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The Political Economy of Energy, Finance and Security in the United Arab Emirates

Between the Majilis and the Market

Karen E. Young



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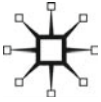
The Political Economy of Energy, Finance and Security in the United Arab Emirates

Between the *Majilis* and the Market

Karen E. Young

*Assistant Professor of Political Science, American University of Sharjah,
United Arab Emirates*

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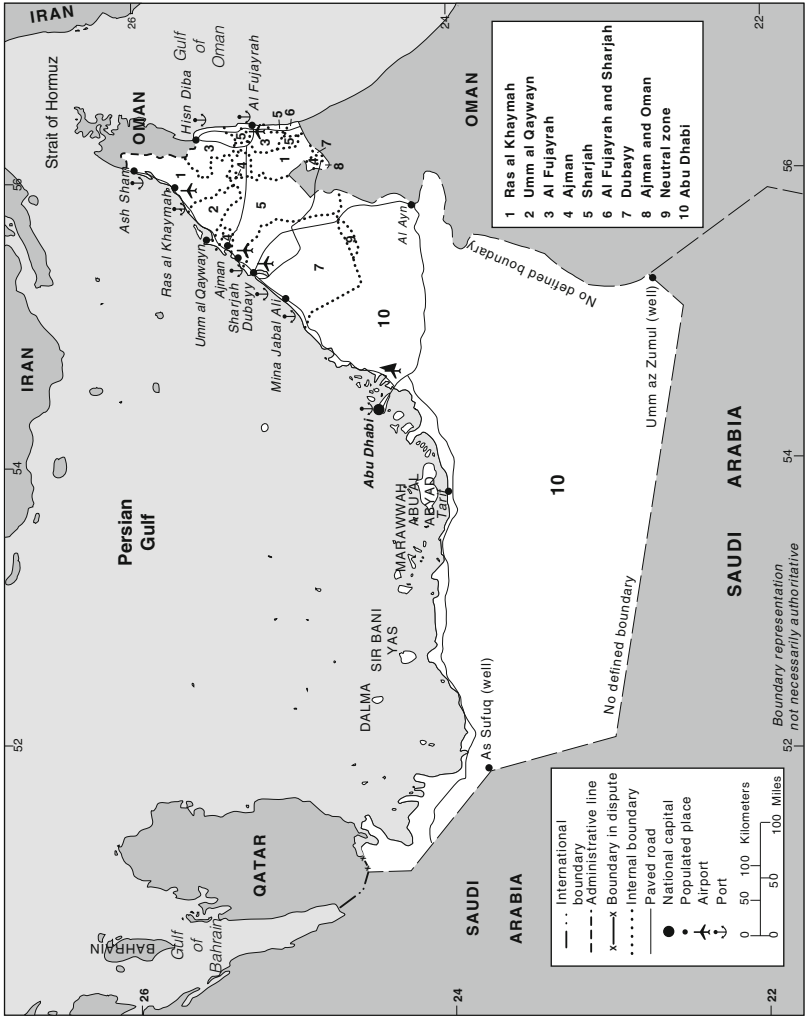
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For Alma and Beatrice



Contents

<i>List of Illustrations</i>	viii
<i>Acknowledgments</i>	ix
<i>List of Acronyms and Abbreviations</i>	xii
<i>Glossary</i>	xiv
1 Introducing the Concept of the <i>Majilis</i> and the Market	1
2 State Formation, Citizenship and the Invention of the Emirates	18
3 Connected Capitalism: Political Economy of Finance in the UAE	36
4 Clean, Mean and Dirty: Energy in the United Arab Emirates	78
5 An Emerging Interventionist: Political Economy of Security in the UAE	102
6 Towards a New Understanding of Emirati and Gulf Politics	131
<i>Notes</i>	139
<i>References</i>	166
<i>Index</i>	183

