The Service Sector as a Mechanism for Achieving Economic Diversification: A Comparative Study between Algeria and the United Arab Emirates

قطاع الخدمات كآلية لتحقيق التنويع الاقتصادي: دراسة مقارنة بين الجزائر ودولة الإمارات العربية المتحدة

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Abstract: Algeria seeks to establish a modern development model based on economic diversification, in which policies are integrated and sectors with the potential to foster economic growth are strengthened. Within this framework, the service sector emerges as one of the strategic options, given its flexibility and its capacity to generate added value, absorb labor, and provide financial resources. This study therefore aims to analyze the situation of the service sector in Algeria, assessing its contribution to value creation, employment generation, and the provision of financial resources necessary to support fiscal sustainability. The study also considers the Emirati experience as one of the most successful international models in this field.

Keywords: Service sector, Economic diversification, Algeria, United Arab Emirates.

Résumé : L'Algérie cherche à établir un modèle de développement moderne fondé sur la diversification économique, dans lequel les politiques sont intégrées et les secteurs ayant un fort potentiel de stimulation de la croissance économique sont renforcés. Dans ce cadre, le secteur des services apparaît comme l'une des options stratégiques majeures, en raison de sa flexibilité et de sa capacité à générer de la valeur ajoutée, à absorber la main-d'œuvre et à fournir des ressources financières. Cette étude vise ainsi à analyser la situation du secteur des services en Algérie, en évaluant sa contribution à la création de valeur, à la génération de l'emploi et à la fourniture des ressources financières nécessaires au soutien de la soutenabilité budgétaire. L'étude prend également en considération l'expérience émiratie en tant que l'un des modèles internationaux les plus réussis dans ce domaine.

Mots-clés : secteur des services, diversification économique, Algérie, Émirats arabes unis.

ملخص: تسعى الجزائر إلى إرساء نموذج تنموي حديث قائم على التنويع الاقتصادي، تُدمَج فيه السياسات وتُعزَّز فيه القطاعات التي تمتلك القدرة على دفع النمو الاقتصادي. وفي هذا الإطار، يبرز قطاع الخدمات كأحد الخيارات الاستراتيجية الرئيسة، نظرًا لما يتمتع به من مرونة وقدرة على توليد القيمة المضافة، واستيعاب اليد العاملة، وتوفير الموارد المالية. وتهدف هذه الدراسة إلى تحليل وضعية قطاع الخدمات في الجزائر، من خلال تقييم مساهمته في خلق القيمة المضافة، وتوليد فرص العمل، وتوفير الموارد المالية اللازمة لدعم الاستدامة المالية. كما تتناول الدراسة التجربة الإماراتية باعتبارها أحد أنجح النماذج الدولية في هذا المجال.

الكلمات المفتاحية: قطاع الخدمات، التنويع الاقتصادي، الجزائر، دولة الإمارات العربية المتحدة.

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.I- Introduction :

Over several decades, leading figures in economic thought have converged on the view that wealth creation does not stem merely from possession or excessive consumption, but rather from its prudent and efficient utilization. This understanding became particularly evident during periods in which certain European countries gained unprecedented access to abundant natural resources, including gold. Such historical experiences later came to be associated with the symptoms of what is now commonly referred to as the Dutch disease, a concept that broadly describes the adverse consequences arising from the rapid expansion of a single economic sector—most notably natural resources—at the expense of the decline of other productive sectors.

In light of these considerations, economic diversification has long occupied a central position on the policy agendas of commodity-producing countries. The underlying premise of diversification lies in reorienting the economy away from dependence on a single source of income toward a broader base of sectors and markets. This structural transformation is expected to enhance economic stability, foster sustained economic growth, support sustainable development, generate new employment opportunities, stimulate private sector activity, and ensure greater fiscal sustainability for governments.

Algeria represents a clear case of an economy heavily reliant on hydrocarbon revenues to finance development projects. Such dependence exposes these projects to the risk of suspension or cancellation in response to fluctuations in global energy prices. This situation effectively links volatility in hydrocarbon prices to fluctuations in the business cycle, leading to increased economic strain during periods of price booms and exacerbating recessionary pressures when prices decline.

