The Stalling Visions of the Gulf: The UAE's Vision 2021

by Frédéric G. Schneider

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Brief Analysis

Internal competition and unnecessary megaprojects are drawing attention away from the human capital and technology expertise needed for the UAE to transition away from oil.

The Gulf Cooperation Council (GCC) is navigating an uneasy transition into a post-oil economy. The region's governments are aware of their resource "curse," a heavy economic dependence on natural resources—which results in, among other things, upward pressure on the currency, a large, state-run resource extraction sector, atrophy of other industries, and underdeveloped human capital and education—and of the impending replacement of their finite fossil resources with renewable alternatives.

Each Gulf country has mapped out its targets for economic and social transformation in a *ru'ya* ("vision") such as Qatar's "National Vision 2030," Kuwait's "Vision 2035," Oman's "Vision 2040," Bahrain's "Economic Vision 2030," and Saudi Arabia's "Vision 2030." All these "Visions" have had various predecessors and spin-offs over the years, and all are remarkably similar, though their time horizons differ. Yet, as we will see below with the example of the UAE's "Vision 2021," these long-running plans have not yet delivered tangible results, and it is increasingly doubtful that they ever will without a radical change of course.

The cornerstones of "Vision 2021," as of all other Visions, are massive infrastructure investments, diversified industries, a business-friendly environment, and improved productivity of the workforce. These goals are to be achieved through a combination of economic planning and industrial and labor policy.

In pursuing its plan, the UAE has seen a string of colossal construction projects. Dubai has the artificial archipelago Palm Jumeirah, the world's tallest skyscraper, the tallest Ferris wheel, and the fourth-busiest airport, while Abu

Dhabi has soft-power icons like the Louvre Abu Dhabi and Yas Marina Circuit, the most expensive Formula One circuit ever built.

Poor in oil, Dubai has long been diversifying into tourism, trade, logistics, and finance while oil-rich Abu Dhabi has invested in culture and education. Ultimately, Vision 2021 foresees the country transforming into a “competitive knowledge economy” with high-tech industries, as manifested by the UAE Mars mission and plans for a Hyperloop between Abu Dhabi and Dubai.

This change requires international know-how and foreign direct investment, for which the Emirati government has created a business-friendly environment with dozens of special economic zones and a raft of favorable legislation. Between 2015 and 2018 alone, the UAE overhauled tax codes and passed a new Foreign Direct Investment Law, Companies Law, Bankruptcy Law, and Federal Arbitration Law.

All this private-sector activity is overwhelmingly staffed with a spectrum of foreign low-, medium- and high-skill workers. These expatriates make up 90 percent of the country’s population and are notoriously volatile, resulting in high turnover rates. Their volatility is due to their effective status as temporary guests. They depend on their local citizen sponsors and are generally not eligible for naturalization or for the same public welfare as Emiratis. Socially, they remain largely segregated from Emirati citizens, living in circumscribed freehold areas and socializing in tourism- and expat-oriented areas. This situation makes it difficult or impossible for them to commit to the country for a lifetime.

To encourage high-potential expatriates to settle down more permanently, the UAE has increasingly relaxed many of its former visa restrictions. “Golden visas,” allowing long-term residency without the need of a national sponsor and with full ownership of their business, have been offered to an ever-widening circle of expatriates. In 2020, “retiree visas” were introduced and in January 2021, the UAE even began opening avenues to citizenship by investment.

The UAE’s policies motivated by Vision 2021 have seen some undeniable successes. Dubai is the leading banking and tourism hub in the Gulf; multinationals such as Google, Facebook, Volkswagen, and Carlyle Group have chosen the Emirates for their regional headquarters, and oil rents dominate the economy less and less.

But behind techno-futurism and spectacular announcements, economic key performance indicators are stagnant, indicating that the envisioned remedies for the resource curse are not working. Real GDP per capita has fallen dramatically by 35% since 2000–for comparison: Saudi Arabia has increased by 12%, the United States by 25%, and Singapore by 74%. In 2019, the UAE's per-capita output was only 66% of Singapore or the United States, and only 57% of Norway (another fossil-fuel rich country). As a result of this productivity crisis, real wages remain effectively frozen, and foreign direct investment is difficult to attract: net inflows have been stuck at 3.3% of GDP for 12 years, down from its 2004 peak of 6.8%.

