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DUBAI, QATAR, AND THE GULF EMIRATES' UNCERTAIN PATH TO THE FUTURE

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The image of Dubai as a consumer paradise has taken a denting over the past two years - not just because of the financial crisis. Whilst the country has always stood out as a bastion of liberalism within the region, there are signs that it is not entirely untouched by regional reactions to the nascent Arab democratic movements. These include strong action over civil society groups speaking up for civil liberties and rights, a new competitiveness over regional pre-eminence between the three strongest emirates: Abu Dhabi, Dubai and Qatar; and the stance taken by the Gulf Cooperation Council (GCC) over the Arab Spring.

As a liberal outpost in a conservative region, Dubai has historically prospered from its neighbours' misfortunes. From Persian traders at the turn of the 20th century, to the Iran-Iraq war, and the aftermath of September 11, money has flowed into Dubai. Commerce, tourism, ship repairs, a booming property sector and now, a new wave of instability have all provided it with another period of opportunity.

However, there are indications that the price paid to Abu Dhabi for the 2009 financial bailout involves more than just money. The financial picture seems to be an optimistic one. For civil liberties and the city-state's future growth and development, there are questions to be answered about what type of future path Dubai wishes to tread. Will it be able to carve its own path, or will it stand behind the forces of conservatism?

What kind of paradise?

Whilst Dubai has been focusing inwards on extracting itself from financial misery, things have been changing in the region. The impact of the Arab Spring, at first confined to Tunisia and Egypt, has spread to Libya, Syria, and closer to home, to Yemen and Bahrain, with rumblings in Kuwait and Oman. Its effects are also beginning to be felt across the Emirates.

Politically, the recent move to strengthening of the GCC by offering Morocco and Jordan to join the Council sends strong signals that the defence of the region's eight monarchical regimes remains an absolute priority; and that dissent will not be tolerated. This priority is why the Gulf monarchies have intervened so strongly to quell the popular uprising in Bahrain. The Saudi monarchy has already had to come to terms with the power of the Arab Spring, and according to Pierre Razoux, a senior adviser at the NATO Defense College (International Herald Tribune June 2 2011), "the rise in popular discontent could reach dangerous levels in the Arabian Peninsula".

Many none the less still believe that the UAE will remain more or less immune from the effects of the Arab Spring. Its high levels of both oil exports and per capita incomes, the distribution of wealth, economic opportunities and government subsidies to citizens have - so far - bought political dormancy. The population distribution within the Emirates has assisted in fostering a tranquil environment, since an overwhelming percentage of the population are expatriates who cannot obtain citizenship, and who obtain much stronger economic benefits than working in their home countries can provide. Such a population distribution will doubtless strongly influence the degree of potential democratic change that the region's rulers will feel constrained to initiate.

However, this overall picture of tranquillity masks a rather different reality for UAE nationals – in particular for those in the poorer of the seven emirates. Almost all economic opportunity is to be found in Abu Dhabi and Dubai, and the wealth gap is growing, as are levels of unemployment. Reportedly, northerners (about half the population of the UAE) and those denied citizenship despite generations of residency (known as the "*bidoon*" or "those without") are becoming more vocal in voicing their concerns. But so too are some of the well-educated, wealthy citizens of the richer emirates. Many of the latter are disillusioned by lack of transparent government (and indeed, the total lack of any real democratic institutions, despite the existence of a National Council, elected only by a small number of "eligible") and by the failures of the justice system. Protests against the former in early 2011 saw calls for a fully-elected parliament and universal suffrage (with a constitutional monarchy) being met with arrests of leaders of a Dubai-based discussion forum comprised of professionals and intellectuals (Ahmed Mansoor, Fahad Salem al Shehhi, Nasser bin Ghaith). The group is calling for genuine democracy and the end of welfare-style handouts. There are broader implications arising from these arrests than just regional democracy.

