

# BTI 2010 | United Arab Emirates Country Report

<b>Status Index</b>	1-10	<b>5.83</b>	# 60 of 128	
Democracy	1-10	4.15	# 92 of 128	↗
Market Economy	1-10	7.50	# 21 of 128	↗
<b>Management Index</b>	1-10	<b>5.47</b>	# 54 of 128	

scale: 1 (lowest) to 10 (highest)    score    rank    trend

This report is part of the Transformation Index (BTI) 2010. The BTI is a global ranking of transition processes in which the state of democracy and market economic systems as well as the quality of political management in 128 transformation and developing countries are evaluated.

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### Key Indicators

Population	mn.	4.4	HDI	0.90	GDP p.c.	\$	-
Pop. growth	% p.a.	2.7	HDI rank of 182	35	Gini Index		-
Life expectancy	years	79	UN Education Index	0.84	Poverty <sup>2</sup>	%	-
Urban population	%	77.8	Gender equality <sup>1</sup>	0.70	Aid per capita	\$	-

Sources: UNDP, Human Development Report 2009 | The World Bank, World Development Indicators 2009.

Footnotes: (1) Gender Empowerment Measure (GEM). (2) Percentage of population living on less than \$2 a day.

## Executive Summary

The United Arab Emirates (UAE) has entered a new stage in its national development. Three decades after the establishment of the federation, the UAE has now completed its consolidation and has formally integrated family rule within its institutional set-up. The UAE is a stable nation with solid ruling arrangements, which are not subject to any immediate threat. As a result, the UAE has increasingly turned its attention outward in order to pursue a process of social and economic development. This process includes the introduction of broad changes that will propel the nation into the next decades.

The UAE's leadership is committed to modernizing the state on all levels, including solidifying the fundamentals of a market economy, improving and expanding the efficiency of institutions, and increasing the overall administrative capacity of the state. The financial resources that the state has at its disposal to achieve its goals are vast and sufficient. In general, the state makes productive use of these resources to support strategic planning. With regard to foreign policy, the UAE has become a respected international partner. The country is increasingly ready and willing to take on a share of responsibility and to actively contribute to both regional and global peace and security.

Nonetheless, the UAE still faces numerous challenges as it strives to accomplish the ambitious agenda it has laid out for itself. This includes, first and foremost, the rapid need to expand national human resource capacity in order to overcome the country's large-scale reliance on foreign labor and to ensure that essential tasks associated with national development are being carried out by people that have a stake in the system, in other words, by national citizens instead of temporary workers. Such a process is complicated and involves broad reforms within the educational system to ensure that educational output meets future labor market needs. Additionally, the state must wean the current generation of citizens off the sense of entitlement that has developed over the years as a result of the rentier mentality that grew from being one of

the world's leading oil-producing states with a small national population. Ultimately, the UAE requires a new social contract in which the relationship between citizens and the state is no longer based on state handouts but on citizens striving to become productive members of society and to play an active role in the proper functioning of their country. In more practical terms, the UAE needs to continue to move away from the prevailing top-down decision-making system to one that is based on accountability, transparency and the rule of law. During the years from 2007 to 2009, the UAE moved in the right direction, although some hard choices remain.

## History and Characteristics of Transformation

The United Arab Emirates (UAE) is a federation of seven emirates. It was established on 2 December 1971, with the seventh member, Ras al-Khaimah, joining in early 1972. From the outset, the UAE was not given much chance of survival given the historical animosity that defined the relationship between the tribal areas of southeastern Arabia. With each passing year, however, the UAE has grown more cohesive as a federal entity with the result that the so-called experiment of unification today represents the only successful attempt at federation in the Arab world.

Part of the UAE's success and resilience is due to the structure of its government. With the exception of foreign policy and national security, the constitution, which was classified as provisional until 1996 when it was made permanent, gave sovereignty to the individual seven emirates. This was particularly true in areas pertaining to their own development, such as administration, economic and social policy, and even the territory's mineral and oil wealth. While this arrangement remains largely in place, the UAE has shown an increased willingness to expand federal jurisdiction to areas where it is proving to be functionally necessary. All of the emirates, for example, have over time dissolved their own defense forces and joined them in one central command. Similar movements have occurred on issues such as labor policies, property and real estate regulation, and national economic policies.

A blend of traditional patriarchal leadership and political loyalties structured around the country's various tribes define the UAE's political system. On the federal level, the Supreme Council, comprised of the rulers of each of the seven emirates, is the highest executive and legislative authority and exercises "supreme control upon the affairs of the Union in general," as stated in Article 49 of the UAE Constitution. The president of the country is the ruler of Abu Dhabi, which because of its size and wealth has assumed the leadership role in the UAE. The other emirates have important input into the decision-making process.

The UAE has made tremendous strides in its national economic development. Its national GDP rose from \$46 billion in 1995 to \$240 billion in 2008, an increase of more than 500%, due primarily to a combination of having the fifth largest oil reserve in the world and a small national

population of approximately 900,000 nationals. Its vast investments in infrastructure and services have transformed the UAE into a modern country with all the amenities found in Western industrialized societies. Moreover, the country hopes to benefit from globalization and is ready to use its preponderant oil wealth to sustain further development and assist in various economic diversification efforts. The indirect result of these massive oil profits has been the gradual implementation of economic fair practices and an increased willingness to abide by legal standards governing business transactions.

Despite the economic advancement of the UAE, however, the country has not witnessed a similar maturity of the political system. Buoyed by high per capita income and supported by a high degree of internal legitimacy, the UAE's ruling families have not yet felt the necessity to significantly expand political participation for the population at large or to substantially raise the institutional capacity of governmental organs. Despite its lack of democratic institutions, the UAE is not an authoritarian state without any political development. Democratizing trends include a state-sponsored process of institutionalization, internal debate about the broadening of participation and accountability, and the growth of informal, less defined mechanisms for political input. Nonetheless, the ruling arrangements remain contingent solely on personal capacities and the ability to maintain a high level of economic growth and social well-being. Moves to increase access to the political process are only slowly materializing. The UAE's leadership is nonetheless well aware that it must continue to introduce political reforms as it faces a global media revolution that is eroding the state's monopoly on information dissemination among a markedly youthful population. This is an ongoing process likely to produce further advances in the coming years.