Against this backdrop, Algeria is facing a critical juncture that calls for the implementation of a modern economic model grounded in diversification, policy coherence, and the development of sectors capable of driving economic growth. Within this context, the service sector emerges as one of the most strategic alternatives, given its inherent flexibility, its capacity to generate value added, its ability to absorb labor, and its potential to mobilize financial resources. Moreover, the service sector plays a significant role in attracting investment and strengthening integration into the global economy. In this regard, the United Arab Emirates offers a compelling comparative experience, having successfully transitioned from an economy largely dependent on oil revenues to a diversified economic structure in which services occupy a central position. This transformation has been guided by a long-term development vision embodied in the “UAE Centennial 2071” project, which emphasizes the construction of a knowledge-based economy driven by advanced services.

Based on the foregoing, the study seeks to address the following central research question:

To what extent does the service sector contribute to achieving economic diversification in Algeria?

Based on the proposed research problem, the following hypotheses can be formulated:

- The development of the service sector in Algeria contributes positively to promoting economic diversification by reducing reliance on hydrocarbon revenues and increasing the contribution of non-oil sectors to gross domestic product.

- The weak structuring of the service sector and the lack of integration between it and other productive sectors in Algeria limit its ability to play an effective role in achieving sustainable economic diversification.

- The adoption of coherent and supportive economic policies aimed at developing the service sector—drawing on experiences such as that of the United Arab Emirates—enhances the Algerian economy's capacity to withstand fluctuations in hydrocarbon prices and to achieve more stable economic growth.

I.1. The Theoretical Framework of the Service Sector:

- Definition of the Service Sector:

The definition of the service sector varies due to the diversity and complexity of its activities, as well as its strong interconnections with other economic sectors. Several definitions can be presented to clarify the conceptual meaning of this sector.

The service sector is commonly defined as the set of productive activities whose outputs are intangible and are primarily aimed at satisfying the needs of consumers. In a similar vein, Alfred Marshall classified services as activities that do not fall under the agricultural or industrial sectors, thereby distinguishing them as a separate category within economic activity. (Bahamed & Gharbia, 2024)

More broadly, the service sector—often referred to as the tertiary sector—encompasses economic activities that provide intangible benefits rather than physical goods. These activities include, among others, education, healthcare, tourism, and financial services .(Corporate Finance Institute (CFI), 2025)

According to the classification developed by the Negotiating Group, the service sector comprises twelve main sectors and 155 sub-activities, which can be summarized as follows : (Amara, 2007,)

- **Business Services:** This sector includes professional services, real estate services, and computer-related services.
- **Communication Services:** It covers postal services, telecommunications, and other communication-related activities.
- **Construction Services:** This sector involves engineering and technical services associated with construction and building activities.
- **Distribution Services:** It includes agency services, as well as wholesale and retail trade.
- **Educational Services:** This sector encompasses educational services at the primary, secondary, and higher education levels.
- **Environmental Services:** It relates to sanitation services, waste management, and environmental protection activities.
- **Financial Services:** This sector includes banking, insurance, and other financial services.
- **Health and Social Services:** It covers healthcare services and a wide range of social services.
- **Tourism and Travel-Related Services:** This sector involves services linked to travel and tourism, such as hotels, restaurants, and travel agencies.
- **Recreational, Cultural, and Sporting Services:** It includes entertainment services, cultural activities, and various sports-related services.

- **Transport Services:** This sector comprises land, maritime, air, and other transportation services.
- **Other Services:** It includes all remaining service activities that do not fall within the previously mentioned categories.

