

BTI 2008 | United Arab Emirates Country Report

Status Index	1-10	5.23	# 77 of 125	
Democracy	1-10	3.47	# 107 of 125	➔
Market Economy	1-10	7.00	# 29 of 125	➔
Management Index	1-10	5.04	# 59 of 125	

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

This report is part of the Bertelsmann Transformation Index (BTI) 2008. 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 125 transformation and developing countries are evaluated.

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Key Indicators

Population	mn.	4.5	HDI	0.84	GDP p.c.	\$	22,698
Pop. growth ¹	% p.a.	4.8	HDI rank of 177	49	Gini Index		-
Life expectancy	years	79	UN Education Index	0.71	Poverty ³	%	-
Urban population	%	76.7	Gender equality ²	0.35	Aid per capita	\$	-

Sources: UNDP, Human Development Report 2006 | The World Bank, World Development Indicators 2007 | OECD Development Assistance Committee 2006. Footnotes: (1) Average annual growth rate 1990-2005. (2) Gender Empowerment Measure (GEM). (3) Percentage of population living on less than \$2 a day.

Executive Summary

Capturing the philosophy behind the United Arab Emirates' (hereafter: UAE) development in his address commemorating National Day in 2005, Sheikh Khalifa Bin Zayid al-Nahyan, president of the United Arab Emirates stated: "The founders of this nation established a viable federal system that is capable of developing and accommodating the changes of time and modern developments and changes. What we are currently going to embark upon is a national program that meets this demand and that will be pursued within a framework of gradual transformation ... It is a gradual process which provides opportunities for assessing the situation, stage by stage."

Since January 2005, the country has taken great strides in advancing economic and political transformation. By taking advantage of record oil revenues, the UAE has succeeded in pushing economic development forward, diversifying its economy and integrating it within the global economy. A strong showing on the 2006 Human Development Index (rank 49th) is one indicator of the country's overall success. The government has spent much effort on diversifying the country's economy so as to wean it off its reliance on hydrocarbon income, though the effects of this policy have been varied at the level of the individual emirates. Nevertheless, the country's real estate business has taken off, as has tourism. Dubai has successfully situated itself as a major international center for finance and logistics. And many of these efforts have begun to bear fruit during the period under review – strong, steady economic growth rates have accompanied a growing population. Attracting people and money from throughout the Middle East and beyond, the UAE offers a tolerant society with opportunities for advancement for individuals and companies. In addition to its economic success, the UAE also began expanding the political process by holding its first ever election for the country's legislature, the Federal National Council in 2005. Though limited in terms of its representativeness – only half of the members were elected and elections were open

to only a selected group of citizens – the decision to institute an election nevertheless was a landmark for the UAE, whose leaders have recognized that some degree of political reform is necessary. To its credit, the government never announced this as a full-fledged exercise in democracy, but rather as the first step in a gradual process of further participatory expansion.

This being said, the UAE faces a number of challenges that will require the full attention of the government. For one, tremendous economic growth has increased the country's reliance on foreign expatriate labor and draws into question the government's commitment to achieving a more balanced demographic profile. Tremendous investment in the local population is needed to build their skills and work ethics. Doing so poses a future challenge to the government, as such efforts will likely create a population that could force the government into making political concessions before it is willing to do so. Second, growth has been accompanied by rising inflation and there are concerns over increasing living costs, all of which has cast a shadow on the sustainability of current development plans and raised questions as to whether too much is being done at the same time. These developments carry the risk of facilitating discontent, which could backfire on the government or lead to cleavages between citizens (who constitute a minority) and the country's foreign-born majority. Finally, the UAE is located in a fragile and unstable region where developments could negatively impact the course of the country as a whole. For the moment, the UAE exists as a virtual oasis of calm in a sea of instability, but there is no guarantee that this will continue to be the case.

History and Characteristics of Transformation

The United Arab Emirates (UAE) is a federation of seven emirates established on 2 December 1971, with the seventh member, Ras al-Khaimah joining in early 1972. From its outset, the UAE was judged to have little chance of survival, given the historical animosity that defined the relationships between the tribal areas of southeastern Arabia. With each passing year, however, the UAE has grown 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 manner in which the government has been structured, although there are also suggestions that this structure has prevented full integration from taking place. With the exception of items such as foreign policy and national security, the constitution – which was classified as provisional until 1996, when it was made permanent alongside minor amendments – left sovereignty over areas such as administration, internal security, economic policy and the control over mineral and oil wealth to the individual emirates. This arrangement remains largely in place, although there is also an increasing willingness to expand federal jurisdiction to areas where it is

proving to be functionally necessary. All of the emirates have, for example, dissolved their own defense forces and merged them in one central command. Similarly, in areas such as education and health services, there has been a movement toward greater coordination. The UAE's traditional patriarchal style of leadership, which is combined with political loyalties as defined by the various tribal elements of the country, has been maintained. On the federal level, the Supreme Council – which is comprised of the rulers of each of the seven emirates – is the highest executive and legislative authority “exercising supreme control upon the affairs of the Union in general” (as stated by Article 49 of the UAE Constitution). The president of the country is the ruler of Abu Dhabi, which assumed a position of leadership due to the fact that it is the largest emirate, both in terms of size and wealth. Regarding federal matters, the emirate of Dubai also has an important input into the decision-making process.

