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A REVIEW OF ECONOMIC PROBLEMS FACING THE UAE

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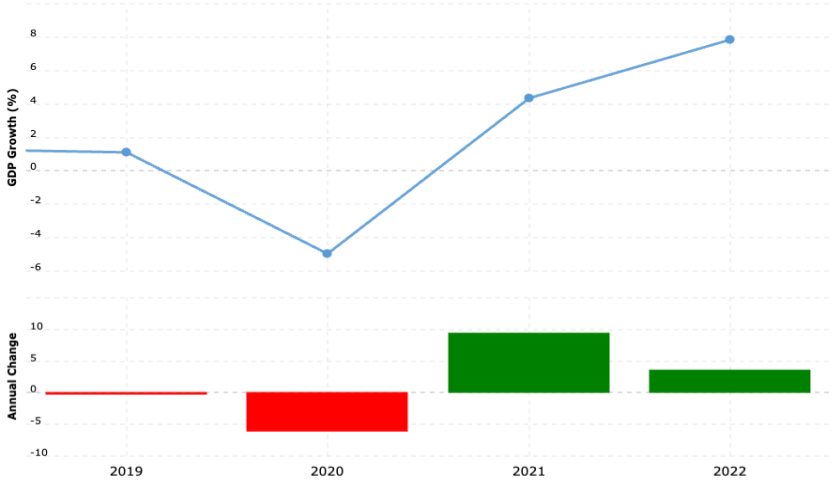
----------**ABSTRACT**----------
This review explores the major economic challenges currently facing the UAE. Monopoly power in key sectors like telecommunications and energy restricts competition, leading to higher consumer prices and less innovation. Economic inequality is rising, driven by stark contrasts between high-earning expatriates and low-wage migrant workers. Migrant labor, essential to the UAE's economic growth, presents social and economic challenges, including wage disparities and limited labor rights. Housing prices, especially in Dubai, remain a concern due to fluctuations and issues of affordability. Despite efforts to diversify its economy, the UAE's heavy dependence on oil leaves it vulnerable to global market shifts. Additionally, rapid urbanization has raised significant environmental concerns, including pollution and resource depletion, prompting the need for sustainable development. Together, these interconnected issues present long-term challenges for economic stability and social development in the UAE.

KEYWORDS: *Vision 2021 - A national agenda to position the UAE as a top global nation by its 50th anniversary in 2021*
Vision 2030 - Abu Dhabi's plan for economic diversification and sustainable urban growth by 2030
COP28 - The UAE-hosted 2023 UN climate summit to discuss global actions for limiting climate change
Etisalat (e& UAE) - The UAE's largest telecom provider, rebranded as e& in 2022 for digital transformation
ADNOC - Abu Dhabi National Oil Company, one of the world's leading energy producers and oil exporters
DEWA - Dubai Electricity and Water Authority, responsible for energy and water infrastructure in Dubai
Kafala System - A labor sponsorship system that governed foreign workers' employment and residency in the UAE

INTRODUCTION

The UAE's economy continues to grow, at around 3.5% over the past year, benefitting from strong domestic activity. In recent years, the UAE has focused on expanding sectors such as tourism, technology, finance, and renewable energy, aligning with its Vision 2021 and Vision 2030 strategic frameworks. Despite global challenges and global recessions, such as the coronavirus pandemic in 2020, the UAE has been able to maintain strong GDP growth, supported by robust oil prices and recovery in non-oil sectors after the pandemic.

Graph 1. UAE GDP Growth Rate (2019-2022)



Source: World Bank

However, there are economic problems that face the UAE, and are factors that influencing the overall benefits that the UAE economy experiences from maintaining this strong GDP growth. Such factors include eminent growth of monopoly power; increasing economic inequality; poor treatment of migrant workers; surges in housing prices, following economic recovery and changes in demographics within the UAE; significant dependence on the oil economy; and even environmental concerns that are still addressed following the events of COP28.

This paper is going to analyze and thoroughly evaluate these different factors to present the economic problems facing the UAE.

