial crisis in the US and Europe affects the tourism sector of Abu Dhabi, just as it affects Dubai and Sharjah. When this is combined with the increased competition from other markets, the future seems very dim. However, changes made by the

ADTA are helping Abu Dhabi to water down the negative effects of the financial troubles that rock its key markets. The ADTA came up with five industry development committees that would help foster the tourism agenda as an economic diversification strategy. The result of the initiative included the development that linked Abu Dhabi International Airport with 69 destinations that are well-positioned in channelling tourists to Abu Dhabi. The additional linkages will increase the number of serving airlines to the airport. In addition, there are efforts to increase the capacity of Etihad Airways so that it effectively competes with the resulting 32 airlines that are projected to use the airport (Khaleej Times, 2011). The domestic tourism market also helps Abu Dhabi cope with external market changes. It has so far helped the sector to maintain a 77 per cent room occupancy rate (Chandran, 2009). The enthusiasm of local residents in taking up the tourism offerings acts as a measure of the success of the ADTA promotional marketing efforts within Abu Dhabi (ADTA, 2011). According to ADTA (2011), the local economy is strong and Emiratis show an improved desire to take their holidays in the local tourism facilities. The success of the ADTA marketing greatly helps in sustaining the high demand and leisure ends of the entire market (Chandran, 2009)

#### 5.2.10 Conclusion

The emirate of Abu Dhabi is witnessing the development of an exciting and vibrant business, culture, leisure, sports and entertainment segment which will be duly supported by the rapidly growing hotel industry in order to accommodate the surge in the number of tourists and visitors in addition to the national and resident population. With its magnificent natural islands, pristine beaches, cultural and heritage assets, comfortable weather most of the year and diverse landscape, the emirate of Abu Dhabi attracts a lot of tourists and visitors.

With its increasing accessibility and growing capacity, the emirate of Abu Dhabi, due to its policies to develop the tourism sector, has grown in status as a popular destination for tourism. The world class hotels, resorts, golf courses and other amenities are well connected to the airport and also among each other, and further improvements are also expected. The Abu Dhabi Tourism Authority has opened international offices to ensure the promotion of Abu Dhabi as a brand and destination for tourism and continues to plan for expansion in the following years.

The government of Abu Dhabi is investing heavily in policy initiatives to expand and develop tourism and cultural activities with the implementation of significant projects such as the Saadiyat Island and the Yas Island. The Abu Dhabi Airports Company (ADAC) is coming up with a new passenger terminal which is known as the Midfield Terminal Complex (MTC), to meet the growing demands. Tourism industry is one of the largest and fastest growing economic sectors in the world and the emirate of Abu Dhabi has come up with different products and services to ensure that the emirate is one of the sought after tourism destinations. The government of Abu Dhabi is therefore investing enormous funds as well as energy in the tourism sector to ensure that the emirate of Abu Dhabi becomes one of the attractive places for tourists while continuing to provide facilities and leisure activities to permanent residents of the emirate.

## **5.3 Dubai Case Study**

### **5.3.1 Introduction**

Dubai forms part of the seven emirates that make up the United Arab Emirates (UAE). Dubai cover an area of 4,110 square km. UAE is an Arab and Muslim country whose official language is Arabic, however, English also serves as a major communication language in the country. Being part of a predominantly Muslim state, Islam values and culture primarily affect the social life of people in Dubai. Dubai nationals have a special placement of religion in their daily lives. Therefore, Islamic values, Arabic tradition, and contemporary development policies are the key influences of the UAE society that includes Dubai (Abdulla, Djebarni and Ramdane, 2011). Other subtle influencing factors of society and policy in Dubai are generational factors, gender factors, and social class factors (Abdulla, Djebarni and Ramdane, 2011).

Among the seven emirates of UAE, Dubai is by far the leader in tourism. The country has successfully developed tourism as an economic pillar. As a result, it is the most recognized emirates in the world (Vardhan, 2008). It uses the sun, sea, shopping, safety and sand formula, which is replicated by regional rivals, to market itself as a tourism destination. Consequently, the emirate also leverages its superiority internationally by signing up with leisure brands that serves as a new tourist's attraction. In fact, its success as a tourist destination has been attributed to its successful destination marketing at home and abroad. In slightly more than a decade, Dubai has successfully transformed itself from a desert land into a dreamland tourist destination (Vardhan, 2008).

In addition to leisure brands, Dubai hosts many major projects that are by far the largest in the world in their respective categories. These include a palm tree shaped peninsula that is observable from space. There is also the world's tallest tower, the largest airport, more than 300 artificial islands, and a tax free treatment in all the facilities, world-class infrastructure, and other special benefits for corporations. Dubai is the most colourful

sheikhdom in the Middle East. In addition, it is the most ambitious. It has so far developed grand projects that were once unimaginable for a desert emirate. For example, it has one of the largest indoor ski slopes that feature a fresh power throughout the year.

According to a hotelier the "Dubai is the Middle east shining star for tourism sector with its five star amenities of Hotels and the world biggest malls"(Dubai Hotelier 1, Interview). As a result of its infrastructural initiatives and special benefits to international corporations, Dubai manages to attract a considerable number of top global business brands. The top global brands with footholds in Dubai include Microsoft, Reuters, Sun, Virgin Airways, Martha Stewart, and Cisco. As it attracts corporate organization, it becomes the business hub of the Middle East. In addition, it attracts business tourists. Moreover, the country also specializes in being a place for fun and leverages its excellent business infrastructure with excellent leisure facilities that continue to attract top brands in hotels, sport, and shopping. Despite its predominant Muslim values that govern its citizens, authorities in Dubai allow foreigners not to obey the strict Islam customs (Fonda, MacLeod, Roston and Masters, 2006).

A combination of the infrastructure, facilities in Dubai, and its success in capturing many global corporations ensures that Dubai gets a constant flow of visitors. In addition, the with annual events that serve as sub-brands such as the Dubai World Cup, Dubai attracts in excess of 7 million visitors a year. Moreover, the emirate attracts long shots in sports such as Tiger Woods. In just a decade, Dubai's economy has grown almost three times to reach 34.5 billion dollars (Fonda, MacLeod, Roston and Masters, 2006).

Dubai Holding is a conglomerate run by the government that is mainly responsible for the success of Dubai as a tourist destination. The conglomerate oversees almost all the big domestic and foreign investments of Dubai. Its success is measurable by the fact that in a decade and a half, it has successfully put Dubai on the international map of major tourist destinations (Fonda, MacLeod, Roston and Masters, 2006).



## 5.3.2 Background: Structure of the Economy of Dubai

### 5.3.2.1 5.3.2.1. *Dubai economic structure and efforts to reduce income dependency on oil*

According to the Dubai Department of Economic Development (DDED) (senior civil servant interview, 2011), the position of the economic structure of Dubai as at the year 2010 as follows, the top six economic boosters of the economy were rated as follows: The top most economic contributor was the Wholesale, Retail and Repairing services which constituted 30.3 per cent of the total economic value. This value can be attributed to incentives by the government to cut down costs of products by minimizing the value added tax to encourage domestic trade. This sector was growing positively at a rate of 4.5 per cent. The second rated sector was the Transport, Storage and Communication sector whose percentage value was 14.1 per cent. The strategic position of Dubai facilitates transport by water encouraging international trade while at the same time boosting the transport sector (Christensen 2011, p. 10). They have also invested heavily in the development of a good refrigeration system and warehouses to support storage of both perishable and non-perishable goods. The communication sector has also grown tremendously due to the establishment of the Dubai Media city and the Dubai internet city. The sector registered a growth rate of 9.2 per cent which is comparatively high.

Real Estate and Business services came in third with a percentage value of 13.7percent. Though this is a good ground for economic sustainability, the sector was in a declining growth rate of – 2.6 per cent. The decline can be associated with lack of room for expansion in the real estate area. The manufacturing sector was ranked fourth with a value of 13.2 per cent and a growth rate of 10.11 per cent. In an effort to make Dubai a developed country, more resources have been invested in the manufacturing sector with an aim of transforming the market to a manufacturing economy. The Financial Corporate sector was destined fifth with a net value of 11.3 per cent and a growth rate of -1.3 per cent. The least ranked among the top six sectors is the Construction sector with a 9.4 per cent economic

value and having a growth rate of -14.7 per cent probably due to the low demand for occupancy.

The civil servant in the department of economic development in Dubai added that the Real Estate and Construction industry were the key areas in the economic growth of Dubai in the year 2009. The industry has since then been declining and has recorded a drop in its GDP. Real estate's companies were in hundred folds during the construction boom but since mid-2009 the whole scene has changed and only the strongest in the industry survived the storm. Currently, Dubai is experiencing an excess of supply of real estate. According to the latest analysis, the office property and the real estate sectors are very competitive due to the sky-scraping levels of supply in the area, stretching on a piece of land of 60 million square feet and an increment in the area of about 10 million square feet projected before the year 2012 comes to an end. However, despite the increment in supply of Real Estate, the country still experiences shortage in supply of buildings for occupation by corporate bodies with specific requirements.

The excess supply and the resultant decline in demand have resulted in a shift in the composite economic activity from the real estate to other sectors of the economy. Though in excess supply, the Real Estate experiences a demand that is far much below the supply. It is estimated that the Real Estate buildings will take the next five years for them to be fully occupied. This means that the country cannot rely fully on the income from this sector as the returns are very little due to the low demand. The traditional economic sector which is comprised of domestic and international industries, logistics, and transportation, tourism and finance sectors will also be affected in an attempt to conform to these sectors.

#### *5.3.2.1. The oil and gas ratio to the gross local product*

According to the annual report on Dubai's Gross Domestic Product, the oil sector is ranked eleventh out of the possible thirteen sectors that contribute to Dubai's economy. This demonstrates the degree to which the government of Dubai does not rely on the oil sector to boost its economy. The report further gives the contribution of the oil sector to the gross domestic product as being less than 2 per cent. This is very minimal and is indicative of the

transformation process that Dubai has undergone in trying to walk away from being a rentier state. The discovery of oil deposits in the year 1966 along the offshore fields of Faith by the heading Maktoum's family contributed heavily to the efforts of placing Dubai on the world's economic map. Dubai has generally succeeded in reducing the Emirates dependency on oil and achieved to a great extent stability in its economy. This is very vital to any economy as overdependence on oil leads to the rentier state theory which is associated with low economic growth despite a country having a rich background of natural resources. The aspect of rentier state theory is very dominant amid the rest of the associates of the United Arab Emirates. Dubai is a city that has gone beyond the norms of the dragging rentier perception in most of the Persian Gulf cities to acquire a more stable and democratic state. The economic diversification policy adopted by Dubai has seen its economy diversify from mere reliance on oil and fishing to a vast dynamic economy dealing with shipping, mass communications, finance and tourism in a span of less than four decades. Since the year 2000, the tourism industry has excelled and outdone other sectors such as the finance and the logistics sectors. Dubai's pride has been in pulling of foreign investments into its economy.

#### *5.3.2.2. Why Dubai wants to diversify from oil*

The discovery of oil deposits in the year 1966 along the offshore fields of Fath by the heading Maktoum's family contributed heavily to the efforts of placing Dubai on the world's economic map but this did not last long as the oil deposits then discovered were very minimal and suffered the risk of exhaustion any time (Christensen 2011, p. 10). Researchers predicted that the oil deposits would have been exhausted by the year 2012.

To grow economically and improve the living standards of its citizens, Dubai had to diversify its economic activities from mere reliance on oil to an economy that enjoys a rich base of economic activities. Dubai enjoys a vast service-knowledge based economy that is portrayed via these three known examples. First is the coming up with Dubai Media city which is a demarcated free region for news anchoring and unbiased news presentation. Second is the Dubai internet city, an area set aside for technological harbour where there is unlimited access to the internet a major prerequisite for business outsourcing. Finally there is

the establishment of the Dubai International Financial Centres which serves a dual purpose of merchandizing and financial exchange. This has further boosted the economy of Dubai as a city.

The success of the Dubai International Finance Centre will mean a great deal to the world at large. It will recruit highly skilled labour in other firms hence forming a base for great output. It will also be a pathway for the passage of investments to several parts of the world. More to this, it will allow Dubai to act as a central ground for financing and lending of money hence boosting its economy a great deal. Due to its small size geographically, any improvement in the service sector should out pour to the entire world at large for greater successes.

#### *5.3.2.3. Dubai's economic strategy for 2015*

The ‘Dubai's Strategic plan 2015’ was adopted by the Ruler of Dubai in order to help Dubai meet its economic challenges and also to act as part of their long term plan to achieve economic stability. This came to carry on the burner from the preceding ten year plan. The 2015 economic strategy works to determine the direction and economic goals to guide Dubai's government towards achieving high living standards for both the United Arab Emirates and the residents of Dubai. It further emphasizes on security issues, justice and equality for everyone. The strategic plan emphasizes on five major sectors in a bid to attain the preferred economic growth rate. The areas majored on include the economic development sector; the social development area; infrastructure, land and development; security, justice and safety and sound governance.

The strategic plan predicts that by the year 2015, the Gross Domestic Product, GDP, will have gone up as well as the per capita income to \$108 billion and \$44,000 respectively. This is one of the main indicators of positive economic growth rate. The growth rate is to be maintained at a constant double digit to foster and stay focused toward achieving the set goals. This plan is not swayed by the unpredictable oil prices which keep fluctuating day in day out. This is because as at the moment the oil proceeds contribute insignificantly towards Dubai's economy, that is a paltry 3 per cent. Besides having precise goals the strategic plan

tactically assimilates to the wider goals established by the UAE towards becoming a developed economy. The plan focuses mainly on coming up with a viable Economic Development Plan, EDP, which will ensure that a cumulative of 13 per cent economic growth rate is attained and maintained. The 13 per cent is a perceived rate that is faster than that of the two leading Asian economies, those of China and India. The 2015 strategic plan further aims at focusing on those areas that have been the historical pillar of Dubai's economy and at the same time encourage foreign direct investments so as to boost the economy further. Some governance aspects such as an effective judiciary, an integrated logistics and supply chain, an efficient governance process, the presence of an excellent regulatory framework, efficient delivery of services and a vibrant culture that welcomes foreign workforce while providing them with the peace and conditions that facilitate and enable them to carry out their businesses comfortably are also incorporated into the plan.

The 2015 plan focuses on the trade sector as the greatest contributor to Dubai's economy as it had witnessed the highest percentage increase in Gross Domestic Product among the rest of the sectors which are the construction, transport, storage, communications, real estate and tourism. Dubai's 2015 plan has hoped to help Dubai's economy attain the economic growth rate of the world that is set by the World Bank and International Monetary Fund's by aligning itself with those sectors that are deemed to grow spontaneously in the global economy. To achieve this kind of alignment the strategic plan has identified and majored on six key sectors which are, trade, tourism, finance, transportation, communications, storage and real estate. The plan has devised ways of achieving the above targets which include focusing on the key areas and monitoring of the advancement of the execution of the plan.

The Dubai's strategic plan of 2015 served as a basis where various economic aspects and key indicators were laid down by the Department of Economic Development of Dubai in the view of achieving its vision 2015. It forms blue print and initial guidelines where vision 2015 was derived from. It was fast to notice that Dubai's economy grew at a rate of 2.8 per cent in terms of the actual Gross Domestic Product in the year 2010 and this growth was in tandem with the global economic recovery. The sectors that contributed to this positive

economic growth rate were manufacturing which registered a 10 per cent growth, the transport and storage sector registered the highest growth rate of 9.2 per cent while the government services registered a growth rate of 5.8 per cent. In the year 2011, tourism sector was noted to have grown spontaneously owing to the large numbers of foreigners in the guest rooms and the increase in the rate of hotel occupancy. The revenues were gathered from both domestic tourists and foreign tourism. Remarkably, Dubai's growth and developments can be attributed to the peace and political stability prevailing in the city unlike other cities which operate under rentier economy.

As a matter of fact, the 2011 growth rate in the tourism sector was relatively higher than that of 2009 before the world economic crisis as per the government's predictions on its probable economic growth rate of its various sectors. Consequently, tourism forms a strategic pillar which needs to be fully exploited in the 2015 Dubai's economic development strategic plan and is intertwined in the whole United Arab Emirate strategic development plan. For the success of the two strategic plans, seven growth enablers will be put in place, that is, human capital which is the most essential, innovation to facilitate exploitation of the covered resources, business costs will be reduced to capitalize on the profits, standards of living will be improved, economic policies that will enhance growth of the economic sector and a well-established regulatory framework to reduce the rigidity in decision making.

The Dubai tourism and commerce marketing department has taken initiative to assist in the development of the human capital by initiating programs that support training of all categories of workers in the economy of Dubai. This department has plans of enhancing customer satisfaction by categorizing all hotels and guest houses according to international standards. This will ensure that tourists get an equivalent service for the amount of money they give out and also to ensure that visitors can only stay in places that their pockets can allow. It also has plans underway for establishing legal procedures that relate to the issuance of tourism licenses. The legal procedure would serve to ensure that tourism licenses are issued in a credible manner, they are followed up for the purposes of renewing and amending together with timely cancelations. It will also ensure that some administrative tasks such as tourism activity permits are implemented on time and that they are regularly inspected to facilitate growth of the sector.

The Dubai Tourism and Commerce Marketing Department has also planned to increase the productivity of the various groups it supervises. It will increase productivity by promoting the use of the appropriate technology and e- services delivery systems while at the same time encouraging creativity and innovations through its website.

#### *5.3.2.4. Tourism as a key strand of Dubai*

Tourism has been selected by the government of Dubai to be one of the key sectors that will enable them achieve their strategic plan of 2015. This is because tourism will utilize natural resources for the advantage of the country (Christensen 2011, p. 35). The duality principle is evident in modern Dubai development. Unlike other colonized countries, Dubai maintains its culture which is manifested in the snail shaped Burj A-Arab hotel and the palm shaped Palm- Jumeirah island. The snail and the palm symbols form a rich part of the Arabs cultural history. Besides maintaining their culture, these recent projects act as a platform for generating more income from revenues collected in the form of foreign exchange while hosting international conferences and possible corporate headquarters. Their interest in tourism is further shown by the location of the two projects, in areas where the common citizen who earns an average income cannot access.

The other fact about Dubai's tourism is that people also visit the area while on transit. Most of the flights to Arab countries always make a halt at Dubai's airport and this further promotes tourism. Dubai's pride has been in pulling of foreign investments into its economy. The city has taken advantage of its strategic position in the Arabian Gulf and has a natural harbour located along the Gulf which allows it to become a great trading nation owing to the convenient stop over along the Far East and the Western sea route. This allows in and out flow of goods hence raising its economic standards. During the trading activities foreigners also take time to tour around the city hence promoting the tourism sector.

#### *5.3.2.5. Dubai Economic Diversification plans*

The senior civil servant in the Department of Economic Development further declared that the main focus of the economic policy for diversification in Dubai will be on tourism, trade, construction, transport, storage, communications and real estate. He also declared that the tourism and the finance sectors will rely on good infrastructure. The Dubai's deposits of oil and natural gas are very minimal and cannot sustain the economy and still have surplus to pass to the next generation. The diversification policy will help generate more capital and enhance investments. Dubai has also encouraged foreign investments even in its vision 2010. This can be proven as the greater percentage of Dubai's population is foreigners. The creation of investment opportunities has greatly boosted Dubai's economy aligning it with the world's super powers. This also allows them to have a great deal of resourceful international partners. Dubai has generally succeeded in reducing the Emirates dependency on oil and achieved to a great extend stability in its economy.

The city also obtains the highly trained and educated fellows of other countries globally to form its work force. This has the advantage that Dubai never invests so much in re-educating its citizens during the various developmental stages of its economy. Dubai basically buys skilled labour to match their level of development. Their ability to buy labour and exploit their talents and skills upon which they are sent back home allows for Dubai's flexibility in obtaining labour. Any size of the labours is obtainable and the quality of the workers can change to meet the current market demands and the future visions and goals.

The main focus of Dubai's diversification policy is on development of services. This is backed up by a vast service-knowledge based economy. Due to its small size geographically, any improvement in the service sector should out pour to the entire world at large for greater success. On the other hand, Abu Dhabi has mainly focused on generation of energy to attain its strategic plan policy with its most current focus being on the development of acute alternative sources of energy. The energy sector is wide accommodating so many people and thus boosting the economy through employment provision. Both of the two states are likely to achieve their strategic plans due to lack of competition between the two cities. The two states can also have a mutual relationship where Abu Dhabi would supply excess power to Dubai for income generation while Dubai provides tourist attraction centres for the



citizens of Abu Dhabi also having to benefit financially. This would ensure that the two states eventually attain their strategic plans.

The senior civil servant also affirmed that Dubai's focus will be on the service sector to help attain its strategic plan. He further said that the sector is expected to grow at a growth rate of between 10 per cent and 11 per cent in the period ranging from 2011 to 2015. This is a high growth rate and has to be backed up by several factors that ensure its steady growth during this period. He added that for Dubai to achieve total diversification, the government has to do some expansion of the free zones to accommodate more investors, ease the business registration process in order to allow more business people to register their business and reduction of government fees to allow facilitation of both local and international trade. They have also focused on construction of new infrastructure whenever needed to promote trade and tourism sectors. Good infrastructure ensures smooth movement of people and goods from one trading area to the other. Tourists also enjoy moving in well maintained infrastructure and therefore the tourist destination areas should have good infrastructure to allow them to revisit the areas in future.

The Dubai's diversification measure policy aims at achieving a growth rate that is greater than that of the years preceding the world's economic crisis of 2008. This growth rate will be facilitated by the service sector which comprises of financial and insurance services, tourism, business, advertising and corporate services together with other key areas such as the trade sector and the real estate sector. Its main objective is to avoid reliance on oil and natural gas for economic benefits via the strategic plan policy and creation of assets so that it enjoys the benefits of having an economy that is highly integrated with that of the world.

Through this strategic plan and general shift from oil dependency to a well-diversified economy the Dubai's government aims to improve the living standards of its people. The living standards will be improved through creation of jobs for both the citizens and provision of a favourable environment to enhance more foreign investment. This can be shown by the fact that Dubai imports most of its skilled labour and therefore picks on the best in the international market enhancing its productivity. This has advantage that Dubai never invests so much in re-educating its citizens during the various developmental stages of its economy. As earlier alluded, Dubai basically buys skilled labour to match their level of development

and has developed stringent labour laws to fully exploit the workforce skills within the contracted period. It also greatly encourages foreign investment hence promoting a wide base of economic activities and reduces overdependence in domestic cash inflows.

The monitoring of the implementation process of the Dubai diversification Policy is done by the government through the various entities involved in making of policies and the implementation of the economic strategic plan. The monitoring team oversees the implementation of the plan, monitors the way it is being implemented and systematically evaluates the progress of the implementation against the set goals. This serves to ensure that all the key areas of the strategic plan are implemented in the right way to realize the goals of the strategic plan. The Department of Economic Development is given the mandate of drafting the economic strategic plan and submitting it to the government for approval before implementing it. The department comes up with a strategic plan that fits the country and outlines the key areas to major on in order to achieve the set goals. It is also authorized to design the possible ways of attaining the strategic plan together with other government bodies and the executive council. It is the directive of the department of financial development to register businesses and all the bodies that govern both the local and foreign promotion are under its jurisdiction.

The department also offers practical support to all small and medium enterprises entities within the country. The small and medium size entities should be well managed as in most cases they make up the larger bit of the economy. Within the government of Dubai, an economic development committee is formed under the executive council within the same government. This committee is tasked with providing advice and recommendations regarding the key economic issues that are faced by Dubai.

#### *5.3.2.6. The role of the federal government in forming and implementing the policies of economic diversification*

The federal government is weak in economic matters and most of the decisions that are associated with the policy lay in the hands of the local government according to the senior civil servant. The local government is answerable to the federal government on the progress

of diversification policy implementation and regularly reports to the federal government for their progress. In view of this, the federal government plays a supervisory role in ensuring that the strategic plan is implemented at the local government level. The federal government has been considered by the UAE government strategy in the formulation of its own strategic plan of 2021. This forms the grounds in which the federal governments can form and operate their strategic plans. The federal governments' strategic plan will comprise of general principles which are seven in number, strategic priorities which are also seven in number and strategic enablers which are also seven in numbers. The federal's strategic plan will promote the work of the government through promotion of reliable coordination between themselves and the local governments, investing in human capital and development of quality leaders and promote credibility and accountability in federal governance. The federal government forms the Dubai's world central which is the main financier of all the committees and bodies that are taxed with formulating and implementing all the policies governing the diversification. The local government forms the main body in fast tracking all the ground work regarding the policy progress with the federal government being a watchdog to rectify any deviations from the initial policy framework.

#### *5.3.2.7. The roles of the private sector in forming and applying the policies of economic diversification*

The senior civil servant in the Department of Economic Development in Dubai further said that the government relies on both the private and the public sectors to achieve their strategic plans. The most important factor is that Dubai's development is government initiated. This means that the government has the overall mandate of developing the strategic plan. The private sector is politically deprived of its strength and hence contributes insignificantly to the overall development of the economic plan despite its financial strength. A good example is the developments observed in the year 2000-2005. These developments were made possible by the initiation and supervision of the government in place then. The government contributes immensely on the upgrading of the laws, institutional guidelines and the overall infrastructure through the finances from tourism and other services related sectors.

This forms major incentives which enhance private sector involvement in the policy implementation process.

On the other hand, the private sector only contributes in the implementation process by facilitating economic growth through trading activities. A bulk of the trading businesses is privately owned and therefore the role played by the private sector in overseeing the vision come true cannot be neglected. The private sector consists of both the local and foreign investors who have immensely flooded the Dubai's market.

The Dubai's diversification plan has worked and it is more diversified economically than the rest of the neighbouring countries in the Arabian Gulf according to the opinion of the senior civil servant. This is due to the complete shift from dependence on oil proceeds as the main source of revenue to a vast service based economy. The tourism sector is the main income generator service that the country has shifted attention to. The joint indulgence between the public and the private sectors has steered the country in formulating and realizing its 2015 strategic plan.

### 5.3.3 Dubai Department of Tourism and Commerce Marketing (DTCM)

According to the Dubai Department of Tourism and Commerce Marketing (DTCM) (senior civil servant interview, 2011), provides an outline of the formation of the department, the policy framework of the tourism sector, the role of the department and the challenges facing the department. The department's formation was in January 1997. According to the senior civil servant, the mission of DTCM is to ensure Dubai is a leading tourism destination and a commercial hub. The DTCM has two main parts of responsibility. The first is to take the role of the Dubai Commerce and Tourism Promotion Board (DCTPB) which is promoting tourism interest and international promotion of Dubai's commerce (Oxford Business Group 2008, p. 180). The second responsibility is being the principal authority for the supervision, and planning of the tourism sector in the emirate. The senior staff adds that, the mission of DTCM is to upgrade the Dubai economy through: Development of sustainable tourism, promoting the Dubai Tourism and Commerce opportunities. The mission of DTCM is also

providing visitors, with a unique experience of quality service and value for their money, and developing further, the partnership with DTCM industry stakeholder.

The DTCM in its marketing roles plans and implements a programme consisting of a combination of international promotion and publicity activities according to the senior staff. The programme includes marketing visits, exhibition participation, presentation, advertising brochure production and distribution, media relations, familiarization and assisted visits, and enquiry information services.

the Department of Tourism and Commercial Marketing has a quality policy for commitment, the senior staff said. The first commitment is to satisfy customers' requirements, and comply with the relevant laws and regulations, so to achieve their vision and mission. This is possible through implementation of a Quality Management System (QMS) that comply with the international standard ISO 9001:2000. The second commitment is to improve effectiveness of the QMS, and having set quality objectives for monitoring the improvement performance. DTCM monitors the performance of their business processes according to the Dubai Award for Government Excellence.

DTCM communicates this policy to all its members of staff, and it displays the policy in all its offices in different locations. DTCM reviews the policy periodically so as to make sure it is suitable to its need and to the needs of its employees and customer. According to the senior staff, DTCM has powers from the Government of Dubai to deal with Dubai's tourism sector. This includes: To issue instructions and legislation from time to time which govern Dubai's tourism industry. These activities enable DTCM in ensuring a high level of experience in their visitors and customers across the tourism value chain. The achievement of high level of experience is through the responsibility in classification of hotels, guest houses, and hotel apartments; issue, amend, and terminate all tourism related activities; issue permits for entertainment events, exhibitions and conferences. The Dubai Tourism Policy Framework has different categories as listed below.

Tourism licensing: DTCM's responsibility includes administrative tasks that relate to the issue of tourism licenses, follow-up with licensing procedures that comprise of preliminary approvals, amendment, renewal and cancellation. Its responsibility includes:

The second category is simplifying procedures in a practical manner so as to meet the general system requirements and also the quality criteria; to meet the customers' interest according to the DTCM's general policies.

A follow-up with the tourism licenses in accordance with the UAE laws and administrative orders. Observing the Islamic and Arabic traditions and values, and contacting other government departments.

Classification: According to the provision of Law No. (1) of 1997, and H.H General Sheikh Mohammed bin Rashid Al-Maktoum, Chairman of DTCM, DTCM and other parties have come up with a clear and objective system used in classifying visitor accommodation that covers all guest houses, hotels and furnished apartments in Dubai.

Permits and Inspections: DTCM has the administrative tasks of issuing either permanent or temporary activity permits, and following-up the authorized activities so as to ensure that, they comply with the laws and regulations in Dubai. The department is responsible for the effective issuance of permits, imposing of fines on violators, and completing entertainment transactions in the respective departments.

The global competition and economic influence expose the tourism industry according to the senior staff. Therefore, DTCM's capacity to compete and make an achievement on the grounds of quality, and value for money is a determination from the following key factors.

Create a Foundation, for a sustainable feasibility study in the tourism sector. This includes researching on the strengths, weaknesses, opportunities and threats available in the tourism sector. The strengths in the tourism sector include things such as, an international network of affiliates or having a recognized brand in the tourism industry. The weaknesses that can be available in the tourism sector are limited international experience or lack of a competitive marketing campaign. Opportunities in the tourism sector might be starting to offer vacations in a newly opened up area or newly created market segment. The threat that the tourism sector can face is recession. This can negatively affect the tourism industry. By carrying out this research, DTMC will be able to compete in the tourism sector.

Strong public-private sector partnership is a key factor. When the Government and enterprises work together, they achieve more in the sustainability of tourism development. The collaboration is possible through partnerships involving: International bodies, national tourism authorities, government, international and national industry associations.