The combination of large oil reserves (the fourth-largest in the world according to the 2006 BP Statistical Review of World Energy) and a small national population has led to tremendous economic development in the UAE with national GDP having risen by nearly 400% in the period between 1994 to 2006, which is in turn reflected in the state's modern infrastructure and services. The country seeks to be an active part of the overall process of globalization, and as such its leaders show commitment to use the country's vast oil wealth to sustain further development and promote various diversification efforts. As a result, the country has gradually implemented and adjusted to fair economic practices and shows an increased willingness to abide by the international legal standards governing business transactions. Economically, the UAE has, for many, become a model for the rest of the Arab world.

Given the fact that economic policy decisions are less contentious than similar ones on the political front, the political system of the UAE has not witnessed development comparable to that of the economic system. Many experts agree that were it not for the fact that the UAE would have stood as the only country on the Arabian Peninsula where competitive elections were not being held that authorities agreed to introduce limited suffrage for it's the country's advisory legislative institution known as the Federal National Council. The development of modern responsive governmental institutions has been and continues to be a slow process. Clearly, the UAE remains an authoritarian state. But political development is not stagnant and there are internal debates over the country's future political path. For the time being, the system remains dependent on the personal capacities of individual rulers and ruling family members to provide high levels of economic growth and social well-being. This represents an inherent weakness that is not sustainable over the long-term. Fortunately, there are individuals within the ruling families that are aware of ever-changing global circumstances and who are willing to consider a more participatory path of development.

Transformation Status

I. Democracy

Political liberalization in the United Arab Emirates received a boost with the first elections for the Federal National Council (FNC – the country’s legislature) held in December 2006. As part of the elections law, women were able to vote and stand as candidates. The elections, however, presented only a very small step in terms of political development as less than 1% of the national population was able to cast their votes. Moreover, only half of the seats in the FNC were eligible for direct election, while the other half were occupied by figure appointed by the rulers of the individual emirates. The government has indicated that the elections represent only the initial step in a gradual process of broadening political participation. The president of the UAE, Sheikh Khalifa Bin Zayid al-Nahyan, has already promised full direct elections without setting a timeframe. With sufficient economic resources available to continue to support the dominant patron-client relationships actively fostered by the various ruling families in the individual emirates, there is no particular pressure to move too quickly ahead with political reforms. Overall, the UAE is recognized for its stability and economic openness in a region where often the opposite tends to be the case. The ruling families also enjoy a high degree of legitimacy, which provides them with sufficient leverage to decide on additional future steps without necessarily having to respond immediately to any form of public pressure.

1 | Stateness

There is no competition over the state’s monopoly on the use of force in the UAE. The security forces have complete control over the entire territory of the country and there are no areas in which any organizations or opposition groups infringe on this control.

Monopoly on the use of force

There is no specific practice whereby ethnic or religious minorities are denied their civil rights as citizens of the country. 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.” Emirati society does remain structured along tribal identification lines with the result that allegiance is still primarily to the tribe, followed by the state.

State identity

Furthermore, tribal distinction results in different strata of citizens simply due to one's lineage. In terms of non-citizens, reports suggest there are about 10,000 stateless people living in the UAE, mainly of Iranian or Asian origin. Following a decision by the Supreme Federal Council in December 2006, nearly 1,300 are in the process of being naturalized as UAE citizens. The criteria for determining their eligibility status stipulates "those who lived before independence and continue living in the country" although how this is to be proven remains vague and undefined. Citizenship issues are further complicated by the high demographic imbalance that exists in the UAE. The 2005 census revealed that UAE citizens only comprise 20.1% of the total population. In principle, citizenship is available to foreigners who have lived in the UAE for a minimum of 20 years, but there are no numbers available on the total number of foreigners who have been naturalized. The Minister of Labor and Social Affairs, Dr. Ali Bin Abdullah al-Kaabi, has proposed granting citizenship to expatriates with high skills to contribute to the development of the country but it is doubtful that such a move would in fact address the demographic imbalance.

The UAE's legislation is based on both civil and Islamic law. 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. For example, Islamic Shari'ah courts play a prevalent role in personal status cases, but in the emirate of Abu Dhabi Shari'ah has also been expanded to deal with serious criminal cases as well as labor and commercial disputes.

No interference
of religious
dogmas

The UAE's administrative structure is complex given the federal nature of the state and the fact that numerous state functions remain the prerogative of the individual emirates. This translates into a duplication of services in addition to a fundamental reluctance to hand over power to the federal authorities. For example, while the majority of emirates have agreed to place their judicial system under federal control, the emirates of Dubai and Ras al-Khaimah continue to maintain their own system, seeing this as an important component of their own independence within the federal structure. Aside from the competency issue, there is a commitment to improve the services and efficiency of state institutions. In November 2006, Abu Dhabi Crown Prince Sheikh Mohammad Bin Zayid al-Nahyan outlined plans to enhance the role of federal institutions including the continuation of decentralization efforts and the promotion of the financial and administrative independence of government institutions to increase their efficiency. In the month prior, UAE President Sheikh Khalifa Bin Zayid al-Nahyan issued a decree related to upgrading the civil service of the federal government. Initially, this involved the way appointments and promotions are handled but ultimately the aim is to bring about a comprehensive amendment to the existing law.