List of Illustrations

Figures

3.1	Inflation and GDP growth	39
3.2	GDP annual percent change	40
3.3	Crude oil production and exports	41
3.4	GDP of non financial corporations sector by economic activity, 2012	41
3.5	GDP growth in non-oil sectors	42
3.6	Volume and value of UAE trade	52
3.7	FDI by economic activity, 2009	55
3.8	FDI stock	57
3.9	FDI inflows in the GCC, 2012	57
3.10	FDI net inflows	58
4.1	Abu Dhabi power capacity and generation	85
4.2	Oil production and consumption	93
4.3	Natural gas production and consumption	94
5.1	Brent spot oil prices, 1987–2013	115
5.2	GDP per capita Qatar, 1970–2011	121

Tables

5.1	UAE military manpower and selected equipment, 1980–1999	108
5.2	GCC GDP (in USD billions), 1994–2008	116
5.3	Inward FDI flows – Individual GCC member states	116
5.4	Global arms supply, 2011	125
5.5	Military expenditure of the Gulf states, 2000–2009	125

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their experiences with me, and have been friends and part of a support network in Dubai. I do not name these sources in the book because to do so would risk too much for me and for them. This is the weakest aspect of the book and a very telling one, as the borders of finance, state security and information are permeable and toxic in the UAE, as well as in the realm of corporate finance globally.

Lastly, I thank my husband and family for their support and generosity through this process.

Note

1. Saskia Sassen (2005) "The Global City: Introducing a Concept", *Brown Journal of World Affairs*, Vol. XI, no, 2, Winter/Spring, pp. 27–43.

List of Acronyms and Abbreviations

ADCB	Abu Dhabi Commercial Bank
ADIA	Abu Dhabi Investment Authority
ADIC	Abu Dhabi Investment Council
ADNOC	Abu Dhabi National Oil Company
ADWEC	Abu Dhabi Water and Electricity Corporation
ADX	Abu Dhabi Securities Exchange
AGS	Arab Gulf States
AIM	Air Intercept Missile
AMRAAM	Advanced Medium Range Air to Air Missile
ATACMS	Army Tactical Missile Systems
AUS	American University of Sharjah
BCCI	Bank of Credit and Commerce International
CSEM	Centre Suisse d'Electroniqueet de Microtechnique
CSP	Concentrated Solar Power
DDC	Deyaar Development Company
DFM	Dubai Financial Market
DFSA	Dubai Financial Services Authority
DFSF	Dubai Financial Support Fund
DGCX	Dubai Gold and Commodities Exchange
DIB	Dubai Islamic Bank
DIC	Dubai International Capital
DIFC	Dubai International Financial Centre
DMO	Debt Management Office
EIU	Economist Intelligence Unit
ENEC	Emirates Nuclear Energy Corporation
ENOC	Emirates National Oil Company
EPPCO	Emirates Petroleum Product Company
EU	European Union
FANR	Federal Authority for Nuclear Regulation
FDI	Foreign Direct Investment
FNC	Federal National Council
GASCO	Abu Dhabi Gas Industries
GCC	Gulf Co-operation Council
GMAD	Global Market Place Abu Dhabi

GRE	Government-related Entity
HARM	High Speed Anti-Radiation Missile),
HIMARS	High Mobility Artillery Rocket Systems
IAEA	International Atomic Energy Agency
IMF	International Monetary Fund
IPIC	International Petroleum Investment Company
IRENA	International Renewable Energy Agency
ISER	Institute for Social and Economic Research
KEPCO	Korea Electric Power Corporation
LNG	Liquefied Natural Gas
MDC	Mubadala Development Company
MENA	Middle East and North Africa region
MENA CEBC	Middle East North Africa Clean Energy Business Council
MIT	Massachusetts Institute of Technology
MSCI	Emerging Markets Index
MW	MegaWatts
NASDAQ	National Association of Securities Dealers Automated Quotation
NATO	North Atlantic Treaty Organization
NBD	National Bank of Dubai merger
NIE	New Institutional Economics
P5+1	Russia, China, France, Germany, the UK and the US
PLS	Profit and Loss Sharing
R2P	Responsibility to Protect
RAK	Ras Al-Khaimah
RBS	Royal Bank of Scotland
SCA	Securities and Commodities Authority
SWF	Sovereign Wealth Fund
TRANSCO	Abu Dhabi Transmission and Dispatch Co.
TREC	Trans-Mediterranean Renewable Energy Cooperation
UAE	United Arab Emirates
UK	United Kingdom
UNCTAD	United Nations Conference on Trade and Development