According to the senior manager, the DTCM faces many challenges in its way to achieving its aims and they are as follows.

First challenge is a Huge Supply of Rooms. DTCM has the responsibility in classification of hotels, guest houses, and hotel apartments. This leads to high level of experience in their visitors and customers across the tourism value chain.

Second challenge is Global & Regional Competition in the tourism sector. DTCM faces competition from tourism industries in other countries. This becomes a challenge in attracting visitors and customers in Dubai.

Third challenge is negative publicity due to unrest in the Region. The Middle East countries are a war zone that hub group of terrorists. This scares away visitors and customers from the region. Dubai, being a city in the Middle East, faces a challenge in convincing tourists into the area.

Fourth challenge is Delayed Tourism Attractions. An excellent example is the Hydropolis which is an underwater hotel in Dubai. This is a world class project which is a veritable Dubai attraction. Unfortunately, there is a delay in its construction hence, preventing Dubai from hosting visitors who come to see it. This, therefore, becomes a challenge to DTCM.

Fifth challenge is improving and sustaining Service Quality. Mainly due to cost advantages, tourism service providers may resort to less-skilled manpower that may result in compromise of service quality. Tourism service providers such as taxi drivers need to be more customer-focused.

Sixth challenge is Environmental Sustainability. Growth in the tourism sector causes a negative impact on the environment which handling should be in a mere responsible manner.

It becomes a challenge to DTCM in controlling the large number of tourists by ensuring that the tourists maintain the environment as they find it (Oxford Business Group 2008, p. 180).

Seventh challenge is implementing new tourism sector laws, standards, regulations & legal clarity. DTCM faces an enormous challenge in implementing the new set standards. This is because the new set standards prevent some business to venture in the tourism industry. It also takes a longer period for some businesses to comply with the new legal clarity, laws and regulations. This, therefore, becomes a challenge to DTCM since it cannot achieve the projected returns from the industry (Oxford Business Group 2008, p. 180).

The DTCM will strive to overcome these challenges according to the senior civil servant by taking advantage of the following opportunities and strategy:

New markets development and market segments strategy. DTCM can develop markets by venturing into new areas. This will enable them increase the amount of visitors and customers in their tourism industry. The senior staff adds that DTCM can further penetrate the existing markets and market segments. DTCM can also decide to market the existing markets so as to increase the number of tourists in Dubai. DTCM should ensure that it creates employment opportunities for Dubai's citizens, who may have ideas of improving the tourism sector. This reduces the possibility of other tourism industries from picking the nationals. The senior staff says that, DTCM should ensure that the local tourism businesses extend their tourism services, so as to serve a larger number of people. According to the senior staff, DTCM should establish Time-share and Self-Catering Segments. Timeshare is the right to use a property. The property mostly includes resorts. This, therefore, can be a significant step by DTCM in creating these timeshare resorts for tourists who visit Dubai. The timeshare resorts can also be self-catering so as to give the visitors and customers, freedom to enjoy Dubai. According to the senior staff, DTCM should solidify Dubai's position as a Cruise Hub. Dubai cruise hub can host five Mega-liners at the same time. This success confirms that Dubai can embrace the growth of cruise tourism.

The DTCM needs to attract Foreign Direct Investments (FDI) and Foreign Companies setting up in Dubai according to the senior staff. This attracts more visitors and customers to the tourism industry. The visitors and customers might be from the new foreign companies in



Dubai. The senior civil servant says that, DTCM needs to improve the Global Market Share in MICE Segment. M.I.C.E is acronym meaning Meetings, Incentives, Conferences, and Exhibitions. M.I.C.E is a type of tourism, which brings well-planned groups together, for a particular purpose. It brings together groups, so as to hold meetings, conferences, exhibitions or for leisure purposes.

During marketing operations, DTCM continually evaluates its activities throughout the period of its validity, with assessment conducted twice in a year to ensure that the goals and objectives are achievable according to the senior civil servant. DTCM also has come up with E-services for its customers. DTCM offers the following services:

A One Stop Information Centre (OSIC). OSIC provides full information of tourism and commerce marketing of Dubai. OSIC researches and compiles statistics on Dubai's hotels and hotel apartments. OSIC also researches and gives information for all DTCM publications. OSIC provides back-up information to the DTCM staffs for overseas exhibitions, meetings, press conferences, missions, and press releases. OSIC maintains DTCM's library tasks which includes, compiling lists of upcoming development projects; visa statistics; foreign trade statistics; airport passenger statistics; and foreign companies listings.

Inward Mission. DTCM hosts numerous missions for top-rank government delegations. The department arranges meetings within the department for the missions, and outside bodies. The arrangement of the meetings is within one week, and the missions confirm the meetings. The confirmation should at least be two working days before the fixed date of the meeting. DTCM also arranges a meet and assist service that takes place at the airport. This occurs according to the Visitor Information Bureau's procedures. The Strategic Plan's success is due to the collective effort of all stakeholders.

#### 5.3.4 Policies to make Destination of Dubai

Sharpley (2008) indicates that planning is a key component of a sustainable tourism sector. The tourism sector in Dubai is developed through careful plans that ensure its success hinges and contributes to the success and availability of other economic and social goals (Sharpley, 2008). Tourism planning is a political process and its success in Dubai has been

because of the political leadership of Dubai (Sharpley, 2008). In Dubai, the government has taken a dual role of establishing policies and plans for development as well as managing the development of tourism (Sharpley, 2008). The political system of Dubai concerns itself more with the creation of consensus among political allies rather than imposition of decisions (Sharpley, 2008).

As one hotelier in Dubai stated, "Dubai work hard with a clear vision to secure a place among the top tier destination in the world" (Dubai Hotelier 2, Interview). The leadership in Dubai recognizes tourism for its vital role in bringing in foreign-direct investments. The first initiative to promote Dubai as a destination targeted business travellers through its well-established transport and infrastructural developments. The creation of the state-owned Emirates airline and the Dubai Commerce and Tourism Promotion Board (DCTPB) to oversee tourism development activities among various bodies were the first initiatives to develop Dubai as a tourist destination (Sharpley, 2008). The initial tourism sector development was very traditional. It relied on the provision of basic infrastructure to facilitate tourism as well as marketing activities to promote Dubai. The results of the initial program were favourable (El Sawy and Power, 2005). Dubai then proceeded to develop an ambitious plan that develops the sector into a new tourism industry. Under the plan, three development phases eventually accumulated to a 30-year total. However, specific plans and policies for tourism development in the two phases of the 30-year plan. Phase one of the plan ran from 1996 to 2000. Phase two started in 2001 to 2010. Currently phase three is under implementation and will end in 2020 (Sharpley, 2008).

Phase one of the plan started with the creation of a single tourism authority. In 1997, DTCM came into existence (Sharpley, 2008). The role of the department is to be the lead authority in planning, supervising, and developing tourism in Dubai (DTCM, 2006). Principally the chairperson of DTCM is also the ruler of Dubai. The organization has the power over the legislation concerning tourism development. Other than the formation of DTCM, phase one also included the involvement of external consultants to provide advisory services for the DTCM in the long-term (Sharpley, 2008).

Other notable contributions during phase one includes the creation of pro-tourism policies such as the open skies operation of the state-owned airline, Emirates. There was also

the increased focus in developing hospitality facilities and tourist attractions. In this regard, the Dubai Shopping Festival was born as an activity that will serve as an attraction for tourists during the low-booking season (Anwar and Sohail, 2004). There was also the creation of public-private partnership guidelines that guide investments and reduce their risks. Notably, after a decade of existence the Dubai Shopping Festival, which started as a public project, is now a fully-private- funded initiative (Anwar and Sohail, 2004).

In phase two of strategic plan, the success of phase one was reinforced with key developments. Phase two was driven by DTCM whose role remains the marketing and promotion of activities that enable Dubai to realize its vision. The management mandate of DTCM was increased to include the licensing of investments in the hospitality industry that caters for tourists. These include hotels, tour operators, and transport operators. In addition, the DTCM also contributed to the various successes of other concepts of the strategic plan such as the development of sustainable tourism, and increase in private-public partnerships. To address the challenge of skilled-labour supply, the DTCM initiated methodologies that helped to enhance the local population skills and employment opportunities (Sharpley, 2008).

An environmental task force formed in 2002 and stakeholder meetings within the same period ensured that environmental policies were formulated and implemented within the tourism industry. To encourage more visitors to fill in the increased facilities in Dubai, the government relaxed its visa requirements. The result of liberalized visa requirements and international investments restrictions was the increase in the number of arrivals in 2002. Land policy changed to allow foreign ownership of land under 99 leases. Much of the facilities and attractions that Dubai is now known for were developed in the second-phase implementation of the 30-year strategic plan. This includes the Palm Islands developments. State-owned development companies like the Nakheel Hotels and Resorts and the Dubai Holding undertook the development of the key attractions (Sharpley, 2008).

### 5.3.5 Sustainability Policies- Dubai Tourism Sector

The success of Dubai's economic diversification though tourism hinges on the success of other sectors of the economy such as the financial sector and the construction sector. Likewise, the tourism sector success serves as the backbone that ensures other sectors have a

mandate of operation. The result of the interdependence is the growth of all economic sectors leading to the growth of the whole economy of Dubai (Anon, 2003). The future of tourism-based economic sector remains in the sustainability of the attractiveness of destinations. Not only does tourism create jobs for the local population of Dubai but it also maintains the well-being of local societies at levels beyond the stocks of the economy.

According to Stephenson, Russell, and Edgar (2010), Dubai's development ethos is 'bigger and better' than the rest of the world. Arguably, the city has successfully become the home of major brands in all industries. The Department of Tourism in Dubai packages the destination as "retailtainment", a term that refers to the combination of shopping and entertainment opportunities that serve to entice playfully visitors. The rare distinction is best viewable in the mall culture of Dubai that extends beyond the purchase of consumer products. In Dubai, malls have Olympic sized ice-rinks and even aquariums (Stephenson, Russell and Edgar, 2010). The developments put Dubai at the centre of the iconographic destinations of the world.

Although the presence of iconic development acts as tourist attraction, the sustainability of tourism of Dubai is dependent on the culture of the city that shapes the visitor's experiences. Dubai to the minds of many remains a relatively expensive destination that is left for those who can afford the luxurious prices. The recent global recession has affected the tourism negatively. The impact has led to the realignment of the tourism destination as fit for both high-end spenders and budget-spenders. The success of the new strategy largely depends on the ability of Dubai to globally recreate the perception of potential tourists (Stephenson, Russell, and Edgar, 2010).

As the civil servant indicated, "While the Dubai tourism industry will remain exposed to continued global competition and economic influences a key factor that is foundation for sustainable feasibility within the sector will be its capacity to compete on the grounds of quality and value for money"(Senior civil servant at the Department of Tourism & Commerce Marketing (DTCM) , Interview). Rather than Dubai concentrating only on budget-friendly facilities to increase the number of visitors, it is also taking initiatives in creating new attractions. Dubai has alternatives that could lead to a long-term sustainability of its tourism sector once harnessed. A main challenge remains in making sure that the new developments reflect Islamic principles that govern Dubai and at the same time culturally promote the

destination. There have been some developments to promote the Islamic elements present in Dubai such as educational trips to the historic Jumeirah Mosque that is made famous because of Ibn-Battuta. Ibn-Battuta was a historic traveller in around Muslim and non-Muslim states for 30 years (Campaign (UK), 2008).

In line with Islam element of society, Dubai continues to influence investments into hospitality businesses in compliance to Shari'ah (Anon, 2008). The development of businesses along the Shari'ah principles ensures that eventual forms of hospitality tourism remain grounded on the behaviour codes that are similar in the whole sector. Such behaviour codes then become the cultural expectation and indeed perception of visitors in Dubai. Thus, apart from travelling to Dubai for its iconic luxury, western visitors will also be attracted to the Islamic culture experience in business and in their leisure activities. This goes a long way in differentiating Dubai from other similar tourist destination. Furthermore, it guarantees Dubai's repeat visitors keen to assimilate the cultural experience and this contributes majorly to the sustainability of the tourism sector (Travel Weekly, 2006).

The tourism industry rides on brand initiatives. The brand of Dubai is lived by both the tourist and the server. The employees of the hospitality establishments and the local population contribute to the sustainability of Dubai as a tourist destination. To ensure the success of the brand, there is a need to employ local labour that represents the long-term agenda of Dubai (Stephenson, Russell and Edgar, 2010). Unfortunately, the relatively large demand for the hospitality sector of Dubai that is brought by the success in tourist marketing initiatives cannot be met by the local labour supply. Dubai has to lure immigrant workers in its hospitality industry to ensure that it adequately meets the demand without compromising on the quality. The labour shortage serves as one of the critical factors influencing the sustainability of the tourism economic sector of Dubai. Therefore, while Dubai constructs magnificent hotels and other tourist facilities, it still has to find the right type and number of staff to run the facilities and serve clients (Michael, Armstrong, Badran and King, 2011).

Another key factor in the sustainability of the tourism sectors is the existence of an economic stability. Dubai is a member of the United Arab Emirates and this has significantly contributed to its political stability in comparison with other states in the Arab world. The UAE has a low population of opposition regime and in addition, the state government maintains an elaborate control system on all aspects of sectors in the country. The government

also monitors all organizations including religious ones operating within its boundaries. The lack of work force and resources also serves as a factor contributing to the stability of Dubai. Dubai, being part of the UAE, enjoys a relative protection from the Western military that is keen to protect its source of fuel energy. To ensure that there is political submission of its citizens, which is necessary for the sustainability of its tourism sector, the government provides for the well-being of its citizens such as jobs and subsidizes key social services such as healthcare, education, and housing. The social bargain results to economic advantages and an increase in the GDP (Gross Domestic Product) of the states as citizens involve themselves in economic activities rather than political activities.

As of the now, the economy of Dubai relies more in rent than on revenue from oil (Vardhan, 2008). The government strategy lies in increasing the rent income of the state from the economic sectors that form its economic backbone. This explains why the government has made major inroads in building tourist attractions that might rather appear obscene when observed from only a cost perspective. The success of Dubai's diversification program has been attributed to its single leadership. It is a demonstration of a committed plan to implement economic modernization coupled with the resources to do so. Before 1995, Dubai leaders were not so focused on economic diversification. However, when the current leader took over the initiatives to diversify the economy it becomes more focused and stronger.

Henderson (2006) presents an overview of the Dubai tourism industry. The author notes that despite the large Middle East having various cultural and natural attractions, the region only attracted 4.6 per cent of the world's total travels in 2005. Thus, the region is one of the least- developed tourism in the world. Among all the Middle East states, Dubai is at the forefront of reaching out to tourists and travels from the world. As a result, the emirate has been able to achieve annual increases in the tourists' arrivals since 1982 (Henderson, 2006).

The factors that determine the success of a tourist destination have also been the factors that have enabled Dubai to stand-out as a successful economic diversification example in the Middle East. They include political and economic stability, government tourism policy, accessibility, amenities, and attractions. In addition, promotion of the state has played a crucial role in its visibility in the world tourism market (Bagaen, 2007).

The government serves as the largest beneficiary of a successful tourism sector. The sector provides jobs and the most desirable increase in the country's GDP. The importance of the tourism sector to the economic livelihood of a country compels its government to play a crucial part in initiating and sustaining its development. The success of Dubai as a tourist destination has largely become possible through the effort of the government. The UAE government policy that encouraged infrastructure development is largely credited with the eventual development of Dubai as an economic hub of the region. The federal policy of the UAE also contributed to country's early diversification efforts that saw the emirate invest substantially into its tourism and travel sector.

The leadership of Dubai placed tourism at the centre of its diversification program. Other diversification programs were construction, telecommunications, media, finance, and real estate (Henderson, 2006). Eventually, the economy of Dubai shifted to become a service-based sector. A former Crown Prince of Dubai directs the Department of Tourism and Commerce Marketing (DTCM), which is responsible for tourism development. The strategic vision of DTCM also serves as the overall vision of the leadership of Dubai, which is to make the country become the leading tourist destination and the world's commercial hub. The leadership of Dubai have strategic goal of having 40 million visitors by 2015 (Henderson, 2006). Dubai aims to increase its total number of rooms from 18,000 in 2005 to 80,000 (Sharpley, 2008).

To ensure that the tourism sector achieves its objectives as outlined in the vision of DTCM, Dubai continues to develop infrastructural capacity. Thus, the emirate has developed a world-class airport that makes it an air transport hub. As an adaptation to the Singapore model of economic diversification, Dubai also attracts international visitors as a cruising hub destination (Michael, Armstrong, Badran and King, 2011).

As Dubai continues to develop its tourist attractions, it also attracts investments from international investors hoping to be part of the success of the emirate. Most notably, oil profits of Saudi Arabian investors have found their way into Dubai through major property

### 5.3.6 Economic Diversification Policies in Dubai

This section examines the role of the government in Dubai tourism through its policies in encouraging economic diversification. In 2003, tourism became the economic backbone of Dubai when its revenues beat those of oil for the first time (Henderson, 2006). The development of tourism forms the heart of the economic diversification strategies of Dubai. The crown prince of Dubai, Sheikh Mohammed bin Rashed al-Maktoum is at the centre of most of the ambitious projects that display Dubai as a tourist destination. What Dubai lacks in natural resources is compensated with artificial ones. For example, the Palm Tree Island in Dubai serves as an alternative for lack of natural beaches (Anon, 2003).

It might appear that Dubai aims to be the Las Vegas of the Middle East due to its grandiose projects and facilities, however, that assumption is far from true. The economic diversification program of Dubai mirrors that of its Asian neighbour, Singapore. The pillar of economic diversification rests in ensuring that Dubai becomes and remains the centre for travel, tourism, and business. Just like Singapore, Dubai is a city-state with the drive of a strong leader and a very limited natural resource endowment.

By following the Singapore model, Dubai uses the Dubai Development and Investment Authority to oversee its strategy of transforming it into a central attraction for not only tourists but also foreign capital that will finance its major projects. The Dubai Development Investment Authority oversees the tax free zones that serve as a magnet for regional offices of major multinationals (El Sawy and Power, 2005).

The economic diversification strategy of Dubai is essentially a corporate business strategy led by the leader of Dubai. Its principle in a nutshell reads “build it and they will come” as in the movie "Field of Dreams". This refers to a business-friendly environment and an excellent tourist attraction. Businesswise, over the last two decades, Dubai has walked the talk of its ambitious plans by cutting corporate taxes and tariffs that have successfully transformed it into a business hub. While it attracts businesses, it also aims to convert the new business into residents and business travellers into tourists. Today, in terms of infrastructure



development, it has one of the biggest and most modern airports of the world, an excellent port, and is arguably the most wired city in the region. This serves as supporting infrastructure to its high profile tourist spots.

**Table 5.9: show Passenger movements at Dubai international airport, 1998-2010**

Passenger movement in millions			
1998	9.7	2005	40.7
1999	10.7	2006	28.7
2000	24.7	2007	34.3
2001	13.5	2008	37.4
2002	15.9	2009	40.9
2003	18.0	2010	47.1
2004	21.7		

Source: Dubai International Airport Reports

Successful economic diversification through tourism has earned Dubai the title of the most successful cities of the 90s along with Las Vegas and Dublin. The new title follows the measurement of real estate activity and economic growth. Results of the economic diversification strategy of Dubai include a less than 5 per cent of annual unemployment rate. This is half the average rate of larger Arab states such as Egypt.

**Table 11 Dubai Hotels, Hotels Room and Visitors, 2001 – 2010**

	2001	2002	2003	2004	2005
<b>No. of Hotels</b>	264	272	271	276	290
<b>No. of Rooms</b>	21,428	23,170	25,571	26,414	28,610
<b>Occupancy Rate per cent</b>	60.9	70.1	72.36	81.1	84.57
<b>Revenue (Dh billions)</b>	2.79	3.41	4.02	5.06	7.91

	2006	2007	2008	2009	2010
<b>No. of Hotels</b>	302	319	341	352	382
<b>No. of Rooms</b>	30,850	32,617	37,261	43,419	51,115
<b>Occupancy Rate per cent</b>	77.3	81.4	80.4	68.8	70.0
<b>Revenue (Dh billions)</b>	8.90	11.6	13.2	10.6	11.3

Source: DTCM report

**Table 12 Dubai Hotel Visitors, 1998-2008**

<b>Year</b>	<b>Visitors (millions)</b>
<b>1998</b>	<b>2.1</b>
<b>1999</b>	<b>2.4</b>
<b>2000</b>	<b>2.8</b>
<b>2001</b>	<b>3.0</b>
<b>2002</b>	<b>4.1</b>
<b>2003</b>	<b>4.3</b>
<b>2004</b>	<b>4.7</b>
<b>2005</b>	<b>5.2</b>
<b>2006</b>	<b>5.4</b>
<b>2007</b>	<b>5.8</b>
<b>2008</b>	<b>7.5</b>

Source: DTCM Reports

With the number of tourist increasing yearly, Dubai embarked on a mission of building world class hotels. Dubai had slightly over 500 hotels in 2010 and the number is on the increase as more hotels are being built. Dubai is still in the process of expanding its hotel capacity as it projects more visitors. Over 100 new luxury hotels and villas are expected to be come up in the next five to seven years. These include nearly over 80 hotels on the Palm Islands. The average hotel and villa occupancy levels in Dubai hotels in 2010 was 81 per cent against 72 per cent in the year 2003

### 5.3.7 Operationalizing Tourism

Dubai's economic success in recent years is attributed to its fair policy of capital allocation to both private entities and state-owned businesses. Tight credit markets stifle entrepreneurs and go against the first rule of wealth-creation, which is the provision of a relatively equal access to capital for all. In addition to free access to capital for both state-owned businesses and private entities, Dubai also provides attractive investment opportunities through its liberal economic climate.

*" The strong public-private sector partnership will also enable the achievement of Dubai tourism aims and objectives " (Senior staff at the Department of Tourism & Commerce Marketing, Interview),*

The liberal economic climate attracts Arab commercial banks to invest in the country. Most notably, the elites of Dubai show confidence in their state by locally reinvesting their money unlike their Arab countries counterparts who keep their money offshore. The easily available capital as compared to other Arab countries allows Dubai to afford its grandiose projects that subsequently transform it into a major hub for tourism and business. Economic growth rests with the nurturing of small and medium enterprises (SME).

*As the senior civil servant stated the "Government of Dubai depend in the joint venter between private and public sector in achieving its strategy goals" (Senior staff at the Dubai Department of Economic Development, Interview).*

The Dubai government has notable programs that display its commitment in nurturing local small and medium enterprises. For example, the Dubai-based Mohammad bin Rashid Establishment for Young Business Leaders offers consultancy and incubator services that target small and medium enterprises (Molavi, 2004). In the local SME promotion program, young business leaders obtain loans, legal and tax advice, business-plan writing assistance, and link with local business leaders. This ensures that new businesses successfully transform

from start-ups into establishments. Moreover, given the overall government strategy of developing Dubai into a lucrative tourism destination, small and medium enterprises provide the necessary investments that are important for the realization of this strategy. Without their input, it would be impossible to make use of the various trade and investment facilities that the government provides (Molavi, 2004).

To further sustain economic growth, Dubai aggressively promotes its tourist attractions. It runs advertisements on the global media that display its tourism destination and travel destination strengths. Dubai boasts about its central placement in a geographic region that makes it the travel hub for regions like East Africa and the Indian subcontinent (Molavi, 2004). Dubai's government strategy of diversification moves further than "building it and they will come" as in the film 'Dream Fields'. It freely embraces free markets. Dubai's economy is open and in addition, the government believes that it has the responsibility of creating the foundations of a properly regulated market. This puts Dubai city in between the Singapore model and the Silicon Valley model. Singapore is a top-down-government-directed development while Silicon Valley is a bottom-up-individual-driven initiative.

The economic success of Dubai shadows its ruined authentic Arab character that sometimes makes it the reason for the formation of leftist Arab intellectual critics. The cities' glassy skyscrapers and shopping malls now symbolize the opportunity that the city presents. Its attractiveness has not only brought in tourists and business travellers but also immigrants keen to create better lives for themselves and their families. The larger Arab and Indian working class would now grab the opportunity of permanently moving to Dubai. Their belief is that the economic environment of Dubai creates opportunities for everyone. The influx of immigrants ensures that there is a reliable supply of labour for the tourism industry in Dubai. In addition, new immigrants who attained economic success transform into local tourist who tour the city and its attractive facilities during the low foreign tourist seasons (Molavi, 2004).

Ryan and Stewart (2009) describe the intricate ways in which the government in Dubai combines the ideals of Islam and its desire for making the country the centre for

business, travel, and tourism. Dubai's appeal mainly rests on luxury. However, there is an emerging niche of destination tourism placing it strategically as a centre for culture, heritage, and the fauna of the Arab desert. Eco-tourism is a concept of making areas of protection for endangered species and reclaiming of land serve as tourist attractions. In Dubai, the Al-Maha serves as an eco-tourism resort with a difference. It combines luxury and conservation presenting a unique style of Dubai ecotourism (Bagaeeen, 2007). It is a desert recovery scheme that falls under the official ecological program of the United Arab Emirates. The program concerns the "greening initiative" that includes tree planting. The tree planting initiative is in line with Islamic cultural norms of paradise which the Qur'an describes as a green place (Ryan and Stewart, 2009).

However, rather than conserving a green place, the initiative involves restructuring and changing to make the Dubai desert a green place once more since its climate is mostly hot and dry (Bagaeeen, 2007). Summer temperatures reach as high as 30 degrees Celsius. The region receives sparse rainfall, sometimes raining only once a year. Camel grazing continues to threaten the inland desert ecology of Dubai (Gallacher and Hill, 2006). The activity has been in existence for the last two century and is mainly responsible for the larger desert in the United Arab Emirates. There have been no restrictions on camel breeding in Dubai (Ryan and Stewart, 2009). In addition, the strong attachment to camels due to the local interest in camel racing has substantially led to an increasing camel population in Dubai (Khalaf, 2000).

### 5.3.8 Al Maha – An example of Dubai's diversification policy

The Dubai's Al-Maha is part of the travel-and-transport-related Emirates Group. Accommodation in the resort is season based with a minimum charge of a thousand dollars. It has a guest capacity of only 96 but it compensates it in luxury provisions. It offers a high standard cuisine, 42 individual pools, camel riding, horse riding, and four-wheel driving in the desert dunes. It also allows other three operators with government permits to operate within

the sand dune reserve. The reserve area annually serves an average of 150,000 tourists. With the inclusion of horse riding and other activities, the tourist figure easily surpasses the 200,000 mark. The huge number of visitors and the individualized resources they demand make Al-Maha a very resource hungry resort that still boasts of being an eco-tourist operation (Ryan and Stewart, 2009).

Furthermore, Al-Maha is a fenced-off enclosure that covers almost 70 kilometres in the southeast direction from Dubai. It also covers 10 kilometres from the Hajar Mountain Range. The mountain influences the water availability in the region. Its soil has poor organic matter. It is possible to reverse the degradation of this conservancy because of the water that exists in aquifers that follows underground channels from the Hajar Mountains (Ryan and Stewart, 2009).

The Dubai government markets the area of Al-Maha as an ecotourism destination. It attracts environmentally responsible travellers and visitors to see its undisturbed natural areas. Restricted access ensures that negative visitor impact remains low. The definition of ecotourism bases on the demand of appreciating nature. However, in Dubai the supply of an ecotourism destination serves as the driving force for the ecotourism activity. The success of Al-Maha makes it to be the main attraction for ecotourism destination. In addition, it represents a depiction of how the government of Dubai pushes forward.

What makes Al-Maha a successful ecotourism operation lies in its management. An operation regenerates the desert (Bagaeen, 2007). Other than excluding camels from its conservancy, the operation has also brought in mammals and other previously extinct species which makes it a tourism facility that conserves flora and fauna (Gallacher and Hill, 2006). Since 2004, the operation has been involved in tree and grass planting within its conservancy. While conservation might have occurred without tourism, the Al-Maha would not be able to be both economically and environmentally appealing. In line with the government's policy of economic diversification into tourism, it now serves as a significant revenue earner and successfully regenerates flora and fauna in an otherwise desert landscape (Anon, 2008).

The restriction of visitors to an average of 200,000 per year allows the government to market Al-Maha as an exclusive luxury destination. This in turn allows demand to be in excess of supply and enable the charging of very high prices. Thus, a visit to Al-Maha is essentially a luxurious expenditure that is affordable to only a few. The strategy has so far served well the government's initiative, ensuring that the region remains a key attractive feature of Dubai and a key income earner (Anon, 2008).

Without high resort contributions, it would be very difficult to sustain the conservancy given the required resources to regenerate flora and fauna in the desert. In addition to leisure tourists, Al-Maha also attracts scientific research initiatives that further increase its ecological relevancy. It would appear that Dubai has no natural fauna and flora to conserve. The success of Al-Maha presents a different conclusion. Government initiatives demonstrate that Dubai is redefining ecotourism, moving the concept beyond conservation into reclamation (Ryan and Stewart, 2009). The Al-Maha region has also attracted businesses keen to tap into the lucrative desert touring (Krane, 2006). This goes a long way to extend the government's initiatives of providing the infrastructure to allow private entity's participation that subsequently contribute to the economic growth of Dubai.

According to Senior staff at the Dubai Department of Tourism & Commerce Marketing *"The Strategic Plan's success is a result of the collective efforts of all stakeholders"* (Senior staff at the DTCM, Interview).

The Dubai government diversification policies aim at encouraging private sector's participation in various industries such as tourism. To realize this objective, the government provides infrastructural support using its state machinery or directly engages with the private sector through its state-owned holding companies that act as private entities. The government aims to demonstrate, through its development projects, its commitment and reassure smaller investors of lower risks of investment. It may appear that the grandiose projects of Dubai do not make economic sense even in the foreseeable long-term. However, their externalities are evident enough of the crucial role that the grandiose project serves in making Dubai the centre for trade, tourism, and travel (Anon, 2003). developments that go into increasing the room



capacity of Dubai in line with its 2015 goal of 80,000 (Fonda, MacLeod, Roston and Masters, 2006).

### **Example (2) The role of Nakheel, and Emaar (state-owned companies) in developing some tourism capabilities in Dubai**

Tourism sector is a very crucial component of the economic aspects in Dubai. It is a part of the strategy by the government of Dubai to ensure consistency in the flux of finances into the emirate. Dubai's enticement for tourists fundamentally relies on shopping, though it is, as well based on other present attractions some of which are run by state owned companies. Dubai is the United Arab Emirates' most populous emirate among the seven emirates.

