



INNOVATIVE DEVELOPMENT MANAGEMENT OF THE UNITED ARAB EMIRATES: PROBLEMS AND SOLUTIONS

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ABSTRACT

Currently, the economic modernization effective directions issue in countries with developed economies, including countries exporting oil and gas, is topical. Some examples of the modernization model in these countries have already taken shape. One example, despite the local conditions difficulties and uniqueness, was the modernization model of the United Arab Emirates (UAE). The starting conditions for the development of which were based on raw materials exports narrow base. An economic modernization the history and mechanism analysis in the UAE shows that here in the formation of the process strengths of economic modernization, the creation of infrastructure, both production and transport, commercial, service, and technological, played a crucial role. In the UAE, an effective contribution of infrastructure has been achieved by clearly linking the strategic areas of increasing the competitiveness of the country's economy with the priorities of infrastructure development. This allowed the UAE to acquire new factors of competitiveness.

KEY WORDS: *economic modernization, oil exporting countries, oil sectors of the economy, development strategy, infrastructure, competitiveness*

INTRODUCTION

The economic modernization effective areas identification in countries with economies in transition, including countries - exporters of hydrocarbon raw materials, makes many authors look for examples of the economic model of these countries. One of the examples of the implementation of such directions of modernization, despite certain difficulties and the uniqueness of national conditions, is the model of economic modernization of the United Arab Emirates (UAE). It is embodied in the UAE modernization strategy, the starting conditions for the development of which were based on an extremely narrow economic basis and a narrow natural resource base, and the development of the economy is carried out in difficult natural and climatic conditions. At the

beginning, the UAE's competitiveness was only driven by large revenues from oil exports. The UAE's modernization strategy was based on the purposeful implementation of the principles of economic policy declared there, the cornerstone of which was the course towards the maximum possible replacement of petrodollars with other sources of income. Such a replacement would have been impossible without the formation of a fundamentally new economic structure, the foundation of which was the creation of the infrastructure of the oil economy.

At the same time, the UAE modernization model, being one of the most successful examples of economic modernization in the Arab world, demonstrates the option of active inclusion in the global world economy and increasing the



competitiveness of the national economy, when the basis for modernization is the constant diversification of the economic structure.

RESEARCH METHODS

The work used the method of theoretical analysis of literary sources and statistical reviews, as well as ratings of economic and infrastructural development of countries published by statistics and international economic organizations and research centers. An important place is taken by the reliance on the method of economic analysis, especially in terms of studying the influence of individual factors or measures of economic modernization on the general functioning and on the transformation of the national economy on the example of the UAE.

RESULTS

The rapid economic transformation of the UAE, a country whose older generation remembers that only a few decades ago, the main occupation of the population was artisanal fishing, pearl mining and nomadic livestock rising, was expressed in building an economy, in terms of a number of indicators comparable to the economies of developed and leading newly industrialized countries. The way to implement the strategy of economic modernization of the UAE was investing in a new economy, the basis of the functioning of which was the construction of an advanced economic infrastructure, "buying", in the positive sense of the word, new development factors. At the same time, for the UAE, a special role was played by investment in the development of various infrastructure components (not only industrial, but also transport, commercial, social). This corresponds to the trend of world economic development (a decrease in the share of industrial production in gross product with an increase in the share of the service sector).

If we turn to the most important milestones in the movement towards the role of the world commercial, transport and logistics, tourism and, in part, an innovative state within the global economy achieved by the UAE, then the analysis of strategic measures of the UAE's ruling circles in the field of development allows us to judge those advantages and the results for the modernization of the UAE economy, which were provided by government-initiated investments in infrastructure. The implementation of plans for economic modernization through the creation of infrastructure in the UAE was especially clearly manifested in the example of one of the emirates of the Dubai Federation. In Dubai, an emirate with much smaller oil reserves than the largest emirate of the UAE - Abu Dhabi (Abu Dhabi occupies 85% of the territory of the

UAE, with 9% of the world's oil reserves), and a smaller territory than Abu Dhabi, before Abu Dhabi saw the need to turn to the oil development model. The Prime Minister of the UAE, the Ruler of Dubai Sheikh Rashid al-Maktoum came to the conclusion that it is necessary to show the society in the UAE the path of development "after oil", the exhaustion of which he declared. The key to entering non-oil development, Sheikh Rashid al-Maktoum, chose a plan to rapidly build business and economic infrastructure for new sectors of the economy, with the aim of opening them up to investors and business flows of a global scale, partly on preferential terms.

