

BTI 2012 | United Arab Emirates Country Report

Status Index	1-10	5.73	# 60 of 128	
Political Transformation	1-10	4.17	# 90 of 128	➔
Economic Transformation	1-10	7.29	# 23 of 128	➔
Management Index	1-10	5.30	# 58 of 128	

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

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2012. The BTI is a global assessment of transition processes in which the state of democracy and market economy as well as the quality of political management in 128 transformation and developing countries are evaluated.

More on the BTI at <http://www.bti-project.org>

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Key Indicators

Population	mn.	7.5	HDI	0.846	GDP p.c.	\$	47215
Pop. growth ¹	% p.a.	7.9	HDI rank of 187	30	Gini Index		-
Life expectancy	years	76	UN Education Index	0.741	Poverty ³	%	-
Urban population	%	78.0	Gender inequality ²	0.234	Aid per capita	\$	-

Sources: The World Bank, World Development Indicators 2011 | UNDP, Human Development Report 2011. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$2 a day.

Executive Summary

In his speech on the 39th National Day of the United Arab Emirates (UAE) in December 2010, President Shaikh Khalifa bin Zayid al-Nahyan stated that the UAE was “moving from strength to more strength” based on “building the nation’s institutional and legislative frameworks; enjoying a strong, diversified and free economy; a modern infrastructure; a sustainable social development; enhanced cultural and societal identity; and most importantly, preparing capable and skillful human resources.”

There can be no doubt that the country has continued to make incredible progress, especially on the economic front, to the point that it has become a model for others to emulate. The global financial crisis of 2008 undoubtedly had its impact on the country, most visibly in the spectacular crash of the Dubai real estate market, resulting in the cancellation of billions of dollars worth of projects that were still in the pipeline. But even this crisis proved to be only a minor bump in the road, and by the beginning of 2011, the UAE had returned to positive growth coupled with a buoyant mood of optimism for the coming years. In that sense, the crisis-triggered downturn can be seen as a positive development for the country, as it returned the attention of government officials and the private sector back to the core activities that had made growth in the emirates possible in the first place – a strong commitment to infrastructure development and open trade policies linking the rest of the world to the well-being of the UAE.

However, the country’s economic transformation has not been matched by similar process on the democratic front, where movement toward instituting political reforms and gradually expanding public participation within the governing system has appeared to stall. Without a doubt, the difficult political periods witnessed in neighboring countries such as Kuwait, Iraq and Lebanon, not to mention the turmoil that first engulfed Tunisia and then Egypt, Bahrain, Yemen and Libya at the outset of 2011, have been perceived negatively and as examples to avoid rather than follow. In conjunction with the economic turmoil experienced in late 2008 and 2009, the emphasis in the UAE has therefore been on stability rather than any further political

experimentation, with the result that prospective reform steps have been largely shelved for the moment. While the country shows no appetite for a sudden political shift, regional events have highlighted the need for some political reform process, even in the UAE. Much will depend on the government's recognition that continuing the process of political institutionalization is in the (medium- to long-term) interest of the country.

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 the outset, outsiders accorded the UAE little chance of survival, given the historical animosity that characterized the relationship between the tribal areas of southeastern Arabia. Since that time, 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 success and resilience of the UAE is due to the manner in which the government has been structured. Aside from items such as foreign policy and national security, the constitution – which was classified as provisional until being made permanent in 1996 – left sovereignty with the individual seven emirates, particularly in areas pertaining to their own development. This included administration, economic and social policy, and even control over each emirate's own mineral and oil wealth. This arrangement gave each constituent emirate the assurance that the larger federal entity represented a distinct net benefit with respect to individual sustainability and prosperity. Over time, and as the UAE as a state has matured, there has been an increased willingness to expand federal jurisdiction in areas that have proved to be functionally necessary. For example, the emirates dissolved their individual defense forces, and joined them under one central command. There have been similar movements with respect to labor policies, national economic policies and education standards.

The UAE's political system continues to be defined by the traditional patriarchal style of leadership combined with political loyalties structured around the country's various tribal elements. 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" (Art. 49 of the UAE constitution). The country's president is the ruler of Abu Dhabi, which as the largest emirate both in terms of size and wealth has assumed a natural leadership role within the UAE. The other emirates do retain a certain amount of input within the decision-making process.

Economically, the UAE has made tremendous strides in its national development. Backed by the world's sixth-largest oil reserves (according to the 2010 BP Statistical Review of World Energy) and a small national population of less than 1 million, the UAE has witnessed its GDP rise from \$46 billion in 1995 to \$270 billion in 2010, an increase of nearly 600%.

Following vast investments in infrastructure and services, the UAE is today a modern country with all the amenities found in Western industrialized societies. Furthermore, there exists a determined commitment by the UAE leadership to be an active part in the process of globalization and to use the country's considerable oil wealth to sustain further development and assist in various economic diversification efforts. The indirect result has been the gradual implementation of and adjustment to fair economic practices, and an increased willingness to abide by legal standards governing business transactions.

The economic strides achieved by the UAE have, however, not been matched by similar development within the political system. Buoyed by high per capita income and supported by a high degree of internal legitimacy, the ruling families of the UAE have to date felt little necessity to make significant expansions to participatory political mechanisms for the population at large, or to substantially raise the institutional capacity of governmental organs. While it would be incorrect to characterize the UAE as being an authoritarian state that actively suppresses the rights of its citizens, moves to increase access to the political process have been slow to materialize. The fact is that access to the political system is based on personal relationships, and is thus highly arbitrary. At the same time, given the country's significant youth population, as well as a process of globalization that is loosening the monopoly of the state over information, the leadership is aware that the UAE will need to remain responsive to intensifying political demands from its citizenry. This is an ongoing process, and is likely to advance further in the coming years.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 10 (best) to 1 (worst).

Transformation Status

I. Political Transformation

1 | Stateness

The UAE state continues to have a monopoly on the use of force. The security forces have complete and total control over the entire territory of the country, and there are no areas in which any organizations or opposition groups infringe on that control.

Among UAE nationals, the nation-state is accepted as highly legitimate. There is also broad agreement as to the concept of citizenship and who has the right to be a UAE citizen. In principle, citizenship is available to foreigners who have lived in the UAE for a minimum of 20 years, although cases exist where citizenship has been granted by the rulers on an individual basis. Still, any naturalization that does occur remains small in numbers, and with reference to arbitrary criteria.

