The Microeconomic Environment of UAE in Comparison to Gulf Cooperation Council Countries according to the Global Competitiveness Index

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Abstract: ***UAE and GCC countries have turned into the most developed nations of the Middle East; therefore this paper is assessing the overall economic performance of each in regards to Porter's foundations of prosperity model and the global competitiveness index which is an annual report that is being published by the World Economic Forum. However, the report evaluates the ability of nations to deliver high levels of prosperity to their inhabitants and this relies upon how beneficially a nation utilizes accessible resources.***

Keywords: Global Competitiveness Index, Economic Prosperity, Competitiveness, Productivity, Infrastructure, Macroeconomic Environment, Higher Education

1. Introduction

Economic prosperity is the key componentof lifestyle quality which concerns nations and individuals. However, accomplishing prosperity encompasses more than economics. Psychology, sociology, political science, and history additionally become an integral factor.However, as economies move from production-based to ones based on creativeness and innovativeness, they should develop in manners that reinforce businesses, make steady employments and empower financial speculation; to increase wealth and living standards (Harper, 2003). The economy must promote and support assorted variety, development, rivalry and business enterprise. Hence, competition is one of the variables that recognize economic growth and development, as Economic competitiveness emphasizes open international exchange, well-organized government control and well-functioning capital markets, where financial securities are traded.

Competitiveness is an expression that have been studied since 19th-century by many of business and economic thinkers. However, competitiveness has become major concern of all developing countries due to the importance of competition being as the largest factor in determining the growth of an economy. Nation's competitiveness hinges on the ability to innovate and develop, and the most effective determinants of competitiveness are labor costs, interest rates, exchange rates, and economies of scale (Porter, 1990). In other words, competitiveness is best understood in terms of productivity in which a nation could use its resources such as labor, capital and natural endowments; if you are productive, you could have high standards of living, high wages, and you could be more prosperous (Porter, 1990). Though, Porter and other economists had set the principles and fundamentals of successful competition among nations; in 2005 the World Economic Forum had started to monitor the international competition through the Global Competitiveness Index, which has 12 pillars to measure the factors that drive the productivity and prosperity of each country (Schwab, 2018).

2. Literature Review

Microeconomic Elements of Prosperity

Competitiveness is fundamentally driven by three factors, first of all is the endowment of the country which is what the country inherit such as natural resources, climate and physical location, etc. Secondly, is the macroeconomic competitiveness which has to do with creating a foundation on which productivity could be built on, such as human development, education, health, political institutions and macroeconomic policies in terms of fiscals and monetary management. And the third layer or factor is the microeconomic competitiveness which has to do with the environment surrounding the private sector firms (Porter, 1990).

Aside from the fundamental levels that derive the competitiveness, Porter had set a model to identify the key determinants of how nations could have successful competitive. The model can be used by firms to analyze the external competitive environment, explains the relative strength of one business against another, and explains why some industries are more advantageous than others in a particular region. This model is known as The Diamond of National Advantage as well as it attempts to answer two questions: why does one nation become the most competitive for a certain industry?, and why are companies from one country able to sustain competitive in a particular industry.The Porter's model has four broad determinants which are: Factor Conditions that include resources e.g. human resources, natural resources etc. there are two types of factor conditions "Basic such as basic resources and natural resources as well as Advanced such as skill labor and specialist capital.". The second determinant is Demand Conditions meaning the more demanding the home market of a nation the greater the pressure on companies to innovate and improve. The demand conditions include market size, market growth rate and market sophistication. The third determinant of the model is Related and Supporting industries which emphasizing on the success of one industry can be dependent on the success of related industries or suppliers within that nation. The last determinant is Firm Strategy, Structure, and Rivalry which declaring that competitiveness of firms in one nation is determined by how these firms set strategy and structure themselves also determined by how much competition there is between firms in the industry. However, intense rivalry causes a drive to innovate, have advanced qualities and make international successes.

The diagram below represents "Porter's determinants of national competitive advantage".