The infrastructure allocation in the UAE was a purposeful investment to ensure that a new economy could emerge in the oil-rich desert.

Considering the example of Dubai, it can be argued that here (as well as in the UAE as a whole) there is almost the most important role for the modernization of the country, the role of transport, commercial infrastructure and real estate infrastructure (which includes commercial and engineering facilities, municipal real estate and the utilities sector). Thus, in Dubai, the creation of the world's largest transport hubs, tied to the free economic zones created around them, acted as an infrastructural "gateway" to world commercial and financial flows, and a way of the fastest expansion of non-oil economic activity. The first complex area for the development of business and transport infrastructure in Dubai was the port of Mina (port Rashid), built in 1972, and by 1978, it received the largest container ships.

By 1979, the world's largest man-made port, Jebel Ali, was erected 35 kilometers southwest of Dubai, a structure comparable in scale to the Great Wall of China. It became the headquarters of the world's third largest port operator, Dubai Ports, and by 2004, Dubai became the third largest re-export hub in the world, rivaling Hong Kong and Singapore.

Another example of connecting the UAE to international business and tourist flows using a new transport infrastructure is the creation of an air transport infrastructure. In 1985, the first \$ 10 million was invested by the Dubai authorities in the creation of the Emirates airline, which provided the opportunity to deliver foreign tourists to the UAE, and this company became profitable and the largest in the world (for example, in 2004-2005, Emirates paid the government Dubai dividend of \$ 100 million). Emirates is an example of diversifying an oil-dependent economy with transport infrastructure: in 2016, when oil prices continued to fall sharply, Emirates ended the year with a record profit of \$ 2.2 billion, which was more than in 2015 by 50%. At the



same time, the total capacity of Emirates for the transportation of passengers and goods reached 56.4 billion ton-kilometers, and this year alone, 29 new aircraft were purchased, including 16 A380s and 12 Boeing 777-300ERs. This allowed the company to expand the geography of passenger traffic, adding new destinations to the existing 150 destinations (in particular Bali, Bologna, Cebu, Clark in the Philippines, Istanbul, Mashad, Multan, Orlando). The company has commercial centers in New Delhi, London, Moscow, Nigeria and other countries. Emirates' projected passenger traffic for 2016-2020 declared at least 70 million passengers per year. By reducing costs, Emirates offers customers the most favorable terms. It is very important that two airlines of the UAE - Emirates and Fly Dubai played a big role in the development of tourism in the UAE, so in 2015 the number of tourists increased in comparison with 2014 by 75%, to 14.5 million. The UAE is the Middle East's largest aviation infrastructure investor. In 2018, the UAE authorities announced investments of more than \$ 23.16 billion in the development of air transport infrastructure, which will give 4 national airlines (with a fleet of 502 liners for 2018) the ability to carry more than 75 million passengers per year, but total the capacity of the UAE's aviation infrastructure will exceed 300 million passengers per year.

Naturally, the UAE is developing airport infrastructure. There are 14 airports; the number of takeoffs and landings was 540 thousand per year. As of today, \$ 8 billion is invested in the development of Al Maktoum airport, \$ 7.6 billion - for the fourth phase of Dubai airport development, \$ 6.8 billion - for the development of Abu Dhabi airport and \$ 400 million - for the airport of the emirate of Sharjah. At the same time, the UAE is developing commerce in the field of aviation, the showcase of which is the Air Show in Dubai, where contracts for more than \$ 100 billion are usually signed [6]. Also, the UAE is developing subways, high-speed railways, and highways. More than \$ 4.3 billion is invested in the improvement of the road network in the World Expo 2020 Dubai area alone.

Transport infrastructure as a key to diversifying the country's economy in the context of globalization is inextricably linked with the development of commercial infrastructure. In this regard, one cannot fail to mention another infrastructure development initiative of Sheikh Rashid - the creation of the World Trade Center in Dubai. For this center, the largest building in the entire Middle East was erected in 1975-1979. The largest exhibition complex in the region was formed here; the Dubai School of Public Administration was formed, by analogy with the Harvard School of Business. Thus, the architectural

and infrastructural evolution of the emirate went through stages from the first significant projects to the most recent, such as preparations for Expo 2020, the Dubai Pearl technology cluster in the TECOM (Dubai Technology and Media Free Zone), a record-breaking 828-meter building Burj Khalifa, opened in 2010 and others.

