

Economic diversification through tourism in Dubaï

- Strategies and competition policy (2016-2019) -

التنوع الاقتصادي عن طريق السياحة في دبي
- استراتيجيات وسياسة المنافسة (2016-2019) -

Diversification Economique à travers le tourisme en Dubaï :

- Stratégies et politique de compétition (2016-2019) -

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Date of receipt: 23-12-2021 Date of acceptance: 23-12-2021

Abstract:

Diversification of economic products, activities and markets is one of the main factors for regional and local economic development. Economic diversification methods through the development of tourism have proven their efficiency in many countries such as the United Arab Emirates and especially in Dubai, where it contributes a large proportion to the economy of the Emirate Dubai. Which is what we are looking at in this article.

Key words: Economic diversification, Tourism, Strategies, Competition

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ملخص:

يعد تنويع المنتجات والأنشطة والأسواق الاقتصادية أحد العوامل الرئيسية للتنمية الاقتصادية الإقليمية والمحلية، وقد أثبت أساليب التنويع الاقتصادي من خلال تنمية السياحة نجاعتها في العديد من البلدان مثل الإمارات العربية المتحدة وخاصة في دبي، أين يساهم بنسبة كبيرة في اقتصاد الإمارة. وهو ما نبحث فيه في هذا المقال.

الكلمات المفتاحية: التنوع الاقتصادي، السياحة، الاستراتيجيات، سياسة المنافسة، دبي.

Résumé:

La diversification des produits économiques, des activités et des marchés est l'un des principaux facteurs de développement économique régional et local. Les méthodes de diversification économique par le développement du tourisme ont prouvé leur efficacité dans de nombreux pays comme les Emirats Arabes Unis et surtout à Dubaï, où il contribue pour une large part à l'économie de l'Emirat Dubaï. C'est ce que nous examinons dans cet article.

Mots clés: Diversification économique, Tourisme, Stratégies, Politique de compétition, Dubaï.

Plan:

Introduction

1) Theoretical frame

1-1) Economic diversification

1-2) Tourism

2) Economic Diversification and Tourism in Dubaï

2-1) Economic Diversification in Dubaï

2-2) Tourism, resource of economic diversification in Dubaï

Conclusion

Introduction:

Many oil-exporting countries place great importance on achieving economic diversification, as it is one of the strategic technical options to achieve sustainable economic development, and the diversification of products, activities and economic markets is one of the factors for the success of this trend. The methods of economic diversification through the adoption of tourism development have proven their effectiveness in many countries, including the United Arab Emirates, especially in Dubai.

The main question of this research is: **how does tourism contribute in economic diversification in Dubai as a strategy of competition policy?**

1) Theoretical frame:

The economic diversification strategy is one of the most important strategies used in many countries of the world to support the economic and commercial aspects and increase their competitive advantages, because reliance on a single resource for export is one of the obstacles to economic development, as it is linked to price fluctuations in international markets¹.

1-1) Economic diversification:

Economic diversification is an alternative which requires a departure from current structures and policies. This implies that there has to be an adaptation of new skills, techniques, policies and economic strategies for development². The production of a country is equal to the sum of the value added of the enterprises located there³.

Economic diversification can be defined as the shift toward a more varied structure of domestic production and trade with a view to increasing productivity, creating jobs and providing the base for sustained poverty-reducing growth, diversification helps to manage volatility and provide a more stable path for equitable growth and development. Successful diversification is all the more important now in the wake of slowing global growth and the imperative in many developing countries to increase the number and quality of jobs⁴.

Diversification of products, economic activities and markets is one of the key factors for regional and local economic development and for demographic

growth⁵. Economic diversification is a key element of economic development in which a country moves to a more diverse production and trade structure⁶. Moreover, the European Union in a 2012 report added to the list of benefits to be derived from economic diversification through the production cycle by "... the joint production of different products (or services) within the same process."⁷. Indeed, for centuries, companies have been essential players in the production and exchange processes⁸.

