OIL DEPENDENCY: TO WHAT EXTENT IS THE UNITED ARAB EMIRATES ECONOMY DEPENDANT ON NATURAL RESOURCES

Bachelor Thesis

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ABSTRACT

The United Arab Emirates was established in 1971, after the discovery of natural resources the country has developed enormously. The revenues from oil sector have helped the UAE to build up the country to what it is known for today and offer their residents a high-quality life. Hence, the whole state is built up on oil money. The following bachelor thesis will seek how dependent is the UAE on the oil sector. The analysis is done by comparing the UAE’s economy and oil dependency to Saudi Arabia and Kuwait.

In comparison between these three countries the UAE is considerably less dependent on natural resources and so far have shown the most initiative in order to develop their non-oil sector and through that lower their dependency.

Keywords: Oil dependency, United Arab Emirates, Saudi Arabia, Kuwait, natural resources, economy
INTRODUCTION

The United Arab Emirates (The UAE) is a country located at the southeast end of the Arabian Peninsula on the Persian Gulf. The UAE was established in 1971 and since that time, the country’s population has grown excessively although almost 90% of the population nowadays are expatriates. Moreover, the UAE is one of the wealthiest countries in the Middle-Eastern region and one of the fastest growing countries in the world. Thanks to the oil and natural gas resource discovery the country has had a chance to develop into an iconic location as it is today and also offer high living standards to their residents.

Although the UAE is considered as one of the wealthiest countries in the Middle East, their main income comes from natural resources, which are limited. The oil industry has played an enormous role in the history of the UAE and the development of their country as a whole and also their economy.

The following paper aims to find out how dependent is the United Arab Emirates on their oil resources.

The bachelor’s thesis concentrates on finding answers to following research questions:

1. Differences of the extent of oil dependency between the United Arab Emirates and Kingdom of Saudi Arabia. What are the similarities and differences for reducing oil dependency?
2. Differences of the extent of oil dependency between the United Arab Emirates and Kuwait. What are the similarities and differences for reducing oil dependency?

Finding answers to these research questions will help to understand the extent of oil dependency in the given countries and most importantly in the UAE.

Moreover, this paper will examine other non-oil sectors of the United Arab Emirates, which could replace the oil sector in the future or at least reduce its importance for the UAE’s economy. Also, this paper seeks an answer to the natural resource reliance through comparing the UAE’s economic and political situation to the Kingdom of Saudi Arabia and Kuwait. All these three countries are situated in the Middle-East and close to each other, which makes it interesting to find out whether the situation is similar in these countries or completely
different. In addition, the paper seeks an answer whether or not the United Arab Emirates economy could survive without the income from the oil sector. This given paper will first look through the historical background of the United Arab Emirates to understand more about the country and their traditions. Secondly, this paper will go through the theoretical part, which includes a review of oil dependency and what it actually is. Since oil dependency is closely related to government and political system the theoretical approach will have a closer look at the political system of the UAE. Also, the theory includes an overview of the UAE economy to understand the size of the oil sector and also the non-oil sector.

To continue, this paper will compare the UAE to Saudi Arabia and then to Kuwait and find out the similarities and differences between their economies. Furthermore, the paper will describe the economic situations and outlooks of Dubai as a separate emirate. The Bachelor thesis will end with a discussion, where the three given countries are compared and an answer to the extent of dependency will occur.

This Bachelor thesis is written by using a qualitative study method and is done by analyzing articles and country reports of the United Arab Emirates, Kingdom of Saudi Arabia and Kuwait.
1. HISTORY OF THE UNITED ARAB EMIRATES

The United Arab Emirates which is nowadays a well-known place and a major tourist attraction was not long ago just a desert inhabited by nomadic Bedouin tribes, fishing villages, and date farms. Now an iconic city Abu Dhabi consisted mainly of palm huts, a few coral buildings, and the Ruler's Fortress. Since Dubai was situated along the creek, it was the main trading hub (The Story ... 2016). Life today in the Emirates bears little resemblance to 44 years ago before the United Arab Emirates was officially established.

Although the country is relatively new the UAE has a long history, earliest evidence of humans in the Emirates goes back to over 100,000 years. At the early stage of colonization, it is believed that the UAE may have been an important intermediate in the migration of people out of Africa into Asia. One of the most important parts of the UAE history is the arrival of the Prophet Muhammad messengers in 630 AD, which determined the conversion of the region to Islam. While the Europeans wanted to control the coast, the funding families made the inland and sandy deserts of Abu Dhabi and Dubai their home. Over the years, Abu Dhabi shaped into an important center for trade and tourism (History 2016).

As the Portuguese tried to invade the Gulf region in the sixteenth century a local power, the Qawasim was gaining power in the region. The Portuguese invasion was very destructive for the Arab people. Therefore, after the defeat of the Qawasim in 1820 in order to maintain maritime truce, the British signed many treaties with the sheikhs of the individual emirates, as a result of these treaties the region became known as “The Trucial States”. As the pearl fishery was an important part of trade and income it was really hard for that industry to survive after The First World War. The economic depression in the end of 1920s and in the beginning of 1930s together with the invention of the cultured pearl by the Japanese crushed the industry (Ibid.).

After The Second World War India enforced heavy taxation on the pearls imported from the Gulf region, which ended the pearl industry for good in the region. Since the pearl fishery was a big part of the Gulf economy, it was tragic for the whole area. The living conditions were very poor at this point for the Emirati people. There were not enough
hospitals, an opportunity for education or proper infrastructure. As Dubai’s Oil exports started to bring in revenue, the Ruler of Dubai, Sheikh Rashid bin Saeed Al Maktoum did all he could in his power with these funds to improve the quality of life of his people (History 2016).

In 1966, the British government came to a conclusion that they can no longer govern the Gulf area. Moreover that the British Armed Forces were severely overextended and at some cases very poorly equipped to defend the area. This discovery leads to the expiration of the British – Trucial treaties in 1971. The Ruler of Abu Dhabi, Sheikh Zayed bin Sultan Al Nahyan acted fast to commence steps towards establishing closer relations between the emirates (Ibid.). After a period of negotiation, six rulers of the emirates reached an agreement. On 2nd of December 1971, the United Arab Emirates was formally established and it consisted of six emirates – Abu Dhabi, Dubai, Sharjah, Fujairah, Umm al-Qawain and Ajman. The seventh emirate was added in 1971 to the UAE and Sheikh Zayed was re-elected as president at five-year intervals until his death in 2004, maintaining him as the president of the UAE and the ruler of Abu Dhabi for 33 years. Sheikh Zayed is highly recognized by the Emirati people since he prioritized to upgrade the life quality of his people and he succeeded. Even though he is dead his principles and philosophy that he brought to the government remain at the core of the state even today (Ibid.).

