CRISES in the CONTEMPORARY PERSIAN GULF

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The most important step toward solving the GCC's internal troubles – and also toward deterring its external threats – lies in transforming it into a politically unified federal state. This federal state could construct a wide framework for free labor and capital movements, which would go far toward reducing the influx of foreign labor and balance the population in countries like UAE by allowing the national surplus labor in countries like Bahrain to seek jobs held by foreign labor.

Second, Yemen should have a place in the GCC, either by becoming a member or associating in some other arrangement; for, as a major state in the vicinity, it should not be left isolated. Such isolation encourages Yemen to seek arrangements outside the Gulf region, and these could threaten GCC security. Yemen's membership in the Iraqi-sponsored 'Arab Co-operation Council' prior to the Kuwait War shows what mischief this can cause. Integration would also bring the Yemeni labor force to the GCC states, where it is most needed.

Third, the GCC states should work out a collective agreement that accepts the current boundaries. Without such an agreement, the GCC could implode from internal differences.

NOTES

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3. State of the Union address, 23 January 1980.
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6. F. Gregory Gause III, 'The Political Economy of National Security in the GCC States,' paper presented at the Gulf-2000 conference, Emirates Center for Strategic Studies and Research, Abu Dhabi, 27–29 March 1995, p. 1.
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What Wealth Cannot Buy: UAE Security at the Turn of the Twenty-first Century

SEAN FOLEY

At the beginning of the twenty-first century, the United Arab Emirates (UAE) enjoys a particularly favorable strategic position, especially when compared to the rest of the southern Gulf states. The federation faces no immediate threat of invasion, nor is it threatened by debt, organized domestic opposition, or economic collapse. The Emirates' rivalries have largely abated, and a civil society on the federal level is beginning to appear. Abu Dhabi maintains relations with all regional and world powers. In addition, the United States insures the federation's security.

Yet the UAE must grapple with the same challenges that have afflicted its neighbors: rapid population growth, lack of economic diversification, volatile oil prices, low water supplies, privatization and dependence on foreign labor. Moreover, the UAE's only president – the charismatic Abu Dhabi Ruler Shaykh Zayid – is in poor health and lacks a strong successor. Indeed, many analysts question how long Shaykh Zayid's heir apparent, Shaykh Khalifa, will be able to govern after Shaykh Zayid's death.

In addition, the UAE's military forces – either on their own or in combination with those of the Gulf Co-operation Council (GCC) – cannot deter the federation's principal security threat, Iran. The federation claims that Iran illegally occupies Abu Musa and the Greater and Lesser Tunbs, but Tehran has refused to relinquish control over these three islands. UAE officials believe that the best way to restrain Iranian expansion in the

southern Gulf is to integrate a unified and militarily strong Iraq into the Gulf's balance of power. There are, however, two problems with this strategy.

First, the United States, which currently dominates the Gulf's military balance, believes that the current regime in Baghdad threatens regional security, and is opposed to any plan that would reintegrate Iraq into an international security structure. Second, Riyadh, the UAE's most important regional ally, has sought to improve the relationship of Saudi Arabia and the other states of the GCC with Iran since the election of Iranian President Muhammad Khatami in 1997. In Riyadh's eyes, Iran is critical to the security and stability of the GCC as well as to the ability of the Organization of Petroleum Exporting Countries (OPEC) to control world oil markets.

Although the UAE is not currently threatened by an invasion or economic collapse, the federation will have to reform its society and develop collective and integrated security arrangements with its allies to maintain its security in the future. If the federation does not address its domestic and security challenges soon, its problems will become as critical as those of its neighbors.

THE UNITED ARAB EMIRATES AND ITS STRATEGIC IMPORTANCE

Unlike the rest of the southern Gulf states, the UAE is a federation of seven tribally-based emirates that control the southeastern portion of the Arabian peninsula south of Bahrain and Qatar. The seven states or 'Emirates' are: Abu Dhabi; Dubai; Sharjah; Ras al Khaimah; Fujairah; Umm al Qawain; and Ajman.

The federation covers 90,599 square kilometers and is bordered on the north by the Persian Gulf and Iran, on the east by Oman, and on the south and west by Saudi Arabia. The UAE also separates Oman from the Musandam peninsula and extends 90 kilometers along the Gulf of Oman, an area known as the al Batinah coast. Most of the federation is arid desert and salt flats,

but there are mountains in the north-east that rise to 1,527 m. Rainfall is very low and there are few fertile areas except in the north and among the oases.[1]

The UAE is strategically important because it produces ten percent of the world's oil supply; it also possesses the third largest oil and the fourth largest natural gas reserves in the world.[2] Over the past 30 years, the UAE has used these resources and strategic position to become one of the wealthiest states in the world. It was a founding member of the GCC and has supported Western security policies in the Persian Gulf. The UAE provided $6.572 billion in assistance to the United States during the Gulf War, and permits the United States to use the federation's air bases and ports, which are the only harbors in the Persian Gulf deep enough to berth an aircraft carrier. In the long run, the stability of the UAE is critical to the free flow of shipping through the Strait of Hormuz and to the defense of the GCC from Iran and Iraq.

History

Despite its now critical role in regional stability, the UAE was formed in 1971 and only adopted a permanent constitution in 1996. For much of the nineteenth and twentieth centuries, Britain administered the territories that would become the UAE (the so-called 'Trucial Coast' states) as protectorates. When Britain announced that it would withdraw from the Persian Gulf, Whitehall assumed that the UAE would include the Trucial Coast as well as Qatar and Bahrain. These latter two territories, however, refused to join the UAE and became independent states when Britain left in 1971. Ras al Khaimah also sought independence, but it lacked the resources and the international support to survive on its own. It joined the federation in 1972.

The Seven Emirates and their Residents

The largest and wealthiest of these Emirates, Abu Dhabi, covers 88.3 percent of the UAE's total area and accounts for 90 percent of the federation's oil and gas production and 60 percent of the UAE's gross domestic product (GDP). Because its oil and gas

reserves are much smaller than Abu Dhabi's, Dubai has worked to become a regional commercial and transportation center. It now accounts for 70 percent of the UAE's non-oil trade.[3] Sharjah also has oil and gas deposits, but it has focused on light manufacturing and port facilities.[4] The rest of the Emirates – Ajman, Fujairah, Ras al Khaimah and Umm al Qawain (collectively known as the northern Emirates) – are considerably poorer than the other UAE Emirates; together they accounted for less than ten percent of the UAE's GDP in 1998.[5]

Most of the seven Emirates' 2.94 million inhabitants are Muslim and live in communities that hug its 650-km Persian Gulf coastline. Abu Dhabi, Dubai and Sharjah collectively govern 66 percent of the population. Close to 80 percent of the population of the federation is comprised of expatriate nationals and nearly 60 percent of the population is male. South Asian guest workers, mainly Indians and Pakistanis, make up 45 percent of the population. The next three largest expatriate ethnic groups are Iranians (17 percent), Arabs from other parts of the Middle East (13 percent), and Westerners (five percent). UAE cities tend to be ethnically heterogeneous and to house a large amount of male residents, while there are more women and UAE nationals in rural areas. Virtually all of the federation's Iranians and the Shiites (16 percent) live in Dubai.[6]

Military Strength

The UAE maintains armed forces of 65,000 men and women, nearly a third of whom are expatriates. There are 425,248 males fit for the military within the federation's borders; 23,538 males reach military age annually.[7] Only a few of these men are UAE citizens, however, and, hence, eligible for military service. As a percentage of the federation's population, UAE armed forces are high compared to those of other Arab countries.[8] This is largely due to the fact that the federation's military forces coexist with individual Emirate defense provisions. In addition, Abu Dhabi provides at least 80 percent of the UAE's military manpower and defense budget.[9]