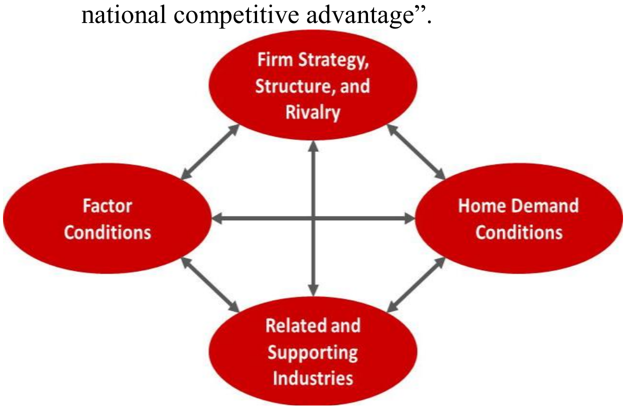


Figure 1: The Diamond of National Advantage

3. Research Methodology

The descriptive approach is used in this study along with the quantitative method by analyzing and synthesizing data and information which had been collected through pre-exciting statistical data mainly taken from the global competitiveness index that assess and evaluates the overall economic performance for over 144 countries worldwide.On the other hand, the Porter's model of competitiveness was the fundamental instrument to complete this study due to its significant importance in terms of defining the key elements of prosperity and development of any nation's economic performance.

4. Results and Discussion

The economic performance of the UAE:

Ever since the World Economic Forum is measuring the global productivity by using the GCI, the best method to understand the economic environment of the UAE is to analyze the indicators in regard to the GCI.However, the economy of UAE has witnessed a remarkable growth during the last two decades, where it becomes significantly diversities in all sectors and that was mainly because the UAE government was aware that relying on Oil industry is not sufficient to increase and develop the national economy, so they increased the investments in many majors such as logistics, trade, railways, aviation, real-estate and construction, etc.

The economy of the United Arab Emirates is the second largest in the Middle East (after Saudi Arabia), with a gross domestic product (GDP) of $403.2 billion (AED 1.46 trillion) in 2014(Kader, 2011).In spite of the fact that the UAE has the most expanded economy in the GCC, its economy remains incredibly dependent on (oil). Except for Dubai, a large portion of the UAE is subject to oil incomes. Petroleum and natural gas continue to play a fundamental role in the economy, particularly in Abu Dhabi. More than 85% of the UAE's economy was based on the oil exports in 2009(Book, 2019). While Abu Dhabi and other UAE emirates have remained moderately conservative in their approach to diversification, Dubai, which hasminor oil reserves, was bolder in its diversification policy(Monitoring, 2018).

On the other hand, tourism is one of the bigger non-oil sources of returns in the UAE, with some of the world's most lavish hotels being established in the UAE. An enormous development blast, agrowingindustrialized base, and a prosperous services sector are facilitating the UAE diversify its economy. Nationally, there is currently $350 billion worth of active construction projects(Council, 2017). However, International Monetary Fund (IMF) anticipated UAE's economic growth to rise to 4.5% in 2015, compared to 4.3% in 2014. The IMF ascribed UAE's potentially strong economic growth in World Economic Outlook Report to the expanded contribution of non-petroleum sectors, which recorded a growth average of more than 6% in 2014 and 2015. Such contribution includes banking, tourism, commerce and real estate. Growth of Emirati purchasing power and governmental expenditures in infrastructure projects hasextensivelyimproved(REP, 2016)

According to the Global Competitiveness Index; The UAE's competitiveness rating was supported by strong rankings in infrastructure, goods and market efficiency, labour market efficiency, financial market development, business sophistication and the country's macroeconomic environment, among other factors(Schwab, 2017).

Infrastructure

Infrastructure is the essential services and amenities in a country such as roads, airports, railways, water treatment plants, telecommunications, power plants and education. Therefore, according to The American Heritage Dictionary of the English Language "the term infrastructure has been used since 1927 to refer collectively to roads, bridges, rail lines, and similar public works"(Prud'homme, 2004).

However, infrastructure is linked to higher productivity and growth; thus UAE has the most innovative and developed infrastructure in the Middle East with a strong network of roads, airports, telecommunications and other facilities, which all contribute to enhance the national economy of the UAE. UAE considered as first-comers in economic development, which enhance their infrastructure remarkably. In addition, UAE has learnt how to build infrastructure because if it do it intelligently then physical infrastructure can also change the economic geography(Alshawi, 2012).

