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The United Arab Emirates: Economic Ties No Longer Bind

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A Research Paper

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NESA 85-10166
August 1985

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The United Arab Emirates: Economic Ties No Longer Bind [redacted]

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A Research Paper

This paper was prepared by [redacted] Office of Near Eastern and South Asian Analysis. It was coordinated with the Directorate of Operations. [redacted]

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Comments and queries are welcome and may be directed to the Chief, Persian Gulf Division, NESA,

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The United Arab Emirates: Economic Ties No Longer Bind [redacted]

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Summary

Information available as of 24 May 1985 was used in this report.

The economic interdependence that helped to unify the seven emirates that make up the United Arab Emirates is weakening. The five small northern emirates, once totally dependent on UAE federal funds supplied by the largest and richest emirate, Abu Dhabi, are developing their own oil and gas revenues and are emulating Dubayy (Dubai) in seeking greater autonomy within the federation. The rulers of these emirates hope to gain greater control over the federal budget and other federal decisions and no longer passively accept their de facto status as second-class members of the UAE under Abu Dhabi. [redacted] 25X1

Despite the centrifugal economic forces, we doubt that the UAE federation will splinter. The political and security advantages of the federation will continue to outweigh the economic pressures toward autonomy brought about by independent incomes. Instead, the federation's form will become looser. Despite the soft oil market and several years of recession, the United Arab Emirates will remain a high-income economy. [redacted]

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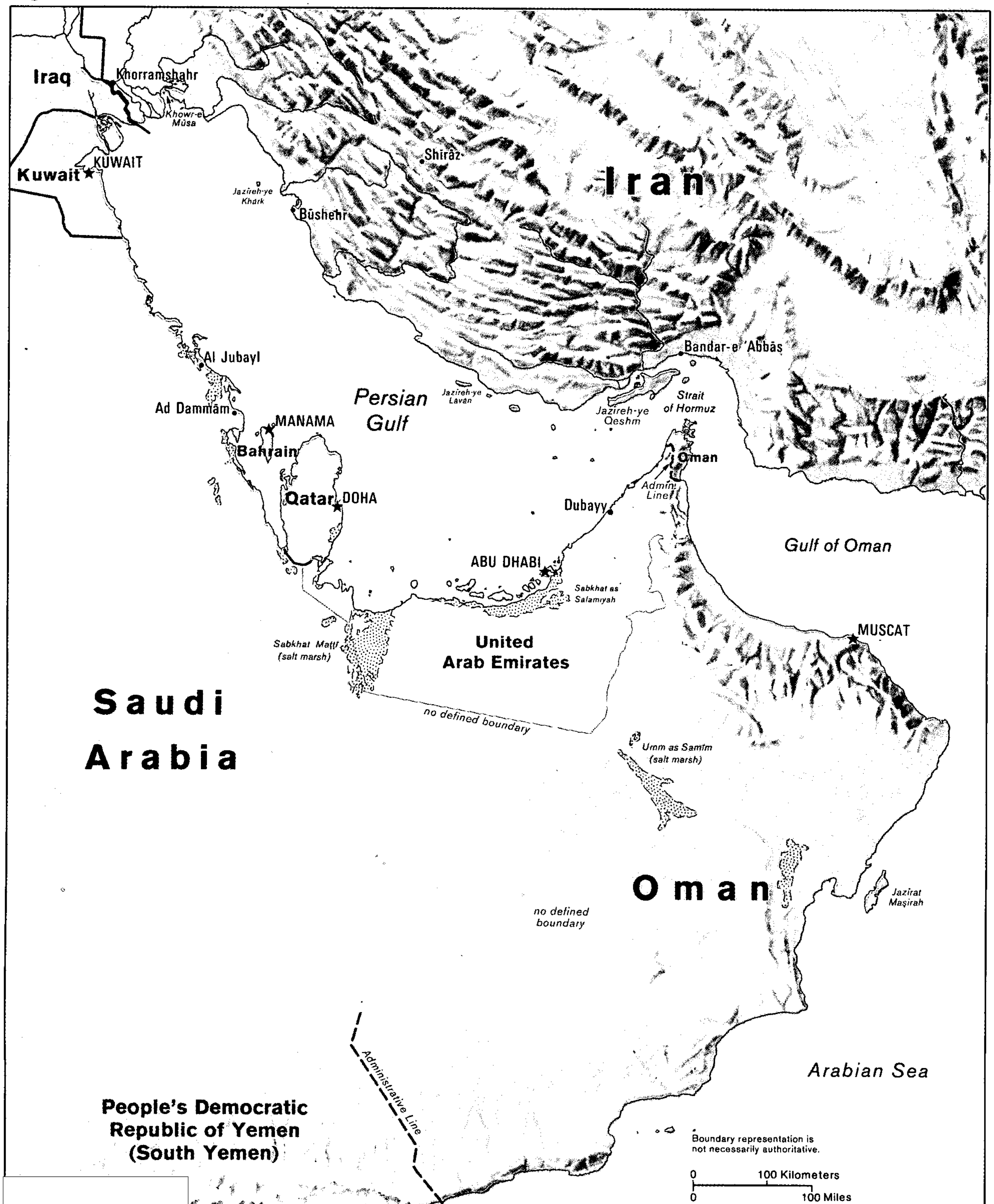

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The United Arab Emirates: Economic Ties No Longer Bind

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Profile of the United Arab Emirates

Situated between Saudi Arabia and Oman, the UAE is a wealthy OPEC member state consisting of seven emirates in a fairly loose federation. The federation has existed as a sovereign state only since December 1971, when the British departed from the Persian Gulf and Abu Dhabi, Dubai, Ash Shariqah (Sharjah), Ra's al Khaymah, Al Fujayrah, Umm al Qaywayn, and 'Ajman, which already had a loose association as part of the UK-dominated Trucial States, joined to form the UAE. At the peak of the oil boom in 1981, the UAE boasted a gross domestic product (GDP) of $33 billion and per capita income approaching $30,000. Its leaders have since had to deal with falling revenues, an overextended banking system, and recession brought about by three years of a glutted oil market. Nonetheless, the UAE has fared better than most oil producers because of its small population (about 1.3 million including foreign workers) and considerable foreign assets—about $35 billion as of the end of 1984.