The close cooperation between the international community and the UAE's rulers which includes financial support from Abu Dhabi to Dubai, but also the legitimacy conferred on the rulers by these external links in both the international community and the region, around education (New York University, the Sorbonne) and culture (the Louvre, the Guggenheim) may also merit further examination. In particular, the role of expatriates in contributing to limitations on freedom of speech (through working in the state-controlled media, security services, censorship bodies) raises questions around the promotion of non-accountable institutions.

Dubai's bail-out by Abu Dhabi is therefore having more than just financial implications or dents to national pride. Abu Dhabi has the reputation of being a more conservative emirate and takes an influential dim view of libertarian behaviour.

The indications are that the UAE is becoming increasingly repressive, as the Rulers of the Emirates become uncomfortable about pro-democratic change. From being a set of essentially tribal federations which traditionally used consultative, egalitarian informal institutional structures for governance, over time, the Emirates have experienced decrease in accountability, and some would say that they are now moving towards becoming a police state (Christopher Davidson, Financial Times, April 14 2011).

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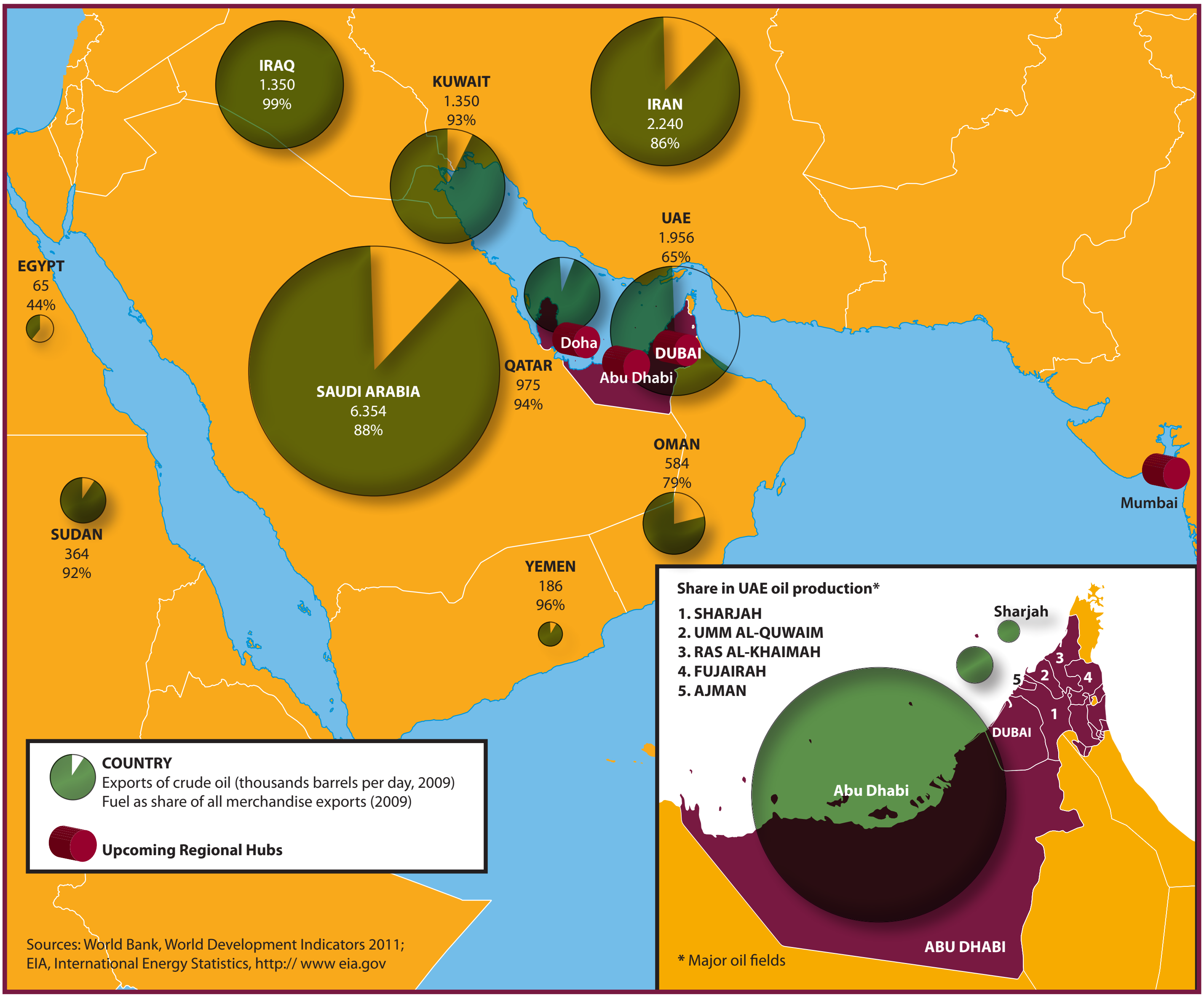
In the recent past, Abu Dhabi sent troops to Bahrain to participate in the Saudi-backed efforts to quell dissent there, and it supported the Mubarak regime in Egypt until its last days. Both movements and communications are increasingly strongly monitored across the Emirates (as evidenced by the capture on video of the assassins of the Hamas leader, in Dubai in 2010).