GOVERNMENT AND POLITICS

The UAE's armed forces' organization reflects the political structure of the federation itself, in which there is a central government in Abu Dhabi and each Emirate retains broad autonomy. There are rivalries among the Emirates and within the ruling families. Dubai does not acknowledge that it falls under the UAE's OPEC quota and annually forces Abu Dhabi to underproduce in order to stay within OPEC limits. Abu Dhabi and Ajman backed Iraq during the Iran–Iraq War, while Dubai, Sharjah and Umm al Qawain maintained close ties with Iran. In contrast, Ras al Khaimah allies with no other party and wants to create a state that would include Sharjah. Ras al Khaimah even won the Soviet Union's support for its failed attempt to seize part of Oman in 1978.[10]

There are also few legally-defined boundaries, so that every Emirate has an ongoing border dispute either with one of the other Emirates or Oman. The only time these rivalries became violent was in 1987 when Abu Dhabi and Dubai backed different candidates for the ruler of Sharjah, and Abd al-Aziz Mohammed al Qasimi attempted to overthrow his brother's government there.[11]

Shaykh Zayid's Role

Throughout the UAE's 29 years of existence, the ruler of Abu Dhabi, Shaykh Zayid al Nahyan, has served as the federation's president and has helped to mediate its various disputes. Gulf analysts praise Shaykh Zayid for keeping the federation together through times of crisis, which have strained the sometimes tenuous ties of the seven Emirates. Shaykh Zayid has used Abu Dhabi's wealth and his political skills to bridge the gap between 'tribal' and 'modern' forces within the federation. In spite of the fact that both the UAE's provisional and permanent constitutions stipulate that each Emirate should provide half of its revenues to the federal government, Abu Dhabi annually provides about 75–90 percent of the UAE's federal budget. Dubai has generally covered the remainder.[12]

Dubai's Rivalry with Abu Dhabi

Shaykh Zayid has been most successful in addressing Dubai's desire for autonomy. Dubai had a long history of autonomy before the UAE was formed, and its leadership remained suspicious of Abu Dhabi's power after the establishment of the federation. Initially, Dubai maintained its own military command and refused to integrate its armed forces into the UAE's military. Shaykh Zayid has been able to convince Dubai's ruling family to hold key UAE cabinet positions, such as those of defense and finance. He has also allowed Dubai to have veto power over all federal legislation. Through informal agreement, the ruler of Abu Dhabi serves as president, and the ruler of Dubai serves as vice president and prime minister. Until quite recently, many Gulf analysts warned that Dubai's conflict with Abu Dhabi was very serious and could threaten the stability of the federation.

The threat from this rivalry, however, may be abating rapidly. Since 1997, Dubai has slashed defense spending and integrated its armed forces into the UAE military command. Dubai officials reportedly believe that: 'there is no obvious need to maintain an independent force in Dubai' because 'the UAE Armed Forces General Headquarters (GHQ) provides a fully-fledged defense capability.'[13] This type of comment would have been unthinkable as recently as 1996. Moreover, it is widely expected that Dubai will soon transfer authority over its police force to Abu Dhabi, which will then shoulder the costs of maintaining police in Dubai.[14]

Although the primary reasons Dubai cut its defense spending were to compensate for the 35 percent decline in its oil production since 1993 and to forestall the need to privatize state industries,[15] the decision suggests that Dubai realizes that it no longer has the resources to compete against Abu Dhabi. The decision suggests that, after 20 years of co-operation with Abu Dhabi, Dubai no longer fears the power of the UAE's largest Emirate. Equally importantly, Dubai has not challenged Abu Dhabi's right to retain the UAE presidency after Shaykh Zayid's death. Taken together, these events suggest that Dubai's disputes

with Abu Dhabi will now be fought out within the federal structures of the UAE.[16]

The Federation's Political Structures

The political structure in which Abu Dhabi and Dubai's rivalry will most likely take place is the Supreme Council of Ministers, the federation's highest constitutional authority. Composed of the seven Emirate rulers, this body establishes federal policies and sanctions legislation. It also elects the UAE's president. Most council decisions are reached through a consensus of the Emirate's rulers and leading families. Since the council meets four times a year, the UAE cabinet runs the day-to-day affairs of the federation. The president chooses the cabinet and members of the federal judiciary.

The Technocrats and the Emergent Civil Society

It is generally assumed that, apart from the Supreme Council of Ministers, the UAE lacks a political culture and strong federal institutions. Events since 1996, however, have called this assumption into question and suggest that the UAE may be developing a civil society and political élites outside of the Supreme Council of Ministers. The driving force behind these changes is young Western-educated technocrats whom Shaykh Zayid has appointed to the UAE cabinet in recent years; among them, Information Minister Shaykh Abdallah bin Zayid, one of the youngest of Shaykh Zayid's sons.

Shaykh Abdallah and his colleagues are the first generation of Western-trained technocrats to come of age well after the creation of the federation. Unlike their predecessors, these officials are not familiar with the time period before the UAE was founded, and define themselves and the UAE's problems in national terms. Their ascendancy marks an important first step in the development of a truly 'national' citizenry in the UAE, a citizenry that devotes its primary political loyalty to the federation's government as opposed to a region or tribe. In addition, these officials are prepared to criticize government policy much

more openly than their predecessors and believe that open and fair public dialogue is central to good governance. In fact, Shaykh Abdallah himself told the UAE's media in November of 1999 to 'criticize freely.'[17]

The technocrats' influence within the UAE government was greatly enhanced by Muhammad Khalifa al Habtur's election as the Federal National Council's speaker in January of 1998. Al Habtur is a US-educated petroleum engineer from Dubai who, along with his opponent, actively sought the support of individual delegates before the election. Elections deciding the speaker of the Federal National Council have never been previously contested. The council, which reviews and suggests amendments to laws proposed by the Council of Ministers, has 40 members who are appointed by their respective Emirates: eight each from Abu Dhabi and Dubai; six each from Sharjah and Ras Al Khaimah; and four from each of the other three Emirates.

The London-based Arabic language daily *Al Wasat* noted that al Habtur's margin of victory, 24 to 15, was important because it 'underscores the existence of blocks in the UAE parliament, despite the lack of political currents or parties in the UAE.' In other words, the election shows that the UAE is beginning to develop a civil society in which different constituencies negotiate with the government for power. If this is the case, it would be an important factor in a society in which a small group of family 'leaders' had previously held all the power. The newspaper added that the election also suggested that the National Council will have a greater influence in the UAE government in the future.[18]

Al Habtur's election is also indicative of a trend towards consultative bodies within the UAE and the rest of the GCC. In 1995, Abu Dhabi appointed a 45-member council to review the Emirates' laws. Similar institutions have been proposed in the other southern Gulf states and Saudi Arabia. Thus, it is not unlikely that the Federal National Council could evolve into an institution that resembles Kuwait's parliament. It could become an important national symbol for UAE nationals in much the same way that the Kuwait parliament functions as a significant

element in the identity of Kuwait's citizens.[19] This will be especially true if Shaykh Zayid keeps his promise to allow women to join the Federal National Council: 'with the full right to participate in politics and the decision making.'[20]

Nonetheless, tribal history and loyalties to individual rulers remain important factors in the UAE's politics.[21] Individual rulers still hold the most power in UAE society and will probably do so for many years to come. As William Rugh pointed out in September 1997 (*Middle East Policy*), many of the institutions commonly associated with civil societies, such as a large and fully independent middle class, do not exist in the UAE. Clearly the new technocrats – the core of the UAE middle class – are only beginning a process of change that may take many decades to unfold.[22]

Succession and the Future of United Arab Emirates' Policies

The absence of strong national structures in large part explains why many in the region have worried that the UAE will not survive Shaykh Zayid's death. The heir apparent to the UAE presidency and the leadership of Abu Dhabi is Shaykh Zayid's eldest son, the crown prince of Abu Dhabi, Shaykh Khalifa. Although Shaykh Khalifa, like his father, has been in poor health for many years,[23] he has run the day-to-day operations of the Abu Dhabi government for much of the 1990s.