## Transformation Status

### I. Democracy

#### 1 | Stateness

The UAE faces no threat to the state's monopoly on the use of force. The security forces have complete control over the entire country. No organizations or opposition groups infringe on that control.

Monopoly on the use of force

Among UAE nationals, the nation-state is accepted as highly legitimate. Broad agreement exists about the concept of citizenship and who has the right to be a UAE citizen. Several caveats, however, need to be mentioned. First, society remains structured along tribal identification lines, which means that allegiance is not pledged solely, or even primarily, to the state. Tribal lineage, as a consequence, creates class distinctions. Secondly, while Article 14 of the constitution specifically "guarantees equality for all before the law, without distinction between citizens on the basis of race, nationality, religion or social status," unspoken and undefined criteria exist by which ethnic or religious minorities are denied their civil rights. For example, about 10,000 stateless people, mainly of Iranian or Asian origin, have been living in the UAE for over three decades. Although, following a decision by the Supreme Federal Council in December 2006, the government has begun the process of naturalizing some of them, the criteria for determining their eligibility status remains vague and the process itself has dragged on without any significant progress. Thus, many stateless people are still waiting to be naturalized. Thirdly, the overall population of the UAE is highly unbalanced with UAE citizens only comprising about 15 percent of the total population, according to a study released by the Federal National Council in December 2008. This, in turn, has increased citizens' identification with the federation. In 2008, numerous discussions and conferences took place about the meaning of national identity and what policies the government should pursue to protect national heritage and culture. In principle, citizenship is available to foreigners who have lived in the UAE for a minimum of 20 years, but in practice naturalization occurs in small numbers and by arbitrary criteria.

State identity

The UAE's legislation is based on both civil laws and Islamic legislation. While the state functions as a secular order with modern institutions, the ruling elite uses Islam as a basis of legitimacy and has thus integrated, in one form or another, religious dogmas into the legal and political sphere. Islamic Shari'ah courts play a prevalent role in personal status cases and also deal with criminal cases as well as labor and commercial disputes. In 2008, high profile cases involving expatriates involved in acts of indecency or alleged extramarital activity made the headlines. In each of these instances, the prosecution made arguments in court based on violating UAE traditions and Islamic culture.

No interference of religious dogmas

The UAE's federal nature guarantees that numerous state functions remain the prerogative of the individual emirate. Accordingly, the emirates tend to duplicate services and demonstrate a basic reluctance to hand over power to the federal authorities. For example, while most of the emirates have agreed to place their judicial system under federal control, the emirates of Dubai and Ras al-Khaimah maintain their own systems. At the same time, all emirates maintain a strong commitment to improve the services and the efficiency of state institutions. The Abu Dhabi government issued a law in December 2008 to set up an independent accountability authority to ensure that government departments are managed efficiently. This followed the release in April 2007 of the first UAE national strategy to improve public administration by setting targets for the federation's 16 ministries. This strategy included improving cooperation between federal and local authorities, looking into the policy-making role of the ministries, increasing the efficiency of government bodies and updating laws and regulations.

Basic administration

## 2 | Political Participation

Despite some reforms, ruling arrangements are not subject to general and free elections. A ruling hereditary family with the leader chosen from among the tribal family members governs in each of the seven individual emirates. The Supreme Federal Council, the highest federal authority, which comprises the rulers of the seven emirates, selects UAE's president. In response to regional developments, partial elections took place for the first time in 2006 for the country's unicameral legislative institution, the Federal National Council. Of the 40 seats in the council, which are distributed according to the size of each emirate, half were open to election with the other half appointed by their constituent rulers. Voting was only extended to members of an electoral college, which meant that only 6,889 people, including 1,189 women, could cast a ballot. This represented 0.88% of the national population. Since then, no other elections have been held, and the government has made no further specific announcements on the future steps of political reform. This indicates a level of ambivalence toward additional reform.

Free and fair elections

The UAE's rulers have supreme decision-making authority. No restrictions limit their ability to govern. Furthermore, they are not elected. The combination of a small national population and vast financial resources has resulted in an underlying consensus about the nature of the governing system and a high degree of legitimacy for the ruling families. At the same time, decisions within the ruling families require consensus, which means that when making decisions the ruling family needs to take into account tribal considerations and other interests, such as those of powerful business families. This need for consensus, however, has not impeded their ability to govern. The process of globalization has curtailed the independence of decision-makers to some degree by forcing the government to react to events that occur outside of its national domain (like dealing with issues related to human trafficking, transnational crime and money laundering), but this circumscription does not infringe on their basic ability to govern.

Effective power to govern

Political organizations do not exist in the UAE while civic organizations that do exist have basically no influence on the country's decision-making process. The UAE constitution does explicitly recognize the right to assembly in Article 33, but this has never been actively challenged by broader sectors of society. Authorities have quickly broken up gatherings of striking and dissatisfied foreign workers. Though the Federal National Assembly approved a draft law on the workings of non-governmental organizations in 2007, no further action on the draft has been taken. The UAE also rejected the call made during a U.N. review of the country's human rights practices in December 2008 for the establishment of a trade union to represent migrant workers.

Association / assembly rights

The constitution guarantees all citizens "freedom to hold opinions and expression of the same" as well as "freedom of communication." Overall, the media environment in the UAE is increasingly free and coverage of local political debates has grown. A case in point is the debate over the country's media law. Attempts to compose a new media law have been hampered by growing public opposition. Though the draft of the new version of the law eliminates jail terms for offending journalists, it still states that it is "prohibited to publish news that causes harm to the national currency or causes damage to the national economy." Numerous UAE intellectuals and citizens objected to the draft law and argued that this did not advance the country's process of reform. As such, the status of the law remained in limbo as of January 2009. Nonetheless, the fact that editorial matters fall under the realm of criminal law and that 90% of journalists are non-citizens mean that self-censorship remains prevalent. At the same time, the UAE advanced 12 places in the 2007 World Press Freedom Index, which stated that UAE's "authorities have displayed a tendency to be more open-minded." The establishment of Dubai Media City, which includes a number of broadcast and print media like the satellite channels al-Arabiyya and MBC and western news services like CNN and Reuters, and the launching of the the National Newspaper in Abu Dhabi have had a limited impact

Freedom of expression

on the local media environment. Media organs are increasingly focusing on domestic issues, such as worker discrimination, labor disputes, cost of living and environmental matters. While debate has intensified within the expatriate community, the same cannot be said for Arabic language media where the government still exerts greater control.