Basic
administration

2 | Political Participation

Ruling arrangements are not subject to general, free and fair elections. Each of the seven emirates is ruled by a hereditary family whose leader is chosen from among family members. The president of the UAE is chosen by the Supreme Federal Council, the highest federal authority, which comprises the rulers of the seven emirates. In response to regional and international developments, partial elections for the country's unicameral legislative institution, the Federal National Council, were held for the first time in 2005. Of the 40 seats in the council (which are distributed according to size and population of the emirates) half (20 seats) were open to contestation. The other 20 seats are still filled by appointment from the constituent rulers. Furthermore, voting was extended to members of an electoral college, meaning that in the end only 6,889 people, including 1,189 women, could cast their ballot. This represents 0.88% of the national population. Similarly, only electoral college members could run as candidates. In the end, one woman was elected. Suggestions that elections could also occur at the individual emirate level have been raised for years, but no concrete actions has been taken.

Free and fair elections

There are no restrictions on the rulers' power to govern in the UAE. The decision-making process remains the sole prerogative of the ruling families, who, as mentioned, are not elected. The combination of a small national population and high national income has created an underlying consensus about the nature of the governing system and a high degree of legitimacy for the ruling families. Yet, the system is structured in such a way that ruling families do take tribal consideration and other interests, such as those of powerful business families, into account when making their decisions. This has not proven to be an impediment to their ability to enact decisions, as problems are usually worked out behind closed doors. Overall, autocratic rule cannot be classified as fragmented or despotic.

Effective power to govern

While there is no freedom for political organizations, there are civic organizations, but they have no influence on the decision-making process in the UAE. While the right to assembly is explicitly recognized in Article 33, the UAE's constitution lacks any explicit legal framework relating to the establishment of political groupings, either formalized parties or non-governmental organizations. While individuals can voice their grievances in a ruler's majlis, they have no direct influence on the decision-making process. Both in terms of public assembly and the right for association, the final decision rests with the government. The case of the UAE Human Rights Association is a case in point. Ministry of Social Affairs took several years to respond to the original application in date, only establishing it by ministerial decree no. 8 of 2006 on February 18, 2006. Even following its establishment, the association has had minimal impact and its activities are restricted by government regulations.

Association / assembly rights

While the constitution guarantees all citizens “freedom to hold opinions and expression of the same” as well as “freedom of communication,” this right is not consistently translated into practice. In 2006, the Ministry of Information and Culture was scrapped and a National Media Council established with the suggestion that existing press laws would be reviewed and amended to provide for greater flexibility and legal protection for journalists. The UAE Printing and Publishing Law of 1980, for example, continues to state that “it is prohibited to publish news that causes harm to the national currency or causes damage to the national economy.” Under this cover, the government tends to prohibit any criticism of the ruling families and/or statements that it considers as threatening social stability. The fact that editorial matters fall under the realm of criminal law and that 90% of journalists are non-citizens means that self-censorship remains a prevalent strategy practiced to avoid encountering legal problems. The result is that the UAE ranks only 137th in the Reporters Without Borders Press Index released in 2006. More encouragingly, the establishment of Dubai Media City, including a number of broadcast and print media, including the satellite channels al-Arabiyya and MBC and Western news services like CNN and Reuters, has had an impact on the local environment with various media organs increasingly focusing on domestic issues of concerns such as worker discrimination, labor disputes, cost of living issues and environmental matters.

Freedom of
expression

3 | Rule of Law

Power is concentrated solidly in the individual ruling families with minimal distribution through the federal system. A system of checks and balances does not exist and the legislative branch functions solely in a consultative capacity. In fact, the involvement of members of the ruling families at all levels of government and in various institutions is reminiscent of a system of dynastic polities. While there have been individual voices calling for a more structured system of government, this has not received any significant response from the ruling authorities. Following the limited election to the Federal National Council in December 2006, efforts have focused on broadening the council’s power including the right to question ministers and issue legislative proposals.

Separation of
powers

The UAE constitution provides for an independent judiciary. The Prime Minister of the UAE and Ruler of Dubai, Sheikh Mohammad Bin Rashid Al Maktoum, ordered the establishment of the Supreme Judicial Council in 2006 as a means to protect the independence of the judiciary and ensure its fairness. Another higher committee was set up in June 2006 to review the performance of the Ministry of Justice and look into its further development. In reality, however, judicial decisions are subject to review by the political leadership and judges often take positions that they know are in line with government policy. Furthermore, the

Independent
judiciary

laws of judicial power violate the constitutional principle of separation of power since, for example, the executive both appoints and approves the judges and has the authority to establish courts. The scope of jurisdiction also remains ill-defined as federal courts exist in all of the emirates except for Dubai and Ras al-Khaimah where only local courts are allowed. Furthermore, private offices of the local ruler can review criminal and civil cases before they are referred to the prosecutor's office.

Despite constitutional provisions stating that the protection of public resources is the duty of every UAE citizen, corruption is a problem at all institutional levels in the UAE. The most visible infractions occur because ministers and other senior officials conduct, in addition to their professional duties, a variety of business dealings with the government. Many government officials, for example, sit on the boards of companies and banks while officials in the Ministry of Labor have used their office to sell visas for their own profit. While there are laws that mandate various penalties for officeholders found to abuse their positions, these are enforced only irregularly. The fact that the system as a whole remains very much based on personal relationships also means that the application of the law remains arbitrary. There have been a number of high-profile cases in which officials have been arrested and removed from offices due to corruption. In Dubai and Ras al-Khaimah, for example, officials were charged in December 2004 for receiving bribes in the allocation of land plots. High-ranking government officials have also repeatedly condemned the practice of corruption and called for stringent measures to be implemented.