Abu Dhabi, the largest and richest emirate, has been the mainstay of the UAE, but it is starting to lose its dominant position. Its ruler, Shaykh Zayid bin Sultan Al Nuhayyan, is the UAE's President; its capital, Abu Dhabi, is also the UAE's capital. Abu Dhabi emirate contains 87 percent of the UAE's land area, 43 percent of its population, and provided $2.6 billion—75 percent—of the 1984 federal government budget.

Abu Dhabi's wealth and its large share of the UAE budget have led to a continuing controversy within the federation. The poor, non-oil-producing emirates in the UAE expect—and get—support from Abu Dhabi. At the same time, Dubai emirate—despite substantial oil resources—contributes as little as possible to the federal budget. Under the UAE federation agreement, half of each local government's revenue is to be contributed to the UAE Government. Abu Dhabi was the only contributor until 1980, however, when Dubai started to contribute. Persistent squabbles between Abu Dhabi and Dubai have caused funding and spending problems. 25X1

Dubai is the most independent emirate within the UAE, and its actions serve as a model for the smaller emerging oil-producing emirates. Dubai has a long tradition as a bustling and autonomous trading center that it developed under the British protectorate. Besides refusing to pay its share of federation expenses, Dubai also leaves it to Abu Dhabi to absorb the federation's OPEC-mandated oil production cutbacks. Abu Dhabi joined OPEC before 1971, and its membership carried over to the UAE upon its formation. Dubai, however, never joined OPEC and does not consider itself bound by the UAE's membership. Dubai produces oil at near capacity, sells it at market prices, and has little sympathy for Abu Dhabi's oil-market-induced recession. 25X1

The five small northern emirates of Sharjah, Ra's al Khaymah, Al Fujayrah, Umm al Qaywayn, and 'Ajman began a transformation from impoverishment to prosperity following the creation of the UAE. Abu Dhabi's multibillion-dollar contributions to the federal budget provided these emirates with roads, harbors, airfields, utilities, free health care, schools, and water. Since 1982, Sharjah and Ra's al Khaymah have developed significant gas and condensate production as well as some minor crude oil production. The petroleum earnings are reducing and may eventually eliminate their need for federal subsidies. This is weakening Abu Dhabi's financial leverage over their policies and is adding to strains within the federation. 25X1

Outlook for the Federation

Since the federation's inception, the northern emirates' economic dependence on Abu Dhabi has served as a unifying force within the UAE. As the northern emirates achieve greater financial independence through oil or gas discoveries, however, they will have stronger economic reasons for putting distance between themselves and Abu Dhabi and the federation:

- If the northern emirates were to share the UAE OPEC quota now upheld only by Abu Dhabi, they would have to limit their output, and thus revenues, to relieve the strain on Abu Dhabi. We believe the northern emirates are unwilling to provide such help to Abu Dhabi.

- Severe revenue losses by Abu Dhabi are likely to cause it to exert pressure on the other emirates to pay for projects in their territory that are now funded by the federation budget and to contribute to the federal budget. If Abu Dhabi changes its fiscal policies, the northern emirates will have to choose between making contributions and expanding their influence in federal circles or pulling back to a looser form of federation.

The economic shifts within the UAE are producing a corresponding political realignment. The US Embassy reports that there has been a dramatic improvement in relations among the rulers of the five smaller northern emirates and that these rulers are seeking a more influential role in federal politics. According to the Embassy, they are particularly critical of what they see as a power vacuum in the federal government created by President Zayid's absences from the decisionmaking process as he prepares to pass on the reins of power. They are also dismayed by the rivalry between Abu Dhabi's heir apparent, Crown Prince Khalifah, and Dubai's de facto ruler, Shaykh Muhammad, whom some of them support.

These political issues, as well as economic factors, have contributed to the increasing tendency toward independent action by the individual emirates:

- Sharjah plans to develop an independent defense force, according to US Embassy reporting.

- The rulers of Dubai and Sharjah reached agreement by themselves on new borders (and new oil concession boundaries) this spring. The bilateral bargaining followed months of frustration in Sharjah because the federal government would not attempt to resolve the longstanding border dispute.

- Ra's al Khaymah took the initiative to begin negotiations for a nonlethal military equipment pre-positioning agreement with the United States. Federal military authorities are only being informed of this process instead of taking the negotiating lead, according to US Embassy reporting. 25X1

We believe that as more non–Abu Dhabians enter the job market, their expectations for better jobs and greater influence may eventually cause them to press for an expanded political process that includes greater participation in government. The US Embassy notes that the younger leaders in Abu Dhabi are more isolated from their fellow UAE citizens and are displaying less leadership than their counterparts in the other emirates. 25X1

Despite these strains on the federation, all the emirates—even Dubai—continue to recognize the benefits of unity. These include:
- Common defense against external threats. 25X1
- Economies of scale in government services.
- A wide pool of federal jobs for talented UAE citizens, especially those from the northern emirates.

We expect that these benefits will continue to hold the federation together despite conflicts over economic and oil policies. 25X1

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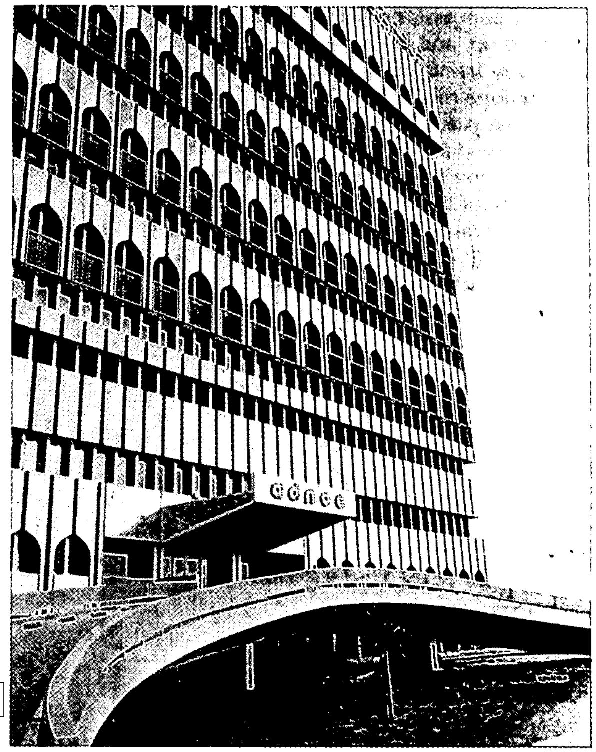
Abu Dhabi: Mainstay of the UAE