In terms of moves towards pre-empting the potential effects of the Arab Spring, there is reportedly an intention to think about what reforming the UAE's residency laws might bring: could this be an instrument to help establish a more stable expatriate population with a greater stake in the country's future?

On the financial front, the situation seems to be looking up. Although Dubai still needs to repay or reschedule state-linked loans of $12 billion in 2011, growth appears to have returned this year, following the financial crisis, the 2009 recession, and last year's relatively weak recovery. Trade, tourism and even to an extent, real estate, seem to be on the way up again. Indeed, Dubai's initial prosperity was based on trade, when it slashed taxes at the turn of the 20th century. Now, its trade sector is flourishing again, as it positions itself to capture rising global trade flows, and consolidates its position as a re-export hub to Iran (despite US sanctions), with 12% growth in 2010. (Companies wishing to trade with Iran send goods to Dubai, with its well-developed re-export infrastructure, from where resellers can send goods to the Islamic republic. 88% of bilateral trade between Dubai and Iran last year consisted of re-exports.) However, pressure from US sanctions on financial institutions, to avoid funding trade flows to Iran, means that the cost of trade finance has risen sharply. The current picture is looking good overall, with trade figures almost back at the 2008 peak level, and with non-oil trade in 2010 rising 19 per cent to reach Dh905bn ($246bn) after the 2009 slowdown..

None the less, this success has come at some cost. To avoid bankruptcy in 2009, the emirate had to borrow more than $20bn from oil-rich Abu Dhabi as Dubai's real estate sector crashed and state-linked companies could not repay debts. Much of the borrowed money was invested in real estate and infrastructure. That investment, from port expansions to the new Al Maktoum airport in Jebel Ali, means that the emirate will have to sustain strong growth to utilise the large capac-



ity that could turn idle if global trade flows wane. It also means that Dubai is increasingly being led by Abu Dhabi in terms of its socio-political attitudes.

Economically, as armed forces crackdown on protesters in Bahrain, bankers expect Dubai to benefit from regional turmoil. This is not least because of its history: the city has historically grown when troubles hit its neighbours, from the Iran-Iraq war, to terrorism in Saudi Arabia and the war in Afghanistan. *"With oil prices, these economies will gain,"* says V. Shankar, chief executive for Standard Chartered in Europe, the Middle East, Africa and the Americas. *"Dubai will also act as a safe haven, and irrespective of all this, we are seeing a strong pick up in 'the three t's': trade, transport and tourism."*

For "Brand Dubai", tourism is a major source of income. If the rest of the Arab world's search for liberty, justice and equality starts to take hold – without the involvement of the Ruler – not only would the regime be destabilised, but this sector would take a major hit. At present, hotel occupancy rates are up 3.1 percentage points (to 81%) in 2011, and new hotels are opening. This compares favourably with both Bahrain and Cairo, which are clearly suffering from the after-effects of the revolutions of the Arab Spring; and eve with Beirut. *"Dubai's hospitality sector is diversified with some 40 per cent of rooms in the mid-scale to budget segments, thus rendering Dubai qualified to benefit from the tourism fallout of Egypt and Tunisia,"* says Alex Kyriakidis, global managing director for tourism at Deloitte. Clearly, the uncertainty still being experienced in North Africa is positively impacting on Dubai, which is seen as a "safe haven", with an open economy, political stability, and – till now - a culture of openness.