Prosecution of
office abuse

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 albeit within the limits of the law. Within the UAE, there are no significant daily restrictions in place and people are free to pursue their individual goals and interests. Authorities, however, will not hesitate to step in if they consider internal stability to be at risk. In the years 2005 and 2006, this involved mostly action against protests and strikes by foreign workers. With the country undergoing a construction boom, the number of foreign labor cases has increased dramatically with many complaining about non-payment of wages, unsanitary labor camp conditions and individual physical abuse. A report released by Human Rights Watch in 2006 entitled "Building Towers, Cheating Workers" highlighted many of these cases.

Civil rights

The government has responded to some of these concerns by closing unsanitary labor camps, blacklisting local firms involved in non-payment cases, and imposing tough penalties for those caught flouting labor laws. Additionally, the UAE is a signatory to a number of human rights conventions. In September 2006, the UAE signed the updated version of the Arab Human Rights Charter. Previously, in February of the same year, the UAE Human Rights Association

was established as an independent body. By the end of July 2006, the organization had received 345 complaints mostly from prisoners who had not been released following the completion of their sentence.

4 | Stability of Democratic Institutions

Although they cannot be considered democratic institutions with a system of checks and balances in place, UAE government institutions perform relatively effectively. Under Prime Minister Sheikh Mohammad Bin Rashid Al Maktoum, who assumed his position in early 2006, there has been an emphasis on providing better government services and improving overall institutional capacity, achieved by substituting existing personnel with younger people, and expanding educational opportunities for civil servants to improve their skills. This also includes efforts at eliminating corruptive practices. The system does remain largely based on a top-down approach with the decisions being made by a few persons and the lower ranks waiting for appropriate orders before commencing with implementation. Given the high legitimacy of the government and the large economic resources at its disposal, such arrangements are unlikely to change in the near future.

Performance of
democratic
institutions

Both the UAE federal government and the individual ruling families of the seven emirates composing the federation enjoy a high degree of legitimacy among 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 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. Sheikh Khalifa Bin Zayid al-Nahyan has been the accepted ruler since assuming the position upon the death of his father in November 2004. The same goes for all other heads of the emirates. As part of the regional process of promoting political development, the UAE has begun holding limited elections, which should further solidify the positions of the leadership for the time being.

Commitment to
democratic
institutions

5 | Political and Social Integration

A party system does not exist in the UAE and the formation of political parties is illegal. Lacking a socially rooted party system able to articulate and aggregate societal interests, the formation of a consensus within society takes place through established patron-client networks. This is not a stable form of representation over the long-term but it has proven successful in maintaining the stability of the state over the period of its consolidation. Furthermore, the system does allow for societal interests to be brought forth to the attention of the leadership and there

Party system

are regular channels of communication between the leadership and the citizens.

Civil society in the UAE remains underdeveloped. The notable exception to the existing organizations serving sectoral or professional interests was the establishment of the UAE Human Rights Association in February 2006 following a lengthy approval process from the Ministry of Labor and Social Affairs. The Journalist Association has been a strong advocate for the revision of the press law and is frequently quoted in the press. The emirate of Dubai has seen the establishment of a number of institutions including a first business ethics center and a school of government to concentrate on leadership training. The Ministry of Labor also announced in January 2005 that foreign workers would be allowed to establish trade unions. Overall, however, the process of establishing non-governmental organization remains arbitrary and there is no specific legal framework that outlines their status and operations.

Interest groups

No opinion polls were released during the period of time under consideration that reflect the national population's attitude toward democratic norms and procedures. The fact that the government agreed to partially open up the political process by allowing for limited elections of the country's legislature can be seen as a reflection of the overall agreement within the UAE public about the desirability of broader participatory access to the political system. At the same time, there is a consensus within the ruling elite that further political reform cannot come at the expense of national stability. As such, the process remains very much controlled from the top. There is also an equal resistance within the ruling families and certain sectors of society, such as the radical Islamists, to a Western democracy agenda for the Middle East, which is portrayed as the imposition of a foreign system serving primarily Western interests. This combination represents a barrier to further political development.

Consent to
democratic
norms

The voluntary association of citizens for purposes of self-help has advanced in the years 2005 and 2006. Volunteer and charitable organizations in the UAE, with the UAE Red Crescent being the most prominent, have contributed to social welfare services and development programs covering such areas as medical aid, student sponsorship, disability, special care, health care, the welfare of prisoners and lump-sum aid programs. There are a number of social clubs for the large expatriate population, including voluntary groups dealing with such issues as animal welfare or organizations promoting cultural activities.

Associational
activities

II. Market Economy

The United Arab Emirates has made tremendous strides in its economic development, as the years between 2005 and 2007 represented real boom years. During this period alone, the GDP grew from \$105.2 billion in 2004 to \$162.1 billion by the end of 2006 representing an increase of almost 60%. As a result, GDP per capita has topped \$35,000. While much of this growth is the result of high oil revenues, the government has also promoted a progressive economic agenda, built around economic liberalization and diversification and enhancing the role of the private sector. That diversification efforts have been successful is visible in the emirate of Dubai, where the percentage of income derived from oil declined from 33% in 1990 to only 6% in 2006. A major focus is on tourism, with the number of tourists expected to rise from the current 6 million to 10 million by 2010. New mega projects are announced on a regular basis, including the Bawadi hotel strip – which is to be longer than the one in Las Vegas – announced in 2006. With such high rates of growth, inflationary pressures have become a major concern causing the slow departure of high-skilled labor due to the increased cost of living. Because this is seen as a necessary price for short-term development, the overall outlook remains positive.