The World Trade Center has become a cluster for the transformation of Dubai into an international trade, commercial and financial center, but at the same time a tourist destination. Dubai was able to firmly take the place of the world center of tourist shopping, which was achieved through the construction of many shopping centers (more than 40 of the largest and 3 thousand ordinary ones) and the provision of incentives to trading companies, thanks to which it was possible to ensure the flow of goods here from all over the world, and with notable discounts. A major shopping festival was opened in Dubai [7]. According to 2018 data, the Dubai World Trade Center generated revenue of \$ 3.5 billion (3.3% of Dubai GDP), in 2018 87,861 were employed in exhibitions, fairs, conferences and other business events, working.

The relationship between the UAE retail trade and services sector and tourism, as exemplified by Dubai, is also manifested in the fact that, according to statistics, the added value of the tourism sector in terms of hotel and restaurant services increased from 2006 to 2016. by 110% (from 9 to 19.5 billion UAE dirham, and in constant prices). Also, the value added in the Dubai retail sector has increased by 47% over these 10 years, from 72 to 107 billion dirhams. The obvious correlation between tourism and the trade sector of Dubai is confirmed by the fact that if in 2012 the expenses of tourists in Dubai reached 5.5 billion dollars (20.4% of retail sales), then in 2017 these expenses reached 8. \$ 9 billion (25% of sales). In general, in the UAE, the expenditures of foreign tourists visiting the country increased from 75.5 billion dirhams in 2012 to 132.9 billion dirhams in 2018, and the number of employed in the tourism sector - from 440.4 thousand people up to 604.3 thousand people Thanks to infrastructure development in the UAE, every ninth employed person works in the tourism sector, not only immigrants, but also representatives of the indigenous population.

It should be noted that in general in the UAE, in different emirates, but mostly in Abu Dhabi and Dubai, a number of infrastructure projects have been implemented to maximize the development of commercial, service sectors of the economy and the tourism economy. Among them there are projects that provide a combination of the UAE's image as a modern advanced urbanity and at the same time



exotic country with the flavor of the ancient Arab East, such as Medina Jumeirah in Dubai - a recreation of a traditional Arab city with markets, palaces, canals. There are luxurious hotels, traditional residential areas, traditional wind towers for cooling, forts, green gardens, an Arab market, a theater with 1000 seats, many restaurants, and canals dug through which wooden boats "abra" (water Taxi).

Other unique projects with a special flavor include the creation of the Bab al-Shams resort, a man-made oasis in the desert, and the construction of the man-made island of Palm. In another emirate of the United Arab Emirates, Sharjah, the Emirate's Investment and Development Authority has launched a major project, the Heart of Sharjah, as part of efforts to safeguard the emirate's cultural heritage. The initiative is the largest of its kind and envisions the complete restoration and revitalization of the historic districts of Sharjah by 2025. The aim of the project is to create a new tourist and trade attraction (which will include hotels, restaurants, cafes, shops, art galleries, traditional and modern markets, archaeological sites, museums, parks, trade representations). The Heart of Sharjah should embody the cultural heritage of the emirate. As for the projects associated with the already mentioned event, Expo Dubai 2020, according to experts, the UAE will bring added value of 33.3 billion dollars (122.6 billion UAE dirhams), of which 7.3 billion refers to the construction of infrastructure facilities. But this infrastructure will become the base without which it is impossible to host the events of Expo Dubai 2020, including signing contracts, creating jobs, issuing securities and other activities.

However, despite the creation in all emirates of the UAE of an advanced commercial, tourism and communal infrastructure focused on attracting businesses and the population of a cosmopolitan nature, the UAE's strategy pays great attention to the development of non-oil production and export infrastructure (in addition to the large-scale infrastructure for oil production and processing, which was created in the UAE before others, during the nationalization of the oil and gas industry and provided the basis for the development of the UAE economy, but is not a subject of consideration here).