Shaykh Khalifa's position is far from certain, however. Two of Shaykh Zayid's eldest sons, Shaykh Khalifa's half brothers – UAE Army Chief of Staff, Mohammed bin Zayid, and the head of the UAE's secret police, Shaykh Hazaa bin Zayid – may challenge Shaykh Khalifa's position. Both men have leadership skills, are bright, and retain important individual power bases. They are also Western-educated and have recently cultivated personal relationships with US State Department officials. In October 1999, Martin Indyk noted in a speech that the 'preparations for succession [were] already underway in the UAE.' His statement was widely perceived in the federation and in the region as proof that the United States was actively involved in the UAE succession issue. Shaykh Zayid's frequent visits to US

and UAE medical clinics in 1999 and 2000 as well as his absence from important GCC conferences have also intensified the uncertainty over the succession issue in Abu Dhabi.[24]

In spite of the uncertainties about leadership and the rivalries between Emirates, long-term political trends indicate that the federation will remain unified after Shaykh Zayid dies. No one disputes Abu Dhabi's right to govern; the only question is which Abu Dhabi prince will become leader and for how long after Shaykh Zayid's death. Here too the picture is much clearer than it appeared to be just two years ago: today, most analysts believe that Shaykh Khalifa will succeed his father, although they are uncertain how long Shaykh Khalifa will be able to govern on his own. Some analysts believe that Shaykh Khalifa's half brothers are already fighting to become his successor. Dubai's decision to integrate its armed forces into the UAE military is important because it suggests that the Emirate has firmly tied its future to the success of the federation. Furthermore, there is no organized opposition to speak of, and Islamic fundamentalism is unlikely to appear.[25] The appointments of both open-minded and Western-educated technocrats to key positions within the government bodes well for the federation's stability. Finally, all of the Emirates benefit greatly from the current federation, so it is unlikely that any Emirate would contemplate leaving the federation in the near future.

UNITED ARAB EMIRATES' FOREIGN POLICY

Whoever leads the UAE after Shaykh Zayid's death will contend with a regional political system that is simultaneously favorable and unfavorable to the UAE's strategic position. The UAE currently enjoys commercial and diplomatic relations with all of the Gulf powers, including Iraq and Iran, and faces no imminent threat of invasion. Iran, the only power that might conceivably invade the UAE in the future, lacks the resources to carry out anything but small-scale attacks. Indeed, the Emirates' Center for Strategic Studies and Research noted in a recent report that with the US naval presence in the Persian Gulf, there is no short-

term danger of an Iranian invasion because any such 'invasion by sea will require enormous amphibious capabilities and air bridges, which Iran lacks.'[26]

At the same time, the UAE cannot guarantee its security on its own. It is a small state surrounded by very large states and it has weak military forces. Abu Dhabi therefore must balance the federation's position against the often-differing outlook of larger regional and international powers. The UAE's most important political and security relationships are with the southern Gulf states, Saudi Arabia and the United States. In addition, Abu Dhabi hopes that its relations with Russia, Europe, Asia and, to a lesser extent, Iran, will counter the United States' military and political dominance in the Gulf as well as Saudi Arabia's pre-eminent position within the GCC.

Relations with Washington are now strained because Abu Dhabi does not share the US view of the northern Gulf states or of Persian Gulf security. Nor does Abu Dhabi support Washington's policy for the 'dual containment' of Iran and Iraq. The UAE holds that a strong Iraq will be the most enduring check to Tehran's ambitions in the Gulf. The federation also believes that Iran is critical to Persian Gulf security. Equally importantly, US officials suspect that the UAE may have supported Osama bin Laden and the Pakistani nuclear program. In addition, the UAE's ties with Saudi Arabia are strained because the kingdom attempted to improve bilateral ties and the GCC's relations with Iran before Abu Dhabi had reached a settlement with Iran over the Abu Musa and Tunbs islands dispute. The disagreements between the UAE and Saudi Arabia over Iran have intensified the two countries' diverging perceptions of the economic structures of the GCC, regional security arrangements and the delineation of the common borders between Saudi Arabia and the UAE.

Border Disputes

The UAE's foreign policy, much like its domestic politics, has been defined largely by border disputes and the politics of the individual Emirates. Currently the UAE has territorial disputes

with three of its immediate neighbors: Iran; Oman; and Saudi Arabia. The most serious such conflict, however, is the long-standing dispute with Iran over three Gulf islands: Abu Musa and the Greater and Lesser Tunbs. Since 1992, this dispute has come to define the UAE's entire relationship with Iran.

Iran and the Dispute over Abu Musa and the Tunbs

Before discussing the strategic importance of the islands dispute, it is important to review a few facts about the islands themselves. Abu Musa has a population of around 600 people and is situated at the mouth of the narrows of the Strait of Hormuz. The other islands are closer to the Persian Gulf's sea lane, but only one of these, the Greater Tunbs, is inhabited, with a population of about 350 people. There are few significant resources on the islands apart from red oxide and oil, and only Abu Musa can accommodate large ships. Tehran claims that Britain took the islands from Iran and gave them to the Arabs in the nineteenth century. The UAE counters that Arabs from the eastern Gulf littoral have always controlled the islands, and that Iran has no claim to either Abu Musa or the Tunbs.[27]

While it is true that the Iranians currently deployed on Abu Musa and the Tunbs could harass Gulf shipping or attack UAE cities, the fact remains that the United States maintains a strong enough military presence in the Persian Gulf to drive Iran off the islands. Moreover, Tehran has bases in Bandar Abbas, Qishim Island, and several other areas near the Strait of Hormuz, that are much better situated for attacks on Gulf shipping than either Abu Musa or the Greater or the Lesser Tunbs. Because of the short distances separating Iran and the UAE, neither state today could take military action against the other's positions on the islands without jeopardizing its own security. The vulnerability in large part explains why the dispute over Abu Musa and the Tunbs has been, and likely will remain, largely a war of words.[28]

The islands dispute became a significant international issue only when Britain withdrew from the Persian Gulf in 1971 and Iran claimed sovereignty over Bahrain. Reportedly, Iran suspended its claims to Bahrain in exchange for Britain's acceptance of Iranian occupation of the islands. Although the Shah

claimed full sovereignty over the islands, he promised to permit the islands' civilian population to remain under Arab administration and to share proceeds from nearby oil fields. He also promised to subsidize the Emirates Sharjah and Ras al Khaimah, which had previously governed the islands. Sharjah accepted, but the ruler of Ras Al Khaimah refused. He died resisting the Iranian troops that were sent to occupy the Tunbs.[29]

The islands dispute has also caused serious friction within the UAE. Ras al Khaimah and Sharjah advocate tough measures against Iran. Dubai, on the other hand, believes that the conflict is unnecessary and does not want anything to threaten its profitable trade and close cultural links with Tehran. Iran is currently Dubai's largest re-export market, accounting for 20–30 percent of Dubai's trade and providing access to markets in Afghanistan and Central Asia.[30] Indeed, the Crown Prince of Dubai, Shaykh Muhammad, has stated publicly that he believes the tensions over the islands have been fabricated by the United States.[31]

Shaykh Zayid, the UAE president, has reconciled these opposing interests by using his personal authority to forge a consensus in support of a policy that uses peaceful means to pressure Iran to relinquish control of the islands. He has also exploited his reputation for piety and rectitude to heighten the moral urgency of the UAE's claim to the islands – an urgency impossible for the region's governments, including Iran's ally Syria, to ignore. Every Arab state is on record as supporting the immediate 'restoration' of the UAE's sovereignty over Abu Musa and the Tunbs. Other countries, such as the United States, have signed similar documents.