6 | Level of Socioeconomic Development

While the majority of the UAE population has benefited from the country's strong development, some sectors – primarily among expatriate laborers – remain excluded. Cases of poverty among citizens are limited to some of the smaller and less resource-rich emirates such as Ras al-Khaimah and Umm al-Quwain or to rural areas such as the southern Liwa area of Abu Dhabi. But with prices rising, stagnation on local wages and the weakness of the dollar-pegged currency, the UAE is a less attractive destination than it used to be. In 2006, Dubai was named the most expensive city in the Arab world and the 25th most expensive worldwide. Meanwhile, for the national population a strong social security system is in place for which allocations have steadily risen along with the high income of the country.

Socioeconomic
barriers

Economic indicators		2002	2003	2004	2005
GDP	\$ mn.	74,570	88,156	104,598	129,702
Growth of GDP	%	2.6	11.9	9.7	8.5

		2002	2003	2004	2005
Inflation (CPI)	%	-	-	-	-
Unemployment	%	-	-	-	-
Foreign direct investment	% of GDP	-	-	-	-
Export growth	%	4.7	19.6	11.2	-
Import growth	%	10.8	7	7	-
Current account balance	\$ mn.	-	-	-	-
Public debt	\$ mn.	-	-	-	-
External debt	\$ mn.	-	-	-	-
External debt service	% of GNI	-	-	-	-
Cash surplus or deficit	% of GDP	-	-	-	-
Tax Revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	15.3	14.2	12.7	11.3
Public expnd. on edu.	% of GDP	2.0	1.8	1.6	1.3
Public expnd. on health	% of GDP	2.5	2.4	2.0	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	3.5	3.0	2.4	2.0

Sources: The World Bank, World Development Indicators 2007 | UNESCO Institute for Statistics | Stockholm International Peace Research Institute (SIPRI), Yearbook: Armaments, Disarmament and International Security

7 | Organization of the Market and Competition

Market competition has advanced in the UAE in recent years although the institutional framework remains weak and inconsistent. Exclusive agency distribution agreements remain in place and ensure that traditional merchant families retain virtual monopolies over certain economic sectors. The ruling families themselves are also actively engaged in economic activity. Progress has been made on the ownership front, as there now exist a multitude of “free zones” where no local sponsorship is required and profits can be repatriated. At the same time, good business prospects and opportunities continue to depend on local sponsorship as this opens doors and facilitates contacts. A federal property law was issued in 2006, which allows foreigners to own property in designated free hold areas.

Market-based
competition

Monopolies and oligopolies are only occasionally regulated although there is increased pressure for the UAE to open up its economy and comply with World Trade Organization (WTO) rules. On the one hand, merchant families maintain their control over key economic activities and sectors. On the other, strategic sectors like telecommunications have been opened to competition, with a second license having been issued in 2006. There are still limitations and the argument is that the country is simply moving from a state-controlled monopoly to a state-controlled duopoly. There have been references to suggest that the UAE's sole agency may be amended in 2007.

Anti-monopoly
policy

According to the 2007 UAE Yearbook, free trade is considered to be a *sine qua non* for improving competitiveness and productivity. In that context, the liberalization of foreign trade is a priority in the UAE. Following the establishment of a customs union for the Gulf Cooperation Council states, which originally came into effect in 2003, a technical committee was created in 2006 to oversee the implementation of the agreement and its proper functioning. Negotiations have also continued with the EU under the auspices of a multilateral free trade accord with the GCC, and with the United States for a bi-lateral free trade agreement. While the EU accord is close to being finalized, the U.S. deal faces further hurdles, with the UAE stating clearly that it will not pay a political price for the successful conclusion to the negotiations. 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 in the domestic economy. As a result, the overall trade volume increased by 30% in 2005 over the previous year.

Liberalization of
foreign trade

The banking system and capital markets in the UAE are well developed and functioning. While 2006 witnessed a downturn, with the stock market in Dubai losing some 60% of its value, overall the financial sector remained profitable. There are a large numbers of banks operating in the emirates including more than 25 foreign banks and a number of representative offices of other banks. This high level of competition has had little impact on the sector's overall strength, liquidity and profitability. The Dubai International Financial Center also progressed with the establishment of a regulatory authority. Risks remain in the areas of consumer lending and increasingly, residential mortgages, due in part of the fast rising population.

Banking system

8 | Currency and Price Stability

Much attention has been focused on controlling inflation, which has become a major item of attention in the UAE. While there is no accurate measurement of a consumer price index, inflation has ranged anywhere from 10 to 30% with

Anti-inflation /
forex policy

housing increases representing the main cause of fluctuation. Dubai alone jumped nearly 50 places within one year in a survey of living costs among global cities. The increases have hit the expatriate labor force harder than the national population as the latter continues to enjoy various degrees of government subsidies. For 2007, all emirates announced rent caps as a means to fight inflation. One additional issue has been the relative weakness of the dollar with the national currency, the UAE dirham, remaining pegged to the U.S. dollar. Suggestions for a re-evaluation have gained momentum, but this decision will be made at the regional level.

Riding the tide of high oil prices, the UAE government has recorded budget surpluses in both 2005 and 2006. For 2007, a balanced budget of 28.42 billion dirhams is envisioned with education accounting for almost one-third of expenses followed by justice and internal security. Overall, the government's fiscal and debt policies support the country's macroeconomic stability with the current account surplus being used to reduce the debt figures. Spending policies are seen as a driver for economic growth and given the projection for continued hydrocarbon income, the government will be able to both maintain its spending practices as well as continue with its social welfare programs and subsidy payments.