-Characteristics of the Service Sector:

The service sector constitutes one of the fundamental pillars of the modern economy, as it encompasses a wide range of activities that generate value added without producing tangible goods. The most prominent characteristics of this sector can be summarized as follows:

- **Intangibility:** Services are inherently intangible, meaning they cannot be physically touched, examined, or stored in the same manner as material goods. Examples include banking services and legal consultancy.
- **Perishability:** Services cannot be stored for future use. Once the opportunity to deliver a service passes, its value is lost. For instance, an unsold airline seat loses its economic value once the flight departs. (Zeithaml, 2018)
- **Simultaneity of Production and Consumption:** Services are produced and consumed simultaneously. For example, educational services are delivered and consumed at the same time within the classroom setting. (Lovelock, 2016)
- **Interaction between the Service Provider and the Consumer (Heterogeneity):**

The quality of services may vary depending on the nature of interaction between the service provider and the customer. For instance, a customer's experience in a restaurant can differ significantly based on the behavior and performance of the service staff.

- **Labor-Intensive Nature of the Service Sector:** The service sector relies heavily on human labor compared to the industrial sector, which depends more extensively on machinery and capital-intensive production processes.
- **Importance of Customer Relationship Management (CRM):** Managing customer relationships constitutes a critical element in the service sector, as customer loyalty is largely shaped by prior experiences with service providers. (Payne, A., & Frow, 2005)
- **High Degree of Diversity:** The service sector encompasses a wide range of activities, including healthcare, education, tourism, transportation, financial services, and many others.
- **Dependence on Technology:** The growth of the service sector is increasingly driven by technological progress and innovation, particularly in the fields of information technology and telecommunications.
- **Interconnection with Other Economic Sectors:** The service sector plays a vital role as a key input supporting both the agricultural and industrial sectors by providing essential facilitative and intermediary services.
- **Broad Impact on Employment:** The sector generates a significant number of quality jobs and contributes to the economic inclusion of marginalized groups, particularly youth and women, by enhancing their access to labor markets.

• **Digital Trade Potential:** The capacity to export services has expanded considerably through the use of the internet and digital platforms, reinforcing the growing role of digital trade in services. (Organisation mondiale du commerce, Groupe de la banque mondiale, 2023, p12)

- **Importance of the Service Sector:**

The service sector represents a fundamental pillar of the contemporary economic structure, owing to its prominent role in supporting economic growth and generating employment opportunities. In addition, it contributes significantly to the achievement of sustainable development and the enhancement of national economic competitiveness. The importance of this sector can be highlighted through several key dimensions, including: (Organisation mondiale du commerce, Groupe de la banque mondiale, 2023, p11)

• The service sector accounts for the largest share of global gross domestic product, reaching approximately 67% in 2021.

• It provides nearly half of total employment worldwide, making it a central driver of job creation and improvements in living standards.

• The sector plays an important role in empowering women and young people, as around 59% of employed women work in service-related activities.

• It serves as a major catalyst for economic growth by supplying essential services that support other productive sectors.

• It contributes to economic stability by promoting diversification and enhancing resilience to economic shocks and crises.

I. 2. The Theoretical Foundations of Economic Diversification:

- The Concept of Economic Diversification and the Natural Resource Curse (Dutch Disease):

Economic diversification has been defined in various ways, one of which describes it as the process of transforming an economy away from reliance on a single source of income toward multiple sources across an expanding range of sectors and markets. Traditionally, diversification has been adopted as a strategy aimed at fostering sustained economic growth and promoting long-term development. (United Nations Framework Convention on Climate Change)

Economic diversification is also defined as an economic process aimed at broadening income sources through the expansion and strengthening of the productive base, with the objective of increasing its contribution to gross domestic product. This process ultimately seeks to reduce the burden of reliance on a single commodity or product as the primary source of public revenues. In other words, economic diversification represents the effective utilization of all available capabilities and resources within a given economy in a manner that generates new income streams and financial sources. This approach relies heavily on domestic capacities and local competencies, leading, over time, to import substitution and the subsequent diversification of exports .(Messaoudi, 2018, p226)

