

BTI 2014 | United Arab Emirates Country Report

Status Index	1-10	5.96	# 53 of 129	
Political Transformation	1-10	3.95	# 97 of 129	➔
Economic Transformation	1-10	7.96	# 16 of 129	↗
Management Index	1-10	5.23	# 55 of 129	

scale score rank trend

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2014. It covers the period from 31 January 2011 to 31 January 2013. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

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Key Indicators

Population	M	9.2	HDI	0.818	GDP p.c.	\$ 42079.9
Pop. growth ¹	% p.a.	3.1	HDI rank of 187	41	Gini Index	-
Life expectancy	years	76.8	UN Education Index	0.686	Poverty ³	% -
Urban population	%	84.6	Gender inequality ²	0.241	Aid per capita	\$ -

Sources: The World Bank, World Development Indicators 2013 | UNDP, Human Development Report 2013. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$2 a day.

Executive Summary

At the outset of 2013, the United Arab Emirates (UAE) has established itself as a solid federation with many positive attributes in state building and overall development. Backed by a windfall in oil revenues over the last ten years, the country has taken advantage of its excellent economic position to achieve unprecedented economic and social development – to the point that aspects of the country’s progress may be considered a model for other countries to follow. This model character comes from being able to combine governmental control and direction with the virtues of neoliberalism. In terms of its market economy status, the UAE has made vast advances since the establishment of the country, ranking today among the highly developed nations in all leading indices. In regional affairs, the UAE has been a frontrunner in terms of liberalization of trade policy and has placed a premium on macroeconomic stability backed by a well-developed financial sector and strong social safety nets that have combined to provide the country with a variety of output strengths. The country’s rulers have also placed particular emphasis on building up the education sector in order to better balance labor market needs with educational output, while, at the same time, not forgetting about the importance of sustainable development through the fostering of an environmental policy that promotes renewable technologies and a wider diversification of the economy.

Advances on the market economy front are tempered, however, by less progress on the democracy and state management front, where the past two years have witnessed a level of regression. Instead of promoting a degree of political reform that maintains momentum with societal developments, the rulers have increasingly closed access for citizens to the political arena. Measured against democratic requirements, the administrative and institutional setup of the country remains underdeveloped, while a clear separation of powers does not exist. Moreover, UAE rulers have begun to significantly curtail freedoms of assembly and expression and other civil rights. The most dramatic consequence has been a crackdown on civil society. The government has undertaken a

concerted campaign to severely curtail and even eliminate the role that societal groups may play in the country's overall political development.

Regression on the political front is all the more disappointing given the fact that no structural constraints prevent the government from pursuing a comprehensive reform process. Instead, it has become clear that, as far as prioritization of policy goals and their implementation is concerned, the core emphasis is on the consolidation of existing ruling arrangements and the prevention of power devolution through decentralization and sharing of responsibilities. This approach works for the moment as the rulers are able to use the tremendous financial resources at their disposal to buy societal compliance, but, at the same time, it is beginning to threaten the overall consensus on goals that have defined the UAE's stability up to this point. New cleavages might arise, in particular between the rulers and the country's younger generation, that could threaten that very stability. The government will find it difficult to maintain such a two-pronged approach, as the economic and political dimensions of development cannot remain mutually exclusive.

History and Characteristics of Transformation

The United Arab Emirates 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 regions of southeastern Arabia. In 2011, however, the country celebrated its 40th national day underlining that the UAE had both grown as a federal entity and become an accepted member of the international community. While the UAE was once seen as an experiment of unification, it 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 such areas as 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 has matured as a state, 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 in 1997 and joined them under one central command. There have been similar movements with respect to labor and national economic policies as well as with implementing educational standards.

The UAE's political system continues to be defined by the traditional patriarchal style of leadership that is comprised of 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; he has assumed a “natural” leadership role within the UAE. The other emirates do, however, 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 seventh-largest oil reserves (according to the 2012 BP Statistical Review of World Energy) and a small national population of slightly more than 1 million, the UAE has witnessed its GDP rise from \$46 billion in 1995 to \$392 billion in 2012, an increase of more than 800%.

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 steps forward taken by the UAE have, however, not been matched by similar developments 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. Any attempt by citizens to petition the state to allow for greater political rights has been denied and dealt with harshly. Still, it would be incorrect to characterize the UAE as an authoritarian state that actively suppresses the rights of its citizens. Nonetheless, access to the political system is based on personal relationships, and is thus highly arbitrary. The leadership seeks consensus and has taken steps to establish greater accountability and transparency within the ruling system. Given the country’s significant youth population, and globalization processes, which are loosening the state’s monopolistic hold on information, the leadership is certainly aware that the UAE will need to remain responsive to intensifying political demands from its citizenry. This is an ongoing process that has acquired further momentum in the wake of the Arab Spring. The UAE is clearly subject to growing demands for basic rights and will need to find better ways to meet such demands.

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

Transformation Status

I. Political Transformation

1 | Stateness

Question
Score

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. In late 2012, however, it was announced that a cell composed of UAE and Saudi nationals was discovered that had planned to carry out attacks inside the UAE. Furthermore, members of the al-Islah political group were arrested throughout 2012 with UAE officials claiming that group members had confessed to setting up a secret organization with an armed wing to take over power and establish an Islamic state in the country. Dubai Chief of Police Dhafi Khalfan claimed that there was an international plot among Islamist groups, including the Muslim Brotherhood, to overthrow the governments of the Gulf states. These new developments do not point to a lessening of control by the UAE security forces over their territory.

Monopoly on the
use of force
9

Among the strong majority of UAE nationals, the nation-state continues to be 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, naturalizations are few, and are granted according to arbitrary criteria.

State identity
7

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. Thus, when a group of Emirati nationals signed a petition to the government asking for greater political reform in 2011, Emirati tribes mobilized to publicly reiterate their loyalty to the state and reject any steps that they viewed as harming national unity. At the same time, tribal distinctions do translate

into a degree of discrimination: UAE nationals from individual emirates may be treated differently in areas such as employment opportunities.

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. In 2011 and 2012, there were suggestions that the government was considering stripping citizens of their citizenship for what was considered illegal political activity.

Third, as mentioned above, naturalization procedures are ill-defined. Reports suggest that there are a large number of 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.

The government is aware of the problem and has considered steps allowing naturalization of some of this population. Yet, the criteria for determining eligibility is unclear. During the 2011 – 2013 period, the UAE did announce citizenship for children born of Emirati mothers and foreign fathers. This included more than 1,000 children. No other changes were announced. 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. While there are repeated warnings from UAE authorities about the demographic imbalance, no serious effort is being made to address the problem.