Abu Dhabi has been transformed in 25 years from an impoverished British protectorate to a major oil exporter with one of the highest per capita incomes in the world. This oil wealth has enabled Abu Dhabi to become the major supporter of as well as the dominant force in the United Arab Emirates. Abu Dhabi's rapid transformation so far has generated little social tension. The most contentious issues have been among UAE members, especially sharing the financial burden of the nonoil emirates between Abu Dhabi and Dubai. [redacted] 25X1

Lower oil revenues since 1981 have not caused Abu Dhabi the serious problems faced by many oil exporters but instead have prompted it to focus its priorities. The pace of new oil exploration and oil-derived industrial development is being slowed, but so far water resource development projects and consumer subsidies have not been touched. Lower oil revenues have enabled Abu Dhabi to begin reducing its large and potentially destabilizing expatriate labor force. [redacted] 25X1



The Abu Dhabi National Oil Company (ADNOC) headquarters. [redacted] 25X1

The Abu Dhabi Economy

Before the start of oil production in 1962, Abu Dhabi was one of the poorest regions in the world, with an economy based on pearling, fishing, and subsistence agriculture—nomadic grazing of small herds of goats and camels. An increase in oil production along with the runup in oil prices in the 1970s boosted Abu Dhabi's gross oil receipts from about $680 million in 1970 to a peak of $13.9 billion in 1980. The latter figure compares with peak UAE gross revenues of $19 billion in 1980. The surge fueled an average annual growth rate of 26 percent in real nonoil national output in 1972-80 for the UAE. [redacted]

Crude oil production remains the prime mover of Abu Dhabi's economy. Although the emirate government's estimated 1984 net oil revenue of $5.1 billion is far below the 1980 peak, oil still provides most of the government's revenue. Moreover, most industrial development is derived from the oil sector—for example, natural gas processing, refining, and the production of ammonia and urea fertilizers. [redacted]

Although figures for Abu Dhabi's gross domestic product are not published, we estimate that Abu Dhabi's revenues from oil production generate about one-third of the UAE's GDP. UAE GDP peaked at $33 billion in 1981 and since has fallen, hitting $27.5 billion in 1983, the last year for which data are available. UAE per capita GDP in 1983 was about $23,000 a year. We estimate per capita income in Abu Dhabi in 1983 was $30,000. [redacted] 25X1 25X1

In addition to oil, foreign assets generate significant income. [redacted]

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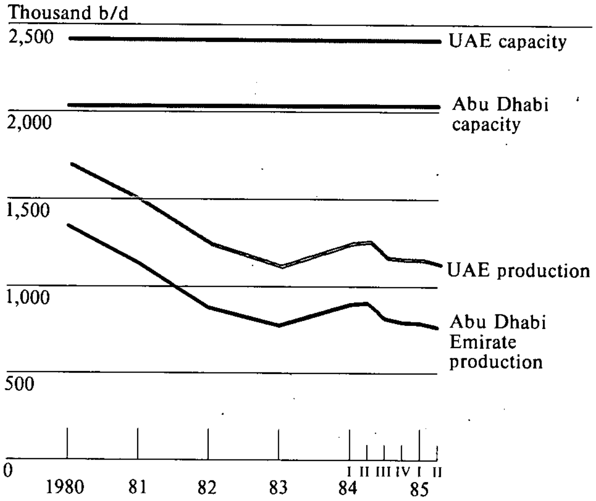
Figure 2
UAE and Abu Dhabi Crude Oil Capacity and Production, 1980-85



[redacted]

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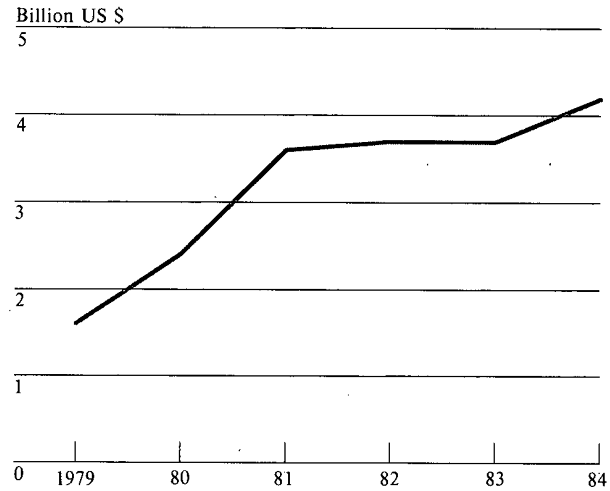
Figure 3
UAE Official Investment Income, 1979-84



[redacted]

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[redacted] we estimate that official investment income for the UAE totaled $4.2 billion in 1984, up from $3.6 billion in 1982. We estimate that the foreign asset base generating this income is roughly $35 billion, an enormous cushion to offset low oil revenues. We believe that at least half of the UAE's official assets are held by Abu Dhabi. [redacted]

According to the US Embassy, the economic slowdown of the past several years is enabling Abu Dhabi to reduce the number of foreign workers. Foreigners—mostly without families—represented about 80 percent of the UAE population in 1982, according to official estimates. There were nearly 1 million foreigners compared with 255,000 natives. According to the 1982 data, Abu Dhabi had only 29 percent of the UAE's indigenous population—about 75,000—although it has the most economic activity and probably the largest share of foreign workers. According to US Embassy and press reporting, Abu Dhabi has tightened visa and work permit requirements, and this has caused South Asian construction workers to depart when their projects were completed rather than seek new jobs. [redacted]

Government Spending and Development Efforts

The Abu Dhabi budget process consists mainly of collecting oil revenues, choosing a contribution level for the UAE Government, and allocating the remainder locally or as foreign aid. Abu Dhabi's budget revenues have fallen sharply from a peak of $10.8 billion in 1980 and 1981. They were estimated at only $5.5 billion in 1984. The fall in revenues since 1981 pushed the budget into deficit by 1983 and forced Abu Dhabi to reduce payments sharply to the UAE.

Foreign aid was slashed to negligible levels in 1984 compared with $1.8 billion in 1981. Local expenditures, however, have not been reduced, as Abu Dhabi has upheld spending on consumer subsidies, education, and health. (See appendix for UAE and Abu Dhabi budget figures.)

The long-term development goals of Abu Dhabi are to diversify from crude oil exports to refining and energy-intensive export industries, approach self-sufficiency in agriculture, reclaim desert land through forestry, and promote economic development in the nonoil emirates of the UAE. The soft oil market has prevented Abu Dhabi from pursuing all these goals, and it is completing existing projects while postponing most new ones:

- According to the Abu Dhabi government, current priorities are the development of water resources, electric power, urban infrastructure, transport, and communications. These categories absorb nearly three-fourths of Abu Dhabi's development budget.