With the beginning of oil export and the expansion of the revenue earned from that the UAE has formed a recognizable national identity. The UAE’s political system is a combination of traditional and modern political system, which allows the UAE to preserve their traditions but at the same time develop a modern administrative structure. Applying a system like this helps the country to become as cosmopolitan as it is today. The UAE is also strengthening institutions of government to ensure a transparent legal system with full regard for the quality of life of all citizens and residents (UAE history 2016).

The UAE is a member and participates in many international organizations, e.g. the United Nations (UN), the World Trade Organization (WTO), the Arab League, the Gulf Cooperation Council (GCC) (Ibid.). After some difficult eras within a short period of time, today the United Arab Emirates is one of the most cosmopolitan countries situated right in the middle of the world waiting to be discovered.
2. THEORETICAL APPROACH

Considering the topic of this thesis, I find it relevant to have a closer look firstly to the oil dependency as a concept as well as the political system of the United Arab Emirates and their economic situation. This will assist finding out the severity of oil dependency in the UAE and what are the solutions to decrease it in the future. Economic growth depends highly on the decisions and development plans government approves and therefore government activity and oil dependency are closely related.

2.1. Oil Dependency

In theory, extractive revenues should help resource-rich countries to organize domestic resources for social and economic development, especially during price booms. Although in practice, “one of the surprising features of modern economic growth is that economies abundant in natural resources have tended to grow slower than economies without substantial natural resources” (Sachs and Warner 1997).

One of the aspects related to natural resource rich countries is the resource curse. Countries with large natural resources tend to still grow more slowly than countries without the given resources. The resource-rich countries tended to be high-priced economies and due to that, countries like this tended to fail on the export-led growth (Sachs and Warner, 2001).

In order to understand why the resource curse exists it is also important to examine why governments fail to take corrective action. The role of governments are extremely high within the resource sectors and therefore have the opportunity to take action and relieve the difficulties.

Leaders from the consuming states have spoken their minds about the troubles of oil dependency and that there is a need for a bigger energy security. By the energy security, they mean ensuring full and uninterrupted supplies of oil with an affordable price. The United States of America is one of the countries that is fighting for the security because the US
citizens are consuming one quarter of the world’s energy. What the consuming countries are missing out on is the fact that the producing countries need the security of demand since these countries are also dependent on oil. Most likely the producing countries are even more dependent on oil than the consumers since they need the revenue that comes from the oil exports.

“In OPEC Member Countries, for example, oil accounted for 73 percent of total exports in 2005. In some countries, the percentage was much higher: 95 percent in Kuwait, 98 percent in Nigeria and 99 percent in Libya.” (Dependence... 2007)

In most of the OPEC member states, the revenues from oil exports are used to fund educational and health systems as well as develop infrastructure and other aspects that would boost the living standards in their country (Ibid.).

Hence, the natural resource dependent economies are experiencing frequent and often extreme oil revenue changeability compared to the non resource dependent countries. Extreme changes in oil revenues have a great impact on their economic performance and stability. Oil dependent countries are constantly driven by uncertainty about the future oil prices and the changeability of the international market (Kandil and Nandwa 2015).

Thus, it is important that governments would be constantly looking for options how to reduce the oil dependency and develop other sectors to balance the economic situation. Governments and political systems, in general, play an important role in the capacity of the oil dependency the given state is dealing with. For this reason, it is relevant to look into the political system of the United Arab Emirates.

One of the sectors that is gathering more and more popularity is solar and biofuel production. Switching from non-renewable energy to renewable energy is the goal in order to build eco-friendlier earth. Renewable energy could be one of the ways how to break free from the oil dependency in many oil producing countries. Biofuels are made from organic food and waste products, although it seems like a good solution, this type of energy has many pros and cons to its production. Renewable energy is being developed more or less throughout the whole world but the Middle-East seems to be lacking interest so far.

The main three problems for transformation from non-renewable energy to renewable are technologies, infrastructure and complicated political challenges (Cohen 2015). Most of
the technologies, which are used to make biofuels for example are usually not powered by biofuels. In this case, oil sector is still needed to produce biofuels although the amount of biofuels made with the machinery would of course exceed the amount of oil used for the process. Choosing to use renewable energy might come as a difficult decision for a country because the results are not that well seen in a short period of time. In a long run this is probably one of the best options to have a sustainable economy. Even though it is clear for everybody that some measures need to be taken in order to survive after the non renewable resources run out, most of the countries are still waiting for other countries to react first to avoid dealing with the current obstacles. Renewable energy would be a good solution for any oil producing country to fight with their oil dependency but they are well aware of their remaining oil stocks and might not feel the threat, which would give them the kick to start taking action.

2.2. Political Force of the United Arab Emirates

Before the seven Emirates were united in 1971, each emirate had its own separate institutions of government, working closely together under the Council of the Trucial States, which was commenced by the British. Before the permanent constitution, a provisional one was made in order to prepare the freshly established UAE for the future. The provisional constitution stated clearly that the federal authorities have absolute power over foreign affairs, security and defense, nationality and immigration affairs, education, public healthcare, currency, postal, telephone and any other communications services, air traffic control and licensing of aircraft (Yearbook 2013). In addition to previously mentioned the federal authorities also have complete power over the labor market and relations, banking, delimitation of territorial waters and extradition criminals. The Federal Supreme Council decided to make amendments to the provisional constitution in 1996. First of the amendments was to make the provisional constitution a permanent one to the UAE and the second amendment made Abu Dhabi as the capital city of the UAE.

Currently, the UAE is a loose federal system consisting of seven emirates. Each emirate has its own local government, which is based on traditional patriarchal monarchies and ruled by sheikhs from royal families who have held the authority for a long time already due to the tribal alliance. The complexity of the each seven local governments
depends on the size and population of the given emirate. The federal system in the UAE is built up to combine both traditional and modern ways of government, which has given the state the recognizable national identity and a political stability. When it comes to the civil administration of the state Abu Dhabi and Dubai as the two most known and identified emirates have evidently a lot of power in the decision-making but every emirate has their own voice and can contribute (Governance 2016).