### 3 | Rule of Law

Power is concentrated solidly in the individual ruling families with only minimal dissemination throughout the federal system. A formal system of checks and balances does not exist and the legislative branch continues to function solely in a consultative capacity. In fact, the involvement of members of the ruling families at all levels of government and in other institutions is reminiscent of a system of dynastic polities. The ruling families have stated that the country would institute further political reforms, which would include, according to a statement made by UAE President Shaikh Khalifa Bin Zayid Al-Nahyan on the occasion of UAE National Day 2007, strengthening the power of the Federal National Council. This stated intension, however, has not resulted in concrete suggestions as of January 2009. Minister of Federal National Council Affairs Dr. Anwar Mohammad Al-Gargash has stated that the country's political process is based on the concept of "gradualism." Some have interpreted this as an excuse to actually slow down the process of reform.

Separation of powers

The UAE constitution provides for an independent judiciary. The prime minister of the UAE and Ruler of Dubai, Shaikh Mohammad Bin Rashid Al Maktoum, ordered the establishment of a Supreme Judicial Council in 2006 as a means to protect the independence of the judiciary and has identified the justice system as being particularly in need of modernization. Yet, judicial decisions remain subject to review by the political leadership and judges often take positions that they know are in line with government decisions. Other judicial areas in need of reform include the lack of a clear jurisdiction (with federal courts existing in all of the emirates except for Dubai and Ras al-Khaimah where only local courts are allowed), the privilege of local ruler to review criminal and civil cases before they are referred to the prosecutor's office, and a lack of clear laws in areas such as fraud, personal and corporate bankruptcy, and redundancy.

Independent judiciary

The constitution states that the protection of public resources is the duty of every UAE citizen. While corruption has been a problem across UAE institutions throughout the years, the government has increased its efforts to eliminate such practices. In December 2008, the Federal Supreme Council endorsed an amendment to article 62 of the constitution whereby "the prime minister or his deputies, or any federal minister should not indulge in any professional work, commercial, financial or any trade deal with the federal or local government while on duty." This, in

Prosecution of office abuse

effect, eliminates the practice of ministers also conducting business dealings with the government while in office. Furthermore, there have been several high profile cases in which officials have been arrested and removed from office due to corruption. The Public Prosecutor in Dubai has listed fighting corruption as a top priority, stating that “any employee exploiting his position to make illegal profits will not have immunity.” While efforts to stamp out corruption have taken on a new degree of relevancy, the fact that the system as a whole remains based on personal relationships means that the application of the law is still somewhat arbitrary.

Articles 29 through 34 of the UAE constitution guarantee freedom of worship and religion, freedom of opinion, freedom of movement and residence, and the right to assembly within the limits of the law. UAE society is basically free of restrictions. People are free to pursue their individual goals and interests. The UAE is a signatory to a number of human rights conventions. In December 2008, the UAE delivered for the first time its human rights report before the U.N. Human Rights Council in Geneva. While the UAE agreed to adopt 37 recommendations put forward during the meeting, it rejected others, including ones that dealt with the establishment of trade unions and the repeal of its corporal punishment laws. UAE authorities did state that they would set up a National Human Rights Commission and introduce human rights education at the primary level. An independent UAE Human Rights Association exists and is open to receive complaints from citizens and expatriates. Yet, governmental authorities act swiftly if they consider internal stability at risk. They have arrested citizens or forced them from the jobs because of their beliefs. Strikes by foreign workers are quickly put down, and striking workers are prosecuted and deported. The years 2007 and 2008 saw a dramatic increase in the number of labor disputes, including violent protests over the non-payment of wages, unsanitary labor camp conditions and individual physical abuse.

Civil rights

#### 4 | Stability of Democratic Institutions

Though UAE institutions cannot be considered free in a democratic sense, they are subject to a system of checks and balances. In addition, the administrative system functions well and with little friction. UAE’s rulers pay a great amount of attention to improving government efficiency and performance and to increased engagement and interaction between government institutions and citizens. The existing top-down decision-making system, however, acts as a barrier to productivity and innovation, especially in some government ministries. Given the government’s high legitimacy and the continued economic resources at its disposal, the reform process will likely be rather slow.

Performance of democratic institutions

The UAE’s leadership enjoys a high degree of legitimacy and is accepted by the national population. The ruling families have been successful in promoting patron-client relationships, whereby the stability of the polity is directly related to the

Commitment to democratic institutions

preservation of social status and economic privileges among UAE nationals. In addition, politics remain personally oriented with the ruler enjoying a special status as a symbol of guidance. Shaikh Khalifa Bin Zayid Al-Nahyan has been the UAE's undisputed ruler since his father's death in November 2004. UAE citizens have no recourse, however, if they are unhappy with the choice of leadership. The rulers' legitimacy is also related to the perception that they are responsive to changing circumstances and willing to introduce reforms as required. President Shaikh Khalifa has underscored that the UAE is committed to "continuing our democratic change until we achieve all planned goals through paving the way and offering a chance for more participation" by UAE citizens in the governmental process.

## 5 | Political and Social Integration

The UAE has no party system and the formation of political parties is considered illegal. In the absence of a party system able to articulate societal interests, the formation of social consensus takes place through established patron-client networks. While such networks have successfully maintained the stability of the state over the period of its consolidation, they are insufficient to meet the demands of governing UAE's growing and diversifying population. In addition, the existing channels of communication between the leadership and the citizens will prove inadequate to deal with the demands of an increasingly informed national populace.