Monopoly Power

The UAE economy, while diverse, is marked by dominant monopolies and oligopolies in key sectors such as telecommunications, energy, and utilities. Companies like Etisalat in telecoms and DEWA in utilities hold significant market power, limiting competition and consumer choice. This market structure affects pricing, innovation, and overall market efficiency, though the government has been working to introduce regulatory reforms aimed at enhancing competition and reducing monopoly power.

Gulf news, one of the largest newspapers in the UAE, highlighted Etisalat, a telecommunication company now known as e& UAE, as a monopoly. While Etisalat is, as a corporation, 100 per cent owned by the UAE nationals (60 per cent the Federal Government and 40 per cent individuals), it's signifant financial performance indicators and brand is indication of a monpoly: it is the strongest brand in the Middle East across all industries, boasting a Brand Strength Index score of 89.4/100 and an AAA rating, making it also the world's strongest telecoms brand. Etisalat has been identified as the fourth highest value creator globally telecommunications sector, acording to a 2024 Telco Value Creaters Report by the Boston Consulting Group (BCG). This strong financial performance as a brand and within telecomunnications poses an economic problem to the UAE, as the scale of operation at Etisalat can overcome challenges such as stagnant revenue streams and varying investment returns, particularly from sizeable outlays like 5G networks compared to smaller potential competitiors in the the UAE telecommunciations industry, as detailed in the BCG report.

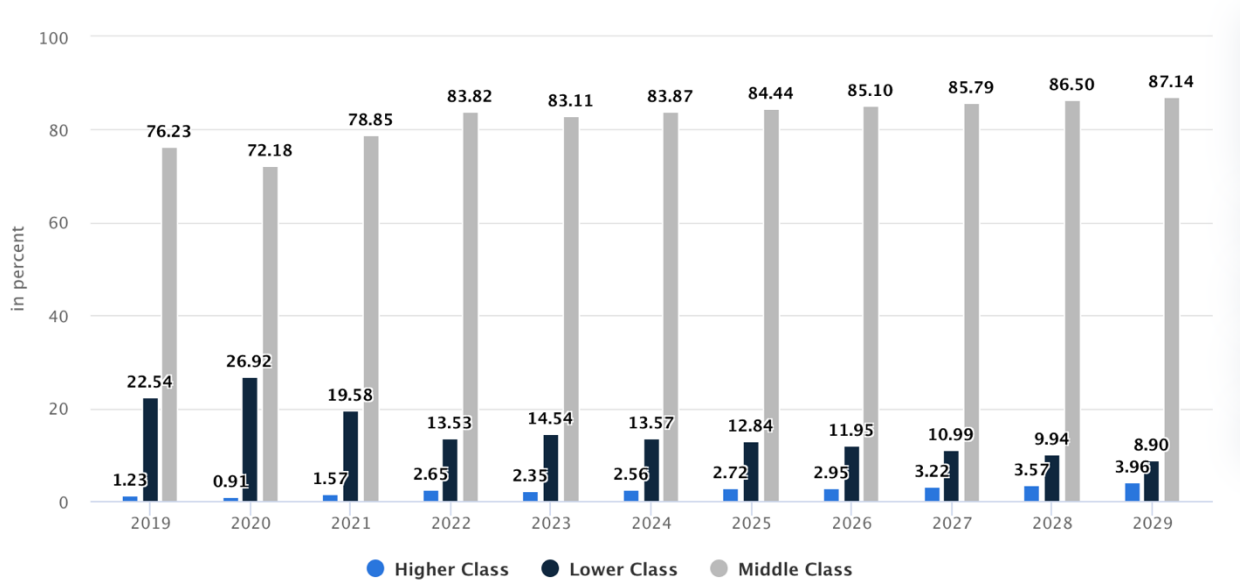
Another growing monopoly facing the UAE is seen with The Abu Dhabi National Oil Company (ADNOC) in the energy sector. ADNOC is the UAE's most valuable brand, with brand value up 7% to $15.2 billion, having the world's 8th largest oil and gas reserves. ADNOC has also intiated a takeover of the German chemicals group Coverstro, with ADNOC making an offer for all remianing Covestro stock at a price of 62 euros per share. This deal between ADNOC and Covestro is the biggest buy out of a European firm by a company from the Gulf. The scale of operations at ADNOC is another indication of monopoly power within the UAE, as this takeover is a sign of increasing concentration ratios within UAE industries.