Choosing the president and prime minister and dealing with critical decisions is usually done by cooperation and consensus of all the seven emirates. Every emirate individually puts in a lot of power to establish their own social system and develop their own economies. The individual governments are highly influenced by the royal families their local allies and other wealthy business families. Unlike in the western world, the United Arab Emirates does not have any representative political institutions. Therefore, it is very common that people can speak their mind about any concerns straight to their ruler. In order to share their thoughts, regular meetings are held, which are called majlis (council) (Ibid.).

2.2.1. Government

The United Arab Emirates is a Federation of seven emirates, each emirate has its own ruler. The UAE government is built up to work on three levels – federal, emirate and municipal. Since the establishment of the state in 1971, the Federation has brought political stability and security to the area. The system that the UAE uses is particular to the state, combining the old and new, modern and traditional approach. (Political System 2016)

“The UAE Constitution highlights the key goals of the Federation, which are (The objectives … 2016):

1. Maintain UAE independence and sovereignty;
2. Protect security and stability for the federation and member states;
3. Defend any aggression upon its existence or the existence of its member states;
4. Protect the rights and freedom of the people of the federation;
5. Achieve close cooperation between the emirates for the common benefit of the federation;
6. Promote the prosperity and progress of the federation;
7. Provide a better life for all citizens;
8. Respect the independence and sovereignty of the other emirates in their internal affairs within the framework of this constitution.”

As mentioned beforehand parallel to federal institutions each emirate has its own local government. Although the complexity of the local governments differs from each other as per the size of the emirate, population and the extent of development, all seven of the local authorities have expanded significantly since the UAE was established in 1971. Abu Dhabi, being the biggest emirate by the population and area has its own central governing structure, the Executive Council, chaired by the Crown Prince, Sheikh Mohammed bin Zayed Al Nahyan (Yearbook 2008). The influence of the distinctive federal institutions and their interconnection between the independent local institutions have grown and changed since the formation of the state. In the process of evolving the relationship between the federal and local systems, the traditional structure of government still remains and keeps growing aside the modern ways.

The rulers of an emirate were the sheikhs who were the leaders of the most powerful tribes in that given emirate. These sheikhs, rulers, only maintained their position until they were able to keep the support of the people within the given emirate. Keeping that in mind, it was important that people would have free access to their ruler for any concerns or ideas. This is the reason why open majlis or councils were held where local people could speak their mind. Majlis are held in the UAE until the present day, which is one part of the traditional approach of the government (Ibid.).

When it was time for the rulers of the seven emirates to decide on the form of government for their new federal state, they decided to offer the best of modern administration while still maintaining the traditional forms of government. Choosing this option was risky since it is not a common way of government and nobody could guarantee that it would be a success. After a massive economic growth and a major increase in population the political situation still remains stable, proving everybody that they made the right decision.

2.2.2. Federal Supreme Council

The Federal Supreme Council represents the highest political authority in the UAE and has both executive and legislative powers. The objectives of the Federal Supreme Council are
setting the general policy, electing the president and vice-president, ratifying federal laws and international treaties and preparing the federal budget. Procedural matters are decided by a simple majority vote, each ruler has one vote. Critical issues require compliance of the rulers of Dubai and Abu Dhabi since these two emirates are the most powerful (United Arab Emirates, a new perspective … 2016).

“Responsibilities of Federal Supreme Council (Federal Supreme Council 2016):
1. Formulating the general policy on all matters concerning the Federation under the Constitution, and considering all matters that could lead to the achievement of the objectives of the Federation and the common interests of the member emirates.
2. Endorsing the various Federal laws prior to their issuance, including laws of the annual general budget of the Federation and the closing accounts.
3. Sanctioning the decrees on matters that by virtue of the provisions of the Constitution are subject to the ratification and approval of the Federal Supreme Council. Such sanctioning takes place prior to the issue of such decrees by the President of the council.
4. Ratification of treaties and international agreements through decrees.
5. Approving the appointment of the Prime Minister of the Federation, accepting his resignation, and requesting him to resign upon the suggestion of the President of the Federation.
6. Approving the appointment of the President and the judges of the Supreme Federal Court, accepting their resignations, and dismissing them in the cases specified by the Constitution. Such actions are done by decrees.
7. Supreme control over the affairs of the Federation in general.
8. Any other relevant responsibilities stipulated in the Constitution or in the federal laws.”
2.2.3. Political Reform

Preface for the UAE Government Strategy by Mohammed bin Rashid Al Maktoum (Highlights … 2016):

“I am pleased to present this document which highlights the overall direction of the UAE Government Strategy for the next three years, and heralds a new phase of governance. At this point in time we should pause for a moment and pay tribute to the founding fathers of the Unites Arab Emirates for their great efforts in developing the country and endowing us with high standards of living. /…/ This strategy is based on H. H Sheikh Khalifa bin Zayed Al Nahyan’s National Program established in December 2005. The objective of this document mirrors the goals outlined within the National Program – to achieve sustainable development and maintain high standards of living.”

Starting from 2006 some attempts have been made to reform the federal and government systems. One of the primary steps towards the reformation was the Strategic Plan, which covered six main areas for development – social, economic, public, justice and safety, infrastructure and rural areas development. The Strategic Plan was based on the National Program of 2005 and was prepared by the federal ministers. The goal of reformation is to raise cooperation between federal and local government authorities (Governance 2016).

Although the UAE has grown very fast within a short period of time coming up with a plan to continue the progress and evolve in certain areas, which are essential for high standards of living. The population of the UAE is constantly growing and therefore it is important to provide everybody with proper opportunities for healthcare and different levels of education. The well thought-out plan includes launching joint programs between the Ministry of Culture, youth, and community development in order to maintain and create allegiance to the country and its iconic culture (Highlights … 2016).

The main focus is on the younger generation in order to carry on the traditions to next generations. Every area of development is well thought through, because not only do the Rulers of the seven Emirates want to improve the life quality of their people but to be
successful in all of those areas of development (Ibid.). At the end, the UAE is working towards having the world-class healthcare, first-rate education and having one of the safest public environment and most importantly united society.

