

CAPITALISM WITHOUT DEMOCRACY: THE CASE OF DUBAI

THESIS

Presented to the Graduate Council of
Texas State University-San Marcos
in Partial Fulfillment
of the Requirements

for the Degree

Master of ARTS

by

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San Marcos, Texas
May 2010

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ACKNOWLEDGEMENTS

Completion of this thesis would not have been possible without the loving support of my beautiful wife, Margaret. Our son, Henry, has been the guiding light in all of our endeavors. Much gratitude goes to my very generous grandfather, Robert Holt, and my patient and loving parents for their spiritual and financial support and leadership. I would also like to thank my wife's parents for accepting me into their loving family and supporting both of us throughout our academic careers as well. Many thanks also go to Emily Mathews for rescuing me; she was the first stepping-stone in my academic path to today.

It is my hope that this thesis will serve as an example for my son of not only reward for hard work, but also the wide and wonderful world of science. All things are possible through the pursuit of knowledge, whether it be in the physical sciences, social sciences, art, or theology. All things worthwhile take hard work and a lot of time. You can do *anything* you want to do—with a good education.

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ABSTRACT

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May 2010

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The small Persian Gulf Emirate of Dubai has moved from pre-industrial to industrial to quasi-post-industrial service economy status in less than half of a century. Dubai stands as a luminous Arab version of Western capitalism and now serves as a model for diversification, development, and investment to other rentier states in the region and beyond. The Dubai macroeconomic model has accomplished and far exceeded all of its stated goals. As one of the few Arab economic success stories of the twentieth century, the subject of how Dubai reached this point, the sustainability of its model, and the implications its success may have on other actors has received little academic scrutiny. Very few expect Dubai's model to disappear any time soon. This thesis explores the relationship between capitalism and democracy and then describes the basic structure and origins of 'Dubai Inc.', as it is now famously called, with focus on two key components of its macroeconomic policy; special economic zones (SEZs) and sovereign wealth funds (SWFs). Is there a link between democracy and capitalism? If not, is undemocratic capitalism dangerous or preferable?

CHAPTER I

INTRODUCTION

Dubai is one of seven small emirates in the United Arab Emirates (U.A.E). The U.A.E. is a loose confederation of quasi-sovereign sheikdoms ruled by hereditary succession. By singling out the small Persian Gulf Emirate of Dubai as a case study it may be easier to recognize overall trends in a nondemocratic capitalist economy than if larger entities like China or the Russian Federation were studied. Because the U.A.E.'s sheikdoms are mostly autonomous, and development in the country is extremely uneven, using the entire country as a case study would most likely render generalizations unreliable. Dubai serves as an icon for the region in many regards and has taken development strategies to such extremes and been so successful that it could easily be put forward as one of the smallest yet most ostentatious examples of capitalism without democracy.

Much ink has been spilled over the past few decades on relations between democratic governments—specifically concerning the Democratic Peace Theory. In it, theorists posit the hypothesis that democracies rarely if ever go to war with each other. Even more ink *and* treasure has been spilled and spent by democratic governments in the name of democracy promotion. If democratic governments are unlikely to go to war with each other and every country is a democracy, then hypothetically world peace can be

achieved—or so the theory goes.¹ Many democracy promotion efforts²—such as the Millennium Challenge Corporation (MCC)—focus heavily on economic reforms,³ presumably under the assumption that capitalist economies place indirect and direct pressure on governments to democratize.⁴ The idea is that by convincing countries to pursue capitalism, they will eventually be pressured into democratizing, thus leaving us with a world of democratic peace.

There has no doubt been a sharp increase in the usage of capitalism as a development model since the fall of the Soviet Union and Communism. There has not, however, been as sharp of a rise in sustained or successful democratization. There is an asymmetrical relationship between democracy and capitalism. By attempting to promote democracy through capitalistic economic reforms, democracies may be shooting themselves in the foot. Capitalistic democracies that practice this form of promotion are inadvertently teaching undemocratic regimes a new and more powerful method in which

¹ Democratic Peace Theory remains largely debatable today, see Rosato, Sebastian “*The Flawed Logic of Democratic Peace Theory*” *The American Political Science Review*, Vol. 97, No. 4 (Nov. 2003) p. 585-602 and also Rosato’s rebuttal to criticisms of his article in “*Explaining the Democratic Peace*” *The American Political Science Review*, Vol. 99, No. 3, (Aug. 2005), p. 467-472

² This trend began towards the end of the Cold War and reached its pinnacle with the U.S. invasion of Afghanistan and Iraq. However many autocrats—even ‘elected’ ones—are beginning to push back, see Carothers, Thomas “*Promoting Democracy and Fighting Terror*” *Foreign Affairs*, Vol. 82, No. 1 (Jan - Feb. 2003) pp. 84-97 & “*The Backlash against Democracy Promotion*” *Foreign Affairs*, Vol. 85, No. 2 (Mar.-Apr., 2006), pp. 55-68

³ See Radelet, Steve. “*Will the Millennium Challenge Account Be Different?*” *The Washington Quarterly*, Vol. 26, No. 2 (Spring 2003) p. 171-187 and the Millennium Challenge Corporation official website at [<http://www.mcc.gov/mcc/about/index.shtml>] As one of the key components of a broader democracy promotion agenda, the MCC was created by George W. Bush with the overwhelming support of Congress in 2004 with the approval of the Millennium Challenge Account (MCA). The MCC seeks out poor countries willing to liberalize their markets and pursue democratic reforms and then rewards them with grants and investments. It was billed as a doubling in foreign assistance, adding another agency to the list that includes the Agency for International Development (USAID) and the Peace Corps. The MCC is unique—according to Radelet—in that it is “aimed solely at supporting economic growth and not other foreign policy goals”

⁴ For a detailed and critical look into the logic and practice of promoting democracy through MCC-suggested economic reforms see Soederberg, Susanne. “*American Empire and ‘Excluded States’ The Millennium Challenge Account and the Shift to Pre-emptive Development*” *Third World Quarterly*, Vol. 25, No. 2 (2004) pp. 279-302

autocrats may aggregate international prestige and power over their people. History suggests that in countries where rapid industrialization occurs through a capitalist economy, a failed attempt at democratization without a popular revolution can lead to fascism, National Socialism, or possibly some other unseen tragedy.

The rapid industrialization and present nature of Dubai and the U.A.E. is quite culturally, geographically, and historically different than pre-Nazi Germany and pre-Fascist Italy. Nonetheless, economically and politically there are some striking similarities. This is not a suggestion that Dubai is in danger of becoming a fascist state; that will not happen for several reasons outlined in this thesis. However, the idea presented here is that the economic model Dubai is pursuing is untenable—or at a minimum not compatible with democracy. If the assumption that capitalism does not always lead to democracy, and can in some cases lead to something much worse than a traditional monarchy, is correct, then the foreign policy of capitalist democracies must move away from their sharpened focus on economic reforms. Promoting universal substantive political reforms may actually be the better method for achieving universal democratization—if that is in fact the goal.

This analysis will begin with an overview of the literature on the relationship between democracy and capitalism. In the first half of Chapter II, capitalism and democracy are defined. The second half explores the historical and theoretical relationship between the two. At the end of the second chapter, three mini-case studies of countries that have at one point been—or still are—capitalist and authoritarian are presented in an effort to highlight the idea that capitalism does not always lead to democracy.

Chapter III gives a brief history of Dubai. The emirate's rise from a grouping of mud huts on what was deemed the "Pirate Coast" to what exists today is a remarkable story. This chapter explains how geography has affected development and gives a summary of the early history of the region. Not much is known about the early history of the U.A.E., so the analytical core of the chapter begins when the British arrived. Prior to that, some attention is given to culture and regional history. This historical chapter takes the reader all the way through oil discovery and production in Dubai, the formation of the federation, and concludes with a brief analysis of the federation's current status.

Dubai's macroeconomic policy and system is explained in Chapter IV with emphasis on its use of Sovereign Wealth Funds (SWFs) and Special Economic Zones (SEZs). With regards to Dubai's tourist and real estate sectors, analysis stays specific to the emirate, however when talking about SWFs and SEZs, a wider lens is used. The use of the latter two macroeconomic tools are not only foundational to Dubai's success, but are a growing trend in undemocratic countries around the world and will most likely play a pivotal role in either the continued success or economic collapse of the emirate.

Chapter V explores the ruling bargain in Dubai and assesses its stability and functionality. How does one go about politically controlling a group of people who see themselves as economically free? One way is to buy their loyalty. This chapter not only explains the overall governing structure in Dubai, but also attempts to outline a few of the inherent problems with purchasing patronage. The ruling bargain is dependent upon economic success. In Dubai, where the oil is almost gone and most income is foreign direct investment, economic success is no longer dependent upon rents from oil production; it is dependent upon the success of the broader global economy. This

development may make Dubai's rulers more diplomatically friendly with other nations, but does it advance the cause of democracy or retard it?

In the final chapter, a synopsis of the current situation in Dubai and its implications is given. Dubai is a shining example of the raw power capitalism exudes when harnessed by autocratic rule. If market-oriented reforms create an environment in which democratic reforms become inevitable, as many scholars and policymakers have noted, then why does Dubai seem to be stuck in autocratic limbo even as its economy develops at breakneck speed on a wave of capitalist policies? Does democracy eventually grow out of capitalism? If not, is undemocratic capitalism sustainable in the long run? These are questions this analysis addresses.

CHAPTER II

CAPITALISM AND DEMOCRACY

Defining Democracy

The goal of this chapter section is to arrive at an operational definition of democracy. The scope of such a characterization spans a spectrum of definitions and eras that range from the ancient direct democracy of the Greeks to the representative democracies of today. Theories of democracy are as diverse as the historical record of representative government and the subject of thousands of books. Democracy has been greatly debated, rarely practiced, and often theorized for at least twenty-five centuries, taking on diverse meanings to disparate peoples at distinctive places and times. Robert Dahl notes that rather than leading us toward a definitive definition, this lengthy history is probably the culprit behind the confusion and disagreement often surrounding comprehensive definitions.⁵

Laurence Whitehead agrees that the definition has seemed to change and evolve over time and adds that some differences exist today between British and U.S. understandings of the fundamental aspects of democracy. He also posits, “democracy has some indispensable components, without which the concept would be vacuous, but these indispensable elements are skeletal and can in any case be arranged in various possible

⁵ Dahl, Robert A. *“On Democracy”* Yale University Press. 2000 p 3

configurations.”⁶ Whitehead predicts that the definition of democracy will most likely “remain contested, and even to some extent unstable, as current processes of democratization unfold.”⁷ He characterizes democracy by defining the process in which it comes to be.

*Democratization is best understood as a complex, long-term, dynamic, and open-ended process. It consists of progress towards a more rule-based, more consensual, and more participatory type of politics. Like ‘democracy’ it necessarily involves a combination of fact and value, and so contains internal tensions.*⁸

The facts and values that are in conflict in defining a democracy include institutions—such as courts or a bureaucracy—and evaluative notions of justice or morals.⁹ The clash between fact and value is not the only dichotomous row in a definition of democracy. Joseph Schumpeter breaks the word *democracy* down to its etymological origins in order to explain the difficulties in defining it. The two constituent parts, *demos*—the people, and *kratein*—to rule, have varying independent definitions that are not autonomous from the concept of democracy.¹⁰ Constitutionally, many democracies have chosen at different times to exclude slaves and women among others from citizenry or voting privileges and thus their status as the *demos* or ‘people.’ Historically, no democracy has ever allowed people below a certain age to participate in politics, thus illustrating that even the most democratic democracies have always been,

⁶ Whitehead, Laurence. “*Democratization Theory and Experience*” Oxford University Press, 2002. P. 20

⁷ Ibid , p. 26

⁸ Ibid., p. 27

⁹ Lipset, Seymour Martin. “*The Value Patterns of Democracy A Case Study in Comparative Analysis*” American Sociological Review, Vol 28, No 4 (Aug. 1963) pp. 515-531, p. 516

¹⁰ Schumpeter, Joseph. “*Capitalism, Socialism, and Democracy*” George Allen and Unwin Ltd. 1976, p. 245

and still are today, to some extent discriminatory in varying ways.¹¹ Discrimination is in one sense a conflict of virtue or judgment, but in another it allows for an ambiguous—if not arbitrary—definition of the *demos*. If the people are to rule, then who are the people?

The second root word of democracy is equally as vague as the first. Any number of individuals can exercise *kratein*—power or authority—in any number of different forms. Traditional prestige, charisma, and personal success among other things, give different people within the same society differing sources of legitimate power.¹² All decisions by all rulers, whether it is the people or a person, are not only subject to personal preferences, but also to the national situation (increasingly the global situation) and must interact with other people in some fashion. The *kratein* aspect of democracy runs into definitional problems especially in the large and diverse societies of today. Direct democracy is conceivable in that the actual ‘people’ could actually ‘rule’ in the small Athenian polis—no larger than 1000 sq. miles—or even in a New England town hall.¹³ But anything much larger than that in population or geography elevates the number of competing characteristics of people and rules that can be considered democratic and distorts the foundational etymological definition beyond common recognition. The existence of large and diverse democracies today is why definitions of democracy vary so widely.

The term *direct democracy* best describes the ancient democracies and the sort of democracy practiced in societies with simple structures and small numbers of

¹¹ Ibid.

¹² Krackhardt, David. “Assessing the Political Landscape: Structure, Cognition, and Power in Organizations” *Administrative Science Quarterly*, Vol. 35, No. 2 (June 1990) pp. 342-369, p. 343-344

¹³ Schumpeter, Joseph. “*Capitalism, Socialism, and Democracy*” George Allen and Unwin Ltd. 1976, p. 246

inhabitants.¹⁴ The problem of explaining how people will rule as size and complexity increase in a society can be easily dismissed if we are prepared to substitute rule *by* the people with rule *approved by* the people—essentially the difference between a direct democracy and a representative or republican democracy.¹⁵ Schumpeter warns that this is a dangerous proposition, for numbers of autocratic regimes throughout history have been able to secure majority approval of their rule through any number of means.¹⁶ Indeed, rule approved by the people leaves the question of *how* approval was obtained wide open. Was it by brute force? Was it bought? Maybe God ordained it?¹⁷ Or was it decided by popular sovereignty? Nadia Urbinati argues that political representation predates all modern democracies and its relationship to democracy in general is ‘permanently subject to debate.’¹⁸ “Today, in politics, democracy is the name of what we cannot have—yet cannot cease to want.”¹⁹

Just two centuries ago democracy was considered by most to be a direct democracy like that of ancient Athens and was often frowned upon, for it typically grew out of control and resulted in violence as government grew larger and exerting power became more complex. James Madison and many of the other American Founders used the term *republic* to describe the representative system of democratic governance they helped establish in order to distance it from the rambunctious democracies of the past. They made a sharp turn away from the ancient structure of a democracy, but their move was prudent, rational, and did not divert too far off the philosophical and theoretical path

¹⁴ Ibid., p. 245-246

¹⁵ Ibid., p. 243

¹⁶ Ibid.

¹⁷ See The Bible, Acts 1:18-26 for an ancient Middle-Eastern example of this—the choosing of the successor to Judas

¹⁸ Urbinati, Nadia “*Representative Democracy Principles and Genealogy*” University of Chicago Press, 2006 p. 17

¹⁹ Ibid.

blazed by the Greeks—given the practical structure and evolution of representative democracy today. Critics of this move include participatory theorists who advocate a more active role for the citizen along the lines of direct democracy. They contend that representation promotes a “passive citizenry and an elected aristocracy.”²⁰ Others argue that representation is merely a useful tool for dividing up labor in a democratic system.²¹ Either way, most democracies today are representative yet the appearance of representation is not an inclusive enough attribute to wholly define democracy.²²

Over the past two centuries or so as democratic ideals have spread around the globe, the systems created to encase them have evolved out of the geographic and cultural entities they were meant to govern.²³ Modern democracy remains typically as unique to a territory as the people who inhabit it, yet at the same time all democratic regimes exhibit certain foundational characteristics and functions. For the purposes of this analysis, all forms of democracy will be operationally defined as *a political regime based on free elections and the rule of law*. The elections exist so citizens can dispose of leadership if needed and the rule of law is there to limit what those leaders can do while in power.

The above is a fairly conservative definition of democracy in that it does not delve deeply into specifics. For example, many modern democracy-rating institutions such as Freedom House use maximalist definitions that include qualitative attributes like civil liberties—including *freedom of speech, religion, assembly and press*—and political rights—including *participation and functionality*—as tools for measuring “rights and

²⁰ Ibid.

²¹ Besley, Timothy & Stephen Coate. “Sources of Inefficiency in Representative Democracy: A Dynamic Analysis” *The American Economic Review*, Vol 88 No. 1 (March 1988) pp. 139-156 p. 140

²² Dahl, Robert A. “On Democracy” Yale University Press 2000 p. 16 & 30

²³ Ibid, p. 4

freedoms integral to democratic institutions.”²⁴ Maximalist definitions such as this overburden the concept of democracy and decrease its usefulness by including attributes that cannot be easily measured empirically, including terms such as ‘social justice.’ And even when empirical measurements are found, the maximalist definition is so overloaded that it becomes of little analytical use.²⁵ Munck and Verkuilen point out that by including things such as a market-based economy in a definition of democracy, one overlooks the varying linkage between markets and democracy and excludes it from analysis.²⁶ On the opposite side, minimalist definitions face the problem of all cases becoming instances.²⁷ For example, if democracy were defined merely by the presence of elections, North Korea would be a democracy. While this thesis does not aim to measure empirically the level of democracy anywhere, the literature seems to suggest that a middle-road definition of the term gives the best results in any analysis, whether quantitative or qualitative.²⁸

Defining Capitalism

The family is the basic unit of all civilization. Without the family, nothing else is possible²⁹; hence the Greek word *oikonomia* *Oikos*—meaning household—and *nomos*—

²⁴ [<http://www.freedomhouse.org/template.cfm?page=277>]

²⁵ Munck, Gerardo L. & Jay Verkuilen “*Conceptualizing and Measuring Democracy Evaluating Alternative Indices*” *Comparative Political Studies* Vol. 35 No. 1, February 2002 p. 9

²⁶ Ibid.

²⁷ Huntington, Samuel P. “*The Third Wave Democratization in the Late Twentieth Century*” University of Oklahoma Press, 1991, p. 9

²⁸ Munck, Gerardo L. & Jay Verkuilen. “*Conceptualizing and Measuring Democracy Evaluating Alternative Indices*” *Comparative Political Studies*. Vol. 35 No. 1, February 2002 p. 9, Dahl, Robert A. “*On Democracy*” Yale University Press. 2000 p. 4-6, Przeworski, Adam and Fernando Limongi. “*Political Regimes and Economic Growth*” *The Journal of Economic Perspectives*, Vol. 7, No. 3 (Summer 1993), pp. 62-64, & Coppedge, Michael. “*Thickening Thin Concepts and Theories Combining Large N and Small in Comparative Politics*” *Comparative Politics*, Vol. 31, No. 4 (Jul., 1999), p. 465

²⁹ In the sense of building a traditional civilization and the political-economic systems that form with them

implying management—we get the word economy, or *household management*³⁰ Similar to the term *democracy*, the two constituent root words of the term *economy* have independent definitions that somehow must be reconciled when defining an economy. What or who is the household being measured—macro or micro? Is it the market or the government that is making management decisions when a parastatal corporation is organizing the accumulation and reinvestment of profits gained in a free market? The original usage of the term by Aristotle was aimed at explaining primarily private behavior by the household considered outside the public realm, not the extensive and complex mixing of government and household management that exists today.³¹ This is the problem with applying a definition of capitalism to a specific case.

In its most basic form, capitalism can simply be defined as the theory of money or a system of value: capital—meaning assets available for use in production—and ism—indicating the theory or system of. Essentially it is the belief that things intrinsically hold value because we believe they do and from there understandings of capitalism blossom into a multitude of intricate theories and systems.³² From this basic core sense of capitalism we can say that all societies and all peoples have always been capitalist—in other words people have always assigned value to things and then traded or bartered according to those assignments. This is essentially a minimalist definition that again allows all cases to become instances. In order to not overburden the definition of capitalism with maximalist expectations, a middle-of-the-road definition is used here.

³⁰ Springborg, Patricia “*Homo Oeconomicus and Homo Politicus Monarchy and Republicanism*” Political Science, Vol 46 No. 1 (1994) p. 72

³¹ Katz, Claudio J. “*Private Property versus Markets Democratic and Communitarian Critiques of Capitalism*” The American Political Science Review, Vol 91, No. 2 (June 1997), p. 277

³² Boltanski, Luc & Eve Chiapello. “*The New Spirit of Capitalism*” International Journal of Politics, Culture, and Society. Vol. 18 No. 3-4 (June 2005) p 163

For the purposes of this thesis, capitalism will be operationally defined as “an economic system in which the means of production and distribution are privately or corporately owned and development is proportionate to the accumulation and reinvestment of profits gained in a free market.”³³

Even though this definition of capitalism is untested, and formulated by the editorial board of a large dictionary publisher rather than by economists, it seems to encapsulate the economic system as it is seen today. Capitalism is described by many as a “vague” and “ever-evolving concept.”³⁴ As early as 1928, Schumpeter defined it in the *Economic Journal* as “an economic system characterized by private property, by production for a market, and by the phenomenon of credit.”³⁵ Paul Samuelson agreed with Schumpeter in that they both believed that these three fundamental aspects describe the true capitalism that reached its peak in the Victorian Era and has slowly been eroded by government encroachment ever since.³⁶ This gradual evolution towards what is generally called a *mixed economy*—yet is still commonly recognized as capitalism—has necessitated an equally evolutionary definition of capitalism. For example, in 2001 in an effort to move towards a general theory of capitalism, Ernesto Screpanti defined it as “a mode of production in which: all economic subjects are formally free from any personal bondage; wage labor is used to extract surplus value from the production process; [and] surplus value is spent to accumulate capital.”³⁷ Screpanti was attempting to find a definition that would exclude pre-capitalist societies—hence the focus on labor and

³³ The American Heritage® Dictionary of the English Language, Fourth Edition, 2009

³⁴ Grassby, Richard “*The Idea of Capitalism before the Industrial Revolution*” Rowman and Littlefield, 1999, p. 63 & Morgenson, Gretchen. “*The Capitalist’s Bible*” Harper, 2009

³⁵ Reisman, David. “*Schumpeter’s Market Enterprise and Evolution*” Edward Elgar. 2004, p. 48

³⁶ Samuelson, Paul A. “*Economics Tenth Edition*” McGraw-Hill. 1976, p. 726-727

³⁷ Screpanti, Ernesto “*The Fundamental Institutions of Capitalism*” Routledge. 2001, p. 29

bondage—and include modern capitalist institutions, which are often government-operated or subsidized. The dictionary definition used here includes aspects of both Screpanti's and Schumpeter's definition.

A quick internet search finds over forty differing definitions of capitalism from highly respectable sources.³⁸ Many of these definitions are so overburdened and specific that they run the risk of excluding from this analysis economies that are truly capitalistic in nature. For a better understanding of what is now recognized and either praised or denigrated as capitalism, a brief look at recent history should suffice.

From 1917 to 1989 the world economy went through a fierce rivalry between Communism and capitalism, both essentially born out of neoclassical economics. The events in 1989-91 have unsurprisingly decimated the dedication of economic actors around the world to the theoretical benefits of comprehensive public ownership and central planning.³⁹ By 1992, *The Economist* was proclaiming that the fall of Communism was proof “that no serious alternative to free-market capitalism as a way to organize economic life” exists.⁴⁰

Communism is an economic and political system of total control in which private property is collectivized and distributed evenly among the populace by legislators. *Substantive guarantees* of specific economic outcomes are handed out in Communist economies, thus diminishing incentives for voluntary production through entrepreneurship and trade involving private property.⁴¹ Capitalism is merely the lack of such a system of control. In capitalist economies, economic actors are only given

³⁸ See [[http //en.wikiquote.org/wiki/Definitions_of_capitalism](http://en.wikiquote.org/wiki/Definitions_of_capitalism)] for a list

³⁹ The collapse of the Soviet Union, Hodgson, Geoffrey M. “*Varieties of Capitalism and Varieties of Economic Theory*” Review of International Political Economy. Vol. 3, No. 3 (Autumn, 1996) p. 380

⁴⁰ Ibid. (the *Economist* cited by Hodgson, 1996)

⁴¹ Barbour, Christine & Gerald C. Wright. “Keeping the Republic” CQPress 4th edition, 2008 p. 9

procedural guarantees in which they are assured that there are rules in place and that everyone will be treated fairly within them.⁴² The existence of these procedural guarantees engenders a free market in that it enables people to haggle, trade, and pursue their own self-interest. The further a system moves away from a free market, the more specific government guarantees of outcomes get.⁴³ For example, the so-called ‘social democracies’ in Europe have claimed to have found a ‘third way’ in which they offer selected substantive guarantees to all their citizens in areas such as health care, higher education, and maternity leave, yet they leave the production and distribution of most consumable commodities to free markets with a set of procedural guarantees. But this method is not a ‘third way’; it is merely a variant of the first and second ways—capitalism and Communism—or in other words a system of combined procedural and substantive guarantees.⁴⁴

Most, if not all, established economies of today are mixed economies in which the government has struck a balance somewhere in the middle between playing provider (comprehensive substantive guarantees) and staying out of the way (pure *laissez-faire*) of the economic behavior of its populace.⁴⁵ As if economic systems were not already ‘mixed up’ enough, many have also gone through periods of globalization—the first from around 1870-1910, the second from around 1950-1980, and in 1980 the third wave began—in which countries embraced foreign trade and investment at unprecedented

⁴² Ibid.

⁴³ Ibid.

⁴⁴ Schumpeter, Joseph. “*Capitalism, Socialism, and Democracy*” George Allen and Unwin Ltd. 1976, p. 245

⁴⁵ Berger, Peter L. “*The Uncertain Triumph of Democratic Capitalism*” in “*Capitalism, Socialism, and Democracy Revisited*” edited by Larry Diamond. Johns Hopkins University Press, 1993, p. 7

levels.⁴⁶ These waves of integration have at every step added economic tiers to participation and development in the countries that rode them.

The highly integrated multinational investment and commodity markets that have formed in the second and third waves of globalization introduced a new economic actor to the global scene.⁴⁷ The new markets have in essence created what are called rentier states. These states are defined by the common characteristic that they derive a majority of their income from external rents (meaning they come from other states or actors that are not a state) received for resources not dependent upon domestic production.⁴⁸ Further elements of a rentier state or a rentier economy include the government's collection of said rents and the rentier mentality of all actors in such states.⁴⁹ When there is little reliance on domestic production, only a small proportion of people actively participate in wealth generation, whereas the rest of the people focus on distribution and utilization.⁵⁰ Rentier states can now pursue capitalism in the international market through sovereign wealth funds (SWFs) and special economic zones (SEZs) while still using authoritarian techniques domestically. The advanced capitalist industrial democracies of the world frequently must decide whether or not to expose themselves to international competition or pursue protectionist policies.⁵¹ Rentier states, especially small ones with a small citizen population, are at a great advantage in comparison to advanced industrial democracies in

⁴⁶ Dollar, David "Globalization, Inequality, and Poverty Since 1980" Development Research Group, World Bank, Nov. 2001, p. 2

⁴⁷ Ibid & Martell, Luke. "The Third Wave in Globalization Theory" International Studies Review, Vol 9 (2007) pp 173-196

⁴⁸ Beblawi, Hazem & Giacomo Luciani "The Rentier State" Croom Helm Ltd. 1987 p. 51

⁴⁹ Ibid

⁵⁰ Ibid

⁵¹ Keohane, Robert O. "After Hegemony Cooperation and Discord in the World Political Economy" Princeton University Press (1984), p. 149

that they generally do not need to levy taxes nor govern by consent, and their economies are not dependent upon domestic labor.

