

# Entrepot Development and Diversification: A comparative case study of Singapore and Dubai

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## Abstract

This study conducts a qualitative comparative case study analysis of Singapore and Dubai, two city-states with similar entrepot histories and development approaches, to examine the factors contributing to their different economic diversification outcomes. Despite implementing comparable policies during the same period, Singapore diversified into high-technology manufacturing and a knowledge-intensive economy, while Dubai developed a service-based economy as a global logistics and regional finance hub. Using the 'most similar systems design', this study identifies theoretically significant differences between the two cases, such as Dubai's hydrocarbon revenues, its high dependence on expatriates, and Singapore's geographic location in Japan's industrialisation zone. This study aims to understand how these differences in inputs affect the outcomes of their development models, pushing beyond limitations in historical data and potential criticisms of comparing a successful Middle Eastern economy to a prominent Asian economy. By evaluating the interaction between development policies and businesses, this study contributes to the literature on late-development, highlighting the importance of factors within and outside policymakers' control, such as human capital development, resource wealth, history, and regional development. The findings provide valuable insights for economic historians and development practitioners in understanding the nuances of development approaches in different contexts.

**Key words: Singapore, Dubai, Diversification.**

## Introduction

Dubai is a small city-state in the United Arab Emirates ( UAE) that is renowned internationally as a logistics hub. With hydrocarbon revenues accounting for less than 1% of GDP, it is the most diversified sheikhdom in the region.<sup>1</sup> Dubai's development model is considered ideal, and is followed by other Gulf countries in the region.<sup>2</sup> Dubai's development approach was inspired by the Singaporean model. Singapore developed by welcoming foreign firms to set up shop for export-oriented manufacturing and thus used its entrepot status to its advantage.<sup>3</sup> The emirate followed a similar approach to development because it was historically an entrepot and housed merchants, but not

<sup>1</sup> Matthew Winkler, "Dubai's The Very Model of a Modern Mideast Economy", *Bloomberg.Com*, 2018, <https://www.bloomberg.com/opinion/articles/2018-01-14/dubai-s-the-very-model-of-a-modern-mideasteconomy>.

<sup>2</sup> Afshin Molavi, "Is Dubai A Model For Economic Diversification?", *CNN*, 2018,

<https://edition.cnn.com/2018/06/04/middleeast/dubai-diversification-persian-gulf/index.html>.

<sup>3</sup> Kim Song Tan, "Invitation Strategy For Cutting Edge Industries Through Mncs And Global Talents: The Case Of Singapore", in *Promoting Dynamic And Innovative Growth In Asia: The Cases Of Special Economic Zones And Business Hubs* (Korea: Korea Institute for International Economic Policy, 2016).

entrepreneurs. Thus, it followed the Singaporean model by opening its borders to foreign firms, and sought to diversify its economy by building on its entrepot characteristics. However, the outcome of this approach differs from those of Dubai and Singapore in terms of sectoral diversification which is interesting. This paper conducts a qualitative study that reviews the literature on their development policies and follows the most similar systems design to explain the outcome of sectoral diversification based on the differences in the inputs of their development policies. The study found that domestic wage policies and initiatives to encourage technologically advanced firms to relocate were key factors that encouraged the service-oriented diversification of Dubai's economy.

While the author appreciates that Singapore developed without the support of hydrocarbon revenues with which Dubai was privileged, this study questions why Dubai, an emirate blessed with the resources and capability to direct its development narrative, witnessed a different outcome in its diversification experience. This research provides insights into two cases of late development which are not often discussed by late-development theorists. This study has the potential to further encourage economic historians and development practitioners in this region's context to think about how development approaches are affected by factors like history, geographic location, and political conditions. This study uses primary data sources, such as government publications and newspaper reports, and secondary sources, such as scholarly work. Following this, the methodology of the study is addressed, and after the key factors of Singapore's development are highlighted, the literature regarding Dubai's development is reviewed, and then the discussion is presented, followed by the conclusion.

### **Methodology**

This study followed a qualitative comparative case study analysis, using the most similar design system. Based on this design, some theoretically significant differences will be found among similar systems, and these differences can be used in explanation.<sup>4</sup> This method is used in comparative politics, where the differences between two similar cases are used to explain why these similar systems had a different outcome.<sup>5</sup>

Singapore was chosen as a case study to compare Dubai's development approach because both are city-states with an entrepot history, invested in world-class infrastructure and services through state-owned enterprises, and positioned themselves as business-friendly to invite foreign firms for economic development. Both states implemented development policies around the same period as well. Singapore achieved independence in 1965

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<sup>4</sup> Przeworski and Teune 1970, p.39 cited in Dirk Berg-Schlosser and Gisele De Meur, "Comparative Research Design: Case And Variable Selection", in *Configurational Comparative Methods: Qualitative Comparative Analysis (QCA) And Related Techniques* (Sage Publications, 2009).

<sup>5</sup> Sandra Halperin and Oliver Heath, *Political Research: Methods And Practical Skills*, 2nd ed. (Oxford University Press, 2016).

and invested in the relevant re-export infrastructure. Dubai joined the UAE in 1971, but investments in port infrastructure and services were initiated by Sheikh Rashid in the early 1960s.<sup>6</sup> Similarly, although both states are frequently mistaken for pursuing development based on liberal economic policies, they follow state-directed, free-market capitalism.<sup>7</sup> Some prominent differences to consider as factors affecting their development are Dubai's hydrocarbon revenues, its high dependence on expatriates, and Singapore's geographic location in Japan's industrialisation. The difference in outcome between the two is that while Singapore was able to diversify into manufacturing high-technology goods and a knowledge-intensive economy, Dubai developed into a service-based economy as a global logistics hub and regional finance hub. This methodology is useful for the context of this study because, first, it helps us acknowledge that Dubai and Singapore had a similar approach and shared factors to development; second, it identifies the differences in factors of their development models, and third, identifies differences in the outcomes of their development model. This structure helps examine the role of different inputs in the differences in the outcomes of development models.

At this juncture, it is also necessary to address the potential criticisms of this approach. A prime concern would be the hydrocarbon revenues Dubai is privileged with. This is the primary reason why no comparative study has been conducted between these two late-developing countries (city-states) before. However, this privilege itself becomes a pertinent reason to engage in a comparative study to understand why the development outcomes were different despite having an upper hand. This study is also especially worth examining because Dubai's policymakers aspired to follow along the path of Singapore.<sup>8</sup> A second criticism would be the limitations on statistical information and reliance on secondary sources and recent data to support historical claims. The challenge of obtaining historical data about Gulf countries is a prime reason for the dearth of research on the economic development of some of the richest countries. However, this study extends beyond these limitations to make original contributions to the literature. Another criticism is the pitching of Dubai, one of the few successful economies in the Middle East, in the same space as Singapore, one among the many successful economies. Dubai certainly fared well for the region, and thus, using Singapore as a yardstick might be perceived as too harsh on the city-state. However, the aim of this study is to understand why similar development policies have had different outcomes and not pit them against each other, but instead evaluate them alongside each other. This form of assessment would provide useful insights into how development policies interact with businesses.