Something New? "Brand Dubai", "Brand" Qatar, or a lesson from the Arab Spring?

Dubai put itself on the map through a six-year real-estate boom during which it built palm-shaped islands and the world's tallest building. Its no-tax model and modern infrastructure drew international companies and expatriate workers to the emirate, while the government and its related companies splashed out on foreign assets, financed largely by borrowing. However, the strategy unravelled in 2008 with the onset of the worst global recession since the Great Depression, leading property prices to crash and more than half of the registered real-estate projects in the emirate to be cancelled. Foreign investment dried up, income from investments slumped and the cost of debt refinancing soared.

In 2011, the most immediate concern remains Dubai's still-ailing property sector, even though an increase in lending from Dubai-based banks has contributed to a level of recovery in the emirate's real estate market. Transactions climbed in both January and February on the back of greater access to finance for investments. However, while the long-term outlook for the once-booming Dubai market is looking more positive, there are indications that rental values are coming under increasing pressure from tenants who continue to take advantage of the over supplied marketplace, dropping between 8-10%.

Increased interest is also being experienced in those parts of the property market which for the past two years has been falling rapidly. Leasing rates are now more attractive to new arrivals, due to the stock of empty and partially-completed residential and commercial spaces. The property regulator is attempting to make supply fit demand, though real estate agents say that say transactions are increasing and interest is rising from North Africa and other regional countries. Furthermore, western banks in Dubai are reporting a rise in deposits as investors move their money to safer places, though some (such as the Swiss) are keeping new accounts to a minimum and steering clear of politically-exposed clients.

Whilst Dubai seems set for a short-term gain, the longer-term picture is less certain. Politically, following intervention by Saudi Arabia and the UAE in Bahrain, relations between the GCC and Iran are not particularly warm and fuzzy. Furthermore, the bank HSBC forecasts that even the more politically stable countries in the region can expect a more sluggish level of performance in private sector growth, as perceptions of regional political risk increase.

Dubai's pre-eminence as a regional financial and trade centre could also be challenged by other upcoming hubs, including Abu Dhabi, Qatar and Mumbai, according to Price Waterhouse Coopers' David Stevens. Most of all, the emirate needs strong economies around the world with which it can trade and provide services. Political stability and investor confidence in the region will be critical factors in determining whether Dubai's short term gains can be translated into long term, sustainable economic development. Uncertainty is never good for business. The competition for regional brand pole position among the Gulf States is beginning to threaten Dubai's former pre-eminence.

Dubai has for many years been the epitome of the modernisation of the Gulf in the 21st century, whilst rapidly building place-brand awareness. However, in recent years following its financial bail-out by Abu Dhabi, with its own Formula One Grand Prix, its cultural projects and the re-positioning of "brand Qatar", Dubai's position may be under threat. Qatar too is positioning itself as a cultural, educational, financial and transport hub, with the iconic I.M. Pei-designed Museum of Islamic Art, Education City, Doha's new financial district and the national carrier, the "5-star" Qatar Airways, not to mention FIFA's decision to have Qatar host the 2022 World Cup soccer tournament.

A major difference between the three states is that unlike the other two, Dubai lacks oil wealth: (natural resources currently contribute less than 2% of the country's GDP). Whilst on the one hand, this has forced economic diversification and promoted a strategy of branding via large scale developments aimed at trade and tourism, together with foreign investment (in 2006, for example, the UAE - particularly Dubai - attracted almost as much foreign investment as the whole of India) - it also brought vulnerability and exposure to the international financial crisis.