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 2011 – 2013 period, high-profile cases involving acts of indecency or acts seen as undermining UAE moral traditions and Islamic culture have made headlines. Overall, all of the emirates have enacted dress code laws that draw from Islamic traditions, and security personnel monitor behavior in public areas such as shopping malls and beaches. While actions of this kind have led to negative press coverage in the international media (particularly in the British press), the UAE by and large remains a tolerant and open society.

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 with the aim of achieving balanced and

No interference of religious dogmas

6

Basic administration

9

durable development and providing prosperity to the country's citizens. The 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, the 2013 federal budget, approved in November 2012, allocated 51% of funds to social development, including education, health care, pensions and social assistance. Out of this, education received the largest share, 22% or \$3 billion. The federal budget, however, only makes up 11% of total spending, with the remaining 89% spent by the individual seven emirates.

The UAE State Audit Institution is 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.

Partial elections for the FNC were held in 2006 and 2011. These elections are restricted at two levels. For one, citizens only elect half the candidates in their emirate, with the other half appointed by the respective ruling family. Second, only designated UAE nationals are allowed to vote for candidates, although their numbers increased dramatically, from 6,689 in 2006 to 129,274 in 2011. The government announced the expansion as "underlining the commitment of the UAE and its leadership to further promote political participation." The government has further stated that it would issue an elections law to guide future electoral processes, but such a law has not materialized. Instead, elections are carried out on the basis of executive decrees, such as Federal Decree No. 2 (2011) from UAE President Shaikh Khalifa Bin Zayid that amended some of the provisions of the previous Decree No. 3 of 2006 on selecting representatives for the FNC. While the voter pool expanded to cover 12% of the total, compared to less than 1% in 2006, only 25% of those eligible

Free and fair
elections

2

actually cast their vote in 2011. Moreover, the government has moved slowly on institutional political reform, leading some activists to call for a speedier “widening of the margins of freedom.”

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 their 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, has not been an impediment to their ability to govern. The Arab revolutions that started at the outset of 2011 have impacted the UAE by drawing attention to its political system and potential reforms. In March 2011, a petition signed by 133 Emirati nationals called on the country’s leadership to introduce direct elections as well as extend substantial legislative power to the UAE’s parliament, the Federal National Council. The government reacted by further expanding the already widespread monetary allocation to citizens, in an effort to undercut societal dissatisfaction, and by clamping down on political activity to prevent further dissent from being publicized.

Scrutiny both within the UAE’s own borders and by the international community regarding its political system has not impacted the ruling families’ ability to carry out their governing functions.

While the UAE constitution explicitly recognizes the right of assembly (Article 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 nongovernmental organizations from 2007 has never been ratified or implemented. The UAE has also rejected calls from such institutions as the United Nations and independent groups such as Human Rights Watch for the establishment of a trade union to represent migrant workers. The overall treatment of migrant workers is a tremendous concern and strikes are dealt with harshly, including prison sentences followed by deportation of the strike’s leaders. Authorities have responded to criticism by investigating labor trafficking cases and instituting a wage protection system, but application of new laws remains arbitrary. A minimum wage law, for example, has never been implemented. Of more concern since the beginning of 2011 has been the crackdown on civil society; both indigenous and foreign institutions have been shut down and ordered to cease their activities. The office of the Germany-based Konrad Adenauer Foundation had its operating license cancelled in March 2012, while the U.S. RAND Corporation was also told to shut its office in December 2012. Domestically, the government dissolved the board of the UAE Jurists’

Effective power to govern

1

Association / assembly rights

3

Association in April 2011, stating that it had violated the 2008 law that forbids such entities from interfering “in politics or in matters that impair state security and its ruling regime.” Overall, the level of tolerance on independent opinion and freedom of association in the UAE has witnessed a remarkable decline in the reporting period.

The UAE constitution guarantees all citizens “freedom to hold opinions and expression of the same” as well as “freedom of communication.” However, in recent years and in particular since 2011, coinciding with the outbreak of revolutions in the Arab world, the UAE has increasingly restricted freedom of expression. The country was ranked 114 out of 179 countries in the 2013 World Press Freedom Index, two ranks worse than in the index before (2011 – 2012) and 27 ranks worse than in the 2010 edition (out of 178 countries). The current law prohibits both 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 revision of the media law was passed in March 2012 despite being widely criticized by UAE intellectuals. The revised law makes it a punishable offense “to publish news that causes harm to the national currency or causes damage to the national economy.” Also, a new law on social media was passed in November 2012 that imposes jail terms on anyone who derides the country’s rulers or state institutions on the Internet. Given that overall editorial matters fall under the realm of criminal law and that 90% of journalists are non-citizens, self-censorship in the interest of avoiding trouble remains common.

Freedom of
expression
3

3 | Rule of Law

Power in the UAE remains 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 also continues to function solely in a consultative capacity. Overall, 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. There is no clear dividing line between the public and private sectors. The ruling families profess a commitment political reform, with Minister of State for Foreign Affairs Anwar Gargash writing in August 2012 that the UAE “seeks to improve governance, to build institutions and create opportunity for its citizens.” The country’s political process is therefore based on the concept of gradualism, aiming at a homegrown solution that the government believes is most appropriate for the country. No reforms were implemented during the period of investigation that increased the separation of powers.

Separation of
powers
2

The UAE's specific federal structure allows for some (minimum) power separation on the emirates' level. Abu Dhabi and Sharjah have regional National Consultative Councils with similar tasks and responsibilities as the Federal National Council.

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. In February 2011, a special court to handle cases for an investment company headed by the son of the ruler of Dubai was set up, therefore exempting the company from the laws of the Dubai International Financial Center.

Independent
judiciary
3

Other issues in the judicial realm include the lack of clear 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, former executives of Dubai companies suspected of fraudulent activities during the emirate's financial downturn remain in jail for more than two years without being charged); 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.

Especially through its Audit Bureau, established in the 1990s, the UAE does take action against officeholders suspected of abusing their power, although its commitment to making such cases public needs to be strengthened. 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. In June 2012, media reported plans of Shaikh Khalifa bin Zayed Al Nahyan to enact the Gulf's first anticorruption law. Indeed, a draft was presented in January 2013, and the new law is expected to be enacted in summer 2013.

Prosecution of
office abuse
7

No high-profile cases were announced during the 2011 – 2013 period, but in 2009 and 2010 individuals such as 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 were charged with corrupt practices. While the law establishes penalties for corruption, the fact that public officials are not required to file financial disclosure forms remains a constraint to the law's effectiveness.

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 assemble, albeit within the limits of the law. UAE officials have repeatedly stressed their commitment to protecting those rights. Places of worship exist for a range of denominations. On the issue of civil rights, there have been increased infringements

Civil rights
5

by state authorities, particularly against UAE nationals suspected of threatening state security. Five activists were arrested, convicted and later pardoned for trying to organize protests in 2011. In December of that year, seven nationals had their citizenship revoked in a crackdown on Islamist activity. This was followed by a wider campaign throughout 2012 that saw more than 60 people arrested, most of them members of the al-Islah group, an organization with ties to the Muslim Brotherhood. In all these instances, the circumstances of their detention, as well as access to legal defense, were uncertain.