Party system

Societal interests can claim only partial representation in the UAE political system; civil society remains underdeveloped. As of January 2009, no legal framework existed to structure the overall process by which organizations could form and operate. This process continues to be arbitrary and non-transparent. Deliberations on the passing of a relevant law have been ongoing for several years with no tangible results so far. At the same time, some organizations have been able to carve out a substantial role for themselves. These include the UAE Human Rights Association established in February 2006 and the Journalist Association, which at the end of 2008 and beginning of 2009 led the verbal protests against the proposed amendments to the country's new media law. The government does not use corporatist structures for its own purposes.

Interest groups

No authoritative opinion polls released during the period of time under consideration reflect the national population's attitude toward democratic norms and procedures. In general, past polls have indicated a favorable view of democratic processes and the need to reform institutions within the country. This view is, however, tempered in two ways. First, there is a general consensus that political reforms or democratic initiatives should not come at the expense of national stability. Steps in this direction thus need to remain evolutionary, gradual and subject to periodic review. Secondly, there is a deep mistrust of external initiatives, such as those of the United States, to promote transitions to democracy within the

Consent to democratic norms

Gulf region. UAE citizens see these initiatives as blatant interference. Instead, UAE citizens clearly prefer a system of reform that is structured along national priorities and reflects local traditions.

Numerous voluntary associations of citizens exist for purposes of self-help in the UAE and their number has grown as population has increased. Volunteer and charitable organizations, including the UAE Red Crescent, the Khalifa Foundation and the Mohammad Bin Rashid Al-Maktoum Charitable and Humanitarian Foundation, carry out widespread social welfare services and development programs to cover such areas as medical aid, student sponsorship, disability, special care, the welfare of prisoners and lump-sum aid programs. In addition, numerous social clubs have established themselves, such as groups dealing with animal welfare and organizations that promote cultural activities.

Associational  
activities

## II. Market Economy

### 6 | Level of Socioeconomic Development

The United Arab Emirates has experienced tremendous economic growth and development in the period from 2007 to 2009, although by the end of 2008, the country was also feeling the effects of the global financial crisis. In 2007 and 2008 respectively, growth was 7.6% and 7.7% while the country's GDP rose from \$170 billion in 2006 to an estimated \$240.4 billion by the end of 2008. As a result, the country ranks in the tier of high human development, namely on rank 31 of the 2008 Human Development Index. The UAE's economic position is supported by high oil revenues (with the price for a barrel of oil reaching a record high of \$147 in July 2008), which the government uses to promote a progressive economic agenda built around economic liberalization, diversification and enhancing the role of the private sector. This has particularly been the case in the emirate of Dubai, which has focused its attention on the development of the services sector, tourism and large-scale real estate projects. The UAE's open economy has come with inflationary pressures, which became a source of concern in 2007 and 2008, and increased vulnerability to the global economic downturn. Projections predict that the country will witness a decline in economic growth by up to 2% in 2009. The world's largest sovereign fund of Abu Dhabi is estimated to have lost about 60% of its value, from an estimated \$850 billion to somewhere in the neighborhood of \$350 to \$400 billion. Dubai, meanwhile, has seen its real estate and financial sectors take large

Socioeconomic  
barriers

hits, which have resulted in widespread construction delays or cancellations and numerous layoffs within the expatriate population. By the beginning of 2009, the government made a concerted effort to restore confidence in the UAE economy. The general outlook remains positive and most observers expect UAE's economy to weather the storms relatively unscathed. Wide discrepancies in income and access to social services exist between the 85% of foreigners in the UAE and the 15% of UAE nationals. The large majority of Emirati nationals benefit from the country's wealth and development, although pockets of poverty exist in the smaller and less resource rich emirates such as Fujairah and Umm al-Quwain. With regard to expatriate labor, Westerners or Western-educated Arab nationals usually fill professional positions while laborers primarily from South Asia predominate in the low-skilled and non-skilled sectors. The general social security blanket, which covers the national population, excludes the expatriate sector of society. The UAE continues not to collect income tax, although it does apply indirect taxation such as housing fees or a tourism tax on restaurant and hotel bills.

Economic indicators		2004	2005	2006	2007
GDP	\$ mn.	103784.1	132999.9	163296.1	-
Growth of GDP	%	9.7	8.2	9.4	-
Inflation (CPI)	%	-	-	-	-
Unemployment	%	-	3.1	-	-
Foreign direct investment	% of GDP	-	-	-	-
Export growth	%	11.2	-	-	-
Import growth	%	7.0	-	-	-
Current account balance	\$ mn.	-	-	-	-
Public debt	\$ mn.	-	-	-	-
External debt	\$ mn.	-	-	-	-
Total debt service	% of GNI	-	-	-	-

		2004	2005	2006	2007
Cash surplus or deficit	% of GDP	-	-	-	-
Tax Revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	12.8	11.1	10.1	-
Public expnd. on edu.	% of GDP	1.6	1.4	-	-
Public expnd. on health	% of GDP	2.0	1.9	1.8	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	2.3	1.9	-	-

Sources: The World Bank, World Development Indicators 2009 | UNESCO Institute for Statistics | International Labour Organization, Key Indicators of the Labour Market Database | Stockholm International Peace Research Institute (SIPRI), Yearbook: Armaments, Disarmament and International Security.

## 7 | Organization of the Market and Competition

The UAE has defined itself as an open market where competition is encouraged and where economic liberalization is actively pursued by the government. Though the government has made advances toward an accompanying legal framework and has created the necessary institutional basis to conduct business, gaps continue to exist and restrictions remain in place. One example of such a gap in free market regulations is the continuation of exclusive agency distribution agreements, which ensure that traditional merchant families have virtual monopolies over certain economic sectors. Additionally, no clear line divides the private and the public sector. Many private companies, in fact, are owned by the government (Dubai Ports World, Emirates Airline etc.). As such, the ruling families are actively engaged in economic activity. The government has loosened local sponsorship requirements significantly with the establishment of free zones where foreign companies have full ownership and where profits can be repatriated. The government has also made efforts to streamline services with regard to setting up of businesses and obtaining necessary licenses. Despite this, local contacts and even sponsorship open doors and facilitate business opportunities for foreigners.

