



The Cambridge Security Initiative

REPORT ON THE UNITED ARAB EMIRATES

JULY 2019

POLITICAL STABILITY

Crown Prince Sheikh Mohammad bin Zayid (MBZ), the emir of Abu Dhabi and the de facto ruler of the United Arab Emirates (UAE), is the driving force behind an aggressive and expansionist foreign policy, more reliant on the UAE's military capabilities – a departure from the economy-first approach that is advocated particularly from Dubai. However, this hawkish regional policy has exposed some of the UAE's vulnerabilities. The escalation of tension between the U.S. and Iran, which MBZ has been instrumental in pushing on the Trump administration, has blown back unexpectedly on the UAE. In May, oil tankers were attacked near the port of Fujairah, demonstrating that UAE territory is not invulnerable. Officials from the UAE's Ministry of Foreign Affairs have unofficially expressed concern that Iran may not want to continue to fight the U.S. in Iraq or Syria, but instead in the Gulf vis-à-vis the UAE and Saudi Arabia. Dubai, which has long advocated for a more pragmatic approach, driven by economic concerns and its considerable trade with Tehran, may finally have Abu Dhabi's ear, prompting MBZ to reconsider the country's way forward.

In Yemen, where the UAE has been Saudi Arabia's partner in the war against the Iran-aligned Huthis, Abu Dhabi is drawing down its commitments after four years of intense fighting to little effect. In Libya, Abu Dhabi's support for opposition leader General Khalifa Haftar has not translated to successes, as the general has been unable to take Tripoli despite several attempts. And recently, the United Nations-backed government in Tripoli has blamed the UAE for an airstrike that killed over 50 people in Tripoli. In Sudan, where Abu Dhabi once supported Omar Bashir in exchange for sending Sudanese troops to fight in Yemen, the UAE has scrambled to ensure the post-Bashir order by backing one of Bashir's brutal generals. Protesters have carried signs that read "United Arab Emirates and Saudi Arabia stop interfering in Sudan." The UAE's only notable "success" is in Egypt, where the UAE supports President Sisi's government to ensure that the Muslim Brotherhood cannot return to power. As a consequence of its military strategies in the region, human rights groups are increasingly singling out Abu Dhabi for being a perpetrator of humanitarian crises. In short, Abu Dhabi's aggressive regional policy has not yielded the results that MBZ was hoping for, and as a result Dubai may exert greater influence over Abu Dhabi's foreign policy decisions moving forward, seeking to emphasize what makes economic sense for the UAE.

To the UAE, the greatest threat in opposition politics comes from the Islamists and more specifically from the Muslim Brotherhood-affiliated Islah party. Although the party was previously accepted as a social movement that administered education programmes and social services throughout the country, the UAE ruling elite has increasingly viewed the organization with suspicion, and now considers it a terrorist organization. Abu Dhabi accuses Doha of supporting (and training) the Muslim Brotherhood in an effort to undermine its political stability. As such, Qatar remains an existential threat to the ruling elite. The UAE has been persistent in its condemnation of Qatar and other Muslim Brotherhood aligned nations, such as Turkey and, in the past, Mohammad Morsi's Egypt. Within the GCC, it is the loudest anti-Qatar voice, seeking Qatar's expulsion.

The UAE has passed several laws since 2014 to ensure the regime's firm control over domestic stability. A 2015 anti-hate speech law criminalizes insulting religious figures, places, or texts. The broad leeway this gives the government is similar to the anti-terrorism law passed in 2014 which criminalizes criticism of the regime or its allies. Given the extensive resources the regime has applied to monitoring social media and limiting access to internet content, the result is that the UAE offers some of the best communications infrastructure in the Middle East, but requires it be used with a high degree of political correctness (as defined by the regime). For instance, human rights activist Ahmed Mansoor was recently sentenced to 10 years in prison for social media postings that were deemed to damage the UAE's reputation. Yet, when it comes to relations with the West, and with Washington in particular, MBZ has opted to apply soft power, relying on public relations firms and lobbyist groups to influence U.S. policy. As former Obama adviser Ben Rhodes said, "When it comes to influence in Washington [...] M.B.Z. is in a class by himself."

ECONOMIC STABILITY

Although Abu Dhabi is politically opposed to Iran, the UAE is Iran's main trading partner – with much greater volume in trade than Qatar or other regional countries. As such, the resumption of sanctions will result in a decrease in commerce, trade, and investment between Iran and Dubai, which will impact the UAE's economy. Concerns that the UAE could become a theatre for regional conflict against Iran tensions may hamper foreign investment in the UAE.