In addition to UAE nationals, the large expatriate workforce and specific ethnic groups also face levels of discrimination. Despite efforts by the government to better protect foreign workers, some migrant labor and female domestic workers continue to be subject to abuse and exploitation such as the withholding of salaries. For example, in September 2012, PriceWaterhouseCoopers announced significant shortcomings in migrant labor protection in the Saadiyat Island development project in Abu Dhabi, though it also noted improvements.

On a positive note, the Wage Protection System, introduced by the Ministry of Labor in 2009 with the objective of facilitating the transfer of salaries to workers via authorized banks and exchange companies, now benefits 3.5 million workers in more than 215,000 enterprises. In another development, in a bid to ensure better working and living conditions for domestic workers, the cabinet in 2012 approved a new draft law that aligns the UAE's rules with the International Labor Organization's Convention 189 and Recommendation 201 on Decent Work for Domestic Workers, which was ratified by the UAE in 2011. According to the draft law, domestic workers should receive a written contract of employment and end-of-service gratuity. Significantly, the bill makes it incumbent upon the employer to pay recruitment agency fees. It also guarantees payment in cash at least once a month and at least one weekly day off. The bill now awaits approval by the Federal National Council and promulgation into law by the president.

Members of the Shi'a community face discrimination, including deportation and restricted employment opportunities (for example, they are unofficially barred from some security positions). Up to 350 Lebanese Shi'ites were deported in April 2012 without due process of law.

Broadly speaking, people in the UAE are free to pursue their individual goals and interests, but civil liberties are quickly curtailed at will by the authorities if they suspect any political background or 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 or the International Covenant on Economic, Social and Cultural Rights. The country did sign the U.N. Convention against Torture in July 2012. An independent UAE Human Rights Association exists and its members have visited prisoners arrested for anti-state activities and were

present during their trial in the court. The association cannot, however, conduct its activities freely and is subject to government interference.

4 | Stability of Democratic Institutions

The performance of governmental institutions is largely seen as positive among UAE citizens, although the lack of transparency makes this difficult to assess. The proper functioning of government and the expansion of the state's administrative capacities are objectives stated repeatedly by officials and underlined in the UAE's Government Strategy for 2011 to 2013. Here, good institutional governance is listed as a core pillar. 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 continues to act as a barrier to productivity and innovation and frustrates younger UAE nationals keen on contributing to the functioning of government with their ideas and initiatives. With the government under pressure to highlight its efficiency and responsiveness, thanks in part to the regional environment and the movement toward greater accountability, further steps to improve on existing performance is likely in the period after February 2013.

Performance of
democratic
institutions
2

In his national day speech of September 2012, UAE President Shaikh Khalifa Bin Zayed Al Nahyan stated that the UAE will "proceed with the gradual approach that we have chosen to broaden the basis for popular participation in decision-making" and that the emirates will "continue our efforts to reach a viable political model that reflects our realities and plays in harmony with the nature of our own society." He further stated the government's "commitment to balanced development nationwide" and a "package of highly-focused initiatives aimed at focusing the government's efforts and harnessing the country's financial resources." While there is no concrete commitment to the building of democratic institutions, the UAE leadership maintains a high degree of legitimacy among the strong majority of the national population. It can be said that 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. Calls for greater participatory rights and for strengthening the Federal National Council legislature are regularly voiced. But the government has made it clear that it will only grant broader rights when it feels the timing is right and not due to societal pressure.

Commitment to
democratic
institutions
3

5 | Political and Social Integration

There is no change in this category for the UAE as compared to previous BTI assessments. The formation of political parties is illegal. In fact, political parties are often portrayed by governmental leaders as polarizing and threatening the unity of the state and the cohesiveness of society. Instead, the formation of societal consensus

Party system
1

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. There exists some 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 some adjustment. But the UAE does not intend these adjustments to evolve towards establishing a political party system. Minister of State for Foreign Affairs Anwar Gargash stated in August 2012: “The UAE’s end goal is not a liberal multiparty system. This model does not correspond to our culture or historical development.”

Interest groups within a system of broader civil society only play a very minimal role within the UAE. From an institutional perspective, such groups have no 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 2013, there was still no legal framework in place regarding the establishment of nongovernmental organizations. Instead, the process of allowing organizations to operate and defining their acceptable sphere of activities is characterized by arbitrariness and nontransparency. For example, the UAE Jurists Association has been subject to governmental interference while foreign organizations such as the German Konrad Adenauer Foundation or the U.S. Rand Corporation have had their activities stopped due to undefined violations of their license. The government uses the large financial resources that it has at its disposal to undercut existing social groups and has preempted the formation of new ones. Overall, the government has not only shown no interest in supporting the development of a vibrant civil society in the country, but has taken steps to actively undermine it.

There are no opinion polls known for the period February 2011 to January 2013 on the attitudes of the UAE population toward democratic norms and procedures. Past polls have indicated a largely favorable view of democratic processes within the context of promoting the reform of the country’s political institutions. In the period since 2011, and with respect to the developments in the rest of the Arab world, there has been an increasing number of Emirati youth in particular who question why the UAE should not institute political changes along democratic principles. Many of these comments are spread by social media like Twitter and Facebook. However, such advocacy is tempered by several caveats. First, there remains a large consensus that political reforms or democratic initiatives should not come at the expense of national stability. Instead, the concept of evolutionary change along gradual steps and subject to periodic review is favored. 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. Third, the violence that has shaken neighboring countries such as Tunisia, Egypt or Libya means that there is no model available in the Arab world that could strengthen calls for substantive reforms to be

Interest groups

2

Approval of
democracy

n/a

implemented within the UAE. These countries have become examples to be avoided rather than emulated, thus tempering demands for quick political changes.

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 rest of the population, up to 90% of which is composed of expatriate laborers. There is a strong debate in the country focused on strengthening UAE national identity, with the Ministry of Culture, Youth and Community Development firmly focused on that goal, particularly among the nation's youth. One of the ministry's "Young Innovations" programs seeks to provide tools to promote creativity and encourage the youth to contribute in spreading the UAE's cultural values. Overall, the government has made it a central component of its work to promote identity and social cohesion among its citizens. In April 2007, the Emirates Foundation established the "Takatof" initiative, aimed at encouraging citizens to engage in social activities.