There are several further caveats to be considered. First, society remains structured along tribal identification lines, with the result that allegiance is not pledged solely, or even primarily, to the state. Instead, the UAE is characterized by patriarchal rule with allegiance pledged to tribal leaders, the leaders of the individual emirates and the leaders of the federation. Tribal distinctions furthermore result in different classes of citizens, simply on the basis of one's lineage. This also results in a certain degree of discrimination with respect to UAE nationals from individual emirates in areas such as wages and employment. Second, while Article 14 of the constitution specifically guarantees "equality for all before the law, without distinction between citizens on the basis of race, nationality, religion or social status," there do exist unspoken and undefined criteria by which ethnic or religious minorities are denied aspects of their civil rights as citizens of the country. Third, as mentioned above, naturalization procedures are vague and ill-defined. Estimates suggest that there are between 20,000 and 100,000 residents in the country who lack citizenship, including people mainly of Iranian or Asian origin who have lived in the UAE for longer than three decades.

Question
Score

Monopoly on the
use of force
10

State identity
7

While the government is aware of the problem and has considered steps allowing naturalization of some of this population, the criteria for determining eligibility is unclear. In May 2009, a total of only 70 people were naturalized, thus leaving the vast majority to their predicament. A key related issue is the country's demographic imbalance, as UAE nationals make up only about 15% of the total population. This in turn has sparked growing debate within the country about the protection of national identity and mechanisms through which reliance on foreign labor can be diminished.

The Federal Demographic Council, established in December 2009, recently suggested a strategy by which Emiratis would become the majority in their country by 2021. However, given present conditions, this goal appears highly unlikely to be reached. As another alternative, government officials have suggested that expatriates with needed skills should be granted citizenship in order to contribute to the development of the country.

The UAE legal system is based both on 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 in one form or another integrated religious dogmas into the legal and political sphere. Islamic Shari'ah courts play a prominent role in personal status cases, but also deal with criminal cases and labor and commercial disputes. In the 2009 – 2011 period, there were several high-profile cases involving expatriates involved in acts of indecency or acts seen as undermining UAE moral traditions and Islamic culture. In some of the emirates, laws on dress codes have been instituted that draw from Islamic traditions. While actions of this kind have led to negative press coverage in the international media, the overall impact has been limited, and the UAE remains a largely tolerant and open society.

No interference of religious dogmas

7

The state's administrative structures provide basic public services throughout the country, and effort continues to promote and expand those services. The government operates according to specific strategic plans (the latest plan implemented as of the time of writing covering the years 2008 – 2010), with the aim of achieving balanced and permanent development and providing prosperity to the country's citizens. The 2008 – 2010 plan contained targets in areas such as social development, expanding services to rural areas, the judiciary, economic development, infrastructure and the performance of the governmental sector. Similarly, the new 2011 – 2013 strategic plan deals with seven priorities: reaching or assuring a cohesive society while preserving the national identity, creating a first-rate education system, ensuring world-class healthcare, maintaining a competitive knowledge-based economy, ensuring the presence of a sound transparent and fair judiciary, following sustainable environmental and infrastructure policies, and protecting the country's strong global standing. Following these strategic priorities,

Basic administration

8

the 2011 federal budget, approved in November 2010, allocated 46% of its total to social development issues, including education, health care, pensions and social assistance.

There is also an independent accountability authority tasked with ensuring that government departments are managed efficiently. However, a certain degree of duplication of services exists, related to the country's federal nature and to the fact that numerous state functions remain the prerogative of individual emirates. For example, while most emirates have agreed to place their judicial system under federal control, the emirates of Dubai and Ras al-Khaimah maintain their own systems.

2 | Political Participation

The UAE does not conduct elections at the national level, and citizens do not have the right to change their government. Instead, each of the seven individual emirates is ruled by a hereditary family with the leader chosen from among the tribe's family members. The Supreme Federal Council, the highest federal authority, is comprised of the rulers of the seven emirates and chooses the president of the country. There is a legislative institution, the Federal National Council (FNC), but its powers are limited and it does not serve as a balance to the government's executive functions.

Free and fair
elections

2

Partial elections for the FNC were held in 2006, and have been announced for later in 2011. In 2006, the right to vote was extended only to a select group of citizens that comprised less than 1% of the total national population. Following that first election, the government indicated that it would issue an elections law to guide future electoral processes. Such a law did not materialize, however, and the original two-year term of the FNC had to be extended by another two years by decree. That additional two-year extension again expired in February 2011 without an election law having been promulgated.

On 15 February 2011, Sheikh Khalifa bin Zayed issued Federal Decree No. 2 (2011) to amend some of the provisions of Decree No. 3 (2006) on selecting representatives for the FNC. While under the terms of this decree, the electoral college in each emirate would be doubled in size, the right to stand for election remained restricted to fewer than 20,000 Emiratis (less than 2% of the total national population), with all those people being appointed by the rulers in the first place. In addition, half of the FNC members would still be directly appointed. There was also no indication that the powers of the FNC would be expanded or reformed. As a result, the decree did not fulfill general expectations and was viewed as a disappointment in terms of the country's political development. The fact remains

that with the country advancing economically, there is only limited pressure from society as a whole to move forward on the elections front.

UAE rulers are supreme in their decision-making power, and as such there are no restrictions on their ability to govern. They are not elected. The combination of a small national population and large-scale financial resources has enabled the ruling families to establish legitimacy and gain a societal consensus about the right to govern. However, the ruling families must take into account tribal considerations and other interests, such as those of powerful business families, when making their decisions. This, however, is not seen as an impediment to their ability to govern. The global financial crisis beginning in late 2008 had particular impact on the emirate of Dubai, and showed that the decision-making process could not be completely separated from outside events in today's globalized environment. The direct result has been an internal shift in power relations among the federation's constituent emirates, with Abu Dhabi now exerting more central control over decision-making than before the crisis that exposed Dubai's vulnerability.

Effective power to govern

1

While the UAE constitution explicitly recognizes the right of assembly (Art. 33), the government imposes severe restrictions on both the rights of assembly and association. Permission is required before organizing public activities or joining regional and global networks, and the government can monitor the private activities of association members or dissolve associations for any reason. Political organizations, political parties and trade unions are illegal. A proposed draft law on the workings of non-governmental organizations from 2007 has never been implemented. The UAE has also rejected calls from such institutions as the United Nations and independent groups such as Human Rights Watch (HRW) for the establishment of a trade union to represent migrant workers. As noted in the UAE chapter of HRW's 2011 World Report, UAE authorities arrested activists trying to organize peaceful protests against rising oil prices, and cancelled meetings of the UAE Jurist Association that the government deemed controversial. The authorities quickly broke up strikes by foreign laborers in 2009 and 2010, and deported the strikes' leaders. On the positive front, the UAE passed a wage protection system to eliminate the practice of late or non-payment of wages, loosened the right of employees to change employers, and established a unit within the Ministry of Labor to investigate labor trafficking cases.

