

United Arab Emirates

Status Index (Democracy: 3.20 / Market economy: 6.86) 5.03		Management Index 4.20	
HDI	0.849	Population	4.0 mn
GDP per capita (\$, PPP)	22,420	Population growth¹	7.2 %
Unemployment rate	2.6 % ³	Women in Parliament	0 %
UN Education Index	0.76	Poverty²	-
		Gini Index	-
Source: UNDP: Human Development Report 2005. Figures for 2003 unless otherwise indicated. ¹ Annual growth between 1975 and 2003. ² Population living below \$1 a day (1990- 2003). ³ UAE Yearbook 2003.			

A. Executive summary

The United Arab Emirates has made some significant gains in its development, especially considering the fact that the country has only existed as a sovereign entity since 1971. This development has not been even and there exists a great variance between the economic progress of the country and its corresponding political development. This must be considered a natural process, as the construction of modern infrastructure and services is accomplished much more quickly than the corresponding institutionalization of economic, political and social reforms. The result is that the tremendous economic advancement that has taken place in the past years and that is likely to continue for the coming years has not been matched by a similar process of political reform and democratization. Given the currently high price of oil and the fact that the ruling families of the seven emirates that make up the United Arab Emirates continue to enjoy a significant degree of legitimacy, the gap between the two processes is unlikely to be bridged in the near term.

Despite the fact that regional and international actors advocating political reform and that political participation has begun to broaden throughout the rest of the neighboring Gulf states, the past two years have been characterized by political stagnation in the United Arab Emirates, at least on the surface. At this stage, the combination of lacking impetus from the top and only occasional - and thus minimal - pressure from below to speed up a more broad-based political reform process continues. This has meant that existing ruling arrangements have been sustained. Certainly, the generous economic rewards extended to citizens do not provide any incentive to see the present system overturned. Moreover, the U.A.E. federal structure also makes it difficult to dictate the methods by which the individual emirates must implement political reform objectives. The result is a political system that, for the moment, remains largely closed to the majority of the population and an institutional structure that does not correspond to the country's economic status.

At the same time, there is movement within the system and an increased recognition, at least within some circles of the ruling families, that subtle adjustments to the current political arrangements will be necessary in coming years. On the official level, the passing of Shaikh Zayid Bin Sultan Al-Nahyan in November 2004, the only President of the United Arab Emirates since its establishment in 1971, has allowed a new and younger generation of leaders to consolidate their hold of power and expand their direct influence on the policy-making process. This, in turn, has opened the political process to new ideas with the appointment of Shaikha Lubna al-Qassimi as the first female minister of the country in November 2004 being one example. Furthermore, it was the Crown Prince of Dubai, Shaikh Mohammad Bin Rashid al-Maktoum, who clearly stated at the 2004 Arab Strategy Forum: "I say to my fellow Arabs in charge: If you do not change, you will be changed." This reminder is a clear recognition that changes are also being pushed from below, particularly by the younger generation, which has gained political consciousness as a direct result of the spread of education and communications technology and is looking for ways to gain greater input into the decision-making process. The ultimate outcome will be a gradual but persistent movement toward political change.

Economic management in the United Arab Emirates is soundly based on constructive forward thinking, the determination to make the country a positive example for the region, and an appreciation of the requirements to remain internationally competitive. While uncertainties remain, such as the high reliance on expatriate labor and the growing problem of unemployment among citizens, there is also an increasing awareness of the need for greater transparency and accountability. The result is a stable society that stands out in a region generally known for its volatility and crisis.

B. History and characteristics of transformation

The United Arab Emirates is a federation of seven emirates that was established on December 2, 1971 with (the seventh member, Ras al-Khaimah, joining in early 1972). From the outset, the United Arab Emirates 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 United Arab Emirates 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 success and resilience of the United Arab Emirates is due to the manner in which the government has been structured. Except for areas such as foreign policy, national security and the constitution, which was classified as provisional until 1996, sovereignty is left to the individual emirates, which control areas including administration, internal security, economic policy and the control

over one's own mineral and oil wealth. Even after three decades, 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. For example, over time all of the emirates dissolved their own defense forces and joined them in one central command. There has been similar movement on numerous economic fronts, mostly recently in relation to the burgeoning property market.

In reference to the political system, the traditional patriarchal style of leadership, combined with political loyalties as defined by the various tribal elements of the country, has been maintained. On the federal level, the Supreme Council - 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" (Article 49 of the U.A.E. constitution). The president of the country is the ruler of Abu Dhabi: because it is the largest emirate, both in terms of size and wealth, it has assumed the natural leadership of the United Arab Emirates. Regarding federal matters, however, the emirate of Dubai also maintains an important input into the decision-making process.