Glossary

<i>al-macaliyyah</i>	The lyrical tradition of African melodies to soothe the pearl divers of Dubai
<i>bedu</i>	Another term for Bedouin, part of an Arabian desert-dwelling tribe
<i>chaebol</i>	Conglomerate of businesses (Korean)
<i>gharar</i>	Speculation
<i>hawala</i>	Market, an informal system of swaps authorized by Islamic law and based on the trust, communication, and anonymity of a network of money brokers.
<i>hawaladar</i>	A money broker
<i>keiretsu</i>	Business network (Japanese)
<i>khaleeji</i>	'Of the Gulf'
<i>majilis</i>	A gathering of people with common interests (sometimes in a social setting, but also in administrative or legislative procedures, as in a council)
<i>maysir</i>	Uncertainty
<i>niyah</i>	Good intention
<i>rial</i>	Basic monetary unit of Iran and Oman
<i>riba</i>	Interest
<i>shura</i>	A more traditional council of appointed tribal leaders
<i>sukuk</i>	Islamic bond

1

Introducing the Concept of the *Majilis* and the Market

Introduction

In early March 2010, Baroness Shriti Vadera, a former Minister of International Development under the British government led by Gordon Brown, boarded a plane to Dubai on a hastily-arranged and high-profile consulting project to advise the government of Dubai (in particular, the ruler, His Highness Sheikh Mohammed Bin Rashid Al Maktoum, and members of the Dubai Supreme Fiscal Committee) on its relationship with creditors to Dubai World, the state-related entity in need of approximately USD26 billion US dollars to restructure its debt obligations. The unofficial task was to smooth over relationships with several British banks which held Dubai World debt, some of those banks having been recently acquired by the British government in its own financial “restructuring” after the mortgage-backed securities crisis of 2008. Vadera represented the interests of the British government and financial establishment – though this was not her title or her official duty. Her task was to advise the Dubai government on how to better manage communications and negotiations with its key creditors and to quickly have the lenders come to a settlement on the restructuring of the debt. The government of Dubai offered her this position for her global reputation for negotiating on behalf of sovereign entities, and also on the intervention by recommendation of members of the British government, particularly of senior Labor party members, including Lord Peter Mandelson.

The relationship between the United Kingdom and the United Arab Emirates is a long-standing one, balancing commercial and security interests over the past two centuries from mercantilist practices of the British in the trade routes of the Gulf¹ and Indian Ocean of the

nineteenth century, the loose protective Trucial States agreements of the early twentieth century, through independence and the formation of the state of the United Arab Emirates (UAE) in 1971. The commercial and security interests of the UK have continually factored in its foreign policy approach to the Emirates and vice versa. The Emirates' varied relationships with foreign powers (including the British, and more recently the United States and even China) have influenced the national development agenda and at times constricted its policy options. The micro-political systems defined by emirate and tribal loyalties which together comprise the United Arab Emirates have long been subject to the global financial crisis and the interaction of domestic and international politics. One of the key arguments of this book is that in order to better understand the political economy of the United Arab Emirates, we must take a historical institutional approach, examining both domestic and international competing interests, and the formation of decision-making institutions that have endured tribal conflicts, colonial ties, financial devastation, state formation and the advent of enormous (though not evenly distributed) resource wealth.

Viewed in the context of continuity rather than particularity, the case of the UAE reveals much about the process of state formation, economic development, and the balancing of small state interests in a global security framework. The political economy of the United Arab Emirates, a small, wealthy petro-state in a critical geo-strategic location, is not so unlike many states facing the dilemma of building state capacity in infrastructure, provisions of social welfare, a globally-integrated financial architecture and negotiating a place at the table in international organizations and regional security alliances. In fact, a focus on the politics of economic development requires a comparative analysis of development stories from England's industrial revolution to Brazil's experiments with state-led growth and corporatism of the 1970s, to the East Asian Tiger miracles of the 1980s, to name a few. Each of these economic transformations has occurred in political frameworks with similar difficult social implications. The UAE just seems to be tackling the economic development quandary with a rapidity that has placed enormous pressures on both state and society to transform.²

