

# Impact of financial crisis on uae airlines

[Environment](#), [Air](#)



In the following report we highlight the economy of the UAE and analyze its source of capital. We look at the various sources of income for the Emirates and what role does Tourism and Airlines industry play in the oil-dominated UAE economy. We also discuss the UAE economy prior to the financial crisis and how it performing in the international market again, focusing on the Tourism and Airlines industry in UAE. We then discuss the aftereffects of the financial crisis on the entire UAE economy and how it affected the Tourism and Airlines industry which are slowly turning out to be major revenue generating industries for the UAE. As all the sectors in any economy are interlinked, so are the Tourism and Airlines industries with all the other major sectors of the UAE economy and thus not only the direct influence of the financial crisis, but also the cumulative effect needs to be considered. These two industries thus are affected by the effects of crisis on other sectors of UAE and also of the entire globe and individual countries as the customers of these two industries are mostly from abroad. Looking at the brighter side, we analyze the scope of the Tourism and Airlines industries in UAE as the financial crisis phases passes out and what new prospects do these industries have in the post crisis era. Finally we conclude the report by providing the recommendations for further growth of these two industries based on the analysis conducted. Source of information is provided in the end.

## INTRODUCTION

**United Arab Emirates (UAE) was set up by joining the small kingdoms of the Middle East. Thriving of its oil based economy; it has also emerged as one of the fastest growing and most desirable tourist destination.**

United Arab Emirates (UAE) is one of the fastest growing economies of the world with GDP growth of over 9.4%. The economy is based on varied aspects like energy consumption per capita, GDP per capita, etc. The GDP of UAE according to 2008 annual report is 270 billion US dollars which is 3rd highest in Middle East and ranked 38th all over world.

UAE's Economy:

Before getting to the financial crisis it is important to know the structure of the Dubai's economy which is one of the most unique and unusual in the world. It is divided into free zones setup by the government of Dubai. The zones are industry specific with Jebel Ali free zone being the fastest growing in the world. The zones offer a set of products and services such as: ready to use offices, Business centers, factories, Warehouses, infrastructure ready plots etc. Jebel Ali free zone commonly referred to as JAFZA is a part of Dubai based; a state owned free zone. It is one of the world's biggest developers of Economic Zones, Logistics and Research and development driven Industrial Parks. The main free zones of UAE are Jebel Ali free zone, Dubai Internet City, Dubai Media City, and Dubai Maritime City which are based on the industries they are related with.

People have false misconception about UAE's economy; they believe that it's mainly driven by oil and gas. Clearly from the statistics we can see that the oil sector comprises of less than 6% economy of Dubai that was primarily dependent on oil as a main source of revenue in the past. Although it is true that Dubai's economy was initially build on the revenues generated by its reserves of oil and natural gas but with time the oil reserves have reduced significantly and to maintain the income, it has concentrated on the tourism industry to generate good revenues. Other Emirates are doing the same and since oil and natural gas reserves are limited, UAE plans to harness the strength in its tourism industry.

All the Emirates realize the future scope of tourism industry and have also invested in their tourism industry and the airlines industry so as to generate foreign cash in UAE. Dubai which is the most famous Emirate, has managed to transform into a gigantic and magnificent metropolis offering luxury and modernity from a mere desert in few decades.

Another large contributing sector of Dubai's economy is the real estate which forms 22.6% of the economy of Dubai. The great success of this industry is owed to the focus on tourism.

The airline industry, which is very important considering the economy which invests in tourism for its bright future prospects.

National Airlines of the UAE are:

Gulf Air: owners are Kingdom of Bahrain and the Sultanate of Oman.

Emirates Airlines: completely owned by the Dubai government

Saudi Arabian Airlines: independent and run by Board of Directors which is chaired by the Minister of Defense and Aviation.

Etihad Airways: National Airline of UAE set up in July 2003.

The major international airports in UAE are Abu Dhabi, Al Ain, Dubai, Sharjah, Ras Al Khaimah and Fujairah.

## **TOURISM & AIRLINES INDUSTRY & IT'S CONTRIBUTION TO UAE ECONOMY**

Dubai, which is the most popular emirate of UAE, is now one of the hottest destinations for shopping, trading and travel and tourism industry.

The factors which influence tourism for any country are as follows:

Infrastructure, Safety and security, Cultural and natural resources, Health and hygiene; Air, ground and sea transport, tourism policy and rules and regulations, Information and Communication

Earnings of around AED98. 6 billion in the fiscal year of 2006 are projected to reach AED170. 7 billion by the year 2016 thus playing a crucial role in the economy.