Market-capitalist principles—particularly the role of private property—tend to create a self-seeking, educated, and individualistic middle class that demands from government the procedural guarantees that allow a free market to flourish and then jealously protects them—such as the rule of law, a bill of rights, elections, and referenda.⁵² Yet, modern technology has played a key role in developing and maintaining authoritarian rule amidst a free market environment. Peter Berger notes that “even the most restrained, democratic state today has more power at its disposal than the most efficient despotisms of premodern times—just imagine Caligula with an empire-wide computer network...[or] Ivan the Terrible with a functioning Internal Revenue Service.”⁵³ Modern technology has allowed the despots of today to engage in a functioning bureaucracy that in turn gives them limited legitimacy and allows them to pursue a propaganda system unrivaled in history. However, in many ways modern technology has also restrained certain despotic practices, or at a minimum has made them globally observable and documentable.⁵⁴

There is a growing attempt to define the rising role of the state in capitalistic economies; these systems are sometimes called *authoritarian capitalism* (coined by Peter Evans) and more recently *state capitalism*. Evans uses the case of Camaçari (a Brazilian petrochemical processing center) as an example of “capitalist accumulation as collaboration”—in which “new elites, freed from traditional encumbrances and able to

⁵² Dahl, Robert A. “On Democracy” Yale University Press 2000 p. 168

⁵³ Berger, Peter L. “The Uncertain Triumph of Democratic Capitalism” in “Capitalism, Socialism, and Democracy Revisited” edited by Larry Diamond Johns Hopkins University Press, 1993, p. 7

⁵⁴ Often times the behavior merely goes underground or camouflages itself in the same media that attempts to expose it

gain control over an important part of the society's surplus and direct it towards new productive activities"—and also a new form of what he calls "state entrepreneurship"—in which a motivated variety of "political figures and technocrats whose primary interest was in fostering industrial development" collaborated with the earlier mentioned 'new elites.'⁵⁵ Ian Bremmer—President of Eurasia Group—identifies the now once again ubiquitous phenomenon of state intervention in the economy by using the popular term *state capitalism*, which he defines as "a system in which the state functions as the leading economic actor and uses markets primarily for political gain."⁵⁶ Good examples of such countries currently include China, Brazil, India, the Russian Federation, and the United Arab Emirates.⁵⁷ According to Bremmer, their main mode of influence is through state managed national oil corporations, foreign direct investment (FDI), and sovereign wealth funds (SWFs).

Recent history suggests that capitalism is a natural extension of democracy—as Rueschemeyer puts it, "virtually all full-fledged democracies we know are associated with capitalist political economies."⁵⁸ However, wherever capitalism exists, democracy and political freedom do not always follow—many military dictatorships and fascist governments have established capitalist economies from time to time.⁵⁹ Nazi Germany and Fascist Italy, South Korea and Taiwan just after WWII, and periods in Brazil and

⁵⁵ Evans, Peter. "Collectivized Capitalism Integrated Petrochemical Complexes and Capital Accumulation in Brazil" found in "Authoritarian Capitalism Brazil's Contemporary Economic and Political Development" edited by Thomas C. Bruneau and Philippe Faucher. Westview Press, Inc. 1981, p. 93

⁵⁶ Bremmer, Ian "State Capitalism Comes of Age The End of the Free Market?" Foreign Affairs. Vol 88, No 3, May/June 2009. P. 41

⁵⁷ Ibid

⁵⁸ Rueschemeyer, Dietrich et al. "Capitalist Development and Democracy" found in "Sociological Worlds Comparative and Historical Readings on Society" by Stephen K. Sanderson. Polity, 1992, p. 244

⁵⁹ Freidman, Milton "Capitalism and Freedom" (1967) found in "Democracy A Reader" edited by Ricardo Blaug and John Schwarzmantel. Columbia University Press, p 367 & Jessop, Bob "Recent Theories of the Capitalist State" found in "The State Critical Concepts" edited by John A Hall Routledge, 1994, p 98

Chile more recently, all serve as examples of capitalism without democracy.⁶⁰ Joining these exemplary ‘exceptions’ is a new class of undemocratic city-states that pursue the capitalist political economy in a bold and ambitious manner, yet on a relatively small scale. For example, the small city-state of Singapore has been implementing capitalist reforms since it attained home rule in 1965. Much fanfare was paid to the city-state’s democratic reforms that soon followed independence as evidence of the democratizing effect of capitalism.⁶¹ However, today these reforms seem to have only been cosmetic and Singapore looks just as autocratic as before the modifications. Agencies like Freedom House rate it as “partly-free” with a downward trend arrow indicating it is rapidly moving towards authoritarianism.⁶² On an even larger scale, China has experienced market reforms for over thirty years, yet it is still considered one of the world’s worst human rights violators and is controlled by a single-party communist gerontocracy.⁶³ Even though democracy is likely an extension of capitalism—we can say this because there is no instance we know of where an established democracy has not had a market economy—this clearly does not automatically guarantee that democracy is an outgrowth of capitalism.⁶⁴

In algebra, in order for an equation like capitalism = democracy (or $C=D$) to be true, it has to be correct when worked both ways. The relationship between capitalism and democracy does not function like an equation and is therefore *asymmetrical*, or at

⁶⁰ Rueschemeyer, Dietrich et al. “*Capitalist Development and Democracy*” found in “*Sociological Worlds Comparative and Historical Readings on Society*” by Stephen K. Sanderson Polity, 1992, p. 244

⁶¹ Sikorski, Douglas. “*Resolving the Liberal-Socialist Dichotomy The Political Economy of Prosperity in Singapore*” International Journal of Politics, Culture, and Society, Vol. 4, No. 4 (Summer 1991), p. 418

⁶² [<http://www.freedomhouse.org/template.cfm?page=277>]

⁶³ Dorn, James A. “*15 Years after Tiananmen*” Originally published in Investor’s Business Daily 4 June 2004, retrieved 12 Feb. 2010 from Cato Institute website [<http://www.cato.org/pub>]

⁶⁴ Freidman, Milton “*Capitalism and Freedom*” (1967) found in “*Democracy A Reader*” edited by Ricardo Blaug and John Schwarzmantel. Columbia University Press, p. 368

least that is what the empirical evidence implies. Capitalism does indeed beget democracy in some cases and most democracies are or were capitalistic, but capitalism does not always lead to democratic outcomes and is increasingly practiced by undemocratic regimes.⁶⁵

Capitalism Begets Democracy (Capitalism = Democracy)

“History suggests that capitalism is a necessary condition for political freedom”
—Milton Friedman⁶⁶

Capitalism is a strong force that is constantly in motion, creating and destroying alongside the ebb and flow of the society that participates in it—the process of creative destruction.⁶⁷ By measures of stability and longevity, democracy has been the best long-term harness for the beast called capitalism.⁶⁸ The free markets for commodities and services that characterize capitalism have a mutual and reinforcing relationship with the free market of ideas that characterizes a democracy.⁶⁹ Dahl compares the relationship to a “tempestuous marriage riven by conflict [that] endures because neither partner wishes to separate...[or] to shift the simile to the botanical world, the two exist in a kind of antagonistic symbiosis.”⁷⁰

Market participation—while individualistic in nature and purpose—is an activity in which prices and prosperity are determined through overall habitual trends and mutually beneficial exchanges within and between communities, families, and individual

⁶⁵ Berger, Peter L. “*The Uncertain Triumph of Democratic Capitalism*” in “*Capitalism, Socialism, and Democracy Revisited*” edited by Larry Diamond. Johns Hopkins University Press, 1993, p. 3

⁶⁶ Friedman, Milton “*Capitalism and Freedom*” p. 9, found in “*Democracy A Reader*” edited by Ricardo Blaug and John Schwarzmantel. Columbia University Press, p. 367

⁶⁷ Schumpeter, Joseph. “*Capitalism, Socialism, and Democracy*” Harper. 1975, p. 82

⁶⁸ Dahl, Robert A. “*On Democracy*” Yale University Press. 2000 p. 166

⁶⁹ Ibid., p. 173

⁷⁰ Ibid

behavior.⁷¹ For example, the “market value” of anything is generally determined not by what a single person values an item or service at, but rather it is supposed to represent an aggregate median value. Charles Merriam said that democracy “is a form of political association in which the general control and direction of the commonwealth are habitually determined by the bulk of the community [with] procedures for popular participation and the consent of the governed.”⁷² In other words, aggregate community behavior in democracy *and* in free markets determines outcomes. Even without the empirical evidence that all democracies today have a market economy and all attempts at Communist democracies have failed, a strong relationship between democracy and capitalism is quite self-evident.

The individual consumer and the firm’s liberty to pursue his or her or its own self-interest, whatever that may be, enables the self-regulating aspect of free markets, also called the invisible hand. However, no market-system is completely self-regulating⁷³—inevitably markets with no government intervention or regulation inflict serious damage on some persons who in turn will demand a response.⁷⁴ In a democracy, the concept of popular sovereignty requires that the government be made up of the same people who make the laws to regulate its behavior. So a representative democracy is technically made up of citizens who indirectly regulate themselves through the self-seeking election of preferred regulators, and capitalism is made up of markets that indirectly regulate themselves also through aggregate self-seeking behavior such as competition. Problems

⁷¹ Freidman, Milton “*Capitalism and Freedom*” found in “*Democracy A Reader*” edited by Ricardo Blaug and John Schwarzmantel Columbia University Press, p 370

⁷² Merriam, Charles E “*What is Democracy?*” University of Chicago Press, 1941 p. 6

⁷³ Freidman, Milton “*Capitalism and Freedom*” found in “*Democracy A Reader*” edited by Ricardo Blaug and John Schwarzmantel. Columbia University Press, p. 371

⁷⁴ Dahl, Robert A. “*On Democracy*” Yale University Press. 2000 p. 174

in drawing conclusions from the equation—($C = D$)—arise when we contemplate which comes first or which is most important or powerful, the political system or the economic system. Does a market economy exert pressure for reform on a nondemocratic regime?

First we should further establish why capitalism might equate to democracy. Among other reasons, masses of people fled England for the American colonies so they could escape the draconian system of primogeniture and finally own land of their own. They were more concerned with property rights than religious freedom or political democracy.⁷⁵ Charles Lindblom points out that most of the American Founders “were fervent [economic] liberals but no more than timid democrats, some not democrats at all” and that most of the major thinkers of the time, including Locke, Montesquieu, Burke, Bentham, Hegel, Mills, and Spencer, were all “liberals first and democrats second.”⁷⁶

Democracies, especially in the 17th and 18th centuries, were set up by people seeking to secure certain liberties that are essential to the market, like private property, free enterprise, free contract, and occupational choice.⁷⁷ The modern liberal idea of freedom is quite different from that of an ancient Athenian Greek. In Athens, it was freedom to actively participate in and control government that defined democracy.⁷⁸ About two centuries ago that changed to the modern ideal form of freedom—and by extension democracy—which is freedom from government intervention. The Greeks sought the freedom *to be* the government; modern democratic man seeks freedom *from*

⁷⁵ Barbour, Christine & Gerald C. Wright. *“Keeping the Republic”* CQPress 4th edition, 2008. p. 75

⁷⁶ Lindblom, Charles E. *“Politics and Markets The World’s Political-Economic Systems”* Basic Books, Inc. 1977, p. 163

⁷⁷ *Ibid.*, p. 164

⁷⁸ Aristotle *“The Politics”* edited and translated by Ernest Barker. Clarendon Press, Oxford (1946), Book IV, chapter IV, pp. 164 Originally written ca 335 BCE —found in *“Democracy A Reader”* edited by Ricardo Blaug and John Schwarzmantel. Columbia University Press, p. 29

government intervention and dependence.⁷⁹ This is obviously a gross oversimplification of a transition that took place over roughly two millennia—rooted in natural law theory and tradition. But, essentially the functioning levers of the transition are *the market*—a source of freedom from dependence on government, and *democracy*—the body in which intervention is limited.⁸⁰

Democracy is virtually impossible without some form of private ownership.⁸¹ In national economies, private ownership places resources outside of the arbitrary reach of the state and helps form a base for political opposition and intellectual freedom.⁸² Private ownership is also a way of preventing government monopolies and the ‘tyranny of the majority,’ which all democracies are susceptible to.⁸³ But how much of the property must be owned privately? If the answer was all of it, there would be no such thing as government, much less democracy, to enforce the procedural guarantees which in turn allows for a free market and property to have any real value. However, there must be some limit to the amount of state ownership allowed before democracy is threatened, but a quick comparison between two existing democracies such as Switzerland and Austria (which have very different levels of public ownership) shows that there is quite some latitude in the continuum.⁸⁴ Private ownership of property is a prerequisite of democracy and by extension capitalism, but to what extent is unknown as of yet.

⁷⁹ Dahl, Robert A. *“On Democracy”* Yale University Press 2000 p. 11

⁸⁰ Freidman, Milton *“Capitalism and Freedom”* found in *“Democracy A Reader”* edited by Ricardo Blaug and John Schwarzmantel. Columbia University Press, p. 372

⁸¹ Schlesinger, Arthur, Jr. *“Has Democracy a Future?”* Foreign Affairs, Vol. 76, No. 5 (Sept.-Oct., 1997), pp. 2-12, p. 7

⁸² Ibid

⁸³ Nedelsky, Jennifer. *“Private Property and the Limits of American Constitutionalism the Madisonian Framework and its Legacy”* University of Chicago Press, 1990, p. 1

⁸⁴ Berger, Peter L. *“The Uncertain Triumph of Democratic Capitalism”* in *“Capitalism, Socialism, and Democracy Revisited”* edited by Larry Diamond. Johns Hopkins University Press, 1993, p. 4

The creation of goods and services for profit amidst competition appeals strongly to democratic principles of liberty and restricted government.⁸⁵ By allowing citizens to freely organize the production and distribution of goods themselves through self-seeking maximization, the role and need for government is greatly diminished.⁸⁶ When citizens pursue profits in a competitive market they feel as if they are free and at the same time it incentivizes market activity, efficiency, self-regulation (if one adheres to the primary economic assumption of rationality), productivity, and innovation all with minimal government involvement.

State intervention, such as taxes on profits or consumer protection laws, also exists on a continuum that reaches far and wide among modern democracies. For example, the United States intervenes in its economy far less than governments in France or Japan do in their democracies.⁸⁷ When looking at state interventions, it is important to look at the *nature* of the intervention rather than the *degree* to which it is carried out.⁸⁸ In a representative democracy where the people elect the officials who make the laws, and actively participate in a market system, interventions will noticeably tend to move with market forces rather than against them, thus reinforcing the relationship.⁸⁹

Paid employment is another aspect of democracy, which is foundational to capitalism also.⁹⁰ Again, rooted in the deep democratic feelings of liberty, uncompensated employment would amount to slavery. In democracies where slavery existed it was legislated out of practice and eventually labor laws were enacted which

⁸⁵ Freidman, Milton. “*Capitalism and Freedom*” found in “*Democracy A Reader*” edited by Ricardo Blaug and John Schwarzmantel. Columbia University Press, p. 371

⁸⁶ Ibid , p 369

⁸⁷ Berger, Peter L “*The Uncertain Triumph of Democratic Capitalism*” in “*Capitalism, Socialism, and Democracy Revisited*” edited by Larry Diamond. Johns Hopkins University Press, 1993, p 5

⁸⁸ Ibid

⁸⁹ Ibid.

⁹⁰ Paid employment also helps differentiate between premodern capitalist systems and modern capitalism

enshrined the method of compensated work and more explicitly defined citizenship standards. Paid employment is elemental to accumulating capital, acquiring property, negotiating contracts, and all of the other capital market systems of exchange. Whether it be set by the state in some instances (i.e. minimum wage laws or supplemented through welfare subsidies) or determined by market forces, paid employment is provided for in the body of law of all democracies and capitalist economies and allows for a general entry point into the marketplace for all citizens.⁹¹

Prices and wages set according to market supply and demand corresponds well with democratic principles. In a modern democracy, laws and regulations are enacted by elected representatives based upon the supply and demand of people in the voter market.⁹² People, in aggregate, determine the law of the land in the political market. People also, in aggregate, determine prices and wages through their activity in economic markets. Peter Berger poses the question this section is asking and then answers it authoritatively—“*Does political democracy require or depend upon a market economy? Here is one question where caution is not called for: the answer is a resounding yes.*”⁹³

⁹¹ Deakin, Simon & Hannah Reed. “*River Crossing or Cold Bath? Deregulation and Employment in Britain in the 1980s and 1990s*” found in “*Why Deregulate Labour Markets?*” edited by Gosta Esping-Anderson & Marino Regini. Oxford University Press, 2000, p. 117

⁹² Peltzman, Sam. “*How Efficient is the Voting Market?*” *Journal of Law and Economics* Vol. 33. No. 1 (April 1990) pp. 27-63, p. 29

⁹³ Berger, Peter L. “*The Uncertain Triumph of Democratic Capitalism*” in “*Capitalism, Socialism, and Democracy Revisited*” edited by Larry Diamond. Johns Hopkins University Press, 1993 p 3

Capitalism Does Not Beget Democracy (Capitalism ≠ Democracy)

“An authoritarian regime can preempt the rise of liberal democracy by co-opting or diverting those groups that would otherwise press for democracy”

—Kyung-won Kim⁹⁴

Barrington Moore outlines three paths to modern society in his book on the origins of dictatorship and democracy. The first is what he calls the *bourgeoisie revolution*, which combines capitalism and parliamentary democracy after some form of popular revolution.⁹⁵ He gives Britain—the Puritan Revolution, France—the French Revolution, and the United States—The American Civil War, as examples.⁹⁶ The second path Moore hypothesized was also a capitalist path, although in this one there was no popular revolution and the reactionary political reforms that ensued after taking this path led countries towards fascism. Moore offers Germany and Japan as examples and is careful to note that any sense of ‘revolutionary’ movement in these examples was always ‘from above.’⁹⁷ The large peasant populations in Russia and China made the third route of Communism possible.

The three paths are decidedly connected to historical periods and events and are therefore somewhat interrelated and inseparable in that each would have probably been impossible without the influence of the preceding period. Moore’s explanation of three routes—two of which are capitalist and only one democratic—would seem to support the

⁹⁴ Kyung-won Kim, Ph D., Harvard, is a prominent South Korean who has held such government posts as ambassador to the United Nations and ambassador to the United States

⁹⁵ Moore, Barrington, Jr. *“Social Origins of Dictatorship and Democracy”* Beacon Press, 1966, p. 413

⁹⁶ Ibid.

⁹⁷ Ibid.

hypothesis that capitalism does not need democracy. In Moore's view, democracy is the consequence of historical preconditions, not capitalist economies.⁹⁸

The first modern capitalist economies began to form in the Middle Ages with the beginning of manufacturing for private enterprise and other small scale private oriented production.⁹⁹ Many premodern capitalist societies existed—such as the Roman Empire, the Western European guilds of the 11th Century, and many trading cities in Italy around the 13th Century—but in these economies the majority of ventures were either organized by the state or the military and were generally aimed at large public works. They were economies marked not by production for profit, but rather “production for use.”¹⁰⁰ From the Middle Ages on, most (European) societies moved into a system of monarchy until some time around industrialization. What are the determinants of which route was taken to modern society and if presumably everyone was capitalist at this point, when was the choice of route made—if it was even a choice? Moore proposes that it may have been geography—agrarian or urban—or societal factors, or any other number of things, but concludes that most likely it was a combination of all of them and we will most likely never know the one single attribute that determined the path.¹⁰¹

Moore does however give a somewhat arbitrary starting point for the early beginnings of the split. By the 16th and 17th centuries, some form of what he calls “royal absolutism” or “agrarian bureaucracies” had been established in what are now modern

⁹⁸ Ibid., p. 414

⁹⁹ Hobson, John Atkinson. *“The Evolution of Modern Capitalism A Study of Machine Production”* The Walter-Scott Publishing Co., Ltd 1906, p. 2

¹⁰⁰ Katz, Claudio J. *“Private Property versus Markets Democratic and Communitarian Critiques of Capitalism”* The American Political Science Review, Vol. 91, No. 2 (June 1997) pp 277-289, p. 277

¹⁰¹ Moore, Barrington, Jr. *“Social Origins of Dictatorship and Democracy”* Beacon Press, 1966, p. 416-418

countries (except the United States of course).¹⁰² He names England, France, the Prussian part of Germany, Russia, China, Japan, and India as examples.¹⁰³ The establishment of strong monarchical regimes in these regions played an important role in that they brought some form of stability from the prior “turbulence of nobility” in which nobles or disparate monarchs could be expected to maraud neighbors on a regular basis.¹⁰⁴ Mancur Olsen uses a complex metaphor to explain this period by comparing rulers to what he calls “stationary bandits” and “roving bandits” where “strong men who enjoy getting a fortune from tax receipts” eventually become cognizant of the fact that by staying stationary and providing security, the people they rule become more productive and thus the more taxes they may collect (he calls this “the first blessing of the invisible hand”).¹⁰⁵ These stationary bandits either found or exceeded the revenue-maximizing tax rate and either expanded their territory (roving) or were overthrown by the people or some other bandit.¹⁰⁶

Olsen offers a simple explanation for how certain “stationary bandits”—which can generically be considered synonymous with authoritarian government¹⁰⁷—ended up becoming democracies. He says that democracy “is permitted by the accidents of history that leave a balance of power or stalemate—a dispersion of force and resources that makes it impossible for any one leader or group to overpower all of the others.”¹⁰⁸

According to Moore, the key to understanding the route taken to modernity is to look at

¹⁰² Ibid., p. 417

¹⁰³ Ibid.

¹⁰⁴ Ibid

¹⁰⁵ Olson, Mancur “*Dictatorship, Democracy, and Development*” *The American Political Science Review*, Vol 87, No. 3 (Sep., 1993), pp 567-576, p. 573

¹⁰⁶ Ibid

¹⁰⁷ It can be argued that a decentralized patron system is not exactly authoritarian, however for the purposes of Olsen’s metaphor, this analysis will consider all undemocratic patron systems to be authoritarian

¹⁰⁸ Ibid

the relationship between the king and the nobility and the nobility and the people in the 17th and 18th Centuries prior to industrialization. More precisely the questions become: is there some level of independence and equality between kings and nobles even though the king is the most powerful, and do the nobles have a “numerous and politically vigorous class of town dwellers” that will back them?¹⁰⁹

In most of the countries that first developed into parliamentary democracies,¹¹⁰ the level of independence between nobility and the king was accomplished through extremely violent means—the Wars of the Roses for example.¹¹¹ In places where it was not done in this manner—through a bourgeoisie revolution—nobility who wished to shake free of the king were generally either pitted against each other by the crown, forced to rely on a form of repressive labor to consolidate power, or faced a peasant revolution from the bottom. In Germany, “the commercial and industrial class which [was] too weak and dependent to take power and rule in its own right and therefore [threw] itself into the arms of the landed aristocracy and the royal bureaucracy, exchanging the right to rule for the right to make money.”¹¹² As commercial and industrial interests increased their power through wealth accumulation, a coalition was then formed between these newly worthwhile political allies, the nobility, and the crown. Without this coalition in the interest of generating wealth and without a bourgeoisie revolution, peasant revolutions become the last alternative. In Russia and China, wealth generative coalitions

¹⁰⁹ Moore, Barrington, Jr. *“Social Origins of Dictatorship and Democracy”* Beacon Press, 1966, p. 417

¹¹⁰ Many scholars take issue with the idea that the Middle Ages—from 500-1500 CE—was devoid of intelligence or progress, see Pernoud, Regine *“Those Terrible Middle Ages”* Ignatius Press, 2000

¹¹¹ Moore, Barrington, Jr. *“Social Origins of Dictatorship and Democracy”* Beacon Press, 1966, p. 417

¹¹² *Ibid*, p. 437

did not form and thus the peasants either pursued the route of Communism or were forced to take it by those who chose it.¹¹³

Fascism did not immediately sprout up in countries where this coalition was able to establish itself. Moore notes that generally what followed was a “prolonged period of conservative and even authoritarian government.”¹¹⁴ These governments took on some aspects of democracy during this period, such as limited parliaments, and their histories are full of attempts at further democratic reform. Many unstable democracies were formed; for example the Weimar Republic, Japan in the twenties, and Italy under Giolitti.¹¹⁵ Fascism eventually took hold through the failures of these democracies to adequately respond to the crisis of the day and a “reluctance or inability to bring about fundamental structural changes.”¹¹⁶ Moore states that the two fundamental aspects of these societies that took the undemocratic capitalist route are that they 1) retained “a very substantial share in political power by the landed elite” and 2) had an “absence of a revolutionary breakthrough by the peasants in combination with the urban strata”—a bourgeoisie revolution.¹¹⁷ The third route of Communism will not be discussed here, for it is decidedly antithetical to capitalism and this thesis aims to focus on the relationship between democracy and capitalism.

Contemporary political and economic observers have witnessed the fall of fascism and Communism. Samuel Huntington has described in detail the ‘Third Wave’ of democratization that has been sweeping the globe since the mid 1970s.¹¹⁸ Whether or not

¹¹³ Ibid.

¹¹⁴ Ibid.

¹¹⁵ Ibid.

¹¹⁶ Ibid.

¹¹⁷ Ibid., p. 438

¹¹⁸ Huntington, Samuel P. *“The Third Wave Democratization in the Late Twentieth Century”* University of Oklahoma Press, 1991, p. 3

this expansion of democracy is still growing or now entering a third reversing trend is still up for debate. When Huntington wrote the book on democratization waves in 1991, the world was on the verge of an economic wave of global trade and market integration unlike anything seen before.¹¹⁹ The extreme growth of capitalist free trade economies in the wake of the fall of Communism and an unprecedented rise in the number of democracies—the third wave of globalization more or less coincides with the third wave of democratization—would appear to support a causal relationship between capitalism and democracy.

However, one of the largest traders and producers in the world—China—is anything but democratic, and other major global economic actors such as Russia and all the Middle East oil producers (arguably excluding Iraq because its newly installed democracy is still being tested) are either decidedly undemocratic or questionable at best. Freedom House ranks Russia, China and all the Gulf Arab states except for Bahrain and Kuwait as ‘not free’—Bahrain and Kuwait enjoy a ‘partly-free’ status due to recent attempts at democratic reform, yet Bahrain is given a downward trend arrow to indicate they are moving back towards a ‘not free’ status.¹²⁰ Of the top ten economies in the world according to either of the two main methods of measuring GDP, at least two of them are not democracies. One of them, Russia, is given a downward trend arrow by Freedom House indicating that the country is moving back towards authoritarianism even as it continues to liberalize its markets. On the other hand, Brazil is now rated as a stable democracy after many years of military dictatorship (1964-1985). After experimenting

¹¹⁹ Li, Quan & Rafael Reuveny “*Economic Globalization and Democracy An Empirical Analysis*” British Journal of Political Science, Vol. 33, No. 1 (Jan., 2003), pp. 29-54, p. 40

¹²⁰ [<http://www.freedomhouse.org/template.cfm?page=363&year=2009>]

with ‘authoritarian capitalism’ during its dictatorship, it appears to have developed into a vibrant representative democracy, supporting a causal relationship.¹²¹

Of the top ten oil producing countries in the world today,¹²² Freedom House ranks seven of them as either ‘not free’ or ‘partly free’. This is important because most large free democracies today are highly dependent upon oil resources and their economies and political structures can be profoundly affected by events in large oil producing countries.¹²³ If these large economies and oil producing countries are all actively engaged in global capitalist trade and markets and a reciprocally causal relationship between capitalism and democracy exists, the world should be experiencing a more comprehensive global trend towards democracy.