The state owned companies play a key role in development of tourism capabilities in Dubai. It is due to the role of these companies that the figures of tourism have recently increased. The hotel guests' number increased by ten per cent in 2011, and these visitors spent longer periods and more cash. The revenue collected during that period increased by 20 per cent to Dh16bn (Cronin, Sean). State owned companies like Nakheel real estate and Emaar real estate are key players in the Dubai tourism industry.

Nakheel is a developer of real estate in Dubai and maker of many projects of land reclamation that include the Dubai Waterfront, The World, the Palm Islands and The Universe Islands. This company owns several residential projects, which include International City, The Gardens, Jumeirah Lake and Jumeirah Islands Towers. The Nakheel real estate company also runs shopping projects namely, Ibn Battuta Mall and The Dragon Mart. This company also possesses the Queen Elizabeth 2 that was intended to be turned into a luxurious hotel. These projects play a crucial role in the tourism industry growth.

The Palm Island is among the key milestones achieved by Nakheel Company, which is a chain of three islands namely Palm Jumeirah, Deira and Jebel Ali. These three islands are also known as The World's Eight Wonder. Dubai has turned out to be a tourist destination that is more sought-after than before following the building of the Palm Islands. The overall

goal for the construction of this island was mainly to increase tourism capabilities in Dubai through the provision of a tourist destination of its own kind. It is brimmed with modern-day world-class hotels, glamorous services, as well as amenities and many Dubai beaches. The plan, to have the island constructed, was initially aimed at building the Palm Jumeirah but the plan was later extended to include the second island, the Palm Jebel Ali, by the Nakheel real estate (Destination360).

Queen Elizabeth 2 also known as QE2 is an ocean liner constructed for Cunard and, which has been in operation by Cunard between the year 1969 and 2008. After retiring from services in November 2008, the Queen Elizabeth 2 was to be converted into a floating hotel. This ship is 294 m long and has a carrying capacity of tons. The purchase of QE2 from the Cunard Line was a great move to make Dubai an international hotspot for tourism and leisure destination (Ragheb, Laith Abou, 2007).

Emaar is a state owned company that is presently the biggest real estate developer in the region of the Arabian Gulf. It has more than 60 companies and deals with many activities among them hospitality sectors. It has over 14,000 homes, and key projects of real estate that are undergoing development in Dubai. The Emaar is the owner as well as manager of The Dubai Mall, Downtown Dubai, the Gold and Diamond Park.

Downtown Dubai, which is owned by Emaar, portrays an exclusive mix of urban lifestyle combined with luxury, which comprises the major aspect of advanced Dubai. The New Downtown of Dubai was built during a period when there was a global fiscal crisis and Dubai had great debts. Because of this crisis, the completion deadline for the project was not met, and it was completed on a second deadline. Downtown Dubai is a complex that is man made with a mixed-use purpose. It is among the key programs of development done in Dubai. It is a complex that includes key landmarks called Burj Khalifa, Dubai fountain, Burj Khalifa Apartments and Dubai mall. Downtown Dubai is 2 square kilometers in size, which makes it a unique complexes development globally. Downtown Dubai is a commercial purpose place but it is also a major attraction of tourists from all over the world.

Burj Khalifa is the Dubai's top tourist destination and the world's tallest building at the moment. It holds the first position in the list of many tourists who visit Dubai. Not only is

Burj Khalifa the tallest building globally, but also the most important feature of exquisiteness and beauty in the Dubai city center. Burj Khalifa is a symbol of excellence, how it had been able to deal with the hard times when it was being constructed. Burj Khalifa is confined not only to hotels, but it also acts as a center for trade, malls, apartments as well as corporate offices. Burj Khalifa has played a key role, since its opening, in enhancing the tourism industry. For example, one year after it was opened, it has turned out to be the Dubai's largest attraction of tourists and has aided the hotels that surround it to raise business by 35 per cent in the year 2009. In January 2009, many merrymakers assembled around the Burj Khalifa, which gets a mean of about 4,000 visitors a day to its watching deck, to watch over fireworks display all over the world (Bundhun. Rebecca, 2011). Emaar also built the Armani hotel, an international house with an Italian design. It reflects simplicity, pure elegance, as well as sophisticated satisfaction that define the signature style of Armani. All details inside this hotel portray the signature of Armani, the Armani hotel is snuggled in the world's tallest tower, and it provides the sweeping sights of the city.

The Dubai Mall, which is also owned by the Emaar real estate company, provides an astonishing blend of world-beating dining, leisure, entertainment and shopping attractions. These attractions are all contrived to overturn the shopping malls industry's concept. The Dubai mall consists of various features that make it the best destination of tourists in Dubai. These features include a 9 Million square feet of shopping space that has over 1200 stores, a fashion avenue that has more than 70 stores that are committed to haute couture, a gold souk that holds about 220 retail shops and a five star hotel, the Address Dubai that has 244 guestrooms. It also has a 22-screen Cineplex, the Oasis Fountain Waterfall, an Olympic-size Ice Rink, SEGA Republic( amusement Park), as well as 120 cafes and restaurants (Emaar Malls).

The Dubai Mall offers service to a crowd-puller for tourism in Dubai to an extent that a visit to Dubai without visiting Dubai Mall is termed incomplete by most tourists. It is a place with many events taking place throughout the year especially when the season is at the peak, when many tourists fill the Dubai city. It is amazing scenery for people who have an interest in eating, shopping and travelling. It is also a top-notch area that people who want to

have fun can visit (Dubai.com. 2012). Being a round-the-clock destination for tourists, the Dubai Mall serves as a host to some of the biggest events as well as the best activities in which tourists rarely get a chance to be bored.

Dubai has grown as a worldwide city as well as a hub for business. Even though, its economy was established on the industry of oil, its business model drives its economy. It has been referred to as the Middle East's shopping capital since it attracts very huge numbers of shopping tourists from every corner of the world. The success of the tourism industry in Dubai can be accredited partly to many state owned companies like the Nakheel and Emaar, which have built a good number of the tourist attraction sites in Dubai

#### 5.3.9 Tourism Type Dubai Policies to Develop Tourism Products, Events, Marketing, Promotions, and Festivals

The Dubai government policies to develop the tourism sector products take the following forms of Develop Tourism Products, Events, Promotions, and Festivals :

##### **Shopping Tourism**

The major form of tourism in Dubai is shopping tourism and in fact Dubai is commonly referred to as a 'shopping paradise'. This form of tourism is boosted by the Dubai Shopping Festival which was established in 1996 and its aim is to assemble people from all over the world. The event lasts for a whole month and it is an important part of Dubai's tourism industry. The festival is usually characterized by different attractions all of which are intended to entertain the tourists who attend the event from all over the world (Dubai Events & Promotions Establishment [DEPE], 2012). This event has significantly contributed to the growth of Dubai and in 2009 it attracted 3.5 million tourists (DEPE, 2012). This event has been a success mainly due to the expansive shopping malls that are found in Dubai (DEPE, 2012). To promote shopping tourism in Dubai the government has enacted several policies one of which is the establishment of the Dubai Events & Promotions Establishment (DEPE) which is a department that is meant to promote shopping tourism in Dubai (DEPE, 2012). In turn the department has established events to promote shopping tourism and they include the

Dubai Shopping Festival, The Dubai Summer Surprises, and the 'Eid in Dubai' (DEPE, 2012). In addition, state-owned companies have over the years built shopping malls. For example Emaar Company owns the Dubai shopping mall while Nakheel owns the Battuta mall (Connel, 2011).

### **Health Care Tourism**

Dubai has in the recent past grown to become a popular destination for medical tourists. Previously medical tourists used to go to Asia and this made Dubai to suffer losses as even its own citizens were seeking health care services outside the emirate (Connel, 2011). The approach of Dubai to healthcare tourism has been to provide health care services of exceptionally high quality and to do this many doctors of German origin have been employed in Dubai (Connel, 2011). To encourage health care tourism in Dubai the government recently built the Dubai Healthcare City (DHCC) with the aim of serving the Middle East and the Gulf residents who often go to Asia to seek medical treatment (Connel, 2011). The city has hospitals and clinics which are meant to cater for medical tourists.

### **Eco-Tourism**

Another form of tourism in Dubai is eco-tourism. This attracts people who are committed to the preservation of the environment. There are numerous eco-friendly activities that individuals can engage in and they include traditional desert safaris, hiking and camping, scuba, and bird watching activities (Christensen, 2011). The Government of Dubai has started several initiatives to encourage eco-tourism and they include the establishment of a program that is known as the Green Tourism Award whose purpose is to encourage eco-tourism innovations (Christensen, 2011). An important part of this initiative includes the reduction of carbon pollution by the various tourism sectors such as hotels, and promoting activities that involve the celebration of the natural resources that are found in the emirate (Christensen, 2011). In addition, the government of Dubai through state owned companies has built desert resorts that are eco-friendly such as Al Mahha (Christensen, 2011). The government has also built many bird watching reserves as a way of promoting eco-tourism.

## **Sport Tourism**

For some time now Dubai has been trying to position itself as the ‘sports city’ which means that it has been intending to be recognized as the destination of choice for sports tourists. The efforts have paid off. According to Al-Abed, Vine, and Lellyer (2005: 293), Dubai “is already a top-class destination for sports tourism and it hosts many major international events”. The reason as to why the city has become a popular destination for sports tourists is because it has reliable weather and good sports facilities. The sports that attract tourists to Dubai include cricket, horse racing, camel-racing, tennis, and golf. Recently, a world class sports city that is known as the Dubai Sports City was developed in Dubai and it is “set on 50 million square feet” (Dubai Sports City, 2009: n.pag.). It has four large stadia one of which is meant for field events, rugby, and soccer (Dubai Sports City, 2009). The second stadium is meant for hockey, the third is meant for cricket and the fourth one is meant for concerts, ice hockey and hard court games (Dubai Sports City, 2009). In addition, the sports city has a golf course. Other facilities include various sports academies including soccer and rugby academies (Dubai Sports City, 2009). Some of the government’s policies to encourage sports tourism include the building of sports clubs for children, the promotion of football through the numerous local football clubs and supporting the building of the Dubai Sports City (Al-Abed, Vine, and Lellyer, 2005).

## **Educational Tourism**

Dubai has also become increasingly popular as a destination for educational tourists. There are very many educational institutes in Dubai that admit students from all over the world (Varlejs and Walton, 2009). Dubai has what is referred to as the ‘Knowledge Village’ and it comprises of different types of educational institutions (Varlejs and Walton, 2009). Recently an ‘International Academic City’ was built in Dubai and it is bigger and more modern than the Knowledge Village but the two work hand in hand to promote educational tourism in Dubai (Varlejs and Walton, 2009). The city has approximately 25 universities, both national and international (Varlejs and Walton, 2009). Some of the international institutions in the Academic City include the Rochester Institute of Technology and the University of Michigan. The international universities strive to offer “programs that have a competitive edge in Dubai” (Varlejs and Walton, 2009: 374). The government has been promoting

educational tourism by supporting the operations of the International Academic City through investor-friendly policies such as easy processing of student visas and policies that enable foreign investors to wholly own the institutions established in the academic city as well as to operate tax-free (Varlejs and Walton, 2009).

### **Cultural Tourism**

Cultural tourism is another form of tourism in Dubai. There are many places in Dubai that showcase their traditions and past way of life. These include the Heritage Village, the Dubai Museum which was established in 1799, and the Sheikh Saeed Al Maktoum House (MobileReference, 2010). The Heritage Village is said to have existed for the last 3000 years and it is made up of 30 buildings of different designs and sizes. Some of the materials used to build these houses include palm fronds, mud, sandalwood and hay (MobileReference, 2010). Another cultural attraction is the Sharia Mosque which is said to have been built approximately 200 years ago (MobileReference, 2010). The government has been promoting cultural tourism in Dubai through the establishment of the aforementioned DEPE. One of the responsibilities of DEPE is to develop an events calendar that keeps tourists informed of major events in Dubai including cultural festivals such as the Dubai International Film Festival that is meant to promote the African, Middle Eastern, and Asian cultures (DEPE, 2012).

### **Business Tourism**

Dubai is also a destination for business tourists. It has some of the best and biggest exhibition centres in the Middle East. At the present the number of exhibitions that are held in the city per annum are more than 100 and over one million visitors, In addition, numerous meetings, conferences, and seminars are held in the city (Smith, 2005). To promote business tourism in the city there are well trained and experienced business program organizers who help to make conferences, meetings, and exhibitions a success (Smith, 2005). The government's role in promoting business tourism has been to market Dubai as the destination of choice for both leisure and business through the Dubai Department of Tourism and Commerce Marketing (Smith, 2005). The government's role has also been to build exhibition

centres with the government-owned Dubai World Trade Centre (DWTC) being the biggest in the Middle East (Smith, 2005).

#### 5.3.10 Challenges influencing the Success of Tourism

Dubai remains vulnerable to the disturbances of its internal sectors and external events. Its tourism sustainability depends on the demand of its facilities. Therefore, factors that affect demand of tourism and travel in the world also affect Dubai's economic diversification. In addition, its proximity to other Arab countries that lack political stability offers a considerable risk that might be driving away sceptic visitors and investors. As discussed earlier in this paper, destination tourism is about perceptions as well as the facility provided in the destination. To counter any negative perception that may arise and damage Dubai's reputation, the government continues to invest in infrastructural developments. Silently, this reassures sceptics that their risks are lesser than those that the government is undertaking; therefore, they should not be afraid to invest in Dubai. As international businesses continue to set up shop in Dubai, the global perception of the destination also changes for the better. Visitors associate its stability with the presence of international brands. The intricate nature of involvement between perception, destination marketing, and international brands forms the basis of the government strategies in diversifying into the tourism industry (Anwar and Sohail, 2004).

The lack of expansion land that Dubai is likely to face in the near future should worry visitors much (Henderson, 2006). The government through unique projects such as the Palm Islands and the Al-Maha Resort and conservancy demonstrate that land is the least of the challenges that will affect the success of tourism in Dubai. In addition, an unprecedented increase in the tourist arrivals will only lead to the increase in the rents of the tourism facilities that further reinforce the country as a luxurious destination.

Emerging challenges for the future of the tourism sector in Dubai lies in the fact that DTCM is overly powerful and thus might not present a truly free economic environment that is required for the next development phase of tourism. Dubai still maintains a requirement for 51 per cent local ownership of land outside its free zones. The rule limits the amount of foreign investments that flows into the country. In cases where foreign investments exist, the



state owns the majority share and therefore significantly influences the running of the business. The provision subtly represents Dubai as an authoritarian state and may serve to discourage further investments in the long run (Sharpley, 2008).

#### 5.2.11 Conclusion

Tourism development in Dubai follows a path wherein the state adopts a leading role. In Dubai, the state has been the leading planner and entrepreneur. However, state involvement in Dubai tourism has not been only public. Though the ownership of corporations that operate as private entities, the state involvement in Dubai has also followed contemporary methods like those of developed economies with a keen reference on market-based policies.

## 5.4 Sharjah Case Study

### 5.4.1 Introduction

Sharjah covers 2600 square kilometres and this represents 3.3 per cent of the total UAE area. Its coastline extends 16 kilometres wide and 80 kilometres inside the sea, towards the Gulf of Oman. The main towns of Sharjah are Dibba, Al Hison, Khorfakhan, and Kalba. Sharjah has the second largest coast of the UAE in total area and neighbours Dubai. It has a population of almost 636,000 Emiratis. The emirate, just like Dubai and Abu Dhabi, shares its name with the name of its main city. The close proximity of Sharjah to Dubai allows most of its residents to work in Dubai and commute daily or weekly (Indigo Guide, n. d.). It straddles the peninsula, overlooking the Arabian Gulf in the west and the Gulf of Oman in the east. Sharjah has a well-developed commercial sector and boasts of a cultural centre that with many Islamic landmarks, museums, and parks (Fact Bites, 2007).

In 2006, Sharjah had a record economic growth that translated to a 19.9 per cent economic expansion. This was a jump from \$9.5 billion to \$11.6 billion. The economic success of the Emirate comes from its Hmarriyah Free Economic Zone that spans an area of 10 million square meters, which was constructed in 1995. The zone is home to more than 1100 companies. In the free zone, foreign ownership of business establishments and properties is 100 per cent permitted. On the part of tourism as a diversification program, its strength comes from the fact that Sharjah is part of the UAE. According to Blannke and Mia (2008), UAE already has a strong world rating as a destination. They indicate that the UAE has a welcoming atmosphere for tourists and travels such that it was ranked fifth in the world (Blannke & Mia, 2008). Additionally, Sharjah enjoys the eagerness of business executives who recommend it to their important contacts as a city and Emirate suitable for business and leisure trips. Based on this fact, the government of Sharjah ranks the tourism sector highly for its essential role in the economic diversification program of Sharjah.

Sharjah is an unsaturated market. It has a growing population and is politically stable. In addition, it has a well-established infrastructure. The emirate will achieve an economic growth rate of 10 to 15 per cent with the inclusion of government investments in the sector.

From 2005 to 2010, it recorded an average growth rate of 11 per cent (Ravi, 2011). To sustain the growth of its economy and specifically that of its tourism sector, Sharjah maintains presence at regional and international travel and tourism fairs and events as a way of carrying out destination campaign marketing.

There is the Sharjah Economic Development (SEDD) organization that simplifies investments and support successful projects in the Emirate economy as a way of adding to the economic value of Sharjah. The SEDD report on licenses offers a glance at the level of economic activity in Sharjah. It is used as an investment planning key indicator. The Emirate relies on the report for evaluation, improvement, and the direction of economic activity happening in the emirate. This way, it ensures that they align to its overall economic and social policy. In 2010, the SEDD report revealed an economic diversification trend in the trade, professional, and industrial sectors (Dubib.com, 2011). Recently, the Emirate suffered major petrol and power shortages. However, this has not deterred it from emerging as an economic front to recognize in the UAE. The emirate continues to invest in its tourism sector as a way of sustaining this recognition, besides increasing its GDP (Anon, n. d.).

#### 5.4.2 Background: Structure of the Economy of Sharjah

##### *5.4.2.1. Sharjah Economy Structure and Efforts to Reduce Income Dependency on Oil*

A according to the Sharjah Economic Development (SEDD) (senior civil servant interview, 2011), It is important to identify and understand the economic structure of a region or country in order to have a clear view of their future plans of the company. According to the interview, the processing industry in Sharjah ranked as the sector with the highest value-added amount among the other sectors within the region. The government is positioning the industry for it to be able to achieve sustainable development by benefitting from its lead role of being the leading engine to the development of the economy, either backwards in the direction of the raw materials, or forwards towards the direction of the intermediate of the final goods. This sector has contributed 21 per cent of the economy in 2008 and 20 per cent in 2007.

This sector, according to the interviewed senior staff, needs reorganization in order to make it suitable for the re-nationalization and the relative advantages of intermediate goods and available raw materials. This sector, after being restructured and reorganized should help in the achievement of a real increase in the outcome and ability to absorb manpower surplus. Aside from that, this will also help in directing the art of production towards the art of the rich which is bordered in capital technology. The development of the industry could also allow the national manpower to have proper training which could lead to the raise of the investment curve to a higher GDP by way of additional investment stimulus and multiplier.

Aside from that, the issue demands the setting of an ideal industrial plan which follows the international market network that will specify the most competing products to effectively penetrate the international market. This strategy of the re-structuring of this industrial sector must require suitable infrastructure and technical support that will offer financial facilities to the selected investors that will serve this strategy and support the technical art. This will hold true provided that the government will play the promotion and marketing on the basis of competition maps and restructuring process. Below are the other facts about the economic structure of Sharjah as described by the interviewee:

The real estates and businesses sector comes second in the total GDP structure, (14 per cent) for the year 2008 - receding from (15 per cent) for the previous year, 2007. Actually, this sector reflects a notable labour activity. It is known that the real estate activity, whether for accommodation or commercial purposes, is considered a mirror of a society that has the work ability and desire to achieve more progress and growth at the levels of the prevailing real values. The increase in the share of the real estate & businesses services sector in the GDP shall be preceded by a well experienced construction sector with a wealthy strong capital and rapid execution. The construction sector comes in the 4<sup>th</sup> rank, (11 per cent), 2008 and considered stable when compared to the year 2007 due to the stability of several factors which affect this sector such as bank financing and the prices of the production elements.

The wholesale and retail trade sector is ranked the 3<sup>rd</sup> with 12 per cent of the GDP, in 2008 compared to 11 per cent in 2007. When regarding this sector, there is a capability to nationalize some of these industries through the re-exporting process, on the favour of industrialization strategy, to replace some imported products as well as to export others. Thus, this sector needs to be activated because it can be an integrated cycle of production in the

future. A complete production cycle starts from the raw material, manufacturing, wholesale trading, and ends at the retail trading for local consumption or export. Creating suitable conditions and atmosphere for such a sector demands easy financing procedures and a choice of products that have the competitive advantages by a well oriented interpretation of the international competing maps and by specifying clearly the trade track.

#### 5.4.2.2. What is the oil and gas ratio to the gross local product?

Sharjah has a lot of industries and resources which becomes the source of revenue of the country. One of the main industries in which the region is dependent upon is the oil and gas industry. The region is the third largest hydrocarbon producer in the United Arab Emirates region in which the oil production is centered on the Mubarak field which lies near an area close to the Iranian territory. Due to this, Sharjah and Iran share with these resources in which Sharjah has the drilling and production rights while the revenue and production is shared with Iran. Also, there is about 20 per cent of the revenue of the company which they are gaining from their operation shared with the emirate of Umm al-Qaiwan and 10 per cent with Ajman.

In terms of the demand for gas, the major source of UAE for gas supply. In order to match the demand for gas supply in the region, the BP Arnoco Sharjah Oil Company which supply the major areas in the region. Its major consumers for the BP Armoco Sharjah are the following; Sharjah Electricity and Water Authority and the Dubai Supply Authority and the UAE Ministry of Electricity.

**Table 13 Sharjah Crude Oil & Natural Gas Sector**

<b>Sectors</b>	<b>2007</b>	<b>2008</b>	<b>Amount of change</b>
<b>Crude oil &amp; natural gas</b>	<b>6217</b>	<b>6609</b>	<b>392</b>
<b>GDP</b>	<b>59682</b>	<b>71994</b>	<b>12312</b>

Source: Sharjah Economic Department

It can be seen in Table 13 that there was indeed a positive change in the value demand for crude oil and natural gas in the region from 2007-2008 along with the positive increase in the GDP of Sharjah.

#### *5.4.2.3. Why Sharjah wants to diversify from oil?*

Aside from oil, Sharjah also has some resources available which could be a great source of income for the country. As much as the region wants to depend on oil alone, it is a practical knowledge that this resource could easily deplete and so the government are thinking of other avenues in which they could still have something from which they could gain their revenue from.

Based on the senior civil servant's opinion, this is so because of the following factors:

Oil and gas resources are limited and nonrenewable resources and their benefits are subject to vanishing by time. Although UAE is rich with oil and gas resources, this does not ensure for a long-term revenue for the country since oil and gas is limited and could easily deplete its supply should it not be properly protected and used. The same goes for the other non-renewable energy sources in the country. This is enough reason for the Sharjah government to look for other alternatives for its revenue source. The country should invest on its other resources to keep the country from growing.

The desire to shift from the concept of the rich country with a surplus into an emerging and developed country. With the country's rich oil and gas resources, Sharjah becomes a rich country which is able to support its citizens enough to provide them with good standard of living. This is the way Sharjah is positioned right now. Based on their current plans, the region wanted to veered off from this image and change it into being classified as an emerging and developed country. One way to do achieve this is by investing on other industries for the country and start working on developing the country more.

Benefiting from the relative advantage of oil and gas in raising the quality of the learning curve by establishing a leading industrial sector. Another reason on why the region wants to diversify its resources is because the region has enough funds and money to invest on other businesses and industries aside from this oil and gas industry. It would be a waste if

the country would not be able to maximize these benefits they gained from its operation in the oil and gas industry.

Encountering the economic crises and gaps by creating sectors that are capable to compete. In the midst of the current global economic competition happening, the region is likely to experience and faced with some crises and economic problems which they could surpass using the different industries that may be in direct competition with the global competition. These other sectors could be maximized its operation so that they could contribute to the development of the region.

Injecting the oil revenues surplus into the state economic development objectives. The revenue the region is gaining from their sales of the oil and gas industry could also be used to finance the other plans and strategies that are planned to be implemented for their economic development.

#### 5.4.2.1 Sharjah Economic Diversification Plans

Realizing that the region would be better off to diversify its revenue-generating industries, they made plans for the diversification of the economy. This plan tries to consider all the factors that the region believes could help to successfully implement these plans and would yield great benefits for the region. Based on an interview, below are the item included in the plan: Achieving a high level of stability in economy and prices; Increasing the rates of employing and depending on the selective migration; Enhancing the concept of competitiveness and quality in the private sector; The adoption of a package of stimuli and attractions to direct the investment towards the desired sectors,, and adapting the infrastructure to attract investment as well as amending the education policies; Focused industries would include the processing, tourism, and financial project sectors with an expected growth average of 10 per cent and 20 per cent.

In order to grow each target sector to match the economic policy of the region, there are some measures that are suggested in the process which includes the following:

- Activate the performance of the financial policy
- Consolidating the competitiveness aspect by activating the concept of standards and specifications (ISO),
- Consolidating the application of environment-oriented sustainable development,

- Long – term and mid - term strategic planning,
- Amending and suggesting a package of economic legislations,
- Benefiting from the geographical position to increase the tourism sector revenues which shall contribute the Emirate's GDP,
- Activating the industrial networks performance and the economic areas allocations,
- Conducting the exports policies according to the experiences of the other pre - involved countries,
- Improving the investments atmosphere, in general, to attract direct foreign investments,
- Benefiting from the national capitals inside and outside the country especially in the domain of food security,
- Preserving the Islamic doctrines and values, consolidating the social stability and solidifying the Emirate's identity,
- Developing the governmental sectors services offered to the private sector,
- Keeping on raising and improving the level and quality of life,
- Enhancing the man power, raising its efficiency and increasing its participation to meet the needs of the local economy,
- Diversifying the economic basis along with concentrating on the promising domains (processing industries of the dense consumption energy, mining industries, tourism, and the rich-capital production art),
- Improving the productivity of the economy and enhancing its competitive potentials,
- Increasing the private sector contribution to the economic and social development,
- Achieving a balanced development among the Emirate's various areas and bridging the developmental gap among them,
- Developing the system of sciences and technology and focusing on IT, scientific research and technical development in order to enhance the economic efficiency and the economy of knowledge,
- And protecting the environment and developing its systems within the frame of the sustainable development.



These new economic policies that are developed by the region are being relayed to the market packaged as one which serves the totality of the targeted sectors of the company which includes the following elements: activation of the performance of the financial policy, stimuli for the target projects and the hindrances for the undesired projects of the region. These packaged elements aim to improve the economic policies that will be developed by the region. In doing so, they would be able to make it good in their global performance. These policy-implementing processes are being monitored and controlled by the Sharjah government in order to efficiently implement and evaluate these processes. The managerial unit would be the one who would be in-charge of monitoring and controlling these policy-implementing processes.

#### 5.4.2.2 Tourism as a Key Strand of Sharjah Economic Policy

As globalization continues, transportation and communication become easier and more efficient. This attracts the attention of the tourists and visitors and caused the growth of the industry in the global scale. As such, it becomes a potential industry that could contribute to positive revenues for the different countries.

With this, the tourism industry could be a great alternative source of income for the region and be included in the options for its expansion. The global tourism industry made it big during these past years according to the UN World Tourism Organization in which Europe led the growth of the industry closely followed by Asia, Africa and South America. The economic recession during the 2008 however had a large impact to the growth and progress of the industry. The demand and need of the people to travel lessened due to the decrease in their purchasing capability. Although this has caused grave effects in the growth of the industry, countries were able to recover from this scenario and gain positive revenue from this and are expected to grow at a constant but growing pace in the future.

Based on this scenario, the tourism industry could greatly contribute to the positive development of Sharjah as an economic region. The industry has a lot of opportunities to offer and explored that may help in this expansion goals of the region.

The tourism industry was selected to be included in this expansion plan of the region due to the following reasons: It is expected that the contribution of this sector will increase

steadily in the GDP due to the geographical advantages of the Emirate of Sharjah; Working on developing the tourism services and facilities sustainably which is considered as one of the strategic foundations of the development plan; The rising of the potential energy within this sector results in the continuity of developing it; The decline in the tourism capability of many countries in the region; the lack of the political stability - cause the tourists to choose other near regional countries; Choosing the Emirate of Sharjah as the representative of the Islamic culture, 2014. This calls for developing the cultural tourism and the tourism of conferences; And the low costs of developing the tourism sector compared to the high income obtained from the development of this sector can be behind the interest in developing this sector to increase its contribution to the GDP.

There are different forms of tourism which could be marketed by any given country which includes the following: cultural tourism, adventure tourism, ecotourism, family tourism, food tourism, and sex tourism. For Sharjah, it would be best advised that the region invested in cultural and ecotourism since the region is equally rich in terms of these resources. Sharjah is being tagged as the cultural capital of UAE due to the rich culture of the region. The region could invest in this and make the most out of it. In order to further encourage the tourists and visitors in the region, these resources must be protected and preserved well and packaged differently that it may offer something new to the interested parties to the region.

#### 5.4.2.3 The role of the Federal Government in Forming and Implementing the Policies of Economic Diversity

The form of government and political system present in a region or country can easily affect the formulation and implementation of any economic plans and policies that a particular state or country wants to have. How the government handles and delivers these plans and policies are easily affected by the quality of governance maintained in one region.

UAE has a federal form of government in which the society is being dividing between a central authority and component state. The root of power in a federation lies directly on the individuals rather than the whole system. One drawback of a federal form of government concerns on how sovereignty is distributed within the members of the government since their need for unity may be in conflict with their want for autonomy. This means that there may be a struggle between the need to be unified and the need to be free. In order for a federation to

succeed, there is a need for a uniform legal system and cultural and geographic affinities within the region.