The combination of large oil reserves (the fourth largest in the world according to the 2004 BP Statistical Review of World Energy) and a small national population has led to tremendous economic development in the United Arab Emirates with national GDP having risen by over 150% in the period from 1994 to 2004. This is also reflected in the state's provision of modern infrastructure and services. With the country seeking to be an active part of the overall process of globalization, there is a commitment to use the country's immense oil wealth to sustain further development and assist in various diversification efforts. The indirect result has been the gradual implementation and adjustment to economically fair practices and an increased willingness to abide by legal standards governing business transactions. On the economic front, the United Arab Emirates has indeed become a model for the rest of the Arab world.

Given the fact that decisions regarding economic policy are less contentious than political changes, the economic advancement of the United Arab Emirates has not been coupled with a similar maturity of the political system. Buoyed by high per capita income and supported by a high degree of internal legitimacy, the ruling families of the United Arab Emirates have not yet felt it necessary to expand mechanisms for popular participation or to substantially raise the institutional capacity of the government institutions. While it would be unfair to characterize the United Arab Emirates as being an authoritarian state without any political development given the fact that the state remains young and an internal debate is in fact taking place, there is an inherent weakness within the system due to the fact that ruling arrangements remain contingent solely on personal capacities and the ability to maintain high levels of economic growth and social well being. Moves to broaden access to the political process have thus been slow in materializing, although the general reform climate in the region does indicate that

the United Arab Emirates cannot remain immune from such pressures for an extended period. In fact, there is an increasing consensus that political reforms are necessary. As such, the country has begun down the path of economic as well as political “modernization”.

C. Assessment

1. Democracy

The overall process of democratization and political liberalization in the United Arab Emirates remains underdeveloped with only limited prospects that the pace for change will increase substantially in the coming years. 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 currently no sense of urgency in altering existing political arrangements that so far have proven to work quite well. Overall, the United Arab Emirates is recognized for its stability and economic openness in a region where the opposite often tends to be the case.

At the same time, even the ruling elites are beginning to realize that subtle adjustments to the system are required both to keep pace with regional developments as well as to legitimize their own rule. As such, steps to broaden participatory mechanisms within the political system have been announced and further steps are expected, especially in the field of women and civil society organizations. These trends are supported by advances in education and the spread of information technology. Political consciousness is growing, particularly among the younger generation, which makes up over 40% of the country’s population. The result is growing pressure from within society, a trend that, given the country’s economic circumstances, will not translate into increasing instability.

1.1. Stateness

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

There is a general but limited agreement about the legal definition of citizenship in the United Arab Emirates. There is no practice in the United Arab Emirates whereby specific 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.” While, all citizens are treated equally in theory, the reality that the society in the United Arab Emirates is still structured

along tribal identification means that lineage creates a kind of class society. This also affects children of mixed marriages. The fact that the native-born population comprises only about 15% of the total population of the United Arab Emirates also complicates the issue of citizenship. In general, no matter how long they have lived in the country, foreigners do not qualify for United Arab Emirates citizenship. Among citizens, there exists a strong identification with the federation, which may reflect the Citizens' own minority status within the country.

The U.A.E.'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.

Due to its federal nature, the country's administrative structure represents a differentiated picture. The fact that numerous state functions remain the prerogative of the individual emirates leads both to some overlap in services provision as well as a fundamental reluctance to hand over power to the national authorities. There is also the need to overcome the notion that existing administrative structures are artificial creations no longer adequate for the demands of modern government. The government has embraced modern technology: many government functions are now done electronically and therefore more efficiently.

1.2. Political participation

In the United Arab Emirates, there are no competitive elections at either the federal or individual emirate level. Each of the seven individual emirates is ruled through a system of hereditary succession, where the leader is chosen from among family members. The president of the United Arab Emirates is chosen by the Federal National Council (FNC). The country's highest federal authority, the FNC is composed of the rulers of the seven emirates. A unicameral legislative institution does exist, but the members are chosen by the rulers of the constituent states rather than elected and the members themselves elect the speakers of the assembly. Overall, the United Arab Emirates is the one country in the Gulf region where no elections whatsoever are held. Recently, however, there have been suggestions that elections are a distinct possibility in the near future in various emirates, such as Sharjah and Ras al-Khaimah.

As the leadership of the United Arab Emirates, both at the national or the individual emirate level, is not elected, there are no powerful restrictions on its ability to govern. The combination of a small population and tremendous financial resources means that there is an underlying consensus about the nature of the governing system and a high degree of legitimacy for the ruling families. It should also be mentioned that decisions are made based on consensus: when making

decisions, the ruling family must take into account tribal consideration and other interests, such as those of powerful business families. This has not proven an impediment to swift decision-making – problems usually worked out behind closed doors. The concentration of all political power in the hands of ageing rulers also presents a potential problem area.