- Official project spending on the oil sector, industry, and commerce is negligible because this falls in the domain of the government-owned Abu Dhabi National Oil Company—ADNOC—or the private sector. For example, ADNOC has announced plans to spend $5 billion in onshore development during 1984-87, down sharply from earlier years.

- Expenditures on housing and public buildings, which peaked in 1981 at $138 million, have plunged to about $55 million. With housing provided for the small indigenous population, funding this sector has lost its urgency.

- With the basic infrastructure in the city of Abu Dhabi completed, the focus of development activity has moved to the agricultural center of Al 'Ayn and the industrial city of Ar Ruways.

Shaykh Zayid wants to make Al 'Ayn, an oasis town near the Omani border, an academic, agricultural, and administrative center:

- The Al 'Ayn international airport—which will be Abu Dhabi's second-largest airport—is scheduled for completion this year.
- The existing Al 'Ayn–Abu Dhabi highway is being repaired and widened.
- A 115-kilometer, four-lane Al 'Ayn–Dubai highway is under construction. 25X1

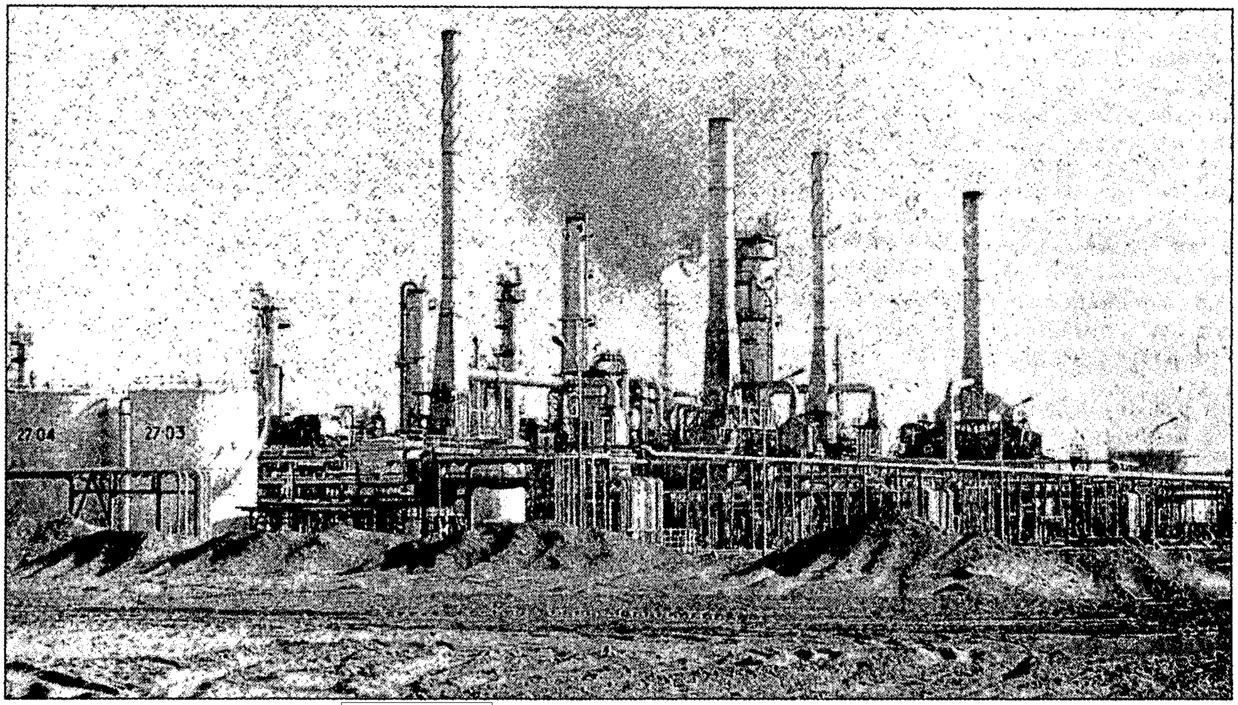
Water development projects at Al 'Ayn are attempting to rectify past overdrilling and ensure supplies for the agricultural center. The water supply at the oasis used to support Abu Dhabi's only significant farming area and supply water by pipeline to the capital. 25X1
Uncontrolled drilling, however, caused a drastic drop in the water table in the late 1970s and raised water

Greening the Desert

Shaykh Zayid's dream of turning the desert into croplands and forests faces a considerable challenge. Annual rainfall in Abu Dhabi ranges only between 19 and 100 millimeters, coastal areas are primarily salt marshes, and daytime summer temperatures average 49 degrees Celsius. Although agricultural conditions elsewhere in the UAE are more favorable—for example, in mountainous, less arid Al Fujayrah—Abu Dhabi leads the other emirates in agricultural development and reforestation. 25X1 25X1

Between 1972 and 1980, average annual growth of the UAE's agricultural sector approached 25 percent. Most of the increase occurred in Abu Dhabi, where heavy subsidies were provided to farmers and fishermen. For a few months of the year, the UAE is even a net exporter of fresh fruits and vegetables. 25X1

Water is the key agricultural constraint. Agriculture accounts for 73 percent of water usage, and underground water resources—estimated at 10 billion cubic meters—are being depleted at a rate of 700 million cubic meters per year. Although 22 new water desalination plants are proposed for construction in the next 10 years to slow the depletion of ground water, lower oil earnings and more emphasis on water conservation are likely to delay this program. 25X1



Ar Ruways Oil Refinery, Abu Dhabi. 25X1

salinity. The number of wells increased from 23—supplying 2.9 million gallons per day—in 1975, to 106—supplying 13.9 million gallons per day—in 1980.

Located about 250 kilometers west of the city of Abu Dhabi on a coastal salt marsh, Ar Ruways contains most of Abu Dhabi's heavy industry. The city is adjacent to the oil export terminal at Jabal az Zannah and has access to natural gas from nearby onshore oilfields as well as from the recently developed Thamama C gasfield. Ar Ruways contains the larger of the UAE's two refineries, with a capacity of 120,000 b/d. The refinery is being upgraded to produce a wider range of light petroleum products. Completion is planned this year. Ar Ruways Fertilizer Industries (Fertil)—a joint venture of the Abu Dhabi National Oil Company and Compagnie Francaise des Petroles—completed construction in January 1984 and began producing ammonia and urea fertilizer for export.