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<sup>6</sup> Christopher Davidson, *Dubai: The Vulnerability Of Success*, 1st ed. (London: Hurst Publishers, 2008).

<sup>7</sup> Linda Y. C. Lim, "Singapore's Success: The Myth Of The Free Market Economy", *Asian Survey* 23, no. 6 (1983): 752-764, doi:10.2307/2644389., Martin Hvidt, "THE DUBAI MODEL: AN OUTLINE OF KEY DEVELOPMENT-PROCESS ELEMENTS IN DUBAI", *International Journal Of Middle East Studies* 41, no. 3 (2009), doi:10.1017/s002074380909151x.

<sup>8</sup> Jeffrey Sampler and Saeb Eigner, *Sand To Silicon* (Dubai, UAE: Motivate Publ., 2008).

Thus, this study is unique in that it compares the development policies and outcomes of Singapore and Dubai and contributes to the literature on late development by studying the importance of factors within the control of policymakers, such as human capital development, and outside of it, such as resource wealth, history, and regional development. The following sections present case studies of Singapore and Dubai and outline the evidence of the divergence in their developmental outcomes.

## Singapore

When Singapore achieved independence in 1965, its main economic activities were rooted in its entrepot history and thereby focused on logistics, transportation, and financial services.<sup>9</sup> Around this time, the Lee Kuan Yew government realised that the country had to diversify its dependence on entrepot trade because of rising unemployment and turned to industrialisation for development.<sup>10</sup> Although it had some manufacturing activities, they were mostly labour-intensive light industries.<sup>11</sup> Singapore’s development occurred in three stages: from 1965 to the mid-1970s, from the mid-1970s to the early 1990s, and the current phase from the 1990s onwards. In its first stage, the People’s Action Party ( PAP) focused on building the country’s industrial and manufacturing base. The second phase focused on industrial upgrading and setting up of services, and in the third stage, the focus was to propel Singapore into a knowledge-intensive economy.<sup>12</sup> The following graph demonstrates a sectoral contribution to Singapore’s GDP over time –

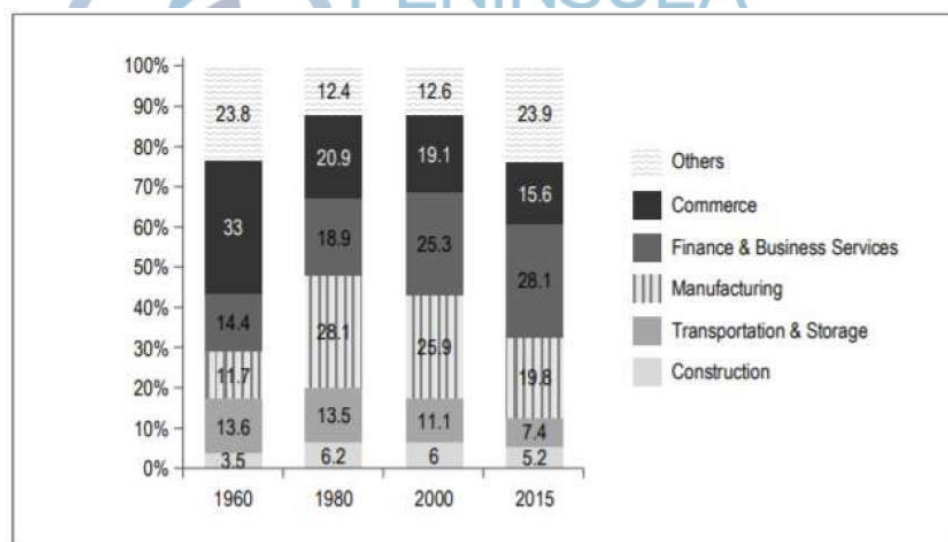


Figure 1 Structural transformation of Singapore Economy

Source: Tan, "Invitation Strategy", p.153.

<sup>9</sup> Tan, "Invitation Strategy For Cutting Edge Industries Through Mncs And Global Talents: The Case Of Singapore."

<sup>10</sup> Ibid


<sup>11</sup> Ibid

<sup>12</sup> Kalim Siddiqui, "The Political Economy Of Development In Singapore", *Research In Applied Economics* 2, no. 2 (2010), doi:10.5296/rae.v2i2.524.

In 1965, the PAP built Singapore’s development strategy for export-oriented industrialisation. A challenge they faced to implement this was the lack of capital, resources, and indigenous entrepreneurs.<sup>13</sup> To resolve this, Singapore opted to depend on foreign MNCs as they could bring capital, technology, and resolve the issue of growing unemployment.<sup>14</sup> To attract foreign firms, Singapore undertook a series of steps to posit the country as business friendly. Some key steps are highlighted here –

- (1) Wage control: With the passing of the Employment Act and the Industrial Relations (Amendment) Act of 1968, the PAP established de facto government control over labour unions which allowed the state to determine wage levels and subsequent increases.<sup>15</sup> This suppressed wages to keep them low and internationally competitive.<sup>16</sup>

The following table from Huff demonstrates the extent to which domestic wage levels were reduced to international prices –



	1975		1980		1993	
	\$	Index	\$	Index	\$	Index
United States	6.36	100	9.87	100	16.79	100
Japan	3.05	48	5.61	57	19.20	114
Singapore	0.84	13	1.49	15	5.38	32
South Korea	0.33	5	0.97	10	5.37	32
Taiwan	0.40	6	1.00	10	5.23	31
Hong Kong	0.76	12	1.51	15	4.31	26
Asian NICs	0.50	8	1.15	12	5.15	31

Note: Asian NICs refers to a United States trade-weighted average level for Singapore, South Korea, Taiwan and Hong Kong.

Figure 2 Hourly wages for production workers in manufacturing 1975-1993

Source: Huff, "What is the Singapore Model of Economic Development?", p.741.

- (2) Infrastructure and service investment: To be an effective production and distribution hub for MNCs, investment in infrastructure such as transportation, logistics, and telecommunications was essential to

<sup>13</sup> Rachel Elkan, "Singapore's Development Strategy", in *Singapore - A Case Study In Rapid Development* (IMF, 1995).

<sup>14</sup> Tan, "Invitation Strategy For Cutting Edge Industries Through Mncs And Global Talents: The Case Of Singapore."

<sup>15</sup> Lim and Pang, 1986, p.11 cited in W.G. Huff, "What Is The Singapore Model Of Economic Development?", *Cambridge Journal Of Economics* 19, no. 6 (1995), doi:10.1093/oxfordjournals.cje.a035339.