Association / assembly rights

3

The UAE constitution guarantees all citizens "freedom to hold opinions and expression of the same" as well as "freedom of communication." However, in 2009 and 2010, the UAE's rankings fell in both the 2010 World Press Freedom Index (in which it was ranked 153rd out of 178 countries) and the 2010 Global Press Freedom Index (in which it was categorized as "not free"). Current law prohibits criticism of the ruler and any speech that may encourage or create unrest. Moreover, it authorizes censorship of domestic and foreign publications to remove criticism of the government or statements that are deemed threatening to social stability. A draft

Freedom of expression

4

media law that would make it a punishable offense “to publish news that causes harm to the national currency or causes damage to the national economy” was widely criticized by UAE intellectuals, and has not been acted on. Still, the fact that editorial matters fall under the realm of criminal law and that 90% of journalists are non-citizens means that self-censorship in the interest of avoiding trouble remains common. The establishment of Dubai Media City, which includes a number of broadcast and print media organizations including the satellite channels of al-Arabiyya and MBC and western news services such as CNN and Reuters, as well as the launch of The National newspaper in Abu Dhabi, has broadened the coverage of local issues including sensitive items such as worker discrimination, labor disputes and UAE national identity. But even this coverage is only tolerated to a certain degree, and the government continues to exert strict control in the Arabic language media.

3 | Rule of Law

Power in the UAE is concentrated solidly in the individual ruling families, with only minimal dispersion through the federal system or through the various organs of government. No formal 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 other institutions is reminiscent of a system of dynastic polities. While there have been statements from ruling family members that political reforms would be instituted, no significant movement took place during the years 2009 and 2010. Minister of Federal National Council Affairs Anwar Muhammad al-Gargash has stated that the country’s political process is based on the concept of “gradualism,” which some have interpreted as an excuse to actually slow down the process of reform.

Separation of powers

1

The UAE constitution provides for an independent judiciary, but in reality court decisions are subject to review by the political leadership, and no functional separation exists between the judicial and executive branches of government. Outside the constitution, a separate Law of Judicial Power grants the executive the authority to establish courts and to appoint and transfer judges, thereby violating any principle of separation of powers. A prominent example can be seen in the January 2010 case of Shaikh Issa bin Zayid al-Nahyan, a member of the Abu Dhabi ruling family, who was videotaped torturing an Afghan grain dealer, but was acquitted by an Emirati court on the basis of diminished responsibility due to the influence of drugs. Other issues include the lack of a clear scope of jurisdiction (with federal courts existing in all emirates except for Dubai and Ras al-Khaimah, where only local courts are allowed); the application of arbitrary and unlimited detention (for example, two former chief executive officers of Dubai companies suspected of fraudulent activities have been in jail for more than two years without

Independent judiciary

4

charge); a lack of clear laws in areas such as fraud, personal and corporate bankruptcy, and layoffs; and a limited right to legal counsel for defendants.

The UAE has increasingly taken action against officeholders suspected of abusing their power, and has also been willing to make such cases public. The UAE constitution states that the protection of public resources is the duty of every UAE citizen, and UAE ministers are prohibited from engaging in private dealings with the government while in office. The government has the effective means to investigate and punish abuse as well as corruption, and has indicated its willingness to stamp out such practices. High profile corruption cases in 2009 and 2010 included the former governor of the Dubai International Financial Center, the former chief executive of Dubai Islamic Bank and two founders of the Damas International jewelry group. While the law provides for penalties for corruption, the fact that public officials are not required to file financial disclosure forms remains a constraint to the law's effectiveness.

Prosecution of
office abuse
7

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. Places of worship exist for a range of denominations. Nevertheless, civil rights are not guaranteed across the board, and the large expatriate workforce and specific ethnic groups face some discrimination. Migrant labor and female domestic workers are subject to abuse and exploitation, with makeshift shelters in Abu Dhabi and Dubai housing runaway domestic workers. Members of the Shi'a community face discrimination, with certain employment opportunities off limits (for example, the security services), and some level of domestic violence against women has also been reported. In October 2010, a husband's right to "chastise" his wife and children with physical abuse was upheld in a verdict by the UAE Federal Supreme Court. On a broader level, people in the UAE are free to pursue their individual goals and interests, but civil liberties can be quickly curtailed at will by the authorities if they consider internal stability to be at risk. The UAE is not a signatory to major international human rights instruments such as the International Covenant on Civil and Political Rights, the International Covenant on Economic, Social and Cultural Rights, or the Convention against Torture. An independent UAE Human Rights Association exists, but its activities have been limited and it does not enjoy the support of the government.

Civil rights
6

4 | Stability of Democratic Institutions

Because the government lacks transparency, the performance of governmental institutions is difficult to assess. With the announcement of strategic plans at both the individual emirate and the federal level, the government has expressed its clear commitment to the proper functioning of government and to the expansion of the state's efficient administrative capacities. A Government Performance Management

Performance of
democratic
institutions
2

System has been in place since early 2009, and Shaikh Muhammad bin Rashid al-Maktoum, the UAE's vice-president and prime minister, stated in November 2010 that government excellence serves as a key driver for federal governmental action. Although no democratically elected institutions exist, the supporting administrative system appears to function well and with little friction. The existing top-down decision-making system, however, acts as a barrier to productivity and innovation, with some government ministries serving as particular points of constraint. Further reform efforts are likely to materialize only slowly.

President Shaikh Khalifa has said that the UAE is committed to “continuing our democratic change until we achieve all planned goals through paving the way and offering a chance for more participation” by UAE citizens in the governmental process. While currently offering very little effective public input into the governing system, the UAE leadership nevertheless enjoys a high degree of legitimacy and is accepted by the national population. The ruling families have been successful in promoting patron-client relationships in which the stability of the polity is directly related to the preservation of social status and economic privileges among UAE nationals. Members of the legislature, the Federal National Council, have called for greater decision-making powers to be granted to the institutions, but the government has not as of this writing responded to this call. One council member, writing in December 2010, called for the Federal National Council to be developed into an effective legislative body, as this will be required in order to manifest effective separation of powers.

Commitment to
democratic
institutions

3

5 | Political and Social Integration

There has been no change in this category for the UAE as compared to previous BTI assessments. The UAE does not possess a party system, and the formation of political parties is considered illegal. In the absence of a socially rooted party system able to articulate and aggregate societal interests, the formation of societal consensus takes place through established patron-client networks. The system in place has proven successful in maintaining the stability of the state over the period of its consolidation, although there is also a growing awareness that as the population grows and becomes more diverse and as the process of government becomes more complex, the system cannot be sustained without adjustment. The question to be considered is whether reforms to the system will necessarily take path of a political party system or whether other mechanisms of political participation will be chosen. The decree on the proposed next phase of Federal National Council elections underlines that the emphasis is on increasing the efficiency of the system rather than broadening its capacities.