There exists no freedom for political organizations or an effective role for civic organizations in influencing the decision-making process in the United Arab Emirates. The U.A.E.'s constitution contains no specific provisions for the establishment of political groupings – i.e., formalized parties or non-governmental organizations – although the right to assembly is explicitly recognized in Article 33. All political decision-making is thus the prerogative of the ruling families. While individual members of the society can voice grievances in a ruler's Majlis (meeting place) they have no direct influence on the final decision-making process. In terms of both public assembly and the right for association, the final decision rests with the government. At the same time, the period under consideration in this report has witnessed a slight improvement, with calls for broadened political participation being made more and more openly.

The constitution guarantees all citizens "freedom to hold opinions and expression of the same" as well as "freedom of communication." Overall, however, this right is only slowly being translated into practice. While recent years have seen an increased relaxation of government controls on the media, self-censorship remains prevalent and the government prohibits any criticism of the ruling families and statements it considers to be threatening to social stability. With the establishment of Dubai Media City, a number of broadcast and print media have established themselves in Dubai including the satellite channels of al-Arabiyya and MBC as well as western news services like CNN and Reuters. This has had an impact on the local environment, as various media organs increasingly focus on domestic issues of concern, such as worker discrimination, labor disputes, cost of living issues and environmental matters.

Currently there are no competitive elections on any level.

1.3. Rule of law

Power is concentrated solidly in the individual ruling families although there is some dissolution through the federal system. No system of checks and balances exists 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. Only very recently – in the latter half of 2004 and the beginning of 2005 – have individuals begun to call for a more structured system of government.

While the U.A.E.'s constitution provides for an independent judiciary, the judicial

branch has only limited independence in reality and it is significantly subordinated to religious and political authorities. All judicial decisions are subject to review by the political leadership and judges often take positions that they know are in line with government decisions. There also exist a number of functional deficits in terms of available resources and scope of jurisdiction. For example, federal courts exist in all of the emirates except for Dubai and Ras al-Khaimah, where only local courts are allowed. Much of the U.A.E.'s judicial system and constitution remains based on principles of Islamic (Shariah) law, as well as the traditional Qadi system.

While U.A.E.'s laws provide for various penalties for those officeholders who have been found to abuse their positions, there are a number of loopholes. In general, corrupt officeholders are not prosecuted stringently enough to act as a deterrent. In the past several years, there have been a number of high profile cases in which officials have been arrested and removed from offices due to corruption. This includes cases in Dubai and Ras al-Khaimah where officials were charged in December 2004 for receiving bribes in exchange for the allocation of land plots. While steps in the right direction have been taken - there has also been a widespread campaign backed by a number of official statements condemning this practice - the system as a whole is still arranged around personal relationships. As such, corruption has proven difficult to eliminate.

Articles 29 through 34 of the UAE's 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. The United Arab Emirates is a signatory to a number of human rights conventions and became party to the Convention on the Elimination of All Forms of Discrimination against Women (CEDAW) in October 2004. In practice, this has translated into a society that is essentially free from basic restrictions and where people are free to pursue their individual goals and interests. At the same time, the government does not hesitate to step in against actions it considers as disturbing internal stability. For example, scores of people were arrested in the aftermath of the September 11, 2001 terrorist attacks and held for an extended period without charges against them. There are also constant reports of physical abuse, non-payment, and other rights violations of unskilled domestic labor. In these instances, authorities are at times slow to respond and provide no immediate solutions.

1.4. Stability of democratic institutions

As there are no democratic institutions in the United Arab Emirates, the country's administrative and judicial systems cannot be evaluated based on their performance within an established system of checks and balances. While the government has implemented programs to streamline services and improve overall institutional capacity, the fact that these institutions do not operate on a performance basis means that government intervention is often stymied by red

tape and many modern institutions remain controlled by aging personnel and patrimonial networks. Given the current positive economic climate in the United Arab Emirates, the incentive for a rapid expansion of participatory mechanisms to make these structures more representative is limited. At the same time, the government has moved to enhance productivity, implement established procedures and eliminate corruption.

While state institutions do not function along democratic guidelines, they are accepted by the majority of U.A.E. citizens. The ruling families in all of the individual emirates enjoy a high degree of legitimacy in large part due to their successful promotion of patron-client relationships whereby the institutional stability is directly related to the preservation of social status and economic privileges among citizens. In addition, politics remain very personally oriented with the ruler enjoying a special status as a symbol of guidance. Following the death of Shaikh Zayid Bin Sultan Al-Nahyan in November 2004, the designated Crown Prince Shaikh Khalifa Bin Zayid Al-Nahyan was immediately accepted by the U.A.E. population in all of the emirates as the legitimate ruler.

1.5. Political and social integration

No party system exists in the United Arab Emirates, as the formation of political parties is considered 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. While not considered a stable form of representation over the long-term, it has proven successful in maintaining institutional stability over the period of its consolidation.