Between 1971 and 1992, Iran and Sharjah jointly administered Abu Musa under a Memorandum of Understanding and shared the revenues from the off-shore oil fields equally with few problems.[32] But several incidents on Abu Musa in 1992, when Iran allegedly violated the Memorandum, rekindled the dispute and sparked a diplomatic clash between Iran and the UAE. Negotiations since that time have gone nowhere. Iran has now built an airstrip, substantially increased its military presence – from 700 to 4,000 troops – and has opened a university on Abu Musa. It is also possible that Tehran has deployed chemical

weapons and five 'Hudong' class Chinese-built fast-attack patrol boats. US officials warn that these deployments threaten Gulf shipping and indicate that Iran should be contained.[33]

Might there be a way out of the quagmire for the UAE? Since the election of the reformist Iranian president Muhammad Khatami in 1997, senior Iranian officials, including the foreign minister, Kamal Kharazi, have stressed that improving Iran's relations with the GCC and fostering regional 'stability and security' are Tehran's top foreign policy goals. Few believe that it would be possible for Iran to achieve these goals without meaningful progress on the islands issue. Kharazi has stated on numerous occasions that he would be very happy to go to Abu Dhabi to negotiate a solution to the dispute in an atmosphere of 'mutual confidence and understanding.'[34]

At the same time, Kharazi has been wary of entering into negotiations that do not assume Iranian sovereignty over the islands, or that involve third party mediation. According to Arab press accounts, United Nations (UN) Secretary General Kofi Annan attempted to resolve the islands dispute in the winter of 1998 and won preliminary approval from President Khatami for minister-level negotiations under the auspices of the UN. But when Abu Dhabi suggested a timetable for the UN-sponsored talks and suggested as well that both states should accept international arbitration if the talks failed, Kharazi informed Annan that Iran would not participate. Nonetheless, Kharazi welcomed the formation of a committee composed of the Saudi, Qatari and Omani foreign ministers to discuss the islands dispute. He told reporters in Tehran that Iran always: 'stressed (the importance of) bilateral talks for settling the dispute' and was 'confident that the problems will be solved in due time.'[35]

For its part, the UAE remains skeptical of Kharazi and fearful that Tehran will use improved relations with Washington or the GCC states in order to avoid the islands issue. This would be a defeat in Abu Dhabi's eyes because it would remove most of the international pressures on Iran to evacuate Abu Musa and the Tunbs. The editorial in the *Al Khaleej*, 1 December 1999, was typical of UAE views. It warned that: 'these last few months,

Iran has taken steps ... to have the question of the islands forgotten, thanks to the interests it shares with certain GCC members.' The paper added that any measure that improved GCC–Iranian relations without addressing the UAE's concerns about the islands: 'could be wrongly interpreted by Iran and used to raise new obstacles.' When the Iranian press attacked the editorial as false, *Al Khaleej* responded that these accusations were: 'shameless lies' meant to hide a campaign designed 'to win favor with the United States for hardliners in Iran.'[36]

Saudi Arabia

Chief among those GCC members to whom *Al Khaleej* alluded was Saudi Arabia, the federation's largest and most important neighbor. For much of the last 30 years, Shaykh Zayid supported the Kingdom's pro-Western policies and leading position in the GCC. Saudi–UAE territorial disputes were thought to have been largely put to rest when Shaykh Zayid ceded the Zarrarah oil field to Riyadh in exchange for Saudi recognition of UAE sovereignty over the Burami Oasis in 1992 – the two states, along with Britain and Oman, had fought a brief war over the territory in the 1950s.

Relations declined rapidly in 1999, however, in large part due to differences over how to approach Iran. UAE officials were incensed by the warm welcome received by President Khatami throughout his trip to Saudi Arabia in May 1999, as well as by Saudi Crown Prince Abdallah's public sympathy for Iran's right to self-defense. In an unusually blunt television interview, UAE foreign minister Rashid Al Nuami labeled Riyadh's efforts to improve Saudi relations with Iran – before the islands issue had been resolved – as a betrayal of Riyadh's commitments to the GCC: 'which Tehran has interpreted ... as an abandonment of the UAE.' The UAE was also angered by Saudi Arabia's development of the Shaybah oil field – part of whose reservoir lies under UAE territory – and the Kingdom's unwillingness to help the Palestinians or Iraq. Indeed, Shaykh Zayid threatened to withdraw the UAE from the GCC and renege on the terms of the 1992 UAE–Saudi border agreement to register his ire at Saudi Arabia's *rapprochement* with Tehran.[37]

Saudi Arabia, by contrast, rejected the UAE's criticisms as groundless. Saudi officials emphasized that the islands dispute was a top priority for them but that Abu Dhabi could not expect Tehran to return the islands until relations were normalized between the GCC and Iran. At the same time, Riyadh noted that the UAE would not dictate its policies and that Abu Dhabi had failed to uphold its own commitments to the GCC by becoming reconciled with Baghdad, which still threatened the security of several GCC states. Riyadh also argued that Abu Dhabi's complaints about Iranian–Saudi relations were hypocritical given that the UAE had the closest economic and cultural relations among the GCC states with Iran. In July 1999, the Saudi defense minister, Prince Sultan, even went so far as to note that the UAE was practically 'half Iranian.'[38]

In reality, the UAE's economic relations with Iran are an especially important issue because of Saudi resentment at the UAE's insistence in July 1999 that the GCC states adopt a low unified tariff to protect Dubai's trans-shipment trade,[39] much of which is composed of Iranian goods that enter the kingdom at the GCC's low internal rates and undermine the competitive position of Saudi Arabia's non-oil industries[40] – Saudi Arabia heavily subsidized these industries and has spent billions developing them. Consequently, UAE–Saudi tensions remain high and show few signs of abating soon.[41]

Oman

In contrast to the federation's dispute with Iran over the islands, the UAE has been able to address its territorial problems with Oman by direct negotiation and by skillful use of Abu Dhabi's oil wealth. Here, Shaykh Zayid built a close rapport with Sultan Qabus, to whom the UAE president has given substantial subsidies as well as political and military assistance. This relationship helped Shaykh Zayid resolve two serious border clashes in 1978 and 1992. Today, Oman and the UAE conduct joint military exercises, and their citizens travel between the two countries without visas or passports. Nevertheless, the border is not delineated and is a potential source of future conflict.[42]

Relations with Qatar and the Rest of the GCC

Although the UAE does not maintain close relations with Kuwait, the federation works closely with Bahrain as well as Qatar, whose current emir, Hamad bin Khalifa Al Thani, was once highly objectionable to Abu Dhabi and Bahrain. He came to power in a coup in 1995 in which he ousted the previous emir, to whom Abu Dhabi subsequently granted asylum. The UAE, along with Bahrain, then worked to contain Qatar's influence in the GCC. After the previous and the current emirs of Qatar normalized ties in January of 1998, however, Shaykh Khalifa traveled to Qatar and solved most of the 'misunderstandings between Abu Dhabi and Doha.'[43] Since that time, the UAE and Qatar have agreed to develop Qatar's gas reserves and to permit their nationals to travel between the two states without passports.[44] Doha has also proven to be Abu Dhabi's closest ally in the GCC. Few were surprised when Qatari Emir Shaykh Hamad bin Khalifa Al Thani mediated the initial tensions between Abu Dhabi and Riyadh over Iran and proposed the GCC tripartite commission to resolve the Abu Musa–Tunbs islands dispute.[45]

The United States and the Balance of Power in the Persian Gulf and South Asia

The UAE's relations with Iran and the GCC states are part of the federation's larger relationship with the United States, the only country that possesses the projection capabilities necessary to defend the federation.[46] The relationship of the two states blossomed in the late 1980s and early 1990s, when Abu Dhabi supported the 'Tanker War' and provided important financial – $6.455 billion – and logistical assistance to Operation Desert Storm. In 1991, Abu Dhabi and the United States signed a loose defense pact, which permits Washington to base equipment within federation boundaries. The UAE has also emerged as one of the world's largest markets for US arms manufacturers. Abu Dhabi spent $360 million on US arms between 1992 and 1994; in 1998, it agreed to buy 80 fighter-jets valued at $8 billion.[47]

Since the Gulf War, Jebel Ali, a port in Dubai, has become

crucial to US naval operations in the Persian Gulf because it is the most important liberty port in the region and the only harbor in the Gulf deep enough to berth an aircraft carrier. Were the Strait of Hormuz closed off, Fujairah, which faces the Indian Ocean and is connected to the Gulf coast by a modern road, would be critical to American operations. In addition, the United States flies warplanes out of UAE air bases on support missions for Operation Southern Watch over Iraq and has pre-positioned material on UAE soil.[48]