The UAE government has passed and amended competition legislation to reduce this monopoly power. In 2011, the Government of Dubai amended the Dubai Electricity and Water Authority (DEWA) Law to allow and regulate the participation of the private sector in power generation and water production, ending a state monpoly of power generation and water desalination. In 2024, the UAE government passed a new law defining competition as the act of conducting economic activities based on market mechanisms, but not such mechanisms that harm trade, development and consumer interests, prohibiting monopolistic approached for all companies and protecting consumers' rights in the country. The law will also regulate mergers and acquisitions in the local market.

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Economic Inequality

Graph 2. UAE Population Share by Income Class Projections



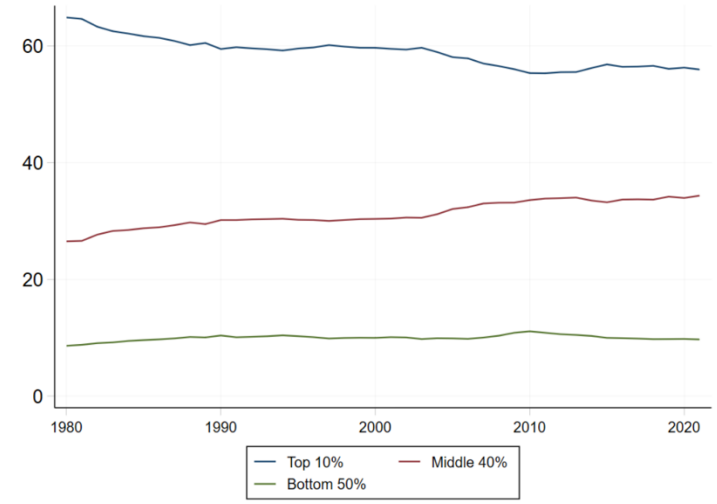
Source: Statista Market Insights

Despite its wealth, economic inequality is a growing concern in the UAE. The country's rapid development has led to significant income disparities, with a sharp contrast between the highly paid expatriate professionals and lower-income migrant workers. The nation's economic policies have been beneficial for growth, but the wealth gap poses challenges to social cohesion and long-term economic stability.

According to the World Inequality Database, the top 1% of UAE nationals constitute about 22.8% of total income in the UAE, while the bottom 50% of UAE nationals make up only 5.8%. As for wealth, the top 1% of individuals in the UAE hold more than 50% of the entire country's wealth.

The economic inequality level in the UAE reveals important aspects of their political economy. Low-paid foreign workers living in difficult conditions, do not share the same privileges as national citizens.

Graph 3. Income share distribution in the Middle East



Inequality in the Middle East, especiallly prevalent in the UAE, remains extreme within and between countries. This can be attributed to the tolerance of Across the Gulf monarchies, the relationship between the ruling family and business elites has experienced significant evolution over the past two decades.

Source: World Inequality Database

In particular, all the ruling families have moved much more extensively, and along a similar path, into business – albeit each at its own pace, depending on the historical balance of power between the two sets of interests. This contributes to limited social mobility, with high-income groups benefiting from sectors like real estate and finance while lower-income populations,