As a result, one in every four offices in Dubai is currently vacant, and real estate prices will likely continue to drop until 2022. Over-investment in construction has also crowded out other industries and produced white elephants like the Dubai World Centre with its mostly deserted Al Maktoum Airport and a string of doomed island megaprojects, such as the Palm Jebel Ali. In Abu Dhabi, the construction of the Guggenheim Museum has been suspended for ten years now, and the futuristic Masdar (“source”) City, hailed as “the most sustainable city in the world” in 2008, is today an unfinished ghost town.

Instead of consolidating real estate supply, however, 2021 is set to hit another record in new units built, and redeveloped Expo 2020 sites will further add to the bubble. What’s more, Dubai is doubling down with its 2040 Urban Master Plan. Although more cautious than previous, unfulfilled dreams of mega-terraforming projects like “The World” and “The Universe,” it still foresees an annual growth rate of hotel and tourist areas of almost 5% (+134% by 2040).

Some developments have indisputable economic benefits, like the considerable tourism value of the Burj Khalifa, the star of Dubai's many Instagram icons. Still, tourism, one of the city's flagship industries, has been ailing since 2017. COVID-19 destroyed the 2020 tourism season, and global travel restrictions will continue well into 2021. Worse, the postponed Expo 2020 will likely see only a fraction of the hoped-for 25 million visitors. In response to the persistent crisis, the government has extended tourist visa duration from 30–90 days to 5 years and relaxed alcohol restrictions for foreigners.

But beyond these crises looms the more fundamental question: is tourism an appropriate centerpiece for an advanced, highly-productive economy? Even in tourism-focused Florida, it only makes up about 10% of GDP, just half of Dubai's 20%.

Furthermore, this persistent crisis overshadows issues in the labor market. Golden Visas appear less attractive than hoped. Reliable figures are hard to come by, but it is highly improbable that the 2020 target of 6,800 visas was met as COVID-19 has led to an estimated exodus of a staggering 1 million expats. That this policy is not paying off is especially bad because citizen's discontent with it is mounting. The clear status distinction between permanent native citizens and temporary foreign guest workers is the necessary condition for the former group to accept the overwhelming presence of foreigners. If the government renounces this social contract, it will risk fracturing and strife among the citizenry.

Meanwhile, the employability of locals is a pervasive problem that is typical for resource-based economies. Oil wealth has fueled extensive welfare policies and cozy public-sector employment for Emiratis, ensuring a comfortable living standard. Therefore, they have fewer incentives to invest in higher qualifications, and private businesses need to pay high wage premiums to compete with those public-sector opportunities.

Nativist *tawteen* ("nationalization") labor market policies try to make Emiratis more employable by upskilling them and mandating Emirati employment quotas for the private sector. But despite these "Emiratisation" efforts, locals' productivity and employability remain low due to a persistent skills gap. As a result, Emiratisation disrupts private businesses, which often resort to "phantom employment" of Emiratis and informal employment arrangements for expats to circumvent the quota.

On top of all these problems, the federalist system in the UAE creates competition between Emirates, particularly the two wealthiest ones: Abu Dhabi and Dubai. Each ruling family owns a carrier, Emirates (Dubai) and Etihad (Abu Dhabi), which is one airline too many for such a small country. Similarly, Abu Dhabi's "Global Market" (ADGM), a financial free zone, is directly competing with the leading regional banking hub, Dubai's International Financial Centre (DIFC), going even so far as to poach the latter's executives. In a similar battle, Dubai's "International Academic City" lost the race for prestigious university brands to Abu Dhabi, which secured branches of New York University and the Sorbonne. The cities are also disputing each other's world records: Dubai's IMG Worlds of Adventure was the world's largest indoor theme park until Warner Bros. World Abu Dhabi narrowly supplanted it in 2019.