According to Freedom House in 1974 only 29 percent of the 151 countries rated received a ‘free’ status—indicating they had many or all of the attributes necessary for a functioning democracy. By 1991 that percentage had increased to 40 percent of 165 rated countries, supporting Samuel Huntington’s democratization wave thesis. However, from 1991 to present the number of countries rated has ballooned to 193, but the percentage of ‘free’ ratings has only inched up little by little and actually fallen two different times to rest at 46 percent in 2009.¹²⁴ This is critical to this paper’s assertion that capitalism does not necessarily equate to democracy because, as stated earlier, the period from 1991 to present is one of unprecedented growth in global capital markets and

¹²¹ Evans, Peter. “*Collectivized Capitalism Integrated Petrochemical Complexes and Capital Accumulation in Brazil*” found in “*Authoritarian Capitalism Brazil’s Contemporary Economic and Political Development*” edited by Thomas C. Bruneau and Philippe Faucher. Westview Press, Inc. 1981

¹²² According to the U.S Energy Information Administration (EIA)-
[<http://tonto.eia.doe.gov/country/index.cfm>]

¹²³ Some scholars point to the religious culture of a country to explain the political path it has taken. There is some evidence that countries with a Christian culture may be more likely to democratize and that Islamic countries may be more susceptible to dictatorship. I explore this idea further in Chapter III

¹²⁴ Freedom House, “*Country Status and Ratings Overview, 1973-2009*”

world trade. Li and Reuveny did an empirical analysis on how trade, portfolio investments, foreign direct investment (FDI), and the spread of democratic ideas affects democracy in a pooled time-series cross-sectional statistical model¹²⁵ in which they found that

*Trade openness and portfolio investment inflows negatively affect democracy. The effect of trade openness is constant over time while the negative effect of portfolio investment inflows strengthens FDI inflows positively affect democracy, but the effect weakens over time. The spread of democratic ideas promotes democracy persistently over time.*¹²⁶

Unregulated capitalism tends to self destruct and lead towards monopoly and overregulated capitalism tends to destroy markets and lead to authoritarianism. A clearer way to state this is that democratic capitalist governments are restricted—by constitutional rules and especially the law of private property—to the role of a stimulator of business activity rather than a commander,¹²⁷ and in authoritarian capitalist governments the lines are not so clear.¹²⁸ In a democracy people and firms tend to push for more or less regulation and equitable standards in exchange for government inducements that allow for better market conditions and political benefits.¹²⁹ An authoritarian government with a market-oriented economy can function more like a CEO,

¹²⁵ They did not use the same Freedom House rating scale I have cited here. They utilized the widely used “POLITY III” database, which I was unable to obtain its current ratings for this paper

¹²⁶ Li, Quan & Rafael Reuveny “*Economic Globalization and Democracy: An Empirical Analysis*” British Journal of Political Science, Vol. 33, No. 1 (Jan , 2003), pp. 29-54, p. 30

¹²⁷ Lindblom, Charles E. “*Politics and Markets: The World’s Political-Economic Systems*” Basic Books, Inc. 1977, p. 173

¹²⁸ Evans, Peter “*Collectivized Capitalism: Integrated Petrochemical Complexes and Capital Accumulation in Brazil*” found in “*Authoritarian Capitalism: Brazil’s Contemporary Economic and Political Development*” edited by Thomas C. Bruneau and Philippe Faucher. Westview Press, Inc. 1981

¹²⁹ Lindblom, Charles E. “*Politics and Markets: The World’s Political-Economic Systems*” Basic Books, Inc. 1977, p. 173

creating demand by royal decree and without much if any tug and pull by other interests. Olsen cites a poor villager in 1950s Italy as saying “Monarchy is the best kind of government because the King is then owner of the country...Like the owner of a house, when the wiring is wrong, he fixes it.”¹³⁰ By retaining the ability of government to command the heights of the economy rather than only induce and foster them, authoritarian capitalists of today would seem to be on Moore’s second capitalist path to modernity, which in the Interwar period led many governments down the path of fascism and ultimate ruin.

Alexander Hamilton’s *Report on Manufactures* helped secure an active role for government in supporting business in the United States, along with the subsequent federal policies on banks, canals, roads, railroads, and corporations.¹³¹ This long list of policies concerning government involvement in business—indigenous to all capitalist democracies—is evidence of the constant striking of a balance between political and business interests.¹³² Part of the government’s role is to nurture markets and occasionally that role is explicit and requires ownership—think roads, schools, post offices, police, and military. Government ownership of enterprise exists to some extent in almost all economies. Scholars are not precise on where government ownership of enterprise becomes harmful to democracy, but at some point state control over economic sectors denigrates liberty and transforms government into some form of autocracy.¹³³

¹³⁰ Olson, Mancur. “*Dictatorship, Democracy, and Development*” *The American Political Science Review*, Vol. 87, No. 3 (Sep., 1993), p. 567

¹³¹ Lindblom, Charles E. “*Politics and Markets The World’s Political-Economic Systems*” Basic Books, Inc 1977, p. 174

¹³² Ibid.

¹³³ Berger, Peter L. “*The Uncertain Triumph of Democratic Capitalism*” in “*Capitalism, Socialism, and Democracy Revisited*” edited by Larry Diamond Johns Hopkins University Press, 1993, p. 9

But what if the person who took over that autocracy was a shrewd businessman, a benevolent leader, and a seemingly clairvoyant investor? Could he not install all the necessary procedural guarantees of democratic capitalism *without* having to deal with the messiness of democracy? Does the flexibility for authoritarian capitalist government to command economic actors at will if necessary, rather than be restricted to a supportive role like its democratic cousins, make the system as a whole less or more stable? Does the path of undemocratic capitalism lead towards democracy or does it plant the seeds of kind of neo-fascism yet to be seen? These are the questions this thesis addresses.

The largest, most stable, and vibrant capitalist societies are in countries where modern capitalism was fused with democracy after some sort of popular revolution.¹³⁴ Where undemocratic countries have pursued capitalism the results are varied. Historically, some have ended in fascism only to be destroyed and rebuilt by other capitalist democracies and others have puttered along making periodic attempts at democratization, some successful and some not. Some of those experiments with capitalism at the hands of undemocratic forces include Deng Xiaoping (China), Pinochet (Chile), Franco (Spain), Hitler (Germany), Mussolini (Italy), and Lee Kuan Yew (Singapore).¹³⁵ Each of these examples shows the raw power that capitalism possesses. In each country exponential economic growth was achieved, but not all have resulted in democratic governance. Let us look at three examples.

¹³⁴ Some would note that the majority of these countries are in Christian culture zones

¹³⁵ Freidman cites Fascist Italy, Fascist Spain, Germany at various times, Japan before the Wars, and tsarist Russia as examples of societies where “private enterprise was the dominant form of economic organization even though they were not politically free” see Freidman, Milton. “*Capitalism and Freedom*” found in “*Democracy A Reader*” edited by Ricardo Blaug and John Schwarzmantel Columbia University Press, p. 371

Deng Xiaoping—China

China's contemporary experimentation with capitalism began a little over thirty years ago and has transformed its economy into a modern-day global powerhouse of production. Its experiment is still ongoing and highly representative of the most modern form of undemocratic capitalism. In China it is called "Socialism with Chinese Characteristics" in an effort to keep the old guard warm to the reforms.

In 1978, leaders in China became cognizant that the highly politicized and traditional Soviet style of planning was not working and made a prudent attempt to focus on economic affairs. By 1980, special economic zones were being set up along the coastline and in the countryside (a heavier focus was placed on rural China) in a successful effort to attract FDI and increase the numbers of self-employed workers and laborers.¹³⁶ By 1984, the Third Plenum of the Twelfth Central Committee of the China Communist Party took notice of the changes foreign capital was bringing to their sectoral investment balance sheets and decided to push forward with more solidified and clearer reform principles aimed mostly at urban areas.¹³⁷

When the Seventh Five-Year Plan came out in 1986, China's economic miracle was solidified even though it was still in infancy. The plan experimented with the opening of capital markets, shareholding, a management responsibility contract system—allowing state-run enterprises to lay off excess workers among other things, a bankruptcy law, and limited forms of private ownership.¹³⁸ Of course, none of these measures were

¹³⁶ Wong, Kwan-Yui. "China's Special Economic Zone Experiment An Appraisal" *Geografiska Annaler*, Series B, Human Geography, Vol. 69, No 1 (1987), p. 27

¹³⁷ Chen, Sheying. "Economic Reform and Social Change in China Past, Present, and Future of the Economic State" *International Journal of Politics, Culture and Society*, Vol. 15, No 4, Summer 2002. P. 574

¹³⁸ Ibid

aimed at restoring capitalism, much less promoting democracy, but rather more at increasing efficiency, which it was thought would increase the power of the state.

In China today, observers see minuscule democratic reforms as a result of these economic policies, but nothing substantial. Arguments can and are made that the people of China are better off today than they were before these capitalistic reforms, but none of them will argue that the regime is now democratic because of them. Capitalism is supposed to create space for the so-called *civil society*—defined as the arena of uncoerced collective action around shared interests and often generically measured by the level of NGO activity—which will inevitably promote democratic ideas.¹³⁹ The association between dictatorship and Communism is expressed through the lack of such nongovernmental social organizations in a Communist system.¹⁴⁰

Some scholars say that *civil society* is emergent in China, but considerable government control is still exerted over the limited number of organizations that exist.¹⁴¹ Robert Scalapino calls this new type of regime an “authoritarian-pluralist system” where the leadership accepts and sometimes even promotes economic and social pluralism, yet relies on authoritarian control methods to sustain political unanimity.¹⁴² Scalapino goes further to say that hopes for China to evolve into a long-term genuine democracy are “exceedingly slight.”¹⁴³ China is important to this analysis because many authoritarian rulers around the world are continually looking to the China model—the authoritarian

¹³⁹ Cohen, Jean L & Andrew Arato. “*Civil Society and Political Theory*” MIT Press, Cambridge, 1992, p. 19, found in “*Democracy A Reader*” edited by Ricardo Blaug and John Schwarzmantel. Columbia University Press, p. 478

¹⁴⁰ Berger, Peter L. “*The Uncertain Triumph of Democratic Capitalism*” in “*Capitalism, Socialism, and Democracy Revisited*” edited by Larry Diamond Johns Hopkins University Press, 1993, p. 6

¹⁴¹ Ye, Zhang “*China’s Emerging Civil Society*” The Brookings Institute, August 2003
[http://www.brookings.edu/papers/2003/08china_ye.aspx]

¹⁴² Scalapino, Robert “*Current Trends and Future Prospects*” *Journal of Democracy*, Vol 9, No. 1 (1998) pp 35-40, p 38

¹⁴³ *Ibid.*, p 39

pluralist system—as an alternative to democratization and many smaller states continually emulate its policies in an effort to keep power consolidated while simultaneously growing it through economic means.

Pinochet—Chile

Chile is actually somewhat of a success story with an ugly beginning. General Pinochet's 1973 coup d'état overthrew the democratically elected Salvador Allende. Pinochet's military dictatorship ushered in a period of market liberalization that has turned out in the long run to be a remarkable success. In 1982 Milton Friedman proclaimed Pinochet's market policies to be an "economic miracle."¹⁴⁴ Under Pinochet however, Chileans hardly experienced what most would consider a democracy today.

Pinochet rode to power on a wave of what some have called neo-fascism,¹⁴⁵ providing an interesting comparison to the second route to modern society proposed by Moore and discussed earlier. Pinochet pursued a robust economic liberalization policy by building a coalition among the commercial and industrial classes, the popular neo-fascist movement—*nacionalismo*, himself, and a group of Chicago School economists.¹⁴⁶ After all the political turmoil and despotic attempts to maintain control, Chile emerged as a successful capitalist democracy. It remains stable for the most part today and provides insight into how it is possible for some to conclude that capitalism leads to democracy. In the case of Chile however, fascism never took hold mainly due to Pinochet's shortcomings as a leader and the inherent contradictions in promoting trade liberalization

¹⁴⁴ Cypher, James M. "Pinochet meets Polanyi? The Curious Case of the Chilean Embrace of 'Free' Market Economics" *Journal of Economic Issues*. Vol. 38 No. 2 (June 2004), p. 528

¹⁴⁵ Grugel, Jean. "Nationalist Movements and Fascist Ideology in Chile" *Bulletin of Latin American Research*, Vol. 4, No. 2 (1985) pp. 109-122, p. 120

¹⁴⁶ *Ibid*, p. 119

where foreign corporations come in and take over while simultaneously promoting extreme nationalism.¹⁴⁷ Chile most likely turned from authoritarianism to democracy not because of capitalism but rather because of a lack of skilled leadership.¹⁴⁸

The Third Reich—Germany

Industrialization came late in Germany, and when it did, it came out of deliberate state policy. The Second Reich (1870-1918) oversaw growth that was dominated by large-scale industry—especially railroads and mines—some of which was state owned. Even though its economic system could be described as nothing other than capitalism,¹⁴⁹ this wave of industrialization did not produce the assertive merchant middle class necessary to kindle a democracy. The dominating large industries squeezed out small businesses and the leaders of industries that remained private were eventually just absorbed into the ruling structure. The capitalist class that existed was small and felt that it owed its allegiance to the state, who had all but carved out the markets for them with competing industries.¹⁵⁰

The catastrophe that happened once the stars aligned and Hitler took power is well known. Kim says “the German case shows that when capitalist industrialization is initiated and guided by the state instead of a politically autonomous bourgeoisie, an authoritarian regime can preempt the rise of liberal democracy by co-opting or diverting those groups that would otherwise press for democracy.”¹⁵¹ When looking at how

¹⁴⁷ Ibid., p 120

¹⁴⁸ Although from a different perspective the transformation may have had something to do with Chile’s Christian culture

¹⁴⁹ Lash, Scott & John Urry. “*The End of Organized Capitalism*” Basil Blackwell Ltd , 1987, p.19

¹⁵⁰ Kim, Kyung-won. “*Marx, Schumpeter, and the East Asian Experience*” in “*Capitalism, Socialism, and Democracy Revisited*” edited by Larry Diamond. Johns Hopkins University Press, 1993, p. 18

¹⁵¹ Ibid , p 19

Germany and Italy were both able to accept democracy successfully and vigorously after WWII, some have noted the common Christian cultural heritage shared among them.

CHAPTER III

DUBAI: A BRIEF HISTORY

The Undesired

They have enjoyed the safety of the undesired, and have lived lives to which a hundred generations have specialized them, in conditions barely tolerable to others
—British military administer, Stephen Longrigg in 1949

The southeastern corner of Arabia where the great *Qawasim*, *Bani Yas* and other tribes came together to form the Trucial States in the 1800s was one of the most desolate and undesirable corners on the planet until the discovery of oil. The area that would become the United Arab Emirates in the 1970s is approximately the size of Maine. It backs up into the one the most barren and inhospitable tracts of land in the world, the *Rub' al-Khali*—or the Empty Quarter—which is about the size of Texas.¹⁵² In satellite photos the *Rub' al-Khali* looks like something one would expect to see on Mars or Venus. It had long been speculated that the giant desert was the source of locust plagues that had been destroying crops in the region for ages.¹⁵³

In 1948 and again in 1949, one of the last great British explorers used the local locust myth as an excuse to cross the forbidden land.¹⁵⁴ Thesinger dressed as the Bedouin did and crossed the desert in the same manner other Arabs had crossed or

¹⁵² Bates, Brainerd S. “*Camping in the Empty Quarter*” Saudi Aramco World, Vol. 18, No. 6 (1967)

¹⁵³ Thesinger, Wilfred “*Across the Empty Quarter*” The Geographical Journal, Vol. 111, No. 1/3 (Jan - Mar., 1948), pp. 1-19, p. 1

¹⁵⁴ Ibid

attempted to cross; barefoot and on camel, yet he found nothing. Being a European, his sincere interest in Arabia at the time was somewhat unique and uncommon. In his famous book, *Arabian Sands* (1959), he laments the discovery of oil and the mass of technicians and explorers who followed.¹⁵⁵ They would transform the landscape far beyond anything anyone at the time could imagine.

Even though oil exploration and technology greatly aided in mapping the entire region accurately, the inhospitable nature of the *Rub' al Khali* has contributed to tense border disputes that still exist today. On most current political maps, the interior border of the U.A.E. is merely a dotted line that reads, “de facto boundary” or “boundary undefined.” As an international power, the British—who did not leave the area until 1971—further retarded the development of clear boundaries between emerging political units. The idea of demarcated borders is a relatively recent development in the region, where peoples have historically pledged allegiance to a social unit, rather than a defined territory.¹⁵⁶ The U.A.E. is currently involved in territorial disputes with Oman, Saudi Arabia, and Iran.¹⁵⁷ Although none seem likely to transform into physical violence at this point, the disputes have been reignited periodically for either political or oil related reasons.

Facing the southeast corner of Arabia where the U.A.E. sits today is a shoreline that until the last half-century conspired to keep people out rather than to attract their investment dollars. The southern coastline has long been barely distinguishable from the

¹⁵⁵ Leatherdale, John and Roy Kennedy. “Mapping Arabia” *The Geographical Journal*, Vol. 141, No. 2 (Jul , 1975), pp. 240-251

¹⁵⁶ Swearingen, William D. “Sources of Conflict Over Oil in The Persian/Arabian Gulf” *Middle East Journal* Vol. 35, No 3, (Summer, 1981) p 321

¹⁵⁷ Al-Abed, Ibrahim, and Peter Hellyer. “United Arab Emirates A New Perspective” Trident Pres Ltd. 2001, p. 194

sea. *Sabkha* belts—long tidal flats crusted in white salt—cover most of the coast around Abu Dhabi and Dubai and are impossible to grow anything on, also making for dangerous travel routes.¹⁵⁸ Coral reefs and sandbanks that rise to create miniature islands crowd most of the immediate offshore areas, making the majority of the coastline entirely undesirable to seafarers. There is a small area north of Ras al-Khaimah where the mountains rise up out of the sea, yet it is almost equally unfavorable terrain for seafarers.¹⁵⁹ The unfavorable coastline was “emphasized by Pliny who says that east of Bahrain navigation is not possible on the Arab side because of the rocks (Book VI, xxxii, 149) and by al-Idrisi who says the 'Sea of Qatar is little frequented and much feared by sailors and travelers' (Idrisi, Vol. I, p. 157).”¹⁶⁰



Figure 3.1 Satellite Image of the U.A.E. coastline (Abu Dhabi and Dubai)

¹⁵⁸ Heard-Bey, Frauke. *From Trucial States to United Arab Emirates* Longman Group, 1982 p. 12

¹⁵⁹ *Ibid.*, p. 10

¹⁶⁰ Wilkinson, J. C. “A Sketch of the Historical Geography of the Trucial Oman down to the Beginning of the Sixteenth Century” *The Geographical Journal*, Vol. 130, No. 3 (Sep., 1964), pp. 337-349 p.339 & Idrisi tr. Jaubert. *Geographie d'Edrisi*. Paris, 1836-40. For a more detailed look at how al-Idrisi described the U.A.E. coastline, see King, Geoffrey R. “The Coming of Islam and the Islamic Period in the UAE” which is Chapter 3 in the book “United Arab Emirates, A New Perspective” edited by Al-Abed, Ibrahim, and Peter Hellyer. 2001, Trident Press

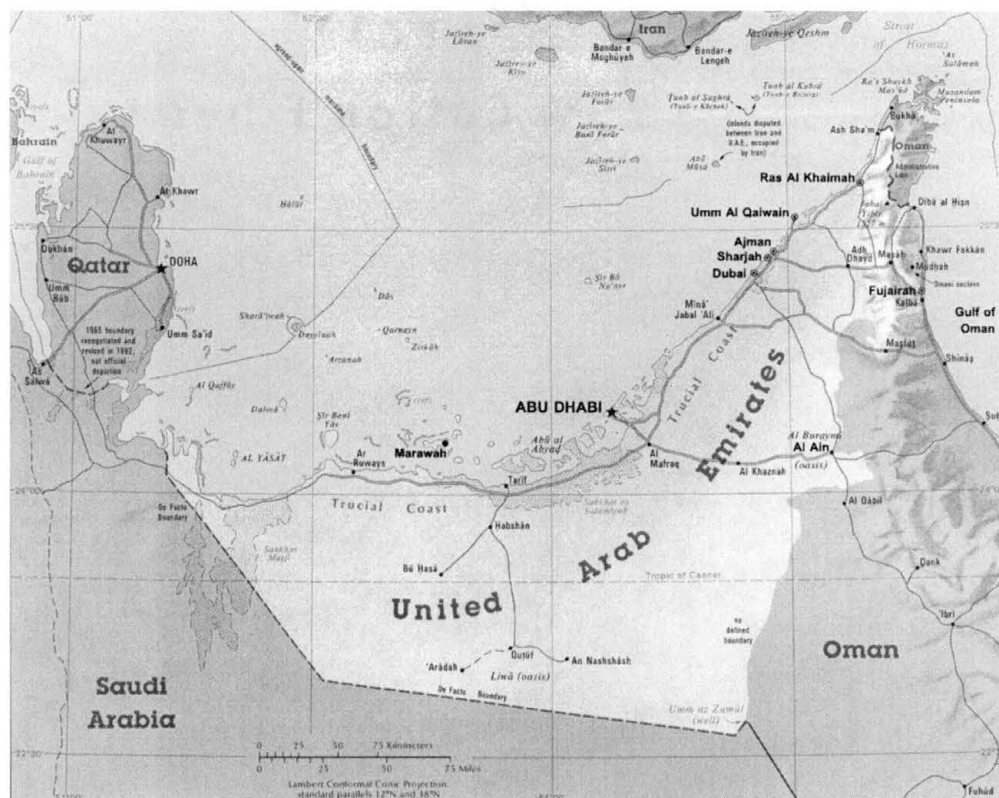


Figure 3.2 Political Map of the U.A.E.

As one moves further up the coastline eastward, creeks—also called *khors*—form. These small inlets make a good shelter for small boats—the traditional Arab *dhow* in particular. However, these creeks have remained shallow and tidal for most of history, requiring any large ship to anchor offshore and row to shore.¹⁶¹ The mighty seafaring *Qawasim* tribe lived in and around Ras Al-Khaimah near the Straits of Hormuz where the coastline and trade routes were a little more conducive, whereas the more pastoral and agricultural *Bani Yas* tribe settled around what is now Abu Dhabi and Dubai.¹⁶² Sharjah, which is just north of Dubai, is historically ruled by the *Qawasim* and had the best ship-friendly creek or *khor* and dominated maritime trade in the immediate area until 1960. Prior to 1960, the ruler of Sharjah had refused Kuwaiti assistance to stop the silting of the

¹⁶¹ Heard-Bey, Frauke. "From Trucial States to United Arab Emirates" Longman Group, 1982 p. 15

¹⁶² Ibid., p. 68

creek and one night a hot summer wind from Iran—called a *shamal*—blew in and sealed the creek's mouth shut.¹⁶³ Dubai's handling of this event was the first of many seemingly clairvoyant decisions by its ruler that led to his austere piece of land becoming one of the most desired pieces of real estate on earth.

Early History

The *Magan* people—thought to have lived in modern day Oman up to 8,000 years ago, and others in the region such as the *Dilmun*—believed to have resided in what is now the island country of Bahrain around the same time, are among the first cultures to inhabit this coastal region, evidenced by their C14 dated fire and smelting pits.¹⁶⁴ People of the nearby Fertile Crescent were able to produce an abundance of food, yet lacked timber for buildings and minerals for metals.¹⁶⁵ It is believed that they found copper in the land of the *Magan* and found timber in the Indus Valley.¹⁶⁶ Merchants from Mesopotamia would travel to Oman to trade food for copper and would then stop at Bahrain for fresh water on their way back.¹⁶⁷ The coastline of the U.A.E. was presumably passed over time and again due to its uninviting landscape.¹⁶⁸

The panorama of the southeastern corner of Arabia is noticeably missing any major ruins or ancient monuments. Further back than a few hundred years, not much is

¹⁶³ Krane, Jim “*City of Gold*” St. Martin’s Press 2009, p 72

¹⁶⁴ Bhacker, Redha M. and Bernadette Bhacker “*Digging in the Land of Magan*” Archeology Institute of America. Vol. 50 No 3, (May/June 1997)

¹⁶⁵ Hawley, Donald. “*The Trucial States*” George Allen & Unwin Ltd. 1970, p 26

¹⁶⁶ Mortimer, Luis R., Federal Research Division. “*United Arab Emirates A Country Study*” Library of Congress Washington, 2004, p. 37

¹⁶⁷ Wilkinson, J. C. “*A Sketch of the Historical Geography of the Trucial Oman down to the Beginning of the Sixteenth Century*” The Geographical Journal, Vol. 130, No. 3 (Sep., 1964), pp. 337-349 p 339

¹⁶⁸ Heard-Bey, Frauke “*From Trucial States to United Arab Emirates*” Longman Group, 1982 p 15

known about the region.¹⁶⁹ Empires all around the Persian Gulf, such as the Assyrian, and the Persian Parthian and Sassanian empires, rose and fell over the centuries leading up the birth and spread of Islam. These groups made small incursions, but for the most part left the desert tribes and their undesirable stretch of land alone through the centuries. The Sassanians set up a few forts and buildings in the northern portion—closer to Dubai and Sharjah—which was slightly more appealing as a port but took more interest in places like the island of Bahrain and the coastal regions of Saudi Arabia that did not back up into the Empty Quarter.¹⁷⁰

Dubai was never completely conquered by an empire; it was also largely passed over by the Golden Age of Islamic Imperialism. Christianity was still around in southeastern Arabia for a few centuries after the spread of Islam.¹⁷¹ On the island of *Sir Bani Yas*, just off the coast of Abu Dhabi, a Nestorian Church has been excavated where Arabs worshiped Jesus regularly, reaching its peak around the 8th century CE.¹⁷² Christianity seems to have just faded away, gradually replaced by the dominant new belief surrounding the region.¹⁷³ Islam came to the tribal Arabs of the southeastern coast in the form of a handwritten letter from the Prophet Mohammed addressed to the Omani princes in Nizwa who accepted the compelling summons to convert on behalf of all Omanis, which happened to include the coastal tribes.¹⁷⁴

¹⁶⁹ Wilkinson, J. C. “*A Sketch of the Historical Geography of the Trucial Oman down to the Beginning of the Sixteenth Century*” *The Geographical Journal*, Vol. 130, No. 3 (Sep , 1964), pp. 337-349 p. 339

¹⁷⁰ Hawley, Donald “*The Trucial States*” George Allen & Unwin Ltd 1970, p. 35

¹⁷¹ Al-Abed, Ibrahim, and Peter Hellyer. “*United Arab Emirates A New Perspective*” Trident Pres Ltd 2001, p 79

¹⁷² Krane, Jim. “*City of Gold*” St Martin’s Press 2009, p. 7

¹⁷³ Christians were still considered “People of the book”—or *dhimmi*—but were forced to pay extra taxes and generally treated as second-class ‘citizens’ of the body of Islam—the *ummah*

¹⁷⁴ Heard-Bey, Frauke. “*From Trucial States to United Arab Emirates*” Longman Group, 1982 p. 128

The *Ridda Wars*—or Apostasy Wars—of 632-634 CE, which came directly after the death of the Prophet Mohammed, seem to have marched right through the *Liwa* oasis just south of Dubai.¹⁷⁵ They were focused more on reaching the non-believers in Oman by going around the *Rub' al Khali* than converting any of the tribes along the Persian Gulf coastline.¹⁷⁶ One of these forceful conversions after the death of Mohammed did occur on what is now U.A.E. territory, in the town of Dibba,¹⁷⁷ on the coastline facing the Gulf of Oman in a disputed region that Ras Al-Khaimah now claims. It is said that 10,000 people here paid with their lives because they did not want to give up worshipping the deity *Bajir*.¹⁷⁸ A few Islamic traders in later centuries mention areas near what would become the U.A.E., but the major ports were far away and even though it lay alongside major trade routes, the unforgiving coastline did not allow much foreign influence. All the action took place on the other side of the Peninsula, nearer to Mecca on the caravan routes following the Red Sea.

The Islamic empires were extremely successful in uniting the Arab peoples culturally, economically, and politically. Indeed, the caliphate system of succession developed after Muhammad's death is often times cited as the first form of democracy in the region.¹⁷⁹ Muhammad's conquest of Mecca and his universal ideas of equality and social justice for fellow believers sparked a revolution that founded and solidified many of the economic and socio-political standards of today. The deeply divided tribes of Arabia found unity in being Muslim, whether by choice or by the sword, thus allowing

¹⁷⁵ Krane, Jim *"City of Gold"* St Martin's Press 2009, p. 8

¹⁷⁶ Al-Abed, Ibrahim, and Peter Hellyer. *"United Arab Emirates A New Perspective"* Trident Pres Ltd. 2001, p. 81

¹⁷⁷ There is an Islamic phrase that translates to "Day of Dibba" which signifies the defeat of paganism by Islam, see Hawley, Donald. *"The Trucial States"* George Allen & Unwin Ltd. 1970, p. 49

¹⁷⁸ Swearingen, William D. *"Sources of Conflict Over Oil in The Persian/Arabian Gulf"* Middle East Journal Vol 35, No 3, (Summer, 1981) pp. 314-330 p. 321

¹⁷⁹ Aslan, Reza *"No God, But God: The Origins, Evolution, and Future of Islam"* Random House, 2005

them to connect and move forward based on universal principles. Islam supplanted the Persians and most of the Roman Empire, ushering in a time of progress and development unseen before in many parts of the Peninsula. To this day the medical, mathematical, and artistic accomplishments of the Islamic Empire are an immense source of pride.¹⁸⁰ Self-confidence and the Muslim faith are at the foundation of the U.A.E. and her rulers' laws and actions to this day.