### 2.3. Economy of the United Arab Emirates

Since the establishment of the United Arab Emirates in 1971, its economy has developed into a modern and open economy. Within the Arab world, the UAE has the second largest economy after Saudi Arabia and furthermore accounts for over quarter of the gross domestic product (GDP) of the Gulf Cooperation Council (GCC). One of the main factors for the economic growth has been the high and stable oil prices throughout the years. Compared to other countries in the world the UAE has one of the most open economies due to old traditions, which go back to the early Gulf history (UAE Economy 2016). The UAE has a great geographical spot, which allows the state to continue being one of the strategic hubs and attract many business developers to the UAE and boost their economy. The Middle East, in general, is known for their wealth in natural resources.

The UAE is holding access to ten percent of the world supply of oil reserves and moreover, they have the world’s fifth largest natural gas reserves. Oil exports make up to 30 percent of the United Arab Emirates GDP. Although the UAE is a very important supplier of energy in the world they are also becoming a compatible consumer of energy. Without a doubt, the UAE will carry on its traditions of responsible energy management since so far it has only developed and diversifi ed their economy and stimulated the reinforcement of additional hydrocarbon reserves (Ibid.). Moreover, the UAE keeps up the progress of developing and implementing alternative energy sources.

In general, the world has shaped a picture of the Middle East, including the United Arab Emirates as states, which have their political and economic stability only due to their natural resources, more specifically because of their oil supply. Since the beginning of establishing the UAE in 1971 the state has shown a political stability and since then has come a long way improving the life quality of the people who are living in the UAE. As it seems, the UAE has achieved everything due to their oil resources and therefore the question arises if the United Arab Emirates economy is sustainable if the oil prices go down and stop bringing in the constant profit for the state.
“Since the discovery of oil in the UAE more than 30 years ago, the country has undergone a profound transformation from an impoverished region of small desert principalities to a modern state with a high standard of living. The government has increased spending on job creation and infrastructure expansion and is opening up utilities to greater private sector involvement. The country's free trade zones - offering 100% foreign ownership and zero taxes - are helping to attract foreign investors.” (Factbook, 2016)

There is absolutely no doubt that the oil industry has played a big role in the most recent history of the United Arab Emirates and therefore it is important to acknowledge what will happen if the oil prices keep on lowering and bringing in less profit for the UAE.

As seen in Figure 1, the oil and gas sector is the single largest part of the UAE GDP, though there are many other non-oil sectors as well forming the GDP. The diversification of the economy is the only way to in order to reduce the importance of the oil industry in the UAE.

![GDP by Sector](image)

**Figure 1. GDP by Sector**

Source: The United Arab Emirates Yearbook, 2013
“The UAE economy gained momentum in 2013, registering a growth of 5.2% versus 4.4% in 2012. The oil and gas sector’s growth weakened to 4.8% in 2013 as compared to 7.6% in 2012, while on the other hand, the non-oil sector’s growth accelerated from 3.3% in 2012 to 5.4% in 2013. The share of the oil and gas sector in 2013’s nominal GDP stood at 38.9% (39.4% in 2012). Despite being the single largest contributor to GDP, the oil sector’s share in GDP is low as compared to the country’s GCC counterparts. Going forward, the sector’s growth is likely to lose steam further as global crude oil prices continue their free fall.” (Global ... 2015)

According to the articles, the UAE is successfully on the way of lowering the importance of the oil and gas sector to their GDP and constantly developing their non-oil sector in order to keep the state stable. The transition from oil sector to the non-oil sector will take time and it depends highly on the oil prices whether the country can complete the transition and break free from the oil dependency or the economic situation will deteriorate.
3. OIL DEPENDENCY COMPARISON

In order to examine the oil dependency in the United Arab Emirates, it is important to compare the economic situation to other countries in the Middle-East with similar natural resources. Map of Middle-East can be seen in Appendix 1. Having oil and gas sector as the leading single sector in the country’s GDP is dangerous and can lead to the crash of economy when the given state is not prepared for the lower prices or does not have a plan B for alternative incomes. Therefore, I find it relevant to research how other countries are coping with the current situation and find out how dependent is the UAE in the oil and gas sector. All of the Middle-Eastern countries are considered as oil-rich economies and therefore it is best to compare these countries to each other.

3.1. The United Arab Emirates

“The UAE’s hydrocarbons sector remains the backbone of the economy, directly contributing to 34% of nominal GDP in 2014. The sector’s real output is expected to grow by 2% in 2015 compared to 4% last year, amidst a slump in global oil prices and higher production levels, as per the International Monetary Fund.” (UAE Economic ... 2016)
It appears on the graph (Figure 2) that the crude oil and natural gas prices have decreased evidently in 2015. Oil revenues are still a big part of the UAE economy and therefore it brings up the question how dependent is the UAE in the hydrocarbons sector. Will the UAE economic system still be sustainable and seek for alternatives to replace the oil revenues or will the oil prices fracture the state completely in the near future?

![Crude Oil & Natural Gas Prices](Image)

**Figure 2. Crude oil and natural gas prices**

From the beginning of the establishment of the United Arab Emirates, it can be said that the rulers have made good decisions to make the country as successful as it is today. Natural resources were just the tool to create more employment, construct infrastructure and build up the state as an iconic place on earth. The key to their success is that whatever they plan, they plan to be the best not just good. In 1985 Emirates Airline was founded, the vision was to have the best airline in the world. Today the UAE has reached their goal, together with the perfect geographical location and world-class airlines – Emirates and Etihad, aviation has grown to form a considerable part of the UAE GDP, which is close to 15% of the GDP.

“The UAE two world-class airlines, Etihad and Emirates, as well as constant upgrading of aviation infrastructure, have played a major role in the advance of the tourist industry and are key contributors to the economy. Dubai, in particular, expects
that the aviation industry will contribute 32% to its GDP by 2020.” (The Economy 2016)

Aside from the aviation industry, an industrial development in retail has played an important role in the UAE economic growth and diversification. In the UAE tourism provides one in nine jobs, which is higher than the global average of one in 11 jobs. Since tourism has a fatal importance, the UAE plans to increase it from around 15 million in 2012 to 26 million by 2022 (Yearbook 2013). As currently the trade and tourism activity is growing constantly, the UAE has a motivating plan to become the regional hub for transport, logistics and for the global travel industry. As a result of being in the center of the world, Dubai and Abu Dhabi are common places for transit, which makes it easier to pursue the plan to grow tourism activity. In order to achieve their goals the UAE is currently constructing and expanding several ports and airport facilities and also roads and nationwide rail network.