The concept of economic diversification can be seen on two levels of analysis: the single firm level and the aggregate level⁹:

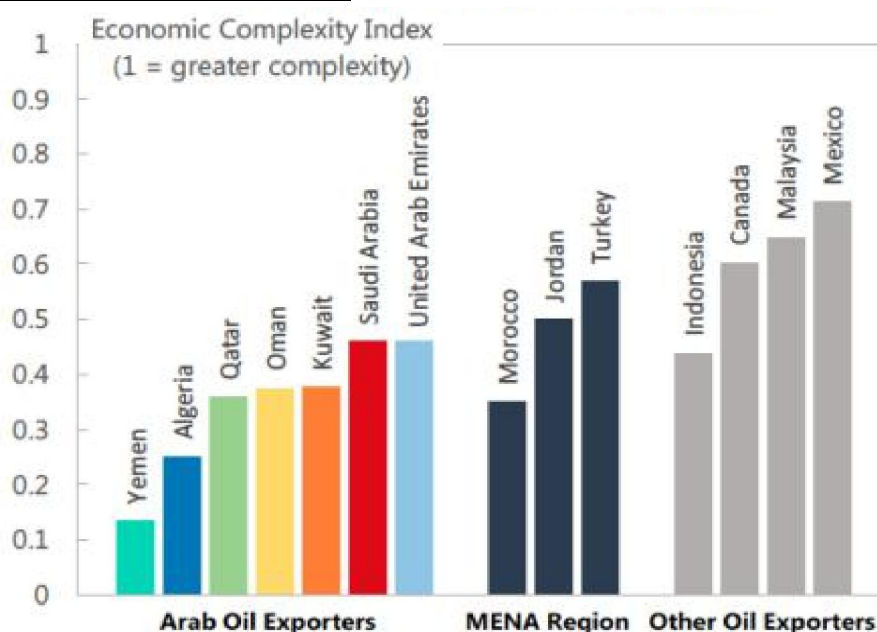
- At the single firm level, diversification is intended as the introduction of new products and the access to new markets by a firm;
- At aggregate level, diversification refers to the sectoral composition of the economy (new/different sectors).

To diversify their economies, resource rich countries need to develop the non-oil sector, which entails, among other things, producing a greater number and variety of goods including those at the higher end of the value chain that involve more complex forms of production¹⁰.

The World Bank reviewed various drivers of economic diversification in various studies and grouped them into three categories: economic reforms, structural factors and macroeconomic variables¹¹. In general, economic diversification is taken as the process in which a growing range of economic outputs is produced¹².

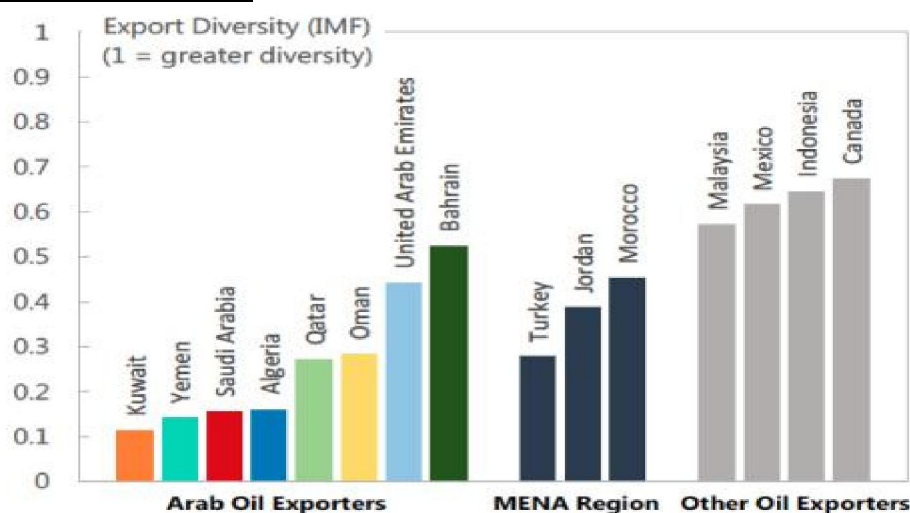
**Figure 01 - Measures of Economic diversification
in different countries**