In practice, the economic literature often associates economic diversification with another closely related concept, commonly referred to as the natural resource curse or Dutch disease. This phenomenon describes a situation in which the rapid expansion of a single sector—particularly one based on natural resources—accelerates the decline of other productive sectors. It is frequently accompanied by a significant appreciation of the domestic currency. The Dutch disease thus reflects a paradoxical condition whereby the boom of one sector of the economy, such as the discovery of natural resources, exerts adverse effects on the overall economic performance of the country. (corporate finance institute)

During the 1960s, the Netherlands experienced a substantial increase in national wealth following the discovery of large natural gas reserves in the North Sea. Contrary to expectations, this seemingly positive development generated serious repercussions for key sectors of the Dutch economy. The appreciation of the Dutch guilder rendered non-energy exports more expensive and, consequently, less competitive in international markets, thereby undermining the performance of tradable sectors outside the resource industry. (Ebrahimzadeh)

- **Types of Economic Diversification:**

Economic diversification generally takes two main forms: (Messaoudi, Economic Diversification Strategies at the International Level: Leading Experiences and Models, 2018, p227)

- **Diversification of the Productive (Industrial) Structure:**

This form refers to the development of a more diversified domestic production structure characterized by a broad industrial base. It is achieved by entering new productive activities that reduce dependence on a single sector or product, while enhancing the economy's ability to adapt to technological and technical advancements, particularly within the context of contemporary knowledge-based economies.

- **Market Diversification:**

Market diversification involves expanding and diversifying exports by altering the composition of export structures and/or accessing new export markets. This approach helps mitigate external shocks and associated risks, while opening up wider and more promising trade and economic opportunities for the concerned country.

II– The State of the Service Sector and Its Role in Value Added Creation, Employment, and Public Revenue Financing in Algeria and the United Arab Emirates:

II -1. Size of the Service Sector:

The size of the service sector in both Algeria and the United Arab Emirates can be assessed by examining the figures presented in the following table:

(2012–2024) Table No. 01: Size of the Service Sector in Algeria and the United Arab Emirates during the Period

Unit: Billion US Dollars

Algeria													
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Service Sector Value	102.01	107.49	114.46	97.70	94.71	97.26	96.16	97.66	87.06	90.30	96.43	112.92	126.03
The United Arab Emarates													
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024

Service Sector Value	**172.89**	**189.98**	**206.66**	**218.20**	**226.68**	**233.28**	**235.92**	**242.12**	**209.71**	**226.97**	**255.32**	**281.35**	**303.23**

Source: Prepared by the authors based on World Bank database: (World Bank Group, 2024)

The table above shows that the service sector in Algeria experienced a sustained and notable growth during the early years of the study period, increasing from USD 102.01 billion in 2012 to reach a peak of USD 114.46 billion in 2014. This expansion can largely be attributed to the growth of various service activities, including transportation, telecommunications, financial services, and trade, supported by rising investments in these fields. However, a sharp decline is observed in 2015, when the sector's value fell to USD 97.70 billion, a downward trend that persisted through 2016 and 2017, after which the sector entered a phase of relative stability at around USD 97 billion. This contraction can be explained by the impact of global economic shocks and the decline in oil prices, which indirectly affected the financing of service-related activities.

A pronounced deterioration in the service sector is also evident in 2020, when its value dropped to USD 87.06 billion, the lowest level recorded during the period under review. This decline coincided with the repercussions of the COVID-19 pandemic, which severely disrupted economic activity in general, and service-oriented activities in particular, such as tourism and transportation. With the onset of economic recovery, the sector began to rebound, reaching USD 90.30 billion in 2021, followed by continued growth in 2022, 2023, and 2024, when it rose to USD 96.43 billion, USD 112.92 billion, and USD 126.03 billion, respectively. This upward trajectory reflects a clear recovery and renewed momentum in service activities, supported by improvements in the economic environment and increased investment in technology and digital services.

Based on the foregoing, it can be concluded that the service sector constitutes an important pillar of the Algerian economy; nevertheless, it remains highly sensitive to both global and domestic economic shocks. Moreover, the actual financial returns generated by this sector remain modest relative to the overall size of the national economy. The value added produced by the service sector does not fully reflect Algeria's substantial human and economic potential and remains significantly below what could reasonably be expected from an economy of this scale. This situation underscores the need for development policies aimed at increasing service sector revenues in line with its anticipated role in supporting economic diversification.