Development at Ar Ruways is being slowed by falling oil revenues and the worldwide petrochemical glut. Five years ago Ar Ruways was envisaged as a petrochemical and industrial center like Al Jubayl in Saudi Arabia, but we do not expect this to occur any time soon. Despite readily available feedstocks, Fertil has no plans to expand its facility. Plans for a petrochemical industry and a steel mill also have been dropped. 25X1

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Economic Outlook

Despite further revenue declines, Abu Dhabi is unlikely to experience serious economic stress because of its large financial reserves. Its oil revenues and its share of the UAE's GDP are likely to decline significantly in 1985. It will probably absorb all of the OPEC-mandated production cuts for the UAE. Moreover, it probably will have to offer price discounts to sell its oil in the glutted world market. Lower oil revenues will reduce job opportunities for foreign workers, and perhaps as many as 200,000—one-fifth of the expatriates—could depart the UAE this year, a

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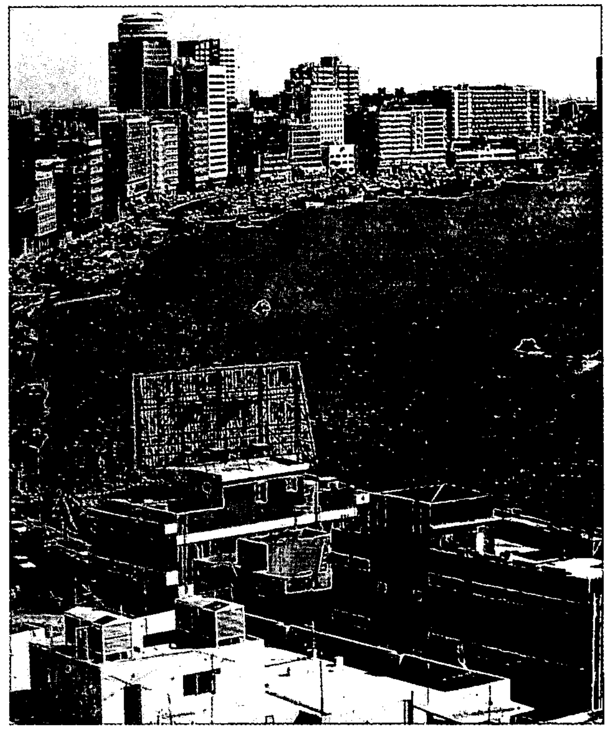
large share from Abu Dhabi. Construction on existing projects will be slowed, except for water and power facilities, and few new projects will be started. 25X1

If the price of oil tumbles, Abu Dhabi will face major decisions about oil production levels, import cuts, and foreign asset drawdowns. Unlike some oil producers, Abu Dhabi has substantial excess oil production capacity and is likely to boost output. An oil production level of 585,000 b/d implied by OPEC's quota set in November 1984 would represent only 30 percent of Abu Dhabi's 2-million-b/d maximum sustainable capacity. For example, with oil priced at $20 per barrel, Abu Dhabi could easily increase output by 350,000 b/d to maintain annual oil revenues. 25X1

Dubai: Maverick of the UAE

Dubai has emerged from a long history of commercial leadership in the Persian Gulf to become an oil-rich city-state that serves as the headquarters for many trading companies doing business in the Persian Gulf and beyond. Dubai's gross income for 1984 was roughly $8 billion, about a third of the UAE's estimated GDP. (Dubai refrains from revealing its budget, share of the UAE's GDP, population, per capita income, foreign assets, and investment income.) The largest component of Dubai's output is the petroleum sector—which represents a little less than half the emirate's gross income. Crude oil production in 1984 of about 340,000 barrels per day yielded gross oil revenues of approximately $3.5 billion. Services earnings—trade, finance, insurance, and ship repair—make up the next largest component. Industry is limited to the Dubai Aluminum Company, which imports alumina and produces annually about 150,000 tons of aluminum ingots worth about $180 million. 25X1



Dubai Creek—Archaeologists have found evidence that this fine natural harbor has been in use since 2000 BC. Ancient-style dhows now ply Gulf waters with high-powered engines and modern telecommunications, then dock at the foot of skyscrapers. 25X1

Dubai ranks near the top worldwide in per capita income. With a population of 400,000, Dubai has a per capita income of roughly $20,000. We estimate Dubai's foreign assets account for about $13 billion of the UAE's $35 billion in foreign assets at the end of 1984. This is a comfortable financial cushion for the emirate in the event of a decline in oil revenues. 25X1

Dubai's Independent Petroleum Policy

Dubai has suffered the least of the Persian Gulf producers from the soft oil market because OPEC production cutbacks for the UAE have been borne solely by Abu Dhabi. Dubai does not believe that it must uphold the federation's OPEC role. Crude oil production in Dubai has averaged about 350,000 b/d since 1978, except for a slight drop to 330,000 b/d in 1983. Current production of 350,000 b/d, if sustained, would yield gross crude oil revenues of $3.6 billion for 1985 at current prices. If prices fall, Dubai's oil revenues will decline because it lacks the excess capacity needed to raise output.

Dubai also produces small quantities of liquefied petroleum gas and condensate for export and uses natural gas—both associated gas from crude oil fields and nonassociated gas from the newly developed onshore Margham field—for domestic consumption. The Dubai aluminum smelter, several water desalination plants, and electric power plants are consuming all available gas. To meet growing demand, a linkup to neighboring Sharjah is under way to exploit that emirate's excess gas supply. Dubai emirate has no refineries or petrochemical plants. 25X1

The Dubai Petroleum Company (DPC), a foreign consortium, is responsible for all oil production in Dubai. The Dubai government closely controls the DPC's pricing, production, and development policies. Reflecting the government's penchant for secrecy, the DPC does not publish revenues, expenditures, or field data. 25X1