Party system

1

The UAE does not have many civil society institutions. Those that do exist have only minimal access to and influence on the governing system. As a result, associational life is weak and the public space between the nuclear family and the state is sparsely populated. As of January 2011, there was no legal framework in place regarding the establishment of non-governmental organizations. The process allowing organizations to operate and defining the acceptable sphere of activities is characterized by arbitrariness and non-transparency. Existing organizations such as the UAE Human Rights Association (established in February 2006) or the UAE Jurists Association have been obstructed in their work. Through the use of oil revenues, the state has undercut existing social groups and preempted the formation of new ones. Overall, the government has shown no interest in supporting the development of a vibrant civil society in the country.

Interest groups
3

No opinion polls were released between February 2009 and January 2011 that might provide insight into the attitudes of the UAE population toward democratic norms and procedures. In a very general way, some past polls indicated a largely favorable view of democratic processes, pointing to the need to reform the country's institutions. This view continues to be tempered by two relevant caveats. First, there is a general consensus that political reforms or democratic initiatives should not come at the expense of national stability. Appropriate steps in this direction are thus thought to be evolutionary, gradual and subject to periodic review. Second, there is a deep mistrust of external initiatives, such as U.S. efforts to promote transitions to democracy within the Gulf region, as these are seen as blatant interference. Instead, the clear preference is for a system of reform that is structured along national priorities and that reflects local traditions.

Approval of
democracy
n/a

There is a high level of trust among UAE citizens, which results both from the growing consolidation of the United Arab Emirates as a single country, and from citizens' need to differentiate themselves from the vast majority of the population, which is composed of expatriate labor. Much debate in recent years has focused on the ways in which UAE national identity can be strengthened, and on the steps necessary to reduce dependency on foreign labor. In addition to numerous conferences on the subject, in January 2011 the Ministry of Culture, Youth and Community Development launched the UAE Cultural Convoys' initiative areas aimed at spreading national social cohesion and promoting cultural and social awareness across the country, particularly in rural areas. Autonomous associations do not exist; rather, much of the work of promoting identity and citizenship originates with the government.

Social capital
6

II. Economic Transformation

6 | Level of Socioeconomic Development

Question
Score

Socioeconomic
barriers

7

Although development levels within the United Arab Emirates remain high, the period under review (February 2009 to January 2011) saw a small downturn related to the global economic crisis. GDP growth fell from a high of 13% in 2006 to a decline of 2.7% in 2009, mainly due to the collapse of the real estate sector in Dubai. However, 2010 witnessed a return to modest growth of 2.1%, and the outlook for the country is broadly positive until 2015. The country's GDP has risen from \$170 billion in 2006 to almost \$270 billion at the end of 2010. Tremendous investment has been made in infrastructure development, completely changing the UAE's physical face, in such a way as to be immediately evident to occasional visitors. Backed by a progressive economic agenda built around economic liberalization, diversification and enhancements in the role of the private sector, the UAE has jumped 23 places in the U.N. Human Development Index since 1980, currently standing in 32nd place in the category of very high human development. Although no Gini coefficient data is available for the UAE, the percentage of the population below the poverty line is minimal, and no education inequality exists given the high primary and secondary enrollment rates. The UAE moreover ranks high with respect to the perception of well-being and happiness, including in the categories of personal health, standard of living, purposeful life and a strong social support network. However, issues of concern include the wide discrepancy in income and access to social services (given that the UAE's population consists of about 85% foreigners and only 15% UAE nationals, with the expatriate sector excluded from the general social security blanket which exists for nationals) and the low female labor force participation rate of 42.5%. In addition, development has not been evenly spread throughout the federation with overall progress lagging in the northern emirates.

Economic indicators		2007	2008	2009	2010
GDP	\$ mn.	258150.0	314844.7	270334.9	297648.5
GDP growth	%	3.2	3.3	-1.6	1.4
Inflation (CPI)	%	-	-	-	-
Unemployment	%	-	4.0	-	-

Economic indicators		2007	2008	2009	2010
Foreign direct investment	% of GDP	6.8	4.4	1.5	1.3
Export growth	%	8.8	12.9	-7.0	-
Import growth	%	34.5	21.4	-15.7	-
Current account balance	\$ mn.	-	-	-	-
Public debt	% of GDP	7.8	12.5	22.5	21.0
External debt	\$ mn.	-	-	-	-
Total debt service	\$ mn.	-	-	-	-
Cash surplus or deficit	% of GDP	-	-	-	-
Tax revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	5.9	5.8	9.0	8.2
Public expnd. on edu.	% of GDP	0.9	1.0	1.2	-
Public expnd. on health	% of GDP	2.7	2.5	2.8	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	5.0	5.5	7.3	-

Sources: The World Bank, World Development Indicators 2011 | International Monetary Fund (IMF), World Economic Outlook 2011 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2011.

7 | Organization of the Market and Competition

The UAE government has actively pursued an economic liberalization strategy, and competition is in general encouraged. Given that the country is still developing its overall institutional framework, gaps and areas of non-transparency remain in the legal framework, inhibiting open business practices. For example, exclusive agency distribution agreements remain in place, ensuring that traditional merchant families have virtual monopolies over certain economic sectors. This has to some extent been overcome by the establishment of free economic zones in which local sponsorship rules do not apply. More importantly, there is no clear dividing line between the private and the public sector, with many private companies in fact owned by the government (Dubai Ports World, Emirates Airline, etc.). As such, the ruling families are actively engaged in economic activity. It remains the case overall that good local contacts and even sponsorship opens doors and facilitates business opportunities. The UAE ranks 40th overall and 3rd in the Gulf region (behind Saudi Arabia and Bahrain) in the World Bank's Doing Business 2010 index.

Market-based
competition

7

As in previous assessments, regulation of monopolies and oligopolies in the UAE is quite limited, despite recommendations put forward in the WTO's 2006 Trade Policy Review that monopolistic practices be curtailed. Leading merchant families maintain a substantial amount of control over key economic activities and sectors. To overcome some of the deficiencies in this area, the Ministry of Economy announced a draft competition law in April 2010, aimed at encouraging competition and supporting the UAE's economic development. The government has also begun developing new regulations designed to close gaps relating to commercial regulations and arbitration. Here too, the goal is to promote efficiency, transparency and investor confidence in the business sector. However, as of January 2011, there was no indication when these new laws would go into effect. Some strategic sectors such as telecommunications have been opened to competition, but the overall effect has been to move from a state-controlled monopoly to a state-controlled duopoly. Suggestions that the UAE's sole agency law would be amended have also been left unimplemented.

