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THE UNITED ARAB EMIRATES: ECONOMIC VIBRANCY AND US INTERESTS

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When the United Arab Emirates was established in December 1971, many observers gave it little chance of succeeding. Thirty years later, the UAE is a model of integration and development. The federal experiment not only has persisted but it has been highly successful. With each passing year, more authority devolves smoothly from the individual emirates to the federal government. Thanks to the high income from oil exports, nearly every corner of the UAE has been transformed.

Regionally and internationally, the UAE's standing has been much improved. The initial need to prove legitimacy in the eyes of the world has long been achieved. Border disputes with land neighbours Saudi Arabia and Oman have been resolved with comprehensive border treaties. The UAE plays a leading role in the Gulf Cooperation Council (GCC), in part because of the enormous respect its president, Shaykh[1] Zayid bin Sultan Al Nahyan, receives. Indeed, much of the health and progress of the UAE is due to the persistent efforts of Shaykh Zayid, the only head of state the country has ever known.

Dynamic economy

Two engines drive the UAE's vibrant economy (the third largest among Arab countries): Abu Dhabi's massive oil revenues and Dubai's emergence and growth as a regional entrepôt. Although oil is produced in several other

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emirates (Dubai, Sharjah and Ra's al-Khaymah), their output is minor compared to Abu Dhabi. At 98 billion barrels, UAE proven crude oil reserves represent a little less than 10 percent of the world's total reserves, 94 percent of which belongs to Abu Dhabi. The UAE produces around two million barrels per day (mbd), roughly in line with its Organization of Petroleum Exporting Countries (OPEC) quota of 2.03 mbd, with some 85 percent of production coming from Abu Dhabi. Current production ranks it fifth among OPEC producers and twelfth in the world. At a rough estimate, this produces an annual income of about $US20 billion, most of which accrues to Abu Dhabi. In addition to financing its own emirate budget and much of the federal budget, Abu Dhabi assigns much of its surplus to the Abu Dhabi Investment Authority (ADIA), which is responsible for an estimated $35 billion in investments throughout the world.

Not blessed with an abundance of oil, Dubai has been forced to take an alternative path. The emirate's prosperity has been built on foundations as an entrepôt servicing the immediate hinterland, the export of gold to the Indian subcontinent, re-exports to Iran as well as its Arab neighbours, and its position as the region's dominant commercial centre. Early industrial developments, such as the construction of Port Rashid and the Dubal aluminium smelter, were soon overshadowed by far more ambitious schemes. Those who believed that Jabal ‘Ali, reputedly the world's largest man-made port, would be a white elephant have been proven wrong. Similarly, the building of a dry dock on a similar scale in the same complex has proved to be highly successful – although marred by misfortune in late March 2002 when a gate burst and over 26 workers were drowned.

The decision to add a free trade zone proved just as visionary. Established in 1979, when Jabal ‘Ali Port opened, the zone exempts foreign companies from normal UAE commercial laws and provides unrestricted import of labour and export capital, as well as tax holidays and exemption from duty on goods intended for re-export or trans-shipment. The zone contains more than 200 factories, as well as water desalination units, an aluminium smelter and a steel fabrication unit. Jabal ‘Ali's success prompted Abu Dhabi to create a similar free trade zone at Sa‘diyat.

Another pillar of the Dubai economy is tourism, driven in part by the establishment of the annual Dubai Shopping Festival, an event derided at first as crass materialism but later widely copied throughout the Gulf. Water sports, desert tours, golf, and horse racing also contribute to Dubai's tourist appeal. The recently built Burj al-‘Arab is the world's tallest hotel. Many visitors to Dubai are carried there by the city-state's own Emirates Airlines. A gigantic new terminal has been completed at Dubai airport and work is beginning on yet another one to handle the increase in tourists from the approximately three million at present.

Recent innovations have included the establishment of the Dubai Internet City and the Dubai Media City, ambitious attempts to apply the free trade zone strategy to the information technology (IT) and media industries. Al-Arabiya, a new all-news satellite television channel intended to compete with Qatar's al-Jazeera, began operations in Dubai in early 2003. Nearby is the

Dubai Marina, a new city built around a man-made dock and planned to be home to 100,000 people. All this pales in comparison with the $3 billion Palm Islands project, which involves the creation of 17 islands in the shape of huge palm fronds on land reclaimed from the sea.