Social capital
6

II. Economic Transformation

6 | Level of Socioeconomic Development

The United Arab Emirates recovered quickly from the global financial crisis of 2008 – 2009 to return to solid growth rates in the 2011 – 2013 period. The outlook is broadly positive with even the emirate of Dubai, which suffered the most in the financial crisis due to a collapsing real estate market, showing signs of vibrancy. Given the high average price for a barrel of oil, the UAE has further been able to accumulate budget surpluses with the 2011 budget year resulting in a \$10 billion surplus. This good financial position allows the country to continue to pursue widespread investment both in domestic infrastructure, with \$1.6 billion dollars having been pledged in 2011 for the development of the northern emirates alone. As a result of tremendous investment and a commitment to moving from a sole reliance on oil revenues to greater economic diversification, the UAE has steadily advanced in the U.N. Human Development Index, reaching rank 30 in the 2011 report, first among the Middle Eastern states. Gini coefficient data is not available for the UAE, but the percentage of the population below the poverty line is minimal, and no education inequality exists given the high primary and secondary enrollment rates. Issues of concern include the wide discrepancy in income and access to social services, particularly with respect to the fact that the UAE's population consists of about 85% foreigners, who are excluded from the social safety net. In the meantime,

Question
Score

Socioeconomic
barriers
8

female labor force participation rates have steadily increased and reached 44% in 2010, according to the World Bank.

Economic indicators		2009	2010	2011	2012
GDP	\$ M	270334.9	287421.9	348595.0	-
GDP growth	%	-1.6	-1.8	3.9	4.4
Inflation (CPI)	%	1.6	0.9	0.9	-
Unemployment	%	-	-	-	-
Foreign direct investment	% of GDP	1.5	1.9	2.2	-
Export growth	%	-7.0	3.0	19.7	10.0
Import growth	%	-15.7	2.1	18.8	16.6
Current account balance	\$ M	-	-	-	-
Public debt	% of GDP	23.4	22.3	17.8	17.6
External debt	\$ M	-	-	-	-
Total debt service	\$ M	-	-	-	-
Cash surplus or deficit	% of GDP	-	-	-	-
Tax revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	9.0	8.5	7.3	6.9
Public expnd. on edu.	% of GDP	-	-	-	-
Public expnd. on health	% of GDP	3.3	2.7	2.5	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	5.1	6.1	5.5	-

Sources: The World Bank, World Development Indicators 2013 | International Monetary Fund (IMF), World Economic Outlook 2013 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2013.

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 nontransparency remain in the legal framework, inhibiting open business practices. For example, exclusive agency

Market-based
competition

7

distribution agreements remain in place, ensuring that traditional merchant families have virtual monopolies over certain economic sectors. In terms of foreign investment, all investment projects must have 51% domestic capital. 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. Many companies are, in fact, owned by the government (Dubai Ports World, the airline Emirates, etc.). As such, the ruling families are actively engaged in economic activity. It remains the case overall that good local contacts and even sponsorship open doors and facilitate business opportunities. The UAE advanced 14 places in the World Bank's 2012 Doing Business report, compared with the 2010 index, to move to rank 26.

The regulation of monopolies and oligopolies in the UAE remains limited, despite recommendations by the WTO that monopolistic practices be curtailed. Leading merchant families maintain a substantial amount of control over key economic activities and sectors. The UAE has followed the advice of the WTO's Trade Policy Board report from 2012 that "the economy would benefit from the adoption of a competition law" and enacted one at the end of 2012. The law prohibits price fixing, collusion tendering or dividing the market by competitors geographically, and it includes sanctions for companies found engaging in anticompetitive behavior. At the same time, the law exempts sectors such as financial services, oil and gas, transport, pharmaceuticals, electricity, and water. It further exempts entities controlled by the UAE or emirate-level governments. As such, the law's effectiveness and its overall application are unclear. 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. Also left unimplemented: suggestions that the UAE's sole agency law, under which certain import and distribution activities are exclusively reserved for so-called UAE agents, be amended.

Anti-monopoly
policy
6

The UAE has been an active member of the World Trade Organization since joining it in 1996. The Trade Policy Review Report of 2012 states that the UAE "has a liberal trade regime" with only a few non-tariff barriers. Since 2011, the UAE has continued to actively diversify its export base and expand international trade partners including markets in Latin America and Africa. The Trade Review Report further noted that the UAE is an active member of the Doha Development Agenda, including "presenting proposals to eliminate tariffs and non-tariff barriers (NTBs) on raw materials and submitting an initial offer in trade in services." Access to the UAE market is based on the Gulf Cooperation Council (GCC) Common External Tariff, which has been set at 5%. 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 that 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, and trade restrictions are usually applied on safety,

Liberalization of
foreign trade
9

religious or moral grounds. The WTO has recommended that the country establish an independent body to combat harmful practices in international trade (dumping, subsidies, trade barriers, etc.), especially within the petrochemical industry, but this has not been followed up on. 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 still not been finalized, despite years of talks and negotiations.

The UAE's banking system and capital markets are well developed, but the financial crisis of 2008 and 2009 exposed a clear lack of supervision and a failure to implement disclosure rules. Numerous large international and local banks operate in the emirates, including Deutsche Bank, HSBC, UBS, BNP Paribas, Emirates NBD and the National Bank of Abu Dhabi. In total, there are 23 national banks, six GCC banks and 22 foreign banks operating in the country as of January 2013. In addition, there are 25 finance companies, 23 investment companies and 120 exchange houses. The rating agency Moody's gave the UAE banking sector a negative outlook at the end of 2012, citing asset quality challenges and low provision coverage levels. It stated that "transparency, sizeable related-party exposures and high loan and deposit concentrations will continue to leave UAE banks vulnerable to name-specific credit risks in the near term despite recent guidelines published by the Central Bank of the UAE." At the same time, UAE banks returned to profitability in 2012, increasing their income by 2.2% year-on-year. The chairman of Dubai's financial free zone Dubai International Finance Centre (DIFC) stated that the direction of the banking sector was "to grow, not shrink," and that UAE banks had largely cleaned up their balance sheets and implemented more conservative lending practices. In November 2012, it was announced that the central bank and ministry of finance were working on a new framework for financial transactions as well as laws concerning the banking sector. The Securities and Commodities Authority, UAE's financial supervision institution, established in 2000, signed a memorandum of understanding in December 2012 with the International Organization of Securities Commissions (IOSCO) concerning improved information exchange on financial security measurements – a requirement to keep IOSCO membership.

Banking system

7

8 | Currency and Price Stability

Following several years of stark inflationary increases from 2006 to 2008, the global financial crisis, which particularly affected Dubai, and a more conservative monetary policy since 2009, together have kept the inflation rate at a manageable level. The real estate market has been a key indicator. The collapse of the market in 2008 caused inflation to fall to 1.6%, from a high of 12.3% a year before. With real estate prices rising again in 2012 amid an improving economy, the consumer price index (CPI) is

Anti-inflation /
forex policy

8

expected to rise slightly, to nearly 3.0%, in 2013. There are concerns that inflation will pick up, particularly in light of higher global commodity prices and the government's determination to provide financial incentives like salary raises, debt forgiveness, and higher social service provisions in an effort to forestall political protests. But inflation is not expected to reach the levels it did between 2006 and 2008. The government does closely monitor developments and has intervened to set price limits for certain staple food and commodity items. The National Bureau of Statistics conducted a household and expenditure survey in 2012 that, when released in 2013, could cause the government to announce steps to limit inflationary pressures. 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. Earlier plans for a currency union with the other GCC member states were put forward, but the UAE opted out in 2009 over a dispute with Saudi Arabia concerning the seat of the proposed currency zone's central banking headquarters.

