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ABSTRACT

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Gulf Cooperation Council (GCC) countries have enjoyed large amounts of oil revenues for their development and prosperity over past fifty years or so. However, since the dramatic drop in oil prices in 2014, all the GCC countries are facing serious challenges in this regard. Dubai is one of the least dependent states in the UAE in terms of oil revenues and is the first state in the GCC to focus on SMEs. However, its economic activities are still, in many ways, related to oil activities and basic trading sectors. SMEs contribution to GDP in Dubai is also relatively lower than other European and Asian countries, and citizen's participation in private sectors is also limited. In this regard, I argue that Dubai can use the development state model of South Korea to develop their SMEs and private sectors, as the Asian nation successfully used this theory to increase industrialization from an agricultural based economy from 1960 to 1990.

DEDICATION

I would like to dedicate this thesis to my newly-born son, and my beloved wife Mihee, who supported me throughout the entire program.

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Chapter 1: Introduction

The majority of the countries in the Gulf Cooperation Council (GCC) are currently looking for ways to diversify their economies. Since the GDP of the GCC countries is still mostly concentrated on hydrocarbon exports, these countries are seeking other ways to generate income for the sake of future generations. Moreover, current low oil prices are also affecting the economic decisions of the GCC countries, who are trying to move away from hydrocarbon exports. Thus, the GCC governments support local business entrepreneurs in order to generate revenue through other methods, as well as to create more jobs through private business sectors (Fisher, 2012). Small and Medium Enterprises (SMEs) are one of the solutions for many countries, including those in the GCC, to diversify their economies (Zuazua et al., 2014; Fisher, 2012). According to the World Bank, there are around 125 million micro, small, and medium enterprises (MSME) in the world (Kushnir et al., 2010). Also, SMEs' contribution to the Gross Domestic Product (GDP) of a number of countries is enormous. In the case of China, 60 percent of its GDP comes from SMEs, while SMEs account for 57 percent of Germany's GDP, 55 percent of Japan's, and 47 percent of Malaysia's (Ashoor, 2013). Therefore, in many countries, these SMEs are the backbone of economic growth and the driver of industrial development (Ashoor, 2013).

Moreover, many of the young people in Gulf countries are jobless. According to the International Labor Organization (ILO), GCC countries need to create 3.3 million new jobs by 2020 in order to meet the demand of their growing populations (Zuazua et al., 2014). Currently, the public sector accounts for only 20 percent of the total jobs in the GCC; however, public sector jobs tend to pay more than private jobs, so most people prefer to work in the public sector. As stated by Zuazua et al.,

In the GCC between 2000 and 2010, 88 percent of new jobs were in the private sector,

but the population is unwilling to accept the lower wages. In other regions, such as the Organization for Economic Co-operation and Development (OECD) countries, the private sector competes with government by offering comparable pay (2014, pg,2).

Nevertheless, other official data shows that there are more than 1 million SMEs in the Gulf States, with Saudi Arabia leading with +700,000 companies in the country (Fisher, 2012; Hertog, 2010). Also, an overwhelming 70 to 95 percent of the workforce in the GCC countries' workforces are working in SMEs, and all of the GCC countries have launched programs to support SMEs within their countries (Zuazua et al., 2014). Currently, SMEs account for 95 percent of the established firms in Dubai. Forty-two percent of Dubai's population works in SMEs, and 40 percent of GDP is generated through SMEs in Dubai ("Dubai SME", 2014). However, a considerable amount of data shows that SMEs in the Gulf States are underperforming despite the strong entrepreneurial traditions in the region's culture, as well as the large size of the SME sector (Hertog, 2010). Based on this, it is relevant to look into these topics in greater depth. The literature below comprises detailed research into the topic.

Literature Review

According to the World Bank, there are 125 million formal micro, small, and medium enterprises (MSME) in the world (Kushnir et al., 2010). The authors define the term MSME according to the number of the employees (less than 250 people) in the company, but each country has a different definition when it comes to the numbers (Kushnir et al., 2010). Statistics show that East Asia and the Pacific have the most MEMEs, with a total of 39 million across the entire region. Meanwhile, the Middle East and North Africa (MENA) have the lowest number, with a total of 4.4 million MEMEs (Kushnir et al., 2010). These figures are important as they indicate the proportion of the small-sized companies in different regions. However, it was somewhat disappointing to find no separate set of figures for the GCC countries, instead

of being mixed together with that of the entire MENA region.

Over the past decades, the GCC countries have spent a considerable amount of funding on infrastructural programs to diversify their economy and provide more jobs to their citizens. In 2014, the amount of funding rose to a record high of $ 171 billion ("Deloitte GCC Powers", 2016). However, at one point, many of the GCC countries realized that they were no longer able to provide jobs for an increasing number of their populations, including those for university graduates (Ramady, 2012). Therefore, many of these diversification programs began to target the private sector in order to create more jobs (Ramady, 2012). Currently, there are more than 1 million SMEs currently operating in the Gulf States (Fisher, 2012; Hertog, 2010).

Many scholars believe that SMEs in the Gulf countries can be a major pillar of economic growth and a driver of job creation (Fisher, 2012; Hertog, 2010). Also, they promote economic stability as a supplement to large firms and broaden and diversify basic competition within the economy (Fisher, 2012). Based on these descriptions, SMEs can play a major role in achieving economic growth as well as creating jobs. Also, in privatization, competition is always a positive thing because it brings innovative ideas with increased quality of services and products.

Currently, there is a huge amount of support from GCC governments towards new entrepreneurs. In Saudi Arabia, for example, the Ministry of Labor is leading a program to support 38 initiatives for SMEs. The King Abdulaziz City for Science and Technology (KACST) program and the Saudi Credit and Savings Bank's loan to SMEs are other examples (Zuazua et al., 2014). Currently, SMEs account for 93 percent of the total enterprises and 85 percent of total employment in the Kingdom ("Qatar SME sector", 2012; Ramady, 2012). This demonstrates the strength of government support to boost SMEs in Saudi Arabia. In Kuwait, SMEs with less than 20 employees constitute 97 percent of total enterprises ("Qatar SME

sector", 2012). The data shows that Kuwait had 33,000 SMEs in 2007, most of which were concentrated in the retail and service sectors (Hertog, 2010). In 2008, Oman had 48,950 SMEs, which are 90 percent of the total enterprises within the country. Nevertheless, current recruitment of local labor in SMEs sectors are very poor in Oman ("Qatar SME sector", 2012; Badr, 2007). Moreover, mobilization of foreign capital and the market for industrial products are both weak in Oman (Badr, 2007). This shows that even though Oman is within the category of the GCC countries, it differs from its neighbors in some significant ways.

On the other hand, Qatar announced the Qatar National Vision 2030 (QNV2030), in which the private and SME sector would play a very important role ("Qatar SME sector", 2012). According to Trading Economics, Qatar has around 11,000 SMEs, yet the contribution of SMEs to Qatar's GDP is minimal because the country is heavily reliant on hydrocarbon exports (Fernandez & Ali, 2015). However, the author believes that Qatar still has a chance to expand the idea of the SME economy.

> The future for SMEs in Qatar looks bright, and the Qatari government's vision for 2030 emphasizes the importance of SME contributions to the economy. The government's strategy for economic development under the Qatar vision 2030 is to promote private sector involvement in economic diversification to reduce the dependency on the hydrocarbon industry (Fernandez & Ali, 2015, pg, 33).

Moreover, there are many economic regulations which prevent SMEs from flourishing in the Gulf States; for example, there are limited opportunities given to SMEs to maximize profits and to implement effective risk management (Fisher, 2012).

According to a World Bank report entitled the "Ease of doing Business Rankings", the UAE was ranked 26th in the world in terms of ease of doing business, and the only GCC country ranked below 50 in this category, according to this certain criteria. This figure appears to show

that it may not be easy to do business in the Gulf region. Bahrain, Oman, and Qatar were ranked 63rd, 66th, and 83rd, respectively, while Saudi Arabia and Kuwait were even further down ("Doing business", 2017). According to the World Bank report, the rankings were determined based on four main sources of information: the laws and regulations of the country, the government, survey respondents, and the World Bank's regional staff (Jaoui & Rashid, 2015). Therefore, these figures may be taken to be generally reliable. However, the variation in each country's ranking seems to fluctuate from year to year. For instance, the ranking of Qatar is 83rd in 2017 but was 68th in 2016, 50th in 2015, and 40th in 2013. Thus, such a degree of fluctuation could be too variable to be fully credible as a standard.

In addition, Kaufmann and Shams (2015) argue that, in terms of business density, GCC states are experiencing a downward trend. The business density of UAE dropped from 2.18 in 2004 to 1.38 in 2012, and other GCC countries, such as Qatar and Oman, have experienced similar declines.

The remainder of the literature will be reviewed and used throughout the study in order to integrate the research and findings.

Purpose of Study

The purpose of this study is to help Dubai, in which SMEs have flourished and been successful in succeeding in their diversification process by presenting South Korea as a successful SME model. In the past two years, oil prices have gone down enormously, which has caused most of the GCC countries and Dubai to cut expenses, as well as find a way to create income rather than oil revenues. Dubai and all other GCC countries are trying to find a way to diversify their economies by focusing on their private sector. Thus, improving the performance of SMEs in Dubai would also be a good model for other GCC states to follow. The role of SMEs in South Korea is indispensable, and many things could be learned by the

development state model, which is the process that South Korea used in the 1970s to become a modernized country. This study will carefully look into the domestic, and international factors of Dubai and South Korea, and find commonalities between the two countries.

Research Question

All of the GCC countries have proposed some kind of government program to help the SMEs to grow (Zuazua et al., 2014). The government of the Emirate of Dubai has launched several programs to help their private sectors. Currently in Dubai, SMEs account for 95 percent of the total number of established firms. Therefore, the performance of SMEs in Dubai may provide a starting point for discussing the fundamental questions regarding how it can be more helpful to the economy of Dubai.

Main Questions:

- What is the role of SMEs and how do they contribute to the economic development of Dubai?
- What lessons could Dubai learn from the development state model of South Korea?

Sub Questions:

What is developmental state theory? How does it fit into the case of Dubai? Using the developmental state theory, how can we improve the situation in Dubai? What other theory could be applied in the case of Dubai? What are challenges Dubai faces regarding achieving better performance in the private sector?

Theoretical Framework

Despite abundant oil revenues since the oil boom in 1970s, GCC countries have had very unimpressive economic performance (Ross, 2001). This is largely due to the stagnation of non-oil sectors, such as manufacturing and other private sectors (Mazaheri, 2016; Ross, 2001). However, many of these private sectors were not supported properly by the government

institutions, even though they employed a large percentage of the workforce. Moreover, some researchers claim that governments intentionally impose barriers to medium-sized firms, a phenomenon that is sometimes referred to as the "missing middle". A growing middle class, which consists of non-elite entrepreneurs and owners of SMEs, tends to ask for democratization (Nasr, 2009). For instance, in Europe, alliances of workers and capitalists were eager to unseat the elites who had their own political interests in obstructing democracy (Mazaheri, 2016). Therefore, there is always the possibility that middle class non-elites and SME owners may ask for democracy, which may have discouraged GCC governments from following this path in the past (Mazaheri, 2016). Rostow's stages of growth, which later came to be known as modernization theory, also supports this notion.