Still, oil revenues account for about one-third of the UAE's total gross domestic product (GDP) and over 85 percent of government income. Thus, the volatility in oil prices and production makes budget planning especially difficult. In recent years, annual budgets have tended to be approved several months into their fiscal years. The importance of oil to government revenues also explains why about 60 percent of the UAE's budget comes from Abu Dhabi contributions (with the remainder mainly made up of individual ministry revenues and a smaller contribution from Dubai). Because of the rise in oil prices, higher than expected 2001 revenues helped bring the budget closer to balance. However, the federal budget for 2002, adopted in March 2002, foresees a deficit of $591 million on expenditures of $6.3 billion. Shortfalls are generally made up by income from investments abroad. The omission of military expenditure, however, reduces the accuracy of published budgets, as defence expenditure has been estimated at nearly half of the total budget in recent years.

The twin benefits of oil and trade have created an average per capita income of $21,000 and a comfortable standard of living for nearly all UAE citizens. However, as much as 85 percent of the country's population of three million is composed of expatriates, a large proportion of whom are skilled and unskilled labourers from other Arab countries and South Asia. "This imbalance still poses a danger which threatens the stability of our society and the fate of our generations", the UAE President, Shaykh Zayid, told the country in his 2002 National Day address.

Foreign policy and relations with the USA

The UAE's relations with its fellow GCC members have improved in recent years but the dispute with Iran over the three Gulf islands of Abu Musa and the two Tunbs has become a long and seemingly intractable problem. This issue has caused the UAE to display some resentment over the rapprochement with Iran by the GCC and, especially, Saudi Arabia. Paradoxically, US enmity towards Iran has resulted in Washington's public support for the UAE's stand. But the UAE cannot afford to alienate Tehran since 20–30 percent of all Dubai business is conducted with Iran. In recent years, there has also been increasing official and popular agitation to bring Iraq back into the Arab fold. South Asia has been a source of concern, partly because of the internal fragility of its good ally Pakistan. These factors point to some friction in the UAE's generally excellent relations with the USA. The USA was the third country to recognize the UAE and there has been a resident ambassador in Abu Dhabi since 1974. But UAE–US political relations remained restrained through the

Iran–Iraq War (1980–1988). The UAE continued to look more to its former protector Britain and chose to purchase the bulk of its arms from France.

Since 1990, however, the US–Emirati relationship has strengthened. The UAE's stance towards Gulf security changed markedly when Iraq invaded Kuwait in 1990. The Emirates contributed troops to coalition forces and its seaports and airports were opened to US and other Western powers' use. It also chipped in $3.5 billion to the war effort. The two countries signed a defence accord in 1994 and held various joint naval exercises from 1997 onwards. The USA grew more successful in arms sales to the UAE, notably with a $2 billion missile package in 1998 and the 2000 sale of 80 F-16 advanced combat aircraft for $6.4 billion. UAE military officers attend courses in the USA, and the UAE has become the US Navy's busiest foreign port of call.

At the same time, close ties have evolved between the two countries on the political and economic levels. The UAE's position on many global political issues mirrors that of the USA and the West. The two countries share a similar conception of a capitalist, free-market economy and the USA has garnered a hefty share of the UAE private overseas investment that may be as much as $250 billion. Trade has also grown in recent years, with the USA providing about eight percent of total UAE imports. A number of US firms have established regional offices, assembly plants and distribution hubs in Jabal ‘Ali, accounting for a large proportion of the US commercial investment in the UAE of more than $500 million. This closeness to the USA and the West is reflected in the agreement to hold the triennial meeting of the World Bank and International Monetary Fund in Dubai in 2003.

Still, some key issues continue to trouble bilateral relations. More than once, the UAE has expressed its dismay over the treatment of Palestinians and unquestioning US support for Israel. Like many Arab states, the UAE applauded the election of George W. Bush, partly because of his father's role in liberating Kuwait and the prominence of US administration officials with an oil-industry background, and partly because the Clinton administration was seen as too pro-Israel. A year later, the UAE was disillusioned by the Bush administration's deeply critical stand towards the Palestinians. The UAE's Minister of Information, Shaykh ‘Abdullah bin Zayid Al Nahyan, was quoted in April 2001 as saying that, "The United States, which issues an annual list of states it labels as supporters of terrorism, must not forget to classify itself at the forefront of these states along with Israel"[2]. Several months later, his father, Shaykh Zayid, noted with disappointment that, "At a time Israel unleashes its lethal weapons against the Palestinian people who have nothing else but stones, we see the United States unable to rein in Israel"[3].