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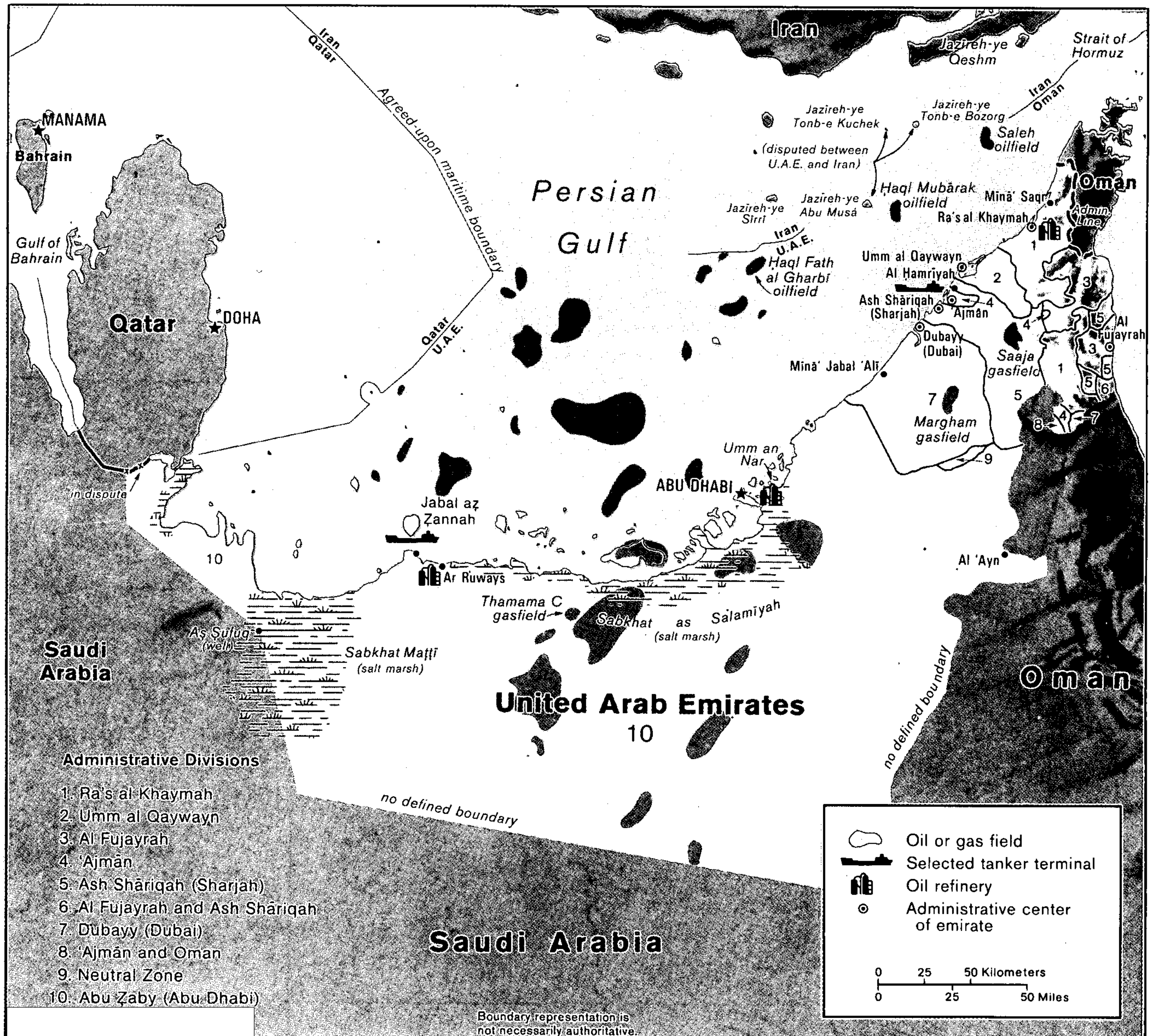
Figure 4
Oil and Gas Fields and Installations in the United Arab Emirates



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Will Iran Steal Dubai's Oil?

Iran recently moved a drilling rig adjacent to Dubai's rich offshore Haql Fath al Gharbi (Fateh) oilfield and may be preparing to drill directionally across the border, according to US Embassy reporting. Past Iranian exploration discovered reserves in its sector of the field that were too small to justify the expense of offshore development, and Tehran ignored this field for years. Last November, however, the Iranians installed an eight-well production platform so oil output and exports could begin soon after drilling is complete. Fateh is located about 350 nautical miles southeast of Iran's Jazireh-ye Khark (Khark Island) and close to Jazireh-ye Sirri (Sirri Island)—destination of Iran's oil tanker shuttle service from Khark Island. [redacted]

Dubai is concerned over the prospect of eight directional wells invading its oilfield. Fateh produces about 180,000 barrels per day from 85 wells. At comparable rates, Iranian production from eight wells could reach 17,000 b/d, worth $170 million per year at current prices. Dubai's queries of the National Iranian Oil Company so far have gone unanswered. The US Embassy speculates that Iran may ask Dubai for wartime assistance in the form of oil from Fateh field. Should Dubai negotiate a settlement with Iran, this would further strain relations with the other emirates in the UAE as well as relations with the other members of the Gulf Cooperation Council. [redacted]

Dubai: Hospital and Parking Lot for Ships

Dubai's large drydock at Mina' Jabal 'Ali, equipped with state-of-the-art repair facilities, has benefited from the Iran-Iraq war. Tankers, freighters, and other vessels attacked by Iranian and Iraqi aircraft in the Persian Gulf are repaired in Dubai. Moreover, tankers and freighters await commercial charters in the 64-berth storage complex at Mina' Jabal 'Ali. Many are being chartered by the Iranian Government for hazardous convoys to the northern Gulf, according to the US Embassy. Recently, Tehran purchased two very large crude carriers laid up in Dubai for its oil shuttle service from Khark Island to less vulnerable terminals at Jazireh-ye Lavan (Lavan) and Sirri Islands. Once the war ends, there will be a surge of port and drydock activity because both Iraq and Iran will need reconstruction supplies and vessel repairs. 25X1

[redacted] 25X1

Development Efforts

Government expenditure breakdowns are unavailable, but IMF estimates for Dubai budgets through 1983 indicate that the government takes slightly less than half of gross oil revenues to fund official spending. For example, in 1981 when gross oil revenues peaked at $4.7 billion, reported government oil revenues hit $2.2 billion. After gross oil revenues are first reduced by the earnings and expenses of the Dubai Petroleum Company, the remaining revenue is allocated by representatives of the ruler, Shaykh Rashid, between the government and his office. This personalized budget system allows Shaykh Rashid and his heirs to control directly any surpluses, which probably are considerable. For example, the ruler has personally guaranteed many project loans and even prepaid a $419 million Lloyds Bank loan for the Dubai aluminum smelter in 1981. [redacted] 25X1

This city-state emirate was a continuous construction site between 1969 when oil first flowed and 1983 when most infrastructure projects were completed. Although the emirate does not publish expenditure data, estimates by local observers suggest that cumulative government expenditures for nonoil and gas development projects during the past five years were about $6 billion. Infrastructure development—electricity, ports, airports, roads, and the drydock at Mina' Jabal 'Ali—took top priority. [redacted] 25X1 25X1