Based on the interview conducted to the senior manager, the Federal government's roles and tasks in the formulation and implementation of the policies of economic diversity include the following:

First, continuous coordination of the Emirate Strategic planning with the State strategic approach, through the implementation of the federal form of government, the Emirate strategic planning may be coordinated with the plans of the State. This means that there would be coordinated plans with the whole government which will make it easier to implement these economic plans of Sharjah.

Second, working continuously on coordinating the legislations to meet the concepts of the Federal performance. This Federal form of government of UAE would cause the region to continuously coordinate the legislations just to meet the Federal requirements. This will enable them to have a better legislation as they try to meet these Federal demands which will further strengthen the legal system of Sharjah.

Third, the integration between the Federal Role and the Local Departments prevent any contradiction that may affect the investor and the consumer. With the integration of the Federal and Local department in the formulation and implementation of the economic diversification of the region, the business interest of the region would be protected. This will help in building a strong relationship between the investor and the consumers. As this relationship is developed, any problems and other issues that may arise between the investors and consumers are avoided.

Fourth, collective working on several projects & economic studies to activate roles, problem solving and to avoid obstacles. This new economic diversification plans to be implemented would be able to work on different projects and studies that would help improve the economic status of the region. These studies and projects that may be conducted along with the study of the Federal system would help in enabling them to fulfil the roles of the citizens. Aside from that, problems that may be faced in the future may be solved as well as avoid several obstacles that may come along the way.

#### 5.4.2.4 The Role of the Private Sector in Forming and Implementing the Economic Diversity Policies

A nation's economy is governed by the public and the private sector. Private sector is also called as the citizen sector which is run by privately held individuals and groups usually for the purpose of gaining and owning profit. On the other hand, the public sector or state sector, is a part of the state and this deals with the production, delivery and allocation of the nation's goods and services for the benefit of the government or the citizens of the country in different levels may it be national, regional or local. Included in this public sector are those in relation to activities which deliver social security, urban planning and national defense.

It was believed that the private sector of Sharjah could do great in this diversification plans that are being planned for the region's economy. Being an independent entity within the economy, the sector has more autonomy to implement strategies and form plans away from the control of the government. According to the senior manager, these are the specific roles of the private sector in forming and implementing the economic diversity policies of Sharjah:

- a. Working aside the government in developing a comprehensive database related to the investment affairs. The capacity and capabilities of the private sector could be of great help to the operation of the government. With their combined efforts, they could easily develop a comprehensive database that will store and monitor the investment affairs of the region. The private sector could provide some necessary information that would be needed by the government to build and use this database for its investment transactions.
- b. Enhancing the role of labour market mechanisms in nationalizing the skilled labourers. The private sector could also provide the citizens with additional work opportunities aside from the oil and gas industry. As the private sector becomes more developed and operational, it would need additional labourers to man the operation of their companies. In doing so, the role of the labour market would be given with great importance in terms of employing all the citizens of the region which will also benefit the region in the long-run.

- c. Enlarging the size of the primal market with accelerating the execution of the transition strategies towards global markets and free competitiveness. Private sector would also be able to increase the market that the region is serving. By having additional products and services offered through this sector, it would be easier for the region to expand and widen its offerings and later on be able to penetrate the global market.
- d. Creating specialized investment banks. As the operation of the private sector continues, they would need to continuously operate and eventually expand its operation. In relation, the sector would need additional funds to support its operation. If there would be insufficient funds in the possession of the company, they would need to look for investors who will finance the company. Thus, different banks and other financial institutions would need to be created to meet the financial needs of the sector.
- e. Legislations relevant to the investment coordinating the private sector trends. Along with the diversification plans of the region, Sharjah government would need to take into consideration the welfare of all the players in the market. As more private companies would be present in the market, additional laws and legislation would be enacted in order to ensure that all players are protected.
- f. Increasing the rate of the national employment in the private sector. The presence of the private sector would increase the rate of employment within the region. This will enable the region to provide different employment opportunities for their citizens enabling them to contribute in the development of the region
- g. Applying the concepts of governance and the indicators of the social responsibility. Even though the private sector is operating outside of the confines of the government; it still needs to look after the welfare of the nation where it is operating. Thus, with the inclusion of the development of the private sector in the diversification plans of Sharjah would be able to apply good governance and corporate social responsibility in its operation.
- h. Developing an active data system of the labor market to provide comprehensive and modern information which will be available to all beneficiaries. With the full

employment of the labour sector, there would be a need for a comprehensive data and information concerning the different sectors of the economy. This information would need to be properly monitored and controlled in order to have some basis in the analysis of the economic trends and patterns as well as to the different future plans of the nation.

- i. And developing the educational system according to the labour market. In order to employ the right workers for the available positions in the private sector, these people should be properly educated and trained. As the need for additional workers increase, so is the need for educating these people. In effect, the educational system within Sharjah would need to be developed to meet this demand.

The Sharjah government put a big weight in the role of the private sector in forming and implementing the economic diversity policies in the Emirate, It concedes it a fatal role for the present and the future of the Emirate economy.

### **5.4.3 Sharjah Commerce and Tourism Development Authority (SCTDA)**

According to the Sharjah Commerce and Tourism Development Authority (SCTDA) (senior civil servant interview, 2011), The authority was established in Sharjah in 1996 for the sake of developing the commerce and tourism sectors of the Emirate Based on interview with senior staff at SCTDA. This vision is to be attained through various activities which promote Sharjah at the local, regional and international levels. The mission of the Authority is to carry out various activities meant to attain this vision.

The Sharjah Commerce and Tourism Development Authority (SCTDA) is in charge of regulation and promotion events in four main areas of the Sharjah society: Business, Heritage, Leisure and Education. The Authority has the backing of the Emirate. Hence, it can be tasked with formulating strategic plans on how to attain optimum results in the four key areas. SCTDA is also involved strongly with the coordination of activities between key stakeholders in the tourism industry of Sharjah. This is done with a view of helping each group to attain their ends and objectives.

## **Overview of the Activities of SCTDA**

The Sharjah Commerce and Tourism Development Authority was set up by the prudent instructions of H.H Sheikh Dr. Sultan Bin Mohamed Al Qasimi, member of the Supreme Council, Ruler of Sharjah. The decree that led to the creation of the Authority stated that the SCTDA shall work to enhance the status of the Emirate at the level regional and global level and exploit all means and available potentials to promote Sharjah as a distinguished heritage, cultural, tourist and family destination. The main pointers of the declaration include amongst other things:

### **Achieving Commercial Development and Enhancing the Tourism Industry**

Since inception, the Authority has worked on defining policies and strategic plans to achieve the commercial development of all kinds that are relevant to the tourism industry of the Emirate of Sharjah. It also works to market and promote Sharjah with the view of enhancing investors' interest in the tourism industry of Sharjah. The end of this effort is to promote a local and foreign capital investments in Sharjah's tourism industry.

### **Increase in the Number of Tourists and Improvement of Hospitality Facilities**

Another aspect of the SCDTA is to promote Sharjah overseas. This is aimed at increasing the number of tourists who visit the Emirate annually. Additionally, they work on improving the quality of hospitality facilities in the Emirate. This is done by monitoring the performance of hotels and other tourist centres. The end result is that the Authority provides a strong oversight role in the development of the tourism industry of Sharjah.

On the Achievement Page of the Sharjah Commerce Development and Tourism Authority, there is a long list of awards that the Authority has won. Most of the awards relate to the successes that the Authority has attained in terms of its events. There are numerous exhibition events that they have held which has provided a compelling case for tourism, business activities and commerce in Sharjah. Additionally, SCDTA has been very prominent in training and licensing of tour operators and agencies. They have undertaken numerous activities that have led to the proper control and mediation in the Sharjah tourism sector.

SCTDA has also been a successful coordinator in the tourism industry. It has provided high quality customer care as well as mediation to ensure that various players in the industry have attained high standards. The Authority has also won recognition for the originality of its tourism strategies and implementation. This goes to confirm how well the SCTDA has performed in providing its core function to the community it represents.

SCTDA has also been a good information disseminator by providing high quality information to potential tourists. This includes maintaining a website with world class information to various people around the globe. They have also supported and promoted projects that have enhanced the tourism sector of Sharjah and its neighbouring communities in the Emirate.

### **The Goals of SCTDA's Policy**

Since its establishment, the Authority has set up a number of major goals that guides it in its operations, it include the following:

#### **Information Services**

One of the prominent goals of the Authority is to create and disseminate information about tourism and commerce in Sharjah. This is done through the maintenance of good and efficient systems for the provision and publication of promotional materials for potential tourists and investors. As part of the Authority's work, it provides promotional publications like brochures, entries, maps amongst others in different languages. These documents help to create awareness of tourism in Sharjah and also provide guidance to visitors and residents.

The Authority has in place a promotional policy which ensures the implementation of various advertisement and promotional campaigns through the print and electronic media. One of the central focus of this effort is the Internet. The Authority has launched a website on Sharjah tourism in four different languages. This is done with a vision of facilitating tourism and providing tourist services and information.



## **Commercialization of Tourism in International Exhibitions & Forums**

The second element of the Authority's policy is its participation in commercial and tourist forums. This is one of the most important aspects of SCIDA's activities. This is because most people in foreign countries know very little about the tourist sites of Sharjah. Due to that, the participation in tourist forums and commercial exhibitions provides a platform through which people in target nations can interact with people who can answer their questions appropriately.

Evidently, this drive has achieved a lot of success. The Authority has participated in numerous fairs and exhibitions in different parts of Europe, Asia and North America. This has been recognized by various institutions in these nations where the exhibitions were held. The Authority has won numerous awards at several exhibitions. The most eminent of these awards is the best participating pavilion for Middle Eastern exhibitors at the Berlin International Stock Exhibition for Tourism & Travel as well as the award of the best participating pavilion in Beijing International Tourism & Travel Expo-(20 10).

## **Monitoring of Hotels & Hospitality Facilities**

The third aspect of the goals of the Authority is to ensure the classification and monitoring of hotels and hospitality facilities in the Emirate. The Authority has a system whereby hotels and tourist facilities are controlled. This system ensures that standards are set and attained by the various hotels. New hotels are required to apply for permits from the Authority. In this process, the Authority ensures that each hotel is up to the standards it upholds. The process of monitoring hotels through the application process to force after the decision of the Executive Council of Sharjah, No. 20 of 2007. This gives the Authority a legal backing to control hotels.

After permits are granted, hotels continue to be under the regulation of the SCTDA. This is because such hotels have requirements that they need to operate under. The SCTDA requirements ensure that these standards are at world class levels to make the tourism industry of Sharjah one of the most competitive in the world. As a licensing authority, SCTDA can terminate the permit given to any hotel or hospitality facility that fails to meet the high

standards that they maintain. This ensures continuous improvement in the tourism sector of the Emirate.

### **Organizing Tourism Events & Festivals**

The fourth element of SCTDA is the promotion of tourism through festivals and events held within the Emirate. In such events, the Authority ensures that key international players are invited to the Emirate and they are given in-depth information about the opportunities in the Sharjah tourism industry. This helps to create awareness of the Sharjah tourism sector and also provides local and foreign investors with information necessary to ensure their participation in the sector.

There are also events that attracts tourists to the Emirate. The most eminent of these festivals is the Sharjah Water Festival. This brings a vast number of tourists to Sharjah. An estimated 180,000 visitors come to Sharjah to participate in this festival. There are also some international business tourism drives that are carried out under the auspices of the SCTDA. These help the Emirate to attain its vision of becoming a destination for business events like conferences and meetings. The Sharjah Greatest Awards and other events like World Formula One Championships and the like help to attract tourists and provide international media attention to Sharjah's booming tourism industry.

Aside international tourists and investors, the Sharjah Light Festival of 2011 targeted tourists from the Middle East region. This provided the opportunity to showcase the competitive strength of Sharjah in the Persian Gulf region. This is a good way of attracting tourists who visit other parts of the Middle East to consider coming to Sharjah.

The Authority also focuses on attracting world class entertainment events in Sharjah. This is done by carefully evaluating the appropriateness of content in the Emirati culture against the possible benefits. Through this, some important international events and international figures are attracted into Sharjah to enhance media attention to tourism in the Emirate.

### **Training & Licensing of Tourist Guides**

Another element of the goals of the SCTDA is to provide training and licensing of tourist guides. In May 2009, the Authority launched a program for tourist guides with the partnership of Horizon College. This provided education and support for tourist guides and support staff members. The vision of this drive is to improve the quality of service that these tourist guides render to tourists. This is meant to boost the competitiveness of the Sharjah tourism industry.

The Authority also provides an oversight and support of other tourism courses in the Emirate. This include the accreditation and partnerships that provide recognition of qualifications that are offered in the Emirate. It ensures quality control and high standards of training for the trainees. This goes on to guarantee high quality service for the 1.5 million tourists who visit Sharjah annually.

The Authority has been involved in the preservation and protection of certain key aspects of the Sharjah heritage. Most of these activities are carried out by people in native sections of the community. With modernization, most of them would have sought to live in modern settings. However, the Authority's activities in protecting tourism and heritage sites has made it possible for some ancient and old sites and centres to be preserved to this day.

The Sharjah Commerce and Tourism Development Authority (SCTDA) has had a strategic oversight of the commercial and tourism development sector of the economy. Their ability to gain international recognition in what they do, indicate that they are carrying out their mandate appropriately. Also, the increases the number of tourists and the boost in the tourism industry can be credited to their participation and supervision of the sector.

### **Review of the Activities of the SCTDA**

*According to the senior civil servant of SCTDA*, the process of tourism development is one which does not depend on a specific time or place. The process of tourism promotion is a developmental policy that espouses the latest developments of the global tourism industry .

In line with this, the Authority is working towards the attainment of sustainable development in the tourism sector. This is done through the development of infrastructure in the Emirates to make it a comfortable destination for tourists. The initiatives of the Authority

has led to the development and maintenance of sustainable development in the tourism sector of the Emirate. The senior civil servant identified that Sharjah covers an area of 2600 km<sup>2</sup>. This represents 3.3 per cent of the total area of the UAE. It is distinguished for its important geographical location. Additionally, Sharjah lies on the Arabian Gulf and its coastline extends over a distance of 16 kilometres into the Gulf of Oman. Sharjah is the third largest Emirate after Abu Dhabi and Dubai. The Emirate has three towns on the eastern coast which is rich in its attractive scenes, namely, Dibba Al Hison, Khor Fakkan and Kalba. This therefore provides a case for the development of its tourism industry.

It is well-known that the Emirate of Sharjah has many tourist sites which enable the Emirate to compete with other destinations in the region. It is considered the cultural and Islamic capital in the region because it has centres of learning and cultural activities. There are 19 specialized museums which reflect the civilization of the region over the past couple of centuries. This is representative of the whole UAE's history, the museums play a significant role in raising the number of the tourists visiting Sharjah each year. Thus, the SCTDA has a duty to ensure that all the activities in a tourist hotspot like Sharjah is regulated and developed to meet the expanding numbers of tourists.

He noted that there have been significant changes in preferences and habits of tourists in today's world. As such, it is the SCTDA's duty to ensure that the venues are always upgraded to meet the changing demands of tourists at every point in. He stated that in the world today, tourists seek to explore places of cultural and historical significance to enhance their knowledge of humanity and the civilization of different parts of the world. Thus, many people move from country to country to seek this objective. It is therefore important for the authority to put structures in place to help tourists to fulfil this desire of tourists. He expressed that Sharjah is unique in several ways. He identified that the tourism sector of Sharjah needs to assess the uniqueness and build a strong system whereby businesses and educational institutions in the tourism sector can make the best of the uniqueness of the Emirate.

Also, in order to overcome the challenges faced by the tourism sector of Sharjah, the senior civil servant stated that the SCTDA has to work hard to identify challenges and meet them appropriately. According to him, there is the need for the SCTDA to study the global trends and ensure that the Emirate was meeting each and every goal necessary to provide the

best results for the society's tourism sector as a whole. The senior manager stated that the SCTDA has an obligation to ensure the economic alignment of the goals of the Emirate with the tourism industry. He stated that the tourism industry is significant in the development of the economy. The government has stipulated a target of 3 per cent growth in the economy. As such, the tourism sector needs to contribute significantly to the development of the economy. Thus, the SCTDA needs to translate the Emirate's economic goals with the realities in the tourism sector.

The SCTDA represents the tourism sector in the leadership structure of the Emirate according to the senior civil servant. The consultative committee for the development of tourism in the Emirate of Sharjah provides a forum through which stakeholders in the tourism industry can discuss their common needs and aspirations. In 2010, the committee worked hard to increase hotel facility occupancy to 73 per cent. This helped to increase returns in the tourism sector holistically.

The National Council for Tourism & Archaeology was also founded by the Authority. It aims at supporting the historic and cultural aspects of tourism in Sharjah. The Economic Ministry works hand-in-hand with the SCTDA to organize events meant to improve the tourism sector and improve revenue to the Emirate. Another important responsibility of the SCTDA is that it provides an evaluation of the developments carried out in the Emirate's tourism industry. It monitors growth and advises relevant institutions of appropriate measures to take.

The Sharjah Commerce and Tourism Development Authority is a branch of the Emirate's government meant to promote tourism. The Authority carries out its activities by disseminating information, coordinating tourist activities and promoting information about Sharjah. The Authority regulates and has oversight authority over tourism facilities in the Emirate.

#### **5.4.4 Policies to make the Destination of Sharjah**

The process of increasing the number of hotels and guest room facilities is a long-term undertaking. Another initiative that cannot happen in the short run is the change of the traditionalism of Sharjah. Therefore, these two options are not considerable when planning

the success of tourism in the short run is in question. In the short run, Sharjah can achieve growth with initiatives that require a short period to implement such as making the destination glamorous. Additionally, the emirate has the option of increasing the efficacy of already existing facilities and programs.

First, in an effort to improve the functioning of Sharjah International Airport, the government uses the expertise of Dufry, this is a Swiss-based company that operates the duty free facilities and on board sales of Air Arabia (Mann, 2006). The company uses its Sharjah office as a base of its European operations. Therefore, this makes the significance of Sharjah airport worth noticing as a suitable location for the business community. The operations of the company cover all the areas from Belgrade to Singapore (Oxford Business Group, 2007). This wide network of the company contributes to the strengthening of relationships between different cities that Air Arabia covers. In addition, it makes the airline attractive among passengers who are keen on experiences a seamless service across various cities. Besides the integration of Dufry, SCTDA also involves itself with initiatives that foster integration of various sectors affecting tourism. Consequently, deep integration leads to a robust revenue stream that supports the national economy, which is the main aim of economic diversification policies (Sharjah Tourism, 2011).

Integration initiatives have led SCTDA to hold a series of meetings with the Singapore Tourism Board since 2010. The talks are meant to help Sharjah in strategizing so that it captures a bigger tourism market share in Asia. The initiative also helps SCTDA in organizing unique cultural and heritage promotions in the region. The campaigns have been positively accepted in most submarkets in the region. Sharjah benefits from the initiative as a learning experience because Singapore is the hub of tourism in East Asia. It is the most attractive destination and is ranked 10<sup>th</sup> in the world (Sharjah Tourism, 2011).

According to Janardhan (2007), the leaders of the individual Emirates have tribal orientations. Besides this, the similar projects in each Emirate have different economic sensibilities according to each host. Sharjah, just like its neighbouring Emirates, is investing in sectors that show long-term growth in the global economy. Whether the investments become fruitful or not would be determined by periodic assessments of the policies employed in relation to the existing characteristic of their business environment.

In 2010, the government channelled Dh 1 billion through SCTDA and the Sharjah Investment and Development Authority. The funds were budgeted for the expansion and upgrading of existing infrastructure, which will greatly benefit the tourism sector. The allocation led to the development of a world-class resort and spa project in Khorfakhan. The resort, once completed, will offer a different kind of eco-tourism experience to tourists. This will feature a glut of water sport activities (Ravi, 2011). Another project in the pipeline is by the Sharjah National Hotel management, which allocate Dh100 million for the modernization of the Oceanic Hotel. The modernization would give the hotel the best equipment available in the hospitality sector and allow it to compete internationally. The refurbishment of furniture in the hotel will include integration with the latest development of information technology equipment. The first phase of the refurbishment would be complete by November 2011. Lastly, the second phase would see the construction of 150 luxury suites.

#### **5.4.5 Sustainability Policies: Sharjah Tourism Sector**

Tourism statistics of Sharjah show a double increase in the number of tourists from 650,000 in 2000 to 1.3 million in 2005 (SCTDA, 2009). The Sharjah government further estimates that there will be a sustained growth rate of 8 per cent annually for the sector. SCTDA is targeting new travel and tourism markets because the expansion of Sharjah's tourism sector depends on newer traffic sources. SCTDA operates with the hindsight that other tourism destination are also luring the same markets that it targets. Therefore, it aims to be more competitive in showing the attractiveness of Sharjah in comparison to other destinations (SCTDA, 2009).

Sharjah does not have an extensive real estate and hotel developments like its neighbour and rival Dubai. However, it has ambitions to catch up which include the development of the Nujoon Islands project. This project includes the construction of a mixture of tourism, residential, and business facilities. The al-Hanoo Holdings Company based in Saudi Arabia is the main sponsor of the Nujoon Islands project. The project when completed will cover 5 million square meters. It is situated off the Hamriyah Beach. Combinations of ten islands make up the Nujoon Island project. Bridges will connect all the islands together. Each will have villas, residential towers, exhibition halls, entertainment centres, shopping malls, and hotels. One major attraction of the Nujoon Islands project is the development of a marina

and an international business and financial centre. Already, the presence of Sharjah and Dubai international airports make access to Nujoon Island's project easy. Sharjah hopes to open the project for occupancy in 2012.

Although it has a well-connected airport, the public transport within Sharjah city does not match the ideals of an international destination. To remedy this, the state authorities have started policy measures that should address the city's transport challenges. A taxi operator has been licensed to offer professional service that will improve the image of the city (Sharjah Public Transport Corporation, n. d.). Sharjah is also expanding its international airport so that it would accommodate 8.5 million passengers annually. Currently, the airport can handle up to 2.5 million passengers. The anticipated growth in passenger numbers will come from Air Arabia that has its own plans of increasing its passenger numbers. The airport currently serves the Gulf, Middle East, and South Asian traffic using Air Arabia. As a budget airline, Air Arabia makes weekend and city break travels within the UAE and regionally, affordable for expatriates and tourists. The affordability has translated to an increase in the number of business travels within the cities served by the airline. Theoretically, low cost airline passengers spend more at airports and other facilities than regular passengers do because they have more disposable cash obtained from airfare savings. Such passengers would further increase the per capita expenditure of visitors to Sharjah.

Sharjah has an alcohol-free policy that may be a disadvantage in terms of attracting prospective tourists. However, the Emirate highlights this policy as a preservation of its people's culture. For families who appreciate holidaying in alcohol-free destinations, this serves as a long-term attraction (Safdar, 2010). The strength of the cultural and heritage sites of Sharjah also compensates for its inability to offer alcohol-related entertainment (Jasim, 2006). Among major tourism gateways, Sharjah emerges as one peaceful gateways ideal for meditation travels.

Free trade zones in Sharjah increase its visibility as a favourable destination with a favourable regulatory environment. This continues to attract investments that further support the development of the tourism sector. Most investors are keen on retaining the control of their foreign establishment and thus benefit from the 100 per cent ownership structure in the free economic zones of Sharjah. Another factor likely to attract and retain investors who



support the diversification policy is the continuous growth of Air Arabia. The growth would see the establishment of bilateral agreements between various cities that are within its operations coverage and this will eventually support the attractiveness of Sharjah to investors.

For the tourism sector, sustainable growth requires the involvement of both the public and private sector. The long-term outlook of the sector would be influenced by how well the SME sector of the economy grows. Thus, the SME sector needs support in terms of policies and resources for growth. Efforts by Sharjah to see growth of the SME sector are spearheaded by the Sharjah Chamber of Commerce and Industry (SCCI). The Chamber launched various programs that include the formation of “The Business Groups”, formation of the Annual Sharjah Economic Excellence Award, and the formation of the “Shopping Weeks” initiative (Rahman, 2010). The chamber also created the “Made in Sharjah” program as an integrated promotional system. The program provides support for locally made products. It covers different areas of development. These include promotion and advertisements of local products. The SME sector of Sharjah, which includes establishments within the tourism sector, benefit from the increased exposure of their businesses, and their business products besides the increased perception of buying local that is generated among the public, by the program initiatives (Rahman, 2010).

**5.4.6 Economic Diversification Policies in Sharjah**

Long-term and short-term growth of the economy of Sharjah partially depends on its tourism sector. The sector keeps on attracting new hotel groups that are interested in having a presence in the region. There are also mixed-use developments by foreign investors that are significantly contributing to the growth of the sector and promote the development of the emirate’s economy (Anon, n. d.).

**Table 14 Passenger Movements at Sharjah International Airport, 1998-2010**

Passenger movements in millions			
1998	,958	2004	1,661
1999	1,017	2005	2,237

2000	,948	2006	3,064
2001	,861	2007	4,324
2002	1,028	2008	5,280
2003	1,247	2009	5,764
-	-	2010	6,310

Source: Sharjah International Airport reports

According to the senior civil servant *"The economic diversity strategy is not separated from the outer world. It works on all the inner trends (private sector) as well as the federal, regional, and international trends. Then, it regulates the work of the agreed upon strategies to work as an integrated entity"* (Senior civil servant at the Sharjah Department of Economic Development, Interview), Tourism in Sharjah forms part of the economic diversification policy that integrates the economy of Sharjah with the global economy. Furthermore, it accelerates the Emirate's economic growth rate. The diversification policy into tourism reduces the risk associated with the reliance of a single strong sector in the economy (Hag & El Shazly, 2010). Total sustainability of economic growth will only come from a diverse range of economic sectors that are successful. The government of Sharjah sees the growth and establishment of a strong tourism sector as one way of achieving a long-term sustainable economic growth (Rahman, 2010). The tourism sector links Sharjah with the rest of the UAE and is therefore a unifying factor, beyond the borders of business (NCTA, 2011). This way, Sharjah is able to maintain its heritage in a profitable way and continue to teach its Islamic cultural principles and lifestyles to visitors who come from the rest of the world (Stephenson et al, 2010)

**Table 15 Sharjah hotels and beds, 2001-2010**

	2001*	2002*	2003*	2004**	2005**
<b>No of hotels</b>	21	23	23	n/a	57

<b>No of beds</b>	2408	2784	3239	n/a	4911
<b>Occupancy rate per cent</b>	55	56	60	n/a	74
<b>Revenue(Dh billions)</b>	.15	.16	.20	n/a	n/a

	<b>2006**</b>	<b>2007**</b>	<b>2008**</b>	<b>2009</b>	<b>2010**</b>
<b>No of hotels</b>	74	96	103	n/a	107
<b>No of rooms</b>	6,080	6,959	7,647	n/a	8585
<b>Occupancy rate per cent</b>	82	80	80	n/a	73
<b>Revenue(Dh billions)</b>	n/a	n/a	n/a	n/a	n/a

**Source:** \*UAE Ministry of Economy report & \*\* SCTDA

**Table 16 Sharjah hotel visitors numbers, 2001-2010**

<b>YEAR</b>	<b>VISITORS(millions)</b>
<b>2001*</b>	.25
<b>2002*</b>	.34
<b>2003*</b>	.40
<b>2004**</b>	n/a
<b>2005**</b>	n/a
<b>2006**</b>	1.30
<b>2007**</b>	1.45
<b>2008**</b>	1.53
<b>2009**</b>	<b>1.45</b>
<b>2010**</b>	<b>1.56</b>

Source: \*\*SCTDA & \*UAE Ministry of Economy reports

#### **5.4.7 Operationalizing Tourism**

Sharjah enjoys a favourable business and professional environment, which acts as a magnet for investors and professionals. In fact, the influx of professionals from the world over and from the neighbouring Dubai has contributed immensely to the robustness of the Sharjah small and medium enterprises sector development. The growth of the SME sector

encompasses the tourism sector. The emirate also enjoys a stout financial sector that consists of financial institutions that are easing the growth challenges of the tourism industry (Oxford Business Group, 2008). For example, the value of the emirate's insurance market gradually expanded over the last decade. Currently, it is expected to maintain a growth rate of 30 per cent through the years from 2008 to 2011. The growth comes from the UAE growing economy that promoted the establishment of large-scale infrastructure and real estate projects, which offer a substantial market for the industry. The passage of the New Insurance law in 2007 was also a positive development in the industry. Now, the provision of health insurance coverage continues to be a major growth front. The increasing number of expatriates flocking Sharjah because of its favourable economic conditions continue to increase the market for insurance cover. Consequently, as insurance premiums grow, there is an increase in the available funds for infrastructural developments. These trickle down to the various areas of the tourism industry.

According to a hotelier the, *"Sharjah has an eastern spirit, it's a cultural centre for Arabic/ Islamic civilization and it suit the family tourism"* (Sharjah Hotelier 4, Interview).

The main tourist attraction of Sharjah is the reputation it holds as the cultural centre of the UAE. Sharjah is home to an extensive heritage area of the UAE. The UNESCO in 1998 names Sharjah as the cultural capital of the Arab world (Ravi, 2011). Sharjah has well maintained its 19<sup>th</sup> and 20<sup>th</sup> century buildings that also serve as museums and cultural centres. It has various restoration projects in its smaller town that complement its natural attractions. Among the natural attractions are sandy beaches, natural reserves, parks, and wildlife centres. Sharjah is home to the world-famous Khorfakhan town, located in the east coast of Sharjah. The town is renowned for its calm waters that allow visitors and locals to have a clear view of sea flora and fauna. Khorfakhan is the entry gateway for desert treks that also make Sharjah famous as a destination. The desert treks mostly accompany camping expeditions and wadi bashing, which is a local specialty of Khorfakhan. The seaside town of Kalba is home to the oldest mangrove forest known in the Gulf region. The Sharjah government designates Kalba as a conservation site that hosts endangered species of sea wildlife. The conservation efforts at Kalba make it an eco-tourism attraction. In addition, the town hosts the restored home of Sheikh Sayed bin Hamad Al Qasimi, which is a major local and regional tourist attraction. Besides Kalba, there is another tourist attraction town called Dibba. Dibba receives its fame

for being the location of the famous historical battle that led to the Muslim conquest of the Gulf. The town is also a fishing village that offers a glimpse of the peaceful and traditional lifestyle of the Arab coastline culture. Additionally, Dibba is the entry point to the East Coast Mountains of Sharjah that offer unmatched expedition adventures in the UAE (Oxford Business Group, 2007). " *Sharjah targeted to become a family tourist destination in the region with its conservative culture and family oriented facilities*" (Sharjah Hotelier 4, Interview).