Macrostability

9 | Private Property

While a law covering freehold property ownership in the emirate of Dubai was passed in March of 2006, there are still calls for more adequate legislation to regulate the burgeoning UAE property market. The law allows foreigners to own property or hold 99-year leases in designated areas. Nationals have the right to own property anywhere in the emirate. The law only applies to Dubai as property laws fall under the jurisdiction of each individual emirate. Abu Dhabi revised its property ownership law through Law No.2 of 2007, which extended the right to own property to citizens while for non-nationals specific investment areas were identified. In these areas, non-nationals can own the building but not the land that it is build on.

Property rights

Despite enjoying record income as a result of high oil revenues, the UAE government is pushing forward with aggressive diversification and liberalization strategies. In addition to real estate, there has been an effort to privatize the utilities sector alongside opening up the telecommunications sector to increased competition. Thus, the government uses the income from hydrocarbons to increase capital and infrastructure spending while at the same time driving overall economic growth. Government strategy is also aimed at strengthening the private sector so that it can emerge as the main vehicle for economic development.

Private
enterprise

10 | Welfare Regime

The UAE extends to its citizens a comprehensive welfare system including social security benefits, free or subsidized housing, a well-developed health care system and a wide array of educational opportunities. On 1 October 2005, UAE President Sheikh Khalifa ordered a 75% increase in the social support assistance extended to UAE nationals. This raised the annual social welfare allocations in 2005 to AED1.135 billion from the previous AED658 million. Social welfare beneficiaries numbered 67,102 in 2005. For the non-national community, these services are not available but the overall standard of service is high and generally adequate.

Social safety nets

The UNDP Human Development Report for 2005 does not list a Gini Index figure for the UAE. In general, there are no restrictions for UAE citizens in terms of access to employment, education, public services or other assistance mechanisms. While a certain unspoken restriction for high-level positions in terms of tribal affiliation and social background does persist, in April 2005, the Interior Ministry explicitly launched a strategy to fight discrimination on the basis of ethnic and sectarian identity. For UAE citizens, there are also so-called Emiratisation policies in place in order to increase the share of the national labor force in the economy. National unemployment is not the result of inadequate opportunities but rather of citizens preferring public sector over the more competitive private sector employment. Women have steadily increased their role in the economy with their participation in the workforce growing to 66% in 2006. In November 2006, the Dubai Foundation for Women's Development was established with the expressed goal "to develop and utilize the potentials and capabilities of UAE women."

Equal opportunity

11 | Economic Performance

The UAE economy has made significant strides in recent years. National income, economic growth rates and per capita income have all increased, and this development is expected to continue in the coming years. The economy has witnessed three years of high growth with a 9.7% rate expected for 2006. Per capita income has topped \$35,000 and is second only to Qatar in the Gulf region. Overall, the UAE's GDP has grown from AED141.9 billion in 1994 to AED553.4 billion in 2006. Significantly, investment spending grew by 24.9% to AED 117 billion, equivalent to 19.6% of total output in 2005 thereby reflecting the positive sentiment of the business community. The UAE has consolidated its position as the third largest Arab economy following Saudi Arabia and Egypt. Inflation does not prevent some worries with the years 2005 and 2006 witnessing significant price increases.

Output strength

12 | Sustainability

While ecological concerns are taken into account in the country's economic agenda, economic growth is prioritized. In October 2006, environmentalists warned about the increasing consumption of natural resources in the country, as the World Wildlife Fund Living Planet Report of 2006 gave the UAE the biggest per capita "ecological footprint." The UAE requires the equivalent of 12 hectares of productive land per person to provide the natural resources that they consume per year, compared to a global average of 2.2 hectares. There have also been concerns about the real estate projects, which cost billions of dollars, in particular man-made islands being build off the coast of Dubai which threaten the Gulf's fragile marine ecosystem. Increased traffic alongside construction activity, both tied to rapid population growth, has also led to a significant decline in air quality. The government's response to this rising challenge has been slow and half-hearted.

Environmental
policy

The UAE increased its budgetary allocation for education in both 2005 and 2006, such that education spending now accounts for about a quarter of the total budget. Government officials have repeatedly stressed that education is their top priority, both in terms of the need to both improve the quality of domestic institutions and to build up strong collaboration with organizations at the international level. The UAE offers comprehensive education to all male and female students from kindergarten to university. Education for citizens is free at all levels. In addition to the Ministry of Education, emirate-level education councils have been established to institute reform strategies. Knowledge Village (KV), established in 2003 in the Dubai Free Zone for Technology and Media, currently houses more than 200 companies and institutes for training and education. In 2006, a campus of the Sorbonne University opened in Abu Dhabi and further expansion is planned.

Education policy
/ R&D

Transformation Management

I. Level of Difficulty

There are only limited structural constraints on governance in the UAE. On the domestic level, the ruling families have a monopoly on the decision-making process and therefore are faced with few limitations. Constraints do exist, however, and come in three forms. The first is the lack of a work ethic among UAE citizens, which adds to national unemployment and aggravates the country's reliance on foreign expatriate labor to maintain the economy. Efforts to institute national employment quotas have been unsuccessful in this regard. Second, with the UAE being a member of the WTO and also linking into the global economy, some decision-making aspects are restricted by outside demands and requirements. Third, the unsettled regional environment represents a factor of instability that could easily unravel economic and social advances. The UAE is a small country in a very volatile neighborhood and as such exerts only limited influence on external regional events. The fact that there are also no clear rules on succession in the individual emirates can also be seen as a structural constraint.