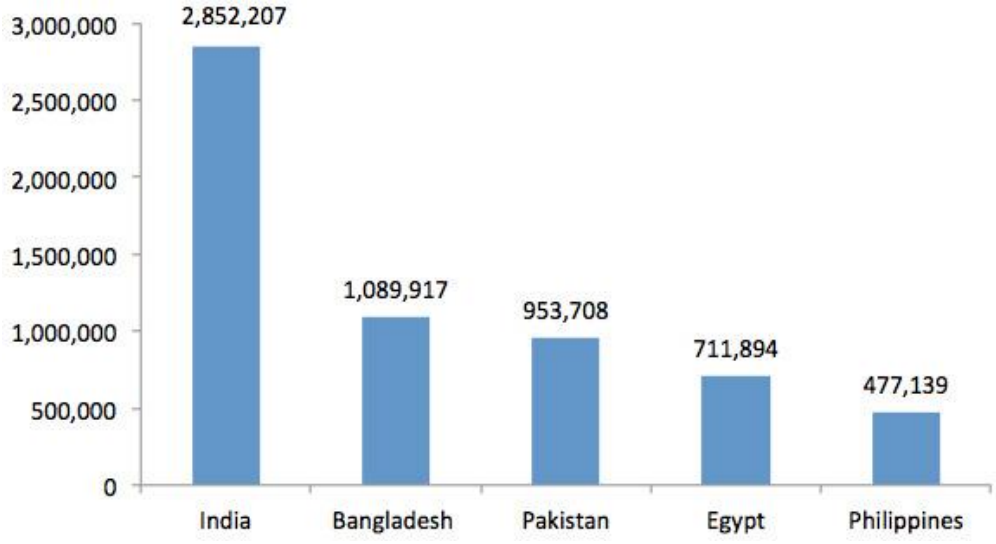
particularly migrant workers, face wage stagnation and restricted opportunities. This imbalance hampers broad-based economic growth, reduces consumer demand, and potentially undermines long-term economic diversification efforts. The UAE government has implemented various policies to address economic inequality and improve wealth distribution between locals (Emiratis) and expatriates. Programs like Tawteen, an initiative by Ministry of Human Resources & Emiratisation to enable UAE nationals to take up jobs in the private sector, focus on increasing employment opportunities for Emiratis while also balancing the needs of the expat workforce, which comprises a significant portion of the population. Additionally, the Circular Economy Policy promotes sustainable development, which is expected to create jobs and enhance competitiveness, benefiting both locals and expatriates across sectors and ensuring the quality of life for current and future generations.

Migrant Workers

Migrant labor is the backbone of the UAE's workforce, especially in construction, services, and domestic work. However, this labor force often faces issues of low wages, limited rights, and poor working conditions. While the country depends on migrant workers for its continued growth, the socioeconomic challenges of integrating this workforce raise concerns about labor rights, inequality, and human development.

The UAE is seeing foreign-born population growth exceeding population growth of UAE nationals. Consequently, as the demographics of the UAE reflect this stark change, there has been a growing culture of a migrant workforce, particularly in lower skill employment in fields such as construction. These workers primarily originate from south Asian nations, such as India, Bangladesh and Pakistan.

Graph 4. Top Five Origin Countries of the Foreign-Born Population in the UAE (2013)



Source: United Nations

The ethical considerations of a substantial migrant workforce in the UAE are highlighted when observing the kafala system, a set of laws and policies that delegate responsibility for migrant workers to employers. The kafala system gives employers complete control over migrant laborers and their legal status in ways that undermine the contractual basis of the system. For example, migrant laborers are often denied working conditions promised in their contracts—guarantees like reasonable work hours. The system is described as a form of 'structural violence' by which employers confiscate passports and report "absconding" workers to authorities to avoid punishment themselves.

Recruiting agencies as well as labor-sending countries are aware of migrant worker abuse, yet the kafala system continues as economic problems, growing unemployment, and remittances encourage the export of cheap labor.

To address this problem, the UAE government has reformed its laws as well as its bilateral agreements with labor-sending countries over the past several years. some of the legal reforms that the UAE has passed over recent years

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have prohibited asking migrant workers for recruitment fees, removed the requirement of seeking an employer's permission to change jobs or leave the country.

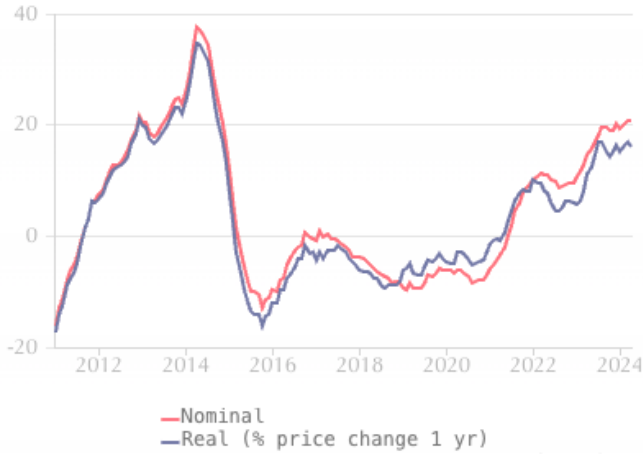
One of the most notable actions to address labor issues has been the Wage Protection System (WPS), introduced in 2009, which aims to crack down on nonpayment of salaries in the private sector, mainly construction, retail, and small businesses. Since its launch, approximately 2.9 million workers and 205,000 of the UAE's 250,000 registered businesses have enrolled in the WPS, and more than 600 employers have been penalized. In 2007, businesses paid 52 million dirhams in unpaid wages after legal action.

