

## Economic Diversification Policies in the United Arab Emirates: An Analytical Study

PhD Candidate. Tayoub Hocine <sup>1</sup>, Dr. Guesmia Mustapha <sup>2</sup>

<sup>1</sup> Mohamed Khider University of Biskra, Algeria. Email: [hossine.tayoub@univ-biskra.dz](mailto:hossine.tayoub@univ-biskra.dz)

<sup>2</sup> Enterprise Laboratory, Human Resources Management and Sustainable Development  
University of Ali Lounici, Blida 2, Algeria. Email: [guesmia1@gmail.com](mailto:guesmia1@gmail.com)

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### Abstract:

This paper aims to highlight the importance of economic diversification as a strategic option to improve income levels, expand investment opportunities, raise value added and achieve sustainable development by highlighting the determinants of success, especially in light of the current challenges facing the rentier countries resulting from fluctuations in oil prices.

The UAE is one of the first countries to take part in a strategy to diversify its economy away from oil, making it a remarkable achievement that can be used to build a similar strategy to diversify the Algerian economy.

**Keywords:** Economic diversification, Diversification Strategy, UAE.

### Introduction:

Oil has monopolized since its discovery and until our day an important and main place in determining the course of development and its nature in oil economies, and its role was confirmed to a greater extent since the seventies of the last century with the beginning of the rise in its prices, where the importance of oil emerged as a strategic commodity and

dominated a high percentage of international trade which made any change in its prices have a great effect in the trade balances of these countries and then on the level of their economic performance, and also development in these countries became dependent on its revenues to a large extent so this rentier income resulted in what is known as Dutch disease, which afflicted natural resource economies in general and oil economies in particular which led to the decline of traditional economic sectors such as industry and agriculture in most countries and at their head developing countries.

And in general and in order to achieve greater growth and avoid the negative effects of the decline in prices of some primary materials such as oil and gas on exports and budget revenues, many countries resorted to changing their economic strategy by heading towards diversifying sources of production and export, and among them the UAE where the follower of its economy will find a distinguished experience interspersed with a diverse set of successes achieved in various economic sectors which makes it a model to be followed considering that it is primarily an oil country, and also it is an Arab country which makes it closer to the

economies of Maghreb countries where it transformed from an economy dependent on oil by 90% of GDP in 1971 to about 30% in 2015.

### **Problematic:**

The global economic environment witnessed major changes as a result of the sharp and perhaps chronic decline in oil prices, and what follows from weakening the balances of external accounts and public finances and institutions in rentier countries, and perhaps the UAE is among the countries that succeeded in diversifying its economy by relying on other sources outside the oil sector.

From the foregoing the following question can be raised:

**What are the policies and measures that were adopted by the UAE in the field of economic diversification?**

This question may include a group of sub-questions as follows:

- What is the content of economic diversification policy?
- How does the importance of economic diversification emerge as an alternative and effective policy to achieve growth and development?
- What are the mechanisms that some oil economies such as the United Arab Emirates relied on to transform into primarily productive economies?

Based on the sub-questions and attempting to cover all aspects of the topic we divided this research paper into two axes respectively:

**The first axis:** The theoretical framework of economic diversification;

**The second axis:** The experience of the United Arab Emirates in economic diversification.

### **Objectives of the Study:**

This research paper aims to touch on a group of points, most important of them are the following:

- Identifying the most important concepts and policies of economic diversification, and their role in achieving growth and development in oil economies;
- Identifying the various requirements and foundations for building a diversified economy that ensures stability and preserves the state's various resources;
- Addressing the Emirati experience in the field of economic diversification and how to benefit from the measures and strategies it took in this regard;

### **Importance of the Research:**

Research on the topic of economic diversification is considered among the most important topics raised sharply at the level of developing countries, especially those whose economies suffer from excessive dependence on one commodity or one resource to drive the development process in them, and among them oil countries, and what that represents of obstacles and risks due to the connection of the prices of this resource to the global market and what it witnesses of sharp fluctuations in addition to the limited nature of these resources and their depletion possibility and what that constitutes of a real threat to the present and future of generations in these countries from another side.