The 2011 – 2013 Federal Government Strategy places a key emphasis on efficient financial management, and the UAE maintains a premium on ensuring its macroeconomic stability. Such stability is seen as a key reason why the monarchies of the Gulf region have not faced the same pressures as Egypt, Tunisia and Syria. The country's role as a leading oil producer, in combination with an overall high oil price environment, has allowed the UAE to undertake tremendous economic development. Yet, despite increased spending, the fact that the UAE has enjoyed several years of solid budget surpluses means that the country remains in a solid financial position. The federal surplus for fiscal year 2012 amounted to nearly \$10 billion. At the same time, there have also been lessons learned from the vast expansionary strategy of the years prior to 2008, with the result that both at the federal and at the individual emirate level, there has been a step back from massive projects. In late 2011, Abu Dhabi announced a scaling back of ambitious projects, such as the Saddiyat Development project, as part of a strategy to conserve cash. Instead, there was an effort put in place that emphasized reorganization, restructuring and consolidation to prevent another property bubble. The UAE also is continuing its emphasis on widespread economic diversification in order to reduce reliance on volatile oil revenues. The non-oil contribution to the country's GDP has steadily risen over the years and reached 71% in 2011, the largest percentage among the Arab Gulf oil producers.

9 | Private Property

Property rights and the regulation of property acquisition, benefits, use and sale continue to be only nominally defined in formal law and there are still several

Macrostability
10

Property rights
6

shortcomings to overcome. This includes the fact that 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. Certain regulatory areas are considered problematic, including 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 sound dispute resolution mechanism. Enforcement of existing laws is spotty. In addition, property laws vary from emirate to emirates. A new Real Estate Investor Protection Law, which would protect investors vis-à-vis developers in cases where there is a failure to complete a project or hand over a property within a stipulated timeframe, is expected to be enacted in early 2013. The UAE central bank has also stepped in to issue a new cap on mortgage lending in an effort to curb speculation in the real estate market. The fact that the emirate of Dubai continues to struggle with resolving numerous legal cases stemming from the property market collapse in 2008 and 2009 means that the legal environment requires further reform with respect to the acquisition and protection of property for non-nationals.

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 minimal 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 count a ruling family 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 power concentrated within certain business sectors. The 2011 – 2013 federal government strategy lists SME development, improving the business environment, and promoting innovation and research and development as key objectives. A functioning market economy is seen as key to ensuring the stability of the country and preventing political discontent.

Private enterprise
8

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 2012 federal budget included an allocation of almost 50% for social services totaling \$5.5 billion out of a budget of \$12 billion, while in the 2013 budget the allocation was increased to 51%. These social services are not available to non-native Emiratis. In light of increased protests against Middle East governments and rulers, the UAE responded

Social safety nets
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by vastly increasing social benefits to its national population. The salaries of federal government employees in sectors such as education, health, defense and the judiciary were increased by up to 100%, minimum pensions for retirees were increased from 6,000 to 10,000 dirhams a month (ca. \$1,600 to \$2,700), and two debt forgiveness orders were put in place whereby Emiratis owing personal debts of up to \$1.4 million would see those debts wiped out. In the emirate of Dubai, Law No. 7 of 2012 resulted in the establishment of a Social Solidarity Fund to provide better social welfare for eligible Emirati families, while in 2012 the Sharjah ruler raised by 45% the social assistance funds granted by the Department of Social Services. Still, members of the Federal National Council argued that the UAE social security system would need to be broadened in line with internationally recognized standards in order to provide for basic income and care in cases of unemployment, illness or injury, old age or retirement, and loss of the family breadwinner, among other eventualities.

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 over 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 43.0%. The 2012 World Economic Forum’s Global Gender Gap Index saw the UAE fall slightly to 107 out of 135 countries, citing low figures in economic participation and opportunity, although it gave the country a high ranking in wage equality. The Gender Empowerment Measure Index ranks the UAE 29 out of 109 countries. A key improvement announced in December 2011 makes children born to Emirati women and foreign fathers eligible for UAE citizenship.

Equal opportunity

7

11 | Economic Performance

The UAE economy is strong, and its outlook remains positive. Buoyed by high oil prices, the country has been able to once again achieve sustained economic growth rates following the dip of the years 2008 and 2009. Overall, the country overcame the global financial crisis without significant damage to its 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 sixth highest level of per capita GDP (behind Qatar, Luxembourg, Singapore, Norway and Brunei); and it has seen its GDP grow by more than 100% since 2006 alone, from \$175 billion to nearly \$400 billion in 2012. Latest annual GDP

Output strength

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growth rates were 4.2% (2011) and 3.0% (2012), with expected 3.7% for 2013. The Abu Dhabi Investment Authority is considered one of the largest sovereign wealth funds in the world, with assets totaling \$450 billion, and the UAE has accumulated a series of budget surpluses that have allowed the country wide-ranging economic development with a particular focus on infrastructure, health care and educational services. The UAE is currently the second-largest Arab economy after Saudi Arabia, and has massive investments abroad, such as in Western blue chip companies. 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 2012.

12 | Sustainability

Environmental issues are very much placed at the forefront by UAE policymakers, but the commitment to sustainable environmental policy remains secondary to considerations of economic development and political factors. According to the World Wildlife Fund's 2012 Living Planet Report, the UAE still has one of the world's biggest per capita ecological footprints, or the amount of land and water needed to produce the resources a population consumes, and to absorb its CO₂ emissions. Only the fellow Gulf states of Qatar (at 11.68) and Kuwait (at 9.72) are ahead of the UAE's 8.44 ranking. In the 2012 Environmental Performance Index, the UAE was classified as a moderate performer at rank 70 out of 132 countries, a significant improvement over 2010, when it was ranked 152 out of 163 countries; the reduction was mainly due to reduced fine-particle air pollution. One key factor affecting the ecological situation has been the rapid growth in the country's population, which reached 8 million in 2012 compared to just 180,000 in 1968. This has spurred fast-rising demand for electricity, infrastructure, water and sewage treatment facilities that is difficult to keep pace with. 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. In this context, there is a clear correlation between economic development and its environmental impact, but authorities have been slow to respond. One area where the government has focused its attention is the development and importance of renewable energy. Abu Dhabi hosts the U.N. International Renewable Energy Agency (IRENA). Plans to establish the first carbon-neutral city, called the Masdar Project, have advanced, though implementation is behind schedule. Promoting a sustainable environment is a key objective of the federal government strategy 2011 – 2013, which includes mandates to respond effectively to climate change and environmental hazards, conserve natural resources and reduce pollution. In January 2013, UAE Minister of Environment and Water Rashid Ahmed Mohammed Bin Fahad announced plans to develop a National Strategy on Green Growth at the opening of the World Future Energy Summit, which has taken place annually in Abu Dhabi since 2008. The National Strategy seeks to

Environmental
policy
5

identify low-carbon, green growth opportunities in several sectors of the UAE economy including oil and gas, industry and transport. Furthermore, the strategy intends to set out specific targets for implementation in addition to institutional requirements. A more controversial step is the decision to build civilian nuclear power plants by 2017 in order to meet rising electricity demand.