Looking Ahead: The Future of the Gulf

As I point out in another article, these problems – over-investment in vanity infrastructure megaprojects, over-optimism in fickle industries like tourism, difficulty in keeping foreign talent and growing local human capital, fierce regional competition – are by no means confined to the UAE. From finance, trade, and business centers over tourism to soft-power icons, the Gulf countries are caught in costly rat races, competing increasingly on both the supply and the demand side: governments rival for slices from a shrinking pie of foreign direct investment, multinational corporations, and international high potentials, and on the other hand, they compete to sell the same goods and services on global markets. In banking, for example, Dubai's DIFC is the regional leader, but other cities are challenging this spot, with **Abu Dhabi, Doha, Riyadh, and Manama in the running** . Instead of chasing each other in pointless projects, each Gulf country needs to lean into its own unique selling proposition. In Dubai's case, it should capitalize on the fact that it is still the most attractive place for foreign professionals in the region.

Most importantly, the GCC members need to make good on their unfulfilled aspirations for high-tech industries. The UAE's Mars mission was remarkable in this respect because the project **tried to promote and inspire local talent**. Reportedly, 150 Emirati engineers worked on the probe. In this respect, the Mars mission is very similar to the Barakah nuclear power plant, **another high-profile project** supposed to foster local human capital and high-tech enterprises. Whether these projects will be successful in creating a generation of Emirati nuclear and space engineers remains to be seen. Also doubtful is whether local space and nuclear industries are the best sectors to champion, as opposed to, say, a local pharmaceuticals industry capable of developing vaccines or a local renewables industry working on the next-generation battery.

Neither the Mars mission nor any other project, including the nascent nuclear industry, has so far succeeded in fostering *homegrown* "first-rate education" (a stated Vision 2021 goal). GCC countries' PISA and TIMSS rankings of school children **remain all in the bottom half of the league tables** , and no Gulf university is in the top 200 of the Times Higher Education ranking. Worse, the region has a resident patent application density that is only about one percent of R&D powerhouse South Korea. Vast and sustained investments in education from kindergarten to university are needed to bridge this gap, plus comprehensive funding of research and development, which, admittedly, creates fewer trending hashtags than photos from the red planet.

But the truth is, even if the Gulf sticks the landing in high-productivity economies, it will be very tough to generate the same level of revenue, with the same level of effort, that fossil fuels are currently generating. Guaranteed, comfortable public-sector jobs will become more and more untenable. If post-oil prosperity is at all achievable, the region needs a significant productivity boost, with a fundamental shift **from a rentier mentality towards a mentality that emphasizes highly qualified, hard work** – at school and on the job.

Rentier attitudes to welfare and taxation must change as well. With government revenue from fossil resources in decline, austerity measures are already eating into welfare programs for nationals: while in the past, young (male) citizens might be granted a free new house to start a family, today, they will only get the plot of land and an interest-free loan for the house. And even with reduced welfare spending, it may be only a matter of time before the UAE follows Saudi Arabia in their VAT tax hike to 15%.

So this is the UAE's problem: the Vision is failing to address the resource curse and the ensuing productivity crisis. Overambitious top-down planning creates abandoned vanity projects, and generic policies geared towards headlines fan regional rat races. The government, under mounting fiscal pressure, reduces welfare and increases the tax burden, challenging citizens' long-held rentier mentality while also alienating them with Golden Visas, passports and other overtures towards foreigners who are a crushing majority in the country.

The UAE needs instead to focus on its national competitive advantages and avoid ineffective policies and internecine competition. Most importantly, it needs to fundamentally redirect spending to research and development, thoroughly reform education systems and political institutions, and cultivate an open mentality of creativity, inquisitiveness, initiative and critical thinking. ❖

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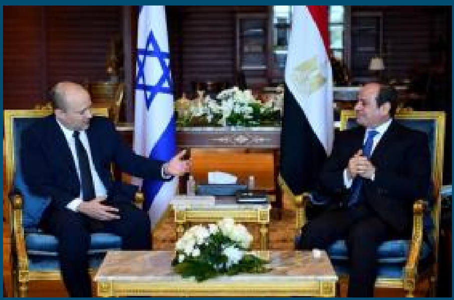

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