The best zoo in the UAE was opened in Sharjah in 1999. As a wildlife centre, it offers an exclusive interaction with the Arabian Peninsula animals that include over 100 species of snakes, lizards, birds, wildcats of the desert, and baboons. Moreover, the zoo has oryxes, wolves, and the Arabian leopard. The zoo and its wildlife centre are part of the Sharjah Desert Park complex that also features a children's farm, botanical museums, and other natural historic features (Oxford Business Group, 2007).

The manufacturing sector of Sharjah already affords it a strong and stable economy. It contributes to almost half of the UAE industrial capacity. Sharjah, as host to the manufacturing sector of UAE, enjoys strong international trade relations (Anon, n. d.). Its tourism sector enjoys the externalities brought about by the infrastructural developments of the manufacturing sector. It also has a lower cost of land than Dubai because its government subsidizes this to attract foreign investors in the manufacturing and tourism sectors (Anon, n. d.). The emirate continues to embrace policies that reduce overall government bureaucracy as it forges links with other countries like Pakistan, China, and South Africa that are major sources of investors (Anon, n. d.).

In terms of safety and security of its environment, Sharjah enjoys a relatively high rating. The UAE as a country has achieved a safety and security level that puts it among the best destinations in the world for business and travel (Oxford Business Group, 2007). Sharjah also enjoys close proximity to Dubai, which has a strapping tourism industry that Sharjah emulates. Since the UAE is relatively stable politically and economically, Sharjah can afford to make various economic and social changes for attracting foreign and local investments in its economic diversification program, without incurring a huge investment risk. The political system of the UAE allows rulers of each emirate to hold open majlis. Majlis are meeting that

allow participants to debate topics that are personally interesting and are of a broader concern to the Emiratis of the emirate. Open majlis are open to the public and are an alternative form of political participation that promote the cultural context of Sharjah and improve its political stability (UAE Interact, n. d.).

#### **5.4.8 Sharjah Government Policy towards Tourism**

Sharjah's first substantial tourist arrival was recorded in the 1980s. The tourism diversification strategy of Sharjah rests on the building of a vibrant sector and destination that does not interfere with the traditional and social values of its people. Thus, the focus of the tourism strategy is cultural tourism, edu-tourism, and eco-tourism. The eco-tourism front encompasses the maintenance of the Sharjah western coast as a green area. It includes the preservation of the natural habitat and the care of the mangrove plantations and diving sea creatures. As the maintenance efforts continue, there is the emergence of pristine beaches that will be another tourism specialty for Sharjah.

Sharjah's foray into the tourism sector receives encouragement from the large number of tourists already visiting Dubai and Abu Dhabi. Presently, Sharjah benefits from the outflow of tourists from Dubai who extend their stay in the UAE by visiting Sharjah and commuting back to Dubai. In other cases, visitors first go to Sharjah as their first stop in the UAE before heading to Dubai. There is a mutual agreement among the emirates to encourage the sharing of tourists to grow all their tourism sectors collectively (Al-Rasheed, 2005). Sharjah owns the budget airline, Air Arabia, which facilitates the movement of tourists and business travellers within the UAE and from neighbouring countries. The airline provides 40 per cent of all the air traffic to Sharjah airport. This salient percentage displays its role in supporting the tourism sector. Separately, the airline also seeks to increase its traffic volume by attracting more tourist and expatriate business travellers that are its main customers. Other efforts by Sharjah include the fostering of its cultural position in the UAE tourism industry through the update of its 23 museums and an increase in the overall number of cultural attractions. In addition, Sharjah uses cultural events that include the Sharjah Festival Days that is a display of local and international art, the Ramadan festival, and the Sharjah Biennial. It is also developing the Qanat al-Qasba complex that will be a complete cultural location with exhibitors, film events, and other attractions. The government is building the complex at the centre of Sharjah City.

*"Therefore, the Authority is trying through this policy to achieve sustainable development to tourism sector through careful steps that go hand in hand with the infrastructure of the Emirate which is witnessing remarkable development that contributes in its turn to sustain and support tourism industry", (Senior staff at the Sharjah Commerce and Tourism Development Authority, Interview),* besides the focus on cultural tourism, the government of Sharjah continues to embrace other conventional strategies of attracting tourists. Most of these conventional strategies mimic those used by Abu Dhabi and Dubai. First, Sharjah has an annual shopping summer and spring promotion just like Dubai. The promotion aims to increase the spending by domestic and international tourist who visit the attractions in Sharjah during summer and spring times. In the emirate, the Sharjah Commerce and Tourism Development Authority (SCTDA) oversee the promotion of Sharjah as a tourist destination. The authority uses all avenues to promote Sharjah's tourism attractions. It has a presence locally and participates in major international tourism promotion events.

The government of Sharjah established the Sharjah Commerce and Tourism Department in 1996. The aim of the establishment was to develop commerce and tourism sectors of the emirate. The development would occur through activities that meet the point of promoting Sharjah at local, regional, and international levels. This mandate allows and compels the SCTDA to carry out activities that will lead to the realization of the assigned objectives.

According to the instructions of H. H. Sheikh Dr. Sultan Bin Mohamed Al Qasimi, member of the Supreme Council, Ruler of Sharjah, the SCTDA works to enhance the status of the emirate at the level of the region and globally. The authority has been allowed to use all available means to promote the distinguished heritage of Sharjah. In addition, SCTDA oversees the promotion of Sharjah as a cultural, family, and tourist destination. Currently, the authority is in the process of setting up strategies that will allow Sharjah to have commercial developments and establish a viable tourism industry. The authority works by helping in the movement of local capital and the attraction of external investments. Another objective of SCTDA is to increase the tourism arrivals to Sharjah and the number of hotel facilities. It has been able to realize tangible progress in the fulfilment of this objective.

In 2010, the authority organized the fourth Sharjah Water Festival and the eleventh U.I.M F1 H<sub>2</sub>O World Championship as international events to promote its image as a destination and attract both first time and returning tourists (AME Info, 2010). The Sharjah Water Festival attracts more than 180,000 visitors. There is also the Sharjah Greatest Award, which is the final round of the World's Championship Powerboats Formula 1. In February 2011, SCTDA organized the Sharjah Light Festival that is the first kind of festival in the Middle East and highlighted its prowess as a cultural and entertainment destination. Other than organizing its own festivals, SCTDA registers a strong presence in regional exhibitions like the Arab Tourism Market in Dubai as well as the Gulf Incentive Business Travel and Meetings Exhibition that was organized by Abu Dhabi. Moreover, SCTDA continues to hold or sponsor economic, heritage, and sports activities that promote the traditional and modern features of Sharjah regionally and internationally.

Other notable participations of Sharjah internationally include the annual International Tourism Bourse (ITB) that offers a distinct opportunity for highlighting the strengths of Sharjah as a destination amidst its international competitors (Shurooq, 2011). Such international events enable the cross sharing of tourism intelligence with boosts the development of tourism in the respective countries that are participants. Sharjah concentrates on its tourism strength of a rich heritage when it participates in such events. As an example, it includes its culture of henna drawings and performances by folk artistes that are unique worldwide. Additionally, visitors also see samples of traditional outfits and drawings made with calligraphic letters that arouse their interest in Sharjah cultural offerings (Rizvi, 2011).

So far, the SCTDA enjoys a good response to its initiatives. Its regular participation at the ITB saw the number of tourists from Germany increase from 134,000 to 140,000 from 2009 to 2010 respectively. Over the period from 2004 to 2010, there was an overall increase of 121 per cent in the number of German tourists to Sharjah. In total, there were 1.55 million tourists in 2010 that translated to a 73 per cent increase in total hotel occupancy over the previous year (Rizvi, 2011).



### **Example: Sharjah Investment and Development Authority – ‘Shurooq’**

The Sharjah Investment and Development Authority is an independent government body established in 2009 to influence the growth and pride of Sharjah by creating and facilitating investment and development opportunities which will benefit the citizens as well as the investors and in the process modernize the emirate of Sharjah and yet retaining and honouring its traditions. The key mission of the authority is to evaluate and follow up on tourism related infrastructure projects and remove the hindrances if any, in order to attract more investors to the emirate of Sharjah (Shurooq, 2011).

Currently, the Shurooq oversees the development of an eco-tourism master plan for the emirate. The Sharjah Investment and Development Authority started with a mandate of following up infrastructure projects in the emirate that are relevant to the tourism sector. Together with other government entities, the authority is developing eco-tourism destinations in the emirate that will add to the offerings of Khorfakhan. Additional developments on the Khorfakhan will include the development of the waterfront into a remarkable family sport and tourism location. Within the development master plan is the Khorfakhan Cornice project that will enhance the attractiveness of the seaside town. In addition, there would be more hotel projects on the east coast of Khorfakhan and inside Sharjah City. These will transform smaller towns like Kalba into international eco-tourism destinations. The authority reports that a number of international investment companies are interested in partnership for the realization of the master plan (Deulgaonkar, 2011)

Shurooq is also responsible for establishing new infrastructure projects, developing investment-related infrastructure projects, modernizing already existing projects, and setting up special investment zones, as well as suggesting and drawing up investment-related legislation, investing in investment projects, and signing and concluding partnership agreements with similar bodies, both within and outside the emirate (Shurooq, 2011).

Deeply rooted in its rich history, culture and traditions, the emirate of Sharjah provides an unsaturated market for investors, government investment and established infrastructure and most importantly political stability. The Government of Sharjah allocated a whopping AED1 billion for the development and expansion of the emirate and its infrastructure. The number of aircrafts increased from 44,182 in 2006 to 65,401 in 2010. The

Sharjah based Air Arabia flies to 57 destinations across the MENA region and Europe and also well connected by sea with three ports in its two coasts – Port Khalid, Hamriyah Port and Khorfakkan Port. Named the Cultural Capital of the Arab World by UNESCO in 1998, the emirate of Sharjah is world class destination for tourism which is specifically popular within the Arab world. Hence, the number of passengers visiting Sharjah increased significantly from 3.06 million in 2006 to 6.31 million in 2010, with 1.5 million visitors annually, which is 10 – 15 per cent increase annually (Shurooq, 2011).

The emirate has registered a robust growth in tourism sector, which has been the most important and influential sector for the economic growth of Sharjah. With an annual growth of more than 11 per cent in the last few years, the tourism policy of Sharjah continues to strengthen the status of the emirate as a tourist destination. The Sharjah Investment and Development Authority – Shurooq, continues to maintain the high economic growth rate of the emirate through comprehensive development and sustainability, combined with other bodies as well as various public and private organizations. The strategic plans and developments of Shurooq has resulted in currently established major attractions such as Sharjah International Book Fair, Sharjah Prize for Arab Culture, Sharjah Biennale, Sharjah Grand Prix – UIM F1H2O and Sharjah Heritage Days (Shurooq, 2011).

## **Developments Projects**

### **➤ The Heart of Sharjah**

Being developed by Shurooq, the Heart of Sharjah is the first and the biggest project of its kind in the region. The project is aimed at preserving and protecting the historical landmarks and developing the old Heritage Area which is at the heart of Sharjah. To be implemented in five phases, the project's completion is expected in 2025. The Shurooq has set up a biggest joint committee to implement this project which targets the revival of historical and heritage area in Sharjah. The Heart of Sharjah will reflect the city of Sharjah in 1950s by linking all the heritage areas together and renovate them with contemporary artistic touches. At the same time, the project is focused to complete the structures in line with the sustainable development and environmental principles, on par with the latest international standards. The Heart of Sharjah is aimed at preserving as well as converting the ancient

houses into hotels, restaurants, art galleries and markets and at the same time ensures that the historical character of the emirate is preserved (Shurooq, 2011).

➤ **Al Majaz Waterfront**

Located between Jamal Abdul Nasser Street and Khalid Lagoon Corniche, Al Majaz Park, a favourite family destination, is an attractive recreational facility spread over an area of 223 square kilometres. The feature of this facility is a splendid mosque with contemporary designs in an 11.2 square kilometre circular courtyard in the centre of the park. The Al Majaz Waterfront project is implemented in two phases by the Sharjah Investment and Development Authority, aimed at coming up with new tourist attractions and recreational facilities in the park. With a huge musical water fountain in Khalid Lagoon and multi services and facilities such as restaurants, cafes and recreational centres, the first phase of the project is expected to be completed by the end of 2011. The project includes the linking of Khalid Lagoon with the Al Majaz water front, which will be the waterfront of the park. Special areas for children with safe games and beautiful landscapes designed by world famous designers are further facilities to be added in the park (Shurooq, 2011).

➤ **Al Qasba**

Spread over an area of 40,000 square meters, Al Qasba is a family oriented tourist destination, which features art, culture, leisure and tourist attractions, symbolizing the best of the Arab World in combination with the contemporary Arabian arts. The facility offers a wide range of activities and events to keep the visitors of all age occupied throughout the day. The key features of the project are 16 waterfront restaurants and cafes along with 80 office spaces, traditional abra boat cruises in the canal, Maraya Art Centre, Masrah Al Qasba Theatre which can accommodate 300 people, Multaqa Al Qasba meeting and conference halls, state of the art business centres, Etisalat- Eye of the Emirates Ferris wheel, Al Qasba musical fountain, playground and fun zone for kids, Al Qasba marina and Al Qasba mosque.

➤ **Khorfakkan Hotel and Resort**

The Khorfakkan Hotel and Resort consists of two aspects – a Fort for public

Viewing and a five star luxury resort with 170 suites, situated on a natural hillside with white sandy beach. The entry point for the exclusive resort will be the Fort, which is located on Al Suwifa mountain, with 170 suite mountain village providing facilities such as dining, swimming, spa, gym, restaurant and business services. With a beach overlooking the Indian Ocean and great views out at the sea and the Shark Island, the Khorfakkan Hotel and Resort project is expected to be completed by the end of 2015 (Shurooq, 2011).

#### **5.4.9 Sharjah Policies to Develop Tourism Products, Events, Marketing, Promotions, and Festivals**

The Sharjah government policies to develop the tourism sector products take the following forms of Develop Tourism Products, Events, Promotions, and Festivals :

##### **Cultural Tourism**

Sharjah is considered to be “the cultural centre of the UAE” and as such its major form of tourism is cultural tourism (Oxford Business Group, 2007). The country has 23 well established museums and in the recent years the government has been trying to add new museums as well as to update the existing museums (Oxford Business Group, 2007). In addition to the museums, Sharjah holds cultural festivals including the Sharjah Book Fair, the Sharjah Festival Days, the Sharjah Biennial, and the Ramadhan Festival (Oxford Business Group, 2007). During these cultural festivals both local and international arts are showcased. The government of Sharjah has been promoting the preservation of UAE’s heritage with arts such as sculptures, music, paintings, literature and theatre being given prominence in the emirate (Oxford Business Group, 2007). The government has also recently developed a complex to act as a cultural centre in Sharjah city and it is intended to host concerts, exhibitions, and film festivals (Oxford Business Group, 2007). Sharjah has many traditional crafts and arts that it maintains to date and these include pottery jars, weaving and embroidery, unique traditional Arabic doors, henna, and perfumes. All these serve as attractions to international tourists (Oxford Business Group, 2007).

##### **Shopping Tourism**

Another major form of tourism in Sharjah is shopping tourism. This is promoted by the numerous shopping malls in the city and the possibility to shop at almost any hour of the day as shopping malls are open for a large part of the day (Sharjah Commerce & Tourism

Development Authority [SCTDA], 2010). In addition, it is possible to buy almost anything including groceries, clothes, electronics, furniture, and jewellery. There are also different shopping areas including modern malls, traditional souks, shops, and show rooms. Shopping practices in these shopping areas differ where in the malls the prices are not negotiable but in the souks the prices are negotiable (SCTDA, 2010). In most of the large shopping areas travellers' cheques and credit cards are accepted but small shops only accept cash (SCTDA, 2010). Shopping tourism in Sharjah is also promoted by shopping festivals that are held there one of which is the Sharjah Summer Festival that is held at the same time the Dubai Shopping Festival is held (SCTDA, 2010). During the festival shoppers get to enjoy discounts and offers in addition to entertainment activities and these encourage the locals and foreigners to buy items (SCTDA, 2010). Another popular festival is the Sharjah Spring Festival that is held every January and it also involves entertainment activities, discounts, and offers to encourage people to buy items (SCTDA, 2010). The government of Sharjah promotes shopping tourism by making trading tax free and so the prices are low and this attracts people to buy items (SCTDA, 2010). The government also encourages investment in shopping malls (SCTDA, 2010). In addition, the government through the Sharjah Commerce & Tourism Development Authority has created a very informative website that provides comprehensive information to potential shopping tourists.

### **Educational Tourism**

Sharjah also acts as a destination for education tourists. This has been enhanced by the establishment of University City in 1997 by Sharjah's ruler (SCTDA, 2010). At the present the University City hosts several institutions of higher learning including the Sharjah Police Academy, the University of Sharjah and the American University of Sharjah (SCTDA, 2010). It is one of the most well established centres of education in the Middle East Region. Other institutions and schools have been built around the University City and the area that they occupy has been designated the Sharjah Education City (SCTDA, 2010). Educational tourism in Sharjah has been promoted by the ruler of the emirate who emphasizes education as a way of ensuring that cultural identity is maintained in Sharjah in the face of the cultural dissolution threat that is presented by globalization (SCTDA, 2010). The government has also built many schools, cultural centres, institutions of higher learning, and libraries. Another thing is that the government of UAE in collaboration with Sharjah Chamber of Commerce and Industry holds

an International Education Show each year (SCTDA, 2010). This show is aimed at showcasing the educational opportunities that are available in the UAE and it is meant to attract both the locals and foreigners (SCTDA, 2010). Several foreign institutions have set up their branches in Sharjah and this serves to enhance education tourism in the emirate.

### **Sport Tourism**

Sharjah is also regarded as a destination for sports tourists and this is because it hosts and promotes international sports particularly equestrian, cricket, football, and water sports. In the 1980s and 1990s Sharjah hosted international cricket matches that attracted spectators from all over the world (SCTDA, 2010). Late last year the government through the SCTDA sponsored a cricket extravaganza that was hosted by the Red Bull (SCTDA, 2010). The event attracted people from beyond the borders of Sharjah and it was meant to promote the image of Sharjah “as a world class destination for international sports as well as a favourite tourist destination for the entire family” (SCTDA, 2010). Apart from cricket there are other many forms of sports that are available in Sharjah and they include outdoor activities such as camping, scuba diving, desert driving, wind surfing, cycling, and hiking (SCTDA, 2010). Some of the hotels and beach clubs offer sports facilities such as swimming pools. For other sports such as sailing and snorkelling individuals have to go into the sea but the best thing is that the sea is often unpolluted and safe (SCTDA, 2010).

### **Business Tourism**

Sharjah has explored business tourism by the creation of an Expo centre. The Expo centre hosts an assortment of exhibitions, trade fairs and trade shows annually. It provides expert services and excellent facilities to the exhibition industry making it a vital meetings destination. The centre also hosts conferences and seminars. (Welcome to Expo Centre, 2012)

### **Eco-Tourism**

To promote eco-tourism, the Sharjah government constructed a wildlife centre and a marine aquarium. The wildlife centre houses the largest collection of Arabian wildlife and is entirely indoors. It is located in the Sharjah desert. The wildlife centre also hosts a breeding centre for endangered Arabian wildlife. (Breeding Centre for Endangered Arabian Wildlife, 2012).

## **Health Care Tourism**

Sharjah health Authority has set up the Sharjah Health Care City as a medical and health free zone which they supervise. The Healthcare city is to promote Sharjah as a global hub for health care and services and other related activities. To enhance the concept of tailored healthcare they have introduced a free shuttle service for the public in Sharjah. (Middle East business & financial news | business directory & current events | AME Info, 2012)

### **5.4.10 Challenges Influencing the Success of Tourism in Sharjah**

The main challenge facing the tourism sector of Sharjah is a limited supply of hotel facilities. In 2007, it had 5000 rooms divided among 22 hotels and 30 furnished apartment buildings. The number is expected to increase to 10,000 by 2012. However, the most traditional culture of Sharjah acts as a hindrance in its quest of inspiring the opening of more five-star hotels.

Another infrastructural constraint is the narrow road that links the emirate to Dubai. As Sharjah continues to lure visitors in Dubai to explore additional facilities in Sharjah, it needs to reduce or eliminate the inconveniences cause by the road link. The major reason among road visitors from Dubai to Sharjah is the short distance but as the number increases, the resulting congestion might withdraw the conveniences of the short distance. Sharjah also needs to increase its exploitation of the current facilities in addition to the development of new ones. For example, its popular shopping and travel destinations need to be revitalized so that they do not fade into obscurity as Dubai continues to attract international brands. Sharjah has to cope with its neighbours who have a bigger financial muscle and already have bigger tourism facilities. The economic diversification program at Sharjah is just one of the many diversification programs in the entire Arab world. The Oxford Business Group (2007) report shows that, in accordance with World Trade Organization estimates, the Middle East witnessed an annual increase in tourist arrivals of 9.5 per cent from 2000 to 2004. Additionally, trends show that the tourism industry is resilient. After the Israel-Lebanon conflict of 2006, there was a slight decline and later rebounded. An increase in the number of tourists to the Middle East other Arabian countries like Saudi Arabia and Algeria are being

lured by the diversification efforts of the UAE, thereby becoming new competitors in the tourism market.

Cultural and traditional reasons make it hard for Emiratis of Sharjah to take up higher education in travel and tourism-related fields. Sharjah has low enrolment rates of higher education as compared to tourism giants like Singapore. An initiative of correcting the issue started in 2009 with the collaboration of SCTDA and Skyline University College that launched the Tourism Guides Licensing and Training Program (SCTDA, 2010). The program recaptures those who had earlier left the educational system and trains them for the success and excellence in the industry. The program also enhances the quality of tourism services in Sharjah (SCTDA, 2010). The program was started after an in-depth study of the status of tourism agencies and guides practices in Sharjah. The study confirmed the existence of the provision of service that is below international standards. Presently, the program uses a mix of master classes and field visits by experts.

The success of the Sharjah destination lies in the service provisions by tour guides and operators. SCTDA develops programs that ensure Sharjah copes with new developments in the global tourism industry. Today, the influence of a tour guide on the visitor experience makes or breaks to whole visit to a destination (SCTDA, 2010). Thus, SCTDA requires all operators to hold licenses so that it is able to regulate their operations and maintain a high quality service overall. License allocations are limited to operators who have completed the training program. The program attracts tour guides operating in the larger UAE, which shows that is very effective in improving the real and perceived quality of operations. To sustain its tourism sector growth, Sharjah should replicate the success of this program to other subsectors of the tourism sector.

Sharjah's image as a desirable tourist destination suffered when the emirate experienced major power breakdowns. Currently, there are discussions on increasing investments on water and electricity sectors to a total of Dh 5.7 billion. This would reverse the negative perception of the destination caused by major power disruptions. Petrol also poses a long-term challenge for Sharjah. Crises in the Middle East hang as a dark cloud on the success of the tourism sector because political unrests affect the whole region. Presently, there has been no noticeable negative effect on the number of visitor arrivals because of the



conflicts in the region. In fact, the SCTDA statistics for the first half of 2011 show an increase in the number of tourist arrivals to Sharjah (Ravi, 2011).

Environmental concerns show that the real estate development is a large contributor of carbon emissions. As homebuyers around the world become more informed, environmental sustainability is becoming a major issue to consider when buying homes. Environmental concerns also affect the buying of holiday homes and apartments. For the mixed residents' developments in Sharjah to remain attractive in the new environmental conscious market, they have to be environmentally friendly. In addition, tourist facilities also need to be more environmental friendly to retain visitation by environment-conscious tourists.

#### **5.4.11 Conclusion**

In spite of the recent economic transformation, the emirate of Sharjah continues to maintain its traditional identity and a distinctly Arabic feel. Tourists are welcomed by the minarets, green parks and traditional structures accompanying the growing business district and high rise buildings. The emirate seeks to provide the best possible environment for business and tourism and at the same time ensuring to preserve its cultural heritage. The government of Sharjah continues to give its importance in preserving its heritage but remain aware that this is not going to happen at the cost of its robust economic growth (OBG, 2008). The strategy employed for the development of tourism substantiate the successful model when it comes to preserving its traditional identity, create a unique image of its own and create a strong base for economic activity. The growing number of tourists and the increasing number of hotels and hotel apartments to cater the demands confirm the successful story of the Arabic-Islamic Emirate of Sharjah, situated near the ultra-modern city of Dubai (CERAW, 2004)

## Chapter 6

### 6 Findings and Discussion

#### 6.1 Introduction

The key economic activities of the United Arab Emirates (UAE ) in the past consisted of the harvesting of pearls, fishing, agriculture and camel herding. With oil exploration, the economic growth of the UAE was propelled to new levels by the oil sector, which provided enough surpluses from the oil wealth to accelerate economic development. The economic development and growth of the UAE is unusual and unique because it did not go through the supposed theoretical stages which most of the developed countries experienced. The UAE achieved its current stage of economic growth, bypassing the conventional development stages, owing to its huge revenues from its oil reserves.

The UAE's growth was triggered by a resource oriented development strategy rather than the conventional drivers for growth such as saving and accumulation of capital. The social and economic infrastructure of the UAE was boosted by the massive oil windfall in the 1970s which enabled the spectacular extent of economic development. The revenues from the rich oil reserves mean that the UAE per capita income today is on par with that of most of the industrialized nations in the world. The UAE, being an open market economy, enjoys a trade surplus and hence the per capita income is also very high. The three case studies show that the UAE's dependence and reliance on oil for its economic growth has considerably reduced in the past decades because of its consistent efforts to diversify its economy. There has been a notable shift from the public sector to the private sector, which is identified as the driving force for growth by diverting investments into the necessary and key sectors for economic diversification.

The UAE has been successful in attracting huge foreign investments because of its highly liberal and market-oriented policies, such as the Free Trade Zones which offer 100 per cent foreign ownership and zero taxes. Further, the government of the UAE is increasing its investments into knowledge-based economic and social structures such as health care, education, training and innovation in order to be able to be an active part of the globalizing world economy.

In the recent past, high revenues from oil, increasing liquidity, cheap credit and shortage of houses resulted in increasing prices of assets such as equity and real estate and this in turn increased consumer inflation. However, asset prices have declined considerably and growth in the economy has slowed with the global financial crisis affecting the real economic sectors.

## **6.2 Model of Economic Development**

The UAE is a loose federation ( a collection of city states)in which each emirate maintains significant autonomy over its economic and financial activities and adopts varying development strategies depending upon the available resources and competencies. Hence, the UAE does not have an unified model for economic development policies. While Abu Dhabi focused on industrialization based on oil owing to its enormous oil resources, the emirate of Dubai focused on sectors such as transport, logistics, tourism, hospitality, financial services, real estate and construction because of its deteriorating oil reserves. Replicating Dubai's economic success, other emirates are also focusing on non-oil sectors, especially trading and tourism. No wonder then that the UAE's economic development model has been described as "Dubai, Inc.", as it is based on Dubai's pioneering business strategy, which resulted in successfully transforming a desolated desert Emirate into an ultra-modern city state. Dubai's development policy and its transformation speaks volumes and calls for an investigation into whether the model followed by Dubai is employable elsewhere in the world or if the model is unique in itself.

## **6.3 Economic Structure and Diversification**

The United Arab Emirates witnessed a significant level of growth fuelled by the increase in oil prices from 2002 to 2008 and enormous investments by the government in infrastructure and real estate projects, triggering phenomenal growth in the non-oil sectors. The GDP of the UAE reached AED 934.4 billion(1 US\$=3.65 DH.) with a compound annual growth rate (CAGR) of 22.8 per cent from 2002 to 2008. The oil and gas component, which contributed 37 per cent of the total GDP, stood at AED 344.1 billion with a CAGR of 29.5 per cent. On the other hand, the non-oil sector with a CAGR of 19.8 per cent from 2002 to 2008, stood at AED 590.1 billion. However, the UAE had to face challenges with the start of the global financial crisis, as more than one third of the emirates' revenue depends on oil. The

GDP reduced by 2 per cent in 2009, with the oil component declining 22 per cent as compared to 36 per cent growth in 2008, resulting from plunging oil prices. However, with oil prices bouncing back by the end of 2009 and 2010, the economic downturn faced by the UAE was mitigated, enhancing the confidence of the investors and helping the government to support the economic growth (see Table 17).

**Table 17 Evolution of UAE GDP (2002 – 2009)**

<b>(AED Billions)</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
<b>Nominal GDP</b>	<b>272.9</b>	<b>321.8</b>	<b>387.8</b>	<b>506.8</b>	<b>643.5</b>	<b>758.0</b>	<b>934.3</b>	<b>914.3</b>
<b>Oil Component</b>	<b>73.1</b>	<b>93.0</b>	<b>123.9</b>	<b>182.5</b>	<b>220.5</b>	<b>253.8</b>	<b>344.1</b>	<b>267.0</b>
<b>% of GDP</b>	<b>27%</b>	<b>29%</b>	<b>32%</b>	<b>36%</b>	<b>34%</b>	<b>33%</b>	<b>37%</b>	<b>29%</b>
<b>Non-oil Component</b>	<b>199.8</b>	<b>228.7</b>	<b>263.9</b>	<b>324.3</b>	<b>423.0</b>	<b>504.3</b>	<b>590.1</b>	<b>647.3</b>
<b>% of GDP</b>	<b>73%</b>	<b>71%</b>	<b>68%</b>	<b>64%</b>	<b>66%</b>	<b>67%</b>	<b>63%</b>	<b>71%</b>

Source: UAE National Bureau of Statistics

Despite the extensive growth and development witnessed by the UAE over the years, the economy continues to depend heavily on the hydrocarbon sector, which contributed 37 per cent of the GDP in 2008. Estimates from the UAE National Bureau of Statistics reveal that the GDP in 2009 reduced by 2.1 per cent compared to 2008 mainly due to layoffs, cancellation of projects, declining corporate earnings, falling real estate prices in Dubai and above all the news of debt troubles in Dubai. Dubai's economy is not oil rich like Abu Dhabi, which makes it more vulnerable to the effects of the global slowdown, as its reliance is more on construction and services. Dubai depends on debt for its economic growth. Diversification, coupled with the real estate bubble bursting, closure of credit markets globally and the government's increasing debt level, resulted in further challenges for Dubai. With the dependency on oil for more than one third of its GDP and declining economic sectors, Dubai triggered a slowdown of GDP and economic growth in the UAE.