It is possible that Islam may have actually hindered the development of civic institutions, which are seen as important tools in the development of representative government.¹⁸¹ Efraim Karsh notes that in Islam there has never been a clear distinction between religion and politics. He says that “the Christian faith won over an existing empire in an extremely slow and painful process and its universalism was originally conceived in purely spiritual terms that made a clear distinction between God and Caesar.”¹⁸² He continues to say that “the birth of Islam, by contrast, was inextricably linked to the creation of a world empire and its universalism was inherently imperialist.”¹⁸³ In other words, because there was never a clear distinction between temporal and spiritual powers—both ostensibly combined in Mohammed the messenger of *Allah*—the head of state and head of church are synonymous positions in Islam and thus make it incompatible with secular democracy.

An interesting question beyond the scope of this thesis is: do democracies have to be secular? Perhaps modern Iran is the best (and worst) example of a theocratic democracy. The Islamic Revolution has stood for more than thirty years now and Iraq's

¹⁸⁰ Morgan, Michael Hamilton “*Lost History The Enduring Legacy of Muslim Scientists, Thinkers and Artists*” National Geographic Society 2007

¹⁸¹ Karsh, Efraim “*Islamic Imperialism A History*” Yale University Press, 2006, p 4

¹⁸² Ibid , p 5

¹⁸³ Ibid

new democracy is full of references to *Allah*¹⁸⁴ and suggestions of sectarian religiosity.¹⁸⁵

Saudi Arabia, which is noticeably more religiously rigid than neighboring Dubai, has substantially outpaced Dubai in democratic reforms, thus hinting that something else more powerful than religious culture may be at work.¹⁸⁶

The small tribal sheikdoms along the coastline of what would become the U.A.E. remained impoverished and austere during the time period between the end of the Islamic Age and the turbulence of the 20th century. The Portuguese showed up in the 16th century for a brief period of horror along the coastline, but they did not stay long and did not have near the economic impact that the following British involvement would.¹⁸⁷

The Pirate Coast and British Involvement

The British Empire never quite took a full interest in the desolate, hot, and generally inhospitable lands that became Dubai. The first Arabian treaty the British made was with the Sultan of Muscat (Oman) in 1798. It was a successful endeavor during the Napoleonic wars to block French naval forces from entry to the Gulf.¹⁸⁸ From then on Britain had a “special relationship” with the territories around the Persian Gulf as she strengthened her presence in Persia and India in an effort to thwart “Russia’s imperial

¹⁸⁴ See the modern Iraqi flag for reference number one, it reads “allah akbar” or “God is Great”

¹⁸⁵ Similarly, but not with the same intensity, a debate still rages in America over the presence of God in textbooks, courtrooms, and legal code. Perhaps if Jeffersonian democracy is a Christian democracy—as many contend it is—then it is possible that an Islamic democracy (Mohammedian democracy?) is still in the process of coming to fruition. Since this thesis is not about religion or the history of Islam and the Islamic Empire for the most part ignored what is now the U A E , the historical analysis of Islam ends here

¹⁸⁶ Ambah, Faiza Saleh “*Saudi Democratic Experiment Ends on a Flat Note*” The Christian Science Monitor, 22 April 2005 [<http://www.csmonitor.com/2005/0422/p07s01-wome.html>]

¹⁸⁷ Krane, Jim. “*City of Gold*” St. Martin’s Press 2009, p. 11

¹⁸⁸ Holden, David. “*The Persian Gulf After the British Raj*” Foreign Affairs, Vol. 49, No. 4 (July, 1971) pp 721-735, p. 721

designs.”¹⁸⁹ Aside from Iraq and its port at Basra—which was controlled by the Ottomans—the southern coastline of the Persian Gulf was uncolonized and initially sat as an undesirable yet strategic territory in the Great Game. The Arab shores of the Persian Gulf were largely considered to be backward, impoverished, scattered, and piratical, thus formal treaties were not immediately forthcoming.¹⁹⁰

The British East India Company made the first move by opening up new trade routes to ports along the Persian Gulf. This action cut into the profits of already established traders in the area.¹⁹¹ The regions of Ras al Khaimah, Ajman, and Sharjah—mainly controlled by the *Qawasim* tribes—were the largest cities in the area by this time, with 20,000 men and over a thousand ships and boats.¹⁹² The *Bani Yas* tribe traditionally controlled the more southern region that would become Dubai and Abu Dhabi and were generally more pastoral rather than seafaring. The northern *Qawasim* tribes can be credited with drawing the British in through their combative competition with the East India Company.

Piracy had long been considered a means for tribal income in and around the Persian Gulf, but as the British naval presence increased, so did acts of piracy.¹⁹³ The area soon became referred to as the “Pirate Coast” and was usually described as being a 150 mile stretch of coast stretching south-westerly from the Straits of Hormuz on the Arab side where all towns “are built near the entrance of a *khoreh*, or saltwater inlet.”¹⁹⁴ Recorded acts of piracy in this area go all the way back to 1770 when the *Britannia* was

¹⁸⁹ Ibid.

¹⁹⁰ Ibid

¹⁹¹ Krane, Jim. “*City of Gold*” St. Martin’s Press 2009, p. 14

¹⁹² Ibid & Belgrave, Charles. “*The Pirate Coast*” London, G. Bell and Sons, 1966, p.36 (cited in Davidson, Christopher. “*Dubai The Vulnerability of Success*” Columbia University Press, 2008 p 11)

¹⁹³ Standish, J. F. “*British Maritime Policy in the Persian Gulf*” Middle Eastern Studies, Vol. 3, No. 4 (Jul , 1967), pp. 324-354, p 326

¹⁹⁴ Ibid

captured.¹⁹⁵ The area was widely considered a safe haven for Arab pirates looking to pillage imperial British ships and anyone else trying to conduct business in the Gulf.¹⁹⁶ Persia, an ally of the English East India Company, traditionally kept the impracticable 'Pirate Coast' in check.¹⁹⁷ The two formed this alliance through the mutual interests of keeping the Ottoman Empire and other foreign empires out of the region.¹⁹⁸ But northern raids in Persia had distracted her from this traditional role and left the *Qawasim* tribe that historically inhabited the U.A.E. to grow more unpredictable and rash.¹⁹⁹

A revisionist history of these events by a *Qasimi* Sultan (*al-Qasimi* is the family name and anyone who bears it belongs to the *Qawasim* tribe) reports that the East India Company, faced with declining trade receipts and pressure from home, all but invented stories of piracy and illegal activity in an attempt to lure the Royal Navy in for an intervention.²⁰⁰ There was pirate activity going on, but behind the smear campaign was also the inability of the Company to compete with the local Arabs who knew the water, winds, and landscape better than almost any Englishman.²⁰¹ The British ignored the possibility of fabrication and sent the Royal Navy in 1809 and 1816 to bombard nearly defenseless coastal installations.²⁰² These bombardments were often to no avail, usually the *Qawasim* tribesmen would disappear into the surroundings for the bombing and then reappear as the British were leaving, unscathed. It was not until 1819 that the Royal

¹⁹⁵ Ibid

¹⁹⁶ Mortimer, Luis R., Federal Research Division. "*United Arab Emirates A Country Study*" Library of Congress Washington, 2004, p 42

¹⁹⁷ Davidson, Christopher. "*Dubai The Vulnerability of Success*" Columbia University Press, 2008, p. 11

¹⁹⁸ Al-Sagri, Saleh Hamad. "*Britain and the Arab Emirates, 1820-1956*" PhD Thesis, University of Kent at Canterbury, 1988 pp. 2-3.

¹⁹⁹ Davidson, Christopher. "*Dubai The Vulnerability of Success*" Columbia University Press, 2008, p 11

²⁰⁰ Ibid.

²⁰¹ Davies, Charles E., "*The Blood Red Arab Flag An Investigation into Qasimi Piracy, 1797-1820*" Exeter University Press, 1997. & Al-Qasimi, Sultan bin Muhammad. "*The Myth of Arab Piracy in the Gulf*" Croom Helm, 1986

²⁰² Belgrave, Charles. "*The Pirate Coast*" London, G. Bell and Sons, 1966, p. 36

Navy showed up in full force, not necessarily just to shore up the East India Company, but also to protect Imperial security out of a growing fear that the coastal tribes were forming an alliance with the brutal, powerful Al-Saud *Wahhabi* movement.²⁰³ The last attack was an all out amphibious assault in which the proud *Qawasim* tribesman stuck around to be all but wiped out.

The attacks by British forces stopped at Sharjah where the first treaty was signed, and it was later reported that explorers peacefully met the *Bani Yas* governor of Dubai and negotiated a peace treaty in 1820.²⁰⁴ The *Qawasim* traders never recovered from the attack and the East India Company filled the vacuum immediately, doubling exports in two years time.²⁰⁵ Ras Al-Khaimah formally split up after this, with Ajman, Umm Al-Quwain, Fujairah, and Sharjah becoming completely separate entities. Dubai was probably one of the first to act on the British intrusion as a positive development, seeing how it was never attacked and that the British could offer peace and protection from the tribal rivalries and skirmishes that had hindered development in the region for centuries.²⁰⁶

Again, the British did not have a strong interest in colonizing the region; it was widely viewed as resource deprived, backward, and ungovernable. They instead opted to sign truces with the regional sheikhs in exchange for modest rents, safe passage, and development opportunities—the beginning of a modern *rentier state*. The original truces, which defined the Trucial States, dealt only with maritime attacks on British vessels and

²⁰³ Hawley, Donald. *"The Trucial States"* London, George Allen and Unwin. 1970, p. 101

²⁰⁴ Davidson, Christopher. *"Dubai The Vulnerability of Success"* Columbia University Press, 2008, p. 12

²⁰⁵ Krane, Jim. *"City of Gold"* St. Martin's Press 2009, p. 15

²⁰⁶ Davidson, Christopher. *"Dubai The Vulnerability of Success"* Columbia University Press, 2008, p. 12

from 1820-1890 tribal infighting defined the region once again.²⁰⁷ The tribes were unable to coax the British into intervening due to the limited scope of the treaties. Consequently, many of the sheikhdoms suffered coups, raids, dynastic ambition, and the constant tug and pull of trying to get the paternalistic British to intervene.²⁰⁸

Nothing can unite human beings quicker or more organically than a common enemy. The *Wahhabi* tribes were on the march, so the embroiled *Bani Yas*, *Qawasim*, and other tribes stopped fighting in 1890 in an effort to improve security.²⁰⁹ Wanting to capitalize on this development, in 1892 the British had the sheikhs of several sheikhdoms sign ‘upgraded’ treaties where they basically had to agree to not meet or talk with any other imperial powers (essentially relinquishing the power to conduct foreign affairs) in exchange for becoming full-blown British protectorates.²¹⁰ Whatever ruling family happened to be in power when the new truces were signed could expect full British intervention in the event of a domestic uprising or foreign incursion.²¹¹ The 1892 signatory families rule the seven emirates of the U.A.E. to this day.

With the ruling families solidified in power, the historical ebb and flow of power between the tribes of the region for the most part ceased. Essentially the treaties substituted tribal autocracy for the tumultuous and often violent tribal democracy, which had defined the region for centuries.²¹² As political stability began to flower, alongside

²⁰⁷ Heard-Bey, Frauke. *“From Trucial States to United Arab Emirates”* Longman Group, 1982 p. 285

²⁰⁸ Ibid., p. 286 & p. 293

²⁰⁹ Davidson, Christopher. *“Dubai The Vulnerability of Success”* Columbia University Press, 2008, p. 16

²¹⁰ Heard-Bey, Frauke. *“From Trucial States to United Arab Emirates”* Longman Group, 1982 p. 293

²¹¹ Al-Sagri, Saleh Hamad. *“Britain and the Arab Emirates, 1820-1956”* PhD Thesis, University of Kent at Canterbury, 1988 p. 51

²¹² “Tribal Democracy” can be seen as a form of man in the ‘state of nature’, where people vote with their feet or sword and collective decision-making is present with the absence of formal institutions. See Krane, Jim. *“City of Gold”* St Martin’s Press 2009, p. 9, Krane calls it “Frontier Democracy”

the booming pearling industry, foreign investors began to show interest.²¹³ The newly super-sized 1892 treaty severely limited foreign direct investment and involvement, excluding minor British investments, but people from around the world sought to import technologies and equipment designed to improve the region's pearling industry. The industry peaked around 1897, accounting for about 95 percent of the Gulf economy.²¹⁴ By 1905 the British Political Resident assigned to oversee all activities and treaties of the 'Trucial States'—as they were by this time referred to as—declared that “any use of modern technology would endanger the traditional economy” and wrest control out of Arab hands.²¹⁵

The British restrictions reportedly only got worse and more draconian as time went on throughout WWI. At one point—as late as the 1920s—British manufactured radios were outlawed for fear that the population would listen to “potentially subversive foreign broadcasts.”²¹⁶ A vibrant capitalist class formed around the pearling industry where financiers set up a complex system of funding expeditions, yet due to British restrictions the heavily protected Arab monopoly on pearling was slowly eroded by advances in technology elsewhere—diving gear was never even introduced to the industry until after the market had dried up in the 1930s.²¹⁷ Japanese researchers were figuring out how to culture pearls in the 1920s.²¹⁸

²¹³ Davidson, Christopher. *“Dubai The Vulnerability of Success”* Columbia University Press, 2008, p. 23

²¹⁴ Wilson, Graeme *“Rashid's Legacy”* 2006, p 50 & Krane, Jim *“City of Gold”* St. Martin's Press 2009, p. 26

²¹⁵ Abdullah, Muhammad Morsy. *“The United Arab Emirates A Modern History”* London Croom Helm. 1978, p 104

²¹⁶ Davidson, Christopher *“Dubai The Vulnerability of Success”* Columbia University Press, 2008, p. 24

²¹⁷ SCUBA gear was being developed and experimented with widely at this time although it did not become commercially successful until the mid 1940s. Krane, Jim. *“City of Gold”* St. Martin's Press 2009, p. 27

²¹⁸ Hawely, Donald. *“The Emirates Witness to a Metamorphosis”* Norwich, Michael Russell 2007, p 182

In 1929, markets crashed around the world and the highly advanced economies in America and Europe spiraled into the Great Depression. The pearling industry that made up the bulk of the Trucial States' economy was hit immediately and devastatingly. The first commodity markets to go under when an economy declines are luxury goods, such as pearls—in this case the main importers of pearls were the Western economies that were hit the hardest. The situation in Dubai—where pearling was the dominant industry—grew desperate in the years between the 1929 and the end of World War II. People in Dubai depended on imported food that they bought with the money from pearls, so when the industry disappeared a famine ensued.²¹⁹ Many people died of starvation during this period, older Dubai residents can remember eating bugs, lizards, and leaves to get by—locust swarms were often a blessing, for they can be fried and eaten.²²⁰

Times of economic hardship tend to bring reform, or at least attempts at it. Sheikh Saeed bin Maktoum Al-Maktoum was the ruler of Dubai from 1912 until he died in 1958. He is the grandfather of Dubai's current ruler. The first and the only serious attempt at democratic reform happened under his watch. The merchants of the city wanted the government to begin performing some services in order to help get out of the economic depression. Sheikh Saeed, known as being easy-going and nonconfrontational, allowed the merchants of Dubai to form a *majlis*—another word for parliament—to make their progressive proposals.²²¹ They wanted health care, garbage pickup, schools, less taxes, and a requirement that Sheikh Saeed (who was by this point receiving rents for air landings and oil concessions) to contribute seven-eighths of his income to the Dubai

²¹⁹ Krane, Jim "City of Gold" St. Martin's Press 2009, p 28

²²⁰ Ibid., pp 28-29

²²¹ Heard-Bey, Frauke. "From Trucial States to United Arab Emirates" Longman Group, 1982 p 255

coffers.²²² When he ignored, they tried to take over. After light fighting by forces on either side of the creek, Sheikh Rashid bin Saeed Al-Maktoum, Saeed's eldest son and the current ruler's father, ended the democratic movement for good. Sheikh Rashid was much more ambitious and less patient than his father. On his wedding day, March 29, 1939, he called a temporary truce with the rebels so he could marry his wife in her home on the other side of the creek, and then had two of his leading adversaries murdered (one of them being Saeed's cousin Hasher) by Bedouin mercenaries disguised as part of the wedding, before going ahead and getting married.²²³ The rest of the rebel *majlis* fled to attack again later, but with no success. Captured rebels had one eye poked out and were allowed the opportunity to purchase the other.²²⁴

Around this time Sheikh Saeed slowly moved into retirement as his son took over more and more duties. Rashid's new bride, Sheikha Latifa, was a daughter of the neighboring Al-Nahyan ruling family of Abu Dhabi; this solidified the young ruler's position in the region. After the killings, Rashid co-opted all remaining dissident merchants by enacting everything the rebel *majlis* had suggested (except for the pay cut) and then afforded specific contracts and trade licenses to different families who had clout in the movement, effectively handing out monopolies.²²⁵ The Al-Ghurair family was one of the most outspoken reformer units, and consequently the Forbes 2009 richest-people list has members of this family listed *twice*—once at place 57 at \$7.8 Billion net worth and again at place 224 at \$2.8 Billion.²²⁶

²²² Ibid., p. 256

²²³ Ibid., p. 257 & Davidson, Christopher. "*Dubai The Vulnerability of Success*" Columbia University Press, 2008, p. 35

²²⁴ Krane, Jim. "*City of Gold*" St Martin's Press 2009, p. 32

²²⁵ Ibid

²²⁶ Kroll, Luisa, Matthew Miller & Tatiana Serafin. "The World's Billionaires" Forbes.com 11 March 2009

With Sheikh Rashid firmly in power, Dubai and the other emirates had begun asserting their strategic location as leverage, presenting Britain with the problem of how to maintain the status quo. The British decided that “large sums of locational rent” would work best, paving the way for a new era of sustained and highly elevated rentier wealth in the region.²²⁷ Until the 1940s these locational rents increased substantially, being derived from everything from air landing rights to exploration rights. The 1892 treaty had relinquished their rights to conduct foreign affairs, but importantly a new treaty in 1922 specifically gave up their right to sell oil exploration contracts to the United States or other countries. Bahrain struck oil in 1932 as the oil rush hit fever pitch in the region. British concessions for oil exploration began bringing in large amounts of money, and then, World War II broke out and most prospectors and developers left.

In addition to the persistent tribalism that had often slowed down development, by the 1950s and 1960s the Arab nationalism that had been spreading around the rest of the Arab world had begun to infiltrate Dubai.²²⁸ This nationalist movement was terminated with extreme prejudice. However, it did lead to significant investments in schools and infrastructure by the ruling al-Maktoum family. Operating under the British restrictions on technology imports, Dubai was relatively successful at building a re-export trade, mainly from India, which required little or no technology import, but it still lacked the basic infrastructure necessary to make large shipments.²²⁹ The British attempted many short-term solutions, but it was not until the late 1960s, after the discovery of oil, that the

²²⁷ Davidson, Christopher. “*Dubai The Vulnerability of Success*” Columbia University Press, 2008, pp. 24-25

²²⁸ Ibid., p. 39

²²⁹ Ibid., p. 67

British were able to bring all parties to the table and begin discussing autonomy through a loose federation, independent of nationalist aid.²³⁰

Oil

Industrial production of oil in Abu Dhabi began in 1960, almost thirty years after the initial discoveries in Saudi Arabia.²³¹ It was not until 1966 that it was discovered in Dubai.²³² There were small findings in the region in the thirties that were extensive and generated much interest, but production, investment, and export were severely stymied by events surrounding World War II.

However, even before the war was over, Dubai was already beginning to receive large amounts of rentier wealth income from the sale of oil concessions. In 1937 the Iraq Petroleum Company (IPC)—London based and British Government backed—held a concession in Dubai.²³³ In return for leasing a small area to the company and allowing it to build a jetty, Sheikh Saeed was awarded 60,000 rupees upon signing, an annual salary of 30,000 rupees, and a 200,000-rupee reward payable upon the discovery of oil.²³⁴ By the end of the World War II in 1945, the al-Maktoum family had successfully renegotiated the terms of this concession to be even more favorable, achieving an equal split in all profits. The achievement of such favorable terms was no doubt a response to several five million rupee offers from Superior Oil Company in 1939 and 1944 spurred by unauthorized American aerial surveys; the Arabian-American Company (ARAMCO)

²³⁰ Ibid., p. 40

²³¹ Helem Chapin Metz, ed. *Persian Gulf States A Country Study* Washington: GPO for the Library of Congress, 1993. [www.countrystudies.us] (UAE Oil and Natural Gas)

²³² Davidson, Christopher *"Dubai The Vulnerability of Success"* Columbia University Press, 2008, p. 100

²³³ Ibid., p. 26

²³⁴ Ibid., p. 27

was also traversing the region at this same time looking for more oil after its massive discoveries in Saudi Arabia.²³⁵ The IPC concessions would not expire until the late 1960s.²³⁶

In the late 1960s, Sheikh Rashid moved to create his own parastatal company called the Dubai Petroleum Company (DPC) to manage all on-shore fields and some offshore holdings.²³⁷ At the official opening of the DPC it would seem that no fewer than seven non-British partners were involved. These would include Total and Campagnie Francaises des Petroles from France, Respol and Hispanoil from Spain, RWE-DEA and Wintersall from Germany, and not to mention, Britain's mainstay rival—the American Continental Company (or Conoco).²³⁸ This development was crucial for two reasons. First, it was a complete reversal of the previous treaty requirements; Britain's acceptance of this indicated that independence was near. Secondly, it allowed Dubai to begin tinkering with foreign relations by forming alliances and allowing in technologies and strategies from around the world, the lack of which had destroyed the pearling industry a few decades earlier.

By as early as 1980, the DPC had expanded, found new wells, increased exports, and was bringing in unimaginable wealth, which in turn raised living standards for nationals. The amounts of money flowing in throughout the 1960s and into the 1980s affected the people initially by briefly stoking the fires of Arab nationalist sentiment still spreading through the region, but eventually this same money flow—managed properly—dispelled that sentiment and replaced it with a collective local pride and

²³⁵ Heard-Bey, Frauke. *“From Trucial States to United Arab Emirates”* Longman Group, 1982 p. 303

²³⁶ Davidson, Christopher *“Dubai The Vulnerability of Success”* Columbia University Press, 2008, p. 100

²³⁷ Ibid.

²³⁸ Ibid , p.101 This information was compiled by Davidson from a variety of PhD thesis papers and personal interviews

consumerism. All discontents had effectively either been bought off or forced out by Sheikh Saeed and his son Rashid, and all others were now busy following the oil boom or running their own businesses. People were too busy, too distracted, or too happy with the direction of things to try any sort of political reform.

The pearling industry bust and aftermath that began in the 1930s was still fresh on the minds of everyone in Dubai. The people were collectively aware that the striking of oil was an opportunity, not an answer. Probably more importantly, the rulers of Dubai were keenly aware of this and used it as a chance to shore up political control. Many scholars have proposed what is known as the *oil curse*, where the largesse of oil rents can have a destabilizing effect. However, recent literature suggests that “the effect of a large endowment of oil and other mineral resources on long-term economic growth of countries has been on balance positive.”²³⁹ The experience of Dubai and the U.A.E. would seem to support that hypothesis.

There are a few main reasons why Dubai did not experience many of the negative effects associated with extractive commodity-based economies that are tied to a shifting market value. First, the small city-state had been anticipating the discovery of oil for a very long time, as discoveries crept through the region before and after World War II.²⁴⁰ This allowed for much thought and preparation to go into how oil wealth would be managed and distributed. Secondly, the relative small size and population of Dubai in comparison to neighboring oil-rich Saudi Arabia, made imposing and maintaining an effective ruling bargain with the people simpler and cheaper. Finally, Dubai still remained under the protective arm of the British when oil was discovered and through the

²³⁹Alexeev, Michael & Robert Conrad. “*The Elusive Curse of Oil*” Review of Economics and Statistics, MIT Press, August 2009 p. 586

²⁴⁰Krane, Jim. “*City of Gold*” St Martin’s Press 2009, p. 49

first few crucial years of industrial production. This meant that it had relatively small defense and administrative costs, which allowed for large-scale direct investment in infrastructure and development. Because Dubai had a long period of time to prepare for a massive influx of revenue—29 years between the first rents for oil concessions and discovery—it was able to successfully enshrine a stable ruling bargain with the people, build the infrastructure necessary to absorb new revenue streams and foreign investment, and devise an elaborate plan for how to avoid overdependence on a tradable commodity.

The quadrupling of oil prices in October 1973 brought on by the Arab oil embargo in response to the Yom Kippur War had a dramatic effect upon the economies of the world.²⁴¹ The inflation gave special status to all oil producers in the developing world and created a new feeling of invincibility among them as they pushed forward with grand development projects.²⁴² Dubai was a de facto member of the Organization of Petroleum Exporting Countries (OPEC) since neighboring Abu Dhabi—the largest oil producer in the U.A.E.—had joined the group just prior to federalization.²⁴³ Dubai never fully considered itself a true member of OPEC, although legally it was and it nominally supported the causes championed by the group—namely Palestinian issues. The government of Dubai routinely exceeded quotas and produced oil as fast as it could throughout the embargo and afterwards, just as most non-OPEC countries did leading up to the *oil glut* of the 1980s in which oil prices dramatically fell again.²⁴⁴

Not many outside of the region took much notice of Dubai's blatant disregard for the quotas. But in 1987, OPEC's secretary general seemed to suspect that the U.A.E. was

²⁴¹ Gelb, Alan H. *Oil Windfalls Blessing or Curse?* Oxford University Press, 1988, p. 8

²⁴² Ibid.

²⁴³ Davidson, Christopher. *Dubai The Vulnerability of Success* Columbia University Press, 2008, p. 228

²⁴⁴ Ibid., p. 229

producing 20 percent over its quota, and not too long after being reassured by Sheikh Zayed—President of the U.A.E. and ruler of Abu Dhabi at the time—that they were not, Iraq moved tanks into Kuwait City.²⁴⁵ The U.A.E. genuinely felt threatened by this and changed its stance at this point in 1990 and helped the United States liberate Kuwait.

In 2007, Abu Dhabi overshadowed Dubai in production eleven to one, accounting for over 90 percent of oil exports coming from the U.A.E.²⁴⁶ Dubai is thought to have reached peak oil as early as 1991 and could be completely out by 2017, prompting some to wonder why oil giants such as Halliburton, British Petroleum (BP), and Shell have continued to invest in emirate—one having moved its entire headquarters and CEO there.²⁴⁷ Some have speculated that this continued interest in Dubai by energy companies even as oil reserves dwindle in the immediate area is due predominantly *to* that reduction—not to mention the sweet deals and 100% foreign ownership offered in its free zones. The fact that Dubai has diminishing production gives the emirate credibility in the trading market; investors do not fear favorable government intervention on behalf of a big parastatal oil company, such as the case would be in Abu Dhabi.²⁴⁸

Abu Dhabi

Of the 30,000 sq. miles of property in the U.A.E., Abu Dhabi's land area covers around 87 percent and holds some of the largest oil reserves known on earth.²⁴⁹ In 1968 when the first census was taken of the seven Trucial States, of the 180,000 inhabitants

²⁴⁵ Ibid.