Market-based competition

Despite the fact that the UAE has been a member of the World Trade Organization for over a decade, it only occasionally regulates monopolies and oligopolies. Merchant families maintain their control over key economic activities and sectors. At the same time, the government has opened strategic sectors like telecommunications to competition by issuing a second in 2006 (it is considering an additional license in 2009). In short, the country is moving from a state-controlled monopoly to a state-controlled duopoly. The government has not followed through on suggestions that it amend the country's sole agency law.

Anti-monopoly policy

UAE officials consider free trade to be a sine qua non for improving competitiveness and productivity and have actively promoted liberalization measures. Total trade volume topped \$340 billion in 2008 with Dubai's non-oil trade growing by nearly 50% to \$255 billion. The UAE is systemically trying to take advantage of its hub position between Africa, Asia and Europe with Dubai in particular doing a majority of its business through re-export trade. The primary export centers in the UAE are free zones that provide logistical, administrative and financial advantages for exporting or re-exporting companies. These free zones are exempt from the licensing, agency and national majority-ownership obligations that apply to the domestic economy. On the regional level, the GCC states remain in ongoing negotiations with other parts of the world over free trade zone agreements. The GCC has concluded an agreement with Singapore while negotiations with China, India, Korea, the European Union and the United States, just to mention the most important ones, continue. The GCC has also removed internal trade barriers by establishing a customs union in 2003 and a common market as of 2008. Since the decision to make Saudi Arabia's capital, Riyadh, the host city for the newly created GCC central bank, the UAE – together with Oman – has officially retracted its stated plan to participate in the GCC currency union planned for 2013.

Liberalization of  
foreign trade

The banking system and capital markets in the UAE are well developed and function smoothly, though the global financial crisis has shaken overall confidence. A large number of banks operate in the emirates, including 23 local and 28 foreign banks with more than 750 branches. In addition, more than 80 banks operate representative offices in the UAE. Foreign Banks include such names as Deutsche Bank, HSBC, UBS, BNP Paribas and ABN-AMRO. Because the banking sector depends to a large degree on short- and medium-term project financing, the economic downturn of late 2008 has impacted the bank's balance sheets, in turn forcing the UAE Central Bank to make \$32.6 billion in liquidity facilities available. This was followed by a further \$4.3 billion for five Abu Dhabi banks in early 2009 to shore up their respective capital. While the regulatory authority within the UAE has improved, as evidenced by the position of the Dubai International Financial Center (DIFC), falling property values and increased prospects of defaults have caused authorities to call for the introduction of additional regulatory mechanisms. The three UAE capital markets – Dubai Financial Market (DFM), the Abu Dhabi Securities Market (ADSM) and the DIFC – have witnessed steep declines with the DFM losing more than 70% of its value in the period from June 2008 to January 2009 and the ADSM experiencing a decline of nearly 60%.

Banking system

## 8 | Currency and Price Stability

In connection with the tremendous economic development experienced during 2007 and 2008, controlling inflation, which topped 10% during both years, became a high priority for the UAE government. Without a consumer price index, the level of

Anti-inflation /  
forex policy

inflation in the UAE cannot be accurately measured. Given the massive increases in housing prices in both Dubai and Abu Dhabi, however, the rate is likely to have been well over 10%. Government authorities attempted to reign in inflationary pressures by setting price limits for certain food and commodity items, but the fiscal tools available to the Central Bank remain limited given the UAE dirham's peg to the U.S. dollar. Discussion about loosening the peg or switching to a currency basket intensified during this period, but this remains unlikely given the UAE's close foreign policy and defense relationship with the United States. In other words, factors besides economic ones play important roles here. On the broader regional level, all GCC states except for Kuwait have maintained their sole peg to the U.S. dollar. With the economic downturn of late 2008, inflationary pressures have eased and no further debate on the currency issue has surfaced.

The UAE places a high premium on maintaining macroeconomic stability. As a result, despite years of large budget surpluses on the back of rising oil revenues (rising to 12.4% of GDP in 2008), the government continued a process of reducing the country's reliance on volatile oil revenues by stepping up infrastructure spending and pressing ahead with diversification efforts. UAE President Shaikh Khalifa Bin Zayid Al-Nahyan stated in early 2009 that UAE institutions are well positioned to counter any negative impacts from the global economic downturn and that the government would create the necessary economic climate to allow the private sector to contribute to the country's development process. UAE's budget maintains a balance between national income and rising expenditures.

Macrostability

## 9 | Private Property

Nationals have the right to own property anywhere in the emirates. The opening of the real estate market for expatriates to purchase property in 2002 and 2003, however, exposed a gap between the planned projects and the necessary legal framework to govern those sales. As such, the UAE played catch-up and finally passed a law in March 2006 to cover freehold property ownership. This law represents the first attempt to fill this legal gap. At the same time, additional legislation is required to define issues like the right to residency for property owners. Property laws fall under the jurisdiction of each individual emirate, which means that differences between them exist. For example, the present property ownership law no.2 of 2007 in Abu Dhabi extends the right to own property to citizens but restricts ownership by non-nationals to specific investment areas. Here, non-nationals can own the building but not the land it is built on.

Property rights

The UAE government has pursued an aggressive diversification and liberalization strategy with an emphasis on the role and growth of the private sector. As such, private companies faced no restrictions and, in fact, the UAE prides itself as providing a business-friendly environment with minimum bureaucracy. The government has also made persistent efforts at privatization, for example in the

Private enterprise

utilities and the telecommunications sectors. The one drawback has been the close relationship and overlap between the public and the private sectors; many seemingly private enterprises in the emirates are owned by the government or by a group containing one of the ruling families. The large merchant families also maintain their positions as oligopolies, thus concentrating their power in certain business sectors.

## 10 | Welfare Regime

The UAE provides its citizens with a comprehensive welfare system, including social security benefits, free or subsidized housing, a well-developed health care system, educational opportunities as well as a wide array of other subsistence assistance. In October 2005, UAE President Shaikh Khalifa ordered a 75% increase in the social support extended to UAE nationals, in turn raising the annual social welfare allocations to 1,135 billion dirham. By the end of 2008, total assistance had risen further to 2.2 billion dirham as the number of cases receiving help rose from 33,500 in 2006 to 38,000 in 2008. These services are not available for the non-national community, but the overall standard of service is high and generally adequate.