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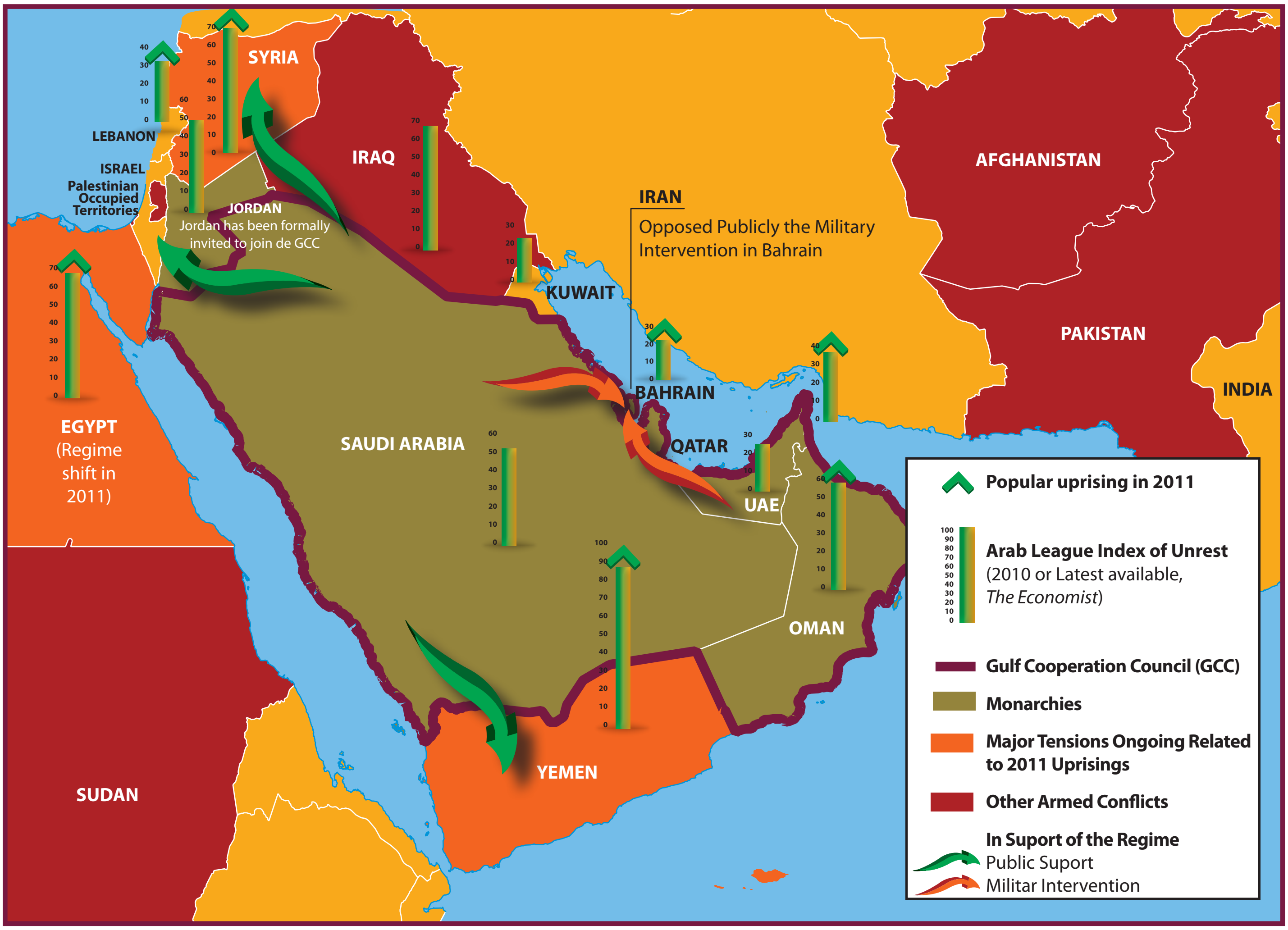
The lower profile for Dubai enforced by the crisis, allowed Doha and Abu Dhabi the time to build their own brands, with the latter arguably trumping "Brand Dubai" by forcing it to rename the world's tallest tower the Burj Al Khalifa instead of the Burj Dubai, as a condition of the bailout. (Sheikh Khalifa bin Zayed bin Sultan Al Nahyan is the current President of the UAE and Emir of Abu Dhabi). Dubai has since responded with the launch of the "This is Dubai" campaign – presenting a people-centred, human-faced Dubai, but it is possible that the "damage" has already been done, through the creation of windows of opportunity for its competitors Qatar and Abu Dhabi. Indeed, Qatar may be leapfrogging Abu Dhabi, if the recent arrests of human rights and democracy activists in the latter result in Qatar's branding as the most "respected" nation brand in the Gulf.