According to Rostow, all societies have the potential to become advanced industrialized societies (Rostow, 1990). Rostow believes that all societies follow the same evolutionary path of development, which is divided into five stages. The first stage is the traditional society, which can be viewed as a subsistence economy (Sanderson, 2013). This means the society is lesser developed, a high percentage of the workforce is agricultural, and a high percentage of national wealth is focused on non-productive activities, such as the military and religion (Loi, 2015). Also, people build their lives based on their families, local communities, and religions, which makes their lives very similar to those of their ancestors.

Such societies generally have very limited wealth, and what little trade there is takes the form of barter, which is a form of a payment (Shujahat, 2012). We can say that this first stage was also evident back in the early history of GCC countries, when countries such as Kuwait, Qatar, and the UAE were engaged in pearl diving, which provided most of their income. The second stage is called the preconditions for takeoff. Usually, leaders or kings motivate people to start innovative economic activities such as building banks and coining money. Then,

the populations are able to start providing goods that are not only for their consumption, but also to sell. As a result, the government also starts to invest in infrastructure, such as public transportation and water sewage (Loi, 2015). These projects ultimately help the country to attain large productivity.

In the case of the GCC countries, I would argue that the first stage has been achieved, while the second stage has yet to be realized. Instead, oil came into the scene, resulting large amounts of revenue coming into the region from outside. The next stage is called the take off. Rapid economic development occurs at this stage, and is focused on limited products such as textiles and food products. Increasing industrialization and further growth in savings and investment occurs at this stage (Shujahat, 2012). Moreover, increased individualism allows people to fulfill desires for material goods, and modernization occurs in the core areas of the country (Loi, 2015). There are also the fourth and the fifth stages, which are known as the drive to maturity and high mass consumption, respectively. However, the case of the Gulf countries does not seem to fit into these stages, because many of them have achieved modernization without the requisite stages of growth. Their situation does not match with Rostow's theory. Moreover, as mentioned earlier, modernization theory is not reflected in any of the Gulf States because, according to the theory, once there is a large middle class in the society, it will ask for political rights and democracy, but paradoxically this is not happening in any of the Gulf states (Gray, 2011).

The theory that many scholars who study the region apply to the GCC states is the "rentier state" theory. Rentier state theory describes a situation in which a country receives a large amount of revenue from a "rent" of certain resources, such as oil in the Gulf countries. In this situation, governments are unlikely to tax their own citizens, and provide many benefits to their citizens. In turn, this can lead to promoting authoritarianism and political stability

(Mazaheri, 2016). However, from an economic perspective, “it is argued that rentier states are inefficient with a weak administrative capacity, a corrupt civil service, and an absence of the rule of law” (Mazaheri, 2016, pg, 5). Further, a rentier state cannot fully account for certain aspects of the business environment in the Gulf states. According to Mazaheri (2016), “The rentier state argument also predicts that oil wealth will lead to greater political stability, which may lead us to expect a less restrictive business environment” (pg, 6). However, in reality, this is not so. GCC states have much more restrictive economic regulations. It also reflects the rentier mentality, meaning that when people live under a bubble, they are not motivated and do not have a thriving private sector as a consequence.

Nevertheless, in both the Gulf region and the European Union (EU), small and medium enterprises are the main drivers for economic diversification and job creation (Hertog, 2010; Fisher, 2012). Also, Hertog (2010) believes that without a flourishing SME sector, it will be difficult for Gulf countries to achieve economic diversification and address their unemployment issues. This is similar to the situation in many parts of the world; however, Hertog (2010) believes that SMEs in the Gulf States are underperforming, considering the tradition of entrepreneurship, as well as the large size of the SME sector. The reason that Dubai was chosen for this study is that Dubai is one of the first countries in the GCC states that has focused on diversifying its economy by using the private sector as a tool.

In this regard, the South Korean development model could be implemented in the cases of the Gulf states. The development state theory was first formulated in the late industrialization period by Friedrich List, who emphasized the state’s leading role in development policy (Jaejin, 2005). This theory was then further developed by Johnson in 1982 in his research for his article “Ministry of International Trade and Industry (MITI) and the Japanese miracle” (Johnson, 1999). This is similar to the pre-modern mercantilist idea that the state should play a central

role in economic development (Kasahara, 2013). Johnson used this theory to explain the rapid economic development in East Asian countries including Japan, Korea, Taiwan, and Singapore (Johnson, 1999). Johnson emphasized that this theory was different from the American-style capitalist theory, as well as the Soviet style of communism.

Research Design

According to Creswell (2013), there are four philosophical world views, and among them, the pragmatic world view is used in my research. Pragmatism as an epistemology, is a world view that occurs "out of actions, situations, and consequences rather than antecedent conditions" (Creswell, 2013, pg, 40). Therefore, the essay will look at the benefits of developmental state theory, which was used in the case of the East Asian countries, especially South Korea. Further, it will apply the pragmatic world view to the case of Dubai, where progress and economic improvement is expected. Also, a mixed methods design comprising both qualitative and quantitative data will be used in this investigation in the form of a secondary data analysis. The quantitative analysis was used to organize the groundwork for my research. Also, it was employed to the existing secondary data acquired from the World Bank and several other government institutions, such as the Department of Economic Development in Dubai and the Khalifa Fund for Enterprise Development on SMEs. In addition, for the mixed methods design, exploratory sequential mixed methods will be implemented, which "involve a two-phase project in which the researcher collects quantitative data in the first phase, analyzes the results, and then uses the results to plan (or build onto) the second qualitative phase" (Creswell, 2013, pg, 275). Therefore, the quantitative data will first be reviewed to define the importance of SMEs in Dubai, then, on the basis of this result, the data would then be analyzed using qualitative methods. Overall, the qualitative data will help us to explain the details of the initial quantitative results (Creswell, 2013). However, I did not focus on explaining or

analyzing the data in detail. Instead, I tried to use these collected data from various institutions to understand the trends to be addressed in the qualitative analysis and to provide additional arguments.

For the quantitative methods, the data will be collected and analyzed. These data mostly come from the international organizations and official websites. However, the most frequently used quantitative methods of closed-ended surveys are not conducted in this research. Also, it would have been better if we could obtain information from survey SME owners in Dubai and South Korea; however, due to the logistical limitations, this was not possible at this stage. Also, obstacles that may prevent the SME sector in Dubai from having better economic performance will be reviewed using quantitative methods. Most of the data were collected through World Bank official websites. Thus, this essay would like to address the role of SMEs in Dubai and how they contribute to its economic development. In addition, case studies of South Korean SMEs will be examined to see what lessons they can impart to SMEs in Dubai. Developmental state theory, which was the basis of the development of South Korea, will be analyzed carefully in order to find how it can be most effectively applied to the case of Dubai. Thus, this essay began by presenting the theoretical framework used in this research. The second part then explicates the various development state models and theories applied to different countries in East Asia. Next, the third part analyzes the role of SMEs in Dubai and how they contribute to the development of the country. This part also examines the challenges that prevent Dubai-based SMEs to grow further. Then, the cases of the “Chaebol” (Big firms such as Samsung and Hyundai) in South Korea will be addressed, using the developmental state theory. The final part includes a discussion of the ways to implement development state theory in Dubai, in addition to some concluding remarks.

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Chapter 2: Developmental State

The cases of South Korea and Japan could provide the basis of instructive comparisons. Before doing so, however, we will look at the concept of the developmental state theory, which East Asian countries such as South Korea and Japan have used to develop their countries from the 1920s. Developmental state theory refers to state-led macroeconomic planning where the state takes increased control over the economy of the country (Kasahara, 2013). This theory was first properly conceptualized by Johnson, while conducting research for his article "MITI and the Japanese Miracle" in 1982 (Johnson, 1999). The developmental state theory could be defined as strong state intervention, together with considerable regulation and planning. The development state theory has three stages: commodity exports, import-substitution industrialization (ISI), and export-led growth (Sanford, 2012). This means that the development state theory focuses on exporting goods, encouraging domestic production rather than foreign imports, and an export-oriented economy. Later on, this theory was also implemented in other East Asian countries like Korea, Singapore and Taiwan, countries sometimes referred to as "late industrializers" (Kasahara, 2013). The development state emphasizes the role of the state in helping the structural transition of the country to move from a primitive/agriculture to a modern/manufacturing society (Kasahara, 2013). According to Johnson (1982) in his research on "MITI and the Japanese Miracle", all states intervene in domestic economic issues, but this intervention differs. As Johnson states,

> The issue is not one of state intervention in the economy. All states intervene in their economies for various reasons… The United States is a good example of a state in which the regulatory orientation predominates, whereas Japan is a good example of a state in which the developmental orientation predominates. A regulatory, or market-rational state, concerns itself with the forms and procedures- the rules, if you will- of

economic competition, but it does not concern itself with substantive matters (pg, 17, 19).

Um and Hwang (2014) argue that the Asian model of Development State succeeded due to two main reasons: the "Primary role of free trade and export-oriented industrialization in the economic growth of the region, and thus, the superiority of free market principles without price-distorting state-intervention" (pg, 215). Many scholars believe that the manufacturing sector has a role in boosting the growth of the country due to its high level of productivity. Johnson explained the state bureaucracy's active and strategic role in Japanese economic development. These bureaucratic activities go back to the 1920s, when Japan mobilized its industrial resources for the purpose of the war (Um & Hwang, 2014). The developmental state is also identified by the actual achievement of the economy, since it emphasizes the strong improvement on living standards of the society and the state's active interventionist role in the economy (Kasahara, 2013).

After Johnson's Japanese work was published, several additional works followed that focused on East Asian cases, particularly those regarding South Korea and Taiwan (Um & Hwang, 2014). These development states in East Asia did not follow a single path, but rather used two institutional attributes known as competent bureaucracy and embedded autonomy (Kasahara, 2013). Competent bureaucracy means the planned process of economic development, as in the Japanese cases. In this process, the best human resources are needed, and are used to direct the course of the country's development (Kasahara, 2013). This process has been successful in the case of Japan, as well as in Taiwan, South Korea, and Singapore. Embedded autonomy refers to the ideal relationship between the developmental state and the local business sector. According to Johnson, a successful developmental state should be adequately embedded in the society (Kasahara, 2013).

The Japanese case is very interesting to examine, which Johnson terms the "Japanese miracle". According to Johnson's (1982) work on "MITI and Japanese Miracle", for more than 50 years, Japan's first priority was to maintain consistent economic development. Johnson (1982) argues that for any state who wants to achieve economically, they must adapt same priorities as Japan. As he states, "It must first of all be a development state- and only then regulatory state, a welfare state, an equality state, or whatever other kind of functional state a society may wish to adopt" (pg, 306).