a) Economic Complexity Index



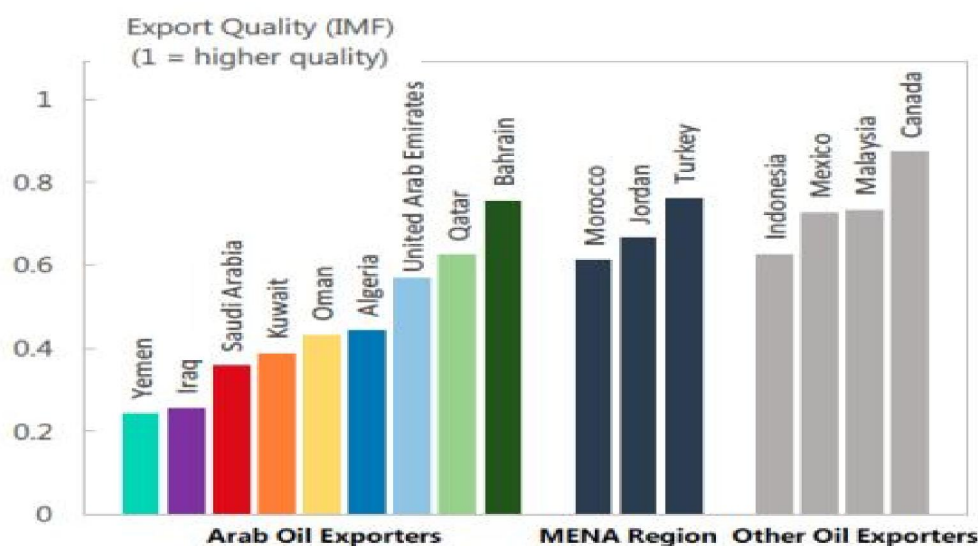
Source : Saudigazette (2017), GCC diversifies into non-oil sectors to achieve macroeconomic stability, July 20,
<https://saudigazette.com.sa/article/513374>

b) Export Divesity Index



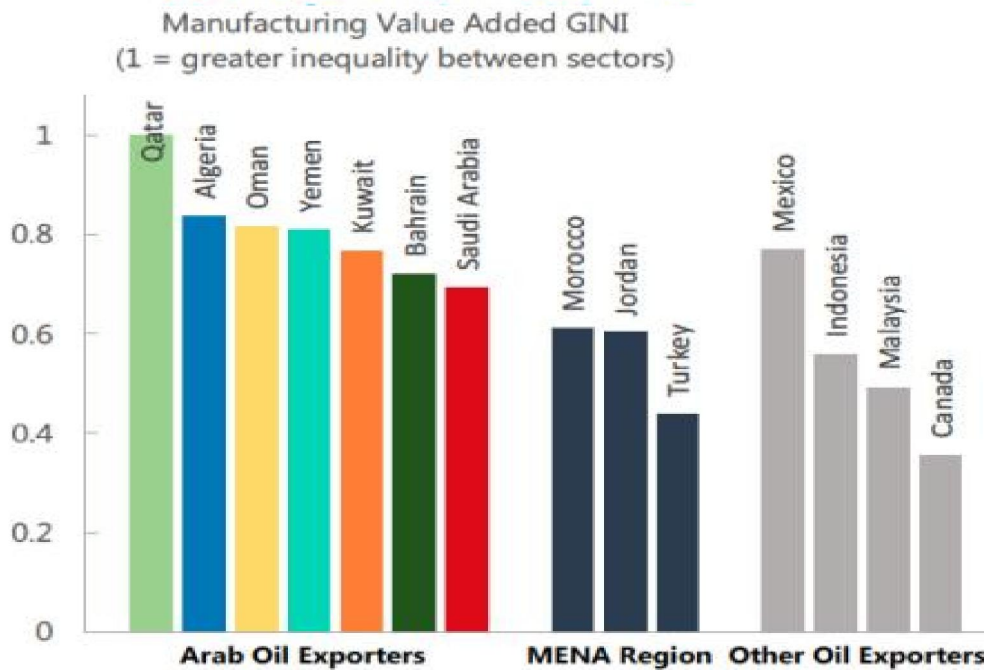
Source : Saudigazette, op. cit.

c) Export Quality Index



Source : Saudigazette, op. cit.

d) Manufacturing Value-Added GINI



Source : Saudigazette, op. cit.

Gulf Cooperation Council countries have adopted strategies to improve the private sector's business environment and the public sector's employment in order to create jobs and increase the contribution of non-oil sectors to the economy," with regards to manu drivers and their impacts on economic diversification.