Apart from a few organizations serving sectoral or professional interests, civil society in the United Arab Emirates remains underdeveloped. Throughout 2004, there were trends towards the development of civil society – such as attempts to establish human rights organizations and requests that trade unions be made legal. However, the fact that the Ministry of Labor and Social Affairs has found it unnecessary to react quickly to these suggestions shows that no effective organization at the civil society exists whereby pressures can be exerted on government institutions. The emirate of Dubai has seen the establishment of its first business ethics center. Here again, however, the primary motive was to encourage transparency in light of efforts to make Dubai a leading financial center.

There is a general societal consensus within the United Arab Emirates around the desirability of broader participatory access to the political system alongside the implementation of political reforms. While the term “democracy” has negative connotations due to the current belief that this is a primarily a U.S. mechanism to impose an external system of rule on the country, most people do hold positive

views toward democracy as a form of government. Even as far as the United States is concerned, a poll conducted by Zogby International in 2004 revealed that 44% of the U.A.E. public has a favorable attitude toward U.S. democracy. With only limited forms of institutionalized representation available, consent to the system of government is to gauge. Similarly, there are no protests within the country that call the current constitutional process into question. At most, there are suggestions about the need to improve the efficiency and legitimacy of the system.

Civic self-organization is limited – though possible – in the United Arab Emirates. Civil society encounters political obstacles, as the government tends neither provides organizations with the necessary recognition nor to take an active role their development. This is primarily due to the belief that civil society organizations could engage in political activity, and that their professed social purposes are merely a mask for attaining political objectives. There are also concerns that the grouping could evolve to take on a specific political function. There are, however, a number of functioning self-help organizations that have the quiet acquiescence of the authorities. These include expatriate social clubs, voluntary groups dealing with such issues as animal welfare and organizations trying to promote cultural activities. In some instances, groups do have the official support of certain government bodies. There is, however, no system whereby the government extends official support or financial assistance.

2. Market economy

The United Arab Emirates possesses a booming economy that is trying hard to keep up with the development of a globalizing world. As demands on the system have expanded over recent years, the government has undertaken a number of initiatives to improve the institutional framework for economic activity. Such efforts include a regulatory framework for the establishment of the Dubai International Financial Center, laws on the protection and expansion of foreign direct investment and a relaxation on sponsorship rules especially through the creation of economic free zones. Due to tremendous economic growth rates and high per capita income, many of the lingering technical issues that continue to plague the system – such as monopoly and market concentration, corruption and lack of transparency, as well as legal shortcomings – have escaped most public attention and scrutiny. Even here, however, the government will likely move to resolve at least some of these underlying problems. Moreover, the United Arab Emirates has made great strides in its efforts at diversification and privatization. Today, a large share of its GNP comes from non-oil market sectors.

2.1. Level of socioeconomic development

Only a minor section of the United Arab Emirates' population is excluded from the country's socioeconomic development. Cases of poverty 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. Educational opportunities are already quite extensive and a further growth in the coming years is expected. Women form a large majority of university attendance, and a number of women's-only universities have been established in recent years. Women also play a significant role in business activities, with women's participation in the labor force having more than tripled since 1980. As of May 2003, there were approximately 10,500 members of the Board of Businesswomen. Together, they managed investments worth a total of 12.5 billion U.A.E. dirhams (see Ebtisam Al-Kitbi, "Women's Issues in the GCC countries in 2004," *Gulf Yearbook 2004*. Dubai: Gulf Research Center, 2005). Furthermore, there is virtually no social exclusion based on religion or ethnicity. Indeed, 80 % of the U.A.E.'s population consists of expatriate labor representing more than 140 nationalities.

2.2. Organization of the market and competition

Despite recent advancements, market competition in the United Arab Emirates continues to operate under a relatively weak institutional framework where rules of the game are not always applied consistently. Exclusive agency distribution agreements ensure that traditional merchant families have virtual monopolies over certain economic sectors and that the ruling families actively engaged in economic activity. With the exception of economic free zones, there has been no relaxation of laws concerning property rights, which require that 51% of a company must be owned by a citizen. An example of the consequences of such is the continued lack of standardized property regulations at a time of rapid freehold market expansion. However, there has been advances in recent years, as increased attention has been given to stamping out corruption. In addition, it has been suggested that both laws concerning property rights and those concerning exclusive distribution agreements would be relaxed.

The formation of monopolies and oligopolies is only occasionally regulated. Merchant families maintain control over key economic activities and sectors and state-owned institutions such as telecommunications company Etisalat have retained their monopolistic positions. Due to increased pressure from the WTO, Organization, of which the United Arab Emirates is a member, regulations concerning the country's three main areas of monopolistic activity (national ownership, state-owned institutions and exclusive agency distribution agreements) are to be relaxed in coming years.