Social safety nets

In general, UAE citizens face no restrictions in terms of access to employment opportunities, education, public services or various other assistance mechanisms. Some unspoken restrictions on the basis of tribal affiliation and social background remain, however, for high-level positions. The government's official policy fights discrimination on the basis of sectarian and other ideologies. National unemployment results not from inadequate opportunities but rather from citizens preferring public sector to more competitive private sector employment. Women have steadily increased their role in the economy and society. A cabinet reshuffle in 2008 led to the doubling of women in the cabinet from two to four. Women also occupy 22% of the seats in the Federal National Council. The 2008 UAE Yearbook states that the "pursuit of gender equality is not just a social policy initiative, it is generally recognized that full female participation is also pivotal for sustainable economic development." The UAE ranks on position 31 in the 2008 United Nations Development Report in both the gender-related development index as well as the gender empowerment measure.

Equal opportunity

## 11 | Economic Performance

The UAE economy benefited tremendously from the record oil prices between 2005 and 2008, a situation reflected in its vast development, high growth rates and large-scale increases in GDP and per capita income. Because of the large budget surpluses accumulated during these years, the UAE is relatively well positioned to

Output strength

deal with the consequences of the worldwide economic crisis that began in the second half of 2008. Overall, economic growth averaged above 7% for the period from 2007 to 2008 while GDP has grown from \$105 billion in 2004 to above \$240 billion by the end of 2008. The UAE has consolidated its position as the third largest Arab economy following Saudi Arabia and Egypt. While oil and gas remain paramount drivers of the UAE's economy, diversification measures have resulted in a rise of the non-oil contribution to 64.1% of overall GDP in 2007. A slowdown in economic activity occurred at the end of 2008 in line with global trends but the impact is far less severe than in other parts of the world. Despite these untoward conditions, the UAE economy is still on pace to grow modestly in 2009. This growth reflects the government's solid policies.

## 12 | Sustainability

Government officials have begun to place environmental concerns on the policy agenda, but their highest priority remains assuring and promoting economic development. According to the World Wildlife Fund's Living Planet Report of 2008, the UAE continues to have the biggest per capita ecological footprint of approximately 9.5 hectares per person of productive land compared to a global average of 2.7 hectares. Air pollution has noticeably increased as a result of the high degree of construction. Likewise, construction of artificial islands in the Gulf waters has caused severe disruption to marine life. The potential long-term consequences of these environmental degradations remain unknown. At the same time, the government has begun with a variety of initiatives to make development more sustainable. These include tighter regulatory regimes on industrial activities, more stringent guidelines on air quality, noise, health and safety practices, and measures to protect marine wildlife and coastal zones. The UAE government has also placed emphasis on the development of alternative energies, spearheaded by the massive Masdar project that includes the construction of the world's first carbon-free city. In addition, the government has invested in photovoltaics, wind energy and other research in renewable energies. The World Future Energy Summit was held in Abu Dhabi in 2008 and the emirate also released the Abu Dhabi Environmental Strategy 2008-2012 to outline its environmental policy agenda. In Dubai, the government passed guidelines that all new construction as of 2009 must comply with a Green Building Code, which emphasizes water and electricity conservation.

Environmental  
policy

The UAE has regularly increased its budgetary allocation for education in recent years with the 2009 budget spending 9.7 billion dirham or 23% of the total budget for this sector. The government and leaders in the private sector see education as the key enabler to meet the challenges of tomorrow. As a result, the government is strongly committed to implementing a strategy based on improving education standards, decentralizing the education system and creating a student-centered

Education policy /  
R&D

learning environment in line with international standards. This aggressive response is partly motivated by the large percentage of youth as part of the national population and the need, therefore, to ensure that the system produces employable graduates. The UAE offers a comprehensive free education to all male and female students from kindergarten to university. In 2007, a government introduced an initiative called *madaris al-ghad* (schools of tomorrow), which aimed at integrating innovative skills within the classroom. Beyond primary and secondary education, the UAE has over 60 public and private universities as well as numerous technical and vocational training centers. Moreover, the government, through organizations like the Emirates Foundation, has increasingly promoted research and development. The Emirates Foundation offers independent research grants in the fields of engineering, information technology and environmental sciences.

# Transformation Management

## I. Level of Difficulty

The UAE leadership experiences only some limited structural constraints on its ability to govern, at least domestically. The ruling families have a monopoly on the decision-making process and do not face any significant limitations. The constraints that do exist pertain to the lack of a qualified national work force and to a certain degree on a low and inconsistent work ethic. While government has taken steps to address these problems, the top-down decision-making structure limits the effectiveness of these programs. This results in a degree of lethargy and stifles the overall process of policy-making and implementation. It also means that the policy arena remains open to personal influence, thereby hindering the overall process of institutional development. The lack of clear rules on succession in the individual emirates can also be seen as a structural impediment. Externally, the UAE is constrained by being a small state surrounded by more powerful countries within an unstable regional environment.

Structural  
constraints

Civil society in the UAE remains underdeveloped with no real tradition of widespread civic engagement. What exists is restricted to a few professional associations and voluntary groups. The development and maintenance of social trust is accomplished through personal relationships rather than institutional set-ups. The Federal National Council has developed a strategic plan to promote wider participation by citizens in the participatory mechanism of the state by focusing on strengthening national identity, inclusion of societal groups, empowerment of women and the establishment of a constructive dialogue between the government and the public. Authorities, however, remain hesitant to proceed with the creation of a more institutional framework and prefer that much of this development takes place within informal mechanisms.

Civil society  
traditions

Social and political polarizations are very limited within the UAE; no widespread conflicts or significant potentials for violence threaten the state's stability. The UAE minister of labor has identified the country's strong reliance on foreign labor as a major worry, because current projections forecast that the local national population will form only 2% of the total population by the year 2025 (based on statistics as developed by the Ministry of Education). Labor unrest has broken out

Conflict intensity

due to non-payment of wages or poor living conditions. In response to these conditions, the Ministry of Labor created a new office in October 2008 to protect the interests of foreign workers. This office will oversee the proper payment of wages and other financial dues, occupational safety and health, inspections of local companies to ensure compliance with existing rules and regulations, and the upgrading of labor accommodations and living conditions.