Traditionally, economic diversification has been used as a strategy to transform the economy from using a single source to multiple sources of income spread over primary, secondary and tertiary sectors, involving large sections of the population¹³.

1-2) Tourism:

Tourism is the most effective industry in creating diversified jobs and jobs opportunities¹⁴.

A clearer definition can be found at the British Tourism Society, which in 1979 adopted a definition: Tourism is deemed to include any activity concerned with the temporary short-term movement of people to destinations outside the places where they normally live and work, and their activities during the stay at these destinations¹⁵.

In relation to a given country, the following forms of tourism can be distinguished¹⁶:

- 1- domestic tourism, involving residents of a given country travelling only within this country;
- 2- inbound tourism, involving non-residents travelling in the given country;
- 3- outbound tourism, involving residents travelling in another country.

The three basic forms of tourism can be combined in various ways to derive the following categories of tourism¹⁷:

- 1- internal tourism, which comprises domestic tourism and inbound tourism;
- 2- national tourism, which comprises domestic tourism and outbound tourism;
- 3- international tourism, which consists of inbound tourism and outbound tourism.

It has been singled out as one of the priority areas for investment, due to its numerous forward and backward linkages to various sectors of the economy.

Table 01 - The five main sectors of the tourism industry

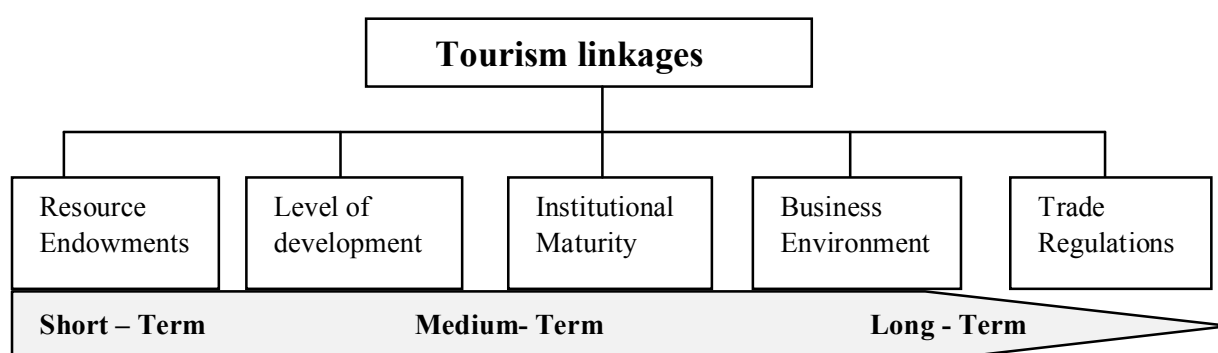
The attraction sector	The accommodation sector	The transport sector	The travel organizer sector	The destination organization sector
natural attractions cultural attractions theme parks museums national parks wildlife parks gardens heritage sites entertainment events	Hotels, motels bed and breakfast guest houses apartments, villas and flats condominium timeshares campsites touring caravans holiday villages marinas	Airlines railways bus and coach operators car rental operators shipping lines	tour operators travel agents incentive travel organizers, etc.	national tourist offices regional tourist offices local tourist offices tourism associations.

Source : Norbert VANHOVE (2005), «The Economics of Tourism Destinations», Elsevier, Burlington, Amsterdam, Netherlands, p. 11.

The main economic impacts of tourism relate to foreign exchange earnings, contributions to government revenues, generation of employment and income, and stimulation to regional development¹⁸. Tourism also contributes, at various levels, to improving education, smoothening governmental attitudes, creating professionalisms and increasing foreign currency exchange¹⁹. Tourism affects transport, communication, agriculture, manufacturing, and infrastructure. Tourism is among the fastest-growing industries in the world²⁰.

Tourism policies are recognised for supporting employment and for their quick return for investment, tax coffers, foreign exchange, earnings, diversifying economies at the local, regional and national scales and, more recently, in creating inter-sectoral linkages (see figures 02)²¹.

Figure 02 - Amenability of Country Determinants of Tourism Linkage



Source : Iza LEJÁRRAGA & Peter WALKENHORST (2013), «Economic policy, tourism trade and productive diversification», Documents de travail du Centre d'études prospectives et d'informations internationales (CEPII), n° 07, CEPII, Paris, p. 12.