In recent years, however, US–UAE relations have deteriorated because the UAE objects to Washington's policy of containing Iraq and supporting Israel. Senior UAE officials, such as Vice President Maktum, argue that Iraq has: 'fulfilled most of its obligations to the international community' and that a 'militarily strong and united Iraq' is needed to balance Iranian power.[49] Shaykh Zayid himself lobbied the GCC in 1997: 'for a full rupture with the US over Iraq.'[50] The UAE media, which usually reflects the government's positions on foreign policy, has asserted that the UN weapons inspectors in Iraq were American 'stooges' and that the United States and Britain intentionally kill civilians by bombing targets in the northern and southern 'no-fly' zones in Iraq.[51]

The UAE now provides millions of dollars of food and medicine to Baghdad. Iraqi government officials also frequently meet with UAE journalists and senior military and political officials. The UAE also permits merchants to violate UN sanctions against Iraq, as a spate of oil spills of Iraqi oil on the federation's coastline in 1997 made all too clear to the rest of the world.[52] In addition, there have been allegations that Abu Dhabi permits Baghdad to use UAE front companies to purchase weapons that Iraq is prohibited from acquiring by UN sanctions.[53]

Equally importantly, the UAE has tried to balance Washington's power in the Gulf and to reintegrate Iraq into the regional balance of power by cultivating commercial and military ties with the United States' regional and international rivals. While UAE–Iranian relations remain tense, Abu Dhabi does not support US sanctions against Iran and allows Dubai merchants to sell millions of dollars in American products to Iranians. The UAE

also maintains close commercial and political ties with all of the permanent members of the UN Security Council and Japan.[54] Shaykh Zayid has used large civilian and military contracts to further the UAE's political objectives; this has been a boon to French and Russian firms, which have seen their shares of the UAE market increase substantially since 1994 – in 1998, nearly 60 percent of all exports of French arms ($5 billion out of a total of $8.3 billion) went to the UAE.[55] In addition, the UAE has tried to lessen its military dependence on the United States by signing 'mutual defense pacts' with France, the United Kingdom and Turkey.[56]

The strategy of attempting to offset US influence, however, has done little to enhance the UAE's security or lessen its reliance on the United States. Britain, France and Turkey cannot safeguard the UAE's territory on their own because they lack the capability to project power into the Gulf without US assistance. All three states have made significant reductions in their military forces since the Gulf War and cannot be counted on to match the deployments they made in 1991. France's promise to deploy 85,000 troops, 130 combat aircraft, and an aircraft carrier battle group if the UAE is ever invaded is ludicrous. This is the same country that struggled to deploy 15,000 soldiers in Desert Storm.[57] Indeed, the chief of staff of the French army, Jean-Pierre Kelche, told the Dubai daily *Al Bayan* that: 'the United States is the number one guarantor of the stability of the Arab part of the Gulf region.'[58]

At the same time, the UAE has sought to check US power in South Asia, where Washington seeks to contain the nuclear weapons programs of India and Pakistan. When India tested a nuclear device in 1998, Islamabad reportedly decided to conduct the nuclear tests only after the UAE, along with Saudi Arabia, promised not to cut oil shipments. Subsequently, senior Pakistani officials frequently visited Abu Dhabi and Riyadh, which are thought to have compensated Islamabad for the loss of foreign loans and credits due to the US-led international sanctions imposed after the tests. There have even been reports that Abu Dhabi provided substantial financial assistance to Pakistan's nuclear program.[59] It should come as no surprise that

General Pervez Musharraf's first trip abroad – after overthrowing the government of Nawaz Sharif in October 1999 – was to the UAE.[60] In addition, there have been several allegations that Osama bin Laden funneled money through the government-controlled Dubai Islamic Bank.[61]

Overall, Abu Dhabi's strategy in the Persian Gulf and in South Asia has had mixed results. While Pakistan may soon have full nuclear capability, Abu Dhabi has failed to achieve its chief political goal: lifting the UN sanctions against Iraq and reintegrating Baghdad into the Persian Gulf's balance of power. UN sanctions are still in place because Washington remains vehemently opposed to Baghdad. Moreover, American hostility towards Iraq's current regime all but guarantees that Iraq won't be integrated into the Gulf's military balance of power in the near future, even if the UN sanctions are lifted. Nor does it appear likely that the United States will cease bombing targets in Iraq or that Iran will withdraw from the islands in the near future. The islands dispute appears especially hopeless for the UAE as Riyadh improves ties with Tehran.

The United Arab Emirates' Security Dilemma over the Next Decade

The challenges facing the UAE as it tries to balance the Great Powers and insure its security in the future will be ones of geographical scale and military capability. Put simply, the US and Iran are much larger and more powerful than the UAE; they will pursue whatever policies they feel are in their interests despite what Abu Dhabi thinks or how many advanced weapons it purchases. Although some states and international organizations may be able to check American, Saudi or Iranian power, none can realistically guarantee the UAE's security or prevent unilateral military action by Riyadh, Tehran or Washington. The United States is, and will most likely remain, the only country with the capability to meet the federation's security needs in the foreseeable future.

The UAE's leaders are aware of this geopolitical reality. Although Shaykh Zayid has attacked US and British air strikes

against Iraq as 'loathsome' and 'unjust,' Abu Dhabi reportedly assured Washington that the US could use the prepositioned matériel if it was needed in an action against Saddam Hussein.[62] The UAE also publicly supported Operation Desert Fox and works closely with the US to combat international terrorists, including Osama bin Laden.[63] Similarly, Shaykh Zayid never carried out his threats to leave the GCC or to review the 1992 UAE–Saudi border agreement. Equally importantly, in November 1999, the UAE accepted the first GCC communiqué since 1992 that did not openly support the UAE's claims to the islands or demand that Tehran submit the island dispute to the International Court of Justice at the Hague or criticize Iran's occupation of the islands. Reportedly Bahrain, Kuwait, Oman and Qatar were originally inclined to support Abu Dhabi's claim to the islands in the communiqué, but Saudi Arabia convinced them that supporting the UAE was less important than Saudi–Iranian relations, which, Riyadh argued, would suffer a serious setback if the communiqué criticized Iran.[64]

MILITARY POLICY

The UAE military's principal challenges are identical to the federation's chief dilemma in foreign affairs: geographical scale and military capability. No matter how much money the UAE spends, its armed forces will never surpass, or even achieve parity with, the federation's most likely adversary, Iran. Nor will the UAE ever be able to achieve parity in numbers, or in the quality of its soldiers, with any of its neighbors. Thus, the UAE military's primary mission is to serve as a trip wire that can hamper an invading army and hold its ground until reinforcements arrive. Unfortunately, the UAE's armed forces cannot meet either of these objectives effectively.

Arms Procurement

Though UAE defense spending has held relatively steady since 1992, the UAE traditionally devotes a great deal of its resources

to defense: as much as $4.9 billion – or 13.6 percent of its GDP – and 66.9 percent of its yearly budget. Between 1991 and 1998 alone, the UAE acquired $6.8 billion worth of new military aircraft.[65] If the UAE approves pending contracts for F-16s and Hawk aircraft, that figure will increase by $11 billion.[66] Unfortunately, the politicization of arms purchases has undermined the investment in modern weapons. The UAE has switched primary suppliers four times since 1980 and maintains weapon systems from a dozen countries. Abu Dhabi's insistence on unique and high-tech weapons impedes procurement as well and pointlessly increases costs by creating diseconomies of scale.