This book explores the process of policymaking and implementation in the finance, energy and security sectors in the United Arab Emirates, looking specifically at the role of informal advisory networks in a nascent private sector, federal politics and historical ties in foreign relations. The analysis is primarily focused on the role of the state in the context of a developing political economy. It asks how the specific

political institutions of the UAE have developed and transitioned in the past 40 years to include traditional leadership practices and novel, perhaps unorthodox, models of state-market investment and coordination. Theoretically, the book makes a contribution to the literature in comparative politics and political economy with its focus on the role of informal institutions as causal variables shaping formal political institutions and foreign relations. The Arabic word "*majilis*", meaning "council" or a gathering of people with common interests (sometimes in a social setting, but also in administrative or legislative procedures), describes the traditional methods of consensus-based policymaking among elites in the Gulf. The word is appropriate because it encompasses both social and political spheres, as politics in the Gulf do not easily divide between the personal and the public, the state and the society. The transition to a global economy (and the volatility of global finance in the last five years) has tested the limits of the young petro-state. However, the pace of change is one aspect of a multi-layered, and more generalizable, process of state formation. This book offers a three level analysis (local, federal, international) of policymaking, state identity formation and state capacity building.

The argument in brief

The book presents an argument that the conflicts surrounding the finance, energy and security sectors are results of institutional constraints (both formal and informal) which are exacerbated by federal tensions between emirates, international political alliances tied to investment opportunities and access, and demographic challenges. These three areas of policy formation shed light on state-building processes shared by many developing economies, particularly those states simultaneously encountering challenges of global economic volatility and increasingly fragile state-society relations.

The core argument of this book is that this transformative development process occurring within the UAE is compelling but not unique. It is ripe for comparative analysis because the building blocks of social and state transformation are similar across political landscapes. The role of institutions, particularly informal ones, is essential to understanding how change (predicated by conflict) occurs in a developing or transitioning political economy. This is not to argue that all transitions and development processes are teleological or arrive at the same end positions or institutional designs. Simply, it means that the historical patterns of state-society relations can structure the paths of economic and political

institutional development. State building does not occur in a vacuum, and the unexpected appearance of resource wealth is neither a curse nor a predetermined path to regime type or expected political behavior.

Further, rentierism³, the established analytical frame used to understand the oil-rich Arab Gulf states (and other resource rich states), is lacking. Roughly defined, rentier explanations posit that citizens can be silenced by state subsidies in a myriad of areas (lack of taxation, housing, health-care, pensions, etc.) paid for by rents accrued to the state from resource wealth. Citizen “voice”, to use Albert O. Hirschman’s term, as a means of change from within a political system is muted or pacified, while the status quo is preserved.⁴ Hirschman defined the alternatives to voice, or political participation and change from within, as exit and loyalty. Rentierism is an extension of a theory of loyalty or patronage. Rentierism is a useful model, but it is not a permanent condition of any political system nor is it an analytically rich framework that might allow us to anticipate change and predict both social and state transformation. This book will detail with empirical evidence and conceptual arguments that the adaptive “old ways” (including the *majilis* tradition of consensus and negotiation among tribal leadership of the Arabian Gulf), shifting international politics and the new wealth can combine and evolve in ways that structure political and economic life into some recognizable patterns. By specifying the role of informal institutions and how they function, we can empirically model and compare three critical areas of political economy in a transforming state: the role of finance and particularly debt in financial crisis, the role of energy and the ability to build reliable and sustainable energy infrastructure, and the role of security as a domestic restraint and as a means to engage and forge allies in a critical geographical region.

The subtitle of the book, “Between the *Majilis* and the Market”, is meant to convey movement and flexibility, not a fixed trajectory or reference to a stage of modernization. There is an exchange among people and ideas, of ways of negotiating and bargaining that borrows equally from the past and from the demands of a fast-paced global economy. The movement may indeed be shifting away from the *majilis* tradition and to some new form of political leadership and interaction with financial markets and regional security actors. What we can analyze is the patterns that have emerged in the political economy of the UAE thus far and those patterns of interaction, leadership and communication that will continue to at least limit or structure policy innovation and change. In the political science literature this phenomenon is termed path dependency⁵ and this book argues that the *majilis* tradition and way of doing does indeed structure and limit policy choices, but is not a

fixed method of governance or political strategy. It evolves with society and given the multicultural and increasingly expatriate community of the UAE, the tensions and the mingling between the “old” ways and new ones deserve examination.