Shaykh Rashid's approach to emirate development was to pay for the infrastructure and then encourage private-sector activity that could use it. As a result, tiny Dubai has the busiest airport in the region; a Gulf port capacity that is second only to Ad Dammam, Saudi Arabia; repair and berthing facilities for vessels ranging from tugs to ultralarge crude carriers; and advanced telecommunications facilities available throughout the emirate. [redacted] 25X1

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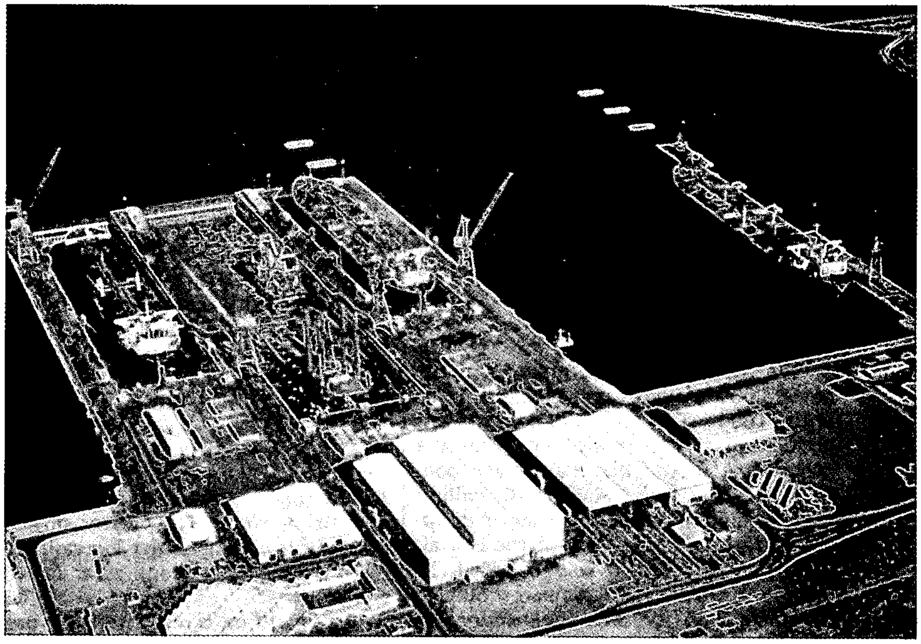
Two very large crude carriers, a drilling rig, and crane barge undergo repairs at Mina' Jabal 'Ali drydock in Dubai—the largest ship repair yard in the Gulf. [redacted]



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The Dubai Traders

Dubai promotes free trade far more aggressively than the other emirates and has a sophisticated merchant community willing to do business with anyone. Ideology is dismissed as irrelevant to business, according to the US Embassy, reflecting Dubai's long maritime tradition, history of gold smuggling, and reputation as an entrepot. The Embassy also reports that, within Dubai, it is alleged that Shaykh Rashid and his trading proteges were involved in drug smuggling in the 1970s and arms smuggling in the 1980s. US Embassy [redacted] in Kuwait and Abu Dhabi have noted that Dubai traders see nothing immoral in such trade. [redacted]

In recent years, Dubai traders have become most active in the import and reexport of conventional commodities rather than gold, narcotics, or arms. Leading customers are Saudi Arabia, Pakistan, and Iran. In 1983 reexports nearly doubled from the 1982 level to reach $1.4 billion. This was equivalent to 40 percent of Dubai's gross oil sales that year. Data from the Dubai Customs and Ports Department for January through October 1984 indicate that dramatic increases took place last year as well, despite the general recession in the Gulf. Commodities reexported include foodstuffs, livestock, tobacco and cigarettes, fuels, chemicals, cars, transport equipment, industrial machinery, and other manufactured goods. [redacted] 25X1

A few merchant families dominate Dubai's trade. One of the foremost Dubai traders for many years has been Shaykh Rashid's protege Mahdi Tajir, the UAE Ambassador to the United Kingdom since 1972. He is a Bahrain-born Shiite Muslim of Iranian extraction [redacted] According to US Embassy reporting, his influence in Dubai is waning, however, because he is detested by Shaykh Rashid's heirs and by the rest of the merchant community. Other major Dubai traders include:

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- The *Galadari* family, of Iranian origin, has a long history of smuggling gold into India and has diversified into hotels, banking, and other services. One

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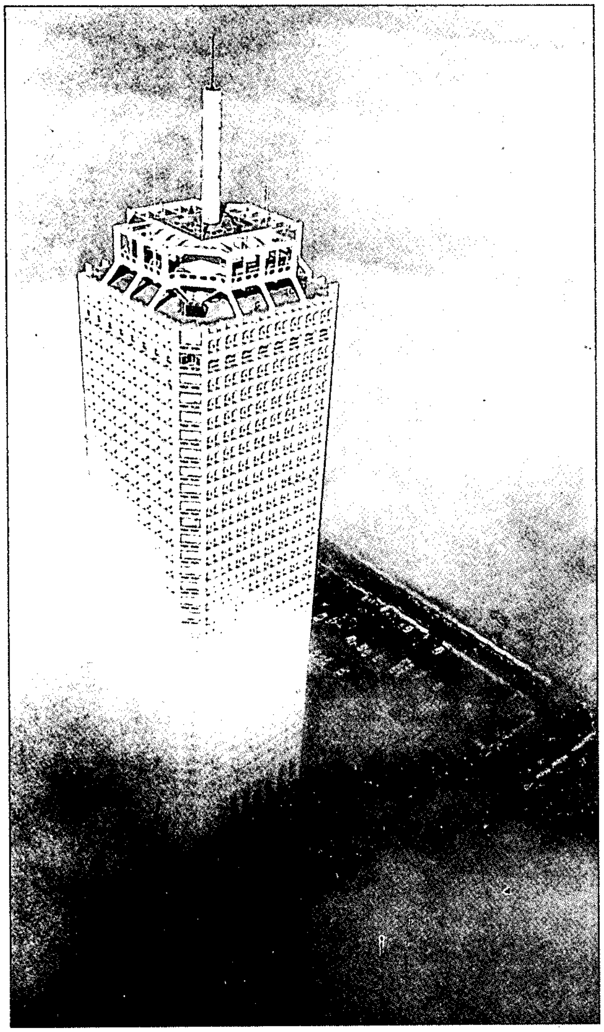

The Dubai Trade Center, tallest building in the Gulf, with a view of five emirates. The US Embassy has its Dubai branch in this building. [redacted]

brother, Abd al-Wahab, operated independently from the rest of the family and was jailed for debts after the Dubai government bailed out his overextended Union Bank of the Middle East in November 1983. The financial empire of his two brothers is also being restructured by the Dubai government. Their Dubai Bank was bailed out by the emirate government in April 1985 after a decision by de facto ruler, Shaykh Muhammad, to spend whatever is necessary to uphold Dubai's reputation as a financial center.