By 2026, international tourist arrivals into the Middle East are forecast to total 115 Mn. generating expenditure of USD123.2bn, an increase of 5.1% pa. International tourism has two main impacts; first, in trade, and secondly, in its redistributive effects. It is now generally accepted that international tourism constitutes one of the most significant of global trade flows²².

2) Economic Diversification and Tourism in Dubaï:

Starting with few natural resources, a small population, and limited infrastructure, the Emirate of Dubai has seen remarkable growth and transformation of its economy over the past couple of decades²³.

2-1) Economic Diversification in Dubaï:

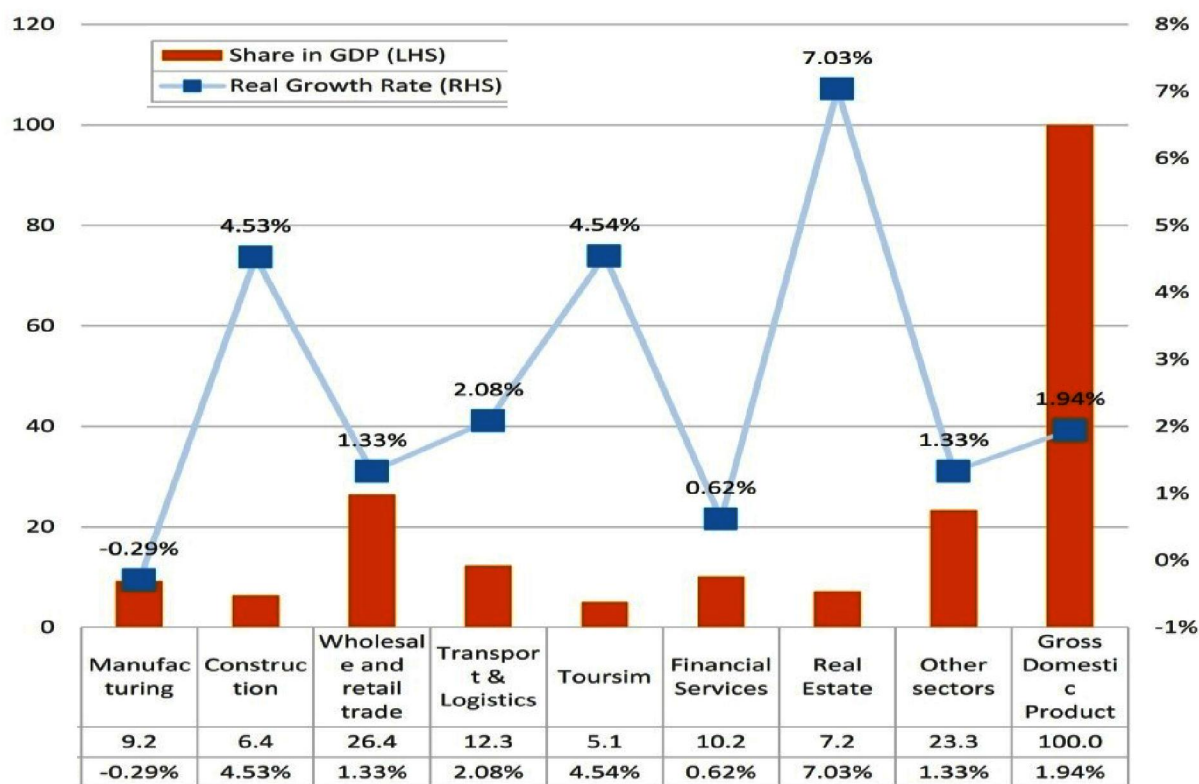
Dubai has undergone large scale transformation change over the last decade and is in prime position to significantly grow further as it seeks to capitalise on its current economical, trading and financial success²⁴. "The path of economic diversification through development of tourism has proved its success in the United Arab Emirates, especially in Dubaï²⁵.

To ensure economic diversification, the government of the UAE has been focusing on non-oil sectors to improve its economic growth and sustainability²⁶ especially tourism following an economic diversification model. One of the main characteristics of Dubai's economy is being small, open and well integrated into global economic and financial systems²⁷.