After the global financial crisis, the UAE real estate and construction sector have recovered quite well, attracting many foreign investors and keeping the real estate sector on the track. The banking and finance sector plays also a great role in the stability of the economy, contributing up to 7% of the GDP (Ibid.).

“The quantity of goods passing through the ports of the United Arab Emirates comprises more than 60% of the quantity of goods in GCC countries. The Port of Jebel Ali in Dubai is the seventh-largest port in the world, which is currently undergoing active expansion and by 2030 the quantities of goods passing this port should increase more than seven times, making it possible for the port to overtake both the ports of Shanghai and Singapore. The great location of the Middle East between Europe and Asia has made logistics and ports a highly stable and profitable business for the United Arab Emirates in the long term.” (Kukemelk 2016)

Once again a great example of the UAE making smart decisions and thinking about the future and what would benefit the state and their people in the long run. Connecting their traditions and using the modern options to develop trade will keep stabilizing the economy and politics in the future.
3.2. The UAE and Saudi Arabia

The Kingdom of Saudi Arabia is an Arab state in Western Asia, geographically the fifth largest state in Asia. The Kingdom was established in 1902, Riyadh as the capital city. Saudi Arabia is also known as being the home for two holy mosques, one of them in Mecca and the other one in Medina. The natural resource as in petroleum was discovered in 1938 and since then Saudi Arabia has become the world’s largest oil producer and exporter, holding the second largest oil resources in the world after Venezuela. The government of Saudi Arabia bases its legitimacy on its comprehension of Islamic law (sharia) and the Basic Law, which was officially published in 1992. The Basic Law defines that the rulers of the country must be male descendants of the founder King Abdulaziz bin Abdulrahman Al Saud (Global Security 2015). Moreover, the Basic Law also defines the system of governance, rights of citizens, powers, and duties of the government, most importantly it implements that the holy Quran and Sunna serve as the country’s constitution.

The Basic Law also sets down absolute monarchy as the political system of Saudi Arabia. The ruling royal family – the House of Saud has been trying to reach their goal of making all Saudi citizens dependent on the royal family and by doing that to convince them that their own personal well-being is closely related to the current political system. The principal human rights issues include abuse of prisoners, prevention and strict restrictions on freedom of speech and media activity, peaceful assembly and association, restrictions on religion, prohibition of the right of citizens to change their government. Moreover, systematic discrimination against women and ethnic and religious minorities are high as well as suppression of worker’s rights (Ibid.).

After the oil resource discovery Saudi Arabia’s economy has been heavily dependent on the oil sector. As mentioned before, Saudi Arabia is the world’s leading exporter of petroleum and very outstanding member of The Organization of the Petroleum Exporting Countries (OPEC). The oil sector makes up around 55% of the GDP, as seen in Appendix 2, in addition, the oil sector brings in around 90% of the export earnings. Similarly to the UAE, Saudi Arabia is also trying to reduce the oil dependency by promoting the non-oil sector. The sectors developed are power generation, telecommunications, natural gas exploration and petrochemical sectors. Moreover, in order to advance the economic growth, the government has recognized the significant role of the financial sector in assembling savings and
conducting funds to economic activities. After the actions mentioned beforehand, it has been promoting the development of a very efficient banking system, well-developed financial markets and all-inclusive and competitive insurance services (Samargandi … 2014).

The government of Saudi Arabia increased its spending enormously prior to 2012 and the state still managed to create record budget surpluses due to the increases in oil prices. This has raised many questions about Saudi Arabia’s effectiveness in managing this enormous oil resources and if the Kingdom can attract foreign investments in long-term (Alkharashi 2012). Considering that Saudi Arabia is one of the largest exporters of petroleum, the state plays an enormous role not only amongst OPEC but the world’s economy in general. After the discovery of oil resources the country’s economy expanded immediately in the 1970s, the average was a double-digit growth in GDP for more than a decade. As the oil prices went down in the 1980s so did the growth in the country’s GDP. Starting from 1999 the oil prices have been steadily growing and therefore, Saudi’s economy has grown to be one of the 20 largest economies in the world (Ibid.).

It is clear so far that the economy of Saudi Arabia is boosting and shrinking by the oil prices throughout the years. This makes the country very unstable and therefore makes it risky for foreign states to invest to Saudi Arabia or deal with any sort of trade. Even though the country is trying to develop the non-oil sector, holding one of the biggest oil resources in the world has its own consequences. Moreover, if up to 90% of the export revenues come from the oil sector, it is difficult to decrease the dependency, developing other sectors will take a lot of time and effort and most likely still will not bring in the same amount of money as the oil sector.

Although the oil resources were discovered already in the 1930s the oil industry started to boom in the 1960s. From the 1970s the Kingdom launched colossal government spending programs, investing the revenue into infrastructure, defense, healthcare, education and so on. After these investments, the state became one of the leading economic and political powers in the Middle East.

Furthermore, Saudi Arabia maintains the investment plan in the petrochemical sector, which is the country’s core competency and therefore boosting The Saudi Basic Industries Corporation (SABIC). SABIC is a state-owned company, which has grown into one of the world’s leading petrochemical companies (Alkharashi 2012). With all these programs and developments, Saudi Arabia transformed itself in a short period of time from an empty desert.
to a world-class economy and holding a place within the most important oil reserve holders.

Coming back to the present year, where Saudi Arabia’s 2016 budget includes wide-ranging economic reforms, which should have been done a long time ago. The budget reforms also include budget cuts from most of the country’s economic sectors, the need to implement new taxes, most importantly the launch of a new privatization program. Moreover, they are also planning a utility and energy price reform. All those reforms are taking place due to the low oil prices, squeezing Saudi’s domestic budget and that is something this country is not used to anymore after years of surplus. Hence, the granted water, electricity and petroleum goods are most likely to be cut (Recession … 2015). Over the years the Kingdom has used its oil wealth and power to support and keep their allies around the world, with the low oil prices this is unlikely to continue.