<sup>16</sup> Siddiqui, "The Political Economy Of Development In Singapore"

maintain Singapore's regional advantage.<sup>17</sup> Singapore was able to pursue this by borrowing from the Central Provident Fund at cheap interest rates.<sup>18</sup> Using this, the government upgraded its port facilities, built an airport, roads, mass-rapid transit systems etc., which reduced the cost of operating within the country and in reaching world markets.<sup>19</sup> Other investments to attract foreign firms include the building of low-cost production sites by the Jurong Town Corporation (JTC), which was established in 1968 by the Yew government, on government-owned land that was leased to foreign firms post-completion. Singapore has also actively upgraded its service-oriented infrastructure which was predominantly state-owned. The state undertook heavy investments through public sector agencies such as the Port of Singapore Authority and the Public Utilities Board, and set up government-linked enterprises to accelerate investments in infrastructure complementary to a business hub such as in aviation - Singapore Airlines, shipping – Neptune Orient Lines, and telecom Singapore Telecom (SingTel).<sup>20</sup>

(3) Business-friendly policy environment: To encourage FDI, Singapore adopted policies that encouraged businesses to set up shops in the country. An example is the Economic Expansion Incentives Act which was introduced in 1967. This act significantly reduced corporate tax rates for export-oriented manufacturing, allowed 'tax relief for incremental income arising from capital expansion', '90% remission of tax on profits for up to 15 years on approved enterprises', and provided tax exemptions on royalties, know-how and technical assistance fees.<sup>21</sup> Although similar advantages were offered by neighbouring countries too, the benefits offered by Singapore were relatively higher.<sup>22</sup>

(4) Human Resource: From the early stages of development, the planners of Singapore understood that in its initial years, the country would face difficulties in providing skilled labour for firms it hoped to attract. In the 1970 Budget Speech, Dr. Goh KengSwee highlighted that in the coming years, the demand for skilled labour force such as engineers, management, and technical personnel would rise significantly, and if the country were to depend on the local labour force, it would not be practical as an engineering student would take four years to graduate and more years to acquire relevant experience

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<sup>17</sup> Tan Kim Song and Manu Bhaskaran, "The Role Of The State In Singapore: Pragmatism In Pursuit", in *Singapore's Economic Development Retrospection And Reflections* (World Scientific Publishing Company Pte Limited, 2016).

<sup>18</sup> Huff, "What is the Singapore model of economic development?" p.746

<sup>19</sup> Helleiner 1973 cited in Huff, "What is the Singapore model of economic development?" p.746

<sup>20</sup> Tan, "Invitation Strategy For Cutting Edge Industries Through Mncs And Global Talents: The Case Of Singapore."

<sup>21</sup> Teck-Wong Soon and William A. Stoeber, "Foreign Investment And Economic Development In Singapore: A Policy-Oriented Approach", *The Journal Of Developing Areas* 30, no. 3 (1996).

<sup>22</sup> Ibid

before being qualified to work for large-scale organisations.<sup>23</sup> In this regard, it introduced many schemes from the late 1960s that allowed the intake of higher-skilled foreign labour to promote industrialisation.<sup>24</sup> For instance, foreign skilled workers and professionals with a university degree from recognised institutions were provided with employment passes for up to three years at a time.<sup>25</sup> The government also accounted for naturalisation programmes where foreign workers, entrepreneurs and investors could apply for citizenship after two to five years of being permanent residents.<sup>26</sup> Meanwhile, the government encouraged the education and training of citizens in knowledge and skills-based courses.<sup>27</sup> Although the government still welcomes foreign talent in the country, policies were initiated to prioritise local labour, as a result of which foreign talent in the labour force was reduced to 9% in the economy.<sup>28</sup> The following data compiled by Abeyasinghe demonstrate the number of economically active university degree holders in Singapore’s resident labour force and their fields –

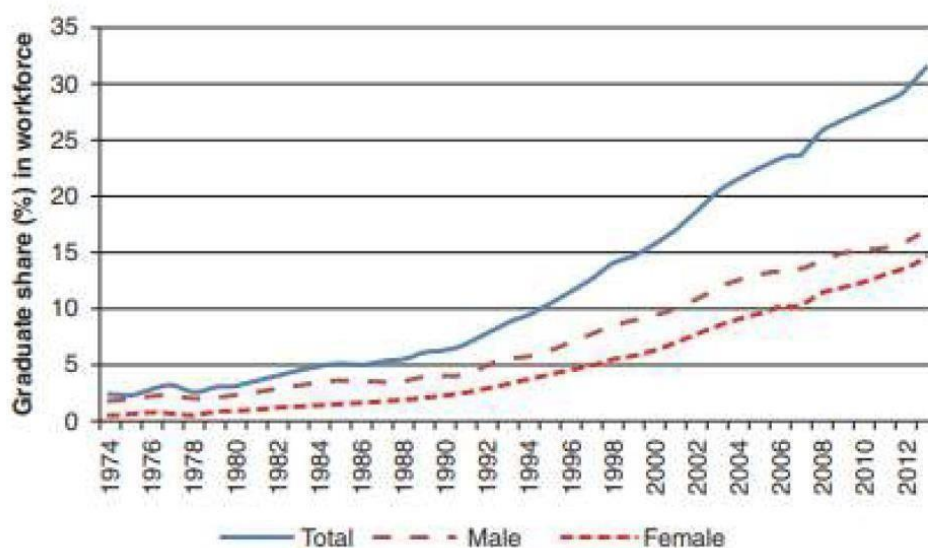


Figure 3 Proportion of economically active university degree holders in Singapore labour force

Source: Abeyasinghe, “Lessons Of Singapore’s Development”, p.42

<sup>23</sup> Yap Mui Teng and Christopher Gee, "Singapore's Demographic Transition, The Labor Force And Government Policies: The Last Fifty Years", in *Singapore's Economic Development Retrospection And Reflections* (World Scientific Publishing Company Pte Ltd, 2016).

<sup>24</sup> Teng and Gee, ‘Singapore’s demographic transition’, p.208.

<sup>25</sup> Ibid.

<sup>26</sup> Ibid.

<sup>27</sup> Tilak Abeyasinghe, "Lessons Of Singapore's Development For Other Developing Economies", in *Singapore's Economic Development: Retrospection And Reflections*, p.42 (World Scientific Publishing Company Pte Ltd, 2016).

<sup>28</sup> Abeyasinghe, ‘Singapore’s demographic transition, the labour force, and government’.