## II. Management Performance

### 14 | Steering Capability

The UAE is currently engaged in a process of strategic planning within the highest level of government. This planning is subject to regular review and adjustment. While the individual emirates have put forward their own strategic documents (the detailed Abu Dhabi Plan 2030 announced in August 2007 and Dubai's Strategy 2015 of December 2006), the federal government launched its strategy in 2007. The plan covered areas of social and economic development, public sector development, justice and safety, and infrastructure and rural areas development. The plan placed particular emphasis on education and health with Abu Dhabi initiating a 10-year strategic plan to improve its education system in November 2008. All of the strategies launched so far have been subject to regular review, especially in light of the financial crisis, which has forced the postponement of numerous projects and reform efforts. The UAE government has been able to make adjustments to respond to these shifting circumstances.

Prioritization

The lack of constraints on the UAE government means that it has followed up announced policies and reforms with well-executed implementation. While reform efforts on the economic front continue to enjoy greater prioritization over those in the political arena, the executive is broadly committed to bringing about structural and qualitative changes in the overall functioning of the government. The willingness to institute reforms has also gathered pace as younger leadership has come to the fore. At the same time, the UAE remains a traditional society with an emphasis on stability over quick change.

Implementation

The UAE leadership lays out the parameters for policy initiatives and follows this up with alterations when policy steps fail to achieve the desired results. The leadership is committed to continuing the country's economic development and to outlining a process of political reform that will respond to the demands of the young UAE population and ensure that the dynastic control of the various ruling

Policy learning

families remains intact. The government is increasingly focusing on implementing best practice policies, though too often these policies are based on imported ideas and mechanisms that do not always correspond to the actual needs and traditions of the local society. On the education front, for example, the government placed strong emphasis on bringing in world-renowned institutions to establish satellite campuses in the country. The result of such an emphasis was that the government directed little attention to the development of national institutions. In general, the national capacity to absorb and effectively implement all the policy decisions that are being made by the leadership is limited and constitutes a structural constraint.

## 15 | Resource Efficiency

A fundamental gap exists between the available national human resources that the UAE government can draw upon and the resources required to develop and maintain an efficient state bureaucracy based on effective management. The UAE remains depended on the large-scale availability of foreign expertise. This is illustrated by the fact that only one-seventh of the current population is made up of UAE citizens. Demographic policies have put in place so-called Emiratization programs to enhance national employment, but so far they have had little or no effect on addressing this imbalance. The national community continues to prefer well-paid positions within the public sector rather than competing on the open market. In addition, the available human resources often do not meet necessary skill requirements. People attain positions of authority simply due to their personal connections or the fact that such positions require a UAE national. The government is putting the necessary emphasis on broadening educational opportunities and offering training so that education output begins to match labor market needs. However, this is long-term process that is only gradually going to be reflected in the context of resource efficiency. On the budget side, the government has displayed wide competency and has ensured that even large-scale oil windfalls have been used to pay down state debt and meet obligations rather than simply spending on large prestige projects.

Efficient use of assets

Policy coordination is largely effective. The government makes a consistent effort to ensure that all ministries and agencies are working within the framework of the nationally developed strategies. While the country's federal structure results in a certain amount of overlap, the system as a whole operates on a consensus basis defined by coordinated approaches to problem solving. Before policy initiatives are announced, the leadership has already ensured that broad support within the government apparatus. In addition, the approach of the country's leadership keeps intra-government friction at a minimum.

Policy coordination

The UAE ranks 35th in the 2008 Transparency International Corruption Perception Index (CPI) with a score of 5.9. This ranking continues a trend of decline over previous years when it was ranked at positions 31 and 29 respectively. Unlike

Anti-corruption policy

earlier surveys, the UAE now ranks after Qatar as far as the GCC states are concerned. However, the government has renewed its anti-corruption policy with the Dubai Public Prosecutor in August 2008, emphasizing that “the government will continue to have a strict stance against all aspects of corruption and will take legal measures against violators.” Officially, a zero tolerance policy is in place. The government has strengthened this policy by establishing an accountability authority for government departments, companies and projects, and by amending the constitution to bar UAE ministers from holding additional offices or engaging in any financial or trade deal with the government while in office. Application of the policy, however, remains suspect. Similarly, the authorities in Dubai have begun to prosecute cases of fraud in connection with real estate projects that have come to light in the second half of 2008. With much of public and private business being conducted at a personal level, the ability to stamp out corruption will continue to be an issue of concern for the UAE.

## 16 | Consensus-Building

All the major societal forces within the UAE agree about the continued development of a market economy as well as some form of gradual political reform. Despite its authoritarian nature, the UAE political system, similar to the system of the other Arab monarchies, functions largely on the basis of consensus. The government incorporates the views of important social groups, such as important tribal groupings or merchant families, into its policy considerations. The ruling families also enjoy a high degree of legitimacy and are seen as acting in the interests of society as a whole.

Consensus on goals

Because the various ruling families control the decision-making process, they constitute the main force that could stall any reform efforts. If the government is serious about implementing a reform program, it can accomplish one. Within the ruling families, opinions differ about the level of governmental centralization and reform. Once these actors reach a consensus, few obstacles remain to scuttle the decision.

Anti-democratic  
veto actors

With its monopoly over power and the use of force, the UAE’s government is capable and highly successful in containing potential cleavages within the system. This is further supported by the wide legitimacy and consensus that exists within the society. The main cleavage that does exist is between the minority national population and the majority expatriate work force. Certain resentments exist between the two groups that have the potential to escalate if economic conditions sharply deteriorate. The government attempts to provide the framework of an open and tolerant society whereby such resentments do not transform themselves into open conflicts.

Cleavage /  
conflict  
management

The UAE authorities have only slowly begun to incorporate the attitudes and views of civil society actors and organizations in the overall political debate and their attitude towards such levels of civic engagement remains ambivalent. The UAE leadership encourages citizens to engage with their community and contribute to the overall development of their country. Authorities have announced plans to develop the political culture in the country and to improve the overall process of dialogue with the citizenry. Furthermore, because globalization is breaking down barriers of communication and information exchange, the government has had to pay more attention to voices coming from professional associations, the intellectual community and the media. For example, a coalition of UAE intellectuals voiced its strong opposition to the revised media law in early 2009 and caused the government to delay the finalization of the law in order to address the objections. Overall, the government is beginning to view the necessity of social capital as a further component of its internal legitimacy and no longer takes an obstructionist view towards all such activity.