Structural
constraints

There is only a very limited tradition of civil society in the UAE with most activity being restricted to a few professional associations and voluntary groups. Public or civic engagement is limited and the overall social trust continues to be invested in personal relations rather than institutions. Through the spread of educational opportunities and wider access to information, the potential for greater civil action has spread, as evidenced by the establishment of the UAE Human Rights Association in 2006. Because authorities are still suspicious of the motives of such organizations, however, they tend to be hesitant about allowing for rapid development in this area.

Civil society
traditions

Social and political polarizations exist in the UAE but they do not represent a factor significant enough to prompt widespread conflicts or violence. If anything, the country's strong reliance on foreign labor has been used to suggest the country is headed for a "demographic collapse," as the local national population is projected to slump to only 4% by 2020. The extreme ratio could spill over into societal discontent, particularly if economic development begins

Conflict intensity

to slow down. Labor unrest has already resulted in limited albeit violent altercations including one in 2005 at the site of the world's tallest building. Despite these issues, the state remains capable of containing these potential cleavages.

II. Management Performance

With a leadership change having occurred in both Abu Dhabi and Dubai in November 2004 and January 2006 respectively, the UAE has embarked on a new period of growth and expansion supported by high oil prices. The government of the UAE is not democratically elected and there exist few institutions through which the leadership can be held accountable. At the same time, the leadership enjoys a high degree of legitimacy and has been very successful in making the country a model for others to follow. The UAE remains the only successful federation experiment in the Arab world. Recent high growth has brought forth questions about sustainability and whether the rate of progress can be maintained. In this context, the fact that much of decision-making remains concentrated at a personal level and the continued lack of transparency present potential problem areas.

14 | Steering Capability

Strategic planning occurs at the highest level of government with Dubai having announced its "Strategy 2015" in December of 2006 and Abu Dhabi undertaking similar initiatives. In January 2007, Prime Minister Sheikh Mohammad Bin Rashid al-Maktoum gathered all cabinet ministers to outline a plan of action for the coming years, emphasizing "maintaining success and investing it in a manner that could lead to further great successes." Alongside efforts to diversify the economy and promote private sector growth, strategic priorities included the areas of education and health. The decision to begin a process of elections with regard to the Federal National Council in 2006 can also be seen as a long-term strategy to slowly but progressively open up participatory access to the political process. Meanwhile, questions persist about the sustainability of the numerous projects being implemented almost simultaneously, and about whether reform efforts at the institutional level can be maintained, given the current pace of economic development.

Prioritization

The government – both at the federal and the individual emirate level – advocates a broad reform process in political as well as economic spheres (though the latter front is given precedence.) Here, significant progress has been

Implementation

achieved, with various diversification programs having raised the contribution of the non-oil sector to the economy to over two-thirds of GDP. On political issues, the initiatives have been slower and largely in response to increasing public demand. If elections had not occurred throughout the rest of the Gulf region, it would have been unlikely that the UAE would have announced similar steps. In some aspect, the willingness to institute reforms has gathered pace as a younger leadership that is aware of some of the transformative processes underway, has come to the fore. There is, at the same time, an emphasis on stability over rapid change.

One of the main problem areas of UAE leadership is the persistently top-down nature of the decision-making process, where policy made at the top and then filtered down to be implemented. Thus, the system is very much personality-based, and the quality of the decisions subject to the ability of the individual leader. Overall, the system is characterized by both vision and response meaning that the leadership lays out the parameters around which policy initiatives are framed and then institutes corrections when those policy steps do not achieve their desired results. This has been apparent in 2005 and 2006 in terms of property laws and rent caps or with regard to the FNC elections. Given the fact that much of the decision-making process takes place outside public view, it is difficult to engage in a more precise appraisal process.

Policy learning

15 | Resource Efficiency

The utilization and training of human resources (UAE citizens) remains a key challenge for the government. Given that 40% of the national population is below the age of 25 years, much emphasis has been placed on broadening educational opportunities and matching education output to labor market needs. In the most recent 2007 UAE federal budget, a significant 25% is being spent on education projects. On the government side, there has also been an effort to streamline procedures with regard to civil service performance as well as recruitment. The federal government employs nearly one-half of all UAE citizens. The budget process has been handled competently, with the government using available resources to both balance the state budget and allocate money for needed infrastructure projects. There is, however, little public review of the procedures or the performance of institutions with decentralization efforts only proceeding slowly.

Efficient use of assets

Overlap necessarily exists in the government due to its federal structure. It is not always clear where exactly competencies lie, and as such the coordination between the federal and emirate level is not always optimal. At the same time, the system as a whole operates on a consensus basis and thus before policy initiatives are announced, the leadership has already ensured that broad support

Policy coordination

exists within the government apparatus. In addition, given that there is little history of dissent among government officials, intra-government friction is kept at a minimum.

The UAE currently ranks in 31st place in the 2006 Transparency International Corruption Perception Index (CPI) with a score of 6.2. This represents a slight worsening from 2004, when the UAE ranked in 29th place although the UAE remains in first place as far as the Gulf States are concerned. In the period from January 2005 to January 2007, there were no highly publicized cases of the government acting against corruptive practices although Dr Mohammed Mahmoud al-Kamali, director-general of the Judicial Institute, stated in June 2006 that the UAE law enforcement agencies were leaving no stone unturned in combating pockets of administrative corruption. Due to the fact that much of public and private business is conducted at a personal level, the ability to stamp out corruption will, however, continue to be an issue of concern for the UAE.