The core of the strategy for transforming the UAE into a production, technological and innovative segment of the world economy was the creation of free economic zones (FEZ) of various directions. More than 45 free economic zones are developing in the UAE. In particular, the Abu Dhabi government was convinced of the need for a strategy for the development of the manufacturing industry as an important basis for balanced economic growth and

an increase in the contribution of the non-oil sectors to GDP. Therefore, a large-scale industrial infrastructure was created that could provide incentives to attract foreign investors to the UAE industry. In 2004, the Abu Dhabi government established the Economic Zones Corporation as the largest developer and operator of industrial FEZs for the entire UAE, which immediately invested over \$ 1 billion in infrastructure. The corporation prepares areas for industrial use, including the necessary infrastructure, starting with transport for the supply and dispatch of products to ports and airports, as well as engineering. The area of industrial zones developed by the corporation exceeded 48 million square km. they have attracted over 8 billion in investments from local and international companies. These zones provide first-class infrastructure and transport links, simplified company registration regimes, better housing conditions for workers, and tax incentives. The corporation has invested more than \$ 3 billion in the construction of the housing sector in these FEZs for managers and personnel of companies opening a business in the FEZ, which can accommodate hundreds of thousands of people (it is planned to accommodate up to more than 1 million employees). It must be said that construction in the UAE is carried out in accordance with environmentally advanced standards, which is in line with the "Green Growth" Strategy and "Green Agenda 2030" adopted at the state level in the UAE [14, p. thirty].

FEZs are developing in all emirates of the UAE. Here we give examples only for two of the 7 emirates - Abu Dhabi and Dubai. So, in Abu Dhabi, the most developed are such FEZs as Abu Dhabi Airport Free Zone (airport FEZ), Abu Dhabi Global Market (international financial center), Khalifa Industrial Zone (KIZAD), Twofour54 zone (for the development of the media industry), Zone Industrial City of Abudhabi (industrial city of Abu Dhabi). Projects of various new industrial SEZs are being developed, for example, in accordance with the development strategy "Vision of Abu Dhabi 2030" one of the new zones will be the Rahayel City FEZ, which will be commissioned in 2020: on an area of 12.3 sq. km. a global auto hub is being created, which will house the design and manufacture of vehicles for export, as well as the development of industries supplying components. SEZ the Industrial City of Abu Dhabi (ICAD), located near Abu Dhabi on an area of 40 sq. km., has many clusters set aside for both heavy and light industries (metallurgy, petrochemistry, plastics, building materials, pharmaceuticals, high-tech products, and others).

In Dubai, as in the UAE as a whole, the creation of a grandiose infrastructure of the modern economy



continues with the development of new sectors of the economy, including both manufacturing industries and technological clusters for the "knowledge economy" that the UAE is striving for. New infrastructure projects are being developed: the construction of roads, hotels, shopping and tourist centers, residential areas, in order to give a new impetus to economic development. A significant role in this is played by the policy of the current ruler of Dubai, Vice President and Chairman of the UAE Government since 2006, Sheikh Mohammed bin Rashid al-Maktoum, who opened a new phase of development by including these directions in the "Dubai Vision 2020" and then to the "Dubai Strategic Plan 2015" and in the "Industrial Strategy of Dubai 2030", one of the goals of which was the strategy of creating a "knowledge economy" in Dubai [16].

For this, the mechanism of creating free economic zones was also used both in the UAE as a whole and in Dubai, and in Dubai, one of such innovative projects was the establishment in 1999 of the SEZ - the Dubai Internet City techno park, where on an area of 30 million square meters ft. in one year, 118 information and communication technology (ICT) companies were attracted, including Microsoft, Oracle, IBM, Dell, Siemens, Sony Ericson. Their activities are necessary for the innovative development of the UAE according to. This cluster in the mid-2000s attracted more than 600 companies, also creating joint ventures with each other. The UAE prides itself on having the characteristics of a more integrated industrial complex than Silicon Valley in the United States.

In addition to this zone, a number of others have been created, such as Jebel Ali Free Zone (in the port area), Dubai Media City, Dubai Studio City, Dubai Health Care City (healthcare, medical tourism), Dubai Land, Dubai Humanitarian City, Dubai Knowledge Park, Dubai Biotech Research Park (biotechnology), Dubai Industrial City, Dubai World Trade Center, Dubai Silicon Oasis (research and development), Dubai Car & Automotive City Free Zone, Dubai Design District, Gold and Diamond Park (jewelry trade, jewelry craft) other.