However, the central problem of a state-led system is about the relationship between state bureaucracy and privately-owned businesses (Johnson, 1982). Due to this reason, over the past 50 years, Japan has implemented three different solutions, which are self-control, state control, and cooperation. Also, during Johnson's study, he attempted to find out the essential features of the Japanese developmental state (Johnson, 1982). Johnson found that first, the government needed to employ a small, inexpensive, and elite state bureaucracy, which thus requires the most qualified and competent people to learn the system (later known as competent bureaucracy, as explained previously). Second, this government must find out the industry which could be most rapidly developed (industrial rationalization policy), and third, to supervise the competition of these people to assure effectiveness and economic health (Johnson, 1982).

In addition, when we look at the newly industrialized economies (NIEs) from the first-tier, we usually refer to South Korea, the Taiwan Province of China, Hong Kong, and Singapore. Even though all the NIEs have used the development state theory, the result was different in each of the cases. South Korea used the interventionist policy in 1960s and 1970s when business leaders relied heavily on the close consultation of the state actors (Kasahara, 2013). In contrast, Taiwan used a distant and fragmented policy, mainly because of their tense relations

with many of the bureaucrats. Moreover, most of their military personnel were appointed by the mainland. Therefore, many of the state-owned enterprises (SOEs) existed together with smaller firms, thus giving room for development (Kasahara, 2013). However, the developmental state model also had a fault, much like the Indian cases (Bolesta, 2007). The main reason for the failure of Indian cases was that the economy was not liberalized enough, and state policy was too interventionist in nature (Bolesta, 2007). An important point here is that a development state needs interventionism, but it has to balance out. In doing this, Bolesta (2007) states that "wise, developmentally-focused interventionism" is needed. Unlike the liberal ideology of invisible hands, state interventionism has to be managed wisely in order to succeed (Bolesta, 2007). Moreover, even countries like the United States, which made good use of the minimal state-used protectionism policy during the industrialization period (Jaejin 2005). Also, an enormous amount of investment by the Department of Agriculture and the Ministry of Defense towards research and development (R&D) created a leading role for the United States in biotechnology, aviation, aerospace, and IT industries (Jaejin, 2005). This example shows that even countries like the USA needed to have state intervention in certain position of the policies. Chang (1999) argues about this point in his essay that, the state always takes a central role on development; firstly, because there are so many different types of economic values, and industry acceleration always requires rearrangement. The only institution able to handle this rearrangement is a government. Without the intervention of the government, transaction cost increases tremendously, which thus leads to market failure, and eventually, the inability to reorganize industry in time (Chang, 1999).

Petro Developmental State in Africa

There is a recent developmental state model known as the petro-developmental state in African oil-producing countries. Thus, it would be beneficial to examine this model in

greater detail. According to Ovadia (2016), Africa was part of a global capitalist system; however, the continent did not benefit much from this capitalist development. Instead, Africa had to suffer due to the role of international financial institutions, such as International Monetary Fund (IMF) and the World Bank (Meyns & Musamba, 2010). Therefore, seven of oil-exporting countries in Africa, Angola, Cameroon, Chad, Guinea, Nigeria, and Congo decided to come up with new model of a petro-development state which can benefit themselves (Ovadia, 2016).

Table 1. Production of Crude Oil Including Lease Condensate ("US Energy", 2013)

	2008	2009	2010	2011	2012	2013
Angola	1,946	1,867	1,899	1,746	1,777	1,831
Cameroon	81	77	65	62	63	63
Chad	127	120	123	115	105	98
Equatorial Guinea	337	322	298	278	289	270
Gabon	248	242	246	245	242	243
Ghana	6	6	7	77	78	98
Nigeria	2,165	2,208	2,455	2,550	2,520	2,367
Republic of Congo	233	268	305	290	280	265

Table 1, shows the data of these seven countries. According to the data, Angola, Nigeria, and Guinea managed to produce 1.8 million, 2.3 million, 0.27 million barrels of oil daily, respectively. Therefore, the GDP growth of these three countries was more than 5 percent during 2001 to 2010 (Ovadia, 2016). In fact, their GDP growth was the highest in the world.

> In January 2011, The Economist published data showing that, over the last decade, Angola had the world's highest GDP growth rate, while Nigeria had the fourth highest (Ovadia, 2016, pg, 3).

The author also highlights the previous work of Chalmers Johnson on the development state, thereby raising important questions such as "How do you create developmental state in sub-Saharan Africa?" Like the cases in Latin America, African countries also tried hard to kickstart

the industrialization within their country (Ovadia, 2016). Development state theory comes in after the involvement of the IMF and the World Bank with their structural adjustment programs (SAPs) which were largely unsuccessful (Meyns & Musamba, 2010).

> The SAP-inspired decades in Africa are today frequently referred to as the "lost decades", and the persistence of the poverty crisis has led international donors to refocus their aid programmes on debt relief-funded poverty reduction strategies (Meyns & Musamba, 2010, pg, 7).

As a result, many African countries looked for different types of development models , and at the end of 1990s, the current development state was implemented (Meyns & Musamba, 2010). The African countries focused on the success of the Japanese case, where an interventionist policy was implemented by the Ministry of International Trade and Industry (MITI) (Ovadia, 2016). These policies were studied and implemented in the current petro-developmental state in Africa. I am not trying to give an in-depth analysis of the African development state model; rather, I only intend to show that the development state is not an old theory, as it was used in East Asian countries in the 20th century. Also, I wanted raise the issue that the current low oil price could be beneficial to the Gulf countries if they manage to diversify their economy as they have planned and emphasized; however, no one can assure that the oil price could go back to $100 or $ 150 a barrel, which would be the best scenario for these GCC countries. Nevertheless, these developments, would remain within the Gulf countries and could eventually lead to another successful form of the development state model.

In conclusion, East Asian countries used developmental state theory to develop their country from agricultural/primitive to a manufacturing/modern industries. Although there were slight differences on implementing the theory, developmental state was successful in most of newly industrialized countries like South Korea, Japan, Singapore and Taiwan. Also, petro

developmental state in Africa was important to review as it is one of the most recent form of developmental state model. We will first look at the current situations in Dubai in Chapter 3 then South Korea's development model will be explained in depth in Chapter 4.

Chapter 3: Dubai

Oil was first found in Dubai in 1966, with exports beginning in 1969. This production was increased to 300,000 barrels per day (bpd) in 1973, which helped the local economy to grow rapidly (Al Faris & Soto, 2016). Unlike other GCC states, which predominantly used the funds to buy generous amounts of land and to give compensation to their citizens, the Dubai government chose to invest in the future. Jebel Ali port started to construction in 1972, as well as the construction of a dry dock in 1979 (Al Faris & Soto, 2016). Also, the Dubai government announced the free trade zone in 1985, which is known as the Jebel Ali Free Trade Zone (JAFZA) and started Emirates Airlines in same year (Al Faris & Soto, 2016). However, Dubai had to endure a rough period in the 1980s due to the low oil prices and the war between Iraq-Iran, in which some of the commercial ships were attacked by the forces. However, by the 1990s and the first half of the 2000s, Dubai concentrated on tourism, rebranding the country as 'Hub Dubai & e-Dubai', which attracted a huge amount of capital within the city (Al Faris & Soto, 2016). Moreover, Dubai also managed to diversify their economy through property development, the private sector, and overseas investment ("Dubai SME", 2014; Al Faris & Soto, 2016).

However, the global finance crisis in 2008 disclosed the weak structural features of Dubai's economy. The crisis showed that Dubai needed to restructure its system to have sustainable development. According to Al Sadik and Elbadawi (2012),

> Though the economy of Dubai is relatively diversified and its dependence on the hydrocarbon sector as a direct contributor to GDP is limited, as it did not exceed 2 percent in 2008, it has, nevertheless, been subject to the oil cycle, among other factors, due to its being part of the oil-dominated economy of the UAE (pg, 2).

These statements explain why Dubai has such a high volatility GDP growth. Until 2008, Dubai

used the development model, which was focused on the massive accumulation of factors of production, which relied on capital and unskilled migrant labor (Al Sadik & Elbadawi, 2012). This model helped Dubai's economy to grow rapidly and develop a high quality of infrastructures; however, it also allowed total factor productivity growth (TFP) to remain the same, or even move into negative figures (Al Sadik & Elbadawi, 2012). Unlike capital or labor inputs, TFP is hard to measure because it represents human capital, which includes technology and the knowledge of workers (Isaksson, 2007). Also, most of the labor forces in Dubai are foreigners, and it is difficult to have sustainable development if the citizens do not take it sincerely. Furthermore, according to Isaksson (2007), TFP grants society with an opportunity to elevate the welfare of the people. Therefore, it is compulsory for Dubai to have positive growth rates of TFP to maintain high growth in GDP in the long run.

SMEs in Dubai & GCC countries

Currently, ninety-five percent of the established firms in Dubai are SMEs and forty two percent of the total populations are working in the SME sector, which is a huge number. Dubai was one of the first countries in the Gulf state to focus on the SMEs in order to diversify their economy ("Dubai SME", 2014). Moreover, Dubai's GDP grew more than 10 percent during 2000 to 2012. During this time, the Dubai government reflected upon many different types of policies to diversify their economy, with great improvement being made. SMEs were one of main contributors to success, and 37 percent of SMEs in Dubai are currently exporting or are capable of exporting goods ("SME Financing", 2013). It also increased job opportunities, not only for the locals but also to find jobs for foreign workers ("Dubai SME", 2014).

Moreover, Dubai's oil dependency on GDP has decreased from 45 percent in the 1980s to less than 5 percent in 2010, which is a remarkable result (Al Faris & Soto, 2016). Further, many people believe that Dubai's SME sector will bring innovation and contribute to the

science and technology sectors (“SME Financing”, 2013).

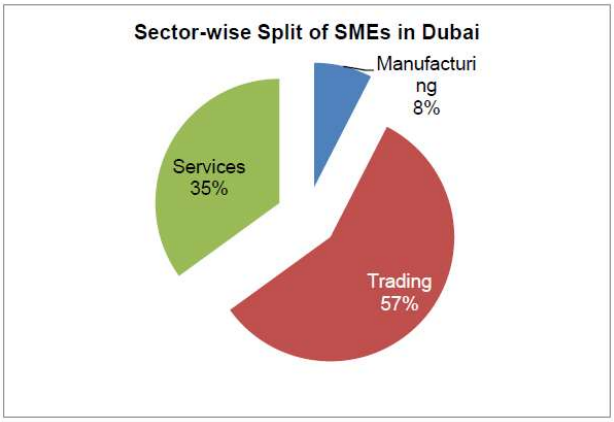

Figure 1. Sector-wise Split of SMEs in Dubai (“Dubai SMEs”, 2014)

Figure 1 shows the current sector-wise split of SMEs in Dubai, of which the majority of the businesses are concentrated in trading with 57 percent, followed by services and manufacturing with 35 percent and 8 percent, respectively. This figure shows the concentration on the trading sector and need to shift these numbers toward the service and manufacturing sector, which is Dubai’s main target.