The preceding analysis is further reinforced by a comparison between Algeria and the United Arab Emirates. The size of the service sector in the Emirati economy is markedly larger than that of Algeria, despite Algeria possessing a broader domestic market in terms of population size and potential demand. This superiority can be attributed to the UAE's strategic reliance on the service sector as a cornerstone of economic diversification, implemented within the framework of long-term policy visions such as UAE Vision 2021 and the Centennial 2071 strategy. The UAE has also expanded the scope of service activities to include key sectors such as financial services, tourism, transport and logistics, education, healthcare, and information technology. This broad-based diversification has enabled the service sector to emerge as a major engine of economic growth and a significant source of public revenues, in sharp contrast to the Algerian context, where the service sector remains limited in profitability and relatively weak in its contribution to gross domestic product.

II -2.Contribution of the Service Sector to Value Added Creation:

The service sector represents a core component of modern economic structures, given its central role in generating value added and supporting economic growth. It provides essential services such as education, healthcare, transportation, tourism, and financial services, whose importance extends beyond improving living standards to enhancing the performance of other productive sectors. Through these channels, the service sector contributes directly to gross domestic product.

Accordingly, the following section examines the contribution of the service sector to GDP in both Algeria and the United Arab Emirates over the period 2012–2024.

Table No. (02): Contribution of the Service Sector to Gross Domestic Product(2012–2024)

Unit: Billion US Dollars

Algeria													
Year	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**
GDP	**227.14**	**229.70**	**238.94**	**187.49**	**180.76**	**189.88**	**194.55**	**193.46**	**164.87**	**186.23**	**225.58**	**247.92**	**269.32**
Service Sector Share (%)	**44.9**	**46.8**	**47.9**	**52.1**	**52.4**	**51.2**	**49.4**	**50.5**	**52.8**	**48.5**	**42.8**	**45.6**	**46.8**
The United Arab Emarates													
Year	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**
GDP	**392.79**	**409.63**	**424.94**	**381.97**	**381.72**	**403.37**	**440.56**	**433.93**	**357.16**	**422.44**	**511.40**	**522.62**	**552.32**
Service Sector Share (%)	**44.0**	**46.4**	**48.6**	**57.1**	**59.4**	**57.8**	**53.6**	**55.8**	**58.7**	**53.7**	**49.9**	**53.8**	**54.9**

Source: Prepared by the authors based on World Bank database: (World Bank Group 2024)

The evolution of the service sector's contribution to gross domestic product over the period 2012–2024 indicates that both Algeria and the United Arab Emirates assign a significant role to this sector within their economic structures. However, the differences between the two countries become clearly apparent when moving from relative percentages to absolute values. In Algeria, the share of services in GDP fluctuated between 44.9% in 2012 and 52.8% in 2020, before declining to 46.8% in 2024. Although these ratios reflect a relatively substantial contribution, they do not translate into high absolute values due to the limited size of the national economy. With GDP reaching approximately USD 269.32 billion in 2024, the value added generated by the service sector did not exceed around USD 126 billion.

In contrast, the service sector in the United Arab Emirates recorded comparable percentage shares, ranging between 44% and 58.7% over the same period, stabilizing at 54.9% in 2024. Nevertheless, the considerably larger size of the Emirati economy—where GDP amounted to USD 552.32 billion—enabled the service sector to generate a value added of approximately USD 303.22 billion, which is more than double that of Algeria. Accordingly, the fundamental difference between the two countries does not lie in the relative share of the service sector, but rather in the magnitude of the value added it produces. The UAE has been more successful in translating these relative shares into substantial financial resources, largely due to its economic diversification strategies and the expansion of service-related activities.