The UAE's 2019 federal budget is 17.3 per cent higher than the 2018 budget, making it the largest budget in UAE history. This is largely attributable to the recovery of oil prices. With a breakeven price of \$62 per barrel, the UAE has been profiting off the higher prices of Brent crude. The UAE's GDP from hydrocarbons improved from a 3 per cent contraction in 2017 to 2 per cent growth in 2018. The IMF projects that the UAE will continue with a 2.85 per cent GDP growth rate this year and up to 3.3 per cent in 2020, due to a 4 per cent growth in the non-hydrocarbon economy.

Non-hydrocarbon revenue is expected to rise in part thanks to revenue from the institution of the Value-Added Tax (VAT). According to the federal tax authority, the government collected \$7.3 billion in VAT revenues in 2018, well surpassing the expected revenue of \$3.3 billion. A boost from the upcoming Dubai Expo 2020 is expected to factor into the UAE's economic growth. Dubai has allocated \$7 billion for the events, which it expects to make a solid return on

through job creation and increased foreign investment. Expo-related tourism will also boost the economy in 2020.

To achieve the goals set out in Vision 2021, the UAE's economic vision to diversify the economy away from hydrocarbon dependence and be open to less restrictive capital flows, the UAE is moving forward with several ambitious measures. These include increasing fees for intellectual property rights registration, allowing non-GCC nationals 100 per cent foreign ownership of companies, replacing bank guarantees for private-sector labour with a low-cost insurance policy, overhauling visa requirements for skilled professionals, and more generally incentivising SMEs and foreign investment by liberalising regulations.

SECURITY

Located just 21 miles across the Strait of Hormuz from Iran, the UAE is concerned about the potential for the increased bellicosity between Iran, Saudi Arabia, and the U.S. to result in destabilizing attacks in UAE territory. On 12 May, four tankers off of the coast of Fujairah came under attack. The UAE has accused a "state actor" for orchestrating the "sophisticated and coordinated" attacks in its territory, but stopped short of naming Iran. Since May 2019, two more tankers have been attacked in the Strait of Hormuz, exposing the vulnerabilities of the key oil-shipping route that separates the UAE from Iran. UAE Ministry of Foreign Affairs officials have expressed the potential to revisit the UAE's anti-Iranian manoeuvres, which now clearly pose a national security, as well as economic, risk to their country. The tanker attacks appear to lend credence to concerns UAE officials have quietly expressed that Tehran is looking to steer any further conflict towards the Gulf. In the past, Abu Dhabi's aggressive foreign policy has played out in weaker states, from Yemen to Libya. However, the tanker attacks demonstrated the UAE's vulnerability to physical retaliation, which carries with it real economic risks through the weakening of the UAE's investment environment.

Since 2017, the UAE' has expanded its military outreach, thereby increasing its exposure and damaging its international reputation. According to the United Kingdom's Foreign Office, "terrorists continue to issue statements threatening to carry out attacks in the Gulf region. These include references to attacks on western interests, including residential compounds, military, oil, transport and aviation interests as well as crowded places, including restaurants, hotels, beaches, shopping centres and mosques." In 2018, the Huthis claimed to use drones to disrupt the airport – though the UAE denies Huthi assertions. Given Iran's technological support to the Huthi, and repeated Huthi attacks against airports in Saudi Arabia, Abu Dhabi is increasingly concerned with Huthi capabilities to strike inside the UAE.

MBZ is intolerant of domestic political protest. Popular dissent is quickly silenced, on the street and online. Despite the Emirati security services' capabilities, MBZ hired a company linked to Blackwater founder Erik Prince in 2011 to train a force of foreign mercenaries to stop internal dissent. The result is that the Emirates are a safe place for foreigners to live and work, so long as they are respectful of what they say and post online.

MID-TERM OUTLOOK

In the near to medium-term, the escalation (or de-escalation) of tensions with Iran will remain of primary concern to the UAE. After attacks in their territorial waters, officials in Abu Dhabi are beginning to rethink the extent of their aggressive foreign policy and the risks it poses to the UAE's economic interests – an argument that has divided Dubai and Abu Dhabi for some time. The UAE may seek to reconsider its hawkish agenda against Iran in a way to limit potential blowback should U.S.-Iranian tensions flare. In its foreign policy, then, the UAE will choose its words carefully and with concern not to instigate conflict that could reach its territories.

Consistent with Vision 2021, the UAE will continue to develop non-hydrocarbon growth, a strategy that looks wise in light of the extension of oil production restrictions following July's OPEC meeting. The economy will continue to improve in the lead up to Expo 2020, which should also yield benefits that reach into the long-term horizon. In the short-term, the main challenges to achieving its goals for Vision 2021 will be attracting highly skilled expatriates across a diverse field of knowledge to move past the UAE's reliance on hydrocarbons. The UAE's ability to identify where to focus their diversification efforts will serve as the indicator of whether Vision 2021 can be achieved within its timeline. Youth unemployment will also be a factor that needs to be addressed, having reached 7.8 per cent in 2019.