Anti-monopoly
policy
5

The UAE has been an active member of the World Trade Organization since joining the organization in 1996, and in 2010 submitted a voluntary trade policy review report in anticipation of its next review session in 2012. As part of that voluntary report, Sheikha Lubna bint Khalid al Qasimi, the UAE's minister of foreign trade, stated that the country's trade policy represents one of the pillars of its growth and development, and that the UAE is actively seeking to diversify its export base and international trade partners. Access to the UAE market is based on the Gulf Cooperation Council (GCC) Common External Tariff, which has been set at 5%. A GCC customs union has been enacted, which will lead to the elimination of tariff barriers among member states. While the UAE's Trade Agencies Law reserves import and distribution activities to so-called UAE agents, the country's primary export centers are free zones which are exempt from the licensing, agency and national majority-ownership obligations that apply to the domestic economy. No export subsidies have been identified by the WTO, but the organization has called upon the country to establish better legislation on competition, anti-dumping rules, subsidies, countervailing duties and trade safeguards. Domestically, it has been recommended that an independent body tasked with combating harmful practices in international trade (dumping, subsidies, trade barriers, etc.), especially within the petrochemical industry, be established. On the regional level, numerous free-trade-zone negotiations are ongoing between the GCC states and other parts of the world. An agreement with Singapore has been concluded, while negotiations with China, India, Korea, the European Union and the United States have not been finalized.

Liberalization of
foreign trade
9

The UAE's banking system and capital markets are well developed, although the global financial crisis beginning in 2008 also exposed a lack of supervision and disclosure rules. A large number of banks operate in the emirates, including 23 local and 28 foreign banks, as among them Deutsche Bank, HSBC, UBS, BNP Paribas and ABN-AMRO. After domestic banks in particular extended credit liberally during the period of high economic growth from 2003 on, the late-2008 downturn left the banking sector struggling with a combination of high-profile debit restructuring, deteriorating asset quality, a lack of liquidity and lower economic growth. Total profits in the banking sector fell by 24% in 2009 due to larger-than-expected special and general provisions having to be accounted for. The sector is likely to experience a period of continued difficulty, especially as the ratio of non-performing to gross loans remains high due to the collapse in the real estate and project finance sectors. The total capitalization level rose to 19.2% in 2009 following an injection of \$19 billion from the central bank and the UAE finance ministry, thus reflecting strong capitalization. The regulatory environment in the country has improved, although enforcement mechanisms remain comparatively weaker than legislative requirements. In 2010, the government instituted an updated Code of Corporate Governance in an attempt to introduce internationally accepted corporate governance principles into the UAE. It also put forward a draft anti-fraud law that would make it mandatory for companies to have a basic corporate governance framework, with the aim of protecting shareholders' rights and increasing transparency in the disclosure of financial results and reports.

Banking system

7

8 | Currency and Price Stability

Inflationary pressures eased during 2009 and 2010 as the high-growth environment of previous years fell victim to the global financial crisis. Falling rent prices were the key, with the result that the overall consumer price index (CPI) increased by only 0.88% in 2010. By the end of 2010, there were concerns that the worldwide rise in basic food prices could contribute to rekindled inflationary pressures. As a result, the government announced that it would closely monitor developments, and would set price limits for certain staple food and commodity items. The monetary tools available to the central bank to rein in inflation are limited given the UAE dirham's peg to the U.S. dollar. Proposals to loosen the peg or switch to a currency basket have been offered, but given the UAE's close foreign policy and defense relationship with the United States, it is clear that factors beyond pure economics play a role in the decision. Plans for a currency union with the other GCC member states have also been put forward, but the UAE has opted out over a dispute with Saudi Arabia concerning the seat of the proposed currency zone's central banking headquarters.

Anti-inflation /
forex policy

7

The UAE places a high premium on maintaining macroeconomic stability. The country's role as a leading oil producer, in combination with relatively high oil prices, has meant the government's budget deficit worries have waned. Following a string of federal budget surpluses, the surplus for fiscal year 2010 was expected to be close to \$4 billion, despite the fact that expenditures, especially on infrastructure, have risen over the same time period. Overall, governments at the emirate level have pursued wide-ranging economic diversification strategies in order to reduce reliance on volatile oil revenues. In this respect, it is important to note that oil receipts do not figure in the federal budget but are rather accounted for at the individual emirate level. This makes it difficult to account accurately for public debt, which is the equivalent of approximately 40% of GDP. The substantial revenues associated with hydrocarbon income have allowed the country to overcome the global economic downturn's negative effects, with the government in a position to inject necessary liquidity into the financial system.

Macrostability
9

9 | Private Property

Property rights and the regulation of property acquisition, benefits, use and sale are only nominally defined in formal law, and several shortcomings are evident. On the one hand, property acquisition rights vary between UAE nationals and expatriates, with nationals having the right to own property anywhere in their emirate, while expatriates are restricted to certain freehold areas. On the other hand, regulatory areas considered to be problematic include the stringent visa rules for property investors, the lack of transparency associated with cancelled projects, unclear guidelines concerning procedures for the resale of land, and the need for a proper dispute resolution mechanism. The need for proper enforcement of the existing legal framework has also been mentioned. In addition, property laws fall under the jurisdiction of the individual emirates, which means that differences between them exist.

Property rights
6

The UAE government has pursued an aggressive diversification and liberalization strategy, with a particular emphasis on the role and growth of the private sector. As such, there are no restrictions in place for private companies, and the UAE prides itself on providing a business-friendly environment with minimum bureaucracy. Privatization processes are conducted largely on the basis of market principles. However, the close relationship between the public and the private sector, including the fact that many seemingly private enterprises are owned by the government or number one of the ruling families among their primary shareholders, has raised issues of transparency and conflict of interest. In addition, no clear distinction is made between ownership by the ruler and by the government. The large merchant families hold an oligopolistic position, with concentrated power within certain business sectors.

Private enterprise
7

10 | Welfare Regime

The UAE offers its citizens a comprehensive welfare system including social security benefits, free or subsidized housing, a well-developed health care system, educational opportunities, and a wide array of other subsistence assistance. The Ministry of Social Affairs paid out AED 2.2 billion (\$600 million) in social security benefits in 2008. In March 2009, the Abu Dhabi Urban Planning Council announced plans to build 50,000 homes for Emiratis over the next 20 years, with sites distributed across the emirate's different regions. Similar programs exist in each of the individual emirates. The federal government further announced a plan for infrastructure development in the northern emirates in early 2011. Overall, the financial crisis, despite its impact on the UAE, has not affected social services, although several housing projects were delayed and may not be completed. These social services are not available to non-native Emiratis, but the overall standard of service is high and generally adequate.

Social safety nets
8

In principle, there are no formal restrictions in place for UAE citizens in terms of access to employment opportunities, education, access to public services or various other assistance mechanisms. However, unspoken restrictions do exist, such as the distribution of high-level positions in accordance with tribal affiliation. At the emirate level, local citizens are given preference in hiring above individuals coming from other emirates. It is the official government policy to fight discrimination on the basis of sectarian ideologies. While national unemployment does exist, this is not the result of inadequate opportunities but rather – at least in part – of citizens preferring public sector employment over the more competitive private sector. Women have steadily increased their active role in the economy and society, although women's labor force participation rate remains low at 42.5%. The 2010 World Economic Forum's Global Gender Gap Index saw the UAE improve by nine points, becoming the leading Arab state in that category. The Gender Empowerment Measure ranks the UAE 25th out of 109 countries. Still, there are areas where women face restrictions, especially when it comes to citizenship rights for the children of women married to non-nationals, and discrimination against single women in state-funded entitlement programs such as housing support.