II -3.Contribution of the Service Sector to Employment:

The service sector is widely regarded as a labor-intensive segment of the economy, characterized by a strong capacity to absorb labor compared to other sectors such as industry or agriculture. This feature is primarily attributed to the breadth and diversity of service activities, which encompass areas such as trade, transportation, tourism, education, healthcare, and financial services. These activities rely heavily on human resources rather than solely on capital or technology. As a result, the service sector provides diverse employment opportunities across different skill levels, contributes to reducing unemployment rates, and supports social stability. Consequently, it constitutes a key pillar of economic and social development policies.

Table No. (03): Share of Employment in the Service Sector as a Percentage of Total Employment in Algeria and the United Arab Emirates (2012–2023)

Algeria												
Year	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
Employment in Services (%)	59	59	59	60	60	59	59	60	59	59	60	60
The United Arab Emarates												
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Employment in Services (%)	69.32	69.68	67.82	66.45	65.59	64.88	63.93	68.91	70.63	68.91	69.29	69.01

Source: Prepared by the authors based on World Bank database: (World Bank Group, 2023)

An examination of the figures presented in the above table indicates that the share of employment in the service sector within total employment in Algeria remained relatively high and stable over the period 2012–2023, fluctuating between approximately 57% and 60% throughout the study period. This stability reflects the central role of the service sector in the Algerian labor market, where it constitutes the largest source of employment compared to other sectors. It also suggests a limited degree of structural transformation in the distribution of labor during this period. Overall, this trend highlights the importance of the service sector in absorbing unemployment and maintaining labor market stability.

In practice, despite being the primary contributor to employment in Algeria, the service sector's role remains constrained when assessed against its potential to generate additional job opportunities, particularly when compared to advanced economies. Moreover, the sector faces challenges related to job quality, as a significant proportion of employment falls within the informal economy or consists of low-quality jobs. These are often concentrated in basic or traditional service activities such as retail trade, local transportation, and low-efficiency administrative services.

With regard to the United Arab Emirates, the evolution of employment shares in the service sector over the period 2012–2023 reveals a marked degree of stability, with values ranging from a low of 63.9% in 2018 to a peak of 70.6% in 2020, before stabilizing at around 69% in 2023. These relatively high levels are not substantially different from those observed in Algeria, as the service sector in both countries employs more than two-thirds of the workforce. However, the fundamental difference between the two cases lies not in the scale of employment, but rather in the nature and quality of jobs provided by the sector.

In the UAE, the service sector is characterized by a high-quality employment structure, encompassing stable and institutionalized jobs in advanced fields such as financial services, high-

end tourism and hospitality, global transport and logistics, education, healthcare, as well as information and communication technologies. These positions are generally considered high-quality due to the employment stability, competitive wages, and social benefits they offer, while also contributing directly to the generation of high value added for the national economy. Consequently, a more nuanced comparison reveals that the key distinction between the two countries is qualitative rather than quantitative. While the service sector in the UAE functions as a strategic driver of sustainable development and economic diversification, its counterpart in Algeria remains relatively low in productivity and is unable to provide the same level of job quality and employment stability.

II-4.Contribution to Public Revenues:

Although the service sector accounts for a substantial share of gross domestic product in many developing and rent-based economies, its contribution to GDP does not necessarily translate into an equivalent contribution to public revenues. This discrepancy arises from differences in the relationship between the value added generated by the sector and the state's fiscal capacity to extract revenues from it. A service sector may be extensive in terms of employment and output, yet yield limited fiscal returns due to factors such as the underpricing of public services, the prevalence of subsidies, or the widespread presence of the informal economy.

Furthermore, government revenues often rely more heavily on direct and indirect taxes that are concentrated in other sectors, such as industry or foreign trade, rather than on charges and taxes associated with service activities. Consequently, the indicator measuring the service sector's share in GDP should not be considered a direct or sufficient proxy for assessing its contribution to public revenues. This distinction necessitates a clear separation between these two dimensions in economic and fiscal analysis.