An example of a unique, perhaps the only free economic zone in the world, is the Dubai Knowledge Park, which specializes in development, consulting and training programs in the field of human resource management, there are institutes and training centers, partners of which are well-known world brands in this sphere.

Another, research and development zone Dubai Silicon Oasis is intended for the development of high-tech industry in the field of utilities, construction, services, etc. It is wholly owned by the

government and provides 20,000 sq.m various premises for activities.

It is advisable to cite some indicators that illustrate the role of infrastructure in the development of the oil economy for the UAE. In 2016, a global infrastructure investment rating was prepared, assessing the markets of more than 40 countries in terms of attractiveness and opportunities for investors, companies participating in contracts, in which the UAE took 3rd place in the world (up from 4th place in 2012). As noted, the UAE has successfully relied on public-private partnership (PPP) mechanisms and maintained a course towards the implementation of new projects, especially in Dubai, despite the dramatic drop in world oil prices in 2014-2016. A high level of short-term risks (R) was assigned to the UAE due to the economy's attachment to oil exports (G means low, A - medium), but did not prevent it from taking a high place.

In the 2019 World Economic Forum's Global Competitiveness Ranking, the UAE was ranked 25th out of 141 countries. The contribution of the established industrial, commercial and transport infrastructure to the development of the UAE's oil economy can be judged by the indicators of foreign trade. According to the Federal Customs Authorities of the UAE, in 2018 the non-oil foreign trade turnover of the UAE amounted to 1628 billion dirhams, of which 592.4 billion fell on the turnover of FEZs and customs warehouses. In the total turnover of the UAE's non-oil trade, the volume of non-oil exports increased by 1.8%, reaching 212 billion dirhams, and the volume of re-exports in 2018 amounted to 478.4 billion, which confirms the importance of the UAE as an international commercial center [23].

At the same time, exports from the UAE FEZ increased from 173 billion dirhams (47 billion dollars) in 2017 to 225.6 billion dirhams (61.4 billion dollars) in 2018, accounting for about 46.2% of total exports and re-export to the UAE [24]. Among the commodity groups of the UAE's exports after oil and mineral fuels (121.59 billion dollars in 2018 and 31% of the UAE's exports) and the group of unspecified goods (97.12 billion dollars), the main ones are precious stones and metals (45 \$ 9 billion), electrical machinery and equipment, electronics (\$ 27.3 billion), machinery and equipment, including computers (\$ 17.6 billion), cars (\$ 12.9 billion), aluminum (\$ 6.38 billion), plastic and plastic components (\$ 5.49 billion), tobacco (\$ 4.53 billion), aviation technology (\$ 4.19 billion), perfumery, cosmetics (\$ 3.49 billion), iron and steel products (\$ 3.38 billion), garments (\$ 1.61 billion), rubber (\$ 1.41 billion), pharmaceuticals (\$ 1.35 billion), salt,



sulfur, earth, stone, gypsum, lime and cement (\$ 1.34 billion), edible fruits, nuts, citrus peel, melons (1.2 \$ billion), furniture, illuminated signs, prefabricated houses (\$ 948.97 million), dairy, eggs, honey, food (945.66 million dollars), footwear (918.59 million dollars). The UAE is one of the twenty countries - the world's largest exporters.

CONCLUSIONS

The strategy of creating a modern economic infrastructure for the modernization of the oil-export-dependent economy, which is being carried out in the UAE, can be considered as an embodiment in practice of Porter's theory of competitiveness, in which the factors of the country's competitiveness are not predetermined, but can be acquired, in no small measure with the help of active the role of the state in the economy. In modern conditions, the UAE has created and continues to build up an infrastructure that allows for productive, cost-effective investments in advanced economic activities.

In this regard, it can be stated that in the formation of the strengths of modernization of the economic system of the UAE, the creation of infrastructure played, in fact, a decisive role. This increase in the contribution of infrastructure to modernization in the UAE was achieved by clearly linking the priorities of infrastructure development with the most important areas of development and increasing the competitiveness of the UAE economy. At the same time, the infrastructure was almost the primary link (after, of course, financial resources for investment), in the chain of acquiring and increasing the factors of competitiveness of a given country in the global world economic system.

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