There has also been some fallout from the events of September 11. Although two of the hijackers were Emiratis and al-Qa‘idah money and leaders had transited Dubai regularly, the country's condemnation of the attacks was overwhelming. The UAE also provided bases and overflight permission for US and other forces during the campaign in Afghanistan. Still, the country's leaders were wary of a US attack on Afghanistan. The UAE had been only one of three countries to recognize the Taliban as that country's legitimate government and feared that the consequences of a war in Afghanistan would be to further destabilize the country. Shaykh Muhammad bin Rashid warned in late September 2001 of "the repercussions that would follow the death of innocent civilians in possible military operations and the fate of hundreds of thousands, possibly millions, of Afghans who will flee the battlefields"[4].

The UAE's free-wheeling banking and money-changing sector has been identified by the US Treasury as a conduit for the transfer of al-Qa'idah funds, and several charitable organizations in the UAE have been placed on American blacklists. The UAE responded in January 2002 with new regulations to prevent money laundering and to control financial transfers more effectively. That November, the government announced that the Central Bank would exercise more supervision over *hawala* transfers, a system of sending and receiving international funds principally used by low-wage Asian workers but open to abuse by criminals and terrorists.

A key member of al-Qa'idah, 'Abd al-Rahim al-Nashiri, was captured in the UAE member state Umm al-Qaywayn in late 2002. There are also allegations that the government has increased its security efforts by indiscriminately rounding up Islamists as what has been termed the country's first 'political prisoners'.

The two countries also differ over policy toward Iraq. As early as 1995, both Shaykh Zayid and Shaykh Muhammad bin Rashid Al Maktum, the UAE Minister of Defence and Dubai's Heir Apparent, called for an end to Iraqi sanctions, and Shaykh Zayid spoke out against the 1998 US bombing of Iraq. In addition, Washington expressed its displeasure with tankers carrying smuggled Iraqi crude oil being allowed to unload at UAE ports, a practice curtailed after unseaworthy vessels spilled oil in UAE waters. During his March 2002 tour of the Gulf, American Vice-President Cheney received the same answer in Abu Dhabi as in other Gulf capitals: there could be no support for a US war against Iraq. The increasingly aggressive US actions to force régime change in Baghdad placed the UAE in a difficult situation since the great majority of its population opposed US policy.

However, as the US administration geared up for its war against Iraq, the UAE, along with its GCC allies, quietly provided in-country support for US and British forces. In addition, the UAE announced in February 2003 that it would be sending a mechanized brigade and a missile boat and frigate to Kuwait to help defend that country, apparently as part of its GCC Peninsula Shield commitment. The UAE was careful to stress, however, that its forces would not enter Iraq. A few weeks later, the UAE sought to defuse the situation by publicly proposing that Iraqi President Saddam Husayn should go into exile. The idea lost steam, though, when it was flatly rejected by Iraq.

Another principal US concern must be over the issue of succession. Shaykh Zayid is growing old. The immediate succession is not in doubt, as Zayid's eldest son Khalifah is Heir Apparent, but it is unclear who would come next. This is foremost a problem for Abu Dhabi. However, succession in Abu Dhabi is also a UAE-wide question mark since, by virtue of its economic might, the *amir* of Abu Dhabi is automatically (by unwritten rule) the president of the UAE and Shaykh Zayid is the only president the UAE has known.

After he goes, the most dynamic personality in the UAE is likely to be Shaykh Muhammad bin Rashid of Dubai. This situation will be problematical in two senses. First, it is likely to cause more tension between Dubai and Abu Dhabi if Dubai seeks a stronger federal role. Second, Maktum is the *amir* of Dubai, not his brother Muhammad. And until (if?) Muhammad succeeds in Dubai, his official role on the federal level will remain limited.

What is the consequence for the USA? There is no reason to suppose that whoever succeeds Shaykh Zayid will seek a significant weakening of relations with the USA. Any downturn on the US radar is likely to be caused by potential disruption within the UAE or external factors such as a dramatic change in oil prices. But differences over the Palestinian–Israeli impasse and what happens in Iraq are likely to gnaw at the relationship, and matters are not helped by Emirati perceptions of US hostility towards Arabs and Islam after September 11 or by the increased and sometimes humiliating scrutiny of UAE visitors to the USA. While the prospects are good for a continued fruitful relationship, the future warmth of the partnership is more open to question.

NOTES

1. The spelling of Arabic names in this article is the academic form of more popular spellings: Shaykh for Sheikh, al-Qa‘idah for al-Qaeda or al-Qaida, Saddam Husayn for Saddam Hussein.
2. Arabia.com, 18 April 2001, from Reuters.
3. Emirates News Agency WAM, 3 July 2001.
4. BBC Monitoring Global Newsline, WAM website, 26 September 2001.