Possibly the best recent example of the politicization of arms acquisition is the negotiations regarding the UAE's purchase of 80 F-16 fighter aircraft from US aerospace firm Lockheed–Martin. First announced in May 1998, the purchase marked the culmination of a decade-long search by the UAE for new jets. From the start, the negotiations were rocky since Abu Dhabi demanded that the planes include source codes for an array of radar and electronic weapons which Washington had previously released only to Britain and Germany. The UAE also wanted to spend $3 billion to develop radar systems, radar-jamming devices and computerized flight controls for the aircraft – systems that are far more sophisticated than similar equipment aboard the United States' F-16s. In addition, Abu Dhabi demanded that the United States permit the federation to contract up to 200 Pakistani pilots to fly the planes.[67]

Although US officials acceded long ago to virtually all of Abu Dhabi's demands regarding the new aircraft, the federation continues to postpone signing the contract. Shortly before the Dubai air show in December 1999, Lockheed–Martin negotiators worked for days to bring all final issues to closure, yet the company reported no movement in the UAE's position. With no resolution of the negotiations in sight, Lockheed–Martin officials are reportedly worried that European aerospace firms are still competing to win the UAE order. One official told the *Dallas Morning News*: 'Even though the French were eliminated as a competitor for this deal in May of [19]98 they'd like to get back in the fray.' Similarly, US officials are reportedly beginning

to question the sincerity of negotiations involving the UAE. The UAE has yet to receive any combat aircraft out of these negotiations and has earned the mistrust of many aerospace companies and the federation's chief ally, the United States.[68]

An equally telling example of the UAE's politicized procurement process is the so-called 'offset' program, which requires arms manufacturers to invest 60 percent of the value of their sales to the UAE in non-oil industries. Offset is designed to take advantage of the world arms market and escape the dilemma of 'guns *versus* butter.' By law, an Emirate must retain 51 percent of the capital in the partnership. Virtually all offset projects must be completed within seven years. If the obligations are not met by the target dates, the company is penalized 8.5 percent of the unfulfilled portion of the obligation.[69]

No one, however, can realistically develop the civilian investments envisioned by the 'offset' program within seven years. The UAE is actually fully aware of this fact, and the program's stringent requirements are currently being relaxed. When French arms manufacturer Giat missed its target dates in 1997, Abu Dhabi quietly extended Giat's target dates well past 2000.[70] Although the program has netted more than $800 million in investment so far, it has done little to improve the federation's security, strategic position, or non-oil economy.[71]

Even if procurement were not so heavily politicized, the UAE military would not be standardized because individual Emirates buy weapons systems without consulting the federal government. Dubai's Lion tanks, for instance, are not compatible with Abu Dhabi's Declerck tanks; nor does Abu Dhabi's air defense system protect Dubai. The army alone has three types of tanks: the Lion; the Declerck; and the BMP. None of these tanks is standardized or interoperable in terms of supply or sustainability. Though this problem will subside as Dubai cuts its defense spending, it will take years to reverse.[72]

Fighting Capabilities

The most important consequence of the UAE's decentralized and politicized procurement process is that the federation's

armed forces are not compatible with those of its allies. Saudi Arabia and Oman, for instance, operate the Bradley and the Chieftan tank respectively, which have completely different configurations from those of the UAE's tanks. The proposed acquisition of the Russian S-300V2 anti-tactical ballistic missile system is another example of the UAE's refusal to integrate its armed forces with those of its allies. While the Russians are offering substantial discounts, the S-300V2 lacks an identification and a friend-or-foe system compatible with Western systems. Washington reportedly worries that the S-300V2 increases the likelihood of fratricide – shooting down one of your own jets – and has threatened to bar US aircraft from the UAE if Abu Dhabi buys the system. There is thus a real danger that the UAE could actually impede its allies' military operations.[73]

The above-mentioned problems are compounded by poor organization and the low quality of the personnel under UAE command. As noted above, many of the UAE's military assets are controlled by the seven Emirate rulers. The chain of command remains ambiguous and subject to abuse or rivalries. Technical training is poor as well, and the UAE has difficulty finding qualified personnel to maintain its high-tech weapons – new recruits reportedly receive only five weeks of basic training.[74] Logistical support, usually provided by Third World contractors, is of low quality, even by Gulf standards. In addition, it is generally assumed that the UAE's forces could not function effectively far from their bases.[75]

The United Arab Emirates' Air Force

The élite of the UAE's military forces is the 4,000-strong Air Force. It is, however, highly dependent on foreign technical assistance and has a very high ratio of personnel to aircraft. The UAE has 101 combat aircraft, 49 armed helicopters, and 22 transport aircraft; this includes nine Mirage 2000Es, 17 Hawk 102s, 17 Hawk Mk/63s, and 22 Mirage 2000 EADs. The Air Force also has an air defense brigade, five batteries of Hawk missiles, 12 Rapiers, nine Croatles, 13 RBS-70s and 100 Mistral Sams. The Air Force has three missions: to control the UAE's airspace; to protect the

federation's economic and military facilities; and to destroy Iran's strategic assets, notably around Tehran. The last mission is important because it is the only way the UAE can check Iranian power.[76]

These are unrealistic missions, however, and they would be difficult even for a genuinely élite air force to achieve. The UAE's most advanced aircraft, the Mirage 2000E, for example, has a maximum range – on a single fueling with a fuel tank – of 1,261 nautical miles, barely half the distance of the round-trip between Abu Dhabi and Tehran.[77] In addition, the Mirage 2000Es are only now being converted to multi-role status; they were originally intended solely for air defense.

The UAE also does not currently have the technology to use in-flight refueling or airborne battlefield management. It must train its pilots to fly missions deep into enemy airspace and to support allied ground and naval forces, instead of concentrating on intercept missions and air-to-air combat. New long-range jets and AWACS-type aircraft may improve the UAE's capabilities, but it is unclear when or if those sales will happen. The UAE has yet to integrate its new aircraft into its military forces, and it is unknown where new jets will be deployed since the UAE currently only has one modern air base.[78] Equally as important, the UAE lacks qualified pilots. The UAE contracted Pakistanis to fly the new F-16s, and hoped they would also pilot the new Mirage 2000E jets. Reportedly, it also is negotiating similar contracts for Dutch Air Force pilots.[79]

The United Arab Emirates' Army

The federation's Army has only 59,000 soldiers. It would have great difficulty fulfilling its primary missions: protecting federal borders and assisting in the defense of the GCC. Its order of battle is: a royal guard brigade; two armed brigades; three mechanized infantry brigades; two infantry brigades; one artillery brigade; and, now, Dubai's two infantry brigades.[80] There are three divisions: the Western Command; the Central Military District; and the Northern Military Region.[81] The Emirates also have their own forces. Reliability is now questionable in light of the refusal on the part of Omani citizens in the UAE Army to attack Oman in 1978.[82]

Finally, the UAE cannot transport or maintain its military assets over great distances, so it is doubtful that the UAE Army could render much assistance if one of its allies came under attack.[83]

The United Arab Emirates' Navy

The UAE's Navy could not aid the GCC or the United States in a crisis. The federation's Navy has 2,000 personnel, most of whom are expatriates. The UAE has two frigates, two Corvettes, eight Missile Craft, nine in-shore patrol boats, three amphibious boats and three support craft. The Navy defends the federation's islands and off-shore oil facilities, and provides early warning in the event of an Iranian attack. Here the paucity of technologically-trained personnel is acute, though offset partnerships with Newport News, Mechanic of Normandy and the Netherlands Maritime Consortium should help. The proposed purchase of anti-submarine weapons, marine surveillance aircraft and even submarines is absurd because the UAE is unlikely to be able to use them properly, and such purchases will do little to check Iran's growing naval strength. UAE naval power remains weak, and many experts agree that it will stay that way for a long time.[84]

Internal Security

Finally, each Emirate funds paramilitary and security forces that monitor the expatriate community, the military and foreign soldiers. The federal government administers the UAE's border police and coast guard. The US State Department's *Human Rights Report* notes that these forces are not excessively oppressive and that they respect many basic liberties[85] – the UAE government claims to have investigated and proven all allegations of torture and abuse against these forces as baseless.[86] Reportedly, Abu Dhabi is worried about infiltration by Iranians and South Asians, whom the UAE believes may be trying to undermine the UAE by promoting their own governments' interests within the federation. UAE officials also worry about illegal immigrants, most of whom cannot be traced or monitored easily because they lack fixed addresses.

The Lack of a Credible Deterrent

Altogether, the UAE has gained little from its investment in arms. It cannot operate its weapons, organize its military forces rationally, co-operate with its allies, or devise realistic missions. Still, in August 1999, the UAE's semi-official daily in Abu Dhabi, *Al Ittihad*, noted that: 'The most senior military commanders in the advanced countries voiced their extreme admiration for [the UAE's] forces' superb capability and quick comprehension of the latest sophisticated military technologies.'[87] In reality, the UAE's adversaries know that its badly managed procurement program and force structure will not improve the UAE's combat capabilities. Indeed, the UAE's poor planning and obliviousness to the weaknesses of its own armed forces may turn out to be its greatest military drawback, rendering it far more vulnerable than it could otherwise be.