Equal opportunity
8

11 | Economic Performance

The UAE economy is strong, and its outlook positive. Buoyed by high oil prices, the country has been able to achieve sustained economic growth rates, and was able to overcome the consequences of the global financial crisis without significant damage to the local economy. The UAE's position is reflected in a number of facts: among others, the country ranks in the "very high human development" category in the United Nations' Human Development Index; it has the world's fourth highest

Output strength
9

level of GDP per capita (behind Liechtenstein, Qatar and Norway); and it has seen its GDP grow by almost 50% since 2006 alone, from \$175 billion to \$270 billion in 2010. The large accumulated budget surpluses have resulted in a wide-ranging economic development program, with particular focus on infrastructure, health care and educational services. The UAE is currently the second-largest Arab economy after Saudi Arabia. Moreover, the country has pursued economic diversification efforts seeking to lessen its reliance on oil and gas. This resulted in the non-oil sector contributing 71% of GDP in 2009. The slowdown in economic activity resulting from the 2008 global downturn has been overcome, and the UAE has returned to more modest yet solid growth.

12 | Sustainability

Environmental issues have gained the attention of UAE policymakers, but remain subsidiary to the imperative of economic development. According to the World Wildlife Fund's 2010 Living Planet Report, the UAE continues to have the world's biggest per capita "ecological footprint" – the amount of land and water area needed to produce the resources a population consumes, and to absorb its CO₂ emissions. The UAE's approximately 10.67 hectares compares to a global average of 2.7 hectares. Additionally, the UAE was ranked 152nd place of 163 countries in the 2010 Environmental Performance Index. One primary factor affecting the ecological situation has been the rapid growth in the country's population, which reached 6 million in 2010 compared to just 180,000 in 1968. This has led to fast-rising demand for electricity, infrastructure, water and sewage treatment facilities. Coastal development and desalination plants have led to a rise in water salinity to 47,000 parts per million from 32,000 parts 30 years ago. Indeed, the environmental impact associated with economic development is just becoming clear. It is only in the aftermath of severe ecological problems that local governments have started to incorporate environmental policies into their remit. Authorities have also turned their attention to renewable energy; Abu Dhabi now hosts the U.N. International Renewable Energy Agency (IRENA), and is advancing in its plans to establish the first carbon-neutral city, called the Masdar Project. A water storage facility is being established, and water is increasingly being recycled for such activities as the irrigation of lawns, all steps that are in line with a broader environmental strategy lasting through 2012. Green building codes have been in effect since 2009, and higher-scaled consumption rates for electricity and water use have been introduced for households. A more controversial step is the decision to build civilian nuclear power plants by 2017 in order to meet the rising electricity demand. This will mean additional environmental challenges for the country.

Environmental
policy
4

The UAE offers comprehensive education to all male and female students, from kindergarten to university, with education for the country's citizens provided free of charge at all levels. The UAE persistently increased its budgetary allocation for both basic and higher education. In 2009, AED 9.7 billion or 23% of the total federal budget was provided to the Ministry of Education. In all aspects of development, education is seen as the key to enabling the country to meet future challenges, and as a result there is strong commitment to improving education standards, decentralizing the education system and creating a student-centered learning environment based on international standards. This is also a direct response to the large percentage of youth within the national population, and the need to ensure that the system produces employable graduates. Beyond primary and secondary education, the country has 64 public and private universities, as well as numerous technical and vocational training centers including such renowned institutions as New York University, the Sorbonne and Insead. Major new bodies such as the Abu Dhabi Education Council and Dubai's Knowledge and Human Development Authority have made it their mission to ensure that accreditation standards are being maintained and that teacher qualification standards are being improved. Still, three major weaknesses are evident. First, secondary school graduates continue to be deficient in basic skills such as languages, math and sciences, with the result that higher education institutions are forced to spend a significant amount of their budget on so-called bridge programs. Second, there is still a lack of funding and promotion for research and development, despite the establishment of such organizations as the Emirates Foundation and the National Research Council. Third, a preference for English-language instruction over local Arabic is having a detrimental impact on issues of national identity. It thus remains an open question whether the stated commitment to education and the correspondingly high level of spending will have its desired effect.

Education policy /
R&D

7

Transformation Management

I. Level of Difficulty

There are few structural constraints on the UAE leadership's ability to govern at the domestic level, given that the ruling families have a basic monopoly over the decision-making process. At the federal level, the fact of individual emirates' economic independence leads to a lack of coordination, and thus some constraint. Besides this, constraints pertain primarily to the lack of a skilled national work force and to a certain degree, to an insufficiently strong work ethic. While the government has taken steps to address these problems, the top-down decision-making structure inhibits powers of delegation, and limits the effectiveness of these programs. The fact that there are no clear rules on succession in the individual emirates can also be seen as a structural impediment. Externally, the country faces more serious constraints, in that the UAE is a small state surrounded by more powerful countries within an unstable regional environment. In that light, the UAE is limited by its ability to exert itself within a regional context. The fact that the UAE is also a member of numerous international organizations such as the WTO means that some aspects of decision-making are restricted by the responsibilities and obligations connected to that membership.

Structural
constraints

3

Civil society in the UAE is weak, with the government doing little to encourage its development. The country lacks a tradition of widespread civic engagement, and the number of institutions that can be considered to be part of an active civil society is small. What does exist is restricted to a few professional associations and voluntary groups. The development and maintenance of social trust is accomplished through personal relationships rather than institutionalized organization. The Federal National Council has developed a strategic plan aimed at promoting wider citizen participation in state functions by focusing on strengthening national identity, improving the inclusion of societal groups, empowering women and establishing constructive dialogue between the government and the public. However, no concrete progress has been achieved through this initiative, mainly because the government prefers development to take place within informal mechanisms. As documented in various international human rights report, the government adopted a harsher line during the 2009 – 2010 period than in previous review periods, seeking to undermine the work of civil society organizations.

Civil society
traditions

8

There were no significant violent incidents based on social, ethnic or religious differences during the review period. The potential for violence also remains low. Some violence has occurred within or between communities of the large expatriate labor force, such as between Indians and Pakistanis. Incidents of labor unrest were associated with the non-payment of wages or poor living conditions, but the Ministry of Labor introduced various steps including an electronic wage payment protection system that took effect in October 2010 to counter such issues. Other sources of violence have been linked to organized crime networks or the trade in illegal alcohol. Meanwhile, numerous authorities including Dubai Chief of Police Dhahi Khalfan Tamim have argued that the country's strong reliance on foreign labor represents an issue of national security, in which urgent measures such as quotas for foreign workers must be instituted in order to prevent UAE nationals from becoming an even smaller minority in their own country. Several projections released by national authorities indicate that if current trends continue, Emiratis would form only 2% of the total population by the year 2025.