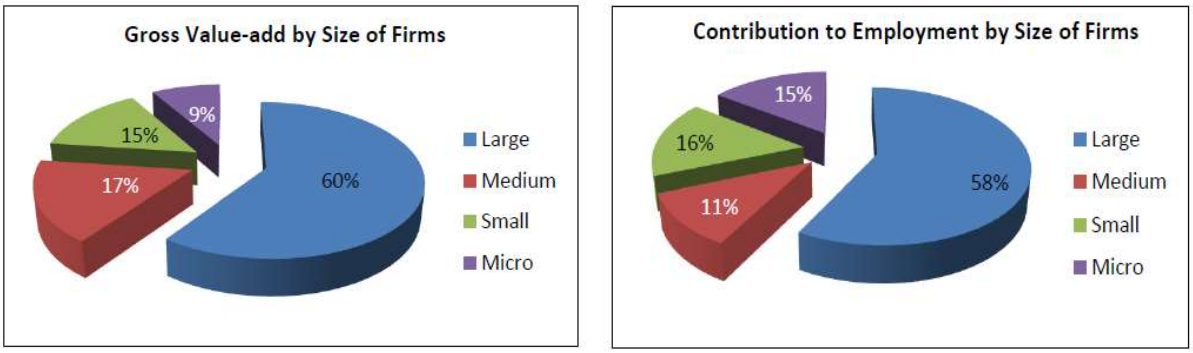

Figure 2. Gross Value add by Size of firms & Employment rate by Size of firms (“Dubai SMEs”, 2014)

Figure 2 shows that SMEs account for 40 percent of Dubai’s GDP and 42 percent of the total employment in Dubai (Zuazua et al., 2014; “Dubai SME”, 2014). This number is relatively lower than other Asian countries such as China and Singapore; in China, 60 percent of GDP is produced by SMEs, and in Singapore, more than 50 percent of GDP is produced

through SMEs (Gill, 2016; Goran, 2013). Also, 95 percent of established firms in Dubai are SMEs, which is a huge number. Therefore, the Dubai government has tried to encourage more people to have entrepreneurial minds by offering training, business planning, and support with finances, which would help nationals to have their own enterprises in the near future. Mohammed Bin Rashid Establishment for SME development was established in 2002 to help SMEs in Dubai, as well as those in the UAE. ("Entrepreneurship in Dubai", 2017). This establishment offers funding, entrepreneur support, and advice to SMEs in the UAE.

> These organizations seek to motivate young Arab leaders to become integral parts of the region's economy. Government support for young Emirati entrepreneurs is exceptionally generous and there are several grants available for those with a strong business plan ("Entrepreneurship in Dubai", 2017).

Moreover, the Mohammed Bin Rashid Award for Young Business Leaders was created to raise awareness of new entrepreneurs who are young and have great ideas. The establishment has a total of AED 700 million of funding with Islamic banking principles, and has the capability to support SMEs who are in need ("Entrepreneurship in Dubai", 2017). Also, the Dubai Business Women's Council was created in 2002 to encourage women entrepreneurs to start businesses with limited capital. This allowed other international banks like JP Morgan to form a foundation called "the Cherie Blair Foundation for Women" in UAE to support 60 women entrepreneurs ("Promoting Women", 2017). These efforts seem to be very important for UAE and Dubai to grow their SME sectors, which would also aim to develop innovative skills. Moreover, the UAE is now hosting the "SME awards" every year, and gives prices and awards to the enterprises that perform well each year ("SME Awards" 2017). Any company can apply for the awards, as long as they are based in the UAE, have less than 250 employees, and a turnover of less than 250 million Dhs ("SME Awards" 2017). These kinds of government efforts to promote

the private sector seem to be successful; however, although there is a considerable growth in the SME sector, significant challenges remain to be solved in order to have better performance in private sector.

Challenges

First of all, localization and low productivity is a serious problem. Each country has a different name for this localization. In the UAE, Qatar, and Oman, it is known as Emiratization, Omanization, and Qatarization, respectively. In Arabic, it is called "Nitaqat". Localization basically means the employment of local citizens prior to other nationalities in the private and public sectors (Salama, 2009). This also includes the replacement of the other nationalities in place of their local citizens. Overall, this phenomenon could be due to the youth unemployment in GCC countries.

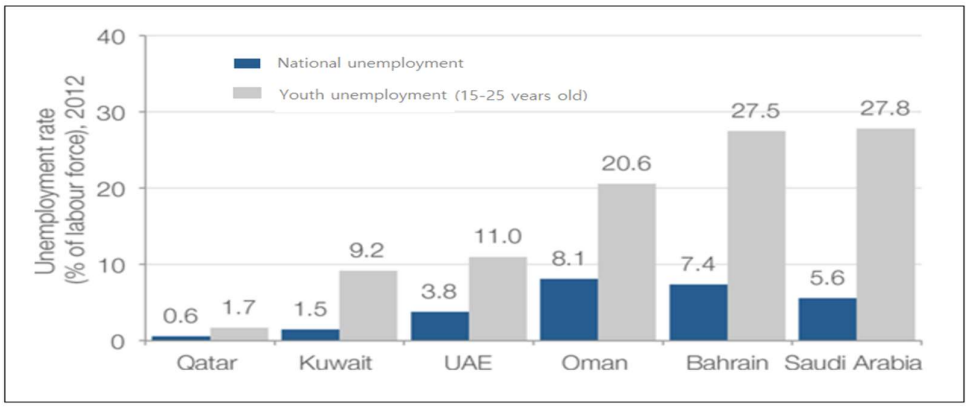

Figure 3. Youth unemployment rate in GCC countries (ages 15-25) ("World Development Indicator", 2016).

According to International Monetary Fund (IMF) statistics in 2012, Figure 3 explains youth unemployment in GCC countries and this number seems very problematic ("World Development Indicators", 2016). In Saudi Arabia, 27.8 percent of the populations were unemployed, whereas in Bahrain, Oman, and the UAE, it is 27.5, 20.6, and 11 percent, respectively. Currently, Qatar is the only country that is not facing theses youth unemployment. Therefore, each of the GCC countries has tried to solve the problems by hiring or replacing

their local citizens in certain sectors, but it seems that this task is also not an easy duty. For instance, in Saudi Arabia, the Saudization process is not working as they planned. According to the Ministry of Labor of Saudi Arabia, “Saudi Arabia’s “Saudization" policy, which seeks to prioritize the hiring of Saudi nationals over expatriates, has so far been a failure” (Riflan, 2011). The Saudization policy was found to push private companies to hire a certain number of Saudi citizens based on the size of their companies; however, this policy did not go so well. Therefore, Saudi Arabia launched a new policy called “Guided localization” which focuses on certain sectors that are profitable, for instance, telecommunication. Now, 100 percent of the telecommunication sector should be operated by Saudi nationals (Alabdan, 2016). Alabdan (2016) states that 30-40 percent of mobile shops are closed because they cannot hire Saudi nationals, which is a core requirement, and in addition, shop owners are unsure regarding reopening them, as it is hard to understand whether hiring a national could be profitable or not. In the case of Qatar, more than 500 Filipino nurses have lost their jobs due to this process (Kovessy, 2016). In the UAE, the Emiratization policy should have played a very important role for the private sector as well as the public sector. According to National Vision 2021 news,

> The UAE has given great importance to the subject of Emiratization, having announced that 2013 will be the year of Emiratization, along with launching the “Absher” initiative…Absher is based on four main themes, namely the creation of job opportunities for nationals, vocational guidance and counseling, training and development, and the encouragement of nationals to work in the private sector (“Emiratization Efforts”, 2013).

However, in reality, this program did not encourage citizens to work in the private sector rather than public sector. In a recent report from the Federal National Council (NFC) of UAE, there are 3.8 million jobs in the private sector and only 20,000 to 30,000 Emiratis are working in the

private sector (Aleter, 2016). NFC believes that among 3.8 million private jobs, at least 800,000 jobs could be taken by the citizens. However, the results are really disappointing compared to the amount of effort spent by the government authorities.

I strongly believe that, with the localization policy, there are limitations for the private sector to grow. Also, to have a thriving private sector as well as to have localization policy, I believe it is not possible to achieve both at once. This is because the public sector seems to look much more attractive than the private sector. “Emiratis, by and large, still perceive the public sector to be a more attractive employer, for reasons ranging from superior employment benefits to a lack of awareness of private sector opportunities” (Aleter, 2016). Thus, from an Emirati perspective, it makes sense to not want to take on additional stress, or work much more, when one can make the same amount of money by merely attending a job. This is a serious issue.

Moreover, this localization policy leads to low productivity. Citizens who know the benefits of the public sector would not risk working in private sectors that have their fair share of risks and uncertainties (Aleter, 2016). However, between 2000 to 2010, 88 percent of new jobs are coming from the private sector in the GCC countries (Zuazua et al., 2014). This is ironic, but when the jobs are secured from the public sector in the name of localization, citizens are less motivated to contribute to their institutions or to their semi-government companies. When we look at the productivity per person (PPP) basis, Dubai’s SME sector has a low productivity of AED 112,253 per unit (“Dubai SME”, 2014). This is much lower than other trading and services oriented countries, such as Singapore and South Korea, where their productivity per unit is AED 391,816 and AED 214,787, respectively (“Dubai SME”, 2014). This means that if we compare one person in Singapore and another in Dubai, the person in Singapore produces 3.5 times more than the person working in the same sector in Dubai. The

main reasons for low productivity in Dubai are as follows:

- Low focus of businesses on improvements / reengineering of business processes to improve efficiency.
- Limited focus of businesses on training, development, and up-skilling of employees due to a transient nature of the workforce.
- Limited adoption by businesses of advanced enterprise level ICT systems (such as ERP, CRM solutions) ("Dubai SME", 2014, pg, 24).

The data above was provided by the government of Dubai, but they did not mention anything about the structural problem, which starts with localization process. Moreover, Figure 4 shows the productivity growth of the UAE, which has been decreasing since the early 1990s. The UAE seems to have the lowest productivity compared to the other three GCC countries.

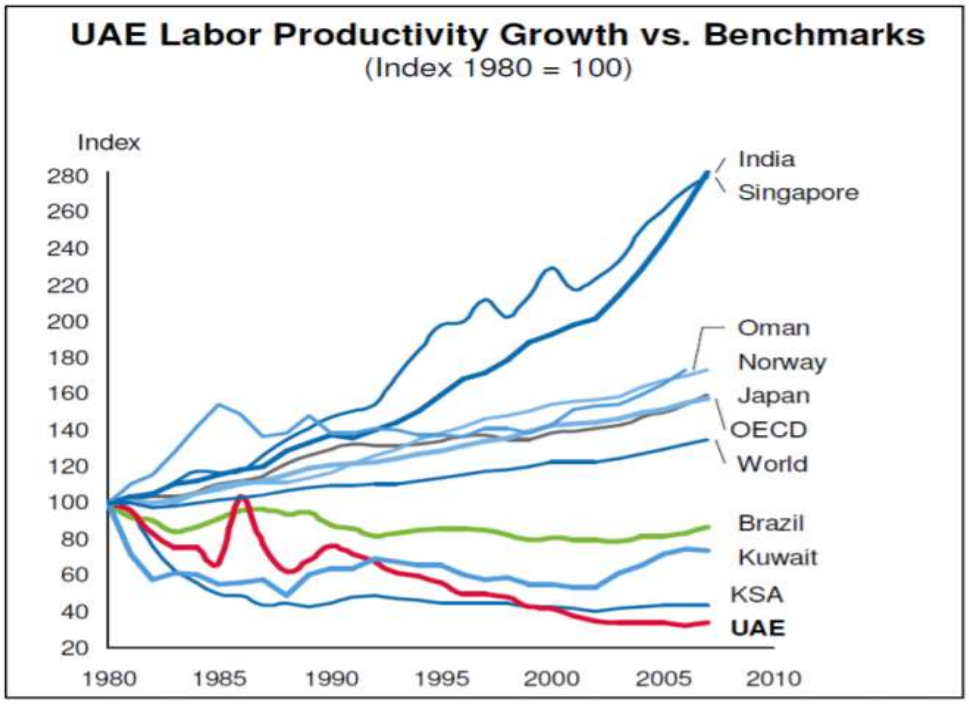

Figure 4. Comparative labour productivity growth in four GCC states (1980–2010) (Hertog, 2013).