The argument of this book relies heavily on a theory of institutions. Institutions, following the definition of Douglass North, are the rules of the game in society or the humanly devised constraints that shape human interaction.⁶ As such, institutional change, like a transition from tribal rule to a federal state, will occur in continuous increments and as the result of embedded informal constraints, such as custom, tradition and mechanisms to filter information, create trust, and build consensus. As North, Wallis and Weingast argue, institutions are “patterns of interaction” which shape the behavior of individuals in a society and can include formal rules or laws, social conventions, informal norms of behavior and shared beliefs about the world.⁷ Institutions are, most importantly, means of enforcement – the legitimate ways things (including business, politics, and social relationships) are done.

This brings us back to the story of Shriti Vadera in Dubai. Why should it matter that a British woman of Indian descent, raised by immigrant parents in both Uganda and later London, might become a member of the peerage, a powerful broker of public finance in both the private banking sector and on behalf of the British government, working as a consultant to a tribal, hereditary ruler in an Arab Gulf state? The politics of class, identity and gender are fascinating, but not the focus of this study. This is a study of institutions, and therefore, the analytical lens targets the rules of the game, not the players themselves. What Vadera represents is the fluidity of advisory networks between governments and financial institutions, many with longstanding commercial and security ties. The informality of her relationship to both the government of Dubai and the British government, as well as her unofficial closeness to British banking interests speaks to the practices of negotiation and the importance of trust and access to individuals and power that is a common feature of global networks of politics, security and finance. Vadera was able to navigate a field between a ruling family with enormous commercial interests and control of state-owned enterprises, delicate domestic rule-making institutions including the Supreme Fiscal Committee and Executive Committee of Dubai, numerous international banks, corporate and government legal counsel and intervening foreign government advisers. She was able to engage in a language of commerce, economic liberalism, bargaining and trust that has been the hallmark of the Al Maktoum ruling family of Dubai for nearly two hundred years.

It is a striking coincidence that the British Labour party has played a role in two of the most critical moments of economic and political development of the UAE: first, at its founding in 1971, it was the withdrawal of British military protection based on Labour's decision to reduce its colonial sphere of influence and to reduce spending due to recession in 1968.⁸ Second, it was Labor's efforts to save the British banking sector that started the 2009 recall of excessive lending on the part of British banks to commercial interests of the Emirates (specifically, those owned by the ruling family of Dubai). In both instances, economic interests of the British government (led by Labour) trumped or were firewalled politically from security interests. In both instances, three decades apart, the political leaders of the UAE confronted the policy of the British government with the same bargaining and diplomatic practices. These practices are informed by enduring institutional structures of the political economy of the UAE – a reliance on informal institutions, ways of negotiating, balancing interests and power between ruling families of the distinct tribal and sub-regional cleavages. The political diversity of this small state is testament to its history of managing conflict domestically and with much more powerful adversaries. The process of state-building in the UAE has been as much a continuation of patterns of rule-making, bargaining, strategizing, all within a framework that has continually adapted to blend tribal practices and practices of balancing within the micro-politics of the domestic sphere with the pressures of global economic and political change.

The relationships between systems of rule (governance) and society have been fluid and syncretic in the United Arab Emirates for centuries. The advent of the petro-state has certainly created new opportunities and demands by society on these systems of rule. The issue of national identity and immigration policy has long been a source of tension, as the Emirati national population has itself exploded from a small 100,000 people of different tribal affiliations at the beginning of the twentieth century to nearly 500,000 citizens at the birth of the state in 1971, while the constantly arriving immigrant population has long surpassed the birthrate of nationals.⁹ New studies by the Institute for Social and Economic Research (ISER) at Zayed University in the UAE suggest that in a population of 4.2 million, only 900,000 are UAE nationals. The Director of the ISER, Dr. Mouawiya Alawad, estimates that the UAE population is not only majority expatriate, but also those non-citizens are a large non-Arab community, mostly male. Alawad estimates that 58 percent of the expatriate community comes from only three countries: Pakistan, India and Bangladesh.¹⁰