ECONOMIC AND SOCIAL CHALLENGES

While the federation's foreign policy and military structure are crucial to its strategic position, the UAE's internal strengths and weaknesses are important as well. This is true because the UAE will not be able to buy weapons, improve its strategic assets, or fund Western military operations without a prosperous and rationally organized society. Currently per capita income is $16,070 – the highest in the Middle East – and the UAE maintains high trade and capital accounts surpluses.[88] Its overseas investment fund is worth at least $350 billion.[89] While the UAE government annually runs a budget deficit, it does not have external debt. As noted above, the federation is blessed with large oil and gas supplies.[90]

The UAE also has a modern infrastructure that has made it a regional transportation center. According to published Central Intelligence Agency (CIA) statistics, as of 1999 the UAE has 6,500 km of roads, virtually all of which are paved.[91] The Abu Dhabi–Dubai highway has been upgraded several times, and the links from Dubai to the northern Emirates are of a good standard

as well. Rashid and Jebel Ali in Dubai are the largest of the UAE's 15 ports; together they handled 2.6 billion TEUs[92] of cargo in 1998, the 13th largest volume in the world.[93] Dubai's airport is the largest of the UAE's six airports. A federation-wide electrical network is also being planned.[94]

Still, behind the facade of wealth and stability there are significant social and economic problems. Wealth is not divided evenly among the populace or within the federation. While Abu Dhabi and Dubai are wealthy modern cities, many outlying villages lack running water, reliable electricity and simple health care. There is little transparency in UAE budgets, and it is estimated that 29 percent of the UAE's oil revenues between 1990 and 1994 did not appear on national accounts.[95] Per capita income is half of what it was in 1980, and it declined by nearly ten percent between 1998 and 1999.[96] While non-oil sectors of the economy are thriving, oil still accounts for 35 percent of GDP as well as approximately 78 percent of the UAE's total exports.[97] The scarcity of water supplies remains an acute problem, and the total population is growing rapidly: the UAE estimates its population grew by 6.5 percent in 1998 and will reach 3.48 million by 2005.[98] With as much as 40 percent of the population under the age of ten, these population growth numbers represent an important demographic shift.[99]

Oil Revenues and Economic Growth

The UAE's most vexing problem, however, is the extreme volatility of oil prices. The crash in oil prices in 1998 caused the UAE's economy to contract by 5.83 percent in nominal terms and the federation's deficit to balloon to $7.87 billion – this figure is estimated to be 41 percent above the 1997 level and 17 percent of gross domestic product. The trade and current account surpluses tumbled in 1998 to $5 billion and $1.78 billion respectively – a 66 percent decrease from 1997 – their lowest levels since 1993. Even before the most recent drop in oil prices, sagging oil sales had already cut into the UAE's economic growth; between 1991 and 1997, its annual average growth rate did not exceed 1.3 percent.[100] This rate illustrates the principal

problem facing the UAE as it tries to diversify its economy: the driving force in the federation's economy remains large capital and infrastructure projects, which are paid for by government oil revenues or by drawing on the UAE's large overseas investments.[101]

Since Japan accounts for 60 percent of the UAE's oil exports and 29.8 percent of all exports, another factor limiting the UAE's oil income is Japan's weak economy.[102] Even when Japan's economy fully recovers, the UAE's oil exports to Japan are unlikely to grow substantially because Tokyo is diversifying its oil sources and building a strategic oil partnership with Saudi Arabia. Riyadh also wants a partnership with Tokyo but has tied any agreement to the renewal of the upstream concession that the Japanese-based Arabian Oil Company currently maintains in the kingdom's neutral zone. Reportedly, the Saudi government has refused to renew the Arabian Oil Company's concession unless Japan invests $6 billion in Saudi Arabia. The agreement would include a 1,500-km-long railway linking the northern and eastern region of the Kingdom. As of January 2000, Riyadh and Tokyo had not signed an agreement, and senior Japanese officials had expressed doubts about the profitability of the proposed Saudi railroad.[103]

Even if the Saudi–Japanese agreement is successful, the UAE should be able to find alternative markets because oil is a fungible resource and a world commodity. The UAE will most likely invest in Asia, which has large populations, minimal oil reserves and low per capita consumption of oil. The transition to other Asian markets, however, may impact UAE security. As the UAE increases exports to Asian nations other than Japan, US officials will find it difficult to convince the American public that the United States should defend a state that provides oil to countries perceived as competitors or enemies. Indeed, Washington faced severe internal criticism for protecting the oil of its closest allies, Europe and Japan, during the Gulf War.

What alternative does the UAE have to oil? Gas presents a natural alternative since the UAE has 204.9 trillion cubic feet (Tcf) reserves of gas – the world's fourth largest.[104] Abu Dhabi alone has 189 Tcf of gas, and the Emirate's non-associated Khuff

gas reservoir is among the largest in the world. At the same time, exporting gas raises new problems: gas competes directly with oil in world markets; much of Abu Dhabi's gas reserves are difficult to access and have a high sulfur content; and there is growing demand for gas in the UAE itself, where gas is the primary source of energy. This final point is crucial. According to the US Energy Information Agency, Abu Dhabi's demand for gas doubled in the 1990s and is expected to double again by 2005. Dubai's demand for lighting and air conditioning alone has risen by 20 percent annually since 1995. Similar problems plague the other seven Emirates.[105]

One proposed solution to the UAE energy and gas shortages is the $8–10 billion 'Dolphin' gas trans-shipment project proposed by the UAE offset group. The backers of Dolphin argue that Abu Dhabi should purchase gas from Qatar – which has 100 Tcf more gas than the UAE – and distribute that gas to the UAE, the Arab Gulf states and the wider region. If this plan is fully implemented, Abu Dhabi would use its financial resources to become the hub for a Gulf regional gas network and also for a massive investment in South Asia. So far, however, there has been no agreement on pricing and it is not clear if there will be sufficient demand for the gas in Pakistan or Oman to justify the project. In addition, not a single member of UAE's élite has committed himself publicly to supporting the project.[106]

Other alternatives to hydrocarbon production include high technology, manufacturing, downstream oil development and petrochemicals. It is unlikely, however, that these industries could generate the revenues needed to offset a decline in oil sales. The UAE could also promote its already highly successful service industry, which is currently dominated by expatriates. One project is Dubai's Internet City, which has attracted multinationals such as Microsoft, Hewlett–Packard, Oracle and Cisco through strict enforcement of intellectual property laws and liberal rules on foreign direct investment, including renewable land leases.[107] Another project already in the planning stages is the Saadiyat free zone, which aims to create a global financial center on the scale of London, New York, or Tokyo on an island

next to the coast of the Abu Dhabi Emirate. Even if successful – many financial analysts think that Saadiyat and other projects like it are sheer madness – these approaches would surely undermine the UAE's attempt to give preference to nationals, most of whom lack the skills to fulfill jobs in modern industry or finance. Furthermore, unemployment of nationals has been a rallying point for the Islamic opposition in Saudi Arabia.[108]

The Problem of Expatriate Labor

This last dilemma illustrates one of the UAE's greatest challenges: weaning itself from its long-term dependence on foreign labor. Expatriates create expensive long-term structural problems,[109] and, as noted above, are a potential threat to the UAE's security. Some expatriates in recent years have even absconded abroad; for instance, in May 1999, Indian businessman Madhav Patel fled Sharjah with $245 million in unpaid loans from UAE and Western banks.[110] However, many nationals have little incentive to pursue work outside of the already bloated government bureaucracy or cannot fill the jobs currently held by expatriates; and the labor market already favors the latter – Emirate citizens must receive higher salaries and better benefits than foreigners. These problems are illustrated by the fact that only 254 of the 43,218 workers in Abu Dhabi's industrial sector were nationals in 1999.[111] Equally as important, 2,000 new citizens join the job market annually and the number of jobless citizens swelled to an estimated 20,000 by the end of 1999.[112]