World Tourism and Travel Council (WTTC), a regulatory and research body for world tourism ranked UAE 18th (world rankings) considering international tourism.

The importance of tourism is clearly observable in its GDP share which is 19%, 5% higher than the UK and 7% than the USA.

Over the years the government of Dubai has concentrated largely on tourism they have invested large capitals in order to promote their tourism in the process they have built sky scrapers, clean and well knit network of roads. The government has focused on providing world class facilities in Dubai in the process creating architectural designs and buildings which attracts tourists from all around the world. As the real estate industry is closely related to the tourism industry it has developed as a major industry in Dubai and contributes greatly to its economy.

From the facts mentioned above it can be ascertained that there has been a shift in Dubai's economy from being solely dependent on oil to development of other sectors by using the large amounts of money coming from the oil to development of other sectors like tourism.

The advantages such as strong economic growth and the centralized location coupled with a very dynamic leadership have backed the investments made by the UAE in the Tourism Industry.

Aviation industry in the Middle East makes up around 20% of their GDP. Tourism industry thus plays a major role in the UAE economy as Airline industry, which serves as a complimentary industry to it has such a huge share in its GDP.

The capacity that the Airline Industry of UAE offers as compared to its counter-parts is much higher hence income generated is also high as far as the comparison ratio is concerned.

A fleet of more than 500 aircrafts and around 250 more are about to be added. The consolidation of the Airline Industry in the Middle East has to go a long way and its share in the country's economy is for sure to rise.

## **CONDITION OF TOURISM INDUSTRY BEFORE FINANCIAL CRYISIS**

UAE has been a great place to be visited by the tourists in the past decade. The Emirates has been working very hard to become the centre of international finance and trading. . High level sporting events, resorts and luxury hotels has built its modern ahead of times image.

The major sites of interest are Palm Islands, World Islands, Burj Al Arab hotel (the first seven star hotel to be build), Burj Dubai etc. Dubai is now one of the hottest destinations for shopping, trading and travel and tourism industry. Dubai's government realizes the future scope of tourism industry and has also invested in the same so as to generate foreign cash in Dubai.

The condition of the aviation sector has also been promising. In last ten years the use of air travel has increased at the rate of 7% per year. Travelling for both business and leisure activities have grown drastically around the world.

Middle East Airline Industry is known of its hospitality and leisure air travel and hence has been able to attract tourists as well as investors from round the globe.

The travelling due to business purposes has also increased due to globalization (i. e. international growth in terms of demand, supply, production and customers). The rapid growth of international direct investment policies and world trade also has contributed to increase in travelling.

UAE has many free trading ports and hence travelling due to business and trade has seen exponential rise. Serving as a trade center for the world, UAE enjoys its economy's growth by providing such aids to the core industries. For example: air travel revenue generated from connectivity between the different trade zones ant the source and the market.

UAE thus enjoyed the booming progress made on the huge revenue generated by the oil and associated industries and injected its revenues in the Tourism and Real Estate sectors, seeing it as a major source of income in the future and the outcomes were as per plans until the financial crisis hit UAE.

## **DIRECT EFFECTS OF FINANCIAL CRISIS ON TOURISM AND AIRLINES INDUSRTY**

The rapid development of the UAE was a result of the focus of the government on tourism thus promoting the real estate sector with the help of revenues coming from export of oil and natural gas.



With the largest real estate company of Dubai Emaar properties becoming bankrupt in the United States and vaDubai proposal to delay the repayment of all its debt's for a period of 6 months on November 26, 2009 the financial crisis in Dubai was exposed in front of the world which had bad effects on countries around the world.

The debts were as large as \$59 billion causing a stop to the investment cycle of Dubai for 6 months. The Dubai's real estate industry and tourism was based on huge loans which they expected to pay through the revenues they earn from them but with recession hitting the industry badly their plans failed.

In the early period of global financial system Dubai's financial structure, dynamic construction and tourism industries and relished tax free incentives seemed to be a great advantage for it and many people even expected it to remain free from any sort of recession.

A major factor that created this illusion in the minds of people was the continuance of investment activities and construction at a feverish pace even when there was a lack of capital in all other parts of the world.

Dubai which is governed by Sheikh Mohammed Bin Rashid Al Maktoum borrowed approx 80 billion US Dollars in a period of 4 years of construction for booming the construction market of economy of regional tourism as their main focus was on tourism as they expect that it would lead to a concrete source of income for them even when their oil reserves get exhausted.