The support was shown by setting up media organizations, academic institutions, religious schools and charities, some of the states that had the pleasure to enjoy the benefits were Jordan, Lebanon, Bahrain, Palestine and Egypt. If Saudi Arabia will not change their economic policy and implement some cuts to their domestic budget, the country could face bankruptcy within only five years time says the IMF (Ibid.).

It can be said that the United Arab Emirates and Saudi Arabia are facing the same difficulties in the near future. Although the two states have had a similar path since the discovery of oil resources, both of the countries managed to develop their infrastructure, build up their world-class health and education systems and all in all establish the states in the global arena. Despite the similarities, it is clear that Saudi Arabia is more dependent on the oil sector.

The kingdom is trying to develop the non-oil sector but not as enthusiastically as the UAE. Moreover, one of the biggest non-oil sectors for the UAE is tourism and by every step, they are making the city more cosmopolitan and attractive to people around the world. Dubai and Abu Dhabi are working hard to be in the top places to visit and constantly coming up with new massive architectural projects to keep the cities interesting.

Tourism is, of course, a part of Saudi’s non-oil sector as well but it’s not as much of a priority for them to attract as many people as possible since the country has very strict religious beliefs and not everybody can adjust to their demands. Moreover, the UAE is home for many foreign investments and these are less risky to do in and environment, which is less dependent on oil and therefore, more stable. Since Saudi Arabia is highly dependent on the oil
price fluctuation, as the history has shown, it is more difficult to attract foreign investors when the economy is not stable in the long run. Another advantage for the UAE is the size of the country compared to Saudi Arabia.

Certainly it is easier to make adjustments to economic policies and offer great living standards for a smaller nation. Therefore, Saudi as a big country has a lot to lose if they do not change their economic habits soon. All in all the United Arab Emirates and Saudi Arabia are surely both dependent on oil sector and the price changes but the UAE seems to be more prepared for the situation when the oil money stops being the primary income for the country. Furthermore, the two countries are both developing the non-oil sector but the fields differ and they have an emphasis on different non-oil sectors. It can be said that the UAE is less oil dependent than the Kingdom of Saudi Arabia.

3.3. The UAE and Kuwait

The State of Kuwait is located at the tip of the Persian Gulf, similarly, to the UAE, the population consists more of expatriates than native Kuwaitis. Large oil reserves were discovered in 1937 which helped the country to go through a modernization, re-build their infrastructure and offer high standards of living to their residents. In 1961, Kuwait became independent although Iraq claimed that Kuwait was part of their territory but a British military intervention cooled the situation down. In 1990, Iraq accused Kuwait of stealing some of their oil resources, which lead to the invasion of Kuwait by Iraq during the same year. Due to the United States of America’s and The United Nations intervention, Kuwait regained their independence in 1991 (Kuwait Profile 2015).

Kuwait and the United Arab Emirates are both relatively small states in the Middle East but both holding access to huge amount of oil reserves. Although the countries seem to have a similar path to the oil discovery and modernization they are nowadays facing different problems, which makes also the oil dependency range different. The UAE has not had any invasion related problems since the establishment of the state in 1971 and that plays an important role in the stability of the country’s security, economy and politics. Hence, the UAE has had the chance to fully focus on the country’s development instead of dealing with constant security threats.
Differently from all the other Gulf region countries Kuwait has a long history of consultative government, constitutionalism, and participatory politics, which makes it unique among the usual monarchies of the region. The ruling Al Sabah family’s place in the political system was settled by an agreement instead of forcing their power. The family was chosen among the leading families in the eighteenth century (Salem 2007).

The parliament of Kuwait was founded in 1963 as part of the country’s first constitution after their independence, up until now it is the oldest and most powerful institution of its kind in the Gulf region Arab states since all of the other Gulf Arab states are ruled by hereditary monarchs. Out of all the Arab countries in the Gulf region, Kuwait is the closest to having a constitutional monarchy, where the constitution and the parliament implement real limitations on the ruling emir, although most of the political power still remains to the ruling emir and his family (Kinninmont 2012). As Kuwait is the only country implementing this kind of ruling, other states within Gulf region are spotting their achievements and failures. Essentially the citizens of Kuwait seem to value the fact that their country has a parliament although they criticize their actions and have their frustrations with it. One of the biggest concerns with the parliament is that they seem to be an obstacle for the economic development. Moreover, the parliaments have proved themselves to be unstable and mostly do not last for a long period of time and therefore elections are happening more often than they actually should.

The fact that Kuwait does not have a strong ruling regime has helped the state to avoid crushing or absorbing the civil society, this is not common for any other Arab country. The establishment of Sabah rule and the constant deliberation between the state and society has kept the relationship relatively open and balanced. The tribal and family groupings helped to establish this balance and society could be involved in consultations and decision-making. The political arena in Kuwait remains still pluralistic and competitive, surprisingly the Islamists do not have overwhelming force in Kuwait and they do not always push their opinion through, which is something that would not happen in other Arab states (Salem 2007).

The political system is a big part of the capacity of oil dependency, so far it can be seen that Kuwait and the UAE have completely different political systems and therefore it creates a different level of their oil dependency. The UAE has had a rather stable government since the independence with on-going development plans. Kuwait in the other hand has
chosen to be different from all the other Arab states with the establishment of the parliament and implementing limitations to the ruler’s power. Hence, the political situation has not been a stable one and this prevents foreign investments into the country and that means a lot of possible revenue loss.

In contrast to Kuwait’s political diversity, the economy tends to be very monolithic. Over 90 percent of the total labor force is hired by the state organizations and the economy is very much dependent on the state-controlled resource of oil (Salem 2007). This heavily state-centric structure has been like that for a long time already since it has been agreed between the royal family and the traditional nationalist opposition. Since the discovery of oil resources, it has remained as the significant part of Kuwait’s economy, which leads to rather small foreign direct investment. One more thing that distinguishes Kuwait from many other GCC states is the fact that all of the oil income goes to the Kuwait state, not to the ruling family (Ibid.). Therefore, the dependence on the oil sector and the state employment in Kuwait does not mean being dependent on the royal family but on the state in general.