Some argue that the rulers of the UAE, Qatar and Kuwait have little to fear from the Arab revolutions of 2011. Indeed economic opportunity is being leveraged from them. Furthermore, a number of the key issues raised in the revolutions (jobs, income, access to affordable food) are simply non-issues for most Emiratis. The privileged position of the average Emirati who receives benefits such as free schooling through doctorate level in any public or private school in the world; land allotments; interest-free loans to build houses; discounted food purchases in cooperatives (25% in early 2011); and cash payments to Emiratis who marry other Emiratis, means that there is little incentive to take



up menial or low paid jobs. As a result, unemployment amongst Emiratis was 17% in 2008; and those who work, do so mainly in the public sector, with high wages, short hours and many holidays.)... Kuwaitis and Qataris enjoy similar benefits.

It is therefore as a result of expatriate workers (from a range of nationalities and socio-economic backgrounds) that Dubai's prosperity has been built. Expatriates account for more than 90% of the population, 99% of the private sector work force and 90% of the public sector. However, as government jobs become saturated, and with an increasingly educated youthful population reaching working age in a few years, a social crisis may develop – though employment patterns to date show little likelihood of the average Emirati seeking work for economic reasons, and those who may choose to do so for personal fulfilment have not really come forward in significant numbers as yet. On the one hand, high unemployment rates among nationals may cause the government of Dubai concern. On the other, it offers cause for satisfaction, reflecting the success of state policies aimed at basing the nation's development on an expatriate workforce, who do the work nationals are unwilling or unable to. Thus, many argue that the citizens of Dubai are unlikely to become exercised over the notions of liberty and freedom publicised by the Arab Spring, irrespective of the wave of change sweeping the rest of the Middle East.

Qatar is fast positioning itself to become a regional centre of excellence in education, finance, communications (including as home to Al Jazeera television network), and as a major travel hub, challenging the pre-eminence of Dubai. Importantly, Qatar allied itself swiftly, firmly – and very publicly - on the side of western liberalism and Arab reform, in negotiating international action in Libya in support of the rebels aiming to oust Muammar al Ghaddafi.

Qatar is also pre-empting the potential effects of the Arab Spring domestically, having announced Shura (consultative Council) elections in early March 2011. The Shura Council is currently named by the Emir. The Al-Thani dynasty has been dominant in Qatar since the mid-1800s, retaining absolute control over all aspects of government. Interestingly in the light of the current situation in Bahrain, the Al Khalifa family of Bahrain dominated the area until 1868 when, at the request of Qatari nobles, the British negotiated the termination of the Bahraini claim, except for the payment of tribute, which ended when the Ottoman Empire occupied Qatar in 1872.

In June 2005, Qatar signed into effect a constitution for the first time since independence from Britain in 1971 with the aim of introducing democratic reforms. The constitution, which had been approved by referendum in 2003, clears the way for the separation of executive, legislative and judiciary branches while keeping real power in the hands of the emir and his family. The constitution provides for legislative power to be vested in a Consultative Council made up of 45 members, two thirds of whom would be elected and the rest appointed by the Emir.