The liberalization of foreign trade continues to evolve in the United Arab Emirates. Since 2003, the country has been a member of the Gulf Cooperation Council's (GCC) customs union, establishing tariffs at a unified rate of 5%. The United Arab Emirates is also engaged in ongoing free trade negotiations with the EU as well as the United States. A particular success has been the establishment of the various free trade zones around the country where local ownership rules do not apply and where investors are given 100% control. The largest economic free zone, the Jebel Ali Free Zone, is home to more than 3,000 foreign companies.

The banking system and capital market in the United Arab Emirates is well developed and functioning. 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. The high level of competition has had little impact on the sector's overall strength, liquidity and profitability. Under WTO obligations, further market liberalization to allow foreign bank involvement is to be expected: the central bank of the United Arab Emirates has already indicated its approval. There are also initiatives such as the Dubai International Financial Center to create self-regulating economic free zones. Vulnerabilities remain with regard to credit risk, a burgeoning increase in consumer lending and strong price competition.

2.3. Stability of currency and prices

In the past, controlling inflation has not been a key priority of the government. Recent suggestions that the basket used to calculate the consumer price index is outdated and that official data on inflation rates are not in line with the actual increases in the cost of living was followed by an announcement from the Ministry of Economy and Planning that a committee to monitor inflation would be established. While sectors such as real estate, consumer goods and education have witnessed significant price increases in the years 2003 and 2004, government subsidies for such items as fuel and services for U.A.E. citizens tend to curb cost-of-living increases. The U.A.E. dirham remains officially pegged to the U.S. dollar, although there have been calls for a more floating arrangement in light of the strength of currencies such as the euro. The central bank follows the government's economic policies.

There are consistent attempts to maintain stability in terms of both fiscal and debt policy, as record oil prices and stable production levels have ensured a significant rise in government revenue. While the United Arab Emirates normally records a deficit in its consolidated accounts, the budget for 2004 was nearly balanced and probably resulted in a small surplus. The debt figures published in past years (averaging around 11 % of GDP) should not be seen exerting as undue pressure on the state finances as not all of the government oil revenues were included and the earnings from overseas investments are excluded (see *The Economist*, Country Profile 2004 as well as Country Report, February 2005).

2.4. Private property

Property rights and the regulation of the acquisition of property are insufficiently defined and protected by U.A.E. law. However, there has been a growing push for adequate legislation to regulate the country's burgeoning property market. Until 2002, non-citizens were not able to own property and citizens' right to own the land on which their home was built was limited. Starting with the emirate of Dubai, however, freehold properties have become available to foreigners in designated developments. As a result, the real estate market began to boom (given the country's large percentage of expatriate labor, this was predictable). Other emirates soon followed suit. The remaining problem is that there exists a legal grey area with no federal law on property ownership and a current law that neither explicitly permits nor forbids foreign ownership. This is further compounded by the fact that jurisdiction over such matters rests with the individual emirates.

The United Arab Emirates has embarked on a wide-ranging campaign of privatization and the private sector has taken an increasingly important role as a driver of economic activity. While state companies still control certain strategic sectors, the government has indicated its willingness to open even key areas such as communications to competition. Overall, there has been a visible commitment to adhere to market principles in conjunction with various diversification strategies. As a result, the position of the private sector has been strengthened. However, some oligopolies and state-run enterprises continue.

2.5. Welfare regime

Welfare structures exist in the United Arab Emirates, including a well-developed health care system and various support programs for citizens. Generous wealth-redistribution policies ensure that there is no widespread poverty in the country. It should be noted that these welfare programs apply to citizens: even if they are residents of the country, the country's large expatriate population is not eligible for such benefits. Even for non-citizens, however, standards of living are generally adequate.

The UNDP Human Development Report for 2004 does not list a Gini Index figure for the United Arab Emirates. In general, there are no restrictions for U.A.E. citizens in terms of access to employment opportunities, education, access to public services or various other assistance mechanisms. As such, unemployment is largely a result of citizens' preference for government and banking jobs over more competitive private sector employment. Women have played an increasing role in society and have been expanding their activities in the economy and in the private sector in particular. Unspoken restrictions based on tribal affiliation and a social background does exist for high-level positions.

2.6. Economic performance

The U.A.E. economy is experiencing a significant period of growth. Indicators for national income, economic growth rates and per capita income all predict a positive course in the coming years. Due to the high-price oil environment, the government has been able to forecast a balanced budget for 2005, reduce outstanding government debts and increase its spending to support large-scale infrastructural projects. Overall, the U.A.E.'s GDP has grown from 141.9 billion dirhams in 1994 to 341.0 billion dirhams in 2004 with the contribution of non-oil sectors to the GDP rising from 97 billion (68.35 %) to 253 billion (74.19 %) during the same period. GDP growth for 2004 was approximately 4.1 % with per capita income rising to \$19,975 despite a rising population. The United Arab Emirates has consolidated its position as the third-largest Arab economy following Saudi Arabia and Egypt.