Figure 4 shows that Saudi Arabia was slightly underperforming after the 1990s, whereas Kuwait and Oman both have a higher productivity growth as compared to the other GCC

countries. Also, interestingly in the UAE, the growth rate fell to -19.52 in 2008, when the country was facing a direct economic crisis. ("Labor Productivity Growth", 2017). Furthermore, according to 2016 data from Euromoney, an institutional investment company, the labor productivity growth for GCC countries are all in negative figures, with the exception of Saudi Arabia with 0.33 percent of growth, which is also very minimal ("Labor Productivity Growth", 2017).

Secondly, high economic regulations are another big challenge standing in the way of a prosperous private sector. Currently, there are too many regulations in GCC states and Dubai for private companies to grow. Interestingly, Mazaheri (2016) argues that oil producing countries tend to impose larger barriers to domestic firms and entrepreneurs in order to help the elites (i.e., the royal families) to have less competition and more profits for them. Also, many of these elite groups are already positioned in most of the important governmental institutions, which prevent new laws to be established or implemented (Ennis, 2015). Mazaheri (2016) also argues that start-up costs in GCC countries are 60 percent higher than those for non-oil producers. If we look at the case of Dubai, many of the companies are owned by only a few families. According to research from the Hawkamah Institute, the top five families in Dubai control between 10 percent to one third of board member seats for the 200 largest private companies in Dubai (Hertog, 2013). If we go up to the top 15 families, these 15 families control 18 to 50 percent of the largest companies in Dubai (Hertog, 2013). This kind of monopoly is a serious problem regarding other small and medium private companies challenging these big families. On the other hand, Dubai also implemented a "competition law" in 2012 to remove monopoly in the market (Vinod, 2015; "UAE Competition Law", 2016). According to the article, "This law is envisaged to free the national economy from all wrong practices that adversely affects its efficiency, including monopolies." (Vinod, 2015). Although the law looks

very well made and implemented on the surface, in reality, there are too many exemption sectors, which include, "telecommunications, financial services, oil and gas, pharmaceuticals, electricity and water, transport, post services, cultural activities, and drainage and sanitation activities" ("UAE Competition Law", 2016). Also, government owned entities are exempted, which I believe to be particularly problematic. Ennis (2015) even argues that these kinds of new laws or policies are merely in place in order to demonstrate that the governments of GCC countries are trying to promote entrepreneurship; however, in reality, this is not the case. Rather than 'promotion', these governments are merely 'showing' entrepreneurship to the people. In the GCC countries, most of the big companies are largely owned by the government. The seven largest companies in the GCC countries—SABIC, Etisalat, Al Rajhi bank, Industries Qatar, Zain, Qatar National Bank, and Saudi Telecom—all have a large proportion or majority of the government shares (Hertog, 2013). Actually, most of these companies used to be fully owned by the states. Therefore, it is almost impossible for private companies to challenge these state-owned companies (SOEs), and this is also another big challenge for all the GCC countries. Moreover, new SMEs face large barriers and regulations to obtain any kind of lending or loan from the bank. According to Fisher (2012), banks in the GCC region are reluctant to lend the funds to SMEs due to a higher risk and failure to return the funds to the applicants. It is known that 55 percent of the SMEs in Gulf States do not have credit available for them, and even those who were able to borrow money have to return at a higher cost with high interests (Fisher, 2012). Also, a study done by Dun and Bradstreet shows that the UAE banks rejected 50-70 percent of credit applications from SMEs in 2008 (Hertog, 2010). However, it is easy for those big companies to borrow the money from the banks.

> Perhaps more importantly, banks have become much more reluctant to engage in 'name lending', that is, the provision of loans purely on the basis of a merchant

> family's name, without detailed checks of its accounts and business plans (Hertog, 2013, pg, 31).

Thus, the banks would only look at the names who are asking for funds and decides who gets the money. In addition, Mazaheri (2016) also mentions that high regulatory costs for SMEs make it difficult for them to solve problems such as obtaining permits, resolving contracts, paying taxes, and accessing credit facilities through the local banks, all of which prevent them from growing and prospering.

Difficulties in getting a local block visa is a problem that many of the small entrepreneurs face every day ("The challenges", 2014). Each company has to apply for a visa vacancy for each position for which they want to hire. However, it is very difficult to get certain types of professional visas, as well as visas for certain nationalities ("The challenges", 2014). This may stem from a desire to limit the number of residents from certain countries due to security concerns. However, in many cases, this creates a considerable number of problems for small entrepreneurs, and due to this visa issues, many people often give up on the establishment process. In addition, all entrepreneurs in GCC countries have to have a licensed office to operate their company ("Dubai SME", 2014). This increases fixed costs such as warehouse rent, retail store rents, and car rents, all of which are very expensive in these regions, and it can pose a serious obstacle for many small enterprises ("Dubai SME", 2014). Dubai was ranked the 10th city in the world in terms of high costs of office spaces (Sola, 2016). Moreover, most of these small firms cannot be fully owned by foreigners, which means that 51 percent of the company's share has to be owned by locals, which is known as the "Kafala system" (Mazaheri, 2016). This is a very important statement and also another barrier for foreigners or foreign direct investments (FDI) to come and invest fully within the country. Although it is worth mentioning that there are places in operation without the Kafala system, such as certain area of

free zones in Dubai (Hertog, 2013).

In conclusion, of the aforementioned challenges should be solved in order for SMEs to grow and prosper within Dubai. For example, the localization policy, which leads to low productivity, a monopoly within the country that is run by only a few families, and other economic regulations, which include difficulties accessing funds, high fixed costs, and difficulties obtaining a visa, etc. Therefore, now we will look at the case of South Korea to find a recommendation to improve the situation in Dubai and other GCC countries.

Chapter 4: South Korea

According to the article entitled "Small and Medium enterprises in South Korea. In the shadow of big brothers", Bakiewicz (2008) argues that,

> The Korean economic miracle has been created by the chaebols, a careful analysis of the evolution of small and medium companies in Korea demonstrates the important role of smaller businesses during the entire course of dynamic growth. The size structure of the Korean economy has been strictly controlled by the state and the development of SME have not occurred "by chance" (pg, 45).

South Korea is one of the most frequently referred cases of economic miracles. It took less than half a century for Korea to catch up with the high income countries (Bakiewicz, 2008). During the last few decades, South Korea's rate of growth was striking—more than eight percent yearly between 1962 and 1996, and five percent following the Asian crisis that lasted from 1997 until 2008 (Bakiewicz, 2008). Interestingly, Amsden (1992) argues that South Korea had gone through rapid economic development after the Korean War in 1953, as with other late industrialized countries such as Taiwan or Singapore. South Korea's economy was controlled by a bureaucratic, governmental state which manipulated the market system. The government pursued an export-oriented policy; however, the only benefit that Koreans had at the time was cheap labor (Amsden, 1992). Therefore, the Korean government pursued the export-oriented policy using these labors to create light industry, such as cottons and wigs, to heavy and chemical industries in the1970s and 1980s (Amsden, 1992).

The first step to promoting the SMEs started early in the 1950s. At this moment, most of South Korea's economy was dependent on aid from the USA, and the GDP per capita was just $67 (Bakiewicz, 2008; Mu-Hyun, 2015; Seogwon, 2013). As we can see from Figure 5, South Korea had grown from being the 2nd poorest country in the world in 1945 to become the

15th largest economy in the world in 2012 (Seogwon, 2013).

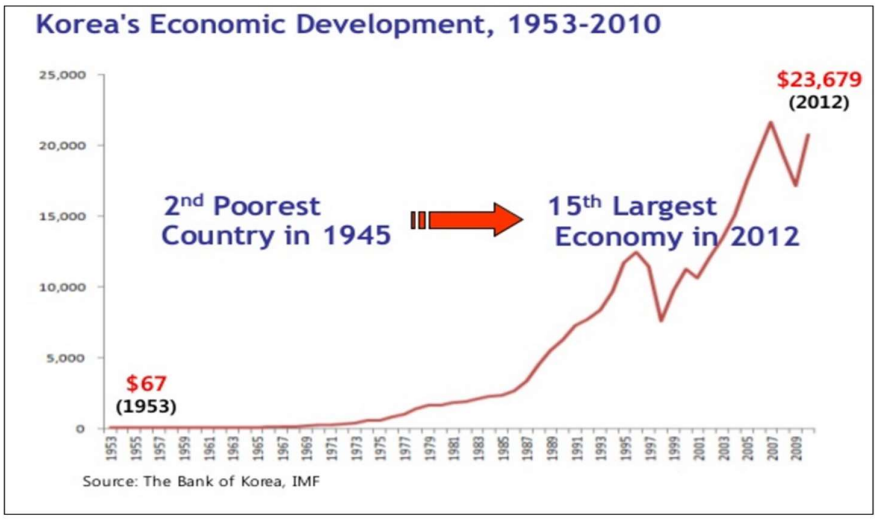

Figure 5. Korea's Economic Development (1953-2010) (Seogwon, 2013).

Also, after the withdrawal of Japan (after the World War II), there were many Japanese companies in surplus, with many of them sold to renowned families in Korea and to prominent politicians (Jiyoon, 2015). These companies grew very fast with the support of the government forming a group called Chaebol. Chaebol could be translated as "Wealth Clan" which includes big companies such as Samsung and LG (Mu-Hyun, 2015). Jaejin (2005) argues that the Korean developmental state could be seen as a success due to the development and prosperity that Korea is enjoying now. Nowadays in South Korea, 99.9 percent of all enterprises are SMEs (Jihyun, 2016). SMEs account for between 50 % to 60% of the South Korean GDP with $ 780 billion in 2013. Also, 87 percent of all employees in South Korea work in SMEs—an extraordinary high figure.

SMEs in South Korea and Developmental State

It is true that South Korean miracles were possible through big companies known as chaebol, but SMEs have also played a great role in order to achieve these tasks. In 1956, the South Korean government established the system to link the SMEs with Chaebol groups, thereby

establishing a system to financial help (Bakiewicz, 2008).