**Table 18 UAE GDP Distribution by Emirate**

per cent of GDP	2004	2005	2006	2007	2008
Abu Dhabi	55.7%	57.3%	53%	52.8%	55.7%
Dubai	30.5%	29.2%	34.9%	34.9%	32.3%
Sharjah	8.7%	8.8%	7.7%	7.9%	7.7%
Ajman	1.3%	1.2%	1.2%	1.3%	1.2%
Um Al Quwain	0.5%	0.4%	0.4%	0.4%	0.4%
Ras Al Khaimah	2.0%	1.8	1.8%	1.8%	1.7%
Al Fujairah	1.2%	1.2%	1.1%	1.1%	1.1%

Source: UAE National Bureau of Statistics

In the recent past, the UAE's policies increased the contribution in construction, manufacturing, financial, tourism and transport services, resulting in significant growth in the non-oil sectors according to the UAE ministry of Economy in Chapter Five. The development strategies of Abu Dhabi and Dubai to diversify their economies from hydrocarbons to non-oil sectors such as manufacturing, trade, logistics, tourism and financial services was profoundly evident with the manufacturing sector contributing the greatest share of 12.1 per cent, followed by the construction sector at 7.4 per cent in 2008. Despite the slowdown, the business services and real estate sector contributed a considerable share of 8.4 per cent of the UAE's GDP in 2008. The financial sector also proved to be an important aspect of growth in the economic diversification of the UAE's strategy, with Dubai registering 39.7 per cent decline compared to 2007, and Abu Dhabi registering 41.4 per cent in 2008. Despite the increasing contributions from the non-oil sectors, the UAE's large scale public sector infrastructure and development projects, which transformed the region into a regional trade hub, are mainly due to the revenues from oil exports. Hence, the growth of the UAE generally and Abu Dhabi in particular in the short future will depend on the demand for oil and on global oil prices.

When it comes to contribution of GDP by the seven emirates, Abu Dhabi is the main contributor with more than half of the UAE's GDP. According to the UAE Ministry of Economy, ranging from 53 per cent to 57 per cent from 2004 to 2008( see Table 18). Dubai's

contribution stood at 32.3 per cent, with the emirate of Sharjah trailing with 7.7 per cent contribution towards the GDP of the UAE. When it comes to the oil component of the UAE’s GDP, Abu Dhabi contributed 96.2 per cent, with Dubai and Sharjah together contributing a mere 3.8 per cent of the UAE’s GDP. However, the UAE’s GDP growth in the past has been propelled by the non-oil sectors highly influenced by Dubai’s Strategic Plan of 2015 and Abu Dhabi’s Economic Vision of 2030, which aim at diversifying the economy from oil. Trade and manufacturing proved to be a key contributor for the non-oil sector in the UAE with 44 per cent contribution from Abu Dhabi and 38 per cent from Dubai. Similarly, the construction and real estate sectors also made a considerable contribution towards the UAE’s economy with 15.8 per cent of the GDP (see figure 6.3).

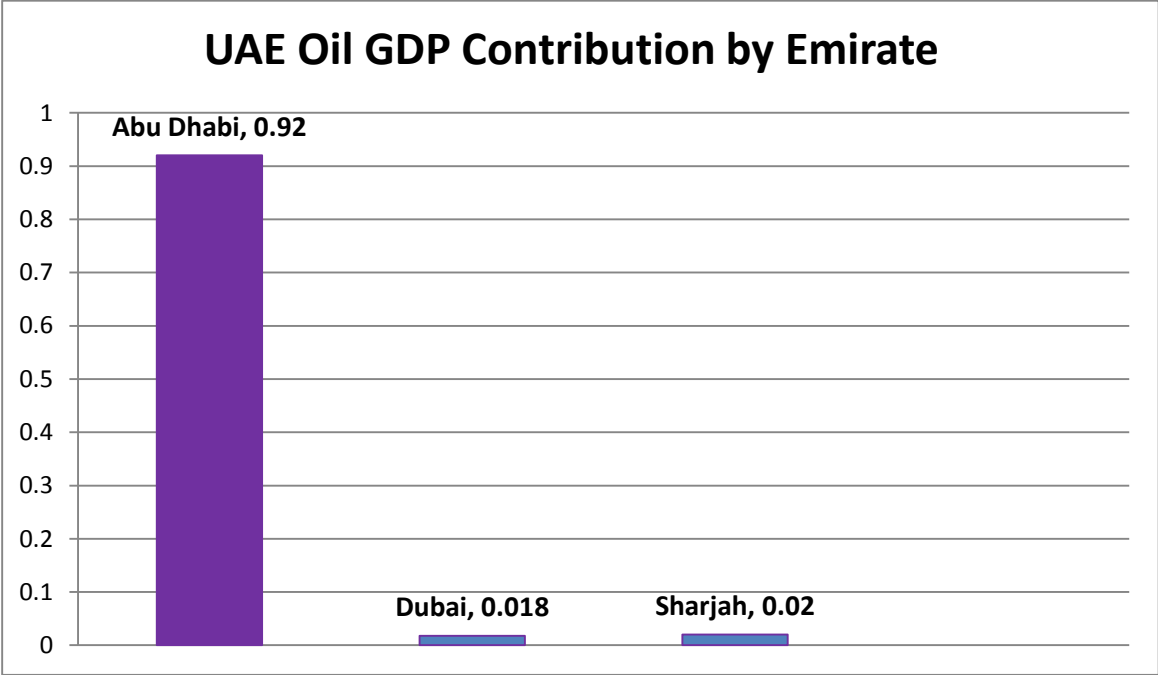
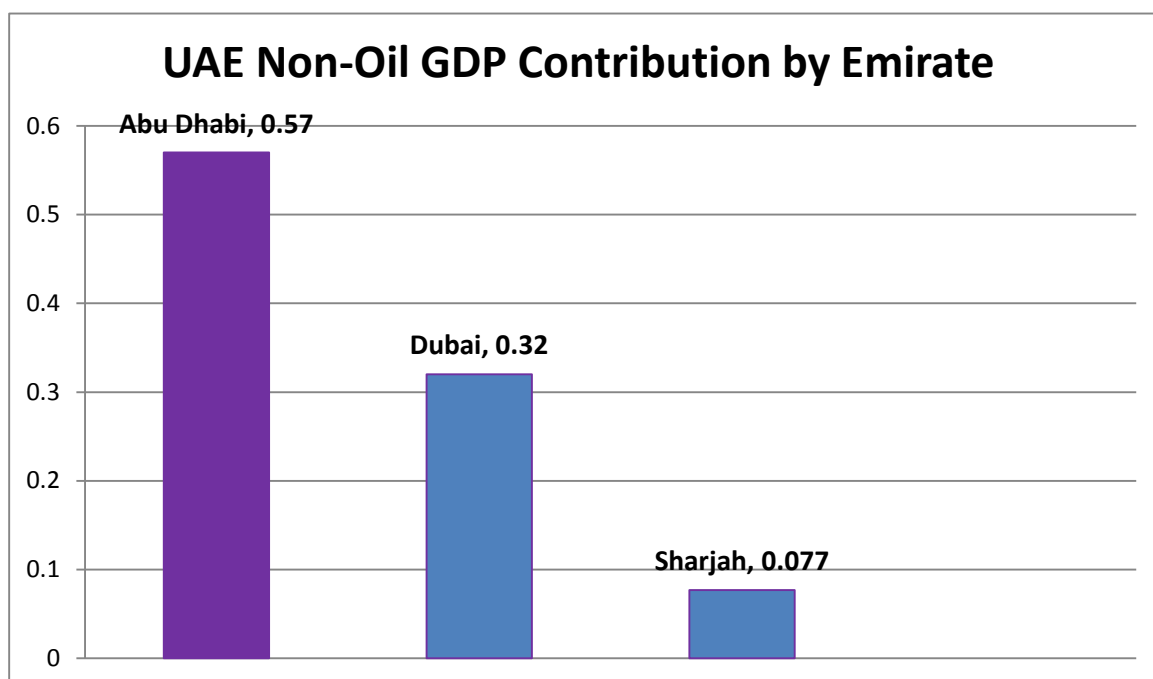


Figure 4 UAE Oil & Non-Oil GDP Contribution by Top 3 Emirates in 2008



**Figure 5 Non-Oil GDP Contribution by Emirate**

Source: UAE National Bureau of Statistics

## 6.4 Impact of UAE Government Policy on Tourism

According to the UAE officials at both Federal and Emirate levels, the government of the UAE attaches vital importance to the travel and tourism sector as an important tool for its diversification policy and its aim to make the economy sustainable and create a position for UAE on the international map for tourism. In the Travel & Tourism Competitiveness Report 2011 issued by the World Economic Forum under the theme ‘Moving beyond the Downturn’, the UAE ranked 30<sup>th</sup> among 139 countries covered and ranked first in the Middle East with its most advanced travel and tourism sectors. Also, the UAE’s ranking and position have been enhanced according to the same report, especially in the air transport sector, ranked 4<sup>th</sup> in the global competitive index because of its continued development of tourism infrastructure.

The participation of the UAE tourism authorities in the major international travel and tourism exhibitions has helped to ensure a prominent place for the UAE in global destination marketing campaigns. According to Mohammed Khamis Bin Hareb Al Muhairi, Director General of UAE National Council for Tourism and Antiquities (NCTA); the contribution by

the travel and tourism sector towards the GDP of the UAE accounted for 11.7 per cent (and 7.4 per cent for the GDP without oil), and the sector contribution grew from 13.5 billion to 36 billion during the period from 2001-2009, representing a growth of 168 per cent. With the emirates of Abu Dhabi, Dubai and Sharjah contributing 93 per cent of the total contribution of the tourism sector towards the country's GDP, Abu Dhabi represents 16 per cent, Dubai 67 per cent, and Sharjah 10 per cent, with total investment in the tourism sector around 69 Dh. billion for the same period (Alithad, 2011).

A report issued by the Abu Dhabi Economic Development Department also predicted an average annual growth of 8.1 per cent from the tourism sector during the period from 2011 to 2020. This indicates that the total number of employees in the tourism sector will exceed 429,000, which will account for 13.8 per cent of the country's total workforce, and is predicted to grow by a further 5.7 per cent by 2020. The number of hotel guests and hotel apartments increased by 10 per cent in 2011, according to the statistics provided by the Abu Dhabi Tourism Authority, and similar trends are seen in the increase in the number of hotel nights, occupancy levels, revenue and average time of stay. The number of hotel guests in Dubai increased by 14 per cent in 2011, with an occupancy rate of 81 per cent. In 2011, the number of tourists in the Middle East dropped by 8 per cent, according to the World Tourism Organization, which increased the international arrivals in the Middle East to 54.8 million after growing by 14.9 per cent the year before. However, this trend was boosted by the UAE, which recorded an increase in the number of tourists. With the expenditure on the tourism sector expected to increase gradually, the number of tourists and the hotel occupancy rates are also expected to increase and so the tourism sector in the UAE as a whole and in Dubai in particular is set to boom.

The UAE is planning to attract a further six million tourists, which amounts to 15 million visitors by 2020, based on the policy to diversify its economy from oil. The emirate of Abu Dhabi is spending billions in order to diversify its economy from oil into industry, real estate, finance and tourism sectors. The capital city is investing heavily in infrastructure in an attempt to establish the emirate as a tourism hub, following the footsteps of its neighbour Dubai with projects such as the Saadiyat and Yas Island projects. The number of tourists is expected to increase by 15 per cent annually in Abu Dhabi with a target of 2.3 million tourists



by the end of 2012. In sum, the UAE's tourism sector has been the key contributor for its economic growth, development and diversification.

The UAE has made impressive strides in developing the tourism sector which is fast becoming an integral part of the government's economic diversification strategies away from its dependence on crude oil. The reason behind giving so much focus to the tourism sector lies in its latent potential of playing a bigger role in the UAE's next-decade growth for both the federal and the local governments. Therefore, the federation will seek to invest money heavily in developing the tourism sector at all levels and in all growth areas.

## **6.5 Abu Dhabi Case Study Analysis**

In 2004, the Abu Dhabi Tourism Authority (ADTA) was formed. Since then, the Government of Abu Dhabi has started taking tourism development efforts very seriously and consequently launched a series of growth initiatives to bring around this massive transformation. Before this date, there was hardly any serious government involvement or support to promote sector-wise growth in the tourism industry. It was more inclined towards natural growth strategies without any government intervention to develop the sector.

According to the ADTA, at the beginning of this millennium there were 49 hotels in Abu Dhabi in 2001. This increased to 115 by 2010, so the number more than doubled in a decade. In the same period, the number of rooms tripled from 6,562 in 2001 to 18,832 in 2010. However, the occupancy rate remained constant at an average of 65 per cent from 2001 to 2005. From 2006 to 2008, the occupancy rate shot up to an average of 83 per cent, before easing to 72 per cent in 2009, and back to 65 per cent in 2010. Revenue contribution for the sector was Dh 0.88 billion in 2001. The revenues grew to Dh 2.3 billion in 2006 and then almost doubled to Dh 4.2 billion in 2010.

The government diversification policies of Abu Dhabi led to investing heavily in the expansion and development of tourism and cultural activities with the implementation of major tourism infrastructure projects such as the Museums District in Saadiyat Island and Yas Island (to enhance the supply factors). The Abu Dhabi Airports Company (ADAC) is coming up with a new passenger terminal which is known as the Midfield Terminal Complex (MTC), to meet the growing demands. Tourism is one of the largest and fastest growing economic

sectors in the emirate of Abu Dhabi which has come up with different products and services to ensure that the emirate is one of the most sought after tourism destinations. The government of Abu Dhabi is therefore investing enormous funds as well as energy in the tourism sector to ensure that the emirate of Abu Dhabi becomes an attractive destination for tourists while continuing to provide the facilities and leisure activities for permanent residents of the emirate.

Visitor numbers to Abu Dhabi recorded a steady growth throughout the decade of 2001 to 2010. There were 0.71 million visitors in 2001. By 2007, the figure had doubled to 1.45 million and reached a maximum of 1.81 in 2010. The total passenger numbers through the Abu Dhabi International Airport reached 12 million in 2009. This was an increase of 3 million from 9 million in 2008. In 2008/2009, the airport expanded to 3 terminals and 2 runways. Passenger numbers have been steadily increasing in Abu Dhabi. The figure was 4.8 million in 2006 and increased to 6.9 million in 2007. This was an indication that the diversification programmes of the economy are on the right path. The official carrier airline of Abu Dhabi, Etihad Airways, had 37 aircraft in 2007. It carried 4.6 million passengers in the same year. In 2008, the airline earned revenue of \$2.5 billion, carrying 6 million passengers using 47 aircraft. In 2009, there was a marginal increase in the number of passengers to 6.3 million and the number of aircraft increased to 50. By January 2011, Etihad had 57 aircraft and served 66 destinations globally. In line with Abu Dhabi's Vision 2030, the non-oil industry accounted for 53 per cent of the GDP in 2010.

Interview respondents indicated that they were optimistic about the tourism sector developments in Abu Dhabi. The main incentive received from the Abu Dhabi government for business developments in the industry was capitalization assistance. Interview respondents also showed that the Abu Dhabi Vision 2030 was instrumental in fostering a positive climate for growth of the tourism sector. The increased number of visitors to Abu Dhabi was attributed to efforts by ADTA in participating at international tourist events. Other notable contributions were ADTA policies, which include the hotel classification system and the mega development of the healthcare sector. This development led to the exploitation of the medical tourism niche.

The data from the interviews with tourism sector representatives, showed that the most important government policy (60%) viewed by them to help grow the tourism sector in Abu Dhabi is the Government Policy to Create the ADTA. This is the tourism authority responsible for directing and coordinating the development of tourism, according to a clear majority - close to two thirds of interviewees., while 20% believe that the Promotion/ Marketing, Events, and Festival come second as the most important policy, 10% consider the Pro-tourism policy is the most important, and 10% believe that the government Policy to Develop the Tourism products at Abu Dhabi is the most important one to develop the sector at the Emirate.

**Table 19 Relative importance of tourism policy measures in Abu Dhabi**

<b>Policy ranking as the most important</b>	<b>Abu Dhabi, kind of policy to develop the tourism sector</b>	<b>Percent (%)</b>
<b>1</b>	Government Policy to Create the ADTA	<b>60%</b>
<b>2</b>	Policy of Promotion/ Marketing, Events, and Festival	<b>20%</b>
<b>3</b>	Pro-tourism policy	<b>10%</b>
<b>4</b>	Ggovernment Policy to Develop the Tourism products at Abu Dhabi	<b>10%</b>

When the interviewer asked about the government policy measures they consider to have discouraged the growth of the tourism sector, the respondents said that visa rules were among the discouraging policies of the government of Abu Dhabi. On the other hand, the same visa rules were also favourable for some countries. Abu Dhabi still lags behind the success of Dubai, as the statistics in the case study indicate. Respondents made various recommendations that they felt, if applied, would develop the tourism sector of Abu Dhabi. Finally it was suggested by some participants in the interview that if Abu Dhabi wants to have an important role in the tourism sector regionally or internationally, it should be more efficient by applying advanced studies relating to the target markets, the countries tourists come from, what they like and what they expect from Abu Dhabi as a tourism destination in order to be able to provide them with what is possible. Similarly, it was felt by some other

participants that tourism products should be more diversified; one such example is medical tourism (through establishing hospitals to the best world standards to provide first class medical services in an integrated health city, (similar to the health facilities in Thailand according to one hotelier interviewee). Developing educational tourism, provided by top-level universities and educational institutes which attract students from the region and the rest of the world, is also another strategy that needs to be looked into to provide tourism product diversity. Another suggestion by participants was that the tourism sector should sell traditional folk products to offer an integrated mix of old and new products to meet all tastes. It should establish more distinct tourist parks and take advantage of the coast and surrounding islands by creating water gardens and more beach restaurants.

Indeed, Abu Dhabi came very late in developing its tourism sector. However, having left behind past delays, the Government is making many efforts to ensure the tourism sector flourishes along the roadmap of Dubai. They have also acquired increasing means to further development in the tourism sector. For this, they have laid out plans for “Abu Dhabi Vision 2030”, a colossal project which would enable economic diversification across the whole Emirate. The first step for this economic diversification was the creation of ADTA, which was set up based on huge wealth generated in the past from crude oil. Today, Abu Dhabi is self-sufficient in developing its tourism sector to become a second important global destination in UAE after Dubai; tourism is indeed one of the alternative sectors as part of the economic diversification policy but critics believe it would require more serious efforts to bear noticeable results.

## **6.6 Dubai Case Study Analysis**

According to the official data collected for the research for this study, Dubai City has recorded positive results in its economic diversification programme. There are notable improvements in its tourism sector. The following part gives a summary of the positive results of Dubai. The next part evaluates these findings in detail.

The increase in the number of visitors to Dubai is partly attributed to the increased capacity of Dubai Airports. Dubai International serves 150 airlines. It is the fourth biggest airport in the world. Dubai Airports, the authority that manages the airports in Dubai, reported

a 15.3 per cent increase in the number of passengers using the airport between 2009 and 2010. There were 40.9 million passengers in 2009 and 47.2 million passengers in 2010.

There has been a steady rise in visitor numbers in the last decade. In 1998, there were 2.1 million visitors. There were 5.8 million in 2007, 7.5 million in 2008, and 8.2 million visitors in 2010. This translated to a 21 per cent growth in hotel revenues. The hotel occupancy rate for this period was 87 per cent. This was an increase due to the promotional initiatives of The Dubai Department of Tourism and Commerce Marketing (DTCM). There were 15.3 million guest nights for hotels in Dubai City and this was an 18 per cent increase compared to the same period in 2006, according to the DTCM data.

In 2007, the number of visitors from UK to Dubai increased by 6 per cent and the number of European visitors increased by 8 per cent. Visitors from Africa and Asia to Dubai increased by 12 per cent in the same period (Dubai Travel News, 2007). Findings from the case studies of Sharjah, Abu Dhabi, and Dubai show that Dubai is the leading performer of UAE's tourism industry. In 2010, its hotels occupancy rate figure stood at 86 per cent. This was because of an average increase of 16 per cent year on year since 2001 (Travel Daily News, 2010). The Dubai International Airport recorded a 22.6 per cent increase in passengers in 2010 compared to the same period in 2009 (Travel Daily News, 2010). In 2006, the average occupancy rate for hotels in Dubai was between 80 per cent and 100 per cent. The total number of rooms available in Dubai was about 65,000 in 2010. From 2005 to 2010, there was an increase in the number of 5-star and 4-star hotels in Dubai. The number of 4-Star hotels increased from 35 to 51, while the number of 3-star hotels increased from 39 to 50 over the same period.

In 2006, there was a shortage of rooms in Dubai, which saw their prices soar in the same period up to as much as Dh 800 to 1000 per night (Dubai Hotels, n. d.). Dubai added 23,000 rooms in 2007, 27,000 rooms in 2008, and 18,000 rooms in 2009. In 2010, the emirate added a further 13,000 rooms. There is a decreasing rate of rooms added yearly. The highest number of rooms added to the sector was in 2008, when the sector recorded its highest growth in tourist visits. The tourism industry is showing more signs of improvement and Dubai will be adding another 32,686 rooms in the next two years (Dubai Hotels, n. d.). Dubai saw a 7 per cent increase in the number of hotels from 530 in 2009 to 566 in 2010. This translated into

67,369 rooms in 2010, which was an increase of 16 per cent from 58,188 rooms in 2009 (Dubai Hotels, n. d.). The number of passengers using its main airports can also explain tourism numbers in Dubai. In 2010 and 2009, the two international airports in Dubai recorded annual growth in the number of passengers.

Government policies have led to the growth and development of the tourism sector in Dubai. According to the interviewees in this study, the government policies and its different initiatives led to a significant increase in the number of tourism arrivals from countries which had been granted the privilege of tourist visas on arrival at the airports. Already, the statistics of the sector by Dubai Tourism and Commerce Marketing (DTCM) showed an increase in the number of tourists from key markets that benefited from the visa rule relaxation. Infrastructural developments in Dubai in the last two decades have helped transform it into one of the largest tourism destinations in the Middle East. This is supported by two international airports and the powerful Emirates Airline Company, international malls, and iconic hotels. As shown in the second Case Study about Dubai, Dubai is home to the Palm Islands and the Burj Khalifa, which are iconic developments globally.

The tourism sector and the Emirates airline have greatly benefited from the policy of expansion of the Dubai International Airport to increase supply. Since the launch of the airline in 1985, it has grown from two destinations in India to over 100 destinations in 61 countries. Dubai has also developed a metro network that links its airport with major tourist facilities. This ensures a smooth transition of first-time and returning visitors. In the long run, it contributes positively to the experience of the destination. Main stations of the metro network were built at the Mall of the Emirates, Burj Khalifa, and the Dubai Financial Centre. Passenger transfers to the new terminal 3 at Dubai airport started in 2008. Hotels also arrange for guest pickups from the airport. Visa processing is also done by the Emirates Airline for 30-day visits and 96-hour transits for specific country nationals who are booking the airline. The airline made AED 3.67 billion in 2010 compared to AED 3.45 billion in 2009. In March 2011, the airline became the third largest in the world by capacity, the airline had 144 planes. Numerous sponsorship deals around the world helped the airline increase its visibility and hence increase its number of passengers. Among its key sponsorship deals are the 2011 Rugby World Cup in New Zealand and Arsenal FC (UK) worth AED 580 million. The airline

first showed interest in modernizing its fleet in 2000, with an order of five passenger Airbus planes.

Dubai airport had 9 airlines to 20 destinations in 1969. The figure rose sharply to 107 airlines to more than 160 destinations in 2007. Presently, the airport serves 120 airlines to 205 destinations. There were 2.79 million passengers in 1980 using Dubai airport. The figure rose to 5 million in 1990 and 12.3 million in 2000. In 2010, the airport served 47.2 million passengers (DubaiFAQs, n. d.). Tourism has been a driver of the construction sector in Dubai. The non-oil sector of Dubai's economy contributed 90 per cent and 93 per cent of its GDP in 2000 and 2003 respectively. The economy of Dubai follows the path of diversification policies into the non-oil sector. The tourism sector and other related sectors such as the construction sector are showing growth signs. However, the tourism sector might have reached a mature stage of growth. Its annual occupancy rate decreased from the highs recorded in 2008 and 2007. In 2009, the occupancy was 69.8 per cent (Dubai Statistics Center, 2011).

Interview responses to the government policy concenter the most important to grow the tourism sector in Dubai, shows that the Policy of Promotion , Event, and Festivals was the most significant inputs of the government polices into the tourism sector by 40%, the Pro-Tourism Policy come second with 30%, the Policy of developing Tourism infrastructure com third with 20%, and the Policy of developing the Tourism Products by 10%. Results show marketing initiatives (Demand) concenter to be more important than infrastructure (Supply).

**Table 20 Relative importance of tourism policy measures in Dubai**

<b>Policy ranking as the most important</b>	<b>Dubai, kind of policy to develop the tourism sector</b>	<b>Percent (%)</b>
<b>1</b>	Policy of Promotion , Event, and Festivals	<b>40%</b>
<b>2</b>	The Pro-Tourism Policy	<b>30%</b>
<b>3</b>	Policy of developing Tourism infrastructure	<b>20%</b>
<b>4</b>	Policy of developing the Tourism Products	<b>10%</b>

The policies carried out by the DTCM were instrumental in increasing the occupancy rates of hotels in Dubai and an increase in the number of visitor nights. Maintenance and enforcement of standards by the DTCM also came out strongly during the interviews as one of the government interventions with a positive impact on the industry. Many interviewees said that the government growth policy was good and had improved. However, the interviewees thought that the inventory in the sector was increasing at a faster pace than the tourist arrival numbers. That was compounded with the global economy crises and this might explain the decrease in occupancy rates to 69.8 per cent in 2009.

Other policies that led to the growth of the tourism sector and the success of the economic diversification programme were in connection with the attraction of international and budget airline operators to Dubai. Interviewees also said that the opening of new airport terminals and the operation of the metro led to an increase in the number of tourist visits to their hotels and other facilities. The overall stability of Dubai and its leadership were also credited with the good performance of the industry. The general “business-like” attitude of policies led to the development of DTCM and the open sky policies, the easing of the visa requirements policy, and the creation of a service-minded public sector. Without these developments, Dubai would not be successful as a tourist destination.

Dubai’s policy has been to develop the tourism sector as part of its incumbent strategy to diversify its overall economic operation. This approach has been very successful over the years and many neighbouring (both within and outside of the UAE) economies consider Dubai as an example of how to develop the tourism sector and in adding new revenue streams to the economy. We are facing a situation today where oil represents less than 2 per cent of Dubai’s GDP, a gap which is being filled by the non-oil sectors including the tourism sector which has grown in leaps and bounds. The rates can be witnessed by the fact that the number of visitors has grown from 2.1 million in 1998 to 8.2 million in 2010.

## **6.7 Sharjah Case Study Analysis**

According to the data gathered for the case study from the UAE Ministry of the Economy and the Sharjah Tourism Authority since the new millennium in 2001, there were



21 hotels in Sharjah. The figure rose to 57 in 2005 and then doubled again to 107 in 2010. This was a reflection of the Sharjah government's policy of increasing the number of tourism facilities within the emirate, in emulation of its neighbour, Dubai. The total number of rooms was 2408 in 2001 and the number more than doubled to 4911 in 2005. The increase in room numbers was maintained to reach 7,647 in 2008. The increase in room numbers has since slowed and only increased to 8585 by 2010. Occupancy rates saw a steady increase from 55 per cent in 2001 to 74 per cent in 2010. Sharjah did not witness a decrease in its occupancy rates after 2008 like Dubai and Abu Dhabi. The high occupancy rate is because of the low number of hotel establishments in Sharjah and their relatively low cost, compared to offerings in Dubai and Abu Dhabi.

Sharjah handles a lower number of annual visitors compared to Abu Dhabi and Dubai. In 2001, the number of visitors was 250,000. The number increased steadily at 8 per cent annually to reach 1.45 million in 2007 and has since stabilised at an average of 1.5 million. The official carrier of Sharjah, Air Arabia, increased its fleet from 5 in 2004 to 16 in 2009. During the same period, the number of its destinations increased from 15 to 44. There was also an increase in the number of passengers from 534,000 in 2004 to 3.6 million in 2008. Sharjah has a smaller airport than Dubai and Abu Dhabi. Its airport handles 220 flights per day. It has a passenger capacity of 8 million per year. The airport saw a 6.4 per cent increase in the number of flights in 2010. This increase was a jump from 61,451 flights in 2009 to 65,401 flights in 2010. The total number of passengers also increased from 5.7 million in 2009 to 6.3 million in 2010, which was a 9.4 per cent increase.

The interviews with sector representatives from Sharjah showed according to their opinion the government policy that consider to be the most important to grow the tourism sector are as follow; Policy of Creation the SCTDA come first with 50%, the Pro-Tourism Policy come second with 20%, The Tourism infrastructure Policy come third with 10%, the Sustainability Policy come fourth with 10%, and the Policy of Promotion, Event, and Festival come fifth with 10%. Policies touching on regulation and taxes as well as strict law enforcement as having the highest promise of growing the tourism sector. Business also appreciated the formation of government organization to monitor the growth of tourism sector in Sharjah.

**Table 21 Relative importance of tourism policy measures in Sharjah**

<b>Policy ranking as the most important</b>	<b>Sharjah, kind of policy to develop the tourism sector</b>	<b>Percent (%)</b>
<b>1</b>	Policy of Creation the SCTDA	<b>50%</b>
<b>2</b>	Pro-Tourism Policy	<b>20%</b>
<b>3</b>	Tourism infrastructure Policy	<b>10%</b>
<b>4</b>	Sustainability Policy	<b>10%</b>
<b>5</b>	Policy of Promotion, Event, and Festival	<b>10%</b>

When it comes to the challenges the interviewees think hinder the development of the tourism sector in Sharjah, operational costs of the industry were seen to discourage its growth. Notably, government policy to increase the minimum skilled labour employment qualification and the complicated approval procedures and requirements received negative criticism from interview responders. Instead, the respondents and their organisation would like to see more attention given to the traffic congestion between Sharjah and Dubai City during rush hours. Overall, respondents thought the policy by the government of Sharjah was successful, well-crafted, and ambitious. The government’s policies of an open market economy led to the transfer of the regional capital from the neighbouring countries such as Saudi Arabia, Kuwait, and Qatar as well as international capital from all the countries. This capital helped in

building the hotels or service facilities and helped in developing the tourism sector in comparison to the neighbouring countries, which were not able to apply these policies.