The UAE offers all citizens free comprehensive education from kindergarten to university. The UAE place a high premium on improving the educational sector, seeing it as the main medium to making the UAE national population more competitive and reducing persistent national unemployment. As such, budgetary allocation for the educational sector has seen significant increases in recent years, including a 22% allocation in the 2013 deferral budget to \$2.7 billion. Establishing a first-rate education system is the second strategic priority listed in the 2011 – 2013 federal government strategy, which underscores the attention being given to the development of future generations. In addition to focusing on building up the capacities of national institutions, such as the Emirates University in Al Ain and the Higher Colleges of Technology, the UAE has also been able to attract major international education centers like New York University, the Sorbonne and INSEAD Business School to open campuses in the country. Education reforms at the primary and secondary level are being overseen by bodies such as the Abu Dhabi Education Council and Dubai's Knowledge and Human Development Authority, whose mission is to ensure that accreditation standards are maintained and teacher qualification standards improved. What weaknesses still exist are mostly due to lack of enforcement rather than insufficient resources, and many UAE secondary school graduates remain deficient in basic skills such as languages, math and sciences. The result is that higher-education institutions are forced to spend a significant amount of their budget on so-called bridge programs. Other issues include the establishment of such organizations as the Emirates Foundation and the National Research Council. The preference for English-language instruction over Arabic is having a detrimental impact on national identity.

Education policy /
R&D
8

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, individual emirates' economic independence leads to a lack of coordination, and thus some constraints in terms of implementing a structured overall policy. The top-down decision-making structure inhibits powers of delegation, and limits the capacity of qualified UAE nationals to advance their careers. It has also prevented functional institutions from being created across the board, given that decision-making power remains vested in a few officials at the top. 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 in an unstable region. In that light, the UAE is limited by its ability to exert itself within a regional context, although it has been pursuing a more independent foreign policy since 2005 with the intent to broaden its allies and minimize dependency on a major power like the U.S.

Structural
constraints

3

Civil society in the UAE is weak and the government has actively intervened since 2011 to further restrict its development. The country lacks a tradition of widespread civic engagement, and the number of institutions that can be considered part of an active civil society has remained 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 organizations. 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 a constructive dialogue between the government and the public. Such proposals have started to infringe on the political domain, however, a development that is seen as negative by governmental authorities. In 2012, an active campaign was undertaken against the al-Islah movement, which the government saw as trying to undermine state authority and seeking to establish an Islamist government in the UAE. The move against al-Islah resulted in numerous arrests and trials of its members, who professed to seek only

Civil society
traditions

9

reforms within the system. There was also a move against foreign organizations, including the National Democratic Institute, from the United States, and the German Konrad Adenauer Foundation. Both were asked to cease their activities and leave the country due to alleged violations of their licensing provisions. With the Arab Spring having toppled governments in Egypt, Tunisia, Libya and Yemen, and affected even the Arab Gulf States, the UAE government has decided to actively undermine any movement that infringes on its political authority. This has been to the detriment of civil society in the country.

The UAE did not experience any significant violent incidents based on social, ethnic or religious differences during the review period. For the foreseeable future, the potential for such violence also remains low. While during previous reporting periods, violence occurred within or between communities of the large expatriate labor force, for example, between the Indian and the Pakistani communities, no such incidents were reported between 2011 and February 2013. The government takes a very strict and harsh position against such violence; jail terms may be followed by deportation. Other sources of violence are linked to organized crime networks or the trade in illegal alcohol. Authorities such as Dubai Chief of Police Dhahi Khalfan Tamim have argued that the country's strong reliance on foreign labor represents an issue of national security. Despite such warnings, no effective policy steps have been taken to lessen that reliance. Instead, the national population continues to constitute a minority in the country. Some projections released by national authorities indicate that, given current trends, Emiratis will form only 2% of the total population by the year 2025. In 2012, the government announced that members of the al-Islah group had formed a military wing that aimed to overthrow the government and establish an Islamic government in the country. More than 70 members of the group were arrested, and a trial is set for 2013.

Conflict intensity

2

II. Management Performance

14 | Steering Capability

There exists a regular strategic planning process, including regular review sessions and mandatory adjustment periods, within all levels of government in the UAE. Individual emirates have drawn up strategic documents including the Abu Dhabi Plan 2030, Dubai's Strategy 2015 and the UAE Government Strategy 2011 – 2013. There are plans in existence at the local government level and for individual departments as well. The Abu Dhabi government was awarded the Palladium Balanced Scorecard Hall of Fame for Executing Strategy in October 2010 for its wide-ranging strategic plan affecting all its departments. There is an Abu Dhabi Environment Vision

Question
Score

Prioritization

5

document 2030, a January 2011 development strategy for the southern region of the emirate Ras Al-Khaimah, and there are strategic plans for transport planning and tourism development spanning across all seven emirates. All of these plans are accessible through the Internet. The UAE government strategy 2011 – 2013 consists of seven general principles, seven strategic priorities, and seven strategic enablers. The priorities include a cohesive society and preserved identity, a first-rate education system, world-class healthcare, a competitive knowledge-based economy, a fair judiciary, sustainable environment and infrastructure, and a strong global standing.

Due to the availability of ample financial resources as well as the lack of domestic constraints, the government has no restrictions in place that would limit the implementation of its strategic plans. In order to follow up on policy prerogatives, both federal and local administrative bodies engage in regular periods of review, although it appears that such an exercise is less to evaluate progress achieved so far than to lay out new targets to meet. The government conveys a broad commitment to seeing its strategies implemented in order to bring about structural and qualitative changes in the overall functioning of the government. What is missing is the readiness to see things through if policy goals result in unintended consequences, specifically in terms of potential political costs. For example, although the government has focused efforts on establishing a first-class education system, it has failed to decentralize decision-making processes and deepen public participation by involving its educated citizens in such processes. There still exist limits to what the government is willing to accept. Equally, policy goals are pursued with an emphasis on short-term accomplishments rather than the more tedious task of long-term institutionalization and widespread administrative reform. As a result, there is little reform that could be sustained if the leadership has a change of heart.