Emirates suffered a huge loss in the world's steepest property slump as a result of global recession. The home prices dropped by 50 percent from their value in 2008 leaving Dubai in a situation where they were not able to generate adequate money in order to repay the debts that they had taken in order to promote the tourism industry.

## **INDIRECT EFFECTS OF FINANCIAL CRISIS ON TOURISM AND AIRLINES INDUSRTY**

The global financial crisis during 2008-09 resulted in major downfall of Dubai's real estate market. It led to slow down of the economy of Dubai. The economic revenue generated was not coming as efficient as before which greatly hindered Dubai's growth and as most of its plans were based on money borrowed by investment companies and there were no plans to face any downturns in the economy it became difficult for them to repay that loan.

As the main aim of Dubai's economy was the tourism industry a slump in the global markets was always bound to affect the economy of Dubai.

Moreover the UAE economy and its important sectors such as Airlines Industry and Tourism Industry, on which UAE hopes to depend highly in near future, are regulated by the government which does not encourage the foreign investors and hence availability of lone was a tough task at the time of recession.

Emirates (government owned group) suffered a huge loss in the world's steepest property slump as a result of global recession. The home prices dropped by 50 percent from their value in 2008 leaving Dubai in a situation

<https://assignbuster.com/impact-of-financial-crisis-on-uae-airlines/>

where they were not able to generate adequate money in order to repay the debts that they had taken in order to promote the real estate and the tourism industry.

The foreign investment of Emaar (real estate and Construction Company of Dubai) claimed to be the second largest builders in United States. They ultimately went bankrupt because of the recession and / or filed for chapter 11, which allows reorganization of a company under the laws of bankruptcy for United States.

The bankruptcy of Emaar properties was a big shock for people around the world and even bigger for the people in Dubai as it acted as a hint of the financial crisis that had begun in Dubai which was considered to be one of the flourishing economies of the world.

Dubai has built one of the finest infrastructures of the world and it is quite natural for investors to be attracted towards such a place which lead to the initial success of Dubai in a period when the world was facing recession and lacking investments but its overdependence on debts caused the financial crisis.

## **PROSPECTIVE FUTURE EFFECTS OF CRISIS ON THESE INDUSTRIES**

Although Dubai is presently suffering with a financial crisis there are still possibilities that it will recover from this crisis. Abu Dhabi the capital of the United Arab Emirates which is also the richest country of the United Arab Emirates is the brightest ray of hope for UAE and Dubai.

Dubai has already asked Abu Dhabi to bail it out of the crisis. The hope even increases as Abu Dhabi has helped Dubai in the past when Dubai was in Crisis although the demand is much higher than the past.

A recent report by HSBC which says that Abu Dhabi has the cash liquidity to support its own companies and banks is even more positive response as Dubai's point of view.

International Air Transport Association (IATA) has forecasted that despite the post financial crisis phase, the international air industry is expected to grow by around 6.6%. UAE too will enjoy some growth but like India, Middle East is also a highly regulated market and government plays a crucial role in core sectors such as aviation. This de-motivates the foreign investors and hence consolidation is slow.

There exist plans to expand the airline industry and so also the tourism industry. These plans are provided with great support from the respective governments.

Dubai has emerged as a major tourist spot and competes with the best tourist destinations round the globe. This ensures that as the tourism industry regains its pace soon after the recession, places like Dubai will benefit the most.

## **CONCLUSION AND RECOMMENDATION**

Analyst said that the prime reason for the financial crisis in Dubai was the mismanagement or the wrong decision of Sheikh Mohammed. He invested all his as well as the Dubai government wealth in the real estate market in

United State and had no plans to deal with any kinds of shocks faced in their road to success such as recession.

He thought that Dubai would never be stuck with any sort of recession which was a result of lack of adequate planning for bad phases during their journey.

The debts were as large as \$59 billion causing a stop to the investment cycle of Dubai for 6 months. The Dubai's real estate industry was based on huge loans which they expected to pay through the revenues they earn from them but with recession hitting the industry badly their plans failed.

Thus the Dubai's financial crisis to a large extent can be said to be a consequence of real estate bubble burst in Dubai.

With the U. A. E central bank showing positive signs by confirming that its board has discussed plans for supporting tourism business by lending Dubai as well as remaining United Arab Emirates has increased the probabilities of recovery for Dubai and the UAE to a great extent.

The advantages such as strong economic growth and the centralized location coupled with a very dynamic leadership have backed the investments made by the UAE in the Tourism Industry.