Course	Gender	1995	2000	2005	2010	2013
Engineering sciences	M	50.0	60.7	56.7	43.4	40.7
	F	16.3	23.0	23.9	17.3	17.3
Accountancy, business and administration	M	14.7	9.6	11.8	14.1	15.5
	F	29.5	23.0	21.8	19.6	19.4
Natural, physical and mathematical sciences	M	8.1	6.4	8.5	11.1	10.4
	F	13.1	13.4	15.4	15.6	15.3
Humanities and social sciences	M	9.6	8.2	8.4	11.0	11.8
	F	30.6	24.6	21.7	22.9	23.4
Information technology	M	7.2	6.3	5.5	7.7	8.7
	F	5.0	3.8	3.3	3.6	4.2
Medicine, dentistry, health sciences	M	4.5	3.9	3.6	3.7	4.0
	F	3.1	3.4	4.1	5.3	6.2
Architecture and building	M	3.2	3.0	2.6	2.4	2.5
	F	4.1	4.7	3.9	3.9	3.7
Law	M	2.3	1.3	1.5	2.3	2.5
	F	2.8	1.9	2.3	2.7	2.4
Education, applied arts, mass communication, services	M	0.5	0.8	1.3	4.3	3.8
	F	1.7	2.1	3.6	9.3	8.0

Figure 4 Enrolment in University first degree courses (Percentage distribution)

Source: Abeysinghe, "Lessons Of Singapore's Development", p.42



In this way, the government sought to meet the needs of foreign firms as well as the skills of its citizens in a manner that aligns with the country’s broader development goals.

These domestic conditions made it possible for Singapore’s Economic Development Board’s ( EDB) task of approaching MNCs to relocate their manufacturing sites to Singapore easier. They highlighted conditions in the country suitable for manufacturing such as its low-wage environment, good transportation infrastructure and logistics sector, and the newly introduced export-oriented trade and investment regime to pursue suitable foreign firms.<sup>29</sup>The MNCs were also approached by the EDB based on satisfaction of specific criteria such as value-added, skill content, and capital intensity, and were certain that they would be ideal for the long-term development of Singapore’s economy.<sup>30</sup> For instance, EDB spotted the potential of electronics in Taiwan and

<sup>29</sup> Elkan, ‘Singapore’s development strategy’.

<sup>30</sup> Huff, ‘What is the Singapore model of Economic Development?’



later approached pioneer firms to enquire the necessary incentives to move to Singapore and provide them later.<sup>31</sup> These efforts led Singapore to reach full employment by mid-1975 and propelled it towards focusing on industrial upgrading, developing financial services, and becoming a knowledge-intensive economy. As the economy reached full employment, there was upward pressure on wages, which led labour-intensive tasks to be repatriated to relatively low-wage countries in the region and allowed industrial upgrading to occur in Singapore.<sup>32</sup> Furthermore, as Singapore developed its infrastructure, foreign firms resorted to conducting higher value-added activities in the country.<sup>33</sup> A significant driver of this change was the availability of skilled labour at relatively cheap prices, accessibility to Singapore's globally well-connected logistics hub, and political commitment through business-friendly initiatives.<sup>34</sup> The foundation of Singapore as an international financial centre was laid when the Bank of America's Asian currency unit was set up in 1968 which allowed participants to invest and trade in foreign currencies without needing to convert to SGD.<sup>35</sup> From this point, there was a conscious effort to use Singapore's historical experience in financial services to develop the domestic banking sector as a regional funding base and posit the country as an offshore trading centre for foreign currencies by making use of its favourable time-zone position to intermediate between the London and New York foreign exchange markets.<sup>36</sup> Afterwards, Singapore secured its position as the regional headquarters for knowledge-intensive functions by establishing the Johor- Batam-Singapore growth triangle in 1989.<sup>37</sup> Through this initiative, business functions in labour-intensive technology were encouraged to transition to Malaysia and Indonesia, while skill-intensive functions were retained in Singapore.<sup>38</sup> Thus, these policy initiatives were crucial in Singapore's development.

Apart from endogenous factors, there were also exogenous factors that benefitted Singapore in its pursuit of inviting MNCs to set up shop in the country of which three are discussed here. First, the period between 1965-1973 witnessed a rapid expansion in world trade and the relocation of textile and garment factories from other Asian countries which had exhausted their clothing export quotas to developed-country

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<sup>31</sup> Ibid

<sup>32</sup> Elkan, 'Singapore's development strategy'.

<sup>33</sup> W.G. Huff, "Markets, Government, And Growth, 1960-1990", in *The Economic Growth Of Singapore: Trade And Development In The Twentieth Century*, 1st ed. (Cambridge University Press, 1994), 299-360.

<sup>34</sup> Ibid

<sup>35</sup> Peter Wilson, "Monetary Policy And Financial Sector Development", in *Singapore's Economic Development Retrospection And*

<sup>37</sup> Elkan, 'Singapore's development strategy'.

<sup>38</sup> Ibid.

markets.<sup>39</sup> Second, MNCs moved to Singapore in the mid-1960s because of unfavourable conditions in their home countries such as higher wages and increasing competition, which encouraged foreign firms to relocate to Singapore to take advantage of the ready infrastructure.<sup>40</sup> For instance, the British company AVIMO transferred the production of optical instruments from the UK to Singapore to compete effectively with Japanese products.<sup>41</sup> The following data from Mirza’s research demonstrates this –

**Table 1: Distribution of Manufacturing Foreign Direct Investment by country of origin, 1965-82 (in percentages)**

COUNTRY	1965	1970	1975	1982
USA	14.6	34.5	33.1	34.0
JAPAN	17.2	6.8	13.4	16.4
UK	28.7	20.0	14.2	16.3
NETHERLANDS	25.5	18.4	14.0	14.7
GERMANY	N.A	0.3	3.1	2.3
SWEDEN	N.A	0.3	0.7	1.3
SWITZERLAND	N.A	1.2	0.9	1.8
OTHERS	14.0	16.2	18.9	10.4
TOTAL AMOUNT (US\$ BN)	0.1	0.3	1.4	4.5

Source: Mirza, “Multinationals and The Growth Of The Singapore Economy”, p.95

As Tan writes ‘the government tried to turn Singapore into one of the most efficient business environments in the region’ to attract MNCs, and ‘by making Singapore a first-world city in a third world region, it hoped to provide an oasis for international investors in a region where business operations were often hamstrung by myriad regulatory and administrative hurdles.’<sup>42</sup> Singapore’s success in this sense was in its ability to invite other foreign firms to relocate to Singapore and leverage the strengths of other economies in the region to enhance its own productive and innovative capacity.<sup>43</sup> Thus, apart from endogenous factors of development in Singapore, there were also exogenous factors such as regional economic growth, and changes in the international economy requiring relocation of firms in labour-intensive sectors which were of crucial timing to Singapore’s efforts.

<sup>39</sup> Ibid

<sup>40</sup> Hafiz Mirza, *Multinationals And The Growth Of The Singapore Economy* (London: Routledge, 2012).

<sup>41</sup> Ibid, p.99.

<sup>42</sup> Tan, "Invitation Strategy For Cutting Edge Industries Through Mncs And Global Talents: The Case Of Singapore."