Housing Prices

Housing in the UAE, particularly in Dubai and Abu Dhabi, has experienced significant price fluctuations, creating a challenging environment for both investors and residents. While luxury real estate development thrives, middle-income households struggle with affordability. The government has introduced measures to stabilize the market, but rising costs continue to impact overall living standards and social equity.

The increased prices are directly correlated to the overall increase in sales, where Dubai has witnessed a total amount of AED 261 billion registered in 2022. This is a 75% increase from the AED 149 billion that was logged in 2021, and the sector was recently forecasted to surpass this target and reach AED 300 billion by the end of 2023.

Graph. 5 United Arab Emirates house price annual change



House price growth in Abu Dhabi is more subdued, with the all-resedential property price index rising by 7.53% in Q1 2024 from a year ealier. During the latest quarter, prices were up by a modest 2.45% quarter-to-quarter. The average purchase price of apartments in Dubai was AED1,500,000. Growth in these house prices can be attributed to rising demand Source: Global Property Guide for housing.

In Dubai, registered sales transcations reached a record 133,134 deals in 2023, up by 38% from the prior year, according to real estate portal, Property Finder. According to real estate agency GG Benitez International, Dubai's rapid population growth is outstripping the available supply of new homes. The city is expected to reach over 4 million residents by 2027, with foreign investors contributing significantly to the demand for residential units. As the demand for luxury and mid-range properties continues to grow, the gap between supply and demand is likely to widen, driving prices up further in 2025.

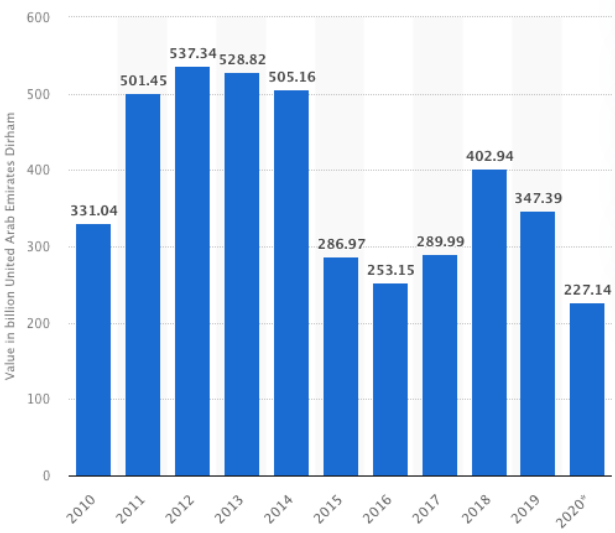
The UAE government has implemented policies to adress this economic problem. The UAE Cabinet has approved more than 2,500 housing loans and grants (more than AED2 billion in value) in the first half of 2024 under a long-term drive to raise the living standards of its citizens and provide for a booming population. This way, the UAE ensures access for all to adequate, safe and affordable housing and basic services. In 2011, the Abu Dhabi government's Urban Planning Council (UPC) said it had signed contracts with four local real-estate developers to deliver an additional 7,500 new homes for locals in Abu Dhabi, Al-Ain and the western Al-Gharbia region. This influx of new developments has helped temper the rapid price appreciation, making the market more accessible to a broader range of buyers.

Oil Economy

The UAE's economy has traditionally relied on oil revenues, but the global shift towards sustainable energy poses long-term challenges. Though efforts to diversify the economy through tourism, finance, and renewable energy have been made, oil remains a dominant force. This dependence raises concerns about the UAE's resilience to oil price volatility and the urgency of economic diversification.