### **The First Axis: The Theoretical Framework of Economic Diversification**

#### **1- Concept of Economic Diversification**

Economic diversification is considered a developmental policy that aims to reduce the percentage of economic risks, increase added

value, improve income level, expand investment opportunities, strengthen aspects of integration, and what makes the efforts of economic diversification have three overlapping objectives: stabilizing economic growth, expanding the base of revenues and raising sectoral added value (Belaama & Dahman, 2018, p. 331).

Economic diversification is defined as the means through which the state's revenue sources are increased from one side and diversifying exports from another side as the European Union experts defined it, some economists and specialists see that diversifying income sources and not relying on one economic resource is a strategic direction for development and that is to achieve sustainable development that possesses the requirements of survival and continuous development, because there exists a common link between economic diversification and sustainability in that they represent two essential elements in achieving a sustainable economy, therefore economic diversification can limit the economic volatility of the state and increase its actual activity performance (Ghlab et al., 2017, p. 82).

And in another way economic diversification includes reducing dependence on the single resource and moving to a stage of strengthening the industrial and agricultural base and creating a productive base, and this means building a sound national economy heading towards self-sufficiency in more than one sector (Le-Yin Z. Hang, 2003, p. 7), and in the broad sense economic diversification means that the country must produce for export a wide list of goods and services (Belaama & Dahman, 2018, p. 332).

As for focusing on the main objective economic diversification is reducing dependence on the oil sector and its returns by developing a

non-oil economy and non-oil exports and other revenue sources, at the same time reducing the role of the public sector and enhancing the role of the private sector in development (Belaama & Dahman, 2018, p. 332).

Economic diversification in general is reducing dependence on the single resource and moving to a stage of strengthening the industrial and agricultural base and creating a productive base and this means building a sound national economy heading towards self-sufficiency in more than one sector, and from another side it is viewed as the process that refers to relying on an increasing group that shares in forming the output and economic diversification can be in sources of gross domestic product or diversification of revenue sources in the general budget, or diversification of markets such as domestic markets or export markets (Marzouk & Hamza, 2014, p. 57).

## **2- Importance of Economic Diversification**

Economic diversification aims to create new productive sectors or develop weak sectors in a way that contributes to reducing excessive dependence on one sector in forming gross domestic product, and the importance of economic diversification is manifested through the following points: (Marzouk & Hamza, 2014, p. 85).

- Development and growth of various economic sectors;
- Providing protection for the economy in emergency conditions;
- Increasing national income through enhancing foreign investment in economic activity;
- Increasing economic activity through strengthening the role of the private sector.

### 3- Standards of Economic Diversification

In order to evaluate the degree of success of economic diversification policy in any country, it is necessary to study some quantitative indicators and standards through which we can measure the degree of economic diversification and among them the following: (Marzouk & Hamza, 2014, p. 85).

- Increasing the effectiveness of the private economy in forming gross domestic product;
- Development of the percentage of export diversity;
- Development of total employment according to the sector;
- Rate and degree of structural change;
- Degree of stability of gross domestic product and its relation to the stability of the price of the single resource.

### 4- Forms of Diversification

A distinction is made between six forms of diversification that economic policymakers can choose between: (Sharaf, n.d., n.p.).

- **Vertical (Horizontal) diversification:** and it is manufacturing products that constitute semi-manufactured materials or primary materials for manufacturing current goods (vertical diversification upward), or heading to manufacturing new products for which the products currently manufactured constitute primary materials for them (vertical diversification downward);
- **Horizontal diversification:** and it is producing and manufacturing new products that are compatible with the

expertise and production methods acquired and complement them at the same time;

- **Lateral diversification:** and it is entering a new field of activity through producing new products that have no relation to current products and target new markets;
- **Comprehensive diversification:** and through which productive institutions seek to expand their current product mix and at the same time acquire and penetrate new markets;
- **Geographical diversification:** and which means entering new geographical areas (exporting products), and adapting to changes in the new production environment;
- **Financial diversification:** and it is that form of diversification that aims to limit investment risks through distributing funds on a diverse group of investment activities that cannot lose in one, as financial diversification may extend to investing in different regions to avoid the effects of economic contraction that may affect certain regions, and economic diversification plays a fundamental role in controlling economic fluctuations and reduces the damages resulting from the collapse of primary material prices in world stock exchanges, as it allows improving international competitiveness.