<sup>43</sup> Ibid.

## Dubai

Since historical GDP data depicting structural transformation in Dubai are unavailable, this study uses recent data on the structural contribution to GDP to assess the extent to which development policies have met the expectations of the rulers. This section briefly highlights the current economic structure and emphasises the developmental vision of the rulers for Dubai, after which it identifies the key factors in the development of the emirate.

Economic Activity	النقطة المئوية Percentage Point	نسبة النمو Growth Rate %	2019*	
			نسبة المساهمة % Percentage Contribution %	القيمة Value
Agriculture, forestry and fishing	0.0	-0.3	0.1	498
Mining and quarrying	0.0	0.0	1.5	6,387
Manufacturing	0.0	0.3	0.0	36,200
Electricity, gas, and water supply; waste management activities	0.0	0.5	2.6	10,653
Construction	0.1	1.2	6.3	25,805
Wholesale and retail trade; repair of motor vehicles and motorcycles	0.8	3.2	26.5	109,068
Transportation and storage	0.6	4.8	12.5	51,551
Accommodation and food service activities	0.1	2.5	5.0	20,547
Information and communication	0.0	0.3	4.1	16,923
Financial and insurance activities	0.0	0.2	9.7	40,070
Real estate activities	0.5	7.5	7.4	30,611
Professional, scientific and technical activities	0.1	2.6	3.7	15,042
Administrative and support service activities	0.2	5.6	3.1	12,722
Public administration and defence; compulsory social security	0.0	0.2	4.9	20,297
Education	0.1	5.9	1.6	6,469
Human health and social work activities	0.1	5.9	0.9	3,827
Arts, entertainment and recreation	0.0	0.9	0.3	1,349
Other service activities	0.0	1.0	0.5	1,872
Activities of households as employers; undifferentiated goods- and services-producing activities of households for own use	0.0	2.9	0.5	2,184
<b>Gross Domestic Product</b>	<b>2.7</b>	<b>2.7</b>	<b>100</b>	<b>412,077</b>

\* 2019 data calculated based on Economic Survey result 2020

Figure 5 Dubai Sectoral Contribution to GDP at Constant Prices 2019  
Source: Government of Dubai, 2020

As the above table substantiates, the main drivers of the economy are entrepot activities like trade (26.5%), transportation and storage (12.5%), followed by financial services (9.7%), and real estate (7.4%). Scholars like Hvidt argue that Dubai had ‘no intention of developing through industrialisation’ and its focus was to

jump from a 'pearling society' to a service society.<sup>44</sup> However, from a historical perspective, this diversification outcome is interesting because rulers were keen to build a manufacturing-oriented economy. Archival reports from Euromoney Institutional Investors state that, even though growth rates have historically been low in the sector, development plans for Dubai in the early 1990s continued to be made under the assumption that the annual real growth rate in its manufacturing sector would meet 7%.<sup>45</sup> As of 2019, the growth rate of manufacturing was only 0.3%. Similarly, the latest development program, Dubai Industrial Strategy 2030, has been launched with the expectation that Dubai will leapfrog into knowledge-based and innovation-focused manufacturing industries such as aerospace, pharmaceuticals, and medical equipment.<sup>46</sup> Hence, there appears to be a conscious effort from policymakers in Dubai to centre the economy around manufacturing; however, the economy has developed an orientation towards services.

From the literature reviewed about Dubai's development policies four steps taken by the government stand out; first, efforts in building the entrepot facilities; second, state investment in building infrastructure, services, and heavy industries; third, creation of a business-friendly legal environment; and fourth, an immigration-friendly labour policy.

- (1) Building entrepot facilities: Dubai's entrepot history is relatively short compared to Singapore. Although it was a British protectorate before independence, the sheikhdom received little support for upgrading its port facilities.<sup>47</sup> Development initiatives were a result of rulers' efforts and financial support offered by the merchant community. For instance, Sheikh Rashid Bin Al-Maktoum dredged the Dubai Creek in 1950, built a bridge across the creek, and upgraded the port capacity to make the city more business capable by financing it through creek bonds from Dubai-based merchants, borrowing £400,000 from the Kuwait Development Fund, and additional capital from the Qatari royal family.<sup>48</sup> Dubai also benefited from the Indian and Persian merchant communities whose networks facilitated major trade flows through the sheikhdom from as early as 1890 which continued to support Dubai's growth as a trading hub.<sup>49</sup> These instances are evidence of Dubai's focus on becoming an entrepot before joining the UAE.
- (2) State investment in infrastructure, services, and heavy industries: Post-independence, Dubai channelled hydrocarbon revenues to improve infrastructure and services that augmented its entrepot

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<sup>44</sup> Hvidt, 'The Dubai Model of Development', p.404.

<sup>45</sup> "Euromoney; London", Periodical, (1997), World Economic Analysis, United Arab Emirates Document no.:198889294, ProQuest One Business.

<sup>46</sup> "Dubai Industrial Strategy 2030", *United Arab Emirates Government Portal*, 2021, <https://u.ae/en/about-theuae/strategies-initiatives-and-awards/local-governments-strategies-and-plans/dubai-industrial-strategy-2030>.

<sup>47</sup> Davidson, 'Dubai', p.67-69.

<sup>48</sup> Ibid.

<sup>49</sup> Fatma Al-Sayegh, "Merchants' Role In A Changing Society: The Case Of Dubai, 1900-90", *Middle Eastern Studies* 34, no. 1 (1998): 87-102, doi:10.1080/00263209808701211.

facilities, thus encouraging industrialisation. The following excerpt from an archival newspaper article demonstrates this.

**“Beyond Oil – Dubai’s ‘Industrial Revolution’ points the way”**

*“It is no accident that Dubai is leading the way in a policy of alternative development to oil...The country needed a diversified, economic base, and this, it was clear, would have to be created. Dubai traditionally looked at trade and the sea. These, therefore, had to be the point of departure for industrial expansion. **First, there would have to be a deep-water port of huge capacity, the relevant industries that could make as many raw materials as possible that existed locally or could be economically brought in. From these and other simple expedients, concepts of the industrial future began to arise.**”<sup>50</sup>*

Infrastructure projects taken up between 1970-85 such as Port Rashid, Jebel Ali Port, Dubai Dry Docks, and the expansion of the Dubai International Airport, are examples of construction projects that strengthen Dubai’s transportation systems.<sup>51</sup> These ventures featured technologically advanced facilities, as demonstrated by the following archival article –

**“Sophisticated facilities”**

*“The Sheikh has created the world’s largest dry dock and the most comprehensive and sophisticated engineering facilities in the Middle East...A British manufacturer of the heavy plant went round the workshops and was amazed to find that Dubai’s dry dock had facilities almost identical to those in his own factory.”<sup>52</sup>*

The government also invested in electricity, roads and transport systems, water desalination and supply systems, schools, and hospitals.<sup>53</sup> Dubai also initiated investments in social infrastructure through government-linked companies to promote it as the business hub in the Middle East. A key development was the establishment of its flagship airline ‘Emirates’ in 1985. The ‘Emirates’ follows the hub-and-spoke model of connectivity, where Dubai is the hub. This made Dubai an international destination. It also complimented Dubai’s target for becoming a global logistics hub by augmenting air connectivity and making freight movement via sea-air combinations possible.<sup>54</sup> To promote industrialisation, state investment into capital

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<sup>50</sup> "Beyond Oil", Newspaper Article, (1979), HS2305266500, Financial Times Historical Archive, Gale Financial Times Historical Archive 1888-2016.