Conflict intensity
3

II. Management Performance

14 | Steering Capability

A regular strategic planning process, including regular review sessions and mandatory adjustment periods, exists within many levels of government in the UAE. Some of the individual emirates have drawn up strategic documents (such as the quite detailed Abu Dhabi Plan 2030, Abu Dhabi's Strategic Plan 2008 – 2012, and Dubai's Strategy 2015), and numerous local government departments have their own plans. In 2009, for example, strategic plans were issued for the Department of Municipal Affairs, the Abu Dhabi Education Council and the Department of Finance. All of these plans are accessible through the Internet and can be freely downloaded. A federal government strategy was announced in 2007 that Prime Minister Shaikh Mohammad bin Rashid al-Maktoum stated would "set the foundation for a new era in public administration." The document covers social and economic development, public sector development, justice and safety, infrastructure, and the development of rural areas, setting specific targets in each of these areas according to measurable performance indices. Through such actions, the government wants to show that it has a clear way forward, and seeks to improve transparency and accountability.

Question
Score

Prioritization
5

The government's ample financial resources and lack of domestic constraints have enabled many of the policy priorities laid out in strategic plans to be implemented or at least begun. Both federal and local administrative bodies engage in regular periods of review, in which policymakers analyze whether objectives within specified target are being met. This has resulted in adjustments being made in the areas of education, health care and labor policy, for example. Strategic planning in this sense is seen as providing a target, but with the full knowledge that not all targets will be immediately met. Overall, it can be stated that there exists a broad commitment within the executive to bring about structural and qualitative changes in the overall functioning of the government. At the same time, the UAE remains a traditional society with an emphasis on stability rather than quick change.

Implementation
5

The global economic crisis tested the UAE government's ability to adjust to changing circumstances and to implement policies mitigating the effect on the country's economy. Dubai was particularly exposed, as it had based its rapid development on large-scale project financing and had accumulated debt burdens that proved unsustainable once financing mechanisms disappeared. To overcome this situation, numerous measures were put into place including wide-ranging debt restructuring plans, financial assistance for Dubai from Abu Dhabi, and an injection of liquidity into the financial system through the UAE central bank. As a result, the temporary economic setback turned quickly back to positive economic growth in 2010, accompanied by a general agreement that the corner had been turned. While it can be argued that some of the warning signs of an impending bubble bursting should have been recognized beforehand and steps to avoid a possible downturn taken, once the impact of the crisis became clear, the authorities took immediate steps aimed at counteracting negative effects. However, the crisis also underlined the UAE's dependence on outside expertise, as well as the limited national capacity to fully comprehend the implications of financial turmoil originating elsewhere in the world. Thus, while there is a commitment to implement best practice policies across the board, there is still a reliance on imported ideas and mechanisms that do not always correspond to the actual needs and traditions of the local society.

Policy learning
5

15 | Resource Efficiency

In general, the UAE government makes efficient use of the available human, financial and organizational resources. State funds are used for the development of the society, and there is little evidence of widespread corruption or cronyism. However, the overall budget process lacks transparency, not least because oil revenues are not included in the federal budget calculations. A more serious obstacle persists on the human resource front, where a fundamental gap exists between the available national human resources and the ability to maintain an efficient state bureaucracy. The system lacks incentives sufficient to provide

Efficient use of
assets
6

necessary motivation, and recruitment decisions are to a degree still based on tribal affiliations or personal relations rather than being based purely on merit. One result is the country's large-scale dependency on foreign labor and expertise. The government has sought to broaden educational opportunities and offer training, aiming to push local education output to match labor market needs. However, this is a long-term process that will only gradually be reflected in the context of resource efficiency.

Policy coordination is largely effective. The government makes consistent efforts to ensure that all ministries and agencies are working within the framework of nationally developed strategies. While the country's federal structure leads to some overlap, the system as a whole operates on a consensual basis, increasingly with coordinated approaches to problem-solving. Before policy initiatives are announced, the leadership ensures that broad support already exists within the government apparatus. There is little history of dissent among government officials, and friction within the government itself is kept to a minimum.

Policy
coordination
8

The UAE government has publicly committed itself to fighting corruption, and has put various anti-corruption mechanisms in place. This has included ratifying the United Nations Convention against Corruption, joining the Arab Anti-Corruption and Integrity Network, and establishing the State Audit Institution (SAI) as a federal audit authority overseeing the use of public funds. In January 2011, the SAI issued its Best Practices Guideline, focusing on fraud control and corruption in government institutions, and developed in line with U.N. anti-corruption recommendations. The new guidelines were issued after the SAI announced it had unveiled fiscal offences involving nearly AED 300 million in federal government institutions, but that all the funds had been recovered. In Dubai, the high-profile arrest of public officials suspected of fraudulent activities, including former Dubai International Financial Center CEO Omar bin Sulaiman and former Dubai Islamic Bank CEO Saad Abdulrazaq, underscored Dubai ruler Shaikh Mohammad bin Rashid al-Maktoum's April 2009 statement that "there is no room for corruption and the corrupt ... No one in the Emirates is above the law and accountability." However, the government does not issue regular audits of state spending, the public procurement process lacks full transparency, and access to information by the media and citizens remains limited. The fact that much public and private business is conducted at a personal level means that stamping out corruption will continue to be an issue for the UAE.

Anti-corruption
policy
7

16 | Consensus-Building

While the general population has little effective input into the government's policy-making process, there nevertheless exists a broad consensus among all major societal forces as to the continued development of the market economy. Differences exist with respect to the potential course of political reform, however. For example, members of the Federal National Council have called for greater legislative authority, but the government has refrained from committing itself to specific steps. Despite its authoritarian nature, the UAE political system, like that of other Arab monarchies, functions largely on the basis of consensus. The government does incorporate the views of groups such as important tribal forces or merchant families into its policy considerations even if it does not have to do so.

Consensus on goals
7

Pro-reform advocates in the UAE have little ability to overcome anti-democratic tendencies within the UAE, as the ruling families have resisted implementing wide-ranging reforms that could lead to the erosion of their power. The rulers have also created a widespread security apparatus that undermines possible reform attempts. As a result, there will be effective movement on this front only if the government becomes serious about implementing a political reform program. It should be noted that opinions within the ruling families diverge, with some voices arguing for a more centralized system and cosmetic reform, while others arguing for a more accommodative stance and measured reform steps. However, power itself is centralized, leaving reformers with little influence.