Recent government measures to address these problems and 're-balance' the federation's demographics – refusing to issue visas to unskilled South Asian laborers or unmarried Russian women, raising utility bills to expatriates, and encouraging medium and large UAE companies to hire UAE nationals – have only succeeded in increasing domestic employment in the banking sector.[113] Given recent history, these measures offer little hope of success in the long run. The expulsion of 300,000 expatriates in 1996 caused high inflation and labor shortages, and reduced economic growth. Moreover, most of the expatriates expelled had returned to the UAE by the middle of 1997. Dubai

businesses are already complaining about the drop in Russian tourism, which is partly due to the restrictions on Russian immigration into the UAE. Unfortunately, there is no easy or painless answer to the labor imbalance, so the UAE will have to cope with it for many years to come.[114]

Water Resources and Desalination

There is no simple solution to the federation's dearth of water supplies, which may become a chronic economic and political problem in future years. Average annual rainfall is 42 mm, except in Ras al Khaimah where it is 150 mm per year. The World Bank estimates that renewable water resources per capita are 189 cubic meters, and that there has been a 15 percent annual increase in water demand in Abu Dhabi alone.[115] The UAE has addressed this problem through the development of underground wells – which have rapidly depleted the water table – and desalination.[116] Today, 82 desalination plants, many of which are also power plants, supply about 420 million gallons per day to the federation, and meet 82 percent of its total water needs. Due to the depletion of renewable resources through farming and excessive urbanization, there is no alternative within the UAE to desalination. Economies of scale dictate that the plants be large and near the coast.[117]

The UAE's reliance upon desalination may cause tensions within the federation and could conceivably become a strategic liability. While the wealthy Emirates can afford desalination, the situation in the northern Emirates, where supply interruptions are common, is critical. Decreased federal budgets have forced the poorer Emirates to privatize, and it is not clear whether these plans will work; a serious water shortage in the north, for example, would be crippling. Moreover, the desalination plants are something of a strategic liability: they are difficult to defend, easy to sabotage, and the UAE is wholly dependent upon them for the bulk of its water and electricity. Iran could easily blackmail the federation by threatening to destroy one of the UAE's desalination plants.[118]

Finally, the UAE could import water via pipeline from Iran,

which currently has 17.5 billion cubic meters of excess water. According to the Dubai-based *Gulf News*, the cost of importing Iranian water into the UAE is about 70 percent of the cost of desalination, and Tehran is eagerly pursuing plans to supply water to Kuwait, Qatar and Saudi Arabia. Although Iranian officials submitted a proposal to the government of Dubai in 1994, there has been no response from Emirate officials. This is, of course, not surprising given that water pipelines from Iran would give Tehran even greater opportunities to pressure Abu Dhabi during a crisis than it already has.[119]

Long-term Demographic and Economic Trends

It is important to keep a proper perspective when evaluating the trends in the UAE's economy and their impact on the federation's strategic position. Although the UAE's economic and budgetary problems are serious, they are not nearly as bad as those of its neighbors. The UAE has large reserves of natural resources and the most developed non-oil private sector in the Gulf. According to the US Arms Control and Disarmament Agency, the relative burden of military expenditure is low, particularly in comparison to Oman and Saudi Arabia.[120] The UAE can now pay all its military bills, although such comparative financial health will not last forever.

CONCLUSION: THE UNITED ARAB EMIRATES' FUTURE SECURITY NEEDS

There are many important favorable aspects to the UAE's strategic position at the beginning of the twenty-first century. The federation does not face an immediate threat of invasion, organized domestic opposition, or economic collapse. Nor does the UAE have any foreign debts. It has considerable wealth, which will give it several years to address the economic, environmental and social imbalances of the federation before they become overwhelming. The next president will undoubtedly be one of Shaykh Zayid's most prominent sons, all of whom have

shown that they can govern well. The rivalry between Dubai and Abu Dhabi has abated, and there seem to be the beginnings of a genuine civil society. Although there are vast policy differences between Abu Dhabi and Washington, the United States will likely guarantee the federation's security in the near term.

At the same time, the UAE's strategic position is undermined by Abu Dhabi's inability to achieve progress in reaching its goals through its economic, military or political policies. Despite an enormous investment in arms, for instance, the UAE's armed services – either on their own or in combination with the GCC – cannot provide an effective deterrent against the federation's most likely enemy, Iran. Nor have the defense treaties with Britain and France decreased the federation's dependence on US force projection capabilities. Iraq remains outside of the balance of power, and it is unlikely that the UAE will be able to construct a regional security order that includes Baghdad soon. Similarly, the islands dispute appears years away from resolution. In addition, the UAE has also not found permanent solutions to its principal internal challenges: demographics; the dominance of oil in the state; and the paucity of water supplies. Sadly, all of these problems worsened during the 1990s.

The UAE's favorable strategic position is thus more tenuous than it might first appear. A small state, the federation cannot possibly impact the politics of the region without the assistance of a large power, such as the United States or Saudi Arabia, and it has been lucky not to have been undermined by its own policy mistakes. Thus, things could be very different if the UAE faced a military crisis: after all, the UAE's economic and social problems are very real, and will merely intensify if they are not addressed soon.

The UAE is aware of these problems, however, and has already begun to address the federation's challenges. Abu Dhabi is privatizing large state-owned firms and investing millions in non-oil sectors of the economy. Abu Dhabi National Oil Company (ADNOC), Abu Dhabi's state-owned oil and gas company, is now in the process of modernizing the federation's gas and oil facilities. For all its problems, the offset program does offer a way of developing the UAE's economy and ensuring its future

security. In addition, the Western-educated technocrats are displaying a degree of frankness about the UAE's problems rarely shown by their predecessors. Finally, the higher oil prices from OPEC's production cuts in March 1999 should bring significant increases in Abu Dhabi's economy and government revenues in the near term.

Unfortunately, most of these policies exacerbate the federation's security problems. On the domestic front, the gap in wealth between the poorer and richer Emirates could aggravate tensions in the future. Abu Dhabi has combined its privatization programs with deep cuts in subsidies to the northern Emirates, a move that has only enlarged this gap. Privatization also favors the UAE's service sector, which expatriates dominate. This, too, could cause very serious social tensions. In addition, the offset program is contingent upon the UAE spending billions on arms for years, an expenditure that is likely to become a great burden. Thus, the UAE's principal security challenge in the next century will be to build a viable society whose economic success does not undermine its political stability.

Still, the UAE's challenges must be understood within their historical context. In reality, the UAE's government has dealt with the issues discussed above for many years; the paucity of water supplies, for instance, actually predates the federation itself. The fact that the UAE's comparative strategic position remains strong – despite Abu Dhabi's inability to solve the country's long-term challenges – bodes well for the federation's future. Indeed, it is reasonable to assume that the Emirates' strategic position will remain sound in the near term, even if the UAE government cannot devise workable solutions to the federation's structural problems over the next ten years.

NOTES

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4

The Enigma of Political Stability in the Persian Gulf Monarchies

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This chapter explores strategies that governments use to keep societies at peace. Stability is more difficult to understand than conflict. Scholars have offered many conceptual explanations of why and how people rebel, the causes of war and the dynamics of revolution.[1] The sources of societies at peace, however, have received far less scrutiny.

Often, stability is explained as merely the absence of conflict. Yet this explanation is valid only for wealthy, ethnically-homogenous democracies that face few challenges from neighbors. More perceptive scholars have gone one step further, explaining peace by delving into the nature of the societies in question and exploring how their culture or popular expectations defuse conflict. These explanations, while encouraging, have proven themselves insufficient. Stability does not simply occur, it is often fostered, imposed, encouraged, bolstered, or maintained. Governments of all sorts have actively and successfully prevented conflict through adroit management of potential disputes.

Explaining societal peace remains an important question. Since the fall of the Berlin Wall, civil conflict has supplanted war as the most common form of violence. Although the spread of democracy promises greater social harmony, democratization can lead to strife, both civil and international.[2] Modernization, nation-building, and economic growth – all solutions to conflict proposed by social scientists in the past – have proven to bring mixed blessings to many countries. Thus, it is important to