And in its report on economic diversification in Africa for the year 2006, the United Nations Economic Commission for Africa identified five groups of variables (factors) that affect the course of economic diversification and they are: (Sharaf, n.d., p. 37)

- **Material factors:** among them investment, infrastructure, human capital;

- **Public policies:** among them fiscal policy, trade policy, industrial policy;

- **Macroeconomic variables:** among them exchange rate, inflation, balance of payments;

- **Institutional variables:** among them governance, investment climate, security situation;

- **Access to markets:** among them the degree of market openness to foreign trade in addition to ways of access to financing of all kinds.

### 5- Benefits of Diversification

Diversification has numerous benefits among them the following: (Daoudi, n.d., p. 56).

- Increasing productivity of human capital and financial development and thus raising economic growth rates;
- Reducing investment risks, for distributing investments over a large number of economic activities reduces the risks resulting from concentrating investments in a few of them, and increases returns and ensures their stability;
- Reducing the risks to which the production structure is exposed, since economic diversification leads to achieving several advantages through reducing risks of the economy's dependence on producing one product or on a limited and few number of products or its reliance on one sector or on a limited number of sectors;
- Reducing the risks that lead to lowering the value of exports, because some countries that are characterized in their

economy by a weak degree of economic diversification, if the prices of exported products decline the export returns in hard currency will decline automatically, and thus the possibilities and financial capacities of these countries will decline, which negatively reflects on their imports and economic development;

- Stimulating rates of trade exchange and raising them, where the decline in prices of products exported to world markets with stability or rise in import prices will lead to lowering the level of trade exchange rate;
- Achieving sustainable development through diversity in production and export and stabilizing economic growth rates.

Economic development needs sustainable financing meaning characterized by continuity and sufficiency for expected periods, and also the processes of development and economic progress do not stop at the extent of oil availability despite its importance, for many developed countries in the world do not possess this resource but import it against relying on developing sectors and economic activities that take great importance in international economic relations, and realizing the nature of oil and the factors that affect economies, especially in being a global commodity of high elasticity and affected by the variables that afflict the global economy, which makes permanent and almost primary dependence on rent fraught with risks, comes the importance of designing and securing a diversified source economy that relies on oil and does not limit to it to the extent permitted by the economic life of oil within global market conditions with attaching to that expanding local productive capacities and building a solid strong

economic base, and accordingly this development orientation can be summarized in adopting a strategy based on two main axes: (Bahi & Rouainia, 2016, p. 146).

**The first axis:** Managing the oil resources base in an optimal way and that by making effort to exploit oil properly and taking consumption and production measures together, and wise management of the financial resources achieved by oil exports, and formulating a vision that includes a mechanism for employing the financial surpluses accumulated with it due to recent oil shocks;

**The second axis:** Drawing features for long-term alternative development that starts from two strategies:

The first strategy: requires reducing dependence on oil, by increasing attention to other sectors such as agriculture and developing manufacturing, and achieving sectoral integration in the economic structure, where economic integration between oil and non-oil countries especially Arab ones is considered a basic condition for the success of this strategy;

The second strategy: Re-evaluating development plans and spending moderately, without extremism in reactions currently or gradually, and focusing on the fundamental role that the private sector can play in this framework.