The following table is showing the infrastructure ranking of the UAE for the past three years, according to the Global Competitiveness Index 2016, 2017 and 2018:(Schwab, 2016)(Schwab, 2017)(Schwab, 2018)

2nd pillar	2018	2017	2016
1) Quality of overall infrastructure	15/140	5/137	4/138
2) Quality of roads	9/140	1/137	1/138
3) Quality of port infrastructure	13/140	4/137	3/138
4) Quality of air transport infrastructure	7/140	3/137	2/138
5) Available airline seat kilometers	19/140	4/137	5/138
6) Quality of electricity supply	1/140	16/137	10/138
7) Mobile-cellular telephone subscriptions	N/A	3/137	3/138
8) Fixed-telephone lines	N/A	41/137	45/138

Macroeconomic Environment

The macroeconomic environment is the third pillar that is measured by the global competitiveness index. In particular, it refers to the overall condition of the economy including the rates of gross domestic product (GDP), inflation, employment, and fiscal and monetary policy.

Significantly UAE has created an extraordinary economic environment in which enabled both UAE nationals and expatriates of the country to build, develop and implement new anticipations that will be helpful to the growth of the economy as a whole and the focus was mainly on trade, finance, infrastructure and tourism, beside the development of free zones such as Jabal Ali Free Zone which has attracted enormous amount of foreign investments. Thus, the landscape of the country has transformedsignificantlyand the UAE has become one of the most attractive destinations of local and international tourism(Rashid Sbia, 2017). On the other hand, the government of UAE has always emphasized on increasing the investments and building diversified economy away from gas and oil especially after the oil drop in the last few years," where the UAE's Deputy prime minister and Interior Minister Sheikh Saif bin Zayed stated that "the contribution of oil revenue to the country's GDP stands at roughly 30 per cent, "In the 70s, the UAE used to depend on oil revenues for 90 per cent of its GDP. If 30 years ago the oil prices fell to extreme lows, we would have been affected. But today, it's a challenge we can overcome," (Nagraj, 2015).

The following table is presenting the macroeconomic performance of the UAE as per the Global Competitiveness Index of 2016, 2017, and 2018.

3rd pillar	2018	2017	2016
Macroeconomic environment	1/140	28/137	38/138
1) Government budget balance % GDP	1/140	87/137	101/138
2) Gross national savings % GDP	N/A	22/137	29/138
3) Inflation annual % change	1/140	1/137	83/138
4) Government debt % GDP	1/140	9/137	13/138

Higher education and training

Due to the continuous growth of the globalizing economies among nations, its essential to have quality higher education and training in order to develop and enhance the economic environment. However, the World Economic Forum had set this pillar to measure the quality of the education system and training in general as well as assessing the enrolment rates of the advanced levels besides the implication of staff training.

On the other hand, in the past UAE had limited access to the education but now it has an extremely comprehensive education system which is provided for every person living inside the country, UAE has an extensive volume of national and international universities with high rate of enrolment 95% of girls and 80% of boys enrolled in the final year of secondary school (UAE, 2010).

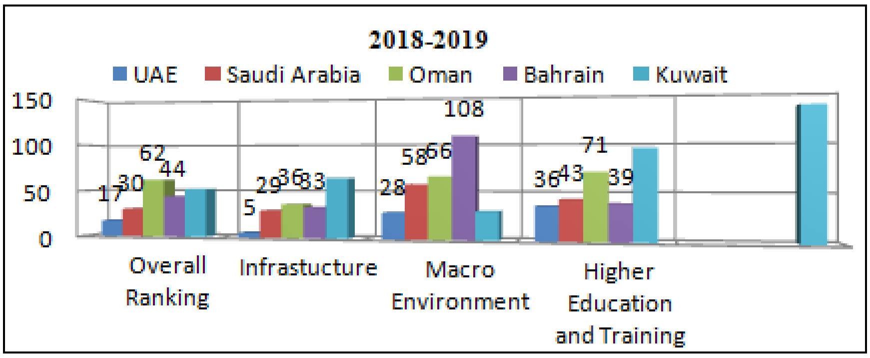
The below index showing the ranking of UAE as per the Global Competitiveness Index in 2017, 2016, and 2015:

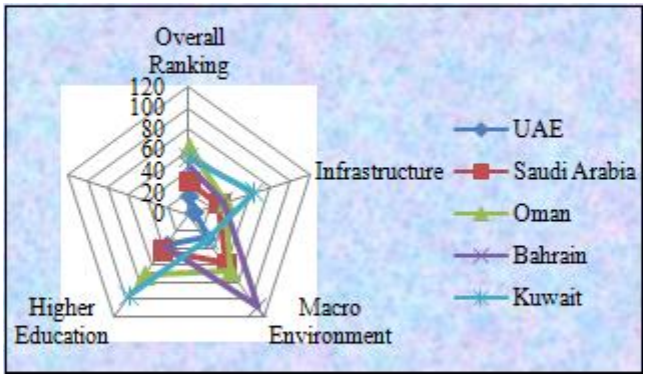
5th pillar	2018	2017	2016
Higher education and training	N/A	36/137	34/138
1) Secondary education enrollment rate gross %	N/A	N/A	71/138
2) Tertiary education enrollment rate	N/A	94/137	96/138
3) Quality of the education system	N/A	12/137	10/138
4) Quality of math and science education	N/A	13/137	10/138
5) Quality of management schools	N/A	15/137	16/138
6) Internet access in schools	N/A	13/137	4/138
7) Local availability of specialized training services	N/A	24/137	22/138
8) Extent of staff training	N/A	15/137	16/138

Macroeconomic comparing UAE with other GCC countries

As we discussed the performance of the UAE in terms of Infrastructure, Macroeconomic Environment and Higher Education and training as per the Global Competitiveness Index. We shall consider the performance of other GCC countries in terms of previous pillars. However, although the GCC countries are diverse in economic environment, national incomes, population and size, but they all seem to have significant reliant on gas and oil industry. Thus the recent breakdown of oil prices has got the economy of GCC countries affected and as a result, it caused a macroeconomic instability along with high rates of unemployment.in other words, the non-oil industries considered to have smaller contribution to the overall GDP. But notably the UAE has the most diversified economy due to the important role of two main strategic industries such as: logistic and trade, besides the impact of the increased rate of foreign investments (Armando Guastella & Alex Menghi, 2016). Additionally, the main difference across GCC countries lies in the degree of implementation in their development plans, also emphasizing on infrastructure is a common feature in most GCC countries due to the significant importance of investment on infrastructure which lead to more diversified economy (Rof, 2015).

On the other hand, the ranking of the UAE compared with other GCC countries was notably different according to the Global Competitiveness Index 2018-2019, as shown in the following chart:





The table below shows the macro differences among GCC countries according to IMF (FUND, 2019)

	UAE	KSA	Oman	Bahrain	Kuwait
Real GDP growth	2.5	2.0	2.6	1.8	2.6
Inflation (% y/y)	3.1	2.0	3.1	3.0	3.8
Population (m)	10.1	32.7	4.1	1.3	4.3
Current Account (% of GDP)	3.2	-2.6	-17.6	-3.8	8.4
Budget Balance (% of GDP)	-1.9	-9.5	-10.3	-11.7	3.2
Public debt (% of GDP)	18.8	19.9	24.5	82.3	22.4

5. Conclusion

Economic prosperity is the key componentof lifestyle quality which concerns nations and individuals. However, accomplishing prosperity encompasses more than economics. Psychology, sociology, political science, and history additionally become an integral factor. On the other hand, nation's competitiveness hinges on the ability to innovate and develop, and the most effective determinants of competitiveness are labor costs, interest rates, exchange rates, and economies of scale. Competitiveness is fundamentally driven by three factors, the endowment of the country, the macroeconomic competitiveness which has to do with creating a foundation on which productivity could be built on and microeconomic competitiveness which has to do with the environment surrounding the private sector firms.

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