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Graph 6. Value of the quarrying sector contribution to the GDP of the UAE (2010-2020)



The UAE is among the world's ten largest oil producers. About 96% of the country's roughly 100 billion barrels of proven oil reserves are located in Abu Dhabi, ranking number six worldwide. The UAE produces an average of 3.2 million barrels of petroleum and liquids per day. The UAE is seeking to become self-sufficient in gas supply by 2030, currently importing natural gas from Qatar.
Source: Statista Market Insights

The United Arab Emirates is one of dozens of petrostates that risk losing more than half their expected income from fossil fuels as the world shifts to clean energy. Forecasts by the International Energy Agency (IEA) predict that global demand for fossil fuels could peak before the end of 2030, which is a threat to the economic sustainability of the robust oil economy of the UAE. Despite the imminent threat, the UAE has plans to increase oil and gas production and exploration.

UAE producers continue to test and implement new extraction technologies to raise the rates of recovery and prolong output. Unconventional oil and gas resources are of great interest to the UAE. ADNOC (Abu Dhabi National Oil Company) seeks to build a new 600,000 barrels per day refinery to increase the Ruwais complex's feedstock capacity and augment its refined products output beyond its current maximum capacity of 817,000 barrels per day.

The UAE is now working towards diversifying its economic activities. It is investing in sectors that hold promise in a post-oil era. These sectors include technology, health, education, renewable energy and transportation. The UAE government has set up a national fund to help smooth the transition away from crude oil – The Sandooq Al Watan. The fund is dedicated to boosting social entrepreneurship and equipping UAE's youth with the tools needed to succeed and thrive in the post-oil era. As per the UAE Federal Debt Management Office, currently non-oil sectors account for 70% of the total GDP.

Environmental Concerns

Rapid urbanization and industrialization in the UAE have led to significant environmental issues, including air pollution, water scarcity, and ecological degradation. While the government has initiated ambitious sustainability projects, such as Masdar City and investments in renewable energy, balancing economic growth with environmental sustainability remains a critical challenge for the country.

The UAE's rapid economic growth has come with significant environmental challenges, especially in urban areas like Dubai and Abu Dhabi. The nation's heavy reliance on fossil fuels, particularly for transportation and industrial activity, has led to a marked increase in air pollution. As of 2023, the UAE ranked as the 11th most polluted country globally, with concentrations of harmful particulate matter (PM2.5) exceeding World Health Organization (WHO) guidelines. The fine particulate matter in the air poses severe health risks, contributing to respiratory illnesses and other chronic conditions. Notably, air quality sensors in Dubai show elevated levels of nitrogen dioxide (NO_2) and PM10, both linked to fossil fuel consumption and vehicular emissions.

Water scarcity is another critical concern, exacerbated by the UAE's extreme heat and desert climate. With average temperatures rising above 45°C in summer, the country depends heavily on energy-intensive desalination processes to meet its freshwater demands. As a result, water consumption per capita in the UAE is among the highest in the world, creating further environmental stress. This reliance on desalination, combined with inefficient water use, has placed additional pressure on the nation's energy resources and ecosystems.
The UAE government has launched several initiatives to address environmental concerns and transition toward a more sustainable economy. Key among these is the Plant the Emirates project, initiated by Sheikh Mohammed bin Rashid

Al Maktoum in October 2024, which aims to enhance food security and increase green spaces across the country. This project involves planting millions of trees, helping to combat the impacts of extreme heat while improving air quality and carbon sequestration. By hosting COP28 in 2023, the UAE also reaffirmed its commitment to international climate targets, emphasizing the importance of sustainable energy and water conservation. The UAE is further working to align its policies with the Climate Action Tracker targets, striving for a net-zero emissions economy by 2050.

CONCLUSION

The UAE's several significant economic and environmental challenges are a consequence of its rapid development, particularly in sectors such as housing and energy. However, the government has shown clear recognition of these issues and is actively working to address them. While these challenges are multifaceted, the UAE's proactive approach and global leadership, exemplified by hosting COP28, inspire optimism that the country can mitigate its economic vulnerability and build a more sustainable and resilient economy for future generations.

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