## **The Second Axis: The Experience of the United Arab Emirates in Economic Diversification**

### **1- Pillars of Economic Diversification in the UAE**

The UAE relied on giving priority to education and building advanced infrastructure to support the economic and investment environment with policies based on openness to

the world and on economic diversification, and thanks to an open trade policy, and an exchange rate linked to the dollar— the UAE is characterized by low costs for companies (very low tax burden), and this contributed to the transformation from a country whose economy depends on oil by 90% of GDP in 1971 to only about 30% in 2015, and the contribution of non-oil sectors by 70% in government revenues for the same year, and also this country focused on three basic sectors represented in industry, trade and tourism, and in addition to that the UAE did the following: (Belaama & Dahman, 2018, p. 335).

- Investing within the framework of diversifying the local economy in creating new assets and infrastructure and high-quality services;
- Creating a free trade zone to develop export capacities (Dubai);
- Launching several strategies: UAE Vision 2021, Abu Dhabi Vision 2030, and Dubai Plan 2015.

### **2- UAE Vision towards Achieving Sustainable Economic Diversification by 2021**

The ranking of the UAE at the forefront of Gulf Cooperation Council countries at the level of economic diversification, if viewed from the angle of the contribution of the oil sector in total GDP and its share of total exports and government revenues, and the UAE Ministry of Economy targets raising the contribution of the industrial sector in the state's gross domestic product to reach 25% by 2021, where the government is implementing an ambitious strategy to enhance the role of the industrial sector in the entire economic system and diversify sources where the industrial sector is considered the second largest contributor to national gross domestic product after the oil and gas sector, and the contribution of the gas and oil

sector declined from total GDP to reach 2% at the end of 2014, which reflects the results of economic diversification policy with noting here that the effects of declining oil returns on

economic activities are influential but less impact on the economies of neighboring GCC countries

**Table No. (01): Development of Output of Most Important Non-Oil Sectors for the Period 2001-2015 (Value: Billion Dirhams)**

Sector/Year	2001	2005	2010	2015	Annual Growth Rate% *
<b>Gross Domestic Product at Current Prices</b>	379.4	663.3	1051.0	1359.9	9.5%
<b>Output of Manufacturing Industries</b>	50.5	70.4	94.5	134.1	7.2%
<b>Manufacturing Industries Output/GDP Current (%)</b>	13.3%	10.6%	9.0%	9.9%	-
<b>Electricity, Water and Gas Output</b>	6.3	12.6	25.7	44.8	15.0%
<b>Electricity, Water and Gas Output/ GDP Current (%)</b>	1.7%	1.9%	2.4%	3.3%	-
<b>Wholesale and Retail Trade Output and Repair Services</b>	67.6	90.1	131.9	174.3	7.0%
<b>Wholesale and Retail Trade Output and Repair Services/ GDP Current (%)</b>	17.8%	13.6%	12.5%	12.8%	-
<b>Restaurants and Hotels Output</b>	9.6	13.4	21.6	35.6	9.8%
<b>Restaurants and Hotels Output/ GDP Current (%)</b>	2.5%	2.0%	2.1%	2.6%	-
<b>Transport, Storage and Communications Output</b>	29.2	52.2	89.5	131.7	11.4%
<b>Transport, Storage and Communications Output/ GDP Current (%)</b>	7.7%	7.9%	8.5%	9.7%	-
<b>Financial Projects Output</b>	20.0	42.2	74.0	132.8	14.5%
<b>Financial Projects Output / GDP Current (%)</b>	5.3%	6.4%	7.0%	9.8%	-

**Source:** UAE Competitiveness and Statistics Authority Database

The state's interest in developing non-oil economic sectors comes and especially the promising ones that achieve added value for the UAE economy and rely on them in activating the policy of diversifying income sources such as tourism and trade and services especially logistics and new and renewable energy and communications and the financial sector and which developed the percentage of their total

GDP from the state's gross domestic product to 48.1% in 2015.

And also the continuous rise of GDP where it reached in 2001 the value of 379.4 billion dirhams and reached 1359.9 billion dirhams in 2015 that is with a difference of 980.5 billion dirhams during 15 years and it is considered a very considerable value.