Civil society participation

The UAE has experienced no major historical injustices that would require the government to step in and bring about reconciliation. While there are levels of competition among the individual emirates, including unresolved territorial issues dating back prior to the establishment of the federation, this is not disruptive and does not require a formal process of reconciliation. The individual emirates are strongly committed to the federation as a whole and any remaining historical disputes are handled in this framework.

Reconciliation

## 17 | International Cooperation

The UAE pursues its own policy of national development, but it will use international partners as support mechanisms to achieve its goals. In all aspects of its economic, political and social strategies, the UAE actively seeks international expertise to advance its policy plans and to try to ensure swift and effective implementation. Renowned international companies construct all major infrastructure projects. In educational and technical training, the UAE seeks best practices from other countries. The government sponsors constant exchanges with delegations from governments throughout the world and exhibits a general willingness to examine other experiences in order to draw relevant lessons from them. At the same time, the government fundamentally rejects policies like those pursued by the United States to press for democratic political reform in the country and the broader Middle East. UAE's rulers consider this to be unwanted outside interference. This rejection, however, does not symbolize close-mindedness or an unwillingness to foster international and bilateral cooperation.

Effective use of support

The UAE is an active partner in regional and international diplomacy and regularly consults with its allies. It is committed to working in both bilateral and multilateral frameworks and regularly emphasizes its commitments at the regional and

Credibility

international level. Given its moderate and balanced foreign policy, the international community views the UAE as a highly reliable partner. This is particularly true within the GCC and the Arab world. The country is also increasingly ready to demonstrate its credibility with real commitments on the ground, such as the participation of the UAE Armed Forces as part of NATO's ISAF forces in Afghanistan and the activities of the UAE Red Crescent Society in cases of international disaster relief and humanitarian aid.

The UAE is an integral member of the Gulf Cooperation Council (GCC) and supports all aspects of further regional integration aimed at bringing about peace and stability in the Gulf region. UAE President Shaikh Khalifa Bin Zayid Al-Nahyan has emphasized his commitment to further progress and has called for "effective steps to enhance the GCC march." He has also stated in the UAE Yearbook 2009, "Unity is strength. It is my hope that we would be able to forge a greater union or federation, across the Gulf, not just in the UAE, and the success of our federation in the UAE is a cause for hope." Occasional disagreements with neighboring states do not negatively impact the UAE's overall commitment to fostering regional understanding. The UAE has also been at the forefront of exploring the possibility of Yemen's membership in the GCC.

Regional  
cooperation

Regional relations are strained at times. The UAE has longstanding territorial disputes with both Saudi Arabia and Iran that have not been totally resolved. These disputes lead to occasional tensions. For example, the UAE has asked for the 1974 border agreement with Saudi Arabia to be re-negotiated, stating that the original treaty was concluded under a high level of duress at the time. The UAE's relations with Iran are far more strained than those with Saudi Arabia. The UAE and Iran have fundamental differences with regard to regional security. In specific, the UAE is deep concerned about Iranian hegemonic ambitions in the Gulf. In this context, the UAE views Iraq as a potential regional balancer and has developed good relations with it.

## Strategic Outlook

The government's policies from January 2007 to January 2009 indicate that the UAE's current leadership is keenly aware of the challenges that the country confronts. As has been the practice in the past, the period under examination offers evidence that the country's authorities are capable of addressing those challenges by putting in place broad development strategies that take account of national priorities, regional realities and international opportunities. The UAE has successfully adjusted to the parameters of an increasingly globalized world, and it has demonstrated its willingness to play an active and substantive role in support of overall peace and security.

Because the UAE is one of the world's leading oil producers and because the medium- to long-term outlook predicts moderately rising oil prices, the country is in a good financial position to turn many of its development policies and strategies into reality. The challenge for the country, however, is to make current development sustainable from an economic, political and social perspective. The government has taken first steps in this regard. They include a higher emphasis on environmental protection, broad investment and reform strategies with regard to education and health, a commitment to invest in research and development, a recognition of the need to continue with the broadening of political participation to include wider sectors of society within the decision-making process, and numerous diversification strategies that place the economy on a more solid footing and lessen the dependence on the volatile oil market. Abu Dhabi's push to become a leader in alternative energies is one specific aspect that deserves highlighting. The successful policies implemented so far are also reflected in the fact that the country has weathered the current global financial crisis moderately well. The consequences of the crisis have not brought the development process in the UAE to a halt. Even in Dubai, where the crisis has impacted the overblown construction sector, most critical infrastructure projects will continue.

The UAE requires additional strategies and reforms in order to ensure that the current political and economic transition process remains both innovative and stable. Six areas stand out as the most important. Firstly, the UAE needs to place less emphasis on the promotion of a materialistic and consumer oriented society and concentrate more on sustainable policies grounded on a broad concept of human security. Secondly, the leadership should expand the power of the country's legislative institution, the Federal National Council, beyond its current advisory capacity. Thirdly, more individuals from outside the ruling family circle should become involved in key government positions in order to lessen the dependence on reform initiatives from the ruling family alone. This would decouple for the potential for continued development from the willingness of the current rulers to contemplate change. Fourthly, the government should re-orient its education reform efforts away from bringing in internationally renowned institutions to set up campuses in the UAE and toward building up national educational institutional through twining programs and collaborative research efforts. Fifthly, the UAE's

leadership should pass a comprehensive and liberal law on the establishment of non-governmental organizations in order to foster the development of civil society. Finally, the government should continue its process of judicial reform. This means improving the training of judiciary officials and ensuring the independence of the judiciary as a whole.

The UAE has been a model for development and has witnessed tremendous achievements since the establishment of the federation. The strategic outlook is favorable. No reason suggests that the UAE cannot maintain its forward progress and thus keep its model character.