Throughout the years, Kuwait has remained heavily reliant on oil. For example in 2013, the oil industry accounted for almost 56 percent of total output and 93.6 percent of government revenue. Changes in the oil price will certainly have a huge impact on the Kuwait’s GDP (What is the... 2015).
As seen in Figure 3, the oil sector is the single largest sector of Kuwait’s GDP, the same situation is in the UAE as well as in Saudi Arabia. Though, the ambition for diversifying their economy seems to be lacking compared to the UAE. Before the Iraq invaded Kuwait there seemed to be some attempts to diversify their economy but due to the ineffective political activity the development has stopped and the oil dependency increased. In order to decrease oil dependency, it is fatal to develop non-oil sectors constantly and Kuwait needs to start doing that.

Figure 3. GDP By Sector, 2013
Source: A Loot at Kuwait’s Economic Data, 2013

In 2010 the Kuwaiti parliament approved the government-proposed economic plan for development, the plan intends to strengthen the private sector and diversify the economic situation in Kuwait. The plan consists of BOT scheme – Build, Operate, Transfer (Global Research 2011). The private sector will be involved in the development plan for the privatization of government entities, for example, Kuwait Airways and electricity and water plants. Through this development plan, it is expected that the non-oil sector will grow. The main objective of Kuwait Vision 2035 is as follows:
“The transformation of Kuwait into a financial and trade hub for investment, in which the private sector leads economic activity, fueled by the spirit of competition, and raising the efficiency of production under a supporting institutional State agency, establishes values, preserves the social identity, achieves balanced human development and provides appropriate infrastructure, improved legislation and encouraging business environment.” (Global Research 2011)

The UAE is also planning to become the financial and trade hub and taking corresponding actions to achieve this goal. It can be said that Kuwait and the UAE share a vision how to develop their country’s economy and through that decrease the reliance on the oil sector. Though Dubai has already shown that they can manage all the responsibilities and duties related to being a hub for trade and they keep growing and expanding their infrastructure, ports and airport facilities.

The Kuwait Development Plan tries to diversify the economy away from oil sector but also developing and strengthening the hydrocarbon sector. This development plan cooperates the government capital and the private sector participation. The Development Plan consists of many projects in different fields and different sizes, which are either assigned to the government or to the private sector. Some of the projects from over 1000 of them include a development of railroad system, College City in Shadadiya, Silk City, Boubyan Port development and Kuwait International Airport Terminal 2 development. The most important thing for Kuwait is to keep the political force balanced and stable, then the development process will happen more easily and with fewer obstacles. Creating a certain development plan is motivating for the government and also for the citizens, so they have something to look forward to. The United Arab Emirates also has a development strategy for all social and economic areas, since they want to be the best in everything they still have a long way to go. Sharing common ways how to diversify the country’s economic situation can lead to a healthy competition and this could help the non-oil sector to grow faster in both of the countries.

3.4. Dubai

The United Arab Emirates as a state will remain dependent on the oil sector in the near future. Any diversification away from oil sector is mostly due to the outstanding economic
growth of Dubai. Dubai is considered as the most dynamic emirate out of the seven and also most cosmopolitan. Dubai is also a role model now for other emirates such as Ras al-Khaimah and Sharjah with their development plans in order to serve as a regional service center and attract private capital to finance real estate and tourism projects (Country Reports 2014).

As Abu Dhabi is the holder of the majority of the oil and gas resources, holding over 90% of the resources, it is clear that the whole country is dependent on the capital city (Abu Dhabi’s… 2010).

Abu Dhabi and Dubai are the two most powerful emirates and therefore many important decisions are decided by the rulers of only these two emirates.

![Figure 4. Dubai GDP breakdown](image)

Source: Research Konnection, 2015

Over the past years, Dubai has shown an incredible growth in the economy and most importantly within the non-oil sectors. Figure 4 is a breakdown of Dubai’s GDP in 2015, which shows that the oil sector does not play a big role in Dubai’s economy. Being the base for one of the leading airlines in the world, Dubai increases tourism activity year after year. Moreover, as the tourism keeps developing so does the aviation and infrastructure industry, which brings in a lot of revenue for Dubai. Furthermore, if Dubai keeps pushing to develop the non-oil sector it might lead to a situation where Dubai as a single emirate is not dependent on oil sector but as a united state has to help other emirates if they are struggling due to oil
price slides. In a situation where Abu Dhabi is highly dependent on the oil sector and Dubai is not there is a high possibility for domestic tension because Dubai would be the only emirate, which could develop the economy irrespective of the oil prices. Providing for one emirate and maintaining the high quality of life is one thing and trying to do that and help six other emirates is a completely different situation.

Considering the natural resource distribution and current non-oil economic development by Dubai, there are many scenarios what could happen to the UAE’s economic situation in the near future. One of the options for Dubai would be to work as an independent emirate since all of the emirates already have independent government branches in addition to the federal government. Although it is very unlikely to happen it would leave the other six emirates to a very hopeless situation since Dubai is the main tourist attraction and place for foreign investments.

Dubai a smart city: Every country has its own long-term vision and outlook, which is reflected by strategic changes like city planning. Every smart city is known for specific characteristics, Dubai has a vision of becoming the “digital city” or “wireless city” by introducing the state of the art technology into a concept of urban development (Singh 2015).

The smart city project is a vision to be completed by the Expo 2020, which takes place in Dubai.

“Between October 2020 and April 2021, Dubai will host the next World Expo. Bringing together more than 180 nations and an international audience of 25 million visitors, it will be one of the greatest shows on Earth. On a 438 hectare site, connected to three international airports and a dedicated transport network, Expo will provide visitors with the chance to see spectacular architecture, merge with global cultures, examine thoughtful and thought provoking exhibitions, and taste food from every corner of the globe. Above all, visitors to the event will witness the very latest in thinking and technology all in one place and at one time. Expo will be an unforgettable, once in a lifetime experience. We are preparing for an event that will enthral and amaze the many millions who visit, providing a sense of wonder at the ability of people, working together, to envisage and achieve a better tomorrow.” (Expo 2020)
Being the host city for an event like this will boost Dubai’s economy greatly, bringing in many tourists and giving Dubai a chance to introduce themselves more to the people across the world.