2.7. Sustainability

While ecological concerns are increasingly taken into account in terms of the country's economic agenda, economic growth is still prioritized. The most recent 2005 federal budget puts forward significant increases in spending for education and social development as well as investment in training and employment programs for citizens. Environmental policies are closely tied to the oil industry and the well-publicized cases of ageing oil barges sinking have spurred efforts to improve transportation as well as environmental clean-up campaigns. The United Arab Emirates is a strong supporter of the UNDP and its development programs.

Institutions for education are increasingly well developed although there is a qualitative difference between the level primary and secondary and that of higher education. The Minister of Education, Shaikh Nahyan Mubarak al-Nahyan, has himself characterized the state of primary and secondary education as "very poor" stating that teaching mechanisms continue to depend on rote learning, leaving graduates unqualified for higher education. At the same time, the qualitative level of many of the country's institutions of higher learning has witnessed a significant improvement. One problem area continues to be the low level of research funding as a percentage of GNP. Even here, however, there are efforts underway to promote increased levels of funding.

3. Management

Despite the fact that the government of the United Arab Emirates is not democratically elected or that there exist few institutions through which the leadership can be held accountable, the government has been quite successful in pursuing a pro-growth sustainable reform policy and thus enjoys a significant degree of legitimacy. Turnkey events such as the passing of the U.A.E.'s

President and “founding father” Shaikh Zayid Bin Sultan al-Nahyan were handled with a great amount of competence and there was no instability as a result. The main problems in terms of management and political leadership in the United Arab Emirates is that much of decision-making remains concentrated on a personal level, thereby limiting the broad access to the system by the wider population, and a lack of transparency as far as the political decision-making process is concerned.

3.1. Level of difficulty

As the ruling family has a monopoly on the decision-making process, there are no structural constraints on governance in the United Arab Emirates. If anything, the lack of work ethic among citizens has added to unemployment among citizens and therefore substantiated the country’s economic reliance on expatriate labor. As programs to raise the level of employment among citizens have not been successful, this the structural deficit is likely to continue at least as long as oil income remains high. The fact that there are also no clear rules on succession in the individual emirates can also be seen as a structural constraint.

There is only a very limited tradition of civil society in the United Arab Emirates with most activity being restricted to a few professional associations and voluntary groups. Public or civic engagement is limited and overall social trust continues to be based on personal relations rather than institutions. While situation has improved in recent years because of increased education levels and greater access to information technology, progress is relatively gradual.

While there are social and political polarizations in the United Arab Emirates, there are no widespread conflicts that would suggest significant potential for violence. The country’s high level of economic development has tended to provide all the communities in the country with a stake in its continuation. As such, economic interest has prevailed the over any religious, political or social divisions. The state remains fully in control to contain any potential cleavages.

Profile of the Political System

Regime type:	<i>Autocracy</i>	Constraints to executive authority:	3
System of government:	<i>Monarchy</i>		
1. Head of State:	<i>Shaykh Khalifa ibn Zaid Al Nahayan of Abu Dhabi</i>		
Head of Government:	<i>Shaykh Maktum ibn Rashid Al Maktum of Dubayy</i>		
		Number of ministries:	17
		Number of ministers:	17
Source: BTI team, based upon information by country analysts, situation in July 2005. Constraints to executive authority (1-6 max.) measures the institutional constraints posed by a federal or decentralized state, a second parliamentary chamber, referenda, constitutional and judicial review and the rigidity of the constitution. Number of ministries/ ministers denotes the situation on 1 January 2005.			

3.2. Steering capability

The U.A.E. ruling elite is increasingly concerned with long-term strategic policies and there is general purpose to the programs that it proposes and implements. Numerous leading government officials – specifically, Crown Prince of Dubai Shaikh Mohammad Bin Rashid Al-Maktoum – have called for political and economic reform. In a speech at the Arab Strategy Forum held in Dubai in December 2004, Shaikh Al-Maktoum told the audience that it was time for radical change, and said that crises and foreign influence can no longer be used as an excuse for inaction. Not only on the economic front but also in terms of its defense policy and its attitude toward necessary political reform, there is a sense that the leadership generally pursues long-term aims in favor of short-term political benefits. There remain questions on the prioritization of policies, however, as some grand-scale prestigious developments projects have been put ahead of more fundamental institutional reforms, such as in the field of education.

Is in many countries, reform efforts in the political sphere tend to lag behind efforts in the economic sphere. Significant progress has been achieved in the latter, as various diversification programs having raised the contribution of the non-oil sector to the economy to over two-thirds of GDP. Overall, there is a growing awareness that the pace of reform must be picked up, as globalization is pushing the country for faster action. The country is currently undergoing a generational change with a younger leadership coming to the fore that is aware of the transformative processes being required. This is contrasted by the fact that the United Arab Emirates remains, in essence, a traditional society with a preference for stability over change. There is also recognition at the top levels of government that any changes introduced must find consensus within the population in order to be considered acceptable.