Based on the foregoing, the present study seeks to conduct a comparative assessment of the contribution of the service sector to public revenues in both Algeria and the United Arab Emirates, drawing on available official statistics issued by government institutions and international organizations, supplemented by estimated values where necessary. This comparison aims to highlight similarities and differences in the fiscal role played by the service sector in financing public budgets in the two countries. However, such a comparison would remain incomplete without accounting for differences in population size and market scale between Algeria and the UAE, as these factors directly influence both the level of demand for services and the potential volume of fiscal revenues derived from them, thereby ensuring a more objective and rigorous analytical approach.

Table No. (04): Contribution of Service Sector Fees to the Structure of Public Revenues in the United Arab Emirates

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Service Sector Revenues	11.7	13.4	14.7	8.01	21.8	18.5	16.2	20.8	19.7	—	26.4	27.2	24.80	26.2
Share of Total Public Revenues	—	—	—	—	—	—	—	—	—	—	—	—	38%	37%

(%)														

Source: (International Monetary Fund, 2025) (Antonio Crupi et al, 2023) (Ministry of finance, UAE, 2025, p17)

Financial data from the UAE federal government indicate that service-related fees constitute the principal pillar of the federal revenue structure, ranking first among the various sources of public revenues over recent years. These revenues have exhibited steady growth, increasing from approximately AED 24.8 billion (about USD 6.8 billion) in 2024 to nearly AED 26.2 billion (over USD 7 billion) in 2025, representing a growth rate of around 5.6%. This upward trend reflects the continued reliance of the federal government on self-generated revenues derived from service activities, underscoring both the strong demand for federal government services and their capacity to provide stable and sustainable financial resources. (Ministry of finance, UAE, 2025, p17)

An examination of the relative weight of these fees within the overall revenue structure reveals that they accounted for approximately 38% of total public revenues in 2024, before declining slightly to 37% in 2025. This indicates that service-related revenues supply federal and local authorities with between 50% and 70% of total non-oil revenues, thereby contributing a substantial share to overall government income. This evolution helps explain the persistent decline in the contribution of the hydrocarbon sector to public revenues, which fell from nearly 80% in 2000 to around 40% by 2017. (INTERNATIONAL MONETARY FUND, 2022)

Based on the foregoing, it can be argued that the federal government has continued to strengthen its capacity to generate revenues from the service sector, in line with the country's broader strategy to diversify funding sources away from heavy dependence on oil revenues or domestic transfers. The slight reduction in the relative share of service revenues does not indicate a weakening of the sector's role; rather, it reflects a gradual rebalancing of the revenue structure through diversification, thereby enhancing the resilience of public finances over the medium and long term.

In practice, the observed progress in the service sector—whether in terms of its contribution to gross domestic product, employment creation, or public revenues—can be attributed to a set of fundamental factors, most notably the following:

- **The Service Sector as a Core Growth Engine:**

The UAE has placed strong emphasis on diversifying service activities, including tourism, air and maritime transport, logistics, financial and banking services, real estate, as well as private education and healthcare. As a result, cities such as Dubai and Abu Dhabi have emerged as prominent regional and international hubs. Dubai, in particular, has developed into a global financial center through institutions such as the Dubai International Financial Centre (DIFC), while Emirates and Etihad Airways have positioned the country as a major global aviation hub. In addition, the UAE attracts millions of tourists annually, whether for international exhibitions or leisure destinations.

- **A Modern Revenue Collection System:**

The introduction of a 5% value-added tax (VAT) in 2018 on goods and services, combined with the availability of accurate fiscal statistics, has significantly strengthened revenue mobilization. This has been complemented by extensive digitalization of government transactions, facilitating the monitoring of economic activities and the efficient collection of fees. Moreover, the widespread use of government service fees—such as residence permits, visas, and digital services—has created a stable source of income that is largely insulated from fluctuations in oil prices.

- **An Attractive Investment Environment :**

Free zones, including Jebel Ali Free Zone and the Dubai International Financial Centre, have played a pivotal role in attracting global service and trading companies. In parallel, the presence of reputable universities and a strong educational ecosystem has helped attract skilled talent and human capital. Foreign direct investment has been directed predominantly toward services and technology-related sectors, rather than being concentrated solely in the energy industry.