**Table No. (02): Flows of Foreign Direct Investment in the United Arab Emirates for the Period 2013-2015 (in billions of dollars)**

Year	Net Annual Foreign Direct Investment Flows	Total Annual Foreign Direct Investment Flows
<b>2013</b>	10.5	108.5
<b>2014</b>	10.1	115.6
<b>2015</b>	7.4	126.0

**Source:** Ahmed Majid and Nada Al-Hashemi: UAE Economic Study Positive Indicators and Global Leadership, report issued by the Planning and Decision Support Department, Ministry of Economy, United Arab Emirates, Third Quarter Initiatives, August 2016, p. 11.

We notice from the previous table the rise in values of net foreign direct investment flows during the different years, and this is due to the favorable investment environment available in the UAE in addition to many other effective incentives.

**Table No. (03): Development of the Industrial Sector during the Years 2010-2015**

Item	2010	2011	2012	2013	2014	2015
<b>Number of Industrial Establishments</b>	4987	5212	5399	5635	5881	6084
<b>Investments (Billion Dirhams)</b>	106.8	110.1	120.4	121.3	125.2	127.6
<b>Number of Workers (Thousand Workers)</b>	392.5	401.4	408.9	417.7	427.6	435.9

**Source:** Ahmed Majid and Nada Al-Hashemi: UAE Economic Study Positive Indicators and Global Leadership, report issued by the Planning and Decision Support Department, Ministry of Economy, United Arab Emirates, Third Quarter Initiatives, August 2016, p. 15.

The manufacturing industry sector witnessed during the period 2001-2015 an average growth rate reached about 7.2% and developed the percentage of its contribution in GDP at current prices, and entered the local market industries with high added value

characterized by high productivity quality that competes with foreign products in local and global markets and capable of stimulating growth and achieving high profitability rates and increasing exports, and this development was supported by massive investments where it reached 127.6 billion dirhams in 2015 after it was 106.8 billion dirhams in 2010, and also establishing specialized industrial zones and encouraging attracting foreign investments, and importing modern technology and this is what the previous table shows.

**Table No. (04): Non-Oil Foreign Trade of the United Arab Emirates between the Years 1981 and 2015 (Billion Dirhams)**

Item	1981	2015	Average Growth Rate during 1981-2015%
<b>Total Non-Oil Foreign Trade</b>	41.1	1059.0	9.7%
<b>Total Non-Oil Exports</b>	5.5	382.6	12.9%
<b>Re-exports</b>	3.8	221.4	12.3%
<b>Non-Oil Exports</b>	1.7	161.2	13.9%
<b>Imports</b>	35.6	676.4	8.8%

**Source:** UAE Competitiveness and Statistics Authority Database.

We notice from the previous table the doubling of total non-oil foreign trade by about 26 times, and doubling each of total non-oil

exports and re-export volume and non-oil exports volume and imports by 70 and 58 and 95 and 19 times respectively, and this is due to the



state's strategic location and its great logistical capabilities and capacities, and the trade openness policy it follows.

The United Arab Emirates seeks to achieve Vision 2021 which aims to make it one of the best countries by 2021 through making creativity and research and science and technology at the heart of its knowledge-based economy, and this vision includes several national indicators in the educational and health and economic and police sectors and in the field of housing and infrastructure and government services, where the vision aims to increase investments in industrial sectors and other export-oriented sectors including heavy industries and transport and petrochemicals and tourism and information technology and communications and renewable energy, for in 2014 the United Arab Emirates occupied the first place among Arab countries in attracting foreign direct investment where it attracted investments worth 1.10 billion US dollars, and despite that short-term priorities were adjusted to suit changing conditions but the long-term vision strategy remains as it is (Bokthir & Zaraqout, 2017, pp. 337-342).

### **Conclusion:**

Through this research paper it was concluded that the success of the United Arab Emirates in applying economic diversification policies is considered a pioneering experience and an ideal model important for what it achieved of economic advantages and positive results whether at the local level of the United Arab Emirates or the international level.

And also economic diversification policy needs a set of coordinated and interrelated policies to achieve the desired objectives, and as for Algeria it actually needs to build a similar strategy and there is much that needs to be done to break its link with the oil sector.

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