Although the political leadership is authoritarian and not elected, there is considerable degree of flexibility in their rule and a willingness to undertake corrections if deemed necessary. In November 2004, a cabinet reshuffle resulted in the merging of a number of ministries and the appointment of a female minister. There has also been restructuring undertaken at the individual emirate level as part of an attempt to streamline services and improve efficiency. To what degree the leadership engages in an appraisal process is unclear, however, insofar as almost the entire decision-making process is undertaken outside of public view.

3.3. Resource efficiency

Although it has abundant financial resources at its disposal, there is significant degree of inefficiency in the U.A.E.'s system especially with regard to the utilization and training of human resources among citizens. The National Human Resources Development Authority (TAMNIA) spends over \$10,000 on each citizen for job training and vocational rehabilitation, while “emiratization” levels

are on the decline in the country. Similarly, while many applying for admission to higher education are turned away due to insufficient funding, the government has recently announced large-scale developmental projects in the fields of tourism. Given the abundant financial resources available, the system could benefit significantly from greater resource efficiency.

There is an appreciable level of incoherence in policy coordination between federal and individual emirate levels. This is due in part to the nature of the political system itself, insofar as local departments simply do not feel the necessity to coordinate their policies with the federal authorities. However, given the generous financial resources available this has little concrete impact on the coherence of policies.

The United Arab Emirates ranked 29th in the 2004 Transparency International Corruption Perception Index (CPI) with a score of 6.1. The previous year, the first in which the United Arab Emirates was included, the country ranked 37th with a score of 5.2. This improvement is the result of highly publicized government initiatives to curb corruption including several high-profile arrests and job dismissals. In addition, in 2004 the Dubai Ethics Resource Center was established with a “mission is to raise the level of awareness of organizational ethics, corporate responsibility and standards of good governance” (see: <http://www.dcci.gov.da/derc>). At the same time, it has to be acknowledged that the accountability of office holders remains limited. As such, corruption remains an area of concern.

3.4. Consensus-building

There is a general consensus among all the major political actors in the United Arab Emirates about the need for gradual political reform and the continued development of a market economy. Despite its authoritarian nature, the U.A.E.’s political system, similar to the system of the other Arab monarchies, remains based on the need to create a consensus among all political allies rather than having decisions imposed without consideration to their views. As certain tribal views must be taken into account, the consensus-building plays an important role in the U.A.E.’s decision-making process.

While the U.A.E.’s reformists have limited influence, there are also no major anti-democratic forces with the power to hinder the country’s current progress. With all major positions of power being occupied by members of various ruling families, the only concrete challenges to the government can come from within the families themselves.

The political leadership has traditionally been successful in containing potential cleavages within the system, given the wide legitimacy and consensus that exists within society. The lack of political participation among broad segments of the

population, however, poses medium- and long-term risks. Dissatisfaction could spread in connection with regional political developments – in particular, the successful political reform programs implemented in neighboring countries. In addition, the lack of broad participation could eventually spur a significant economic downturn.

The political leadership's attitude toward civic engagement and social capital remains relatively ambivalent. While citizens are called upon to engage with their community and contribute to the overall development of their country, the government does not actively encourage citizen engagement in civic programs through, for example, the establishment of voluntary associations. Here, the initiative must come from the individual, rather than the state. For the moment, the government does not perceive social capital as necessary for gaining legitimacy.

As civil society is not well developed in the United Arab Emirates, its influence remains limited and the political leadership does not actively encourage or promote its cause. Associations that do exist generally fall under the influence of the government, which actively prevents the establishment of any group whose political agenda may diverge from that of the government. The intellectual community has become increasingly vocal in recent years. The government has experimented with a variety of mechanisms to deal with this development, from accommodating the concerns voiced to applying pressure to keep their criticism within the confines of acceptability.

There are no past injustices in the United Arab Emirates that would require a large-scale reconciliation process.

3.5. International cooperation

The United Arab Emirates does not receive large amounts of foreign assistance. Rather, it is a net exporter of aid programs, primarily in the Arab world but also to major international causes. As such, there are no obligations that fall upon the country because of conditional aid being extended. The assistance that the United Arab Emirates provides to others is almost exclusively given on a humanitarian basis without political strings attached.

The United Arab Emirates is an active partner in regional and international diplomacy and regularly consults with its allies. Given its moderate and balanced foreign policy, the United Arab Emirates is seen as a highly reliable partner that enjoys a high degree of legitimacy both regionally and internationally.

The United Arab Emirates promotes and encourages regional cooperation in all fields: political, economic and social. The fact that the United Arab Emirates is itself a federal entity means that the country values the need for cooperation. For example, the United Arab Emirates has been an enthusiastic supporter of the GCC

since its inception, when the first meeting was held in Abu Dhabi in 1981. Occasional disagreements with neighboring states have not had any major negative impact on the country's overall commitment to fostering regional understanding. The United Arab Emirates generally complies with all international commitments to which it is a signatory.