Dubaï released the highlights of the city's 'Strategic Plan (2015)', which is directed by the overall vision of Dubai's leadership, and has focused on the development of Dubai Strategic Plan along five sectors namely²⁸:

- economic development;
- social development;
- infrastructure, land and environment;
- security, justice and safety;
- government excellence.

Figure 03 - Dubai forecasts real growth (2019-2021)



Source : Article (2021), Dubai forecasts 2.1% real growth in 2019, 3.8% in 2020, and 2.8% in 2021

https://www.zawya.com/mena/en/press-releases/story/Dubai_forecasts_21_real_growth_in_2019_38_in_2020_and_28_in_2021_DED-ZAWYA20190421114528/

Dubai forecasts 2.1% real growth in 2019, 3.8% in 2020 and 2.8% in 2021. The statistics note that the number of international tourists visiting the UAE grew by 6.5% in 2017 compared to 2016²⁹. According to the Dubai Statistics Center (2018), in 2017 the number of tourists who visited Dubai increased by 6% relatively to the previous year (from 14 900 000 to 15 790 000)³⁰.

The Gulf Cooperation Council countries diversified their economics in different sectors, with a major focus key tourism³¹. Dubai's favorable location in the oil-rich Gulf region, its tradition of openness to trade, and capital and labor inflows - both skilled and unskilled - have served the economy well. Dubai has built a modern infrastructure and instituted a business-friendly environment and regulations to promote the city as a trade and finance hub in the region³².

2-2) Tourism, resource of economic diversification in Dubaï:

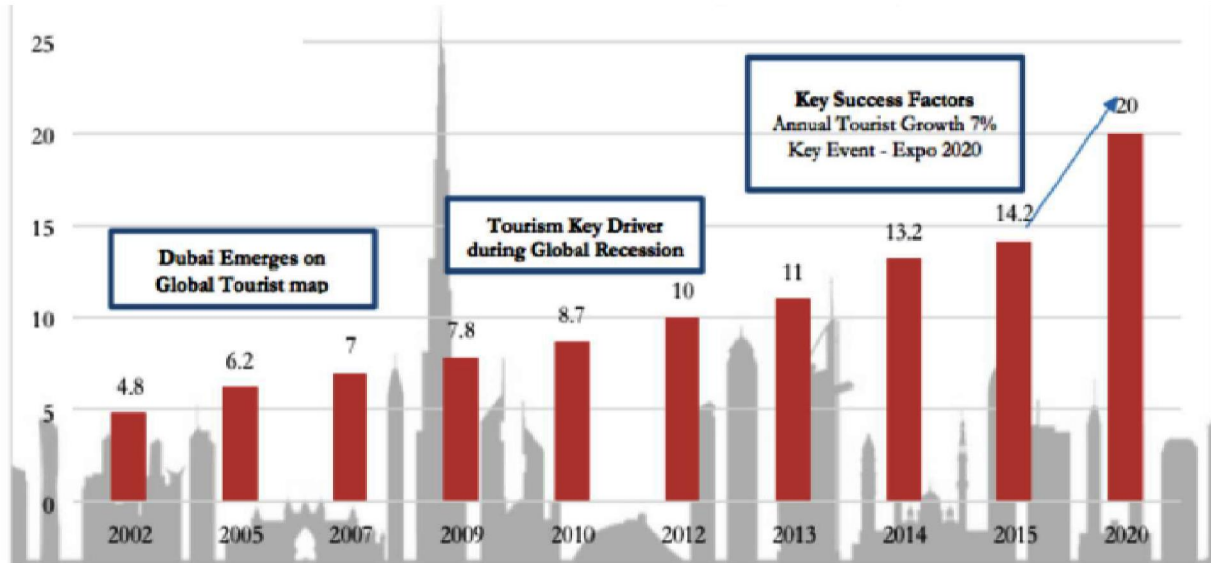
Tourism is now a core sector contributing to Dubai's economy. Dubai accounts for 66% of the tourism industry's contribution to the GDP of UAE³³. Statistics indicate that in 2012 tourism accounted for 14% of UAE GDP and 31% of Dubai GDP alone. As a result, UAE has become a global leader in the higher-end leisure market" (WTTC, 2011)³⁴.

