

# Factors leading to the development of dubai economics essay



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Dubai is one of the largest growing cities in the world, in terms of investment and opportunities for job creation. It is located in the United Arab Emirates and is the second largest emirate by area. It is a financial hub which is popular for property investments, financial service provision and tourism industry. Its global attention has been attributed to the investment opportunities as well as large sports events and innovative construction projects which include a seven star hotel in the middle of a water body. There are several factors which have led to the fast development of Dubai and these include infrastructural development, tourism, large projects which capture global attention, sports events and others.

Although Dubai has grown in a relatively short duration, it faces a downturn in recent times. This downturn has resulted in fewer investments in real estate, decline in foreign workforce, and increase in sale of used cars, decline in tourism and other factors. The most prevent factor for this decline is the global economic crisis which slowed down its economic growth. In addition, factors such as issues related to its workforce, especially foreign laborers have adversely affected its reputation. This paper aims at analyzing the factors which have led to the growth of Dubai in a relatively short period of time. It will also address factors which have adversely affected Dubai in recent times, leading to its fall. The discussed issues will be summarized at the end.

## **Factors which led to the development of Dubai in a short period of time**

### **Infrastructural development**

Any country cannot attract investors if the infrastructure is not developed to meet the needs of investors. Dubai has invested a lot of money on infrastructure and now boasts of having some of the best infrastructure in the world. Dubai's road, air and sea network is well developed and this eases transportation in and around the city. Dubai boasts of an efficient metro rail, waterways, air transport and water transport which cater for its more than 5 million people population. Its buildings and architecture are of world class quality, with Dubai having the tallest building in the world. All these infrastructures are important for investment and they attract investors from different parts of the globe. Investment in turn increases Dubai's economic growth and development, and in spite of possessing oil, oil accounts for only 6% of Dubai's sources of foreign exchange, which shows the benefits reaped from investment in infrastructure (Carter & Dunson 56-63).

### **Tourism**

Tourism is one of the most important sectors in Dubai, accounting for a large amount of foreign exchange received. There are many tourist attractions in Dubai and these include culture, architecture, shopping and others. Dubai has been nicknamed as the "City of gold" due to the many retail outlets which deal with this precious metal. It has over seventy shopping malls, and some are among the largest in the world. In addition, Dubai has many electronics shops, boutiques, supermarkets, departmental stores and others. Other tourist attractions include theme parks, ski resorts, zoos, circus, tours,

and buildings including the worlds' tallest among other attractions. Many tourists come from Africa, Eastern Europe and India. By 2015, Dubai projects to have over 15 million tourists annually, and this will translate to higher foreign exchange earnings by the UAE government. These earnings enable the government to further develop its infrastructure and achieve higher economic growth and development levels.

### **Political stability**

Political stability is a very important factor which influences investment in any destination. Investors can only invest in a region when there is a reasonable expectation that the returns on investment will be reaped. This can only occur if there is political stability. Political instability makes it difficult to returns on investment to be achieved since the element of risk is very high. Dubai enjoys relative political stability, which has driven its economic growth. The UAE is one of the most influential countries in the Middle East and has enjoyed political stability over the years. It has close ties with other Arab states and the United States. This makes it attractive to investors and this can be seen by the huge investments made in Dubai, which have ensured that the city has grown within a relatively short duration of time.

### **Trade liberalization**

Trade liberalization is a macro-environment which features very few barriers to trade. Trade liberalization also features little interference on macroeconomic factors by the government. Trade liberalization is important for investment since investors are able to predict returns on investment with relative certainty. When they are able to do so, acquiring finance is easier  
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since finance providers are able to assess the viability of the investment.

There is minimal interference in trade by the UAE government in Dubai, and this attracts potential investors. This is one of the reasons which makes Dubai a feasible investment destination and has increased economic growth and development.

## **Factors which led to the fall of Dubai in recent years**

### **Global economic crisis**

The global crunch has adversely affected many countries and cities, and Dubai is no exception. The global downturn which began in the US, spread to nearly all countries of the world, with prime investment destinations such as Dubai being amongst the most affected. The real estate sector and financial service sector was most affected with fewer investments being made since the global economic crisis began. The global crunch also affected consumers through lowering their purchase power and this had an adverse effect of reducing sales and profitability of many retailers. The global crunch also made investors more wary of investments and many were cautious in investing, with many others selling their investments at lower prices, immediately after the global crunch began. This had the effect of slowing down the stock exchange, which adversely affected the economy, which thrives on investment. The totality of the global crisis effects was reduction of investment, lower purchase power of consumers and caution by investors when investing, and all these reduced economic growth and decreased revenue received by the government.

## **Negative issues relating to workforce**

There has been a lot of negative publicity regarding the treatment and living conditions of the Dubai workforce. This has been a serious issue over the years, and several human rights groups have raised concern over the treatment of workers (Ali 34-39). Many of the workers who suffer from human rights abuses are foreign workers who have little influence in policies which govern employees in Dubai. In addition to living in pathetic conditions in terms of housing, some employers have been known to exploit employees and make them work for no pay. Foreign employees such as domestic servants have been known to have their passports confiscated, which makes them helpless against their abusive employers. The bulk of these accusations have the effect of destroying the reputation of Dubai especially in the eyes of investors. Investors, especially those with strong human rights beliefs, withhold investment in Dubai as a result, and this adversely affects the growth and development levels of the economy.

## **Fall of oil prices**

Although Dubai relies very little on oil as a source of revenue, the fall of oil prices has direct impact on this city. The United Arab Emirates as a whole relies on oil as the major source of foreign exchange. Due to fluctuations in oil prices, the government has reduced investment on infrastructure and other essential services which are crucial for attracting investors. This has had a negative impact on investment in Dubai and other parts of the UAE. Increase in oil prices will enable Dubai receive more revenue from the UAE government for development purposes, which will increase investment and economic growth.

## **Summary and conclusion**

Dubai has been analyzed in detail as a tourism and investment destination in the UAE. Dubai has growth over the years due to investment, but is not threatening to fall due to various factors which have been discussed. The growth in Dubai was necessitated by tourism, investment in infrastructure, political stability and trade liberalization. The fall of Dubai can be attributed to the global financial crisis, poor treatment of the foreign workforce and reduction of oil prices. In order for the UAE government to return Dubai to the global investment destination it was, it should address the mistreatment of foreign workers in the city. It should also pump funds into the Dubai economy in order to stabilize it and attract confidence from investors. Finally, appropriate fiscal and monetary policies will stimulate economic growth and development.