<sup>51</sup> Richard Johns, "No Limit To Dubai's Ambition", Newspaper Article, (1972), HS2300974852, Financial Times Historical Archive, Gale Financial Times Historical Archive 1888-2016.

<sup>52</sup> "Dubai Dry Docks III - Sophisticated Facilities, HS2303861035", Newspaper Articles, (1979), Financial Times Historical Archive, Gale Financial Times Historical Archive 1888-2016.

<sup>53</sup> Shihab Ghanem, *Industrialization In The United Arab Emirates* (Aldershot [England]: Avebury, 1992).

<sup>54</sup> Rodrigue, Jean-Paul. *Developing The Logistics Sector: The Role Of Public Policy Dubai, Morocco, Panama*

intensive industries such as aluminium smelters (DUBAL), steel fabrication plants, cement factories, etc. were set up to aid construction, and subsequently, build more linkages to industrialise.<sup>55</sup> In addition, the government has giant profitable SOEs in virtually every sector, and where it does not directly own them, it follows an embedded autonomy approach where trusted members of the royal family are either appointed to the board of private companies or buy a small equity share through its sovereign wealth fund.<sup>56</sup> Under an unofficial umbrella term Dubai Inc., the government of Dubai owns Dubai Ports World, JAFZA, infrastructure giant Nakheel and Emaar, Du (telecom provider), etc. This structure provided significant control to the ruler over companies crucial to Dubai's aim to become an entrepot city and allowed for quick, efficient decisions to be taken in this direction.<sup>57</sup> Thus, infrastructure investments in ports, real estate construction and other services were built by the state to support its entrepot potential and invite foreign firms.

(3) Business-friendly policies: The emirate also constructed a policy environment that was conducive to attracting foreign firms. An essential component of this was the introduction of the free zone concept. The Commercial Companies Law of 1984 was a federal UAE law that held restrictive regulations, such as a local partnership with an Emirati and 40% local purchases.<sup>58</sup> However, Dubai initiated a free zone policy to create a separate jurisdiction in which foreign firms could operate under Emirate's pro-business regulations to encourage the relocation of MNCs.<sup>59</sup> The first case was the construction of the Jebel Ali Free Zone, which was set up in 1985 adjacent to Jebel Ali Port, with ready to move in office complexes, industrial sites, warehouses and was complete with leisure facilities for businessmen including hotels and golf courses.<sup>60</sup> JAFZA was established with Dubai's ambition to become a manufacturing distribution point for the Gulf.<sup>61</sup> Like Singapore, Dubai also aimed to use its entrepot facilities to invite foreign firms to re-export and then diversify to manufacturing.

(4) Open-immigration labour policy: Dubai allowed firms operating within free zones to bring in foreign talent as required with no limits, as the local labour force was not enough to supply the expected demand.<sup>62</sup> From construction of ports to managing SOEs and bringing businesses in the free zones and

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*And Colombia As Maritime Logistics Platforms*. ResearchGate, 2017.

<sup>55</sup> Kristian Coates Ulrichsen, *The United Arab Emirates: Power, Politics And Policy-Making* (Routledge, 2017).

<sup>56</sup> Martin Hvidt, "Public – Private Ties And Their Contribution To Development: The Case Of Dubai", *Middle Eastern Studies* 43, no. 4 (2007): 557-577, doi:10.1080/00263200701348862.

<sup>57</sup> Hvidt, 'The Dubai Model'.

<sup>58</sup> Davidson, 'Dubai', p.114-119

<sup>59</sup> Ibid.

<sup>60</sup> "For Space Age Executives, A Grass Golf Course In The Desert", Newspaper article, (1979), HS2305266500, Financial Times Historical Archive, Gale Financial Times Historical Archive 1888-2016.

<sup>61</sup> Patrick Cockburn, "Jebel Ali - Port Is Test Case For Gulf Trade", Newspaper Article, (1982), HS2304444069, Financial Times Historical Archive, Gale Financial Times Historical Archive 1888-2016.

<sup>62</sup> Ulrichsen, 'The United Arab Emirates', p.86-136

mainland Dubai, there was a high reliance on expatriate labour for both white-collar and blue-collar jobs.<sup>63</sup> At the same time, it allowed firms to import cheap labour and initiated policies for the subsequent Emiratisation of the labour force.<sup>64</sup> Davidson highlights that these policies implemented extensively from the 1980s initially focused on targeted training and education of Emiratis and prepared them to join the workforce.<sup>65</sup> Since public sector jobs provided better salaries and perks, Emirati citizens preferred to work in the public sector over the private sector.<sup>66</sup> To address this issue, federal laws were passed in the late 1980s that granted special pension funds and guaranteed employee rights to Emirati citizenship.<sup>67</sup> This led the private sector to perceive national citizens as highly protected and less productive than foreign talent, and led them to continue hiring internationally for semi-skilled and skilled jobs.<sup>68</sup> The Kafil sponsorship system is another Emiratisation measure that requires a foreign entrepreneur to partner with a UAE citizen for doing business on the mainland. Davidson states that although the aim was to enable technology transfer and help nationals gain experience, the measure has had a parasitic effect, where nationals receive profits from private firms as a citizenship perk.<sup>69</sup> Although Emiratisation programs have continued, they have yielded little success. As of 2020, only 7.46% of the total labour force is UAE nationals.<sup>70</sup> This demonstrates a strong difference relative to Singapore.

The effect of the above policies has been that Dubai diversified its economy beyond oil, elevated itself from being a regional entrepot to a global logistics hub, the region's financial headquarters, a tourist hub, and created a foundation for information and communication sectors. Dubai had limited hydrocarbon reserves relative to Abu Dhabi, 4 billion barrels of oil compared to 92 billion barrels held by the latter, and was able to diversify its economy such that oil accounted for less than 1% of its GDP today.<sup>71</sup> Its oil production peaked at 410,000 barrels per day in 1991 and has been falling since.<sup>72</sup> After commerce, finance and insurance activities contribute around 9% to the GDP of Dubai. It is central to Islamic Financial Services and is home to around \$222 billion of the \$2 trillion that Islamic financial markets hold in combined assets.<sup>73</sup> It is useful to highlight the following archival newspaper article here:

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<sup>63</sup> Ibid.