Implementation
5

The UAE leaders profess a commitment to innovation and making their country a leader in terms of economic and social development. The question is whether this push comes from a genuine desire to empower citizens or whether the goal is to shore up power. While the UAE has undergone tremendous development, it is not clear that there has been a change in the basic belief that the ruling families are uniquely qualified to rule. The government has taken full advantage of its favorable economic position to push forward with rapid expansion, despite often being advised to scale back ambitions and take fewer risks. A related question is whether continued innovation has more to do with the good financial position of the country or with the institutionalized mechanisms being developed over time. The still strong dependence on outside expertise, as well as the nation's limited capacity, suggest the former. Moreover, while there is clearly a determination to implement best practices, there is also a reliance on imported ideas and mechanisms that do not always correspond to the actual needs and traditions of the local society. Overall, this dichotomy has not been resolved.

Policy learning
5

15 | Resource Efficiency

In general, the UAE government makes efficient use of 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. State debt is negligible. However, the overall budget process lacks transparency, not least because oil revenues are not included in the federal budget calculations. Also, given the large financial resources at the government's disposal, there is likely to be a degree of wasteful spending and duplication of services. A more serious obstacle persists on the human resources front, where a fundamental gap exists between the available national human resources and the ability to maintain an efficient state bureaucracy. The system lacks sufficient incentives, and recruitment decisions are to a degree still based on tribal affiliations or personal relations rather than merit. Upward mobility is also based on loyalty to the state and the ruling family. The government has continued to push forward with widespread educational opportunities in order to push local education output to match labor market needs. At the same time, this is a long-term process that will only gradually be reflected in the context of resource efficiency. Also, the state's institutional make-up is not sufficiently developed to incorporate a large cadre of qualified individuals determined to increase the responsiveness and efficiency of the system as a whole.

Efficient use of assets

6

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. For example, temporary power struggles occurred within the ruling family of Ras al-Khaymah after the death on 27 October 2010 of Saqr bin Mohammad Al Qassim, who had ruled the Emirate since 1948. Crown Prince Saud bin Saqr quickly assured his ascent to the throne.

Policy coordination

9

The interests of the seven individual emirates are represented in a well-balanced relation within the Supreme Federal Council (where the rulers gather) and the Federal National Council (the semi-elected parliament). In reaction to the Arab Spring uprisings, both institutions, in March 2011, quickly agreed to channel massive financial streams of ca. \$1.5 billion into the relatively disadvantaged northern Emirates Sharjah, Ras al-Khaymah, Ajman, Fujayrah, and Umm al-Qaywayn.

The UAE government is publicly committed to fighting corruption and, over the years, has put various anticorruption mechanisms in place. This includes ratifying the United Nations Convention against Corruption, joining the Arab Anti-Corruption and

Anti-corruption policy

7

Integrity Network, and establishing the State Audit Institution (SAI) as a federal audit authority overseeing the use of public funds. In June 2012, UAE President Shaikh Khalifa Bin Zayid asked the SAI to prepare a draft for the country's first anticorruption law. Though expected for summer 2013, it remains unclear when the actual law will be enacted. In February 2012, the SAI stated that it had referred ten graft cases to public prosecution, indicating that it had uncovered instances of misappropriation of public funds, forgery, bribery and fraud in the millions of dirhams. The government does not conduct 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. The commitment also appears to lessen when potential cases involve members of the ruling family.

16 | Consensus-Building

Despite the turmoil that has impacted the entire Middle East since the beginning of 2011, there still exists a broad consensus between the UAE population and its government that the country is on the right path. If anything, there is discontent about the lack of political reforms being implemented, but this discontent has not grown to significant proportions or caused a significant rift within society. The majority of the population sees the further development of the market economy as appropriate for the country and feels that the ruling families have, by and large, safeguarded the security of the UAE as well as created the conditions under which the country has prospered. Even though the UAE political system can be characterized as authoritarian, the need for consensus within the ruling family and with the country's major tribes is seen as essential for the stability of the system. In this context, the government does incorporate the views of important tribal forces, merchant families and other groups into its policy considerations, even if it does not have to do so.

Consensus on goals
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The tools available for pro-reform advocates in the UAE to overcome antidemocratic tendencies are limited as the ruling families remain the unquestioned leaders of society. The year 2012 underlined that the rulers will not tolerate any questioning of their authority and that they will deal with any challenges immediately and harshly. Over the course of 2011 and 2012, more than 70 individuals were taken into custody, with the majority having to face trial on charges of forming illegal groups, compromising state security and having ties to foreign organizations. The rulers have created a widespread security apparatus that includes, apparently, mercenary forces under the leadership of the former head of the Blackwater Security Group (the same group that provided security personnel for the U.S. Army in Iraq) and a GCC-wide security agreement that commits every member state to move against any group of individuals suspected of undermining state security. While the country has faced

Anti-democratic
actors
1

some condemnation for its actions against internal dissent, this has neither lessened the impact nor caused the government to pursue a more compromising course.

With its monopoly over power and the use of force, the UAE's government is capable of containing potential cleavages within the system. Its success so far is demonstrated by a widespread societal consensus that continues to accord legitimacy to the ruling system. One main cleavage that continues to exist is between the minority population of Emirati nationals and the majority expatriate workforce, 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 rarely progress to open conflict. A second and potentially more important cleavage is between the current rulers and the growing generation of young Emiratis who are beginning to question the country's ruling arrangement and social contract. Discussions with Emirati youth reveal impatience and frustration with the political system, especially when it comes to access to and input into the decision-making structures. As this generation witnesses the changes occurring in other Middle Eastern states where citizens are demonstrating for greater transparency and governmental accountability, they are raising similar questions with respect to their own authorities. The potential of political movements taking greater root in countries such as Egypt or in other Arab Gulf states could intensify the debate within the UAE and the cleavages along with them.

Cleavage /
conflict
management
6

The UAE government does not, for the most part, incorporate the views of civil society organizations into the political debate. Such actors are not included in the agenda-setting, policy-formulation or decision-making processes. The UAE leadership does encourage citizens to engage with their community and contribute on an economic and social level to the development of the country. Much emphasis is given to the notion of a cohesive society and the promotion of a national identity. At the same time, the government has made it clear that it considers the political realm the prerogative of the ruling family and that ordinary citizens do not have access to higher levels of decision-making. In this regard, the UAE undertook a concerted campaign to clamp down on civil society activity during the years 2011 and 2012, including shutting down organizations, arresting people for acts of civil disobedience, and interfering in the internal work of organizations such as the UAE Jurists' Association. Compared to previous periods under examination, the UAE has thus made a step backward when it comes to civil society participation.