²⁴⁶ Ibid., p. 103

²⁴⁷ Oxford Business Group. *"The Report Dubai 2007"* Oxford Business Group, 2007 p 139

²⁴⁸ Ibid., p. 140

²⁴⁹ Heard-Bey, Frauke *"The United Arab Emirates Statehood and Nation-Building in a Traditional Society"* Middle East Journal. Vol. 59 No 3, Summer 2005, pp 359-360

that were counted almost 59,000 lived in Dubai, 46,000 in Abu Dhabi, and as few as 3,700 in smaller states like Umm al-Qaywayn.²⁵⁰ The populations of Dubai and Abu Dhabi together made up over 85 percent of the entire population of the U.A.E. at its founding and is telling not only of the great inequality among emirates that still exists today, but also the special status and relationship the two largest members enjoy—their ruling families are also connected through the early tribal confederation of the *Bani Yas* tribe.²⁵¹ The sheer size and resource availability in Abu Dhabi invites one to wonder why Dubai would have a larger population then and today. It began in 1833 when a large section of the *Al Bu Falasah* family seceded from the *Bani Yas* dominated Abu Dhabi area and moved to Dubai in search of better economic conditions.²⁵² They were mainly merchants, fishers, and pearlers who were not happy with taxes. The rulers of Dubai today are ancestors of this first group of migrants—they still dislike taxes.²⁵³

From the 1920s until the end of World War II, Abu Dhabi suffered from political instability and economic mismanagement that included a large number of high profile fratricides within the family as brothers and sons within the Al-Nahyan family struggled for power. Some have noted that this time period coincided with high taxes in the area and that many more merchants left for Dubai—only a 90-minute car ride away today—during the pearling industry bust of the 1930s and 1940s.²⁵⁴

²⁵⁰ Ibid.

²⁵¹ Heard-Bey, Frauke. “From Trucial States to United Arab Emirates” Longman Group, 1982 p. 27

²⁵² Al-Sayegh, Fatma. “Merchants’ Role in a Changing Society: The Case of Dubai, 1900-90” Middle Eastern Studies, Vol. 34, No. 1 (Jan., 1998), p. 94 pp. 87-102

²⁵³ Heard-Bey, Frauke. “From Trucial States to United Arab Emirates” Longman Group, 1982 p. 27

²⁵⁴ Davidson, Christopher. “Dubai: The Vulnerability of Success” Columbia University Press, 2008, p. 77

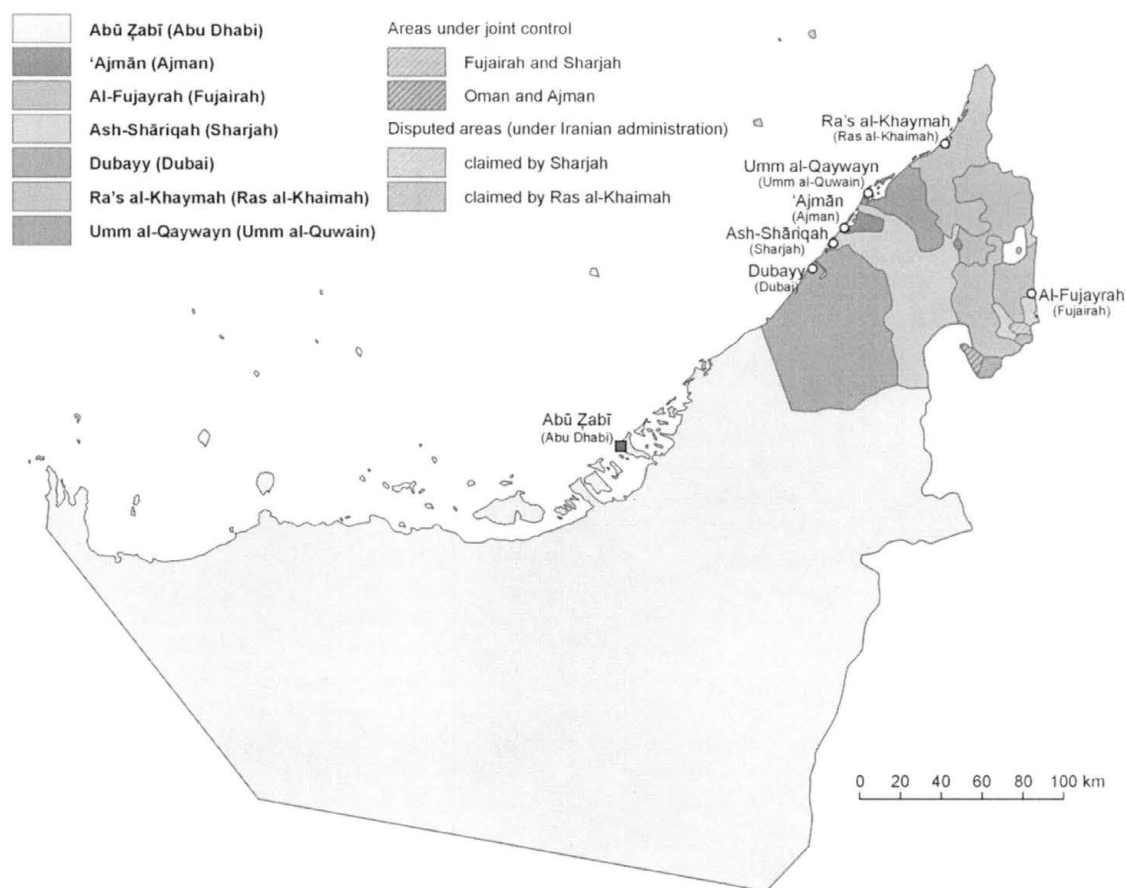


Figure 3.3 Map of Emirate-level Boundaries

By the 1950s stability was restored by Sheikh Shakhbut bin Sultan Al-Nahyan, father of the first U.A.E. president Sheikh Zayed. Shakhbut is widely regarded as having retarded the progression of Abu Dhabi with an overly cautious and traditional governing style.²⁵⁵ Shakhbut was a “sheikh’s sheikh.” He was a true Bedouin leader who did not understand banks and banking so therefore he did not allow them in, thought any issues or ideas outside of Abu Dhabi were not relevant and therefore should not be taught, saw no need for modern medicine when traditional methods still worked, and truly believed that “modern development could destroy all that is good in the simple structure of tribal

²⁵⁵ Ibid., p. 77

society.”²⁵⁶ In fact, bans on construction were implemented and by the time Shakhbut peacefully abdicated to his brother in 1966 it was apparent that the damage had already been done. Years after oil had been discovered the only buildings in Abu Dhabi were ones the oil company had erected, electricity was still practically non-existent, no phone lines had been stretched, and when it was decided that a desalinization plant should be built, the contract had to go to a company startup in Dubai.²⁵⁷ Abu Dhabi had dropped the ball.

Sheikh Zayed, who had been governing Abu Dhabi’s hinterland city of Al-Ayn, tried diligently and energetically to modernize what would become the capital of the U.A.E. Most of the merchant and educated families had moved to Dubai under Shakhbut making progress slow, but the exponentially larger oil reserves in Abu Dhabi and the wealth hoarded by Shakhbut allowed Zayed to place Abu Dhabi in the most important role in the federation within a few years. Sheikh Zayed was renowned for his generosity, especially to the poorer and smaller emirates to the northeast. All an Arab had to do was ask, and Zayed would give. This spirit of giving is widely credited with helping form the basis for unity in the region today. Migration, marriage, and the tribal strings of the *Bani Yas* strengthened the long-lasting bond between Dubai and Abu Dhabi over time as well. Dubai is the second wealthiest and second largest emirate in the group and therefore its ruler is generally synonymous with the role of Prime Minister—who is also sometimes referred to as the Vice President. Sheikh Rashid bin Saeed Al-Maktoum is largely considered the ‘father of Dubai,’ he and Zayed were in power when the U.A.E. was

²⁵⁶ Ibid, p 82

²⁵⁷ Davidson, Christopher. “*The Emirates of Abu Dhabi and Dubai Contrasting Roles in the International System*” Asian Affairs, Vol 38, No 1, (March 2007) p 35

conceptualized and birthed, their vision essentially laid the groundwork for the modern country seen today.

The United Arab Emirates—A beginning

On 16 January 1968, British Prime Minister Harold Wilson announced drastic budget cuts and a subsequent complete withdrawal from the Persian Gulf by the end of 1971.²⁵⁸ The announcement came as a shock to most of the rulers in the region. Just as things were starting to look up—the discovery of oil—their worlds were being turned upside down. Saying it would leave the region open for Communist incursion and that the military expense for staying in the region was negligible compared to private business investment, Conservatives in the British government derided the proposal. The Conservative opposition and then apparent reversal less than a year into office caused some confusion among the emirates. None of the leaders were quite sure of what to expect and therefore many of them did not make the necessary investments in developing institutions such as a police force or courts in time for the British exit.

What became the United Arab Emirates originally was to include Qatar and Bahrain. As British Protectorates, the U.K. government sought to bind them together with the Trucial States in some form of loose federation. After previous exits in Africa and Aden, where too much centralized power led to immediate revolution upon their departure, the British were keen to let this relationship develop somewhat organically, preserving as much self-rule in each sheikhdom as possible. The seven rulers of the Trucial States were already familiar with working together in an informal fashion, as they would meet biannually to discuss development with the British Political Agent. Decades

²⁵⁸ Heard-Bey, Frauke. *“From Trucial States to United Arab Emirates”* Longman Group, 1982, p 337

of relative stability and growth in the area had formed an unwritten bond of trust and cooperation between them in the traditional tribal manner. The first meetings were held in February 1968 at Sheikh Rashid's house in Dubai. At them an expression of an intention to write a constitution was signed by all nine members, but only seven would eventually join the federation.²⁵⁹

In the summer of 1970, after almost two years of negotiations, Qatar and Bahrain refused membership citing concerns over the federal makeup. By September 1971 they had each signed peace treaties with Iran and Saudi Arabia and officially declared themselves independent states.²⁶⁰ Iran traditionally claimed Bahrain as one of its provinces—its 'crown jewel'—even though it did not exercise any sovereignty over it. It was widely known that Iran was planning to reassert itself as a dominant military force in the Persian Gulf as soon as the British left, and so its recognition of Bahrain as an independent state came with a sigh of relief followed by an air of uncertainty over what Iran's plans were concerning the contested islands near the Straits of Hormuz, Abu Musa and the two Tunbs.²⁶¹ The emirates of Ras Al-Khaimah and Sharjah traditionally held claim to the islands and now with the British leaving found themselves torn between looking to Saudi Arabia for support or joining forces with Abu Dhabi, whose border dispute with Saudi Arabia was gaining steam again.

With apparently no other option, the U.A.E. became an official country in December 1971 when Sheikh Rashid and Sheikh Zayed (Abu Dhabi) adopted a federal form of government and signed a constitution that was hurriedly drafted by the British. Reportedly, between the breakdown of talks in 1970 and the formation of the U.A.E.,

²⁵⁹ Ibid., p. 344

²⁶⁰ Ibid., p. 362

²⁶¹ Ibid., p. 339

Sheikh Rashid and Sheikh Zayed pleaded with the British to stay, even offering to pay for military protection out of their own oil coffers.²⁶² The British refused even this, citing that British soldiers are not mercenaries.

Ras Al-Khaimah made a last minute decision to withdraw, then another last-minute decision to join again. Within a year the United Nations, the Arab League, France, Germany, and Britain had recognized the United Arab Emirates. The USSR refused to recognize the U.A.E at first, stating that it was “part of an extended Imperial plan,’ but once all British naval forces and airbases were removed in 1972, it ceded recognition. Iran, who still occupies U.A.E. territory today, pressed harder claiming, “the U.A.E. is no more than an obedient instrument for the ambitions of the imperialists and the colonialists.”²⁶³ Iran had already stirred trouble immediately for the young country by occupying the three islands off her coast, belonging to Ras Al-Khaimah and Sharjah, just hours before the British treaty was set to expire.

This event not only caused Ras Al-Kaimah to pull out of the federation initially before immediately rejoining, but it also triggered a coup in Sharjah as a reaction to the Sheikh there trying to collect rent from the Iranians for the island. The Sheikh understood that the Iranians were going to just take it anyway. The federation was just a month old when Sheikh Zayed, Sheikh Rashid, and the four other rulers collectively and personally went into Sharjah, removed the coup plotter and sent him into exile.²⁶⁴ Collective security was achieved at the expense of losing the islands and the life of one Ruler; the world did not seem to take much notice. Three years after independence, the

²⁶² Davidson, Christopher “*Dubai The Vulnerability of Success*” Columbia University Press, 2008, p. 63

²⁶³ Ibid , p. 64

²⁶⁴ Krane, Jim “*City of Gold*” St. Martin’s Press 2009, p 83

United Arab Emirates had a common currency—the U.A.E. Dirham, a new federal flag, and new postage stamps.

The United Arab Emirates—Today

The U.A.E. federal government consists of the seven rulers that together make up the Supreme Council of Rulers (SCR), a Council of Ministers set up and headed by the Prime Minister, a Federal National Council (FNC), and the Federal Judiciary. The SCR—also called the Supreme National Council—is the same structure that was used for biannual meetings when the Emirates were still called the Trucial States. The Council of Ministers—also known as the Cabinet—is a group of ministers appointed to their positions and according to the 2007 U.A.E. Cabinet Minister’s handbook it “directs and approves policies and programs and oversees their implementation; and it presents legislation for approval.”²⁶⁵ It currently has 22 ministers, two of which bear the al-Maktoum name and 5 of which bear the al-Nayhan name. They are the “executive authority of the federation.” Interestingly enough, four women are in the cabinet.

The FNC has a “legislative and supervisory role” according to the Prime Minister’s website, but that same site also says, “Islamic Shari’aa is the source of legislation in the UAE.” The FNC is interesting because it is the one area in which the federal government has begun to experiment with democratic principles, such as elections. Until December 2006, the forty members of the FNC were appointed by the rulers of each emirate based on size—eight from Abu Dhabi, eight from Dubai, six from Sharjah, six from Ras Al-Khaimah, and four each for Fujairah, Ajman and Umm al-Qaiwain. Now, half of the FNC members from each emirate must be ‘elected’ by a hand-picked electoral college that must be at least 100 times larger than the number of FNC

²⁶⁵ Cabinet Handbook, July 2007 United Arab Emirates Ministry of State for Cabinet Affairs

members for the emirate. In other words, the ruler of Dubai or Abu Dhabi must choose 800 people to participate in a vote to elect four candidates—chosen by the ruler also. And this is for a legislative position in a ‘loose confederation’ where ‘Islamic Shari’aa is the source of legislation’ and the emirates are guaranteed “sovereignty over their own territories and territorial waters in all matters, which are not within the jurisdiction of the Union” as per the constitution.²⁶⁶ The Union is delegated powers in security, transportation, and utilities only.

This elective process is the full extent of democratic reforms that have been attempted by the U.A.E. By comparison, the neighboring kingdoms of Saudi Arabia, Bahrain, and Qatar have experienced far more democratic reforms than the U.A.E. It is an interesting conundrum where the region’s most backward and undeveloped tribes have risen to the financial heights of Western capitalism while little to none of the political reforms thought to be associated with it has even been attempted. Other strange dualities exist in the U.A.E., where Arabic is the declared national language, yet English is very noticeably the *lingua franca*, especially in Dubai.²⁶⁷

Abu Dhabi is by far the largest and the wealthiest of the seven, therefore the ruler is synonymous with the role of President of the U.A.E., who today is Sheikh Khalifa bin Zayed Al-Nahyan. Khalifa replaced his father, Sheikh Zayed bin Sultan Al-Nahyan as ruler of Abu Dhabi and President of the U.A.E. when the latter died in 2004. This year, just weeks before the grand opening of the tallest building in the world, the Burj Dubai, it was renamed the Burj Khalifa after the President authorized a multi-billion dollar loan to help Dubai out of its current debt problems. Abu Dhabi’s generosity concerning the

²⁶⁶ United Arab Emirates, The Constitution of the U.A.E., Section 1, Article 3

²⁶⁷ Heard-Bey, Frauke. “*The United Arab Emirates Statehood and Nation-Building in a Traditional Society*” Middle East Journal Vol. 59 No 3, Summer 2005, p. 358

other emirates just before and after federalization is often referred to as the glue that holds the group together, but other issues, such as immigration, are forming a strong national identity today also. Somewhere between 80 and 85 percent of all people in the U.A.E. are foreigners. They come from all over the world seeking opportunity, but they are predominately from South-east Asia and India. This demographic has created a rallying effect for U.A.E. nationals—called Emiratis—who see themselves as making up a distinct privileged minority class, no matter what tribe or emirate they hail from.²⁶⁸

The Iran Effect

The al-Maktoum family dynasty stretches all the way back to 1580. Recorded history of their uncanny timing and ability to attract foreign investment begins in about 1900 when then Sheikh Maktoum bin Hasher first took advantage of events in Persia in order to boost business in Dubai.²⁶⁹ The Shah had begun to raise taxes in coastal towns such as *Bandar Lengeh* around this time in an effort to bring them under direct rule and kick out the Arab *Qawasim* traders who lived there and paid him no allegiance.²⁷⁰ The Dubai ruler recognized the exodus this was causing and decided to get rid of most taxes and remove fees on merchants in his ports in an effort to attract them; it worked. A German geographer named Hermann Burchardt visited the area during this transitional phase and commented that it looked as if the entire Iranian coastal business sector in *Lengeh* had just uprooted and planted down in Dubai. By 1902 steamships were passing

²⁶⁸ Ibid., p. 361

²⁶⁹ Davidson, Christopher “*The Emirates of Abu Dhabi and Dubai Contrasting Roles in the International System*” Asian Affairs Vol. 38 No. 1, March 2007. p. 34

²⁷⁰ Ibid.

by *Lengeh* and instead calling on Dubai. By 1904 the British Indian Steam Navigation Company had chosen Dubai as a distribution center for the Persian Gulf.²⁷¹

By the 1920s it was somewhat clear that Iran's strangling economic policy in *Lengeh* was not going to fade and most Iranians who had immigrated to Dubai in the first wave accepted the ruler's offer to settle permanently. "Business skills, entrepreneurship, and valuable links with India and Asia were effectively transferred from Iran to Dubai. This drain of expertise was to be the foundation for Dubai's strong growth after 1902...Persia's loss was Dubai's gain."²⁷² *Bastakiyah* is the Iranian historic neighborhood in Bur Dubai where immigrant merchants were offered land. Where original housing still stands one can see the wind towers—an early form of air conditioning—native to Persian culture. There is great attention paid to these wind towers in all of the mostly scant literature written on the early history of Dubai, which is indicative of the great influence Persian culture had on the population. Many people lament the destruction of most of the wind towers in the 1990s, only to be replaced by shiny—and sometimes gaudy—skyscrapers.

In the 1950s and the 1970s Iran raised tariffs again. Some of them reached up to 40 percent, and Dubai was showered with another wave of merchant immigrants. During this time Dubai successfully dredged its creek with the help of Kuwait, allowing access to bigger ships for the first time. With its low or non-existent tariffs, newly dredged creek, and Port Rashid and Port Jebel Ali under construction, Dubai was well on its way to becoming the best distribution center for long distance shipping in the region.

²⁷¹ Ibid.

²⁷² Ibid

In the late 1970s and still today, the Islamic Revolution in Iran has driven most of academia and many liberal-minded people across the gulf to Dubai and elsewhere. Throughout time Dubai has maintained a healthy trading relationship with Iran and most Dubai merchants today speak Farsi. Sheikh Mohammed, the current Prime Minister of the U.A.E. and ruler of Dubai, says with pride when asked about relations with Iran, “These are long-standing relations, dating back hundreds of years. Trade has never ceased across the Arabian Gulf.” He goes on further to say that “Iran’s nuclear program is an internal matter of the nation of Iran, as long as our brothers in Iran continue to reassure the world that the program is peaceful...concerning all kinds of weapons of mass destruction—whether nuclear, chemical, or biological—is that we call for freeing the Middle East Region from all such weapons.”²⁷³

The doublespeak in his statements should make it apparent that the U.A.E. currently walks a thin line between maintaining trade relations with Iran and placating Western countries’ and investors’ fears about it. Note that he called it the *Arabian Gulf* and not the *Persian Gulf*, as it is labeled on most maps, while simultaneously supporting Iranian sovereignty. In his second statement above, Mohammed tugs the standard Iranian line on the nuclear issue in the first half of his sentence and then follows it up with the standard American-Western line. Citizens of the U.A.E often bring up the disputed islands in newspapers and in online chat sessions with the Prime Minister. Iran’s nuclear intentions maintain a shroud of uncertainty that makes many foreigners and nationals nervous. The U.A.E stands ready to take every position possible in the disputes, while at the same time taking no position in particular.

²⁷³ Official Website of the Prime Minister of the United Arab Emirates, “*Prime Minister’s First e-Session with the Public*” accessed 1/20/2010 [http://www.uaepm.ae/en/media/e-sessions/Public-e-Session-en-010609.html]

When Saddam Hussein invaded Iran in September of 1980, the Gulf Emirates were not exactly happy with the way things were going in the region. War sometimes has a funny way of discouraging economic activity, but if handled strategically (and most importantly if one is not attacked) it can actually boost economies. Displaying an uncanny knack for timely investment strategies, Sheikh Rashid had just begun building the region's largest dry dock for repairing ships the year prior. It was finished and open for business just one year before 1984 when Iran and Iraq took their fight to the sea and began shooting missiles at each other's civilian tankers in the Persian Gulf. Dubai even sent salvage tugs out patrolling for injured tankers to bring back to their docks. The docks became so busy that ships would wait for months before being repaired.

Thus, Dubai has always had a special relationship with its giant Persian neighbor to the north. The mass immigrations to Dubai over time from Abu Dhabi, Sharjah, other Arab nations, and especially South Asia, are well documented by many authors and are all generally stories that involve domestic mismanagement of economies abroad and Dubai's unique position to exploit that.²⁷⁴

²⁷⁴ Davidson, Christopher "Dubai *The Vulnerability of Success*" Columbia University Press, 2008, p.76-90

CHAPTER IV

DUBAI: MACROECONOMIC POLICY

This chapter gives an overview of the specific means by which Dubai has established itself as an economic force in the Persian Gulf. The successful diversification of Dubai's economy uses many techniques borrowed from other authoritarian capitalist regimes—such as the special economic zones (SEZs) mastered in China²⁷⁵ and sovereign wealth funds (SWFs) pioneered by Kuwait²⁷⁶—and also serves as a model for other aspiring undemocratic regimes. It is important to understand the means by which Dubai was able to turn a “Pirate Coast” with a few mud huts in the early 20th century into a regional shipping hub with glimmering beachfront property in such a brief period of time. If this model can be replicated it may be used to help lift millions around the world out of poverty. On the other hand, understanding the macroeconomic policies of Dubai may help us understand and better estimate the real risks and political implications associated with the model.²⁷⁷

²⁷⁵ Examples of what could be considered to be SEZs stretch all the way back to the Roman Empire or further. The first modern export processing zone (EPZ—a subset of SEZs) was opened in Ireland in 1956, yet the more comprehensive models seen around the world today and discussed at length in this paper began in China in the 1980s, see Wong, Kwan-Yui & David K. Y. Chu. “*Export Processing Zones and Special Economic Zones as Generators of Economic Development: The Asia Experience*” *Geografiska Annaler Series B, Human Geography*, Vol. 66, No. 1 (1984). pp. 1-16. p. 2

²⁷⁶ Kuwait is considered to have set up the first SWF in 1954, although the term was not coined until 2004. Kimmitt, Robert M. “*Public Footprints in Private Markets*” *Foreign Affairs* (January/February 2008)

²⁷⁷ Davidson, Christopher. “*Dubai: The Vulnerability of Success*” Columbia University Press 2008 p. 263

Dubai has phenomenally transformed by moving from pre-industrial to industrial to quasi-post-industrial service economy status in less than half of a century.²⁷⁸ This triumph is incredible in that it took most post-industrial economies of today at least a century, if not two, to progress that far. However, the achievement is understandable when one takes into account the relative small size of the emirate and its access to post-industrial technology and immigrant labor.²⁷⁹ Dubai's rulers have been keenly aware that its oil reserves are far less prolific than any neighboring reserves—Abu Dhabi controls 10 percent of the world's known oil reserves, 16 percent of OPEC's (comparable to Kuwait and Iraq 2007), and 90 percent or more of reserves in the U.A.E.²⁸⁰ This disparate allocation of resources leads Christopher Davidson to remark that “it is neither practical nor accurate to treat the U.A.E. as a single state when it comes to measuring per capita wealth.”²⁸¹ Even though since 1971 the seven emirates have handed over some authority to the central government—for example control of the military, foreign policy, and immigration policy—control over oil production and revenues has been retained firmly by the emirate-level governments.²⁸²

Sparked by its long tradition of commercial enterprise, funded by its meager extractive capabilities, and fueled by its desire to establish itself as a force within the U.A.E. and the world, the emirate of Dubai decided to feverishly pursue a distinctive

²⁷⁸ The term “quasi-post-industrial” is coined here because Dubai never truly went through an industrial phase like other post-industrial countries have, it sort of ‘leap-frogged’ that step. The original quote comes from Pacione, Michael. *“City Profile Dubai”* Cities 2005 Elsevier Ltd. Vol. 22, No. 3, pp. 255-265

²⁷⁹ Krane, Jim. *“City of Gold”* St. Martin's Press 2009, p. 199

²⁸⁰ Davidson, Christopher. *“The Emirates of Abu Dhabi and Dubai Contrasting Roles in the International System”* Asian Affairs, Vol. 38, No. 1, (March 2007) p. 38 & Davidson, Christopher *“Dubai The Vulnerability of Success”* Columbia University Press 2008 p. 103

²⁸¹ Davidson, Christopher. *“The Emirates of Abu Dhabi and Dubai Contrasting Roles in the International System”* Asian Affairs, Vol. 38, No. 1, (March 2007) p. 37

²⁸² Ibid.

policy of diversification.²⁸³ By 1975, oil made up two-thirds of Dubai's GDP—marking the high point of oil's importance in the emirate's economy.²⁸⁴ Ten years later it accounted for fifty percent of GDP, by 1995 it had fallen to eighteen percent, by 2000 it was at ten percent, and by 2006 a mere three percent of Dubai's economy was from oil production.²⁸⁵ Dubai is thought to have hit peak oil production in 1991, producing 410,000 barrels a day.²⁸⁶

The evidence of successful diversification comes in the realization that Dubai's share of oil GDP was dropping rapidly far before it is thought to have hit its oil peak. The *Economist Intelligence Unit* estimated that in 2008 Dubai was only producing 60,000 barrels a day compared to neighboring Abu Dhabi's 2.5 million.²⁸⁷ Recently a new offshore oilfield was discovered in Dubai's territory sparking speculation that it may help relieve some of the emirate's currently heavy debt burden. However, the fields will need years of development before they will possibly be capable of producing enough crude to have any impact.²⁸⁸ Prior to this new discovery, 1991 was the last time a new field was found in Dubai. If this new find turns out to be a large amount it may have long-term beneficial effects on Dubai's finances, but for now Sheikh Mohammed bin Rashid al-Maktoum—current ruler of Duabi—remains tight-lipped about the discovery.²⁸⁹

²⁸³ Ibid , p 38

²⁸⁴ Krane, Jim "City of Gold" St Martin's Press 2009, p 50

²⁸⁵ Ibid

²⁸⁶ Pacione, Michael "City Profile Dubai" Cities 2005 Elsevier Ltd Vol 22, No. 3, p 255-265 & Davidson, Christopher "Dubai The Vulnerability of Success" Columbia University Press 2008 p.101

²⁸⁷ Economist Intelligence Unit, January 2009 UAE Country Report, cited in Krane, Jim "City of Gold" St Martin's Press 2009, p. 50 & the Wall Street Journal made a similar estimate in 2010, see Bianchi, Stefania & Oliver Kraus. "4th Update Dubai Discovers Oil Field Amid Debt Crisis" The Wall Street Journal (4 Feb. 2010) accessed 25 Feb. 2010 at www.wsj.com & Davidson, Christopher "Dubai The Vulnerability of Success" Columbia University Press 2008. p.103

²⁸⁸ Bianchi, Stefania & Oliver Kraus. "4th Update Dubai Discovers Oil Field Amid Debt Crisis" The Wall Street Journal (4 Feb. 2010) accessed 25 Feb 2010 at www.wsj.com

²⁸⁹ Ibid.