4. Trend of development

Between 2001 and 2004, the trajectory of democracy and the market economy has advanced gradually, with a good degree of forward movement in terms of economic development having been achieved and limited progress in political development. At the individual emirate level, local governments have pursued wide-ranging economic diversification strategies that have significantly improved the economic and social standards of the country while better preparing the United Arab Emirates for the transformation necessary to compete in a globalized environment. This success has also had side effects: the country has needed to respond to domestic political pressures amidst the emergence of a broader awareness of local shortcomings. The result is that, while for the moment political institutionalization remains low and participatory mechanisms within the political system underdeveloped, the potential for political development in the future look expressly positive.

4.1. Democratic development

Stateness, political participation and the rule of law have not changed significantly over the period under consideration in this report. The United Arab Emirates continues to follow practices that have proven successful in the past, where each emirate is allowed to institute its own development policies without federal government interference. There have been efforts to strengthen the rule of law because of numerous international commitments the United Arab Emirates is party to. Political participation has remained largely static.

There has been no significant change in the level of consolidation of democracy in the United Arab Emirates. In the areas of institutional stability, political and social integration, the system is functioning, although there is significant room for further improvement. A key challenge will be to improve the workings of federal institutions, and address the demographic imbalance that has led to such a high reliance on foreign labor.

4.2. Market economy development

The country's level of development has continued to improve over the past several years (HDI 1995 0.803, HDI 2002 0.824).

The institutional framework has improved slightly, as a number of laws and policies have been implemented to improve efficiency, transparency and accountability. This includes a shift from unskilled labor-intensive industries to knowledge-based manufacturing industries.

Economic development has seen both qualitative and quantitative improvements in the last two years. Oil continues to be the main motor of economic growth.

Table: Development of macroeconomic fundamentals (2000-2004)

	2000	2001	2002	2003	2004
Growth of GDP in %	12.3	3.5	1.8	7.0	4.1
Export growth in %	-	-4.2	7.8	18.8	23.5
Import growth in %	-	8.7	9.5	13.6	17.0
Inflation in % (CPI)	1.4	2.7	2.9	3.1	3.2
Investment in % of GDP	-0.7	1.7	11.8	0.6	n/a
Tax Revenue in % of GDP	n/a	n/a	n/a	n/a	n/a
Unemployment in %	2.3	2.4	n/a	n/a	n/a
Budget deficit in % of GDP	26.0	27.9	23.3	20.7	14.6
Current account balance in billion \$	12.2	6.5	3.5	6.8	13.6

Source: Central Bank of the UAE; UAE Ministry of Planning; Economist Intelligence Unit, *United Arab Emirates: Country Profile 2004*; United Arab Emirates: *Country Report, February 2005*, UNCTAD *World Investment Report 2004*.

D. Strategic perspective

The passing of Shaikh Zayid Bin Sultan Al-Nahyan in November 2004 may portend a new era, particularly for the domestic political environment. For the moment, power remains concentrated in the hands of the ruling families of the individual emirates. Given the current positive economic climate, the impetus for reform is, to a degree, confined to the top and the willingness of the rulers to contemplate change. At the same time, society as a whole is beginning to become politically more conscious because of a more open media environment, greater access to sources of information, qualitative educational opportunities and a regional environment where participatory mechanisms are being implemented in neighboring states. The slow but inevitable demand for reform is recognized at the top, as a new younger generation of leadership will want to see its own legitimacy enhanced and its primacy in terms of existing ruling arrangements continued. The result for the coming years will be cautious change that will become increasingly important in substance. Such movement will also be supported by the United Arab Emirates' continued economic development.

That is not to say that the country will not be faced with a number of potentially volatile challenges in the coming years. Apart from the still-tested willingness and

ability of the ruling elites to implement required political reform efforts, it also remains to be determined whether the significant levels of economic advancement that have caused a virtual boom in many of the country's economic sectors can both be maintained and made sustainable. In this context, the problem of high reliance on expatriate labor and mounting unemployment among citizens could prove to be an explosive mixture. In addition, while diversification programs have been largely successful in reducing the reliance on oil revenues, the fact that the economy continues to depend on the income from hydrocarbons as the engine for overall growth also means that future growth will remain subject to the volatility of the oil market.

Finally, there is the issue of the federation and the future ruling arrangements among the individual emirates. The United Arab Emirates's success up to now has been due to the flexibility in the internal political make-up, with the federation exercising only a largely indirect sovereignty of the seven constituent elements, with the issues of globalization, economic sustainability and political reform playing an increasing central role. The relationship between policy and decision-making at the emirate and federal level will also need to be evaluated. As such, the United Arab Emirates will remain an experiment in the making.