These nascent attempts towards democratic political reform are underpinned by the country's economic growth has been stunning. Qatar's nominal GDP, estimated to be $128 billion for 2010, has recently been growing at an average of 15%, and the 2010 growth rate is estimated to be 19%. Qatar's 2007 per capita GDP was $67,000, and projected to soon be the highest in the world. The Qatari Government's strategy is to utilize its wealth to generate more wealth by diversifying the economic base of the country beyond hydrocarbons

As always in the Arab world, personalities matter. The driving force behind Qatar's 14km square Education City, an initiative of the Qatar Foundation for Education, Science and Community Development, founded in 2005, comes directly from the royal family. The City is the brain-child of the influential and charismatic Sheikha Mozah bint Nasser al Misned, whose portrait, together with that of her husband the Emir of Qatar, graces the sandstone and marble main entry hall of the Islamic Museum. Conceived as a forum where universities share research, and forge relationships with businesses and institutions in both the private and public sectors, the Education City aims to be the centre of educational excellence in the region and in particular, to instruct students in fields of critical importance to the Gulf Cooperation Council region.

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The Qatar Financial Centre, established by the government in 2005, and situated on the Doha skyline behind the iconic I.M. Pei-designed Islamic Museum, provides financial institutions with a world class financial services platform, situated in an economy founded on the development of its hydrocarbons resources. It has been created with a long-term perspective to support the development of Qatar and the wider Gulf region; to develop local and regional markets; and to strengthen the links between the energy-based economies and the global financial markets. It presents a challenge to Dubai's new International Finance Centre (the DIFC), designed as an onshore global financial and business hub, promoting the growth and development of the UAE economy.

In contrast to much of the rest of the UAE, Qatar is pursuing a vigorous program of "Qatarization," under which all joint venture industries and government departments aim to move Qatari nationals into positions of greater authority. Growing numbers of foreign-educated Qataris, including many educated in the U.S., are returning home to assume key positions formerly occupied by expatriates.

Which way out?

The way in which those who speak up for democratic change are treated in Dubai may have more influence over the shape of its future identity than would at first appear in what could be regarded as isolated, reactive incidents. In the past, the extraordinary vision of the creation of a mega-force for trade and tourism, diversifying away from reliance on oil revenues, has been seminal in shaping and taking forward the city-state's identity.

Certainly, the foresight and strategic positioning of the Maktoum brothers, the current Ruler Sheikh Mohammed bin Rashid al Maktoum and his predecessor, the late Sheikh Maktoum, have been critical elements in the creation of the essence of Brand Dubai. It is they who have enabled Dubai to become what it is today, historically preferring tolerance and (relative) equality over the identity-based and status-ridden hierarchies of, for example, Kuwait. Sheikh Mohammed, at this a critical time, has yet to transmit the vision that he can steer the city-state into a democratic, accountable, prosperous future, or that could see it take a very different path.

In this regard, it is likely to be the forces driving the Arab Spring that will have more influence on the future of Dubai, than economic vision and foresight have had in the past. The newly-enlarged "monarchs club" of the GCC may well find itself directly facing a political crisis because of lack of consistency with the course that history is taking – or indeed, by positioning itself in opposition to it. In a new departure for US foreign policy, the Obama administration no longer unconditionally supports the Saudi regime, and indeed, abandoned both Tunisia and Egypt's rulers to their fate, albeit whilst talking to their armies. The rulers of the Gulf states do not enjoy the support of many of the Arab peoples. .As pointed out by Razoux, the new muscles that GCC could soon be flexing could also conceivably marginalize Yemen, isolate Iraq and aggravate the frustrations of the Palestinians and other Arabs.

The Arabian Peninsula's stability and wealth may yet be rapidly jeopardized as a result of the shockwaves of the global financial crisis and the unrest coming from the Arab street. The "three T's" of trade, transport and tourism might not suffice to secure the future; and the outcome of the Yemeni crisis could determine the trend in the months to come. A decision has to be made whether to take the path of quick reform or the one leading to widespread repression., However, what is beyond doubt is that the Emirates cannot play the isolation card: today's world is far too global and interdependent. Furthermore, it is a world which is rapidly transitioning to a post-oil reality. Dubai has an opportunity to lead the way towards a more open, more liberal and democratic model, and to influence the future of the region more deeply than the monarchies surrounding the city-state may anticipate.