With memories of the collapse of the pearling industry still fresh, the people of Dubai were cognizant of the dangers of putting all their ‘economic eggs’ in one basket again.²⁹⁰ Upon the first discovery, Sheikh Rashid bin Saeed al-Maktoum—who assumed official control in 1958 after the death of his father Sheikh Saeed—was eager to modernize his city. The striking of oil in 1966 and again in 1970, 1972, and 1973 gave him the capital and the community prestige he needed to move forward.²⁹¹

By entering a formal power sharing agreement with the other six emirates, Sheikh Rashid was further motivated to establish his emirate as a power center. In 1971, many of the concerns stated by Sheiks contemplating joining the U.A.E. revolved around representation in the federation and—among many other concerns—whether or not the larger emirates would wield significantly more power than the other six.²⁹² By diversifying its economy, Dubai hoped to develop a form of ‘separation of powers’—or in economic terms a ‘separation of industries’—within its economy that would counterbalance the instability that oil dependent economies, such as Abu Dhabi’s, are thought to experience during market fluctuations. Abu Dhabi is the largest emirate—by square miles—in the U.A.E. and as stated previously it holds by far the largest oil reserves. Thus, it came out of the unification deal as clearly the wealthiest and most powerful actor.²⁹³

Oil economies often times come to see crude as more of a curse than a blessing. If an economy is heavily tied to one commodity whose prices tend to swing like a pendulum, consequently, so do government budgets and stability—or so the ‘curse’

²⁹⁰ Davidson, Christopher. “*Dubai The Vulnerability of Success*” Columbia University Press 2008 p.103

²⁹¹ Krane, Jim. “*City of Gold*” St. Martin’s Press 2009, p. 49

²⁹² Heard-Bey, Frauke “*From Trucial States to United Arab Emirates*” Longman Group, 1982 p. 345

²⁹³ Ibid , p 374

theory goes.²⁹⁴ Many specific ‘curse’ hypotheses have been derived from the current literature on oil export dependence, but essentially they boil down to two main contentions. One is that “political instability is a near-certain, long-term outcome of oil wealth”—the oil curse—because in countries where rentier wealth is the dominate revenue source the state becomes a distributive entity rather than an extractive.²⁹⁵ When the state’s distributive ability is disrupted by the boom and bust cycles of the oil market, political instability ensues. The other contention is that oil wealth “makes authoritarian regimes stronger by funding patronage and repressive apparatuses.”²⁹⁶

At first glance it seems that Abu Dhabi would fall under the first contention that oil wealth is a curse. Sheikh Shakhbut severely hindered the development of Abu Dhabi by hoarding oil revenues and deliberately discouraging growth (he made a law banning construction after oil exports began in 1959), which in turn caused political instability.²⁹⁷ Poor leadership rather than market fluctuations may have caused it, but nonetheless it was the emirate’s new role as wealth distributor rather than generator that caused masses of Abu Dhabians to immigrate to Dubai once again in the early 1960s.²⁹⁸ When Shakhbut’s younger brother Zayed took power in 1966, he literally gave his money away to anyone who asked for it during the crucial years after oil production began in an effort to solidify Abu Dhabi as the capital and power center of the U.A.E.²⁹⁹ But while Zayed was playing Santa Claus, Rashid was building roads, ports, and factories in Dubai under what I have

²⁹⁴ Alexeev, Michael & Robert Conrad “*The Elusive Curse of Oil*” Review of Economics and Statistics, MIT Press, August 2009 p. 586 & Gelb, Alan H. “*Oil Windfalls Blessing or Curse?*” Oxford University Press, 1988, p. 8

²⁹⁵ Smith, Benjamin. “*Oil Wealth and Regime Survival in the Developing World, 1960-1999*” American Journal of Political Science, Vol. 48, No. 2, April 2004, p. 232 pp. 232-246

²⁹⁶ Ibid.

²⁹⁷ Davidson, Christopher. “*Dubai The Vulnerability of Success*” Columbia University Press, 2008, p. 78

²⁹⁸ Davidson, Christopher. “*The Emirates of Abu Dhabi and Dubai Contrasting Roles in the International System*” Asian Affairs, Vol. 38, No. 1, (March 2007) p. 35

²⁹⁹ Krane, Jim. “*City of Gold*” St Martin’s Press 2009, p. 88

come to call the “Field of Dreams” theory; if he built it, they would come. This would seem to place Dubai under the second ‘repression’ contention of ‘investment in apparatuses’ among oil wealth theories. But not exactly, since most of Dubai’s apparatuses were and are still engaged in distribution of wealth originally derived from oil rents. And Abu Dhabi does not exactly fit under the curse theory either, for it enjoys relative stability today.

Either way, investments in distributive policies and in repressive apparatuses are dependent upon rents and thus should still make the regime susceptible to market-induced instability. Benjamin Smith did a cross-sectional time-series analysis of rentier regimes in an attempt to find out why so many oil-rich authoritarian regimes were able to survive and even thrive long after the oil bust of the 1980s.³⁰⁰ He finds that even though patronage rents dropped by more than two-thirds in 1986, few of the oil-sponsored regimes of the time were seriously challenged. He thus posits “leaders in many of these states invested their windfall revenues in building state institutions and political organizations that could carry them through hard times.”³⁰¹ Dubai’s impressive technocratic bureaucracy and economic development model seem to exemplify Smith’s new outlook, although Dubai does not depend upon oil rents anymore, but rather on rents from a number of newly-created economic sectors.³⁰²

Abu Dhabi remains in a highly distributive administrative role as the main financier of all national and many emirate-level activities.³⁰³ Dubai stands as a pillar of

³⁰⁰ Smith, Benjamin. “*Oil Wealth and Regime Survival in the Developing World, 1960-1999*” *American Journal of Political Science*, Vol 48, No. 2, April 2004, p. 232 pp. 232-246

³⁰¹ *Ibid*

³⁰² Davidson, Christopher. “*Dubai The Vulnerability of Success*” Columbia University Press, 2008, p. 99-100

³⁰³ *Ibid*, p. 160

stability due to its heavy investment in bureaucracy and infrastructure, and the other five emirates are repressive to different extents; they all buy Emirati patronage for the most part with rents derived rather than taxes collected. The instability, or ‘curse’ contention, can be seen in the internal power struggles and fratricides that have plagued Abu Dhabi from time to time and its periodic territorial disputes with Saudi Arabia.³⁰⁴ Yet, for the most part these instability issues have all been solved through the creation of the U.A.E. and subsequent fusion of rentier capabilities.

Modern diversification began in Dubai through the use of special economic zones (SEZs) and a global branding effort that has successfully turned an area of the world that has been seen as inhospitable and utterly undesirable for centuries—if not millennia—into a real estate and tourism colossus. This chapter will now look at the role of SEZs first and then move on to the use of SWFs in other economic sectors.

Special Economic Zones (SEZs)

Free zones have been used to promote economic activity around the world for centuries. A few examples include Gibraltar (1704), Singapore (1819), Hong Kong (1848), Hamburg (1888), and Copenhagen (1891).³⁰⁵ In these early examples the free zone was generally a citywide district located along a major international trade route in which tax schemes and other incentives were used to encourage trade.³⁰⁶ Since the development of modern SEZs—thought to have begun in the early 1980s with Deng Xiaoping’s reforms—the practice has become more detailed and delineated. At the same

³⁰⁴ Ibid., p. 276

³⁰⁵ World Bank. “*Special Economic Zones Performance, Lessons Learned, and Implications for Zone Development*” FIAS, The Multi-Donor Investment Climate Advisory Service of the World Bank Group, April 2008, p. 9

³⁰⁶ Ibid.

time the zones have become more ambiguous due to the variety of zones that have evolved. There are Free Trade Zones (FTZs) designed to support the re-export business, Export Processing Zones (EPZs) used for onsite manufacturing and export of goods, Hybrid EPZs used to support local economies, Freeports that are much larger and comprehensive and thus resemble historical free zones, and Enterprise Zones used to spur on urban revitalization.³⁰⁷ The term ‘special economic zone’ becomes quite complex when one also considers that the zones have evolved even further from the above mentioned groupings into ‘specialized zones’ which include Technology or Science Parks, Petrochemical Zones, Financial Services, Software and Internet Zones, Airport Based Zones, Tourist Attractions, and even Logistics Parks.³⁰⁸

Dubai does not use any single one of these groups or subgroups of SEZs exclusively and most likely has at least one zone in every category listed; some in existence today would not fit into any of them. For purposes of definition, the Revised Kyoto Convention of the World Customs Organization (WCO) defined Special Economic Zones as “outside the customs territory” when assessing taxes and import duties and the World Bank has identified four key characteristics that all modern SEZs have.

1. Geographically delineated area
2. Single management/administration
3. Eligibility for benefits based upon physical location within the zone
4. Separate customs area (duty-free benefits) and streamlined procedures³⁰⁹

³⁰⁷ Ibid , p. 10

³⁰⁸ Ibid.

³⁰⁹ Ibid., p. 9

Around the mid-1980s, federal laws began to emanate from Abu Dhabi, which compelled the emirates to follow a *kafil* system of foreign direct investment.³¹⁰ The *kafil* system is a traditional Islamic practice with precedents in Abu Dhabi, among many other Middle Eastern countries.³¹¹ When enforced, the 1984 ‘*Commercial Companies Law*’—a formal example of the ‘informal-traditional’ *kafil* system—required that “all registered companies be at least 51 percent owned by a U.A.E. national.”³¹² Abu Dhabi still enforces it today; Dubai’s merchant-based society on the other hand has always been very lax in the area of financial regulation. Dubai originally sponsored this highly protectionist policy only as a necessary conciliation needed to achieve the collective security provided by federalization.³¹³ While it did not explicitly oppose it, it surely never explicitly enforced it either. Advancing with a characteristically bold and almost defiant move, Dubai was quickly inspired to dodge the law publically by establishing special parastatal corporate authorities to manage ‘free zones’ within the city that would technically exist outside of U.A.E. federal authority.³¹⁴ Dubai would later use a similar technique in an effort to build a competitive real estate market.

In 1972, Dubai finished construction of its first major port—Port Rashid—near the creek that divides the heart of the city. But before it was finished the government had already gone to work building an enormous new port to its south in Jebel Ali, near the border with Abu Dhabi. The gargantuan Jebel Ali Seaport originally housed an industrial complex and eventually came to have more than thirty huge dry docks in operation just in time to become the most popular stop in the region for ship repair during the Iran-Iraq

³¹⁰ Davidson, Christopher. “*Dubai The Vulnerability of Success*” Columbia University Press, 2008. p.114

³¹¹ Ibid., p. 149

³¹² Ibid

³¹³ Ibid.

³¹⁴ Ibid , p 115

War of 1980-1988.³¹⁵ In 1979, Dubai Aluminum Company Limited (DUBAL) was created and the first aluminum smelter was built.³¹⁶ DUBAL is state owned and is still considered today to be the flagship enterprise of the U.A.E. outside of oil production. Indeed, Queen Elizabeth II showed up for the original dedication.

The free zone extravaganza began in 1985 with the official opening of the Jebel Ali Free Zone. While the aluminum smelter is not in a SEZ or directly affiliated with them, it has played an important role in that is located in close proximity to the Jebel Ali Port—the first and most successful free zone.³¹⁷ It has served as a beacon of stability and progress as it has continually improved and rebuilt itself over the years to be the world's largest aluminum smelter with a captive power plant (it recycles its own energy by capturing heat) and the seventh largest producer of primary aluminum in the world.³¹⁸ The establishment of DUBAL showed the rest of the world how serious Dubai was about diversification, how well it could manage a company, and consequently attracted foreign direct investment (FDI) by the droves.

The Dubai Department of Industry pioneered and established the Jebel Ali SEZ, which now operates under the umbrella group Dubai Trade and is made up of the board members and officials from major state-owned trade groups like Dubai Ports World (DPWorld), Dubai Customs, and Economic Zones World.³¹⁹ The Jebel Ali Free Zone Authority—now called Economic Zones World—guarantees 100 percent foreign ownership—something unheard of in most Persian Gulf countries—and the first

³¹⁵ Ibid & Pacione, Michael. *"City Profile Dubai"* Cities. 2005 Elsevier Ltd. Vol. 22, No. 3, p. 257, & Krane, Jim. *"City of Gold Dubai and the Dream of Capitalism"* St. Martins Press, 2009

³¹⁶ Davidson, Christopher. *"Dubai: The Vulnerability of Success"* Columbia University Press, 2008 p.101

³¹⁷ Pacione, Michael. *"City Profile Dubai"* Cities. 2005 Elsevier Ltd. Vol. 22, No. 3, p. 255-265, p. 257

³¹⁸ The DUBAL website gives an extensive history and figures

[<http://www.dubal.ae/aboutus/history/Heritage.aspx>]

³¹⁹ see [<http://www.dubaiworld.ae/>] for extensive listings of the group's structure

appointed administer, Sultan Ahmad bin Sulayman, incorporated an ambitious goal to ‘supply the zone with all the necessary administration, engineering and utility services required by its clients.’³²⁰ Included in this move would be readymade office space, cheap energy, and a streamlined visa process for foreign employees.³²¹ Sultan Ahmad’s ambitious move would seemingly pay off, for now he is Chairman of Dubai Ports World and the prestigious parent holding group Dubai World.³²²

The group’s portfolio includes not only Economic Zone World, but also Dubai Ports World³²³, Nakheel—the developers of the three palm-shaped man-made islands and ‘The World’ community of private islands that form the basic shape of a world map when viewed from space, Istithmar World—which has extensive aviation holdings around the world and also functions as a venture capital investment house, Limitless—a ‘real estate developer with a global agenda’ who is currently building an intricate canal system throughout Dubai, LeisureCorp—which owns many golf courses and resorts like Snowmass, Colorado in addition to luxury retailers like Barney’s New York, Drydocks World, Dubai Maritime City, Dubai Multi-Commodities Center, and Dubai Natural Resources World.³²⁴ Unsurprisingly, judging by Dubai’s early connection with the British Empire, the Dubai World slogan plastered across the top of their website is “The sun never sets on Dubai World.”³²⁵

³²⁰ Dubai Department of Economic Development “*Statistical Book*” Dubai. 1999 p. 241

³²¹ Davidson, Christopher. “*Dubai The Vulnerability of Success*” Columbia University Press 2008. p. 115

³²² DP World Annual Report, 2008 p. 12

³²³ DP World successfully purchased some of the largest ports in America in 2006 but was then forced to sell them to the seemingly defunct American Insurance Group (AIG) amid a swirl of anti-Arab racism and security fears in Congress, see Davidson, Christopher. “*Dubai The Vulnerability of Success*” Columbia University Press. 2008. p.108

³²⁴ Websites and extensive listings of all of these groups and their portfolios are available through the Dubai World website cited earlier [<http://www.dubaiworld.ae/>]

³²⁵ Dubai world has received a lot of criticism recently for this slogan and appears to have removed it now, see The Telegraph-Reuters, “*Dubai World to Discuss Debt Plan with Creditors*” 2 December 2009,

By the end of the Iran-Iraq War in August 1988, Dubai's timing and investment in infrastructure was truly beginning to pay off, for the free zone had become fully established and was beginning to attract global attention.³²⁶ The newly established free zone was seen by skilled workers and merchants looking to escape war-torn regions and political persecution as an eye-catching option to the *kafil* system.³²⁷ The Jebel Ali Free Zone quickly grew within its first few years to accommodate as many as 300 firms with products and services ranging from farm equipment to chocolate. The free zone had over 2,000 companies by 2002, and now involves over \$6 billion in investments and employs over 40,000 people.³²⁸ This exact free zone is the new home of Halliburton.³²⁹ Naturally, the free zone flurry of activity in Dubai impelled many of her neighbors to ratify similar legislation, although nowhere near the size and scope of what Dubai has done. Most of the other six emirates are culturally and politically more reserved and conservative.³³⁰

Always devoted to not being bested, Sheikh Mohammed bin Rashid Al-Maktoum proclaimed as early as 1999 that the emirate would begin building new free zone 'cities' specifically built for industries that might necessitate fastidious or particular infrastructure.³³¹ One of these 'cities' was to be for internet companies and another was

accessed 25 Feb 2010 at [<http://www.telegraph.co.uk/news/worldnews/middleeast/dubai/6709287/Dubai-World-to-discuss-debt-plan-with-creditors.html>]

³²⁶ Pacione, Michael. *"City Profile Dubai"* Cities 2005 Elsevier Ltd. Vol. 22, No 3, p. 255-265, p 257

³²⁷ Davidson, Christopher. *"Dubai The Vulnerability of Success"* Columbia University Press 2008. p. 115

³²⁸ Dubai Department of Economic Development. *"Statistical Book"* Dubai. 1999 p. 245

³²⁹ Ibid, Dubai holds no extradition treaties with the U.S. and Halliburton's CEO—formerly Vice President Dick Cheney and now Dave Lesar—has moved the leading contract recipients' for reconstruction in Iraq (Halliburton and its subsidiary KBR) headquarters to Dubai after a whole host of accusations ranging from tax evasion to war profiteering to avoiding criminal charges including a controversy surrounding a gang rape in Iraq involving KBR employees, see Lagorio, Christine. "Halliburton's Dubai Move Sparks Outcry" CBSnews.com, 12 March 2007, for a sensational and comprehensive report [www.halliburtonwatch.org]

³³⁰ Davidson, Christopher. *"The Emirates of Abu Dhabi and Dubai Contrasting Roles in the International System"* Asian Affairs, Vol 38, No. 1, (March 2007) p. 33

³³¹ Davidson, Christopher *"Dubai The Vulnerability of Success"* Columbia University Press. 2008 p 116

to be for media companies, paving the way for Dubai to lead the Gulf region in these two industries perceived to be lagging and lacking in the Arab world.³³² In order to secure the developments already successfully incubated in the free zones, Dubai quickly enacted the ‘Dubai Technology, Electronic Commerce, and Media Free Zone Law’ of 2000, which plainly and forcibly stated three key provisions:

- 1) Establishments will be exempt from any restrictions on the repatriation and/or transfer of capital for fifty years,³³³
- 2) Establishments will never be nationalized, and
- 3) Establishments can choose employees of any nationality that is *not* Israeli.³³⁴

In 2007, the still fairly new internet and media free zones housed over 1600 firms and employed over 20,000 people. The ‘Internet City’ boasts that it is the Middle East headquarters for Dell, Canon, Hewlett-Packard, and Microsoft, while tall buildings in Media City brag corporate names like CNN, BBC, Reuters, Al-Jazeera, and the Saudi owned Al-Arabiya.³³⁵ The Dubai government has announced that soon the Internet City will be expanded to house a new IT college of sorts and the Media City will have a vast group of studios in order to encourage on-site production and promote a burgeoning local TV sector.³³⁶ Other free zones set up in Dubai and run by special authorities include:

³³² Ibid., p. 117

³³³ The law was amended with Law No. 9 of 2003 in which the name was shortened to “The Dubai Technology and Media Free Zone Law” and the 50 years provision was removed and replaced with more vague language

³³⁴ The provisions are found in articles 15, 16, and 17 of the ‘Dubai Technology, Electronic Commerce, and Media Free Zone Law of 2000. Israel is considered a ‘boycotted’ country by the UAE and Dubai.

³³⁵ Davidson, Christopher. “*Dubai The Vulnerability of Success*” Columbia University Press. 2008 p. 117

³³⁶ Ibid.

- Dubai Airport Free Zone: aimed initially at catering to shipping companies like DHL.
- Dubai Silicon Oasis: for the semi-conductor production industry.
- Dubai Flower City: re-exporting garden products.
- Dubai Healthcare City: now houses part of the Harvard Medical School.
- Dubai Knowledge Village: to house many Western university branches.
- Dubai International Financial Centre (DIFC) and the Dubai International Financial Exchange (DIFX) that is housed in it.

Listed above are likely the two most remarkable and/or significant entities, the DIFC and the DIFX. These two foundational financial fiduciaries are very noteworthy for two reasons. First, a financial exchange and center in any city is not only a sign of success and a booster of confidence, but it also further develops and compliments existing commerce. Secondly, it acts a sponge to absorb the surfeit liquidity that can often plague oil markets.³³⁷ As mentioned previously, Dubai has recently discovered a new oilfield offshore and if it proves to have promising reserves, the DIFC will be indispensable in Dubai's quest to restructure its debts and shore up some of the state-owned companies that are still struggling from the latest economic downturn.³³⁸ It is widely believed among international firms that the DIFX will probably serve as an important in-between financial market to fill in the time zone gaps between the mammothian monetary markets of Asia and Europe.³³⁹

³³⁷ Ibid

³³⁸ DiPaola, Anthony. "Dubai will Expedite Exploration of Offshore Discovery" Bloomberg BusinessWeek, 4 February, 2010

³³⁹ Davidson, Christopher. "Dubai The Vulnerability of Success" Columbia University Press 2008 p 119

In 1980 the U.A.E. Central Bank was opened and boosted confidence, but what really helped Dubai's diversification was the opening of a partially government backed bank called Emirates Industrial Bank (EIB) which doled out low-interest loans to practically anyone starting a business outside of the oil sector.³⁴⁰ Even though the U.A.E. Central Bank has protectionist tendencies—it practices sharia's banking and thus excludes itself from certain practices and customers—and the EIB is essentially government owned, Dubai has been able to court regional and international banks consistently through incentives like no taxes and an unrestricted flow of capital in and out of the emirate. There were approximately 50 different banks with 150 branches in Dubai in 2006, including names such as, HSBC, Barclays, BNP Paribas, Lloyds, and Citibank.³⁴¹

The Free Zone Laws of 2000 and 2003 essentially established a government-owned corporate entity that technically can operate outside of federal authority. The Free Zone Authorities can “regulate business and activities within the Free Zone” and “regulate commerce between establishments in the Free Zone and any other parties outside the Free Zone.”³⁴² The Authorities of Free Zones can also negotiate agreements with other free zones, provide executives and managers to clients, “provide all kinds of services”, and even establish their own investment funds to provide capital for establishments.³⁴³ The Free Zones are in effect like corporate subsidiaries of the Dubai

³⁴⁰ The EIB is 51% owned by Abu Dhabi and 49% by a group of local banks. Abdulla, Abdulkhaleq. *“Political Dependency The Case of the United Arab Emirates”* (PhD Thesis: Georgetown University, 1985) & Oxford Business Group. *“Emerging Emirates”* p 88 June 2006.

³⁴¹ Hawely, Donald. *“The Emirates Witness to a Metamorphosis”* Michael Russell Norwich, 2007. p. 34

³⁴² The Dubai Technology and Media Free Zone Law (Law No. 9 of 2003) Article 9 Sections 2 and 6

³⁴³ Ibid

corporate body; they act autonomously but are in the end mostly dependent upon the leadership of their parent company.

The question becomes, is this capitalism? To review, I have defined capitalism in Chapter II (p. 9) as “an economic system in which the means of production and distribution are privately or corporately owned and development is proportionate to the accumulation and reinvestment of profits gained in a free market.”³⁴⁴ By the standards of this definition, Dubai’s model is definitely capitalistic. However, this form of capitalism is most notably not the form of organic capitalism that Westerners have come to expect out of the procedural guarantees of established democratic governance. It is artificial in nature, and one could almost say it is ‘centrally planned.’ In this model there is very little if any incentive for democratic reforms in that the zones all exist to attract foreign capital investment for the purpose of enriching the state and thus strengthening the ruling bargain. It is merely a form of rent-seeking through capital market investment and incentives rather than extracting natural resources.

Sovereign Wealth Funds (SWFs)

The rise of sovereign wealth funds represents a shift in power from the U.S. to a group of countries that aren’t transparent, aren’t democracies, and aren’t necessarily U.S. allies.

—Brad Setser of the Council on Foreign Relations³⁴⁵

Much ink has been spilled over SWFs in the past three or four years. A technical definition of a SWF would be: “state-controlled investment vehicles funded by foreign

³⁴⁴ The American Heritage® Dictionary of the English Language, Fourth Edition, 2009

³⁴⁵ Davidson, Adam “U S Watches Nervously as Oil-Rich Nations Invest,” Morning Edition, National Public Radio, November 30, 2007

exchange assets but managed separately from official reserves.”³⁴⁶ Another way to look at them is as giant government run and funded hedge funds. There are a wide variety of them out there and they are growing exponentially year after year. The International Monetary Fund (IMF) divides them up into five subgroups:

1. Stabilization funds—created to insulate usually oil-rich economies from price fluctuations,
2. Savings funds—a way to covert non-renewable resources into assets for future generations,
3. Reserve investment corporations—set up to increase the return on reserves,
4. Development funds—helping to fund socio-economic projects or promote industrial policies,
5. Contingent pension reserve funds—used to provide for pension liabilities on a government’s balance sheet.³⁴⁷

Many of the funds are highly secretive and do not follow any standard practices of reporting, so estimates on their overall worth tend to vary highly.³⁴⁸ A conservative estimate in 2007 is that in aggregate SWFs were worth between \$2 and \$3 trillion, which includes China, Norway, Russia, Singapore, and all other non-Gulf sovereign investors.³⁴⁹ A 2008 estimate says that by 2010 SWFs in just the Gulf Cooperation

³⁴⁶ Epstein, Richard A. & Amanda M. Rose. “*The Regulation of Sovereign Wealth Funds The Virtues of Going Slow*” The University of Chicago Law Review, Vol. 76, No. 1 (Winter 2009), pp. 111-134, p. 114

³⁴⁷ International Monetary Fund. “Sovereign Wealth Funds—A Work Agenda” 29 February, 2008, p. 5

³⁴⁸ Epstein, Richard A. & Amanda M. Rose. “*The Regulation of Sovereign Wealth Funds The Virtues of Going Slow*” The University of Chicago Law Review, Vol. 76, No. 1 (Winter 2009), p. 115

³⁴⁹ Ibid

Council (GCC) countries will equal \$2.4 trillion and are expected to reach \$8.8 trillion by 2020.³⁵⁰ Many analysts are quick to point out to people who worry about the size of these funds that capital markets overall are worth an estimated \$190 trillion and about \$62 trillion of that is in the hands of private institutional investors.³⁵¹

The Abu Dhabi Investment Authority (ADIA), created in 1976, is the largest of all SWFs with an estimated \$875 billion under its control. The Government of Singapore Investment Corporation (GIC), formed in 1981, is the second largest with \$330 billion; the Norwegian Government Pension Fund—Global, formed in 1990, is third with \$301 billion; the Kuwait Investment Authority, formed in 1953, is fourth with \$264 billion; and the China Investment Corporation, formed in 2007, is fifth and growing quickly with a reported \$200 billion.³⁵² According to the SWF Institute—an online aggregator of SWF information and analysis—the 2010 ranking has changed up quite a bit since Richard Epstein (University of Chicago Law Review) pulled the above numbers from them in January 2009. Abu Dhabi is still number one, but its total has dropped to \$627 billion. Singapore is now number five after the apparent creation or first reporting of a second Chinese SWF worth \$347 billion and the Saudi Arabian Monetary Fund (SAMA) reporting \$431 billion in worth.³⁵³ In the twelve months between Epstein’s report and the writing of this paper the top five funds have almost fully reshuffled, indicating the quick pace of growth and action associated with them.