- **Cash Dominance and Limited Financial Inclusion:**

Since the majority of service-related transactions are conducted in cash rather than through the formal banking system, tracking these activities for taxation purposes remains highly challenging. As a result, the service sector demonstrates a strong contribution to economic growth while generating relatively weak fiscal revenues.

Based on the foregoing analysis, the main distinguishing characteristics of the service sector in both Algeria and the United Arab Emirates can be summarized in a way that facilitates a clearer understanding of its strategic role within each economy.

Table No. (05): Similarities and Differences between Algeria and the United Arab Emirates

Aspect	Algeria	United Arab Emirates
Contribution of Services to GDP	Weakly exploited in fiscal terms	Effectively exploited as a fiscal resource
Revenue Collection System	Traditional taxation with weak monitoring and enforcement	Fully digitalized tax and fee collection system
Informal Economy	Very high	Very limited (most activities are formally registered)
Tax Culture	Resistance to taxation	High acceptance of taxation in exchange for high-quality public services

Source: Prepared by the authors based on the preceding analysis

Based on the above discussion, it can be argued that the United Arab Emirates represents a successful model in transforming the consumption of services into a source of public revenue through transparent digital and tax-based mechanisms. In contrast, despite the substantial weight of the service sector in Algeria's gross domestic product, the country has been unable to convert this sector into significant fiscal revenues. This shortcoming is largely attributable to the lack of digitalization, the expansion of the informal economy, and limited trust in the tax system.

III- Conclusion:

The service sector constitutes a fundamental pillar in the pathways of economic diversification. Its role extends beyond value added creation and employment generation to encompass its potential as an important source of public revenues, thereby strengthening countries' capacity to reduce dependence on hydrocarbons and enhance fiscal sustainability. The fiscal dimension of services emerges as a decisive factor in assessing the effectiveness of this sector in supporting diversification strategies. Economies that have successfully leveraged the service sector have not confined its role to productive and social functions, but have also utilized it as a fiscal instrument capable of generating stable and growing revenues.

In the case of Algeria, the contribution of the service sector to economic diversification remains limited due to a range of structural and regulatory challenges. Nevertheless, reform efforts are

ongoing, as public authorities continue to commit to improving the regulatory framework and enhancing service quality in line with the requirements of the national economy.

IV- Results:

This study has led to several key findings, which can be summarized as follows:

• The service sector represents a vital component of modern economies due to its flexibility and strong capacity to adapt to structural transformations.
• In Algeria, the service sector contributes a significant share to gross domestic product and plays an important role in employment generation.
• The Algerian service sector exhibits clear shortcomings in terms of job quality and sustainability, in addition to its limited contribution to public revenues.
• The service sector in Algeria faces multiple challenges related to weak institutional governance, limited digitalization, and the widespread presence of informal activities.
• The United Arab Emirates stands out as a successful model in leveraging the service sector as a mechanism for economic diversification, as the sector contributes to value added creation, generates substantial fiscal revenues for the public budget, and provides high-quality employment opportunities.

V-Recommendations:

Based on the findings of the study, the following recommendations are proposed:
• Accelerating the digitalization of the tax system and expanding the use of electronic payment methods to enhance revenue collection from service activities.
• Developing revenue collection tools and mechanisms in line with the requirements of the digital economy.
• Regulating the informal sector and integrating it into the formal economic cycle.
• Providing accurate and transparent statistics on the contribution of the service sector to support evidence-based policymaking.
• Intensifying awareness-raising initiatives through conferences and academic events on the importance of tax collection in the service sector.

• Diversifying service activities with a particular focus on modern, high-value-added services, while improving their overall quality.
• Enhancing tax awareness and fiscal culture among both economic actors and citizens.
• Drawing on the experiences of countries that have achieved success in economic diversification through effective investment in the service sector, notably the United Arab Emirates.

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