Table 2. Small and Medium enterprises in manufacturing sector in Korea, 1952–2004. (Bakiewicz, 2008).

Year	Number of enterprises		Size of employment		Value added		Value of production		Export	
Enter-prises	Small and medium	large	Small and medium	large	Small and medium	large	Small and medium	large	Small and medium	large
1952	95.8	4.2	61.5	38.5						
1960	97.6	2.4	67.7	32.3	57.0	43.0				
1966	98.3	1.7	60.3	39.7	42.5	57.5	45.6	54.4	23.0 (1965)	77.0
1970	97.1	2.9	49.0	51.0	28.5	71.5	30.3	69.7	32.2	67.8
1973	97.0	3.0	46.3	53.7	33.9	66.1	33.8	66.2		
1975	96.2	3.8	45.7	54.3	31.7	68.3	30.7	69.3	34.5	65.5
1980	96.6	3.4	49.6	50.4	35.2	64.8	31.9	68.1	32.1	67.9
1985	97.5	2.5	56.1	43.9	37.6	62.4	35.4	64.6	27.8	72.2
1990	96.1	3.9	61.7	38.3	44.3	55.7	42.7	57.3	45.5	54.4
1996	99.1	0.9	69.2	30.8	47.2	52.8	46.8	53.2	41.8	58.2
1997	99.1	0.9	69.3	30.7	46.5	53.5	46.3	53.7	41.8	58.2
2000	99.3	0.7	74.0	26.0	50.2	49.8	47.4	52.6	37	63.0
2004	99.4	0.6	75.7	24.3	51.6	48.4	48.6	51.4	35.6	64.4

As we can see from the Table 2, the role of SMEs had been of utmost importance since the start of the 1950s. The number of SMEs, in terms of the total enterprises, have totaled more than 97 percent since the 1960s. Also, more than 60 percent of the populations have also been working in SMEs since the 1960s. Despite the fact that exports were much more reliant on large firms, the proportion of value-added production and value of productions were both similar to 50 to 50 percent, which thus shows the importance of SMEs role in the growth. The strategy that was used by the government was “with the forefront position of large conglomerates, smaller companies have been playing roles according to a scenario assigned to them by the country’s economic strategies” (Bakiewicz, 2008, pg, 48).

The government picked and supported certain sectors to grow rapidly, such as cement, plastics, and textiles, thereby allowing many of the SMEs to grow. This policy is known as import substitution industrialization (ISI), whereby the government intentionally reduces the amount of foreign imports of certain commodities and chooses certain sectors to grow by manufacturing them domestically. The most successful cases of ISI using trade as a tool is

South Korea. In 1961, a coup happened in Korea allowing Park Chung-hee to seize power, and by 1963, Chaebol formed the Federation of Korean Industries to support the role of Park's drive (Mu-Hyun, 2015). Park who ruled South Korea from 1963 to 1979 until his death first aim was to elevate the economic status of Korea. In these periods, many SMEs grew from small companies to Chaebol, such as Hyundai and Daewoo.

Park created the Economic Planning Board (EPB) in 1961, which announces a new plan every five years (Graham, 2003). The head of the EPB was made deputy prime minister, which shows how much effort was placed on this institution. The EPB introduced the first five year plan in 1962, which concentrated on building state-owned banks, as well as laws which forced private banks to follow the will of the government (Graham, 2003). During the first five years, the South Korean government used EPB as an "entrepreneur-manager". Therefore,

> in the 1960s, more than one-third of government expenditures were for investment, and public investment accounted for close to a third of all fixed capital formation. Thus, between 1963 and 1977, public enterprises in Korea grew at an annual rate of 10 percent, and the share of these enterprises in GDP grew from slightly over 6 percent in 1963 to more than 9 percent in 1980 (Graham, 2003, pg, 16).

It seems that Park really believed that the government is the dominant agent for the economy and he really showed it in reality.

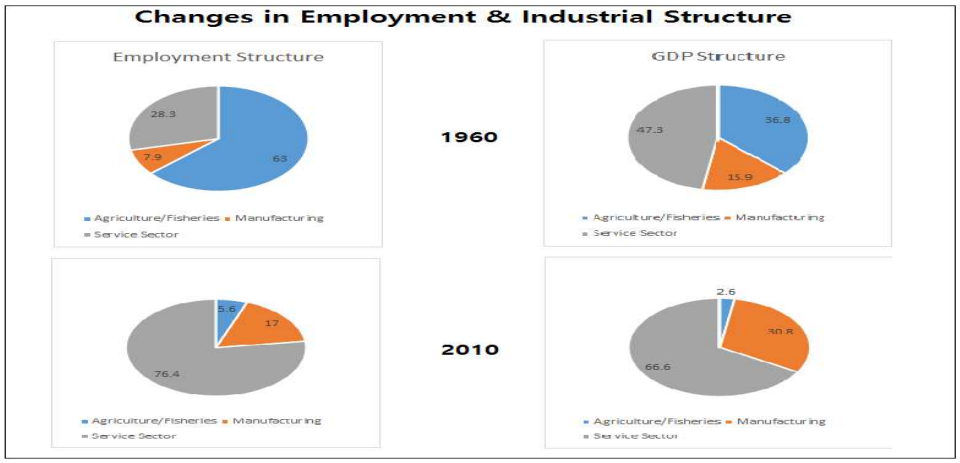

*Figure 6.*Changes in Employment & Industrial Structure of Korea (1960&2010) ("New Economic School", 2011).

Figure 6, clearly shows that the employment structure has shifted mainly from agriculture and fishing in the 1960s to the service and manufacturing sectors in the 2010s. The GDP structure is also very similar, which is much more focused on the service and manufacturing sectors.

Moreover, most of this economic growth was financed through foreign debt as well as the subsidized loans from state banks (Bakiewicz, 2008). Also, the government supported companies more through lowering taxes, importing licenses, and subsidizing credits. More interestingly, the government of South Korea imposed export quotas to these companies, which duly allowed the companies to become export-oriented minds no matter how much profits were made (Bakiewicz, 2008). Park's regime used a "carrot and stick" approach to influence some of the textile companies to export, and as a carrot, a variety of subsidies and incentives were offered (Graham, 2003). Moreover, preferential loans, tax exemptions (including tariff exemption for imported goods), and other measures were given. According to Graham (2003),

> these subsidies were necessary to enable the Korean firms to compete against more-established Japanese exporters, which had non-cost incumbency advantages (e.g., established relations with international wholesalers and distributors of textiles and textile products)" (pg, 20).

This approach produced the results, and by 1961, textiles accounted for 25 percent of Korean

exports with $ 5.7 million. In 1965, total export rose to $106 million, which was 41 percent of the total export of South Korea (Graham, 2003). Korean exports multiplied by 28 times between 1961 to 1971. In 1966, the Small and Medium Industry Basic act was started, giving more support to the export-oriented companies (Bakiewicz, 2008). Thirteen sectors were chosen, which allowed 1315 SMEs to receive support during 1964 to 1972. Also, five industrial parks were established for SMEs (Bakiewicz, 2008).

However, President Park's dream was to produce steel products, such as ships, vehicles, and machinery, which could be associated as a national strength. He had this dream since the occupation of Japanese troops in Korea (Graham, 2003). However, to develop these industries, more funds were required and South Korea did not have these funds at this moment. Therefore, South Korea had to rely on foreign finances, and Park had to choose only a few sectors in order to invest. Also, interestingly, "foreign borrowing in Korea has been tightly monitored from the very beginning to make sure that borrowed capital is used productively" (SaKong, 1993, pg, 106). Big international institutions supervised the usage of the funds. During the early 1970s, these funds were used for enterprises under government supervisions, to the heavy sectors, which were Park's dream. The policy on heavy and chemical industry development (HIC) started in May 1973 to support the future industrialization. Heavy industry was strongly protected and supported by the government, which allowed these areas to succeed in international markets (Bakiewicz, 2008). A growth took off and Korea's national savings grew from almost zero to 20 percent of GDP by 1970 (Graham, 2003). This number has risen to 25 percent in 1980, and more than 35 percent in 1990, respectively. South Korea thereby transformed from a low-saving nation to one of the highest saving nations in the world (Graham, 2003). However, most of the savings were controlled by the government.

In fact, as domestic savings grew in Korea, control over how to direct those savings

> fell almost completely in the government's hands, because in 1962, the Park government had brought the financial sector largely under government control (Graham, 2003, pg, 23).

In the second half of the 1970s, South Korea focused more on labor- intensive exports and products of light industries as a major source of foreign revenues. Big companies supported with HIC policies to expand upon their heavy industry activities, whereas small companies focused on the subcontracts of big companies for easy-to-fabricate goods and elements. More complicated elements were imported (Bakiewicz, 2008). For SMEs, it was difficult for them to have modern technology due to the structure of protection, however, in reality, both big and small countries benefited through fulfilling each other's needs (Bakiewicz, 2008). Also, in 1979, the Small and Medium Industry Promotion Corporation was created to help SMEs to have better technology. Unlike Taiwan and Hong Kong, where SMEs had to compete with big companies for production orders, South Korea had developed a unique and emerging model of subcontracting. As Bakiewicz (2008) states, "Small companies became the element of a closely tighten vertical structure with a big exporter on the top and many subcontractors working for a single customer." (pg, 54). This is a win-win strategy for both big and small companies. Under the HCI declaration, South Korea moved to new sectors such as industrial machinery, shipbuilding, the electrical industry, and the steel industry. Also, companies who were entering these sectors received preferential treatment, such as easy access to credits, tax breaks, and so on (Graham, 2003). This helped South Korea to become a world class competitor in selected sectors of heavy industries. Moreover, in the mid 1970s, many new SMEs were established through a former employee of larger companies (Bakiewicz, 2008). Very interestingly, large companies actually supported their former workers establishing a company, which thus provided them a capital, technology, and a place to order. "Subcontractors typically adjusted

their production profiles to the expectations of one customer" (Bakiewicz, 2008, pg, 54). Based on this structure, larger companies were able to have strict requirements on their subcontractors regarding quality, financial conditions, and time. Due to this kind of structural model, SMEs grew in importance during the mid-1970s, and it allowed SMEs to grow very rapidly during this period. Moreover, support for these SMEs has remained continuous as the Korean government realizes the importance of their role. The Hyundai company could be seen as a good model, which began small and later became chaebol, which was ranked the 49th most valuable brand in the world in 2015 ("The most valuable", 2017). Also, they are the world's largest shipbuilders.