According to the interviewees, what holds Sharjah back, in terms of tourism sector growth and development, is infrastructural connectivity with other emirates. Sharjah also lacks investments in leisure activities that would convert transit passengers into visitors. Respondents also cited government bureaucracy as an issue that needs to be resolved. Other issues were the developments of mutual tourism programmes with Dubai and the enhancement of the focus on environmental tourism.

## **6.8 Comparative Analysis of the Three Case Studies**

This section offers an analysis of the results presented in the previous sections. Various issues emerged in the earlier sections of this research. Some issues are common to all the emirates studies and some are specific to one or two emirates. All the case studies showed awareness of all the government officials about issues around the dependence of any economy on a single source of income such as oil. They are fearful of 'resource dependency' and they consider it as a threat in the short and long terms. The nature of the UAE as a federation is a collection of city states and this imposes the reality that all policies have to be drawn up and implemented at two levels: federal and local. The policies which have been used in the UAE to develop the tourism sector are similar; such as the creation of a single government tourism authority at the Emirate 'state' level; Tourism sustainability policy; Tourism Infrastructure Policy; State- Led Tourism Development Policy; Promoting, Events, Festivals Policy; Develop Tourism Products "Types" of policy. But the efficiency and the results vary from one Emirate to another due to the level and timing of the implementation.

By analysing the three case studies a number of key themes emerged;

- a- Firstly, the three emirates are presently at different stages in terms of economic diversification. Dubai has led the way with spectacular developments and this has become a model for Abu Dhabi and Sharjah to follow.
- b- The second theme to emerge is that the emirates rely heavily on long term planning to diversify their economies and as well for development of the

tourism sector, and this can be seen in the UAE Vision 2021, Abu Dhabi Economic Vision 2030 and Dubai Strategic Plan 2015.

- c- The three emirates follow a similar menu of policies to develop the tourism sector in each emirate, such as development of the tourism product, marketing/promotion, sustainability policies..etc.
- d- The fourth theme is the importance of creating government agencies to deliver the planned targets for development of the tourism sector such as: ADTA, DTCM, SCTDA, TDC, Emaar, Nakheel, Shurooq.. etc.
- e- State-led tourism development policy plays an important part in the government approach to develop tourism products in the Emirates.
- f- Marketing strategy and promotion play a central role in developing the tourism sector in the emirates, and all three emirates place an emphasis on marketing to succeed in attracting tourists.
- g- There are government agencies in all three emirates to monitor the progress made, and these report to the Secretariat General of the Executive Councils in each emirate, which represent the highest administration level in each emirate.

### **6.8.1 Pace and Development of the UAE Tourism Sector (Policy Impact)**

The three case studies show that the three emirates are in different stages of the process of their diversification its economies and developing its tourism sector. Dubai appears to be the leader in terms of development of the tourism sector and diversifying its economy; currently oil represents less than 2 per cent of its GDP. Sharjah is least advanced among the three in terms of developing its tourism sector and is seems largely to copy successful moves by its neighbouring Dubai. This copying strategy requires that Sharjah provide comparable funds and quality administration efforts to those which Dubai is using to develop its destination. However, Sharjah is able to copy without incurring the same financial cost as Dubai because of its lower demand for land, among other advantages. To date, Sharjah has developed similar projects to Dubai that cover economic free zones and real estate and its diversification plans appear to be working, as the oil sector represents only around 10 per cent

of its GDP. Sharjah is benefitting from its location next to Dubai, and Sharjah offers visitors and investors a cheaper alternative to Dubai (el-Dien Ouf, 2008). Abu Dhabi has the biggest economy in the UAE and it possesses more than 95 per cent of the UAE oil resources. Its tourism sector is developing at a good pace with big plans but it has not yet reached its potential and the Abu Dhabi economy is still relying on its oil revenues at around 50 per cent of GDP.

### **6.8.2 Tourism Policy and Long-Term Planning for Developing the Tourism Sector the three Emirates**

The strategy 'plan', or the vision, is very important to draw the road map to success in developing any sector. Dubai has been involved in setting plans for its economic diversification (Dubai Strategic 2010) since 2000. Abu Dhabi developed its first official strategy in 2004 (the Abu Dhabi Vision 2030). Sharjah has no official strategy as yet, with a proposed one under review at this stage in time but Sharjah Economic Development Department is in charge of the economic planning role. Dubai is most advanced when it comes to using planned policies to develop the tourism sector of the country. The Dubai Government, so far, has implemented several policies in the most effective way compared to other Emirati economies. The Government of Dubai has prioritised the provisioning of excellent infrastructure for the tourism sector and its policies have resulted in Dubai, currently, enjoying the best infrastructure among cities in the region.

There is no doubt today that the Dubai tourism authority is the most active authority in the entire Emirates. As an example, Dubai currently has the highest hotel room capacity compared to other tourist attractions, the biggest airline in the region and an active airport which is the fourth busiest international airport worldwide. In comparison to Dubai, Abu Dhabi falls behind in a distant second place as crude oil continues to remain the mainstay of its oil-rich economy. Although Abu Dhabi is in the process of developing its tourism sector, it will be years before it can reach the levels and brand equity of Dubai. Sharjah comes a distant third having less capacity than Dubai while less money to spend compared to Abu Dhabi. Abu Dhabi has the most elaborate diversification program entrenched in its Vision 2030. On the other hand, Sharjah is in the process of developing a comprehensive diversification program like that of Abu Dhabi. Abu Dhabi has a different outlook and challenge than the other emirates because of its economic structure. The emirate is also the government capital of the

UAE. Its predominant oil sector may be a significant contributor to its delay in developing its tourism attractions up until 2004, as those attractions had been offered by Sharjah and Dubai for longer time. These include the need for additional attraction facilities. Vision 2030, the strategic plan of the government of Abu Dhabi should be its focus because it provides a clear strategy for building a sustainable economy. Economic diversification, which highlights the role of tourism, is a key concept. Here, Abu Dhabi would increase the contribution of various economic sectors other than the oil sector so that it minimizes shocks from economic fluctuations. Secondly, extending the bases of participation to attract foreign direct investments in sectors using advanced technology is another important concept. Thirdly, achieving high levels of competition is another concept. This would involve activating SMEs and similar projects that push economic development to marginal areas. Additionally, it would focus on capital-intensive industries that are geared towards exports. The mismatch in room inventory and visitor arrival numbers in Abu Dhabi might be because of its financial strength. Abu Dhabi is able to continue investing in the tourism sector facilities without suffering major economic shocks because its oil revenues cushion it. Without the bulk of oil revenues, such developments would be unsustainable and economically damaging.

### **6.8.3 Policy Implementation: Agencies of the UAE Tourism**

The three emirates follow a similar menu of policies to develop the tourism sector in each emirate but with different scope of work/activity and a different pace and span of time. When it comes to the policy of creating a single tourism authority in each Emirate to play the custodian role to develop the tourism sector, Dubai benefited from its position with first-mover advantage. Dubai established its first tourism authority, the Dubai Commerce and Tourism Promotion Board(DCTPB),in 1989. It was replaced by the Dubai Department of Tourism and Commerce Marketing (DTCM) in 1997. Sharjah created its tourism authority in 1996, while the Emirate of Abu Dhabi established its Abu Dhabi Tourism Authority in 2004. This makes Dubai the pioneering Emirate in implementing this policy to develop the tourism sector in the UAE. That gives a time advantage to Dubai over the other Emirates, or first-mover advantage.

Using the authority and the mandate governed by the government of Abu Dhabi, Abu Dhabi Tourism Authority (ADTA) is able to execute policies and projects. The policy of ADTA is a five-year rolling strategy. This is consistent with a directive from the Secretariat

General of the Executive Council. Longer-term master plans for the tourism sector are included in the Vision 2030 of Abu Dhabi. The government's aspirations and commitment influence the execution of the aims and objectives of the policy by ADTA. Tourism was identified as having the potential of helping the government achieve its diversification goals. The main challenge facing the tourism sector is the inability to leverage natural assets properly since Abu Dhabi accounts for more than 85 per cent of the UAE's total area with more than 200 islands attached to it. Secondly, there is the inability to properly create tourist products that highlight the culture of Abu Dhabi. Participation of national Emiratis is low. There is limited educational support for the tourism sector of Abu Dhabi; the products available in the sector are also limited or show low operational use. The ADTA can overcome the challenges facing its tourism sector through coordination and communication with stakeholders. This would help the authority address some of the challenges such as the low participation of Emiratis. The authority could also enhance the reputation and awareness of the destination and increase the financial performance of the sector. This should attract more investors to provide more products as well as increase and improve the customer service offerings. The tourism policy of the ADTA developed in 2004 was a product of consultations. The ADTA involved public and private tourism players, including hotel and tour operators, travel agents, and public organizations such as the municipality. Moreover, the implementation of the policy also benefits from the active role of different players in the tourism sector.

Most of the tourism sector effort in Abu Dhabi is state-based, led by the ADTA. However, there are efforts at the federal level that have led to the creation of the National Council of Tourism and Antiques (NCTA). The NCTA will henceforth coordinate tourism sector activities at the federal level with those of the individual emirates. In developing the tourism sector policy, ADTA uses a multidimensional approach. The approach includes benchmarking to other destinations. It also includes working closely with the organizations. For example, it works closely with the Singapore Tourism Board. The working agreement was arrived at after the signing of a joint memorandum of understanding. The policy involves the employment of leading consultants to support the policy development. Abu Dhabi relies on the private sector to achieve the priorities of its 2030 vision, which include having sustainable economic growth. The tourism sector is important in building up the non-oil

sectors of the economy. The available results and evaluations of the diversification policy of Abu Dhabi show a reasonable growth rate. This is attributable to the success of the policy and the competency of the government in managing the global financial crisis that occurred during the implementation review period.

As mentioned previously in the Dubai case study, the Dubai Tourism and Commerce Marketing Department (DTCM) is responsible for the review and implementation of the tourism policy of Dubai. The Dubai tourism policy general aims are to enable the creation of a favourable environment for tourism development.

Tourism development needs some time before realizing results. An incremental process embraces the latest developments in the industry through policy inclusion. The Sharjah Commerce and Tourism Development Authority (SCTDA), instead of looking at a specific period, is concerned with infrastructure development. To overcome challenges of tourism, the SCTDA embraces the realities of the global tourism market. It uses a consultative committee that it established to cooperate with tourism sector representatives. The committee evaluates challenges and makes decisions that lead to action steps exercised at meetings with representatives of global tourism companies. The SCTDA also relies on participation at conferences, to gather information about the state of the global tourism market so that it positions itself accordingly. For effectiveness of policy, Sharjah uses international classifications. SCTDA relies on studies and reports published by international companies. The reports offer tourism indicators that are then measured in the subsequent years. SCTDA is careful with measuring standards and comparing them to facts that it has in possession. This way, it is able to deduce the helpful bits and use these in decision making that targets international markets because of their potential increase in visitor numbers. The authority relies on extensive feedback after and during events and functions to inform the next course of action. It evaluates its participation at international forums against the set objectives. Consequently, it is able to know the kind of events, participation, and yields maximum returns in its promotional initiatives.

All the three Emirates have implemented policies to develop sustainable tourism from building eco-friendly resorts, and creating a code to regulate tourist behaviour and dress code so as to avoid any tension from happening in the future between the local culture and the



tourist cultures. It is notable that Sharjah is more firm in enforcing the culture and the dress code than Dubai or Abu Dhabi due to the fact that Sharjah primarily promotes itself as a family destination. This is evidence of the use of the Development State model, where these agencies guide and direct tourism policy.

#### **6.8.4 Tourism Supply Enhancement (Infrastructure etc)**

The creation of appropriate infrastructure (e.g. facilities) is an integral part of Tourism Policy, the UAE policy on tourism infrastructure at its best is represented by Dubai. Dubai has managed to build the largest and busiest airport in the Middle East despite other airports in the region belonging to bigger and richer countries, with its current airport ranking number four in the world (with 48 million passengers in 2010). The Dubai state-owned airline ‘‘Emirates Airlines’’ is the largest commercial carrier in the region and the oldest in the UAE. Abu Dhabi comes second in developing its airport facilities. It has the second largest airport in the UAE with a capacity of 12 million. Abu Dhabi’s state-owned airline is ‘‘Etihad’’, founded in 2003 to connect Abu Dhabi to the world. The Sharjah Airport comes third in the UAE with the total number of passengers using it reaching 5.7 million in 2009. Air Arabia was established in Sharjah 2003 as the first low-cost airline company in the region by the support of the Sharjah government. In all the case studies, tourism infrastructure policy, such as growing the airport sectors and creating a national airline, plays a key role in delivering tourist numbers. Increases in the number of passengers translate to similar increases in the number of visitors to the emirates.

The governments use a state-led tourism development policy ( i.e. Developmental State model) to develop the tourism sector in all the three cases to enhance supply side. The state-owned companies have invested massively to develop the tourism capability in Dubai. The government’s commercial entities have developed;

- Attractive shopping malls & resorts,
- The world’s tallest building,
- The world’s biggest mall,
- The unique artificial manmade islands,

Among other tourist attractions. At times where the private sector has been hesitant or incapable of carrying out projects in the tourism sector, the Dubai government enterprises came forward to accomplish the task. Nakeel property, Emaar Property, Emirate Group, and many more are examples of the Dubai government entities.

In the Abu Dhabi case, the government has also used companies to lead projects. Thus, the Tourism Development and Investment Company (state-owned) carried out a task on behalf of the government of Abu Dhabi involving the construction of the Museum District at Saadiyat Island. This Museum District will include the Zayed National Museum, Louvre Abu Dhabi, Guggenheim Abu Dhabi, Performing Art Centre, and the Maritime Museum. The same company was also in charge of developing the Desert Island as an eco-friendly resort in some natural islands. Also, Al-Dar Property Company (state-owned) developed the central market, Formula One Theme Park, and Formula One Track.

Sharjah's government used the same policy to enhance supply through the Sharjah Investment and Development Authority (Shurooq). Shurooq is in charge of developing many tourist attractions that the emirate requires to attract tourists. The emirate of Dubai is by far the biggest utilizer of state-led tourism development policy in the UAE and for a longer period of time compared to other Emirates. Abu Dhabi comes second in using this policy and the government has put a lot of effort and money into the policy. However, it has still not yet harvested the outcome due to the fact that it has implemented it for a shorter time and at an unfavourable time financially compared to Dubai which caused some delays to some of the projects, such as the delay on the completion of the museums in Saadiyat Island for some years. In the case of Sharjah, it invested much less financially in this policy compared with the other two emirates.

#### **6.8.5 Tourism Demand Enhancement (Marketing Policy etc)**

The UAE has also been very active in seeking to boost demand through a number of demand enhancing measures. Dubai is probably the outstanding example of a state that has been very prominent in the steps it has taken to enhance tourism demand and when it comes to the Marketing, Promoting, Events and, Festivals Policy, Dubai has the louder voice worldwide. Dubai has built a strong status as a well-developed destination. Its reputation comes from strong promotion in many countries for a long time; it is a mature well-known

place, with a reputation built around strong events. A key feature of the steps taken to enhance demand by Dubai has been the establishment of what have come to be internationally recognised as world class events in the fields of sport and cultural activities, such as

- The World Horse Cup: the richest horse race in the world”,
- Dubai Air Show,
- Dubai Tennis Championship and the Dubai Desert Classic Golf tournament.

All this, plus hosting many of the best tennis and golf players from around the globe, helps Dubai manage to create many festivals around the year to serve the tourism sector such as

- Dubai Shopping Festival,
- Dubai Summer Surprises Festival,
- Dubai Cinema Festival.

Abu Dhabi tried to implement the same policy but on a smaller scale, such as;

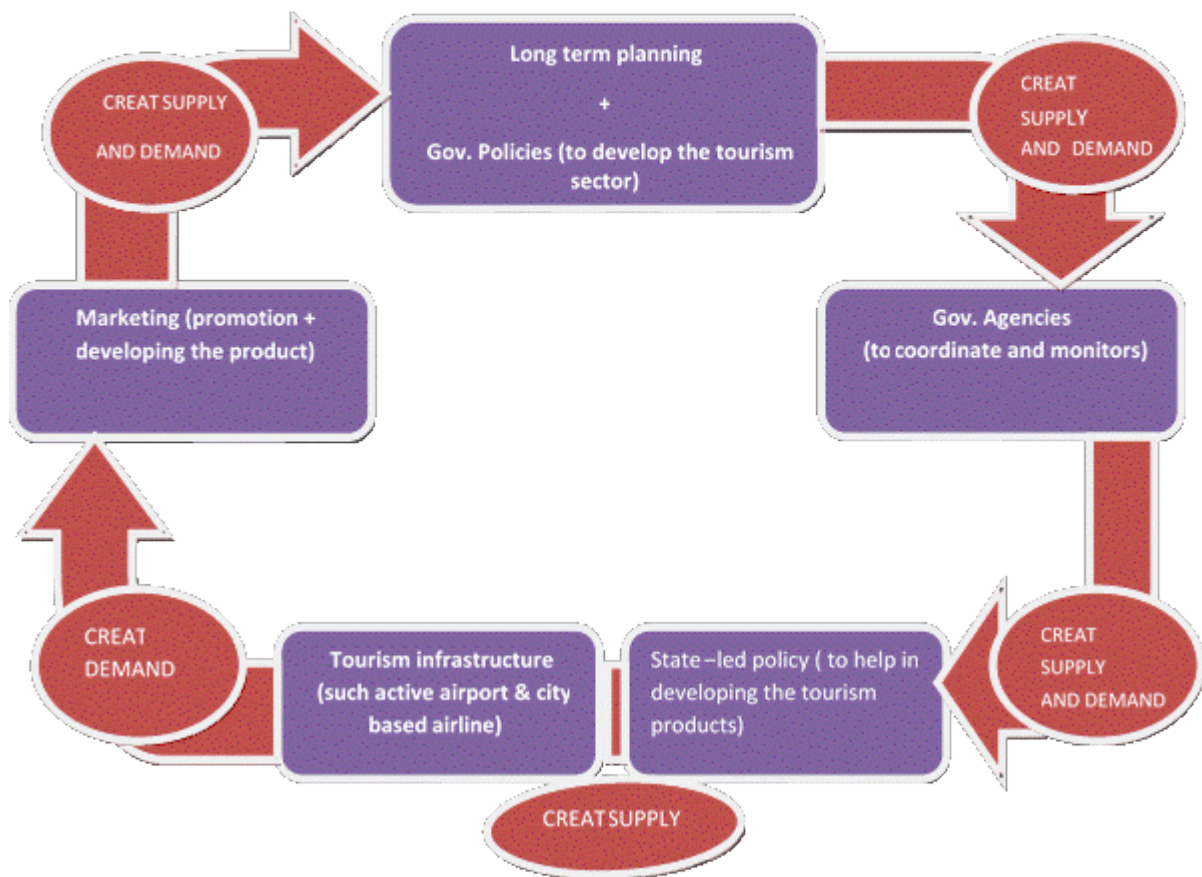
- The Film Festival,
- Formula One,
- Abu Dhabi Tennis Classic, and
- Abu Dhabi Summer Festival.

Abu Dhabi advertises to promote visiting worldwide, but Dubai has been doing it for a longer time.

Sharjah also carries out the same policy to enhance demand by holding international competitions in cricket but not on the scale of Dubai or Abu Dhabi. All the emirates use annual events and festival policies to attract seasonal visitors and to boost their visitor night numbers. Successful tourism development depends on developing a range of tourism products. Any country that wants to expand its tourism sector and to satisfy a wider range of visitors has to have a policy to develop a range of tourism products/types to appeal to a

range of visitors. Dubai has by far the most diversified products so far. It is a dominant shopping centre for its region and has a good selection of hotels and resorts, strong exhibitions for industry, is a business centre, and has a wide range of medical clinics and education facilities. Abu Dhabi comes second in terms of developing the tourism products such as resorts, hotels, shopping venues, medical care, educational facilities, and expositions, but Abu Dhabi needs more time for its building and investment programmes to yield their rewards. Sharjah comes third in tourism product diversification.

The main strongpoints of the tourism sector in the UAE include the fact that its tourism authorities house very active marketing bodies (SCDTA, DTCM, and ADTA). Their innovative modern destination management techniques are well demonstrated and all emirates are well represented in international travel exhibitions. These agencies also encourage the private sectors to participate in various forms of regional and international activities including road shows, media exposure events, and professional travel familiarization trips. Ambitious and effective plans are in place. All the tourism authorities of the individual emirates have such plans, as does the federal government. However, success in the end will be determined by the effectiveness of each emirate's tourism authority in taking action to implement the plans and modifying them according to feedback from the industry and changing circumstances.



**Figure 6 Inter- linked elements of developing the tourism sector in UAE**

From the findings, it emerged that there are strong similarities between the three emirates across the three case studies, such as all of them depend on government long-term planning in developing the tourism sector, the planning is carried out by the government agencies and it gives a role to the private sector either as consultants or as a participant in it. The government agencies coordinate and monitor the development of the tourism sector in the UAE under the supervision of the Secretariat General of the Executive Councils in each emirate which represent the highest administration level in each one. Local governments also try to provide the tourism sector with good tourism infrastructures from an active airport to a

city-based airline to help develop the tourism sector by developing the transportation system to a good standard due to the strong link between travel and tourism. The state-led policy is used heavily by the three emirates in developing tourism products, to make it suitable to the market segment, government entities build museums, malls, resorts. etc. and lead the way when the private sector is hesitant to take the initiatives to develop the tourism sector assets. Government tourism agencies also play an active role in marketing the destinations, targeting certain segments and providing the right products for each one (such as shopping, culture, sport etc.) Finally, feedback from stakeholders and consultancy firms is used by the government agencies to modify the planning (see figure 6.4). Similarities clearly exist between the three case studies and only time will tell where it works better among the three emirates within maybe 20 years from now, even though Dubai is in a leading position so far by a good margin. It is also not yet known if these policies can be copied somewhere else to develop their tourism sector.

There are clear themes emerging when it comes to evaluating the efficiency of the government policies from the point of view of the interviewees who work in the tourism sector in the three emirates, and what is the most important policy initiative to develop the tourism sector 36% believe the policy of creating a tourism authority was the most important policy initiative to develop the tourism sector in UAE, the Promotion, Events, and Festivals comes second with 23%, the policy of Pro-tourism come third with 20%, The Tourism Infrastructures come fourth with 10%, the Developing of Tourism Products Policy come fifth 7%, and the sustainability Policy come six with 4%.

So, people in the industry regard the creation of coordinating agencies as most important. Also demand factors ( marketing and promotion)rated above supply ( infrastructure)

**Table 22 Relative importance of tourism policy measures in the UAE by % ( the Three Emirates)**

<b>Policy ranking as the most important</b>	<b>UAE, kind of policy to develop the tourism sector</b>	<b>Percent (%)</b>
<b>1</b>	Policy of Creating Tourism Authority	<b>36%</b>
<b>2</b>	Promotion, Events, and Festivals Policy	<b>23%</b>
<b>3</b>	Policy of Pro-tourism	<b>20%</b>
<b>4</b>	The Tourism Infrastructures Policy	<b>10%</b>
<b>5</b>	Developing of Tourism Products Policy	<b>7%</b>
<b>6</b>	Sustainability Policy	<b>4%</b>

In Abu Dhabi 60% believe that also the creation of ADTA is the most important one, the Promotion, Events, and Festivals second with 20%, the Pro-tourism come third with 10%, and the Developing of Tourism Products Policy come fourth. The data collected from Dubai show 40% believe the Promotion, Events, and Festival come first, The Pro-tourism come second with 30%, the Tourism Infrastructure come third with 20%, and the Development of Tourism Products come fourth with 10%. The data from Sharjah show that 50% believe the policy creation of SCTDA authority come first as the most important policy to develop the tourism sector in Sharjah, the policy of Pro-tourism come second With 20, the Policy of Tourism infrastructures come third with 10%, and the policy of promotion come forth as the most important with 10%.

**Table 23 Comparison of the Relative importance of tourism policy measures in the Three Emirates**

<b>The Policy ranking as the most important</b>	<b>Abu Dhabi</b>	<b>Dubai</b>	<b>Sharjah</b>
<b>1</b>	Policy of Creation of ADTA	Promotion, Events, and Festival Policy	Policy of Creation of SCTDA
<b>2</b>	Promotion, Events, and Festivals Policy	Pro-tourism Policy	Pro-tourism policy
<b>3</b>	Pro-tourism Policy	Tourism Infrastructure Policy	the Policy of Tourism Infrastructures
<b>4</b>	Developing of Tourism Products Policy	Development of Tourism Products	Promotion, Events, and Festival Policy

All the Emirates showed a steady increase in the number of hotel rooms annually and in the number of visitors. In addition, tourism authorities in the three emirates showed plans for increasing the number of rooms annually to meet their set targets. In all the three Emirates most hotel establishments witnessed a steady growth during the early period, when the tourism sectors of their respective emirates were in their infancy. In the beginning of the tourist activity, particularly by the end of 2006, the industry outlook was good in terms of room rates. A common report among companies was that since the announcement of the beginning of their activities and the opening of their facilities, occupancy reached more than 70 per cent, and by the end of the peak period, it reached more than 80 per cent. The year 2007 saw the arrival of the stage of prosperity and extraordinary growth that transformed the growth with an amazing leap. Then the number of visitors, price per unit, and occupancy rate started to decline gradually due to the global financial crisis and the increase in hotel units. The occupancy rate started declining and the number of hotel units was increasing without a good estimation of the tourist market volume in the UAE. Comparing among the three Emirates, it is evident that Sharjah is significantly behind in terms of maximizing its tourist potential. To achieve its goals, it needs to invest more in facilities and other attractions in addition to improving its regulatory framework to encourage more visitors. Both Sharjah and Abu Dhabi need immediate developments in infrastructure such as metro trains. Lastly, Dubai



and Abu Dhabi are facing the consequences of too many developments in a single tourist segment. These developments have surpassed visitor arrival rates and are consequently attracting low rates.

Data also shows that the most impressive growth for the whole tourism sector in the UAE was recorded between 2007 and 2008, just before the global financial crisis. The industry has been struggling to catch up to its previous 'glory days' (2007-2008). However, new challenges are emerging. The most notable challenges have been presented in the previous section such as the need for more marketing to balance the demand for the rooms with the bigger inventory of hotel rooms from new and old projects, the need for more sustainability effort, improvements to the infrastructure (especially for tourism), and dealing with the challenge of new destinations regionally and internationally in a very competitive market. Key issues that enhance the optimism of the destination are the safety, security, and the tourist-friendly environment. These are just a few common factors in attracting major operators to establish operation centres in UAE. The government and state authorities should listen more to the main players in the industry as the sector matures from a state of rapid growth.

Overall, respondents have shown that the future of the tourism sector in the UAE is positive, particularly in Abu Dhabi and Dubai, from data gathered from interviewees who work in the tourism sector. The Emirates' efforts in establishing tourism authorities to develop and organize the tourism sector via regulating various tourism activities and categorizing the tourism facilities, hotels, restaurants, and other relevant policies initiatives to create facilities have helped the progress of the tourism sector. Just like most businesses, the sector will grow through building good teamwork with the employees and providing the best service to customers. The government needs to continue to work closely with private and public sectors to attract operators as well as exhibition and conference organizers in all the emirates. Together, they would adopt a collaborative approach to promote the emirate as an upmarket destination. This should occur with an uncompromising determination towards sustaining and preserving its natural environment and treasured heritage and traditions. This study has succeeded in obtaining first hand data and evaluation focusing on government policies geared towards developing the tourism sector in the UAE, especially in the Emirates of Abu Dhabi, Dubai, and Sharjah, which together represent more than 93 per cent of the

tourism sector in the entire UAE. The research also demonstrates the challenges that arise in the process of developing the tourism sector at both ends, basically at the government level and the people involved in the tourism sector who encounter day-to-day challenges. Developing the tourism sector is a two way process and requires close collaboration between the two parties, the public sector (all the government agencies) and the private sector (all entities e.g. hotels, transportation etc.). It is harmony and synchronization between the two parties which will lead to any real success in future.

## Chapter 7

### 7 Conclusion

The exceptional growth of the UAE since the 1970s has been driven by oil exploration, both onshore and offshore. At present, the UAE contributes 7 per cent of the total global oil reserves, holding 97.8 billion barrels of oil. According to estimated projections at the current oil production of 2.9 million barrels every day, the oil reserves in the UAE are expected to last for almost a century. Also estimated is that the UAE is holding 3.3 per cent of the total global gas supply apart from its oil reserves. According to the 'resource curse' theory, availability of resources in abundance, especially oil, demotivate as well as create opportunities for clashes and create indirect institutional and economic causes of instability. On the other hand, the 'rentier state' theory states that governments use the available abundant resources to buy citizens' loyalty, using patronage, large scale distributive policies and effective repression. Hence, such rentier states would be politically more stable and less prone to clashes.

To avoid the manifestation of the Oil Curse and the Rentier State syndromes, the UAE government adopted many policy initiatives to reduce the UAE's economy dependency and reliance on the oil sector by developing other sectors such as Financial Services, Industry, and Tourism. One of the major government initiatives is developing the tourism sector in the UAE. The vision of the government in making the UAE a preferred destination for tourism is gaining momentum. This would ensure the increase in the contribution from the tourism sector to the GDP considerably. The tourist authorities in the UAE are also aware that the tourists arriving in the emirates contribute heavily to the tourism revenue as well as to the growth of the UAE economy. A further push is required in these sectors to ensure sustained economic development in the long run. The emphasis is more on this as the continued dependency for wealth on the oil sector, which is highly volatile, can affect economic stability in the long run.

The fiscal policy of the UAE is sound and the government has been planning a balanced budget aligning revenues with spending. The budget surplus has been boosted by the rising oil prices since 2003, but it dropped to 2.2 per cent in 2010 from a healthy 14.2 per cent in 2008

due to the global financial crisis. The UAE Dirham is linked to the US dollar, hence reducing the volatility in revenues from exports. The rate of inflation increased to 12.3 per cent in 2008 from 2.8 per cent in 2002 but owing to the economic crisis and appreciation of value, the rate of inflation decreased to 1.56 per cent in 2009 and has continued to remain stable since then.