Anti-democratic actors
2

With its monopoly over power and the use of force, the UAE's government is capable of and highly successful in containing potential cleavages within the system. This is further supported by the substantial societal consensus in according legitimacy to the system. The main cleavage that does exist is between the minority population of Emirati nationals and the majority expatriate work force, which has led to certain resentments that have the potential to escalate if economic conditions sharply deteriorate. The government has sought to preempt this potential by taking a hard line against offenders and immediately deporting laborers that are seen as having instigated violence. Otherwise, the country promotes a relatively tolerant environment in which such resentments are rarely transformed into open conflict situations.

Cleavage / conflict management
8

The UAE government incorporates the attitudes and views of civil society organizations only hesitantly into the overall political debates. Such actors are generally not included in the agenda-setting, policy-formulation or decision-making processes. Instead, the UAE leadership encourages citizens to engage with their community and contribute to the overall development of their country, but without offering a deeper political role in return. While there have been instances where civil society actors have pressed their case with the government, as in the

Civil society participation
4

opposition to the revised media law put forward by the government in early 2009, such instances are treated as isolated cases, and have not resulted in broader civil society access to the political process. Instead, input remains restricted to personal avenues, and has not been formalized through institutionalized channels.

There are no major historical injustices requiring the government to step in and engage in a reconciliation process. While competition among the individual emirates exists, focusing in part on unresolved territorial issues predating the establishment of the federation, this is not considered disruptive and does not require a formal process of reconciliation. There is a broad commitment to the federation as a whole and any remaining historical disputes are handled within this framework.

Reconciliation
n/a

17 | International Cooperation

The UAE is not dependent on outside development assistance, and instead is a major donor and contributor to international aid programs worldwide. The use of human and development aid is seen as an important instrument within the UAE's foreign policy. Given its lack of sufficient national know-how and expertise, the country does make extensive use of external technical expertise, and closely cooperates with countries that can provide what the country requires. For example, the country has cooperated closely with the German Agency for Technical Cooperation (GTZ; since 1 January 2011, the German Agency for International Cooperation, GIZ) to search for underground water reservoirs within UAE territory. All major infrastructure projects are carried out by renowned international companies, and in areas such as educational and technical training, best practices from other countries are sought. There are also constant exchanges with delegations from governments around the world, and policy-makers have shown a general willingness to examine other experiences and draw relevant lessons from them. The government sees such cooperation in a positive light, and as providing net gains to the country. Calls for political reform from outsiders are seen as interference in the internal environment, and are as such rejected.

Effective use of
support
8

The UAE is an active partner in regional and international diplomatic activities, and regularly consults with its allies. It is committed to working both within bilateral and multilateral frameworks, and has emerged as a highly reliable partner, particularly in the wider Arab world. The country uses its financial resources to promote development throughout the world, and since its establishment in 1971 has contributed more than \$70 billion in loans, grants and assistance to projects in nearly 100 countries. The UAE has also been recognized by U.N. Secretary-General Ban Ki-Moon for being a key contributor to U.N. programs. The country has received praise from leading officials such as U.S. Secretary of State Hilary Clinton for its open market economy and its commitment to the promotion of clean energy.

Credibility
8

It has also been commended for its relatively open and tolerant society, for example in the area of religious freedom.

While the UAE is to most appearances an integral member of the Gulf Cooperation Council, and supports all aspects of further regional integration, lingering disputes with and suspicions of neighboring countries prevent full integration from taking place. A border dispute with Saudi Arabia has flared up periodically since 2008, and the discovery of a UAE spy ring inside Oman in January 2011 clouded neighborly relations. In May 2009, the UAE also withdrew from a regional common currency project in protest of a proposal to put the group's central banking headquarters in Saudi Arabia. On other regional issues such as the Arab-Israeli conflict, Iraq, and Iran, the UAE tends to be more in agreement with its fellow GCC members. It also cooperates closely with its neighbors in formulating policies to be pursued within international organizations such as the United Nations or OPEC.

Regional
cooperation
6

Strategic Outlook

The UAE has made major strides in its overall development, and its success has been held up as an example for the rest of the Middle East. Its ability to bring seven disparate emirates together in a workable federal experiment is viewed as a model for the rest of the Arab world, and served as a precursor to the establishment of the Gulf Cooperation Council. Moreover, its open economic environment with an emphasis on pro-business policies, market liberalism, general economic openness and an embrace of globalization has transformed the country into a modern state that enjoys an exceptionally high standard of living. As a result, the country has become the envy of regional states, many of which have begun to replicate the UAE's success by implementing similar policies.

In light of such unprecedented success, the key challenge for the UAE will be to make its current economic and social policies sustainable while enacting a more progressive political reform course able to accommodate rising demands within the governing system. Having weathered the global financial crisis fairly well, the UAE is likely to see a return to moderate growth, particularly given a regionally unmatched infrastructure that provides an attractive hub for regional and international companies. Yet this will also mean renewed strain on available resources as the population resumes its growth. A key question will therefore be whether the country is ready to forego immediate economic benefits in favor of more lasting policies of a sustainable nature. A similarly important challenge is represented by the need to train and educate UAE citizens in order to match educational output with labor market needs, and to provide an environment in which nationals can be given a productive role in society. For the moment, the country's investment in education has not produced the desired results, and there is no hint that today's dependence on foreign labor will be significantly reduced. Moreover, the widespread investment in education is likely to result in increased political demands on the governing system, as well-educated citizens will likely be less satisfied with the social contract currently in place.

Nor is the UAE completely immune from the protests that have engulfed the Middle East since December 2010. This was underlined by a petition delivered to the UAE president, signed by more than 100 prominent UAE intellectuals, calling for direct parliamentary elections and the establishment of a parliamentary body vested with true legislative power. The group criticized the government for failing to follow the constitution, which calls for a "process toward a comprehensive democratic parliamentary system." It is thus unclear how long the current political stasis can be maintained before unrest undermines the UAE regime's legitimacy.

Overall, the recommendations offered in the BTI 2010 country assessment remain accurate, as they tackle the main challenges outlined above. These include:

- Placing less emphasis on the promotion of a materialistic and consumer-oriented society, and concentrating instead on sustainable policies based on the broad concept of human security;
- Expanding the power of the country's legislative institution, the Federal National Council, and moving it beyond its current advisory capacity;
- Involving more individuals from outside the ruling family in key government positions, both in order to lessen dependence on the ruling family's willingness to enact reform initiatives, and to separate the need for continued development from the willingness of the rulers to contemplate change;
- Concentrating education reform efforts less on encouraging internationally renowned institutions to set up campuses in the UAE, and more on building up domestic educational institutions through linking programs and supporting collaborative research efforts;
- Passing a comprehensive and liberal law on the establishment of non-governmental organizations, thus fostering the development of civil society.

If the ruling families commit themselves to those broad outlines, then the strategic outlook for the UAE is highly favorable, not only in the coming years but also well into the long term.