Hyundai

Hyundai was a very small company before Park came into power in 1961. However, Park gave many favors to the Hyundai construction company, which thus allowed them to grow rapidly; such as providing a 400km road project in the form of a long expressway which connected the capital city Seoul with Southern cities (Mu-Hyun, 2015). Also, shipbuilding was one of the priority sectors that heavy and chemical industry development (HIC) focused on. At first, Hyundai was just a construction company; however, in 1970, Hyundai even built a shipyard in Ulsan without ever building a ship before (Mu-Hyun, 2015). It was not just a plan which came out of nowhere, it was a response to the government's 1967 act to promote shipbuilding. Therefore, to enter to this sector was ultimately determined by the government, which required the Hyundai Company to garner the government's support (Graham, 2003). At this moment, Korea already had some capability of building their own ship with their government-owned company; however, Hyundai got an opportunity to share this sector. Hyundai started Hyundai Heavy Industries (HHI) in 1973, in order to build ships, and within a decade, HHI became the largest shipbuilder in the world (Amsden, 1992). Construction of the first ship began in 1973

and took 2 years to finish the job, which was significantly behind schedule. The biggest challenge that Hyundai faced at that moment was not financial; rather, the human capital lacked the special skills and knowledge to build large-scale ships, which were never built (Graham, 2003). Therefore, in 1973, Hyundai sent 70 workers from their company to A&P Appledore Shipyard in Scotland to learn how to manage and organize a large ship.

> Hyundai engineers concurrently learned ship design from the Scottish firm Scotlithgrow, which sent personnel to the Ulsan facility to work on the two large crude carriers, which were identical in design to ships produced at its own yards (Graham, 2003, pg, 33).

Also, the shipbuilding sector was depressed in Scotland; therefore, it was good timing for Hyundai to earn much-needed technology at a cheap price. Moreover, Amsden (1992) argues that no one knows exactly how much support the Hyundai Company received through the South Korean government, but it should be decisive. It is known that the Government of South Korea had a battle with Bretton Woods's institutions to support and aid the building of shipyards from the first place. Also, "the government raised overseas credit for Hyundai Heavy Industries (HHI) both directly and indirectly, the latter guaranteeing HHI's own foreign loans" (Amsden, 1992, pg, 276). Furthermore, the government provided HHI with continuous support for finance until they became one of the best in the world. Hyundai's company motto thus became "shoot first, think later", and by 1983, they became the top ship building company in Korea (Mu-Hyun, 2015).

Education system

South Korean students achieved the highest mean scores in math and science in the International Assessment of Education Progress (IAEP) administered by the Educational Testing Service (ETS) to 13 years old in 19 countries (Sorensen, 1994). South Korea is well

known for its great performance in the education system, even leading President Obama to officially praise the education system in Korea with regard to paying teachers as much as doctors (Fenton, 2015). However, it took a long time to build this kind of education system. After the World War II in 1945, the government made radical reforms to democratic higher education and abolished the remnants of the Japanese colonial education (Lee, 2001). However, the real reform came in the early 1960s in the period of President Park after the coup. Park saw the necessity to induce reform in the education system in order to industrialize the country and also to promote national identity. It is interesting to know that President Park knew that he needed to reform the country to achieve the industrialization. Also,

> In response to the strong need for educational reform, the government strengthened the legal and administrative systems of higher education under its uniform control. On the other hand, the government upgraded teacher education: normal high schools to teachers' junior colleges in 1962, and institutions training secondary school teachers to four-year colleges of education in the same year (Lee, 2001, pg, 4).

Teachers duly became very important figures, and here I want to highlight that all the teachers in Korea are Korean. This is very important, as most of the teachers in GCC states are not nationals, and they are not well treated by local citizens as well as students. For Koreans, the teacher is a highly respected figure.

Moreover, 1960s reform included imparting loyalty, self-reliance, patriotism, and anti-communism (Sorensen, 1994). In this process, the Economic Planning Board (EPB) again played a very important role. As the EPB announce a plan for economic development for every five years, in order to achieve this goal, the government promoted the expansion of higher education, which is an essential part in the system (Lee, 2001).

Special attention to technical and scientific education also came in 1973, which also

lead to the establishment of vocational schools, which aimed to start a “movement to scientificize the whole people” (Sorensen, 1994). Between 1970 and 1980, junior colleges almost doubled in total, jumping from 65 to 127 schools. Junior college contributed to an increase of semi-skilled labor, which was very important at that time. However, we have to bear in mind that South Korea was still very poor during this period. Also, the number of higher education schools grew from 85 schools to 357 schools between 1960 and 1980 (Lee, 2001). Higher education was seen as driving force to the development of a national economy. Also, a very interesting point that is necessary to address is that South Korea does not spend a huge amount of funds on education. Only 4 percent of GDP is used in Education, which is relatively small compared to the 7.5 percent spent by the United States. Many people believe that a strong family structure and placing a large value on education are most important ingredients of educational success in East Asian countries (Sorensen, 1994). Therefore, even though there is a large amount of spending in GCC countries towards education, the whole system needs to be reconsidered in order to change the foundation of education systems.

Chapter 5: Recommendations and Limitations

As seen previously, most of the GCC countries have a diversification plan in moving away from a resource-based economy to more of knowledge-based economy. However, in reality, GCC countries tend to rely on simple technologies, and their contribution to knowledge based economy is very limited (Hertog, 2013). Therefore, the first recommendation proposed here is a structural transition, which is also seen in the case of South Korean development model; that is, moving towards a modern and manufacturing society. The current system in GCC countries is very much focused on non-oil tradable production. This means that rather than producing these items, companies would simply bring certain items which are more attractive than to sell it to the market without any addition of values. This is more convenient, less risky, and is more profitable for the firms. (Miniaoui & Schilirò, 2017). Also, this system is possible due to the low-waged foreign workers, which reduces the large amount of fixed costs to the firms; however, it does not really contribute to economic growth of the country, but rather it hinders the path to achieving a knowledge-based economy and the growth of the manufacturing sectors (Miniaoui, & Schilirò, 2017).

Also, Import Substitution Industrialization (ISI), which was used in South Korea, could be implemented in the case of Dubai. This means that rather than importing goods from abroad, the government could choose certain sectors to focus and grow that sector over the long term. As mentioned earlier, the South Korean government used Economic Planning Board (EPB) as an entrepreneurial manager, where they controlled one third of government expenditure and invested in the sectors which could be grown rapidly. Therefore, public enterprises grew 10 percent annually during 1963 and 1977 (Graham, 2003). Hence, the role of government intervention should grow enormously, rather than using localization policies which are unproductive, less sustainable, and bad for the citizens in long run. Lastly, export-

oriented industrialization, innovation, and education is another core element that should be comprehensively backed by the government institutions, such as the EPB in South Korea.

Modern, manufacturing society & Import-Substitution Industry (ISI)

Even though GCC countries want to move rapidly towards advanced technological societies, these countries still largely rely on simple technologies (Hertog, 2013). This theme should shift to follow the case of East Asian industrializers like South Korea. As stated by Hertog,

> state support in the GCC has by and large not been conditional on technology upgrades, and the GCC has witnessed none of the resource scarcity that has forced advanced Asian manufacturers to invest into technology… Research and development (R&D) in the region is still inchoate… Very few international patents emerge from the GCC (Hertog, 2013, pg, 26-27).

The Research and development (R &D) sector is very weak in GCC countries, and expenditure in R&D was really low in this region. In 2011, the UAE spent less than 0.1 percent of their GDP on R&D expenditure, followed by Saudi Arabia with 0.08 percent and Kuwait 0.11 percent, respectively. Up to this date, most high-technology sectors and technological development were limited to state-owned companies (SOEs) (Hertog, 2010). It could be seen by Figure 7 that GCC countries are not really exporting any of their high-tech exports.

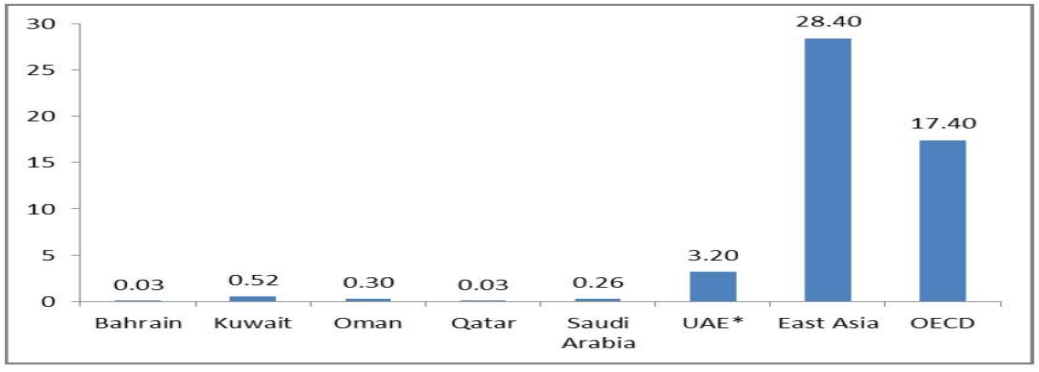

Figure 7. Percentage of high-tech exports in total manufacturing exports in the GCC countries (Hertog, 2013)

The UAE has 3.2 percent of high-technology exports, but this is much less compared to the East Asian countries and OECD countries, which have 28.4 and 17.4 percent respectively (Hertog, 2013). As shown in Figure 7, data was originally produced by the World Bank, and high-technology includes high R&D products such as "aerospace, computers, pharmaceuticals, scientific instruments, and electrical machinery" (Hertog, 2013, pg, 27). Therefore, if Dubai and other GCC countries want to advance into a knowledge-based economy, R&D expenditure should be increased enormously.

On the other hand, just to give a sample model, if we look at the case of South Korea, the total opposite is noted. South Korea's R&D expenditure is 4.29 percent of their GDP, which made them the highest spenders in 2014 (Zastrow, 2016). This 4.29 percent amounted to $60.5 billion, which is almost the same as 65 percent of Dubai's total GDP in 2014, which was $ 92.6 billion ("Dubai economy growth", 2015). Here, this research does not argue that Dubai should spend 65 percent of their GDP on R&D expenditure; however, the investment should increase gradually if Dubai really intends to shift to a knowledge-based economy. Also, the government should take a much stronger role in their investment policy to encourage private businesses to follow their paths.

Figure 8. Rising Share of R&D Investment in Korea's GDP (2000-2013) (Ro, 2014)

As we can see from Figure 8, South Korea's R&D investment was just over 2.5 percent in the year 2000. However, throughout 17 years it increased gradually, which made South Korea one of the highest investors for research and development. South Korea is also a world leader of patent applications (Ro, 2014). Also, we saw the case of Dubai in figure 1, where 57 percent of their business sector is focused on trading, and where more importantly, the manufacturing sector was only 8 percent, whereas South Korea's is 30.8 percent ("New Economic School", 2011). In 1960, this figure was only 17 percent in South Korea, hence, it has gradually increased throughout the time. However, as the South Korean government used the Economic Planning Board (EPB) to focus on certain sectors, especially in textiles and heavy industries with the availability of cheap labor during that period, Dubai should also find and focus on their own possible sectors with the potential of development. In June 2016, the Vice-president of UAE, and ruler of Dubai, Mohammad Bin Rashid Al Maktoum launched the Dubai Industrial Strategy, which aims to build a global platform of a knowledge-based economy and innovation-focused businesses (Bin Rashid, 2016).