The study had three aims:

- a- To examine the UAE's and also the three Emirates (Abu Dhabi, Dubai, and Sharjah) economic structures; the extent to which they are dependent on the oil sector; the share of the oil sector and the nonoil sectors of the UAE GDP, and the share of the oil sector and the nonoil sectors GDP of each Emirate individually.
- b- To analyse the policies of the UAE government to develop the tourism sector and the same analysis for the three Emirates.
- c- To evaluate the tourism policies of the UAE government to ensure diversification of the economy in the UAE, and in the three Emirates.

Since all UAE policies of diversification cannot be analysed through this study alone, the area of tourism has been selected as a case study. And since Abu Dhabi, Dubai, and Sharjah represent 95 per cent of the UAE's total economy and 93 per cent of the total activity of the tourism sector, they were selected as the three case studies for this research.

The UAE has been making efforts to reduce its dependency on the hydrocarbon sector and hopes to reduce its contribution to approximately 20 per cent in the next decade by promoting the growth of the economy into other sectors. Tourism, Financials Services, Industry and Manufacturing continue to be the vital sectors for the UAE's ambitious economic diversification policy, as they continue to focus and build on the existing success of the sectors' capabilities. In line with the Federation and Dubai strategy 2015, the emirate of Abu Dhabi rolled out the Economic Vision 2030 programme to ensure greater economic diversification. The strategic investment wing of the government of Abu Dhabi, Mubadala Development Company, is playing a role in the development of industries in the region which includes projects such as aero-structure manufacturing, commercial finance, leisure and

energy development. The policy also includes the government-owned energy company, Masdar, with a focus on renewable sources of energy.

Dubai, on the other hand, restructured some of the companies backed by the state and continues to focus on its strengths, the tourism and trade sectors, as part of its economic strategy 2015. The emirate of Sharjah proceeded with its industrial development plans, while furthermore, the new industrial law acted by the government of the UAE will encourage the establishment of national industries.

Improving the existing infrastructure has remained high on the government's agenda which had been vital in urban planning for such projects as roads, airports, seaports, housing, telecommunications and energy supply. The fact that the UAE's development is led by planning is clearly evident from its strategies such as Plan Abu Dhabi 2030, Dubai Strategic Plan 2015. The Abu Dhabi 2030 plan clearly aims at ensuring growth and promotes tourism and trade and at the same time ensures that the cultural heritage and natural environment of the emirate are preserved. The strategic plan focuses on ensuring energy, electricity and water, roads and transportation as well as preserving the environment. Urban and community developments, enhancing tourism, attracting more enrolments in its academic institutions and trade and investment promotion are the key aspects of Sharjah.

With the diversification of its economy into tourism, trade and services, the economy of the UAE has carved a niche place on the global level, which has created the platform for attracting foreign investments into the Emirates. The United Arab Emirates is ranked the second largest economy in the Arab world because of its remarkable growth in its economy in the recent past. With 63.2 per cent contribution from the non-oil sectors, the economy of the UAE has grown by 7.4 per cent. With an increase of 34.9 per cent, the fixed investment rates stands at AED200.4 billion, a contribution of 21.4 per cent to the GDP, against the 2005 figures of AED 94 billion.

#### **a- Examining the UAE's/ Three Emirates' economic structure**

To cover the study's first aim of examining the UAE's economic structure, the following questions were considered: 'how dependent is the UAE on oil?' and, 'why does the UAE want to diversify its economy (on the federal level and the Emirate level)?'. This

study manages to draw an extensive picture of the structure of the UAE economy and answers questions related to the aim. It showed that Abu Dhabi's economy represents 57 per cent of UAE's entire economy, Dubai 33 per cent, and Sharjah 7.5 per cent. Oil represented 30 per cent of the UAE GDP, 49 per cent of Abu Dhabi's economy, less than 2 per cent of Dubai economy, and 10 per cent of the Sharjah economy in the year 2008. Abu Dhabi is the major economy in the UAE federation and the most reliant on the oil sector.

The open and liberal policies adopted by the government and its concentrated efforts to diversify its economy have played a vital role in safeguarding the UAE as the second largest economy in the Arab world. The economic policies adopted by the leadership have witnessed the country's GDP grow by 140 times, from AED 6.5 billion in 1971 to AED 929 billion in 2008, establishing its economic status and stature on the world map. In comparison to many economies in the world, the UAE has been the preferred destination for foreign direct investments (FDI) according to the World Investment Report 2009 provided by the United Nations Conference on Trade and Development. With 480 projects led by foreign direct investments in 2008, a 70 per cent increase compared to 2007, the UAE has been propelled to the third place in Southwest Asia and Middle-East in foreign direct investments.

With an increasing number of new plants and investments across all the emirates, the industrial sector also witnessed considerable growth in the UAE. The industrial sector drew huge foreign investments with the establishment of free zones along with partnering international institutions in major industrial projects. As the number of factories increased to 4644 in 2009 from 2795 in 2003, the industrial sector investments also grew significantly from AED 44 billion in 2003 to AED 77 billion in 2008. Resulting from its open trade policies promoting international trade, the UAE's trade balance grew from AED 148.6 billion in 2007 to AED 184.1 billion in 2008.

With its planned policy to diversify the income sources and strengthening of the public-private partnerships, the UAE has become a preferred destination in attracting investments. The government has established free zones, to drive the diversification policy, to ensure inflow of foreign direct investments and has ventured into partnerships with major multinational organizations to develop key areas such as technology, knowledge and industry. Productive capacities and competitiveness have been built by the UAE to ensure sustainable

development with the help of foreign direct investments (FDI). Further, the government is focusing on developing human resources, infrastructure modernization and a clear-cut strategy and framework for investments. To ensure a suitable environment for investment and protect the interest of investors, various measures have been employed by the Ministry of Economy to enhance the investment climate through efficient and effective laws and legislation.

This blend of measures has ensured the inflow of foreign direct investments (FDI) into the country, which, according to the Ministry of Economy, received AED 125 billion as investments. Political stability, close relationships with neighbouring governments and improved infrastructure further complemented the attraction of foreign direct investments into the UAE. According to a report by the Organization of the United Nations Conference on Trade and Development (UNCTAD), which compared the United Arab Emirates, Turkey and Saudi Arabia on international investment expectations for 2009-2011, the UAE will overtake Turkey as the preferred destination for FDI. The report also ranked the UAE along with Turkey among the top 30 destinations for foreign direct investments.

According to a survey conducted by the Ministry of Economy in 2006, political and economic stability were the key reasons behind the successful attraction of foreign direct investments according to 91.4 per cent of the respondents, while 90 per cent of them felt that it was geographical proximity to important international markets which drives the UAE as a preferred destination for FDI. According to some of the respondents, growing rental value and low cost also attributed to the increasing inflow of foreign direct investments. The UAE has established 36 free trade zones for setting up of businesses and offers a large number of incentives to local as well as foreign investors, such as full exemption from tax, unrestricted transfer of capital and profits for free and customs fees as low as 5 per cent.

Despite being in an unstable region, the UAE has been politically stable since its independence and also has been a member of various regional and global associations such as the Arab League, World Trade Organization and the United Nations, thereby maintaining healthy international relationships. The government has diverted its high revenues from its natural resources into social and economic infrastructures, such as basic health services, education and training. The political stability of the UAE is further strengthened by its strong

record of human rights. The open and free trade policies by the government of the UAE have resulted in attracting foreign investors as well.

The UAE has grown into a global hub for logistics and finance because of its vital investments in infrastructure for transportation and that has helped to grow the tourism sector due to the strong link between tourism, travel and transportation. The country has become an attractive centre for conducting business owing to access to capital and inexpensive labour. The non-oil sectors in the UAE have attracted foreign direct investments (FDI) due to various efforts by the state-owned enterprises. The country received \$73 billion through foreign capital from 2003 to 2010, second in the region after Saudi Arabia. As part of its diversification strategy, the government has taken concentrated efforts in cluster development. The government has established the Emirates Competitiveness Council (ECC), consisting of eighteen representatives from the seven emirates. According to the new Global Competitive Index, the UAE ranks 15<sup>th</sup> in the world in cluster policy and has shown more growth in cluster-based economic diversification against other oil producing countries.

The seven emirates have preserved their special policies for development from the very beginning and have continued to advance in different ways, which has ensured the strengthening and growth of the federation as whole. Each of the emirates has included its relative resource advantage in its strategy for diversification. The emirate of Abu Dhabi has focused on energy-based industries such as petrochemicals and fertilizers. On the other hand, the emirate of Dubai, anticipating the exhaustion of its crude oil reserves in a decade, has extended its role as a hub for telecommunications, commerce and finance and become a favoured destination for tourism due to its advanced tourism infrastructures, leading to becoming a rapidly growing service-based economy. Meanwhile, being a centre for small scale manufacturing traditionally, the emirate of Sharjah contributes to 45 per cent of the UAE's manufacturing sector. The other smaller emirates are focusing on sectors such as agriculture, quarrying, cement and shipping services.

The government of the UAE has committed itself to diversifying its economy. The UAE has invested billions of US Dollars on infrastructure, which accounts for 37 per cent of the total infrastructure projects in the region since the 1970s, such as construction, oil and gas, petrochemicals, power and water and waste sectors. Further spending was into such sectors as



real estate, tourism and leisure. The larger emirates like Abu Dhabi and Dubai have started reaping the benefits of such investments and efforts taken to economic diversification have ensured that the contribution from oil and gas to the country's GDP was only 29 per cent. Since 1980, the UAE has witnessed a consistent 9 per cent GDP Compound Annual Growth Rate (CAGR). The UAE also produced higher PPP adjusted GDP compared to other oil producing and Arab countries.

**b- Analysing the tourism policies of the UAE government/three Emirates to develop the non-oil sector**

The study's second aim is to analyse the policies of the UAE government to develop the non-oil sector in general and tourism in particular. The research has highlighted that there are several policies to develop the tourism sector in the UAE. When analysing the three case studies (Abu Dhabi, Dubai, and Sharjah) some of themes emerged as follow; firstly, clearly the three emirates are presently at different stages in terms of economic diversification and developing their tourism sectors. Dubai has led the way, with spectacular developments and this has become a model for Abu Dhabi and Sharjah; the second theme that emerged was that the emirates rely on long term planning to diversify its economies as well as to develop the tourism sector, and this can be seen as well in UAE Vision 2021, Abu Dhabi Economic Vision 2030 and Dubai strategic plan 2015. Thirdly the three emirates follow a similar course of policies to develop the tourism sector in each emirate, such as developing tourism products, promotion and so on. The fourth theme is the importance of creating government agencies/bodies to deliver the plans via targets to develop the tourism sector such as: ADTA, DTCM, SCTDA, TDC, Emaar, Nakheel, Shurooq.. etc.; The fifth theme is the marketing strategy and promotion play a central role in developing the tourism sector in the emirates. Finally, there are government bodies in the three emirates to monitor the progress made, and report to the Secretariat General of the Executive Councils in each emirate.

When it comes to the specific menu of policies implemented by the three emirates to develop the tourism sector, some of the policies are implemented at the federal level while others are implemented at the Emirate level and the policies to develop the UAE tourism sector in general are coordinated effort. The tourism sector in all the Emirates enjoys general federal pro-tourism policies, such as relaxing visa requirements and open skies in all the UAE

airports, and many policies are implemented at an Emirate (State) level. All these policies play an important role in developing the tourism sector in the UAE. A successful tourist destination needs a tourism authority to develop and manage the sector, to guarantee the quality of the service for consumers and to improve all the services provided to the customers of the tourism sector. The tourism sector also requires a good infrastructure such as an active airport to connect the destination to the whole world, a city-based airline to promote the city and give attractive travel packages that encourage foreign tourists to visit the country. Also, when tourists need to find accommodation, the tourism sector should be able to make suitable accommodation available. Other key attractions include museums, malls, theme parks, events etc. Sometimes, the required level of accommodation or tourism attractions is not available so it becomes the responsibility of the state-led entities to deliver new facilities and lead the way. For the sustainability of the tourism sector, it is important to develop a policy that would ensure that there is no conflict between the tourism sector and the government's economic objectives. Developing the tourism products in the policy are very important because all destinations around the globe generally compete on the basis of quality with a variety of product proposal offers.

The government policies in the UAE as a federation are drawn on two levels; federal and local(Emirate). Despite the autonomy enjoyed by the seven emirates, the relationship between the local system of government and the federal government has continued to evolve. The key motivation for such developments remains performance and efficiency of the services delivered to the nationals as well as the expatriates living in the UAE. Further, the atmosphere is of a healthy competition and coordination among the emirates in utilizing available resources to achieve the common goal of diversification of the UAE economy as a whole away from oil dependency.

The leading role played by the UAE in developing competitiveness and a favourable investment climate clearly indicates that most policy efforts made by the government of the UAE are helping in making the economy into a regional hub for tourism and global investment. The liberal and market-oriented policy employed consistently by the UAE has been the strong foundation for its success in diversifying its economy away from oil. To ensure this, the government of the UAE has been focusing on non-oil sectors, particularly the tourism industry, to improve its economic activities and competitiveness. Thus it is clear that

the leaders in the UAE have relied heavily on planning and policy formalisation for developing and diversifying the economy.

**c- Assess and evaluate the impact of tourism policies of the government to ensure diversification of the economy in the UAE/ three Emirates**

Regarding the study's third aim, to assess and evaluate the policies of the government to ensure diversification of the economy in the UAE/three Emirates, the research findings show that each Emirate (state) has a different pace and scale in implementing the policies to develop the tourism sector in its territory. Dubai ranks first when it comes to the number of hotels/rooms, and the number of visitors to the Emirate. It represents 75 per cent of the whole tourism sector in the UAE, as a result of its government policies and heavy investment in developing the sector.

The earnings from the travel and tourism industry in the Middle East are estimated to reach AED 170.7 billion by 2016. The growth of the travel and tourism sector in the United Arab Emirates is far stronger compared to overall international growth. The UAE has been ranked high by the World Tourism and Travel Council (WTTC) based on criteria such as safety and security, infrastructure, information and communication, health and hygiene, price competitiveness, technological advancements, human resources, available natural and cultural resources, transport facilities – both air and ground, predetermination of tourism and policies, rules and regulations. With one in every 8.5 per cent of jobs related to travel and tourism and expected to rise to 9.1 per cent by 2016, it is clearly evident that the tourism sector is having positive impacts on the economy of the United Arab Emirates. Further, more than 10 per cent of exports are related to travel and tourism. The United Arab Emirates, and in particular Dubai, has started harvesting the benefits of huge investments in the tourism industry, which was initiated with the establishment of the Dubai Tourism and Commerce Marketing division in 1997. Abu Dhabi is also surging ahead in tourism development in the region with expected investments of around US \$10 billion in the coming decade.

The Emirate of Abu Dhabi comes second in the number of hotels/ rooms and the number of visitors. It represents 16 per cent of the sector in the UAE. Abu Dhabi began investing heavily in developing the tourism sector by creating the ADTA in 2004, the Etihad Airways

airline, expanding the Abu Dhabi Airport and investing through its state-owned companies in developing tourism assets such as hotels, resorts, museums, and events. The Emirate of Sharjah comes third in that respect with 10 per cent of the tourism sector in the federation. Sharjah is benefiting from its location next to Dubai (a few kilometres away) and is making efforts to become a cultural and family sort of destination for tourists, and a more affordable city without risking quality.

The tourism sector across the UAE witnessed positive growth in 2010, bouncing back from a period of recession. The number of visitors to Abu Dhabi surged by 10 per cent; Dubai witnessed a 9.4 per cent increase in the number of visitors in 2010. The contribution from the travel and tourism industry to the UAE's GDP is expected to increase to 21.7 per cent with revenues expected to reach \$140 million by 2020, according to the World Travel and Tourism Council (WTTC).

According to the Dubai Department of Tourism and Commerce Marketing (DTCM), the tourism sector in Dubai progressed positively in the first nine months of 2010. According to the statistics, the number of hotel guests for the period January to September 2010 reached almost six million, recording an increase of 6 per cent when compared to the same period in 2009. In partnership with international tourism companies, DTCM is campaigning to promote the "Definitely Dubai" initiative, to market the tourist attractions in Dubai across the globe. Further statistics reveal that the first three quarters of 2010 registered a 14 per cent increase in tourist reservations when compared to the same period in 2009. With not much of an improvement in hotel occupancy rates, the number of hotel rooms and hotel apartments increased by 16 per cent in the first three quarter of 2010. As the number of hotels increased from 533 in 2009 to 565 in 2010, the revenues from hotels increased from \$2.3 billion to \$2.5 billion in 2010, registering a 6 per cent increase. The occupancy rates of the hotel apartments also registered a 2 per cent increase, reaching 66 per cent in 2010.

The emirate of Abu Dhabi witnessed growth in 2010, with a 10 per cent increase in the number of tourists, while the rest of the region was experiencing a slower tourism growth. The year 2010 witnessed a 16 per cent increase in the number of guests staying in its total of 118 hotels and hotel apartments, compared to 2009. According to the statistics released by the Abu Dhabi Tourism Authority (ADTA), the emirate was set to achieve its 2010

accommodation target of 1.65 million, a 10 per cent increase compared to 2009. With projects such as the Corniche Road development and Al Reem Island set for completion in 2011, the most sought after project – the Saadiyat Island, an eco-tourism development which will house the Guggenheim and Louvre museums and 29 five star hotels, is expected to complete by 2018.

The Abu Dhabi Tourism Authority (ADTA) revised its 2012 hotel guests and hotel rooms target after evaluating the impact of the crisis in the tourism sector and overall implications for growth in the medium term. The target for hotel guests was revised from 2.7 million to 2.3 million and the target for hotel rooms revised from 27000 to 24000. Intra-regional tourism has continued to be highly productive with Saudi Arabia being the eighth largest source for the tourism market, while the UK is the largest market overseas. With the opening of its office in Jeddah, the ADTA is planning for offices in Moscow and the U.S as well. Though the increase in hotel rooms has impacted occupancy rates, it has increased competitiveness in ensuring Abu Dhabi as a destination for leisure tourism. Leisure tourism is duly supported by projects such as Ferrari World Abu Dhabi, two additional golf courses – one on Yas Island and the other on Saadiyat Island, and the introduction of various water sports products.

According to the Sharjah Commerce and Tourism Development Authority (SCTDA), the emirate of Sharjah had an impressive growth in tourism in the first half of 2010 with 745,000 visitors, an increase of 11 per cent compared to 2009 and a hotel occupancy rate of 70 per cent. The biggest contribution for tourist arrivals for the emirate of Sharjah was from Europe, which contributed 45 per cent, while the GCC contributed 25 per cent and Asia contributed 14 per cent. The SCTDA is looking to Scandinavian, Norwegian and even Asian markets for expansion in promoting brand Sharjah which consists of the five different elements of heritage and culture, education, business travel, leisure and the east coast. With the success of the Sharjah Water Festival in 2011 which attracted 180,000 tourists, the emirate continues with further attractions such as the Sharjah Lights Festival, Sharjah Summer Breaks, F1 Powerboat Championships, Sharjah Heritage Day and Sharjah Book Fair. The emirate of Sharjah is also looking to promote the east coast for outdoor and adventure tourism, with Khor- Kalba to be developed as an important tourist destination on the east

coast, which is a conservation area. With the focus on four and five-star hotels, Sharjah has plans to add 400 hotel rooms in the next couple of years.

According to the survey of people working in the tourism sector in the three Emirates, 36 per cent believe the policy of creating the tourism authority was the most important policy initiative to develop the sectors in the UAE. The Promotion, Events, and Festivals came second with 23 per cent, the policy of Pro-tourism came third with 20 per cent. The Tourism Infrastructure came fourth with 10 per cent, the Developing of Tourism Products Policy came fifth 7 with per cent, and the Sustainability Policy came sixth with 4 per cent. These results show strong endorsement of Developmental State model . And demand factors regarded as mor important than supply. This survey tells us when it comes to evaluate the efficiency of the government policies, all of the government policies are important to develop the tourism sector but the policy of creation of a government body (department/ authority) to handle/manage the sector is viewed by far as the most important policy, according to the interviewees.

The growth rate in the UAE tourism sector is much higher compared to other countries in the Middle East as well as with that of World Tourism, which is an encouraging sign for further development. However, among the seven emirates which form the United Arab Emirates, only Dubai, Abu Dhabi and Sharjah have taken large initiatives and ambitious ventures and projects to ensure the development of the tourism sector. One would eagerly hope that if the other emirates too gather momentum in completing tourism-oriented projects and attractions, then it would definitely ensure an increase in the rate of economic growth and competitiveness of the UAE economy in comparison with other developing nations in the region.

## **The Study's Contribution**

When it come to the unique contribution of this work, it can be summarised as follows:

- The UAE economy is the second largest economy in the Arab world after that of Saudi Arabia, so it is important to study it in order to expand our knowledge of the Arab World.
- The importance of this study comes from the fact that there is a lack of studies about the UAE and the Gulf region and its economic development in comparison with other parts of the world such as America, Europe, and the Far East.
- The UAE was one of the first Arabian Gulf states to diversify its Economy and it is considered as a model for the other nations, having put in place a long term plan. Given it's a model for others there is much value in evaluating its diversification policy.
- The tourism sector in the UAE is the biggest and most successful in its region according to the World Travel Organization's latest reports and one of the most effective in the world according to the same study in some areas. Thus, it is important that more research is conducted into the causes and effects of this success. The study sheds light on the UAE's experience of developing its tourism sector, and the level of success of different policies. Measuring this helps to highlight critical success factors for other such tourism development projects.
- By studying the economic model followed by the UAE Government, and the implementation of the State Development Model in the Gulf Region, the study shows that the application of the Developmental State model significantly extends our knowledge of the application of this model beyond previous Studies ( e.g. in South East Asia).
- The study contributes to the body of knowledge by measuring the success of the different policies implemented in each Emirate/State by means of an interview based survey with employees in the tourism sector field. This provides a valuable insight into how the UAE has implemented its diversification policy. It particularly highlights the “ Emirates” way of public and private working in cooperation in the tourism

sector. At the same time it highlights the different outcomes from implementation of policies to develop the tourism sector from one Emirate to another.

- As in the Conceptual Framework the link between the UAE tourism policy and implementation has three aspects, namely demand factors, supply factors, and implementation through using the Developmental State model. The research results show that the Developmental State is working for the UAE. People working in the Tourism sector believe it plays a more important role in developing the sector than Demand factors ( e.g. Marketing and promotion) or the Supply factors ( e.g. Infrastructure).

The study finds that while the ‘PEAK Oil’ theory is important for some South East Asia and Australasian countries it isn’t valid in relation to the UAE. Firstly, high oil prices help the UAE to obtain more money from its oil resources, which provides it with more cash to spend on developing its tourism by addressing the supply side of the equation such as; infrastructure and its Tourism assets and attractions. Secondly the UAE’s location in the Middle East means it is nearer major centres of population like Europe/ America, therefore less effected by transport cost. Thirdly, the new technology available to exploit discovering the vast Shale-oil resources will cause the energy price not to rise or rise only moderately.

In summary, the research results revealed that there has been a significant growth in the tourism sector. Also, the results revealed that there has been a slow change in Abu Dhabi which represents more than half of the UAE total economy in the trend of heavy reliance and dependence of oil shifting to non-oil sectors in which tourism is playing a vital role. However, in Dubai and Sharjah the data show much more success in diversifying their economies from an oil base. As the current process of diversification of the economy should ensure systematic growth and stability in the long term, the government must accordingly be looking at boosting the trade, industry, tourism and services sectors further. Already huge employment opportunities have resulted from significant improvements in increased foreign investments in



industrial, infrastructural and developmental projects. Consequently, the standard of living of the people has also considerably improved.

## **7.1 Limitations of the Study and direction for future research**

The findings of this study showed that the most positive results in the tourism sector were seen in 2007 and 2008. The tourism sector of the UAE is entering its maturity phase, as outlined in the growth plans of Abu Dhabi and Dubai. Therefore, this research study may not be able to sufficiently conclude whether or not the economic diversification program of the UAE is successful, but again, the local governments have big plans for the future. This is particularly the case for Abu Dhabi, due to its wealth generated from oil. The international financial crisis notwithstanding, the Abu Dhabi Government may have incidentally slowed down in the tourism sector but this has not stopped it from proceeding with plans to develop its tourism sector with many tourism projects in the pipeline that have to be finished in the future. These include major expansion of its airport and major tourism attraction developments. This study has relied on individual responses of interviewees to form conclusions and results. The results may be inaccurate if the interviewees were biased. Nevertheless, to the best of my understanding, most of the interviewees have a high academic qualification and some even have a Master's/ PhD degree, and I did clarify to them that this study is for academic purposes only. The study also used a small sample size when conducting interviews with enterprises working in the tourism sector. Since it is difficult to carry out the research for the entire population of the sector, the results might not represent all stakeholders. However, when it comes to the UAE Ministry of Economy and all the local government departments which are involved within the three emirates' local economies and the tourism authorities, they have been fully represented.

Due to the importance that this research topic has on the future stability of the national economy and the UAE's new generation, this subject needs to be revisited in the future to evaluate the progress of government policy on economic diversification in general and on the tourism sector specifically. It is also recommended that other UAE economic sectors such as industrial, petrochemical, finance, and exports, be studied so as to evaluate the success of government policies in growing these sectors.

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## 9 Appendix A

### Interview Schedules

**1- Draft Interview Questions for Ministry of Economics & Local Economic Department Officials;** An interview will be conducted with one senior official at the federal level from the UAE Ministry of Economy and three officials from state governments (Economic Planning Departments) to investigate the economic structure of the UAE and to ascertain the Government Economic Development Policy in general and towards Economic Diversification specifically ;

- a) What is the current UAE economic structure in terms of the major sectors (the 6 largest sectors)?
- b) In what ways is this structure likely to change over the next 10 years ? And why?
- c) What proportion of the GDP derives from oil?
- d) What is the present share of the oil sector versus the non-oil sector of the UAE economy?
- e) Is there a policy for economic diversification? And if there is, what are its principal elements?
- f) What are the main reasons for the UAE to diversify its economy?
- g) What is the main focus of the policy for economic diversification in the UAE?
- h) What are the “instruments” to implement the policy?
- i) How many sectors has the UAE Government identified for implementation of this policy?
- j) Which sectors does the government think will be the focus of this policy?
- k) Which one will be the major sector for the future?
- l) What are the anticipated growth rates of these sectors?
- m) What are the specific policy measures towards each targeted sector?
- n) What are the main objectives from the implementation of this policy?
- o) How does the Government monitor the implementation process?
- p) Why has the Tourism sector been selected for diversification of the economy (according to which criteria)?



- q) What is the role of the federal government in the formulation and implementation of this policy?
- r) What is the role of the state governments in the formulation and implementation of this policy? Are there other parties involved?
- s) What is the role of the private sector in the formulation and implementation of this policy?
- t) How effective do you think the UAE Government's policy of diversification has been, so far?

*(These questions will be translated into the Arabic language for the purpose of the interviews)*

**2- Interview Draft Questions for the officials of States, and Tourism Departments;** An interview will be conducted with three senior officials at the states level (States Departments of Tourism), since Abu-Dhabi, Dubai and Sharjah represent 95% of the GDP of UAE and the tourism sector in those three states represents most of the tourism sector in the UAE.

- a) What is your policy to grow the Tourism sector?
- b) What are the Aims and Objectives of this policy?
- c) How do you plan to achieve these Aims and Objectives (Policies)?
- d) Over what timeframe is this policy going to be implemented?
- e) What are the prime motivations to execute these Aims and Objectives?
- f) What particular challenges do you foresee in achieving these aims?
- g) How will you overcome these challenges?
- h) Did you consult before (a) devising (b) implementing your policy? If yes with whom did you consult?
- i) To what extent is this a collective effort between all Governments (federal and state levels)?
- j) Is there a particular mechanism to achieve coordination at the federal / state level?
- k) What is the role for the Ministry of Economy in the implementation of this policy?

- l) Do you use any international index or ranking to monitor the effectiveness of your policy (such as the competitive Index for the worldwide tourism sector produced by the Travel & Tourism Organization)?
- m) Is it important for you to develop your policy locally? If yes how?

*(These questions will be translated into the Arabic language)*

**3- Interview Draft Questions for Travel & Tourism Business Houses ;( General);** To cover the third aim; evaluate performance of government policies for economic diversification in UAE, interviews will be conducted with thirty senior officials at enterprises operating in the sectors of tourism in the UAE such as hotels, hotel operator companies (Hilton, Marriott, Inter-Continental and others), airlines and tourism entertainment (desert safari), ten in Dubai (one from Emirates Airlines, four from hotel operators companies, four from Dubai hotels, and one from Dubai tourism entertainment) ten in Abu-Dhabi (one from Etihad airline, four from hotel operators companies, four from Abu-Dhabi hotels, and one from Abu-Dhabi tourism entertainment) and ten in Sharjah (one from Alarabia airline, four from, hotel operator companies, four from Sharjah hotels, and one from Sharjah tourism entertainment).

- a) When did you start your business in the UAE?
- b) How many branches do you have in the UAE?
- c) How has your business grown (*i.e.* Number of Hotel/Room/Clients) since its inception in the UAE?
- d) Has your business grows or declined over time in UAE?
- e) Are you optimistic or pessimistic about the Tourism environment in the UAE?
- f) What are the main features of Government policies to grow your sector, if any?
- g) What business incentives, if any, have you received from government departments?
- h) What do you think is the most important UAE government policy measure that has helped to grow the tourism sector in general?
- i) What is the Government policy measure you consider to have most discouraged the growth of the tourism sector?
- j) Are there any government policies you participate in, and if yes which one(s)?
- k) Have you (or your enterprise) been asked by Government departments to participate in setting the tourism sector policy?

- l) What do you think of the government growth policy for the tourism sector?
- m) Which Government sector-wise policy do you think has helped most to develop your sector?
- n) What could be done to improve the ranking of the UAE Tourism sector from 33rd for 2009 according to T&T Organisation (competitive Index for the worldwide tourism sector)?
- o) Are there any private bodies active in developing the Tourism sector?

*(These questions will be translated into the Arabic language for the purpose of the interviews)*