³⁵⁰ It is also estimated that \$5 trillion of GCC-SWF money will be invested outside of the Gulf region by 2020. Seznec, Jean-François “*The Gulf Sovereign Wealth Funds Myths and Reality*” Middle East Policy, Vol. 15, No. 2, Summer 2008, p. 97

³⁵¹ Epstein, Richard A. & Amanda M. Rose. “*The Regulation of Sovereign Wealth Funds The Virtues of Going Slow*” The University of Chicago Law Review, Vol. 76, No. 1 (Winter 2009), p. 115

³⁵² Ibid

³⁵³ *Fund Rankings Largest Funds by Assets under Management*, Sovereign Wealth Fund Institute (December 2009), online at [<http://www.swfinstitute.org/funds.php>] visited 2/6/2010

The fear surrounding these SWFs comes from the fact that all this money has to be invested somewhere. What better place to invest it than the major financial institutions of advanced industrial democracies, such as the United States? What happens if some, or possibly all, of the U.S.'s major financial institutions ended up being controlled by SWFs from Arab countries that are highly secretive and unregulated? If free market fundamentals are followed, then according to invisible-hand doctrine we should all be better off by allowing these funds to pursue profits in the open market. The problem is that political bodies control these profit-seeking funds and there are no guarantees that they will not one day decide to pursue political goals instead of profits.³⁵⁴ Many of the SWFs have grown to sizes that their actions could theoretically rain chaos on markets much in the same way hedge fund speculation is often blamed for oil and gas price fluctuations—Russia's Gazprom, owned by its SWF, and its tinkering with European gas supplies is often cited as an example of this behavior.³⁵⁵

Consequently, a transparency-rating index has been created in order to measure reporting practices by the new funds. The Linaburg-Maduell Transparency Index is 1-10 point scale in which one point is awarded for each action observed out of a list of ten common investment fund-reporting practices.³⁵⁶ Four out of the five listed funds out of the U.A.E. are in the 2-4 point range. In fact five out of the biggest ten SWFs rank between 2 and 5 on the transparency index and belong to Arab countries, China, or Russia. Xenophobic fears of what these government controlled SWFs—and sometimes

³⁵⁴ The 1981 Hollywood political and financial thriller, "Rollover," by Alan J. Pakula and starring Jane Fonda deals with this issue

³⁵⁵ Epstein, Richard A. & Amanda M. Rose. "*The Regulation of Sovereign Wealth Funds The Virtues of Going Slow*" *The University of Chicago Law Review*, Vol. 76, No. 1 (Winter 2009), p. 116

³⁵⁶ Visit [<http://www.swfinstitute.org/research/transparencyindex.php>] for a complete explanation of the index and a ranking by the Sovereign Wealth Fund Institute

by extension ethnically controlled—have been dismissed by many as not rational and actually detrimental.³⁵⁷ Jean-François Seznec argues that even today the highly depressed capitalizations of JP Morgan and Citibank are \$145 billion and \$120 billion respectively, still far too high for any of the Persian Gulf SWFs to take a controlling stake in.³⁵⁸ Further, the frenzied backlash against Dubai Ports World—a subsidiary of the Dubai World SWF—in 2006 after they bought three of America’s biggest ports has scared off many future major investments by Gulf SWFs and directed them to more friendly Arab and Asian countries.³⁵⁹

Dubai has at least two SWFs; Dubai World Holding Ltd. (unknown worth) and the Investment Corporation of Dubai (\$19.6 billion). Dubai World holds a 9 percent stake in MGM Mirage, 100 percent ownership of Barney’s New York, 100 percent ownership of Loehmann’s Holding Inc., and stakes in various British, Chinese, and Singaporean companies. The Investment Corporation of Dubai (ICD) holds a 43 percent stake in the NASDAQ OMX Group Inc., a 20 percent stake in the London Stock Exchange Group, a 9 percent stake in the Orient Express Hotels (US), and 2 percent of DaimlerChrysler (Germany). ICD also has 100 percent ownership of Travelodge UK and Mauser (Germany)—a giant industrial packaging firm.³⁶⁰

Baron de Montesquieu observed early on that trade between two countries made them mutually dependent upon each other, thus reducing the possibility that they would

³⁵⁷ Seznec, Jean-François “*The Gulf Sovereign Wealth Funds Myths and Reality*” Middle East Policy, Vol 15, No 2, Summer 2008, p. 97

³⁵⁸ Ibid

³⁵⁹ Ibid.

³⁶⁰ All of these stats are cited off the Sovereign Wealth Fund Institute’s website and current up to 2009 [<http://www.swfinstitute.org/fund/dubai.php>—address for ICD stats and portfolio] [<http://www.swfinstitute.org/fund/dubaiworld.php>—address for Dubai World stats and portfolio]

go to war.³⁶¹ This observation has prompted modern observers to simplify the notion by saying “it’s bad for the bottom line to shoot your customers or your suppliers.”³⁶² The same argument can be made for investors. Many point to Venezuela’s 2008 threat to boycott U.S. oil markets as an example of how global investment can promote world peace. The threat never came to fruition because the state-owned Petroleos de Venezuela owns the U.S. based Citgo Petroleum Corp., thus a boycott would have harmed itself.³⁶³ In the end the U.S. and Venezuela remained economic partners rather than exacerbating an already antagonistic relationship. Many observers have also noted that in the wake of the recent subprime mortgage crisis, SWFs have filled in a crucial gap by heavily investing in commercial real estate, thus averting a secondary crisis and possibly spurring a recovery.³⁶⁴ It is also important to note that by allowing SWFs to invest, the controlling government is also making a convincing pledge to the rule of law by adhering to the rules of the local authorities wherever the investment is being made.

SWFs may be the first step towards global integration and possibly world peace, but there is still no inherent function or byproduct of them that enhances democratic reformation or strengthens existing democratic structures. If anything, SWFs point towards promising research in a new Capitalist Peace Theory to replace the antiquated Democratic Peace Theory. However, for the purposes of this thesis they serve no democratizing purpose. It would seem that they actually serve to solidify and strengthen nondemocratic regimes by allowing such governments to build the kind of economic

³⁶¹ Baron de Montesquieu, 1 *The Spirit of the Laws* 316 (Hafner 1949)(Thomas Nugent trans) cited in Epstein, Richard A. & Amanda M. Rose. “*The Regulation of Sovereign Wealth Funds The Virtues of Going Slow*” *The University of Chicago Law Review*, Vol 76, No 1 (Winter 2009), p 131

³⁶² Epstein, Richard A. & Amanda M Rose “*The Regulation of Sovereign Wealth Funds The Virtues of Going Slow*” *The University of Chicago Law Review*, Vol. 76, No. 1 (Winter 2009), p. 132

³⁶³ Ibid

³⁶⁴ Ibid This idea is explored further in the conclusion (Chapter VI) of this thesis

infrastructure needed for stability and a well-financed ruling bargain. Dubai has used its SWFs in essence to brand itself as a global player by making high-profile purchases that catch global headlines. For the most part its actions have been internationally benign, self-promoting, and self-inflating. These new capital funds are key elements in the rising use of state capitalism across the globe and may possibly play an indirect role in the future of democracy. SWFs pose an interesting conundrum for people in capitalist democracies, where regulating them would be antithetical to laissez-faire capitalist doctrine yet allowing authoritarian regimes to own majority shares in all aspects of a democratic society would seem antithetical to democracy.

The Real Estate Boom

Traditional and protectionist Islamic practices pervade the UAE as laws aimed at restricting foreigners from owning residential property, yet Dubai has found loopholes and ways around them as well.³⁶⁵ In the early 1990s, shortly after Sheikh Mohammed had peacefully taken over as ruler, a parastatal developer called *Emaar Properties*—developer of the now tallest building in the world—was created and began to present its initial real estate plots (which were on the first³⁶⁶ ‘palm tree’ shaped man-made island off the coast of Deira³⁶⁷) to foreigners as 99-year leases with a promise by the government to renew the lease indefinitely at the end of each term for a nominal fee of \$1.³⁶⁸ In principle, the UAE had the power to invalidate all the ‘leases,’ but the mere verbal

³⁶⁵ Davidson, Christopher. “*Dubai The Vulnerability of Success*” Columbia University Press. 2008. p. 129

³⁶⁶ There are now two, with a third on the way

³⁶⁷ Diera is the local name for the north side of the ‘creek’, which divides the emirate. See *WAM* (UAE National News Agency) 6 Oct 2004

³⁶⁸ Davidson, Christopher “*Dubai The Vulnerability of Success*” Columbia University Press. 2008. p. 129 & The Daily Telegraph, 15 January 2005

assurance of Dubai's ruler was enough to thrust investors into the epicenter of a real estate boom with a size and scope larger than anything seen on the peninsula in contemporary history. Essentially, the emirate propped its market up and marketed it through a possibly hazardous legal loophole to a point where federal enforcement would ensure chaos, if anything could be enforced at all. Therefore, a *fiat accompli* of sorts was presented to the U.A.E. federation. Sheikh Mohammed bin Rashid Al-Maktoum put forth and implemented his new Dubai Property Law in 2006 after selling out both palm islands and completing several other large projects that were sold out as well.³⁶⁹ The law allows foreigners to own real estate in 'some parts of Dubai, as designated by the ruler,' entitled owners to residency visas (even if they were not working), and called for the creation of a Lands Department to register properties and issue deeds.³⁷⁰

Needless to say, once the new Dubai Property Law was enacted—essentially settling any dispute over the legality of foreigners owning property—the emirate's real estate market mushroomed at an ever-quickenning pace. Every new project announced was sold out within hours of its official announcement with many having to be sold in a lottery of sorts because of the incredible level of demand.³⁷¹ Many stories are told of sixty-story apartment buildings with every unit sold before ground was even broken and then being resold an average three times before the grand opening.³⁷² The market is fueled by speculation. In many instances it has led to shoddy building practices and the occasional disgruntled investor.³⁷³ The entire real estate sector in Dubai may just be one giant bubble, but a tight-lipped government who is in charge of and often funding large

³⁶⁹ Davidson, Christopher. *"Dubai: The Vulnerability of Success"* Columbia University Press. 2008. p. 131

³⁷⁰ Ibid, p. 133 & See Law Number 7 of 2006: The Dubai Property Law

³⁷¹ Ibid., p. 130

³⁷² Krane, Jim *"City of Gold"* St Martin's Press 2009, p. 123

³⁷³ Ibid

portions of the developments has so far been able to prevent a panic or a catastrophic bursting of that bubble.

Following the initial success, the parastatal *Emaar* development group floated its company on the DIFX, becoming 67 percent publically owned.³⁷⁴ It immediately began building what was to be called the Burj Dubai (or Dubai Tower), but ended up being named the Burj Khalifa. Paul Goldberger of the *New Yorker* analogized the name change by saying that it would be as if “Goldman Sachs were to rename its new headquarters the Warren Buffett Tower.”³⁷⁵

It is the tallest building in world, incorporating residential, commercial, and hotel space and is reportedly over 90 percent sold even though it appears that no one is moving in yet. The projects that are beginning now are equally superfluous and grandiose, including a downtown area of small skyscrapers next to the Burj Dubai that will be connected by a network of canals and then further connected to a major waterway.³⁷⁶ The largest metro system in the world has just been completed.

Tourism

The world of foreign direct investment in Dubai is one in which government *and* private capital flows like a river, making it very difficult to track. The potential for fraud is great, but the tourism sector in Dubai is one in which private and government funds meld together into a fondue of investment opportunity. The government allocates the

³⁷⁴ According to Davidson, following allegations of insider trading involving Emaar, the Dubai government chose to retain some 33 per cent of those shares

³⁷⁵ Goldberger, Paul. “*Castle in the Air, Dubai Reaches for the Sky*” *The New Yorker*, 8 February 2010

³⁷⁶ Davidson, Christopher. “*Dubai The Vulnerability of Success*” Columbia University Press. 2008 p 132, this project is thought to be employing 10 per cent of the world’s cranes

land without regard to pre-existing claims,³⁷⁷ funds most of the construction, and then either creates a parastatal entity to run it or sells it to the highest bidder, or both.

In the 1950s Dubai had no hotels. By the late 1960s it had a few, and by 1990 the emirate had 600,000 visitors per year staying in its seventy plus hotels.³⁷⁸ In 1990, the government quickly moved to set up a Dubai Tourism Promotion Board and launched a new 'Destination Dubai' campaign which worked swimmingly, seeing how the volume of travelers in 1995 was over 1.3 million per year; twice what it was five years prior.³⁷⁹ The luxury hotel business grew so exponentially in the nineties that Sheikh Mohammed moved to create the Jumeirah International Group in order to manage the seemingly never ending expansion of the tourist industry, most notably luxury hotels. The list of projects undertaken by the group to date is very lengthy, but possibly most notable is the Burj Al-Arab, the world's first seven-star hotel in 1999. Built in the shape of a sail³⁸⁰ and sitting on the coastline, the mega-structure was completed only two years after the 600 room wave-shaped Jumeirah Beach Hotel was completed on a man-made island west of Dubai.³⁸¹ Between 1995 and 2000, the number of tourists per year doubled once again, bringing the total to around 3.4 million.³⁸²

In tandem with the growth of the luxury hotel business and the Jumeirah Group personally owned by the al-Maktoum family, a new airline sprang up out of the desert as

³⁷⁷ Private property is essentially seized when the government wants to build something, if the previous owner was a national than the government simply builds them a new, and often bigger, house somewhere else and offers them a salary of sorts derived from the sale of the land

³⁷⁸ Ibid., p 120

³⁷⁹ Ibid., p. 121

³⁸⁰ The Christian architect of the building later revealed that the 'mast' which can only be seen from the sea was built in the shape of a crucifix. After this, pictures of the building were quietly removed from Dubai's car number plates.

³⁸¹ Ibid.

³⁸² Ibid., p 122 & Dubai Department of Tourism and Commerce Marketing. The number of visitors in 2007 was estimated near 6.5 million.

well. Sheikh Saeed, grandfather of the present ruler, had declared an open skies policy as early as 1950 after seeing the giant Imperial Airways ‘flying boats’ begin to land in the region for stops on their way to Australia. Initially, this policy earned the emirate significant rents from the British, but developed over time into what is now the ever-expanding Dubai International Airport (DBX). By the mid-eighties, Dubai was enjoying modest success in its airport industry, which was officially launched around 1960. When Gulf Air decided in 1984 to drastically cut back flights until the government would offer subsidies and preferential landing rights, which was somewhat customary at the time, Dubai decided to instead use \$10 million to lease some Pakistani Boeing 737s and started its own airline called “Emirates.”³⁸³ Even more audacious is the fact that when Sheikh Rashid was told the infant airline would need some sort of protectionist measures and that his ‘open skies’ policy would have to be suspended, the ruler defiantly proclaimed that any subsidies would go “against everything Dubai stands for.” Sheikh Rashid then demanded that all profits be publically posted in an effort to prove that the airline received no subsidies. This was done, and by all appearances the airline has posted profits every year since 1985 and continues to expand and forge into new markets frequently, quickly moving to establish itself as a global hub.³⁸⁴

Keeping true to its macroeconomic diversification policies, Dubai quickly realized that all these new visitors would need some sort of entertainment other than the beaches and malls. The government launched several different initiatives aimed at attracting more people and staying ahead of the competition. The region as a whole has

³⁸³ Wilson, Graeme “*Rashid’s Legacy: The Genesis of the Maktoum Family and the History of Dubai*” Media Prima: Dubai, 2006. pp 478-80 & 484

³⁸⁴ Ibid., p. 484 & Davidson, Christopher. “*Dubai: The Vulnerability of Success*” Columbia University Press. New York. 2008. p. 110

not traditionally housed or even tolerated much in the field of entertainment, especially western-style entertainment like alcohol and gambling. Since the entertainment-barren 1960s, Dubai now has several western-style movie theaters³⁸⁵ and hundreds of restaurants that are licensed to sell alcohol; providing what appears to be a vibrant nightlife for visitors and nationals alike.³⁸⁶ Companies that provide desert excursions are flourishing, while the government continues to further its goals by doing things such as building ‘Dubailand’ (touted to be the largest theme park in the world when finished)³⁸⁷, running one of the world’s largest and most successful shopping festivals, and building a ‘Global Village’ of sorts to house “mini, country-specific, compounds selling goods and performing traditional dances.”³⁸⁸

Dubai is slated to complete the enormous Dubai Festival City as a permanent home for the ‘Global Village’ in the next few years. It is already hosting an extensive list of festivals and exhibitions. A short list of the biggest ones would include:³⁸⁹

- Dubai International Film Festival: hosting names like Johnny Depp and Orlando Bloom,
- Dubai International Jazz Festival,
- Dubai Desert Rock Festival: hosting groups such as Aerosmith and Iron Maiden,
- Dubai Aviation Club,

³⁸⁵ In addition to the few traditional Hindi cinemas.

³⁸⁶ Ibid., p 123

³⁸⁷ Goetzmann, William & Irina Tarsis “*Dubailand Destination Dubai*” Harvard Business Publishing. 14 July 2006

³⁸⁸ Davidson, Christopher. “*Dubai The Vulnerability of Success*” Columbia University Press. 2008. p 124

³⁸⁹ Ibid., p. 125

- Nad Al-Sheba racetrack: The Maktoum family is heavily invested in horse breeding and racing,³⁹⁰
- GITEX: the third largest IT-related international event,
- Dubai Air Show,
- Dubai Arabian Travel Market exhibition.

The grandiose nature of Dubai's macroeconomic policies does not stop here. The emirate is already taking huge steps to build on the success of the introduction to sports, which began with horse racing. It now hosts a European PGA golf tournament (the Dubai Desert Classic), a Dubai Rugby competition, an annual ATP tennis tournament,³⁹¹ A-1 car races, and construction has begun on a new 'Golf City', cricket stadium,³⁹² and a 'Sports City' which is reportedly to be a launch pad for a 2016 Olympic bid.³⁹³

³⁹⁰ Wilson, Graeme. *"Rashid's Legacy The Genesis of the Maktoum Family and the History of Dubai"* Media Prima. Dubai, 2006 pp. 395-402

³⁹¹ See Araton, Harvey. *"A Political Swing at One Player Sours a Tournament for All"* New York Times 15 Feb 2009 for an explanation of why the UAE does not usually allow Israelis into the country

³⁹² The International Cricket Council was moved from London to Dubai even though a stadium does not exist yet

³⁹³ Davidson, Christopher *"Dubai The Vulnerability of Success"* Columbia University Press 2008 p 128

CHAPTER V

DUBAI: THE RULING BARGAIN

Sheikh Mohammed bin Rashid al-Maktoum is the Prime Minister of the U.A.E., but first and foremost he is the Supreme Ruler of Dubai. He goes by many names including ‘Emir’, ‘CEO’, ‘His Highness’, and ‘Shiekh-Mo’ is a rumored nickname.³⁹⁴ He holds unlimited power that he received through tribal and familial kinship. Therefore, the system of government in Dubai can be described as autocratic, or more specifically as a tribal authoritarian monarchy. Some list the U.A.E. as a constitutional monarchy, ostensibly because there are seven monarchs bound together in a federal power structure by a constitution.³⁹⁵ However, the CIA opts to not use such a confining term and lists it as a “federation with specified powers delegated to the UAE federal government and other powers reserved to member emirates.”³⁹⁶

The U.A.E. may be unique in its adoption of what could be called ‘authoritarian federalism.’ Few, if any, contemporary examples exist of autocratic rulers being able to find enough common ground to practice a form of federalism similar to the ‘layer-cake

³⁹⁴ Any number of blogs out there concerning Dubai refer to the ruler as Sheikh-mo, *The Arabist*, listed here, is one [<http://www.arabist.net/blog/2009/11/19/sheikh-mo-and-his-vision.html>] Time Magazine’s Middle East Blog published a post entitled “Sheikh-mo on Dubai’s Freefall: We are fine!” in April 2009

³⁹⁵ For example, the Wikipedia page and several other non-scholarly websites list the U.A.E. as a “Federal Constitutional Monarchy”, but scholars are more careful in classification

³⁹⁶ see [<https://www.cia.gov/library/publications/the-world-factbook/geos/ae.html>]

federalism' that existed in the United States prior to the 1930s.³⁹⁷ To do it without any democratization or political reforms is even more impressive. Either way, none of the emirates are a democracy or a republic and Freedom House and other international NGOs regularly rate the U.A.E.—and by default Dubai—as one of the least free places on the planet.³⁹⁸

The al-Maktoum family recycles its names consistently, making for a sometimes-confusing historical lineage. In modern standard Arabic (MSA), the word *ibn* and the word *bin* translates to 'son' or 'son of'—the spelling of the word depends on its location in the sentence and region it is being used in.³⁹⁹ In the paternal Arab culture, men trace their names through their father as far back as possible and then generally place the family or tribal name at the end. For example, my name would be Clay son of Stephen son of Henry the Fuller—because Henry Fuller is as far back as I can trace my male lineage.

Always a member of the *Al Abu Falasa* dynasty (the original family that settled Dubai in 1833), the ruler of Dubai from 1912-1958 was Saeed bin Maktoum, the son of the previous ruler Maktoum bin Hasher. The ruler from 1958-1990 was Rashid bin Saeed al-Maktoum, who had four sons—Maktoum bin Rashid al-Maktoum, Hamdan bin Rashid al-Maktoum, Mohammed bin Rashid al-Maktoum, and Ahmad bin Rashid al-Maktoum. Maktoum ruled from 1990-2006 when he died while in office, Hamdan is

³⁹⁷ Federalism in the U.S. prior to the Great Depression and the New Deal is widely theorized to have been what is called 'dual federalism' or 'layer-cake federalism' where national and local government operated somewhat autonomously of each other and roles were clearly spelled out and adhered to, see Barbour, Christine & Gerald C. Wright. "Keeping the Republic" CQPress 4th edition, 2008. p. 129

³⁹⁸ Freedom House, "*Freedom in the World—United Arab Emirates*" (2009) [<http://www.freedomhouse.org/>] & Davidson, Christopher "*Dubai The Vulnerability of Success*" Columbia University Press, 2008, p. 137

³⁹⁹ See Engber, Daniel "*Abu, Ibn, and Bin, Oh My!*" Slate Magazine, 3 July 2006, [<http://www.slate.com/id/2144974/>] & Wightwick, Jane & Mahmoud Gaafar. "*Mastering Arabic*" Hippocrene Books, 2006, p. 33

Deputy Prime Minister to the U.A.E. and one of three deputy rulers of Dubai, Mohammed is at the centerpiece of this chapter, and Ahmad—who is a half-brother—is chairman of Emirates Airlines and plays an important role in the administration of the Dubai Police Force and the federal military.⁴⁰⁰ Again, the al-Maktoum family reuses the same seven or so names repeatedly, often confusing reporters and scholars alike. At my count there are at least four men with legitimate claims to the throne, not to mention that Sheikh Mohammed has six more sons by his two wives other than his eldest Hamdan—the Crown Prince and second eldest Maktoum—one of the deputy rulers. Muhammad also has an uncle, Sheikh Ahmad bin Saeed al-Maktoum (a son of Muhammad's grandfather who is actually younger than him) who serves in the Dubai Executive Council, which is described a little later.⁴⁰¹

Dubai Inc.

Some have described the unique Dubai-style of rule as neo-patrimony.⁴⁰² There is seemingly a cult of personality surrounding the sheikh where everyone depends on the ruler's good nature for his or her place in the world. Dubai has come to be known as 'Dubai Inc.' over the past decade, a title derived from this leadership style that refers to the government and all the parastatal companies and corporations associated with it.⁴⁰³ Rather than thinking of himself as the king or the prince and his people as his subjects, Mohammed sees himself as the boss and his city as a giant corporation. Mohammed's

⁴⁰⁰ Davidson, Christopher. *"Dubai The Vulnerability of Success"* Columbia University Press, 2008, p 142

⁴⁰¹ Ibid , p. 158

⁴⁰² Krane, Jim. *"City of Gold Dubai and the Dream of Capitalism"* St. Martins Press, 2009. p. 135 & Davidson, Christopher. *"Dubai The Vulnerability of Success"* Columbia University Press, 2008, p. 138

⁴⁰³ Ibid., & Andelman, David A. *"Dubai Inc "* Forbes Magazine. 3 March 2006 (accessed on forbes.com 2/27/2010) [http://www.forbes.com/2006/03/02/dubai-DPWorld-Emmar_cx_daa_0302dubai.html]

two sons form the official hereditary end of the line of rule by lineage. Sheikh Hamdan bin Mohammed bin Rashid al-Maktoum is the Crown Prince and Chairman of the Dubai Executive Council and Sheikh Maktoum bin Mohammed bin Rashid al-Maktoum is one of three deputy rulers of Dubai.⁴⁰⁴ Both of these men were born in the 1980s and are relatively young and inexperienced.

The Executive Office meets above the Executive Council in the Emirates Office Tower—one of the first big skyscrapers built in Dubai at 50 floors high—and consists of a group of technocrats who serve as Mohammed's top advisors.⁴⁰⁵ They plot out initiatives, create state-owned companies, and supervise the progress of its projects.⁴⁰⁶ In essence it functions in the same manner as any medieval king's council or group of advisors did then, except in this situation they all have MBAs or engineering degrees and all the technology money can buy in the 21st century. This arguably makes them not only more ubiquitous, but more powerful than their medieval counterparts. The Executive Office is mostly made up of planners and technocrats, but it also houses the famous "Delivery Unit" that goes around town ensuring that managers who make a promise to fix, upgrade, or increase something "deliver" on said promise.⁴⁰⁷

Below the Executive Office in the same building sits the Dubai Executive Council (EC), chaired by Hamdan the Crown Prince.⁴⁰⁸ This body of nineteen appointed

⁴⁰⁴ Named in 2008. see Noueihed, Lin. "Skeikh Hamdan named Crown Prince of Dubai" Arabian Business.com 2 Feb 2008 & Krane, Jim "City of Gold" St. Martins Press, 2009 p 135

⁴⁰⁵ Krane, Jim "City of Gold Dubai and the Dream of Capitalism" St Martins Press, 2009. p. 136

⁴⁰⁶ Ibid.

⁴⁰⁷ Ibid., & Zawya, "Dubai School of Government Addresses Stiff Challenges Facing Arab World" 12 March 2007

[<http://www.zawya.com/printstory.cfm?storyid=ZAWYA20070312142137&l=142100070...%2014/03/20>]

⁴⁰⁸ Krane, Jim "City of Gold Dubai and the Dream of Capitalism" St. Martins Press, 2009 p 136

members is considered to be Mohammed's cabinet.⁴⁰⁹ They are the municipal body, akin to city government in the United States—minus elections, referendums, and an established body of law—and they do budgets, development plans, and policy coordination. The Executive Council is extremely dynamic and flexible, often holding very informal meetings set up to handle issues as they come about.⁴¹⁰ Dubai has twenty-nine government departments that range from the Dubai Police to the Dubai Sports Council.⁴¹¹ Most department heads have a seat on the council, but many people in Mohammed's pyramid design hold numerous positions throughout the governing structure, therefore they show up in many different boards and councils in emirate level and federal level government office.⁴¹² What is significantly different about Dubai's council in comparison to other similar bodies in other Gulf emirates is that there is no "organized consultative council or *majlis al-shura*—it simply answers directly to the ruler."⁴¹³ This is a reflection of the Dubai mindset of government being more of a board of directors than a platform for political participation.⁴¹⁴

The next division down the line is the *diwan*—or Ruler's Court—where deals are negotiated and legalized between government owned companies and big multinational corporations, laws are declared, and more recently it has taken over the Department of

⁴⁰⁹ The number of appointees changes from time to time according to what the ruler deems necessary, see Ibid & Davidson, Christopher. "*Dubai The Vulnerability of Success*" Columbia University Press, 2008, p. 158

⁴¹⁰ Davidson, Christopher "*Dubai The Vulnerability of Success*" Columbia University Press, 2008, p. 159

⁴¹¹ Ibid & Visit the Dubai Government portal at [<http://www.dubai.ae/en.portal>] for a detailed interactive list

⁴¹² Many of the appointees not only chair numerous departments and hold important positions around the city, but many are close or distant relatives of the ruler, see Davidson, Christopher "*Dubai The Vulnerability of Success*" Columbia University Press, 2008, p. 159 & Krane, Jim "*City of Gold*" St Martins Press, 2009. p. 136

⁴¹³ Ibid The quote is from Davidson

⁴¹⁴ Ibid.

Finance and a few other functions the Executive Office previously held.⁴¹⁵ Under the *diwan* are all the lower courts. These include the Court of First Instance—which includes the Civil Courts, Criminal Courts, and Sharia’a Courts—the Court of Appeals and the Court of Cassation. As one could imagine, under autocratic governance the courts are routinely changed and restructured in order to adhere to changing times and new decrees from the ruler.⁴¹⁶

The nuts and bolts of the emirate come together in what is called the Dubai Municipality—not to be confused with the Executive Council.⁴¹⁷ The main building sits alongside the creek and handles the city’s day-to-day affairs. Its functions and appearance are something close to what a fusion of the Department of Motor Vehicles (DMV) and the Health and Human Resources Department in any given state in the United States would look like. However, the Dubai Municipality is viewed with great pride by nationals and is an essential arm in the government’s effort to preserve the legitimacy of the ruling bargain by providing services.