<sup>64</sup> Christopher Davidson, *The United Arab Emirates: A Study In Survival*, 1st ed., p.150-54 (Lynne Rienner Publishers, 2005).

<sup>65</sup> Ibid

<sup>66</sup> Ibid

<sup>67</sup> Ibid

<sup>68</sup> Hugo Toledo, "The Political Economy Of Emiratisation In The UAE", *Journal Of Economic Studies* 40, no. 1 (2013): 42, doi:10.1108/01443581311283493.

<sup>69</sup> Davidson, 'The United Arab Emirates', p.152.

<sup>70</sup> "Share Of UAE Nationals In The Workforce", *Vision 2021 National Agenda*, 2021, <https://www.vision2021.ae/en/national-agenda-2021/list/card/share-of-uae-nationals-in-the-workforce>.

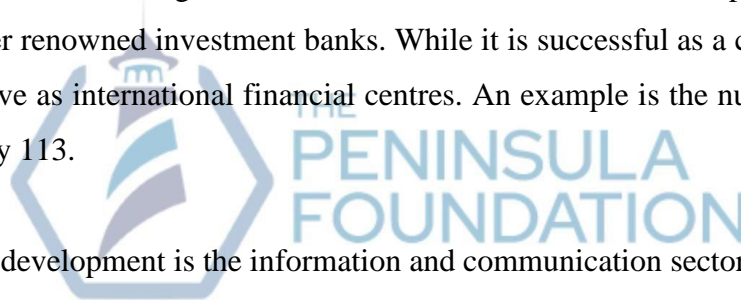
<sup>71</sup> "Oil In Dubai: History & Timeline", *Gulfnews.Com*, accessed 1 September 2021, <https://gulfnews.com/business/energy/oil-in-dubai-history--timeline-1.578333>

<sup>72</sup> Ibid.

**"Dubai." The United Arab Emirates. Financial Times, 10 May 1976**

*"Progress towards industrialisation is slow but steady...The natural trading evolution of the Dubai merchant family businesses is also leading the Emirate towards the financial service industries...In the short history of the merchant traders of the Gulf States, a natural evolutionary pattern appears to be establishing itself...So it would seem that for the immediate future Dubai will still look to its income from oil and trading, whether in goods or money rather than industry."*<sup>74</sup>

Domestic banks in Dubai are global leaders in Islamic financing and were also crucial in financing the emirate's development.<sup>75</sup> While transactions grew as Dubai's relevance as a global trading hub grew, the quadrupling of oil prices in 1974 was a key factor in the increase in foreign and local banks and the scope of financial transactions.<sup>76</sup> The Dubai Financial Market (DFM) was launched in 2000 and the Dubai International Financial Centre (DIFC) was created in 2004. It is a free zone dedicated specifically to financial services and follows English Common Law over regional Islamic law.<sup>77</sup> The DIFC hosts companies such as JP Morgan, Goldman Sachs, and other renowned investment banks. While it is successful as a centre of Islamic Banking, it is otherwise not as active as international financial centres. An example is the number of companies listed in the DFM, which is only 113.



Another service-oriented development is the information and communication sector in Dubai. The creation of a dedicated free zone, the Dubai Internet City (DIC), in 1999 was the starting point for this. DIC is hailed as successful today by government sources and gulf media in terms of employment generation and the creation of a start-up ecosystem.<sup>78</sup> However, the information and communication sector contributes 4.1% to Dubai's GDP, and has a growth rate of only 0.3%.

It is evident that Dubai has been successful in diversifying its economy from hydrocarbon revenues and has been more efficient than other regional economies on this mission. However, despite driving infrastructure

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<sup>73</sup>"Dubai Maintains Its Strong Position In The Islamic Financial Services Sector", *Oxford Business Group*, accessed 1 September 2021, <https://oxfordbusinessgroup.com/overview/regional-base-dubai-solidifies-itsreputation-centre-sharia-compliant-financial-products>.

<sup>74</sup>"Dubai", Newspaper article, (1976), HS2302972175, Financial Times Historical Archive, Gale Financial times Historical Archive 1888-2016.

<sup>75</sup>"Rise Of The UAE As A Banking Superpower", *The National News UAE*, 2011, <https://www.thenationalnews.com/uae/rise-of-the-uae-as-a-banking-superpower-1.426904>.

<sup>76</sup>Ibid.

<sup>77</sup>Ulrichsen, 'The United Arab Emirates', p.86-136

<sup>78</sup>Sam Bridge, "20 Years On: The Impact Of Dubai Internet City", *Arabian News*, 2019 <https://www.arabianbusiness.com/technology/432010-20-years-on-the-impact-of-dubai-internet-city>.



investments with an incentive to build an economy around manufacturing, the outcome has been an economy with strong service orientations. The next section provides explanations for this divergence.

## **Discussion**

At the start of this study, three factors were noted to be different in this comparison: Dubai's high dependence on expatriates, its association with hydrocarbon revenues, and Singapore's location near Japanese industrialisation. This section uses these differences to explain the variance in Dubai's and Singapore's economic diversification.

First, there was a significant difference in the treatment of foreign labour and wage levels in Dubai and Singapore. Singapore suppressed wage levels, weakened labour rights, and promptly curbed excessive dependence on foreign talent. Dubai was unable to suppress wages, but strengthened labour rights for Emiratis and continued to have expatriates dominate the labour force in its economy. The emirate was unable to suppress wage levels because two labour economies operate in its territory: one of the UAE citizens and the other consisting of foreign talent. Since public-sector companies provide higher salaries, citizens are disincentivized from seeking employment in the private sector. As the emirate provides special rights to UAE citizens and strengthens their labour laws as part of their Emiratisation programme, it encouraged the private sector to employ foreign talent. This is the starkest difference in the development policies of the two city-states. Although Dubai focused on targeted education and training programs like Singapore, it was unsuccessful in embarking on the national labour force in the private sector due to their expectations for a premium salary.

This price distortion also has a far-fetching impact on Dubai's aspirations for building a knowledge-intensive manufacturing industry. Even though foreign talent in Dubai is underpaid relative to nationals, they are still paid twice as much as their home countries across jobs at all skill levels. Tong and Al Awad demonstrate that this is true not only for low-skilled and semi-skilled jobs, but also for high-skilled jobs by comparing the average wages of high-skilled expatriates from the US and the UK.<sup>79</sup> They compare their wage levels at home and in Dubai, control for purchasing power parities and find that the salaries are twice as that in their home countries. This salary structure is detrimental to high-value business activities, as their successful marketisation depends on production cost efficiency. For knowledge-intensive business models, R&D is one of the most expensive and crucial activities. Competition for such industries has historically arisen from the

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<sup>79</sup>Tong, Qingxia, and Mouawiya Al Awad. "Diversity And Wage Inequality In The UAE Labor Market". *Journal Of Economics And International Business Management* 2, no. 3 (2014): 68.

global north and only recently from the global south (China). As employee costs in Dubai are twice those in developed countries, it makes innovative business models in the emirate incompetent in the face of global competition. This reasoning explains the challenges in the takeoff of the knowledge-intensive industry in Dubai.