3.5. Discussion

The Middle Eastern countries are often seen as very similar to each other and hence it could seem that the oil dependency in all those countries is also much the same by the scope. The reality is that all countries have a different historical background, which has pushed them to make certain decisions and these decisions influence their economic, political and social development. The United Arab Emirates, Saudi Arabia, and Kuwait all have different backgrounds and they are united by the same natural resources, thanks to oil resources these three countries have been able to build up their states and develop the living standards of high quality. Oil sector remains as the single largest sector in the GDP for all those three countries, although the UAE has managed to lower it to 37% and compared to Saudi Arabia (55%) and Kuwait (58%) as seen on appendix 2, the UAE is managing the dependency better than the other two countries.

Dubai is largely the reason why the economy in the UAE is more diverse than in Saudi Arabia and Kuwait. The UAE is constantly working on construction projects, infrastructure, and tourism attraction. It can be seen that they are working hard to reduce the oil dependency, investing a lot of money and energy into the aviation industry, which is very successful and through this Dubai and Abu Dhabi receive more and more tourists every year and that boosts the UAE economy. Saudi Arabia has also their own airline, which is the third largest airline in the Middle East in terms of revenue after Emirates Airline and Qatar Airways (Major Airlines… 2009).

Even though the airline brings in a lot of revenue it does not form as big of a part of the GDP as the aviation industry in the UAE. Moreover, the aviation industry in Dubai and Abu Dhabi is going so well and developing so fast that it can be considered one of the alternatives for the oil sector in the future. Since Dubai does not hold any significant access to oil resources, the aviation industry forms a big part of the GDP of Dubai. When it comes to Kuwait, Kuwait Airways is a relatively small company, which has been struggling through
the years to make a profit to the state. Hence, aviation is not working out for Kuwait as an alternative, for now, this could change in the future.

As mentioned beforehand, governments play an important role in the oil dependency extent. The UAE has a ruler for each of the seven emirates and together they form a strong federation. Since the foundation of the country, this system of combining traditional power with the modern government has worked out well for the country. When it comes to critical or urgent decision making, rulers of Dubai and Abu Dhabi have more power than other five rulers, but other than that the cooperation goes well and each emirate has their independent government for better local development. The Kingdom of Saudi Arabia in an absolute monarchy, which means that the royal family is in charge but the king has to comply with Quran, the country’s constitution and Sharia the Islamic Law.

Kuwait is different from both of the countries with their co-existing parliament and a ruling emir, moreover, the parliament and constitution can limit the ruler to some extent. Also, Kuwait does not have only Islamist parties, therefore, the political system is more pluralistic and balanced. Kuwait also changed their prime minister in response to popular pressure from the society, this is something very unique to the Gulf area (Kinninmont 2012). Usually the position of a prime minister is held by a member of a royal family for many years. At Saudi Arabia, the ruler is both monarch and prime minister, in the UAE the ruler of Dubai is holding the position of prime minister.

Considering the political activity and sustainability, Kuwait and Saudi Arabia are seen as relatively unstable countries. Especially Saudi Arabia has shown how reliant their economy has been on the oil prices throughout the years starting from the oil resource discovery.

Kuwait has had problems with their political sustainability, especially the sustainability of the parliament, which usually lasts for a short period of time. This makes Kuwait also not a stable country in the long run. Both Saudi and Kuwait have trouble with direct foreign investments due to the instability of the states. This gives an advantage to the UAE because, during the Iraq invasion period, a lot of investors decided to withdraw their investments from Kuwait and instead invest the money to Dubai or Bahrain. Dubai and Abu Dhabi are constantly gaining foreign investments and developing their real estate field to make room for even more investors and attract them to the UAE. Taking into account all of the aspects discussed, it can be argued that the UAE is less dependent on oil sector than Kuwait and Kingdom of Saudi Arabia. As an oil-rich country that had no opportunities for
high quality of life before the oil discovery, it is clear that the state relies on oil sector to some extent.

The UAE is constantly developing their non-oil sector and therefore decreasing the reliance step by step. Of course, the dependence will not disappear in the near future but the country is in the right direction. For now, the UAE could not survive without the oil money but if they continue to develop all the areas they are currently doing, then there is a good chance of ensuring a sustainable economy for their country.
CONCLUSIONS

To conclude, it can be said that the economy of the United Arab Emirates is relatively dependent on the oil sector and this will stay like this in the near future. For now, the economy of the UAE could not survive if the oil income would stop. It is very common for an oil-rich country to struggle with the reliance on natural resources since it is the sector that made all the economic development possible. The UAE built up the whole country after the oil discovery and today the country is highly known for their spectacular skyline and high quality of living and security standards.

Although the UAE is still highly dependent on the oil sector, it can be said that their economic situation and stability is still in a better condition than for Saudi Arabia and Kuwait. Government and the natural resource reliance are closely related and therefore it is important that the political system is sustainable in the oil-rich countries in order to keep the stability. The UAE has had a stable political system from the establishment of the federal state in 1971, it can be said that mixing their traditional approach and modern government is working well for the state. Since the UAE is considered a stable country, they can enjoy many foreign investments, which are boosting their economy. In contrast, Saudi Arabia and Kuwait are considered as unstable states and a number of foreign investments these countries receive is significantly smaller.

All three of the given countries have a similarity in their GDP – the oil sector forms the single largest sector in the GDP. For the UAE, the situation is still not as severe as for the other two countries. Development of non-oil sector for the UAE is very important and they are constantly coming up with ideas how to make it happen. Promoting tourism activity, constructing the new buildings to attract more tourism and foreign investments are just one of the few alternatives that the UAE is developing now to reduce the oil dependency.

Compared to Saudi Arabia and Kuwait, the UAE is working a lot harder to reach their goal and increase the non-oil sector’s importance in the GDP. This is why the UAE could actually break free in the future from the current dependency but a drastic change like this will take many more years to actually put it into practice. The reliance is noticeable but as it
can be seen from the example of Kuwait and Saudi Arabia, the situation could be worse. Thanks to Dubai and its enormous economic development, it is helping the whole state to reach a better condition. Dubai will continue to grow and become a bigger hub for trade and stopover for transits, which will contribute heavily to the state’s economic situation. With all the profits coming in from the non-oil sectors Dubai could even help out the poorer emirates if there is ever a necessity. Hence with their current political stability they can keep on working towards their goal to reduce the importance of the oil sector as fast as they can and hopefully reach the goal without any economic crash.
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APPENDICES

Appendix 1. Map of Middle East

Source: Country Maps (2016)
Appendix 2. Revenues and incomes of selected oil-producing countries

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Source: Kandil & Nandwa (2015)