Corporate management tools have repeatedly been introduced to government.⁴¹⁸ There is the Dubai Government Excellence Program, where city government departments compete for the paternal ruler’s blessing and losers receive humiliating scorn.⁴¹⁹ Robert Kaplan’s ‘key performance indicators’ have been introduced to evaluate Dubai’s gross government outcomes and compare them to those in places considered to be

⁴¹⁵ Krane, Jim. “*City of Gold*” St. Martins Press, 2009. p. 136 & “*Dubai Ruler's Court in deal with Microsoft*” Gulf News.com. July 2002. [www.gulfnews.com/news/gulf/uae/general/dubai-ruler-s-court-in-deal-with-microsoft-1.395336]

⁴¹⁶ The structure of the courts is a direct line with President of Dubai Courts at the top, who reports directly to the ruler, for an organizational structure map see the Dubai Courts website at [http://www.dubaicourts.gov.ae/portal/page?_pageid=53,72555,53_72567:53_79105&_dad=portal&_schema=PORTAL]

⁴¹⁷ Visit the Dubai Municipality website at [http://login.dm.gov.ae/wps/portal/MyHomeEn]

⁴¹⁸ Krane, Jim. “*City of Gold*” St. Martins Press, 2009. p. 137

⁴¹⁹ Ibid

competitors—such as Singapore, Hong Kong, and Ireland.⁴²⁰ The ‘cradle to grave’ government job gravy train has all but been done away with and replaced with a performance based pay system—Dubai’s Human Resources Management Law of 2006.⁴²¹ Sheikh Mohammed is also famous for employing a small army of secret shoppers who go around using government services; their observations are usually the first step in a firing or a promotion. Mohammed himself has also been known to show up at 7:30 am in government offices, checking to see if everyone showed up on time, often firing anyone who is late on the spot.

To Tax or Not To Tax?

There is no income tax in Dubai. There is no property tax in Dubai. There are no corporate taxes in Dubai.⁴²² Consequently, government must be extremely efficient and business oriented in order to survive. A major portion of the budget comes not only from government owned companies like Emirates Airlines and its aluminum and glass plants, but from its international investment firms like DP World and others. Emirates Airlines, Dubai World, Istithmar, and Dubai International Capital are all 100 percent government owned and financed along the traditional corporate lines, using either debt or earnings.⁴²³ There are some taxes, for things like hotel occupancy, restaurant meals, liquor, various permits, and a renter’s tax, but generally these are targeted taxes aimed at foreigners.⁴²⁴

⁴²⁰ Ibid.

⁴²¹ See Dubai Human Resources Management Law of 2006, Chapter VI & VII

⁴²² Krane, Jim “*City of Gold*” St. Martins Press, 2009 p. 138 & Davidson, Christopher. “*Dubai The Vulnerability of Success*” Columbia University Press, 2008, p. 180

⁴²³ *Emaar*—responsible for building the world’s tallest building, and Dubai Holding Group and *Jumeirah*—Sheikh Muhammed’s personal hotel brand are partially state-owned and sometimes dominated by foreign investors, see Krane, Jim. “*City of Gold*” St Martins Press, 2009. p. 139

⁴²⁴ Ibid, p 138

The 2009 financial downturn hit Dubai hard and consequently it has had to begin widening its tax base through creeping ‘hidden taxes’ on nationals such as road tolls, parking meters, monopoly-controlled telecom prices, a tax on utility bills, and a tax on imports not designated for free zones.⁴²⁵ If locals begin to notice or feel that the fees are too high, these creeping taxes could have a destabilizing effect upon the ruling bargain.⁴²⁶ Emiratis are already becoming weary of the exponentially larger expatriate community and the lifestyles they bring along with them, including pork, alcohol, prostitution, and public displays of affection unobserved and intolerable in the region just fifty years ago. For now, the ruling bargain has remained strong enough to repel any significant Islamic backlash. However, local repulsion over foreigners and their customs is quickly becoming a focal point and with Abu Dhabi’s recent and more extensive role in financing Dubai’s debt problems, the more conservative neighbor may act to promote further and more intense Islamic crackdowns.

Emiratis—To Be or Not To Be a National?

Of the approximate two million inhabitants in Dubai, only about five percent are citizens and enjoy all the perks that going along with that status.⁴²⁷ Citizens’ loyalty has conventionally, for lack of better term, been bought.⁴²⁸ Political opposition has traditionally been muted through the subsidy of a rentier elite.⁴²⁹ The government most likely welcomes the huge disparity between expats and citizens because if the citizenry

⁴²⁵ Davidson, Christopher. “*The Emirates of Abu Dhabi and Dubai: Contrasting Roles in the International System*” *Asian Affairs* Vol. 38 No. 1, March 2007. p. 44

⁴²⁶ Davidson, Christopher “*Dubai: The Vulnerability of Success*” Columbia University Press, 2008, p. 180

⁴²⁷ Approximately 80-100K. Davidson estimates about 4 percent in 2007, but reports vary and many expats have left amidst the latest economic downturn. *Ibid.*, p. 190

⁴²⁸ Beblawi, Hazem, and Giacomo Luciani “*The Rentier State*” London. Croom Helm, 1987 p. 7

⁴²⁹ Davidson, Christopher “*Dubai: The Vulnerability of Success*” Columbia University Press, 2008, p. 151

had grown at the same rate as immigration, they would not be able to afford the generous concessions handed out.⁴³⁰ Estimates of the GDP per capita in Dubai vary greatly, but if it is near the estimated \$50,000 in 2007 spread across the entire population of around 2 million, then that means the GDP per capita of the 80-100 thousand actual nationals is well over \$120,000.⁴³¹ The GDP per capita in the United States is a little over \$45,000.

Many of the buildings that now stand in Dubai were built on previously worthless plots of land given to nationals by a ruler at some point; these citizens are now mini-renters, collecting income from foreigners. Emiratis can expect to have their college paid for in many instances, free health care, cheap or free housing that is often times sublet to expats for a profit, and a large sum of money—around \$11,000—for marrying another citizen among many other perks.⁴³² Dubai nationals have even adopted a sort of ‘national uniform of privilege’—a white *dishda-sha* for men and a black *abaya* and *shaila* for women—that will distinguish them immediately from any foreigner.⁴³³ The Dubai leadership is ever conscious that it may lose legitimacy if they are unable to afford this system of elite citizenry. The people could easily one day begin demanding things that are just not possible. As a result of this looming possibility the government just keeps on investing, growing, and diversifying in an attempt to preserve the ruling bargain through increasing returns on bold investments in infrastructure and capital markets.

As was explored in the previous chapter, Dubai has retrofit state-ownership and capitalism into a new form of state capitalism. Instead of privatizing state businesses as most of the rest of the world has been doing for the past half-century, it has created them

⁴³⁰ Ibid.

⁴³¹ Ibid

⁴³² Ibid., p. 152

⁴³³ Ibid, p. 153

with grand success and efficiency. This achievement was only possible because of the non-democratic political structure outlined above. After the dismal failures of the Communist experiment most economists agreed that government was not the solution to economic woes. Dubai seems to have counter-balanced that agreement. It has used its rentier wealth to hire expert economists and many top financial managers from around the world to come and help their government birth companies that perform just as well or even better than privately owned ones.⁴³⁴ The companies are not liable to boards of elected zoning commissioners or hiring or compensation laws—the boards and laws that do exist can be changed or skirted at the ruler’s whim. Investors get to completely bypass the bureaucracy and when a major decision needs to be made, it can be made in thirty minutes by just calling the ruler instead of thirty days of reviews and proposals necessary for large-scale projects in other countries or corporations.⁴³⁵ This arrangement allows parastatal companies an edge over competitors who often have many investors to deal with and bureaucratic red tape that can slow them down.

In the 1960s, political scientists theorized that the traditional monarchies of the world were on their way to an eternal resting place in history books. Samuel Huntington wrote that these monarchs were clinging to power and would soon either surrender power or face overthrow as modernization marched on.⁴³⁶ Strong precedence backed up this theory: Nasser’s overthrow of the King in Egypt in 1952, Iraq’s execution of King Faisal II in 1958, Yemen’s revolutionary overthrow of King Muhammad al-Badr in 1962, Muammar Ghaddafi’s 1969 coup against King Idris in Libya, and the Islamic Revolution

⁴³⁴ Krane, Jim “*City of Gold*” St Martins Press, 2009 p. 139

⁴³⁵ Ibid.

⁴³⁶ Huntington, Samuel P. “*The Third Wave Democratization in the Late Twentieth Century*” University of Oklahoma Press, 1991, pp. 46-51

of 1979 in Iran. The Persian Gulf sheikhdoms in the U.A.E., and others such as Bahrain, Qatar, and Kuwait, still stand today as a repudiation to some earlier prominent scholarship. The ruling bargains established in these sheikhdoms through the redirecting of rentier wealth in to diversification and capital investment strategies—i.e. capitalism—are outliers worthy of further academic scrutiny. The sheikhdoms this strategy has worked for may be small and seemingly unimportant in the global scheme, but not too far away in undemocratic capitalist China, many of their ideas are being practiced and perfected on a scale the world has never seen before.

Stability?

The seemingly stable structure of rule in Dubai has been in the making for a long time and is probably the most fundamental aspect of its commercial success. There has been 177 years of uninterrupted rule by the al-Maktoum family; not a single ruler has been murdered or overthrown since the first exodus from Abu Dhabi in 1833.⁴³⁷ By contrast, four American Presidents were murdered while in office during that time period—Lincoln in 1865, Garfield in 1881, McKinley in 1901, and Kennedy in 1963.⁴³⁸ Sheikh Saeed, Sheikh Rashid, and Sheikh Maktoum—the three men who ruled Dubai from 1912-2006—all died of natural causes while still in power. At the foundation of commerce is stability and predictability. Dubai has found a formula that seems to be working so far, but will the people continue to accept this ruling bargain as the emirate grows and moves further and further away from the cultural and tribal bedrock that created it?

⁴³⁷ Krane, Jim *"City of Gold"* St. Martins Press, 2009. p. 20

⁴³⁸ *Ibid*, p 20

CHAPTER VI

CONCLUSION

Who Cares if Dubai is Undemocratic and Capitalist?

By diversifying its economy in order to avoid the ‘curse’ of oil dependency, one could argue that Dubai has only made itself more vulnerable to fluctuations in international capital markets. Its parastatal corporations—including the state-owned corporations administering the free zones that are said to cover one third of the city’s land area⁴³⁹ and the state-owned corporations which handle its SWFs—are all almost completely dependent upon market performance, rather than a traditional tax base. Arguably, this places the emirate back at square one before its vigorous diversification push that began shortly after oil was discovered—at the mercy of markets.

Even though the emirate may still be vulnerable to market fluctuations, the ruler’s relentless pursuit of capitalism has preserved and even strengthened his dynastic authoritarian grip on power. Dubai has liberalized its markets, provided for private property laws, and has successfully avoided taxation and government intervention; yet the emirate has accomplished little to nothing in terms of democratization. For those who promote the idea that capitalistic reforms in an economy will eventually put pressure on the government to make democratic political reforms, Dubai stands as a refutation. If

⁴³⁹ Davidson, Christopher. “*Dubai The Vulnerability of Success*” Columbia University Press, 2008 p 118

anything, Dubai's diversification through capitalistic reforms has strengthened the authoritarian regime and allowed it to continue along that path rather than democratize.

If Dubai had not chosen the capitalistic route, eventually the emirate would have run out of rentier wealth alongside its dwindling oil supply and been unable to sustain the strong ruling bargain that exists today. This possibly would have brought insurmountable pressure upon the regime to pursue democratic reform. Also, Dubai most likely would have remained as backward and undeveloped as it was in the 1960s and arguably the people would be worse off financially and politically. The world would not have witnessed the transformation noticeable today and possibly another less friendly power would have stepped in and filled the economic power vacuum between European and Asian markets that Dubai now occupies.

So the question remains, is the format in which Dubai operates today—the Dubai model—a safe bet for other investors and allied governments? This author would argue no. The economic side of the model that stands today, with its lax regulations and limited oversight, has become a haven for smuggling, money laundering, and gross violations of internationally recognized labor regulations. On top of that, it has become a sanctuary for corporate entities to avoid taxes, escape prosecution, and operate with impunity in the widespread international capital markets that have formed in the latest wave of globalization. The political side of the model is authoritarian—and therefore arbitrary—and in gross violation of basic human rights and human dignity. No matter how cosmopolitan Dubai may consider itself to be, it will not change the fact that it uses Islamic Sharia's Law when it is convenient and when civil law or criminal law is actually applied it is applied extremely unevenly.

The most egregious recent example of uneven application would be from the case of a British woman who was raped in Dubai. When she reported the rape to the police, they questioned her about her relationship with her fiancé and then arrested her for having premarital sex—presumably because they thought she was or at least should be a Muslim.⁴⁴⁰ Other issues facing Dubai’s authorities include the recent announcement by the police chief saying that he will “block people who look or sound like Israelis from entering, no matter what passport they produce.” This was announced after the recent assassination of a senior Hamas official in Dubai hotel that is widely believed to have been carried out by *Mossad*—Israel’s spy agency.⁴⁴¹

The Dubai police chief plans to give a word pronunciation test to suspected Israelis similar to ones referenced in the Bible and used by American soldiers half a century ago to distinguish between Japanese and Chinese soldiers.⁴⁴² This is a terrible step backwards, as Dubai had slowly been warming up to Israel over the past decade or so, by allowing athletes to compete in its international competitions and even allowing Israeli delegates to visit for World Bank and IMF meetings sponsored by the emirate. Israel also is largely considered to be the “Silicon Valley of the Middle East,” thus in direct and mutually beneficial competition with Dubai—one more focused on production and the other more on distribution.

⁴⁴⁰ See Topping, Alexandra. “*British woman arrested in Dubai after reporting rape*” The Guardian, 8 January 2010 [<http://www.guardian.co.uk/world/2010/jan/08/british-woman-arrested-dubai>], other cases have recently surfaced, one involving to Britons facing a month jail time for kissing on the cheek in public and two Indians arrested for sending ‘sexy text messages’ to each other while on an Emirates airplane

⁴⁴¹ Mackey, Robert “*Dubai Police Chief Says He Knows an Israeli When He Sees One*” 2 March 2010, New York Times News Blog—The Lede [<http://thelede.blogs.nytimes.com/2010/03/02/dubai-police-chief-says-he-knows-an-israeli-when-he-sees-one/>] & see Bergman, Ronen. “*Israel and the Dubai Murder Mystery*” The Wall Street Journal, 19 February 2010

⁴⁴² In the Book of Judges there is a story of how after battle the Gileadites and the Ephraimites were identified by the way they said the word “sibboleth” (a word for corn), and American soldiers were trained in the forties to ask foreign soldiers to pronounce words with the letter ‘L’ in them (lollapalooza was a famous one for example)

The Rise of the Special Economic Zone

Dubai has experienced great success with its use of SEZs. However, the consequence has been that other regional powers have emulated this practice and now a global web of SEZs has developed. It has progressed to the point that competition is now so fierce that demand has dropped significantly. As demand decreases, the SEZs are forced to offer more and more perks to multinational corporations (MNCs) in exchange for relocation to a specific zone; the perks often border on the lines of absurdity.⁴⁴³ As this web grows, an international network of tax and regulation evasion sites will solidify and even further diminish the ability of countries that do regulate their corporations to uphold regulatory schemes. In the long run this will only weaken the power of governments to make demands upon MNCs. Some would argue that this is a good development leading to freer markets and more liberty; others argue that it will lead to global corporate governance, the likes of which have never been seen.

Dubai's reexport industry for a long time operated in a legal grey area. Gold was smuggled out of India and into Dubai for reexport under the British. The government structure of Dubai has somewhat legitimized this process through the use of SEZs. Due to its lax standards on regulation, there is evidence that drug smuggling, stolen goods, and even human trafficking exists in Dubai. The SEZ trend is developing extremely fast. Further and continuing research on the regulation and oversight standards of SEZs is needed. An accurate mapping of trends in location, perks offered, demand, goods and services produced or shipped, and the actual MNCs who inhabit them is needed to further analyze this trend's impact on democratic regulatory regimes. However, gathering this

⁴⁴³ It is rumored that some zones offer everything from sex-slave prostitutes to live in babysitters

information accurately is almost anathema to the ‘spirit’ of the SEZ—or also called ‘free zones.’

Sovereign Wealth Funds—Too Much State in the Market?

Sovereign Wealth Funds (SWFs) also could potentially pose a threat to democratic governance. However, these instruments seem to be ambiguously innocuous as we have seen them from time to time actually shore up the economies of democratic countries. Indeed, many democratic countries engage in the use of SWFs themselves. A transparency index has been created and the World Bank and International Monetary Fund have been working together with SWF managers to come up with voluntary set of ‘best practices’ in order to achieve a higher level of transparency.

In Dubai the activities of its SWFs can be divided into two categories; 1) international investment and 2) domestic development. The international investment strategies of Dubai seem to all be aimed at either making profits through safe bets like Treasury bonds, or branding itself through high profile purchases in an effort increase future profits. The Wall Street Journal reported recently that Dubai World has over \$60 billion in liabilities and is restructuring \$22 billion in debt. The estimates vary widely, and because of the secretive nature of SWFs most estimates are merely educated guesses. A possible problem scenario for the future involving SWFs would include one defaulting on billions in debt with no forewarning, sending shockwaves through markets. One of Dubai World’s investment arms—Istithmar—recently announced it will have to sell the famous Knickerbocker Building (NY) in Times Square because of debt issues unrelated to the larger problems with Dubai World. Seemingly this high profile dropping of the

property has sparked a lot of interest in the \$300 million building even amidst one of the worst slumps in the hospitality and lodging industry in decades (the building is half-empty and still in need of renovation).⁴⁴⁴ In this case the present system of voluntary reporting seems to be working.

The second category of SWFs in Dubai includes domestic development. The emirate of Dubai is often referred to as “the largest construction site in the world”—considered to have had in use 10 percent of the world’s cranes over the past decade or so. Many, if not most, of these projects are financed by the various investment corporations that form Dubai’s SWFs—including a set of 300 manmade islands in the shape of a map of the world and unimaginatively called ‘The World,’ the world’s largest shopping mall with an indoor ski slope and bar made completely out of ice, and the world’s largest hotel and fish tank. There are even plans in motion for a completely underwater hotel and an energy independent skyscraper in which each floor rotates to follow or avoid the sun and wind turbines between each floor provide it with its energy. The projects finished and the “ones in the pipeline” push the limits of one’s imagination. That is part of the draw, but one cannot help but sense that it is all a house of cards literally built on piles of sand. The constant news reports on debt and financing issues and stories of speculation on purchased-yet-still-vacant properties leads one to believe that the Dubai development of real estate and hotels is a gigantic bubble that will pop. The question is just *when* and *how bad* it will affect other markets.

⁴⁴⁴ Pruitt, A D & Craig Karmin. “*Dubai World Coughs Up the Knickerbocker*” The Wall Street Journal, 3 March 2010
[\[http://online.wsj.com/article/SB10001424052748704486504575097853122162066.html?mod=WSJ_Real+Estate_sections_Commercial\]](http://online.wsj.com/article/SB10001424052748704486504575097853122162066.html?mod=WSJ_Real+Estate_sections_Commercial)

This seems to be working fine for the moment, but one can rest assured that SWFs will remain a hot topic for a time to come, especially as China keeps creating new ones and scouring the globe buying up cheap property and companies with them in this most recent economic downturn.

Overall Stability

As discussed earlier, Dubai has enjoyed an unprecedented sense of political stability as compared to other regional actors and even the United States. However, it appears that this sense of stability has arisen more by dumb luck or historical accident, rather than by benevolent leadership or an impressive government model. Dubai, even though it is tied to the U.A.E. federation, is still essentially a hereditary monarchy and is still susceptible to all the instability and internal power struggles that plagued the hereditary monarchies of the 16th and 17th century.

In the first chapter of this analysis, three paths to modernity were explained, two of them capitalist and the third communist. The first path used capitalism combined with a form of parliamentary democracy. The second included the use of capitalism with failed attempts at democracy because these societies never experienced a ‘bourgeoisie revolution’ like those in France and Britain. In every case the states that chose the second path became fascist dictatorships and were ultimately destroyed and then rebuilt by ones that chose the first path. The third path of Communism was not discussed in detail.

Through Barrington Moore's description of the second path, one can identify five key elements that can be compared to Dubai's relatively late entry into modernity.⁴⁴⁵ In all 'second path' countries:

- 1) Capitalism took hold firmly in agriculture and industry,
- 2) There was no popular revolutionary upheaval,⁴⁴⁶
- 3) A working coalition between the elite and industry developed,
- 4) There were failed attempts at democracy,
- 5) A strong and able leadership was accompanied by an effective bureaucracy.

Capitalist models have been introduced in almost every economic sector of Dubai and the greater U.A.E. Even though capitalist reforms may have begun in Dubai, the six other emirates are all now following suit for the most part. Moore places an emphasis on the role of agricultural labor mechanisms as a deciding factor in which path is taken, but he also places a prerequisite of the adoption of capitalist modes first. The U.A.E. as a whole does not have much of an agricultural base, but it has been increasing agricultural output annually. In a generalist and overall view, capitalism has firmly taken hold throughout the emirates in agriculture and industry, but especially in Dubai.

The one popular revolution in Dubai—the rebel *majlis* of the 1950s—was violently put down by a young Sheikh Rashid and then successfully bought off with lucrative trade licenses and monopolies. The tribal sheikhdoms have historically been

⁴⁴⁵ Remembering that Dubai is the second largest and second most powerful emirate in a federation, it is helpful to keep in mind the U.A.E. also—especially Abu Dhabi—when comparing the attributes of Moore's second path

⁴⁴⁶ Movements that do exist are weak, diverted, or crushed. Moore notes that this may be due to either agricultural conditions, which would apply to the U.A.E. as a huge desert, or a lack of a sufficient peasantry

more likely to pick up and move when they disapprove of political leadership—a form of ‘voting with your feet’ also sometimes called tribal democracy—rather than take the time to nurture and develop a popular revolution. Thus, Dubai and many of the other emirates fall into the second category listed above of lacking a popular revolution.

There is most definitely a pervasive working coalition between the Emirati elite and industry in the U.A.E. The rulers of the seven emirates have large extended families and even rival families who make up the ‘elite’ society and hold the most important political and industrial positions. The ruling bargain discussed in Chapter V—and prevalent in some form in all the emirates—reinforces, legitimizes, and strengthens the coalition. It has only been getting stronger and more unified since the 1950s.

As for attempts at democracy, the emirates have made little if any sincere democratic reforms. They are approaching reform, and the many calls for it domestically and internationally, so cautiously and slowly that it appears they are making no movement at all! It is hard to tell whether this is a decisive move by the sheikhs to maintain the status quo, or a benevolently cautious conservative approach. Either way, it does not fit into the fourth category of Moore’s second path model.

Dubai has somewhat revolutionized what has come to be known as e-government (government services provided over the internet). It possesses arguably one the most efficient and effective bureaucracies in the world due to the fact it is run like a private corporation and that the state plays largely a distributive role rather than an extractive. As stated previously, Shiekh Mohammed enjoys an almost cultish status as His Highness Ruler of Dubai. He has captivated the world with his ambition and accomplishes every

goal he sets. In 2006 he wrote his first book called “My Vision”—a 240-page plan for how his governing strategy can work in all Arab nations.

Militarism in the U.A.E. has not quite matured yet. The federal government is in control of the military. In turn, Dubai and Abu Dhabi are mostly in control of the federal government. These two emirates have been purchasing weapons packages from the United States regularly since the late 1980s that total in the many billions of dollars. It is rumored that they have purchased more jet fighters than they have pilots to fly. In the late 1990s, when Dubai finally turned over control of its Dubai Defense Force (DDF) to the federal government, it was said that the tiny emirate with a population at the time less than 2 million, had a far more sophisticated and powerful military than Iran across the Persian Gulf with over 80 million people. The problem was—and most likely still is—that it depended on foreigners to operate its military.

Militarism is always a fear, but Dubai does not possess near the national population needed to have successful nationalist movement—only 5 percent or so of its two million occupants are nationals and only 20 percent of the U.A.E.’s five million occupants are nationals. It is difficult to imagine nationalist militarism in a place where only small percentages of the people are actually nationals. Maybe it would be conceivable if it was an Arab *and* Persian movement—thus including another 20 percent or so of the population—rather than an Emirati, but it is highly improbable that would happen.

Dubai and the U.A.E. fit into all but one of the five categories listed above from Moore’s second path to modernity. This would seem to be an indication that they are headed for a fascist future. However the one category they do not fit into is crucial to the

thesis of this paper. It would seem that a half-hearted or even merely unsuccessful attempt at democratization was the tipping point in most historically fascist countries that disillusioned the people enough to convince them to stand behind a militaristic and ultimately destructive expansionist fascist regime. If that is the case, then perhaps the *lack* of democratization in Dubai and the U.A.E. is the only thing keeping away fascist government, seeing how they have pursued capitalism *without* a popular revolution, *with* a coalition between elites and industry, and *with* a strong and able leadership accompanied by an effective bureaucracy. Dubai has quite possibly found the fourth path to modernity, which probably did not exist yet when Moore was writing about the first three.

While it is hard to imagine a fascist movement coming to control Dubai, some see the inherent instability of its brand of capitalism combined with the emirate's demographics causing many problems in the future. What happens when the expatriate population over time comes to see themselves as citizens rather than expats and begin making demands upon the ruler? Or on the other hand, what happens when the nationals feel like they are being overrun with expatriates and they are transforming the culture and society in an unwelcome way? Will the Emiratis turn to violence to try and expel the expatriates who have essentially built the city?

In a recent "60 Minutes" interview, Sheikh Mohammed spoke of how much he enjoys driving around the city alone and making surprise appearances at government agencies without a bodyguard detail. In Dubai, foreign laborers are known to throw themselves into fast moving traffic or off the top of a building after realizing the meagerness of their pay and that their passports have been confiscated by an

unscrupulous multinational corporation (MNC) after signing a 10-year contract. One fatal car accident involving the ruler could throw the emirate into a downward spiral of investment panic and spark an internal power struggle that could bring the entire Dubai Inc. model to the ground. Not only that, Dubai's markets are so intertwined with international markets that such a catastrophe would most likely negatively affect already fragile regional markets and could possibly have global implications.

Although Sheikh Mohammed has named a Crown Prince, the fact remains that Hamdan is largely inexperienced and still in his early twenties. Also, Mohammed has a brother and several others in his family with a legitimate claim to the crown. Most have all been successfully satiated with posts such as CEO of Emirates Airlines or some other parastatal corporation, but who is to say that in the event of a targeted terrorist attack that takes out the current ruler, these family members would not change their minds and become more ambitious? In a system where all development is at the mercy of the ruler and the nationals depend upon his benevolence, such a disaster would not only reek havoc domestically, but internationally investors could be sparked into such a firestorm of herd behavior that Dubai could become a ghost-town overnight and bring down a substantial chunk of outside markets with it.

Final Statement

Through conducting this research, the author has found that in all cases democratic governance uses some form of a capitalist economic method. Conversely, all capitalist economies do not pursue democratic governance. In many instances capitalist economic reforms have brought about pressure on a regime for democratic political

reforms, however, not always. It seems that in some cases capitalist reforms can actually strengthen an authoritarian regime, or even derail democratizing pressures already building when implemented.

Dubai receives a lot of media attention because of the grandiose nature and speed of its developments, especially in comparison to its small size. It is also one of the few Arab governments in the Middle East that has emerged economically successful, stable, and unharmed from the near constant war and calamity in the region over the past few decades. It has been able to walk a thin line between demands and interventions from the West and cultural and domestic upheaval. There is no doubt that many things about the Dubai model should be celebrated and praised. However, there is great doubt in this writer's mind about whether or not the model leads toward democratization. China's authoritarian capitalist model is poised to dominate the next century and I fear that many shadowy regimes out there are increasingly looking at capitalist reforms, such as SEZs and SWFs, as a way to solidify and strengthen their own power rather than as the tools of imperialist Westerners.

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VITA

Clay Robert Fuller was born in Austin, Texas, in May of 1979, the son of Janice Lynette Fuller and Stephen Wayne Fuller. After completing high school in 1996, he attended classes at Austin Community College intermittently and travelled around the United States until he was married in 2006. At that point he began studies at West Virginia State University (WVSU) in Institute, WV, where his first son was born in 2006. Mr. Fuller received a Bachelor of Arts in Political Science from WVSU in 2008. In the fall of 2008 he enrolled in the graduate program at Texas State University-San Marcos where he secured employment in the Department of Political Science as an Instructional Assistant and was promoted to the position of Teaching Assistant in the spring of 2010. Mr. Fuller will graduate from Texas State with a Master of Arts degree in Political Science in May of 2010 and will begin pursuing a Doctoral degree in Political Science at the University of South Carolina in the fall.

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