Second, Dubai's diversification efforts had a convenient starting point relative to Singapore because of its hydrocarbon revenues. It received support in the form of financing infrastructure to upscale the emirate's entrepot facilities and more importantly allowed energy and capital-intensive industries such as aluminium smelters and steel fabrication plants to take off. Having hydrocarbon resources allowed Dubai to skip the first stage of industrialisation and begin with capital-intensive industries. This is justified because the emirate's natural advantage is the use of resource-intensive industries to develop. The facilities it set up were also technologically advanced as emphasised by the archival article in the case of engineering facilities at the Dubai Dry Dock. This emphasises that Dubai sought to attract similar high-value economic activities that were technologically advanced to its shores. This is understandable, especially since it had a small Emirati population, and any labour-intensive activity would have to be satisfied by importing cheap, unskilled foreign labour.

The impact of initiating industrialisation through technologically advanced firms for development can be better explained using Helleiner's seminal work. Helleiner argued that Singapore could develop because it entered production chains by identifying a specific industry (electronics) to vertically integrate itself.<sup>80</sup> He argued that to scale to knowledge-intensive sectors it is easy to first relocate labour-intensive production processes of the industry and to then upgrade production activities vertically.<sup>81</sup> The logic is that even if R&D for labour-intensive activities is small, by relocating some part of the production chain, the opportunity to conduct research on making labour-intensive technology efficient increases, which itself is a skill-intensive process.<sup>82</sup> Since such production processes are conducted within MNCs, they would subsequently scale the model to optimise profits and adopt it across the firm. This further increases the scope of vertical technological upgrades in the economy.

Drawing information from the case study in reference to the above, Singapore's development model hinged on inviting labour-intensive manufacturing firms then developing a niche in electronics and knowledge-intensive industries. It was easier to invite firms, as labour-intensive industries are relatively easier to relocate

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<sup>80</sup>G. K. Helleiner, "Manufactured Exports From Less-Developed Countries And Multinational Firms", *The Economic Journal* 83, no. 329 (1973): 21, doi:10.2307/2231098.

<sup>81</sup> *Ibid*, p.33.

<sup>82</sup> *Ibid*, p.33.

because of limited capital investments. As wages began to increase due to full employment, they directed labour-intensive industries to Malaysia and Indonesia and retained knowledge-intensive activities in the country. Singapore's experience demonstrated that knowledge-intensive industries cannot be uprooted for relocation; such industries are cultivated, albeit through foreign firms, over time. In the case of Dubai, except for construction, there was no requirement of labour-intensive manufacturing due to their small population size and as per Helleiner's theory relocating technologically advanced to a developing country is unrealistic. This comparison illustrates that it is difficult to create knowledge-intensive industries without first building a base of the specific industry in the economy.

The third difference was the potential benefits that Singapore could have reaped as being adjacent to Japanese industrialisation. As highlighted in the case study, Singapore had the opportunity to approach firms as the region was experiencing growth, but this was the internal condition that allowed the strategy to succeed. It is unlikely that Dubai was disadvantaged by the lack of this factor because the prime benefit for the East Asian and Southeast Asian countries was that it brought labour-intensive manufacturing. Second, concerns about Dubai's missing out on scaling towards knowledge-intensive industries because of an unfavourable geographic location are also unlikely. This is emphasised by Moyo's work, where she argues that in instances of successful historical industrialisation such as Germany, Japan, Korea, and Singapore, there was a pool of locally available skilled human capital which made industrialisation feasible.<sup>83</sup> Since wage levels of nationals are much higher in Dubai, it would require firms to import foreign talent for knowledge-intensive industries and thus reduce operational ease.

Moyo's work can also be used as a guideline to explain why the emirate was able to diversify relatively easily in the service sector. Being an entrepot, Dubai had merchants settled from the Indian and Persian communities as early as 1890, and their expertise lay in trade and financial services. Al Sayehg also notes that the role of merchants in the development of Dubai's economy between 1900-1990 has been crucial in improving the emirate's potential as the global logistics hub.<sup>84</sup> Human capital in these fields is rich with generations of experience in trade and Islamic financial services, both of which have played an important role in Dubai's development.

The experience of Dubai's development adds a rich understanding of the role of domestic policies, demography, and the stage of industrial invitation in influencing firms' decision to relocate manufacturing facilities and subsequent knowledge-intensive development. It explains how in the absence of a suitable labour

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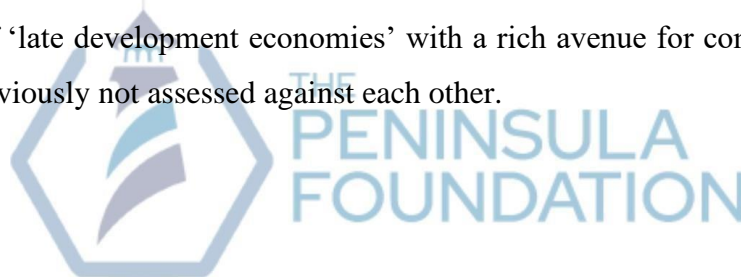
<sup>83</sup>Theresa Moyo, "Development Of Human Capital For Industrialisation: Drawing On The Experiences Of Best Performers", *Africa Development* 43, no. 2 (2018).

<sup>84</sup>Al-Sayegh, 'Merchants' role in a changing society'.

force for manufacturing, the entrepot oriented services caught on better in response to the policy initiatives taken by the government. This study has not focused on the role of bilateral and multilateral trade agreements on FDI inflows in either country. This direction holds the potential to unearth how the political processes of both city-states played a role in their ability to attract foreign firms.

## **Conclusion**

This study compares Dubai's and Singapore's development policies to explain the divergence in their developmental outcomes. It provided insight into how wage policies and the kind of manufacturing being invited for production at home were decisive in Dubai's service-oriented development. By studying development policies initiated retrospectively and assessing their present-day impact, the author has researched economic development in Gulf countries, where historical data are often inaccessible. This study is important for three reasons. First, it contributes to the literature by demonstrating the centrality of manufacturing to Dubai's policymakers. Second, by discussing the effect of domestic policies, particularly in wage levels, the study is of interest to policymakers in resource-rich developing economies and emphasises the dangers of this in a Gulf economy that is well diversified. Third, this research provides academics interested in the study of 'late development economies' with a rich avenue for comparison between the two countries which were previously not assessed against each other.



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