> With the launch of the Dubai Industrial Strategy… We are one step closer to achieving the goal of making Dubai a homeland for innovators, a favorite place to live and work in, a global economic hub and a preferred destination for visitors… sound economy today means a diverse and integrated economy led by the industry and manufacturing sectors and built on pillars of innovation and creativity (Bin Rashid, 2016)

The five key objectives of this strategy are to increase the output and value-added products in the manufacturing sector, enhance the depths of knowledge and innovations, build a platform of manufacturing in Dubai, elevate the energy-efficient manufacturing sector, and make Dubai the center of the global Islamic market (Bin Rashid, 2016). Also, it focuses on six priority sub-sectors, which include aerospace, aluminum and fabricated metals, food and beverages,

machinery and equipment, medical equipment, and maritime. These sub sectors are chosen due to the importance of meeting the Dubai Industrial Strategy and Dubai plan 2021 ("Mohammad Bin Rashid", 2016). I believe that Dubai is focusing on the right path, as, for example, their aerospace is a good choice due to the huge size of Emirates airlines, which has 239 aircrafts and 269 more that are already on order (Bin Rashid, 2016).

However, ISI is being implemented in Dubai, and it is not a new strategy in the country. Also, the UAE previously used the ISI strategy in the 1970s to develop small industries such as food processing, beverages, and also some parts of heavyweight industries (Yousef, 2011). However, this strategy has not been used continuously. Nowadays, there are many scholars who emphasize the importance of the ISI strategy for GCC countries to reduce the imports and focus on certain manufacturing sectors to achieve diversification. Hvidt (2013) argues that,

> Diversification through the establishment of import substitution industries is potentially much closer to the original aim of divesting away from oil. It also holds a much better prospect of survival after the oil era, if this industry was accustomed to operate under market conditions during the oil era. (pg, 7).

Therefore, the government of Dubai should really try to implement the Dubai Industrial Strategy not only for the State owned companies (SOEs) but to the private companies as well. However, as mentioned earlier, I believe localization is an obstacle to achieving this goal. As we saw from the development state model, the most important part in the state-led system is the relationship between state and privately-owned businesses, which relate to competent bureaucracy (Johnson, 1982). Competent bureaucracy is the government having a planned process in economic development, such as making an institution like EPB in South Korea. These institutions require the best human capitals, which can direct the way of the country's development and are usually small. Also, these agencies enjoy high prestige and legitimacy,

which allow them to continuously recruit outstanding people for their group and to utilize policy tools to give them extra authority (Kasahara, 2013). However, in the case of Dubai and GCC countries that have a localization policy, the productivity is low, and many of these institutions may employ someone who is not capable of working in these agencies. Such an employee could be from either a royal or a renowned family, who should not belong to these agencies, and might be placed there by government workers or from other connections. Moreover, due to the localization policy, most citizens prefer working in public sectors rather than private sectors, which makes privately-owned businesses less competitive compared to public ones. Therefore, due to the importance of a competent bureaucracy, the government of Dubai should really have the mind to make these institutions as transparent as possible, and furthermore, that they are not controlled by certain families or clans. Also, as mentioned in Chapter 3, only a few families control a large portion of the enterprises in Dubai (Hertog, 2013). Therefore, it is likely for these families to gain greater control of the six priority-chosen sub-sectors, which does not lead the private sectors to becoming more competitive. Also, another important part of the government's role in the development of a state model is to supervise the competition of companies, which assures economic health as well as effectiveness (Johnson, 1982). Moreover, this will be more carefully looked at in a free trade and export oriented economy

Export-Oriented Economy & Innovation and Education

The last recommendation is to have an export-oriented economy, innovation, and education. As we saw in the case of the South Korean development model, the government uses an ISI strategy after choosing certain sectors that could be grown rapidly. Also, the government supported private companies by lowering regulations, such as subsidizing credits and lowering taxes. The government also tried to give more benefits to export-oriented

companies by employing a carrot and stick approach, as mentioned in Chapter 3. However, to move to an export-oriented economy, we first need citizens to work in the actual private fields. If the country wants to achieve sustainable development, human capital is very important, and this means we need the skills and knowledge to be transferred to the local citizens; as a result, the citizens' performance will improve. Furthermore, we cannot continuously rely on low-waged foreign workers or high-waged technicians because when the time comes, these foreign workers would return to their countries. Also, this means we need more local citizens to be educated and prepared to get knowledge-transfer as well as working in private sectors. However, as mentioned, the large number of available public sector jobs discourages local nationals from pursuing entrepreneurship and private sector employment. The average wage of the public sector is much higher than that of the private sector, which makes public sector jobs much more attractive to nationals (Callen et al., 2014). Ironically, even though the country wants to diversify the economy and have a flourishing private sector, there are not enough people willing to work in the private sector, especially in SMEs.

Due to these reasons, each of the GCC countries announced a long-term strategy, for example, the UAE's Vision 2021, Qatar's National vision for Qatar 2022, Bahrain's Vision 2030, Oman's Vision 2020, and Saudi Arabia's Vision 2030 (Miniaoui & Schilirò, 2017). Each country has slightly different goals for each category; however, they are expecting that these strategies will allow the country to achieve economic diversification and at the same time promote the importance of the private sectors. However, this goal is very difficult as most of the economies are still deeply dependent on hydrocarbon sectors, and most citizens still prefer government jobs rather than private ones. Therefore, in order to achieve this goal, the education system needs to be changed.

Also, as explained in Chapter 4, South Korea installed an Economic Planning Board

(EPB), which even played a role in expanding higher education. This kind of institution required extensively in Dubai, rather than localization policies. Not to forget the importance of the teachers who deals directly with our children who is the future of the nations. Moreover, nationals need to treat the local school teachers with more of respect and encourage more local citizens to become one of respected teachers. This is very important that Dubai nationals teach Dubai students. In addition, technical and scientific education appeared in the 1970s in South Korea, with the aim of scientificizing the whole population, and a similar strategy was implemented in the UAE in 2015; however, I believe this kind of program should have come earlier.

Also, innovation is a very important factor for economic diversification and it boosts the growth of the economy. It also contributes to the increase of human capital, which in turn leads to high-productivity (Ennis, 2015). Therefore, if we are going to have more equipped citizens to work in private sectors, the government needs to invest more into these sectors. Global Innovation Index (GII) is another important indicator that is used to observe the impact of the innovation policies of certain countries. Innovation Input Sub-index includes five main pillars to understand the national economy, thus allowing innovative actions, institutions, human capital and research, infrastructure, market sophistication, and business sophistication (Miniaoui & Schilirò, 2017). According to the index, Switzerland was ranked number one, followed by the United Kingdom, with Sweden in first place. The UAE was ranked in 47th place. All of the other GCC countries were below this position, except Saudi Arabia (43rd). Ennis (2015) quotes one of definition of innovation from the World Bank;

> Innovation is technology or practices that are new to given society. Innovation is not only derived from high technology, but also developments in low-technology and the utilization of indigenous knowledge." (pg, 117).

Therefore, innovation should be more promoted because it will lead to the economic growth, welfare, and competitiveness. Country like Dubai, it is very important to focus on innovation to become like knowledge-based economy of South Korea.

Limitation of Study

This study faced a number of limitations and difficulties throughout, especially when comparing the resource-based economy of UAE's small state Dubai with the knowledge-based economy of South Korea. Also, the biggest challenge was the population composition, which is very different. In the past, South Korea's workforces were mostly national, whereas Dubai's workforces are dominantly foreign workers. Which means that, in the case of South Korea, most of the revenues remain within the country, whereas in the case of Dubai, many of the foreign workers tend to send their money back to their own countries or to their families abroad. Naufal and Termos (2010) argue that this remittance figure is enormous and that the second-highest remittance country in the world was Saudi Arabia with $ 16 billion in 2006. Also, many of the GCC countries ranked high on sending remittances. Therefore, to implement the South Korean developmental state model in Dubai could be somewhat controversial. However, as both countries' economic structures are still highly dependent on trade and services, it would have been interesting to compare both countries.

Also, as mentioned in the recommendation for the importance of import-substitution industries (ISI) in Dubai, it is very difficult to support the private import substitution sector because it only comes through entrepreneurship and private companies taking risks. Hvidt (2013) also highlights the same arguments. Moreover, even though governments pursue these policies, it is not easy for private sectors to import all the raw materials, and provide the human capital to manufacture the goods that would, in turn, increase the price enormously for private businesses. Therefore, as is being done in the case of Dubai with the "Dubai Industrial Strategy", the ISI

policy should first be implemented in the State-owned companies' then implement to the private businesses.

Chapter 6: Summary and Conclusion

After the sudden drop in oil prices in 2014, the GCC countries duly realized the importance of diversifying their economy, and thus, the role of private sectors became increasingly important. Therefore, there is a tremendous pressure placed upon these countries to diversify their economies in order to reduce their dependency on oil. Dubai was one of the first states in the Gulf countries to realize and focus on the importance of SMEs. Currently, 95 percent of firms in Dubai are SMEs, and 42 percent of the total workforces are working in this sector. As a result, there were increased job opportunities for locals, as well as jobs for foreign workers. Also, this helped Dubai to reduce their dependency on oil from 45 percent in the 1980s to 5 percent in 2010.

However, sector-wise, Dubai's SME is highly dependent on simple trading activities, and the manufacturing sector is relatively low. Also, SMEs' contribution to GDP is lower than other developed Asian countries such as China, Singapore, and South Korea. The Dubai government encourages local citizens to work in SMEs as well as in private sectors; however, in reality, the citizens working in these private sectors are very limited. Also, there are other challenges, such as localization and economic regulations, which prevent SMEs from growing. The llocalization policy is very important for the governments of the UAE, and it is one of the main goals for the UAE's National Vision 2021. However, when we look at the current situation in the UAE, it seems that the youth unemployment and poor participation towards the private sectors still remain as challenges. At the same time, localization also leads citizens toward low productivity. Dubai's productivity per person is relatively lower than other trading-oriented countries, such as Singapore and South Korea. Also, high economic regulations and the monopoly of certain sectors by specific families is an obstacle to the growth of SMEs in Dubai.

Since the 1960s, the South Korean government has used the developmental state theory

to develop the country. South Korea was one of the poorest countries in the world following WWII in 1945. At this time, the government largely relied on aid from the United States. However, the Korean government supported a large number of small enterprises, with many SMEs becoming chaebol over time. Also, after the coup in 1961, President Park used the developmental state theory to support a large portion of chaebol, as well as SMEs. Therefore, three stages of the developmental state model could be implemented in regard to the case of Dubai. First, commodity exports, which focus on the economy with large manufacturing sectors. Second, import-substitution industrialization (ISI), which reduces the amount of the import and instead manufactures certain goods with the support of the government, which has the potential to grow. Lastly, the export-oriented economy, innovation, and education, all of which are controlled by state institutions to encourage private companies to focus on exports. Also, some parts of the education system need to be reformed in order to foster entrepreneurial minds among the populations. Teachers should be treated more respectively and Dubai should focus on training the citizens to become a teacher which be beneficial for their own children. Moreover, innovation programs should be more promoted as it increases economic growth as well as competiveness and welfare of the country. If Dubai can achieve all of these goals, then I believe Dubai can take further steps towards becoming a developed country.

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