Tourism is a key sector contributing to Dubai's economic growth and it is fundamental to the successful diversification of the emirate's economy and that of the UAE as whole³⁵.

The tourism industry in UAE and Dubaï, is identified as a way of improving economic growth and diversification³⁶:

- 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.

Figure 04 - Tourism inflow in Dubaï (in millions)



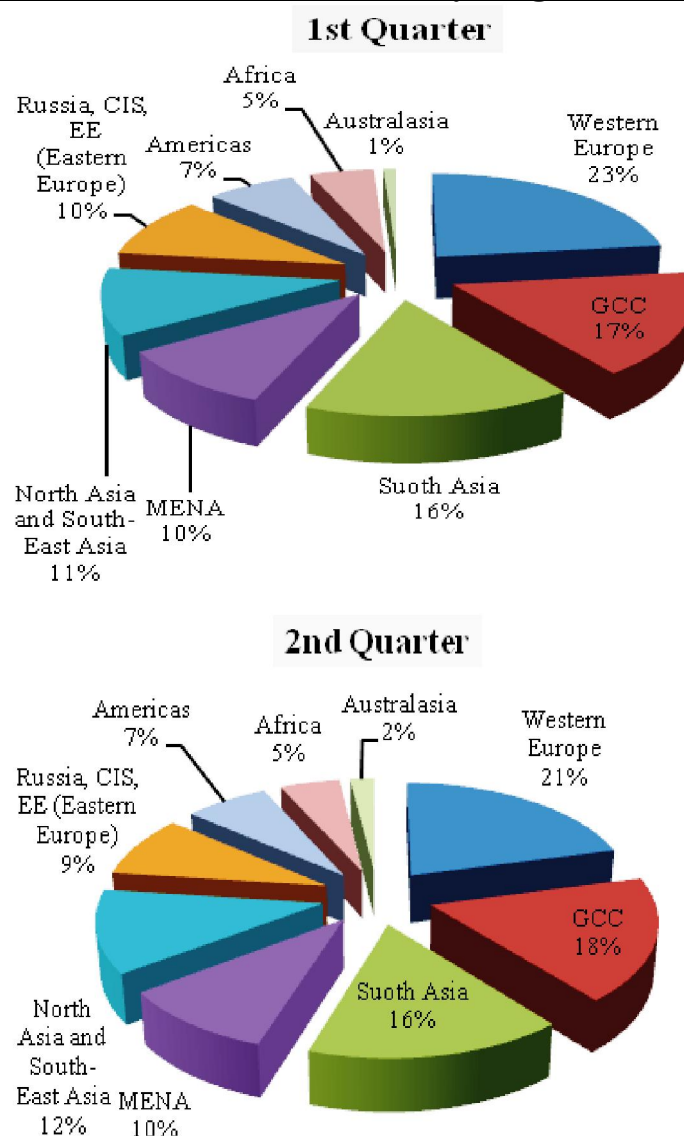
Source : Nasser SAIDI (2017), Oman: Impact of Tourism on the Economy & Diversification, 21 March 2017, p. 16,
<http://nassersaidi.com/wp-content/uploads/2017/03/>