Civil society
participation
2

There are no major historical injustices requiring the government to 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
n/a

reconciliation. There is a broad commitment to the federation as a whole, and any remaining historical disputes are handled within this framework.

17 | International Cooperation

The UAE is not dependent on external 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. Domestically, given its lack of sufficient national know-how and expertise, the country does make extensive use of external technical expertise, for example, with organizations such as the German Agency for International Cooperation (Deutsche Gesellschaft für Internationale Zusammenarbeit, GIZ), the United States Agency for International Development (USAID) or the Department for International Development (DFID). On 21 March 2012, the UAE and U.K. governments signed a memorandum of understanding on coordinating their development and humanitarian assistance activities in Afghanistan, Pakistan and Yemen; on 14 December 2012 they signed a separate agreement on Syria. While the UAE certainly uses the support of international partners to help implement its overall development strategy, it draws a clear line on the issue of political reform, which it regards as blatant interference in its internal affairs. On the regional and international front, the UAE is an active contributor through such organizations as the UAE Crescent Authority, the Abu Dhabi Fund for Development, and Dubai Cares.

Effective use of support

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Despite the temporary crisis shock in Dubai, the UAE enjoys a high degree of credibility from the international community when it comes to its promotion of the market economy model, but it has also come under increased criticism in terms of its commitment to political reforms. In its World Report 2013, Human Rights Watch stated that the human rights situation had "deteriorated rapidly" during 2012, and it criticized the government for what it labeled a "repressive campaign that has targeted Islamists, liberals, activists and scholars alike." Equally, the European Parliament passed a resolution on the human rights issue in the UAE and expressed its "great concern about assaults, repression and intimidation against human rights defenders, political activists and civil society actors within the United Arab Emirates who peacefully exercise their basic rights to freedom of expression, opinion, and assembly." It was the first time that the EU Parliament had issued such a resolution, and it called on UAE authorities to "halt the ongoing crackdown immediately." One of the UAE's most important allies, the United States, has refrained from such public statements, preferring to take up the issue through more private diplomatic channels. Meanwhile, the UAE presented its human rights-related developments before the Human Rights Council's Working Group of the Universal Periodic Review in Geneva in January 2013. In 2012, the UAE facilitated a visit of the United Nations Special Rapporteur on trafficking in persons, especially women and children. While

Credibility

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the UAE is no longer immune from broader criticism when it comes to the political/human rights front, the country's leadership does feel that some of the criticisms are unwarranted.

The UAE is an integral member of the Gulf Cooperation Council and supports a process of further integration at the regional level. At the 2012 GCC summit, the UAE agreed with the other member states to implement a wide-ranging security agreement that seeks closer coordination of internal security and surveillance, greater sharing of information across national boundaries, and unifying policies and plans for joint action. The UAE also participated in the 2011 GCC force sent to Bahrain during that country's political troubles. A proposal put forward by Saudi King Abdullah at the GCC summit to strengthen GCC efforts and transform the cooperation to a union is under consideration. Overall, the UAE, as the only successful example of regional integration (seven independent emirates coming together in one nation), is a staunch supporter of regional cooperation, conflict resolution and peace-building. At the same time, the UAE has shown its readiness to defend its national interests even when these come at the expense of tension with regional allies. There are repeated tensions with Saudi Arabia over lingering border issues as well as mutual suspicions about each other's motives. On a broader regional level, there is a great level of distrust when it comes to Iran in particular and a fear that the large Iranian expatriate community inside the country might be used as a fifth column. In April 2012, UAE Foreign Minister Shaikh Abdullah described Iran's policy as dangerous. To counter regional tensions, the UAE maintains close relations with key Western countries as well as the wider international community.

Regional
cooperation
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Strategic Outlook

The UAE continues to make strides in its development, especially as far as its market economy is concerned. 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. In this regard, the UAE is often upheld as an example for the rest of the Middle East to follow. Within the Gulf region, it appears to have no serious competitor given that Bahrain is hampered by a protracted political conflict, Kuwait has experienced political turmoil with its parliament, Saudi Arabia has numerous social restrictions in place, and Oman does not have the same financial resources at its disposal. Only Qatar could be seen as having made similar progress, although on a smaller scale.

The UAE's success in bringing seven disparate emirates together in a workable federal experiment is viewed as a model for the rest of the Arab world. It served as a precursor to the establishment of the Gulf Cooperation Council and is generally praised in the region for its ability to adjust to changing circumstances.

Yet the UAE is not without its critics. While the country has undoubtedly made progress in terms of implementing a market economy model, it has not accompanied such accomplishments with a similar commitment to democracy. During the years 2011 and 2012, the UAE regressed on the political front by clamping down on civil society and imposing new restrictions on freedom of assembly and expression. This raises questions as far as the near-term outlook of the country is concerned.

While the rulers of the UAE concentrated on consolidating their market-oriented model, they put forward no comparable political effort. This worked while the rest of the Middle East remained politically stagnant, but with the vast changes taking place in the region since the beginning of 2011, the discourse on political development has shifted. Instead of just focusing on opening markets, the debate is also about dignity, accountability and greater transparency. In this context, even the oil-rich Arab Gulf states can no longer insulate themselves from such demands. The political events in the UAE and the Gulf also suggest that open societies require expanding access to resources and opportunities, not just conducting elections.

The previous BTI report on the UAE highlighted, in its strategic outlook, the key challenge of "enacting a more progressive political reform course able to accommodate rising demands within the governing system." This need is now becoming more urgent than ever. While the legitimacy of the governing system in the country remains intact, UAE citizens are voicing demands that the government cannot ignore for long. To avoid a slow-motion decline toward instability, the government should follow the recommendations already offered in the BTI 2010 and BTI 2012 country assessments. These include:

- Placing less emphasis on the promotion of a materialistic and consumer-oriented society, and concentrating instead on sustainable policies based on a broad concept of human security;
- Expanding the power of the country's legislative institution, the Federal National Council, to move 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 establish 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 nongovernmental organizations, thus fostering the development of civil society.

At this stage, the ruling families have the ability and the resources to commit themselves to those broad outlines. Unfortunately, the reporting period has not inspired confidence that the government will pursue such a path. Given that the use of economic incentives to quiet political unrest has been the modus operandi of most rentier economies, together with the fact that high oil prices are providing authorities continued leverage to pursue patronage policies, it is unlikely that the existing patron-client relationship in the UAE will change significantly in the foreseeable future. At the same time, however, the impact of the Arab Spring is likely to add to the internal dynamics that have already been influencing reforms. Growing population and unemployment – which threaten to combine potently with increasing educational levels – are likely to serve as catalysts for the governments to look more positively on political reform. To what extent the government will pursue such a path – given its caution in order to maintain a balance that will safeguard the gains of the last four decades – remains to be seen. To be sure, development and change are likely to be a mixed bag of tradition and modernity, one that is compatible with local identity. This effectively means continuity amid change.