Anti-corruption
policy

16 | Consensus-Building

There exists a broad consensus among all major political actors in the UAE about the need for political reform and the continued development of a market economy. Despite its authoritarian nature, the UAE political system, similar to the system of the other Arab monarchies, makes an effort to create a consensus around necessary reform steps before moving forward with actual decisions. During this process, tribal views are taken into account as well as those of other external forces. This in the end produces agreement in terms of the country's future development and transformation although there are differing opinions concerning the speed with which reform steps are implemented.

Consensus on goals

With decision-making concentrated in the hands of the various ruling families, there are no specific forces that could stall a reform process if the government is adamant about pursuing a particular policy course. There are camps within the families that will argue in one direction or the other. But once consensus is established, there is little opportunity to overturn decisions or steer the debate into a different direction.

Anti-democratic veto
actors

The UAE's leadership is successful in containing potential cleavages within the system given its wide legitimacy and the consensus that exists within society. With its decision to broaden the political participation process, the government has assured that the public stands behind its policies and that there are no significant differences of opinion.

Cleavage / conflict
management

The attitude of the political leadership toward civic engagement and social capital remains ambivalent and has not changed in the period under consideration. The Minister of Social Affairs went as far as to say in November 2006 that the constitution guarantees the right to form public benefit agencies and express opinions as long as they do not harm the public interest. The UAE leadership encourages citizens to engage with their community and contribute to the overall development of their country, but they do not support the establishment of a vibrant civil society. In this context, government does not view the necessity of social capital as a further component to its internal legitimacy.

Civil society participation

There are no major historical injustices that require the government to step in and bring about reconciliation. There is still a level of competition among the individual emirates including territorial issues that have not been totally resolved. These do not put into question the broad commitment to the federation however and any impending disputes would be handled in this framework.

Reconciliation

17 | International Cooperation

The UAE uses a variety of international mechanisms to support its reform programs. The use of foreign labor and expertise is one method in order to proceed with the fast pace of economic development. In terms of educational and technical training, advice from international actors is sought and partnerships are established, for example, with leading health care providers like the Mayo Clinic for Dubai's Health Care City or Harvard's Kennedy School for the Dubai School of Government. The UAE is also a strong supporter of the UNDP and has reiterated its commitment to international norms and conventions in accordance with the UN charter. Specific policies like the U.S. insistence for democratic reform are characterized as outside interference and therefore not reacted to. This one example cannot, however, be equated with ignoring advice or maintaining 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 underscores its dedication at the regional and international level. Given its moderate and balanced foreign policy, the UAE is seen as a highly reliable partner that enjoys a high degree of legitimacy, particularly within the GCC and the Arab world.

Credibility

In November 2006, UAE President Sheikh Khalifa Bin Zayid al-Nahyan underscored his country's pledge to bolster the process of GCC integration in all fields. In addition to stepping up the vertical integration of the GCC, the UAE has also been at the forefront of looking into Yemen's possible membership in

Regional cooperation

the GCC. There are regular consultations taking place at the regional level with the leadership paying visits to all regional countries in 2005 and 2006. Occasional disagreements with neighboring states are not seen as impacting negatively on the overall commitment to fostering regional understanding.

Strategic Outlook

As the United Arab Emirates (UAE) speeds through the first decade of the 21st century, the leadership is aware of the challenges it faces. It has responded with a broad development strategy that accounts for national priorities, regional realities and international opportunities. In the past, high oil prices were often taken as an excuse not to pursue reform but apparently some lessons have been learned from these experiences. By making education the main component of the 2007 budget, the government has underscored its awareness of the need to provide adequate educational and training prospects for a growing and aspiring young national population that wants to both contribute and take advantage of UAE's development.

While the current leadership of the UAE brings together the vision and necessary authority to have decisions implemented and milestones achieved, the fact that the pace of change moves at a rapid rate will require an even higher level of professionalism than that of the current leadership. This includes a continued effort at implementing political and economic reforms, including not only those that correspond to domestic pressures but also reforms that anticipate problems and that are more far-reaching in effect. The decision to open up the political process by instituting a first round of limited elections was surely an important and correct step. But this needs to be followed up with actions demonstrating a more concerted determination to strengthen the internal capacities of institutions throughout the country and to decrease the continuing importance of personalized politics. Specifically, measures giving more legislative power to the Federal National Council need to be implemented if it is to move beyond its current advisory capacity. In addition, individuals from outside the ruling family circle must be integrated more effectively into senior and leadership positions to mitigate the dependence upon the top echelon to provide all impetus for reform. Relying on the willingness of leaders to contemplate change will not be enough.

A second area where leadership can become more active is in the recognition that economic growth, as it currently is taking place in the UAE, does have associated costs that will grow increasingly apparent in the long run if left unattended. The country's leaders need to contemplate more sustainable growth policies with greater emphasis on environmental protection, on investment in alternative energies, and less emphasis on the promotion of a materialistic and consumer-oriented society. While many of the mega projects that have been announced represent a vision of better things yet to come, it would at times be more appropriate to take a more measured approach that considers variables not

necessarily of an economic nature. The question is not whether growth can be achieved, but how to ensure its sustainability.

Finally, the issue of the federation and the future ruling arrangements among the individual emirates requires greater clarity. To date, the UAE's success has been the result of its internal political make-up, which is characterized by a central government that is capable of flexibility and of stretching its authority over the seven constituent elements. However, with issues such as globalization, economic sustainability and political reform growing in importance, there is a need to evaluate the relationship between policy and decision-making at the emirate and national level in order to ensure both continued flexibility and broader policy coherence. The UAE continues to be very much an experiment in the making.