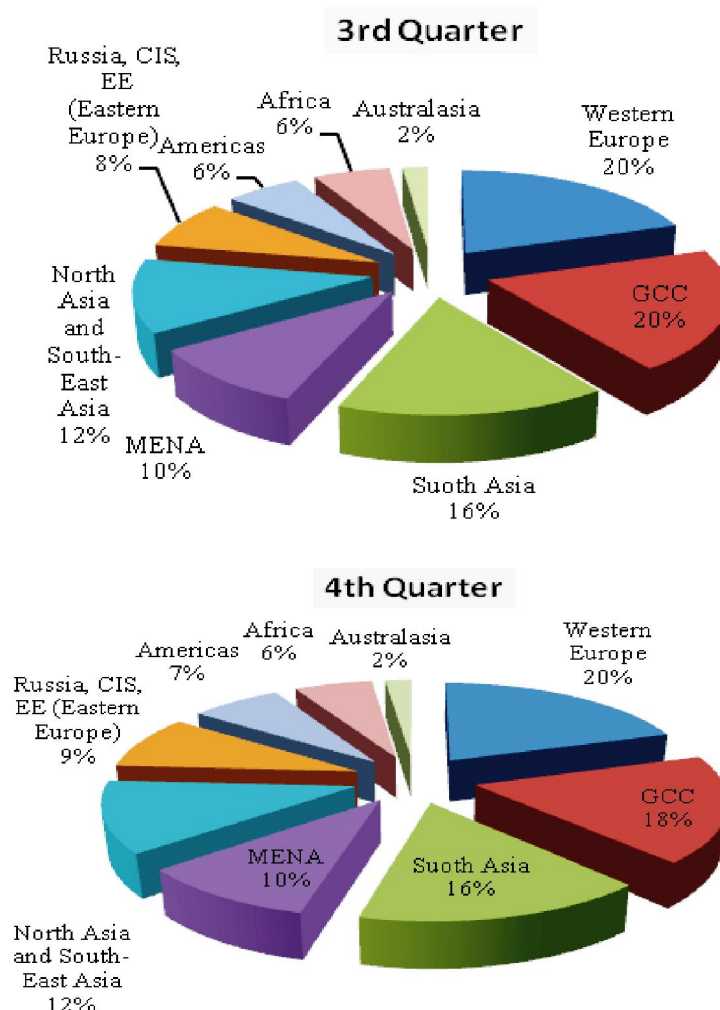
Tourism is an economic driver for Dubai and the UAE, amounting to 4.9% of the emirate's GDP / US\$5.2 billion. Sustainable tourism can enable Dubai to successfully build this sector in a manner that fosters an increase in visitors and a diversified economy while promoting regional culture and being attentive to the impact of tourism on the environment³⁷. Free movements of factors of production, including capital and labour, as well as of goods and services are a cornerstone of Dubaï development strategy³⁸.

A diverse corporate sector has developed, led by public sector companies such as Emirates Group, DP World, and comprising a myriad of global and international firms operating in virtually every sector of the economy.

So, the number of guests staying in hotels in Dubai went up from 1.7 million in 2010 to 14.9 million in 2016, showcasing a staggering growth. The percentage Distribution of visitors by Region in 2019 is shown as bellow.

Figure 06 - Distribution of visitors by Region – Dubai 2019





Source : Dubai Statistics Center 2019.

The interesting fact is that Dubai has high concentration of hotel room supply in the luxury, upscale, upper upscale hotel room segments (41%), while only 12% catered to the mid scale and upper midscale segments, which has resulted in undersupply of midscale rooms.

Table 02 - Hotels and Hotel Apartments - Emirate of Dubai (2017-2019)

Title	2019	2018	2017
Number of Hotels	544	519	485
Number of Hotel rooms	100 744	91 085	82 733
Number of Hotel Apartment Bldgs	197	197	196
Number of Hotel Apartments	25 376	24 882	24 698

Source : Dubaï Statistics Center 2019.

In addition to this importance given to hotels and hotel appartments, leading brands include The Burj Al Arab, Atlantis, the Palm Jumeirah Hotels & Resorts, Desert Palm Dubai, The Meydan Hotel representing an image for high concentration for developing tourism.

Dubai's emergence as a touris city is an outcome of prevailing specific political, economic and sociocultural conditions that lead to significant economic benefits with many forces and opportunities that can reenforce its competition policy.

Conclusion:

The growth of tourism has produced significant economic benefits in Dubai and is also playing a major role in the economic diversification of the city. Tourism, as an economic activity, has become an increasing source of revenue and employment in Dubai. It has made a lot of efforts to diversify its economy through tourism by attracting foreign direct investment, especially in establishing free trade zones with generous incentives for investors, facilitating foreign ownership of companies, reducing nontariff barriers, and business environment reforms. New and innovative concepts such as Floating restaurants, Thematic restaurants, pop up restaurants have become hits in Dubai, which further drives the upward trend.

We have reached other several conclusions depending on what previously has been shown which are listed below :

- development of new logistics and business environment concepts and innovation for a more competitive and sustainable tourism and more success;
- Duabi, by becoming a leader in tourism, aims to accelerate the deployment of more efficient and competitive due to its location, both geographic and strategic;
- public authorities attempt to enhance a city's attractiveness for both business and individuals that can effect the policy of city development (enomically, environmental and socially sustainable contributing to both industry competitiveness and the policy targets).

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