The Dubai Connection to Iran

Dubai has maintained its historical position as a leading trade partner of Iran despite the UAE's support for Iraq. According to US Embassy reporting, if the Iranians wish to increase their commercial presence, Dubai will welcome the business, and the UAE Government cannot block such a development. 25X1 *Indeed, the Embassy reports that the already large Dubai-Iran trade flow is increasing and that there are about 50,000 Iranians living in Dubai. This may explain why Iran has not aimed its anti-GCC rhetoric at the UAE.* [redacted] 25X1

[redacted] *3,000 of the emirate's 6,500 dhows ply the Iran trade.* [redacted] *The emirate government does not own, finance, or regulate this trade. Dubai merchants stock a wide range of consumer goods for Iranian travelers to purchase and carry back to Iran. Moreover,* [redacted] *a representative of the National Iranian Oil Company is stationed in Dubai to procure US spare parts for oilfield equipment. The US Embassy doubts that significant arms supplies reach Iran through Dubai.* [redacted]

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Trade with Iran has experienced cyclical swings linked to Iranian regulations. In late 1983, for example, Tehran severely curtailed allowable imports by Iranian citizens returning from abroad. This measure induced a temporary trade recession in Dubai until the restrictions were relaxed in early 1984, according to the press. Press reporting further indicates that protests from the UAE's Iranian community to the Iranian Commerce Ministry influenced Tehran's reversal. This year, Iran's increasingly tight foreign exchange situation probably will again limit Dubai's trade. [redacted] 25X1

- The *al Futtaym* head the largest UAE conglomerate, which is involved in trade, banking, and real estate. The al Futtaym Group is also Dubai's connection to Japan and owns UAE-wide agencies for Toyota, Honda, Toshiba, Sanyo, and Seiko.

- Issa Salih *al Gurg,* an active supporter of Arab causes despite his Iranian origin. He is the Dubai agent for several US firms as well as the representative for Siemens, Grundig, and other European companies. He is also an adviser to the British Bank of the Middle East. [redacted] 25X1

Dubai's Attitude Toward Abu Dhabi

Dubai's independent position within the federation on oil matters is mirrored in other areas as well. In principle, Abu Dhabi and Dubai are supposed to turn over half of their revenues to the federal government. In fact, Dubai paid nothing until 1980, when it contributed $811 million. Dubai claimed this represented 47 percent of Dubai's spendable revenues. Dubai's unwillingness to contribute has frequently caused federation fiscal crises. According to US Embassy reporting, the 1984 UAE budget was delayed for several months until Abu Dhabi finally agreed to provide most of the federal budget to ensure federation unity. Dubai—which had held back its payment—agreed to only a small contribution. [redacted] 25X1

The Dubai Defense Forces, which are controlled by the ruler of Dubai and not by the UAE commander in chief—a son of the ruler of Abu Dhabi—are another manifestation of Dubai's quest for autonomy. These forces—called the UAE Central Military Command—are separate from other UAE forces and form the most efficient brigade in the UAE, according to US Embassy reporting. [redacted] 25X1

[redacted] 25X1

Dubai's deep-seated insistence on its autonomy has been a major barrier to closer integration within the federation. We see little chance that Dubai's position will change even after the death of Shaykh Rashid, who is in his seventies [redacted] His heirs, 25X1 however, may adopt a more cooperative line. A united UAE is important for external security, which is critical to Dubai's future. Moreover, if Abu Dhabi offers Rashid's heirs a broader role in the federal government, we believe they would support more federal activity, while seeking greater control over federal (read Abu Dhabi's) funds. Nonetheless, commercial acumen is part of the Dubai ruling family's heritage, and we doubt that subsequent rulers will relinquish Dubai's freedom to pursue its economic interests. [redacted] 25X1

The Northern Emirates: Seeking Financial Independence

The noncontiguous borders of the five northern emirates—Sharjah, Ra's al Khaymah, Al Fujayrah, Umm al Qaywayn, and 'Ajman—reflect their nomadic bedouin past. These emirates consist of a village here, an oasis there, and similar landmarks in the desert that long have been occupied by the ruling families of the dominant tribes. Longstanding border disputes still complicate relations among the various rulers.

Sharjah, the largest of the five northern emirates, controls 2,600 square kilometers spreading inland from the Persian Gulf coast and completely surrounding the largest portion of 'Ajman emirate. 'Ajman, the smallest, has an area of 260 square kilometers—about the size of Washington, DC, plus Chevy Chase and Rosslyn. Besides 'Ajman town on the Gulf, the emirate consists of three small, mountainous inland enclaves. Al Fujayrah emirate lies entirely on the Gulf of Oman, east of the Strait of Hormuz, but its territory is divided by a slice of Sharjah. Similarly, Al Fujayrah splits the northern and southern halves of Ra's al Khaymah. Moreover, the northern emirates separate Oman's Musandam peninsula on the Strait of Hormuz from the bulk of Omani territory that lies south of the UAE.

Sharjah: Becoming Independent of UAE Funds

Sharjah's first oil discovery in 1972—the offshore Haql Mubarak field—led to a flurry of euphoric development spending in the mid-1970s. In anticipation of oil revenues, the government accumulated about $1 billion in debt, mostly to Abu Dhabi. Haql Mubarak field, owned 50 percent by Iran, 35 percent by Sharjah, and 15 percent by Umm al Qaywayn, fell far short of expectations. It peaked at 38,000 barrels per day in 1976 and now produces only 12,000 b/d—4,200 b/d for Sharjah.

The Saaja gas and condensate field—discovered in 1980 and producing since 1982—has provided the financial independence sought by Sharjah. Its 60,000 b/d of condensate yield gross revenues of about $600 million per year. That sum and $40 million yearly from Sharjah's share of Haql Mubarak oil revenues have enabled the emirate to service its debt and finance development projects. 25X1

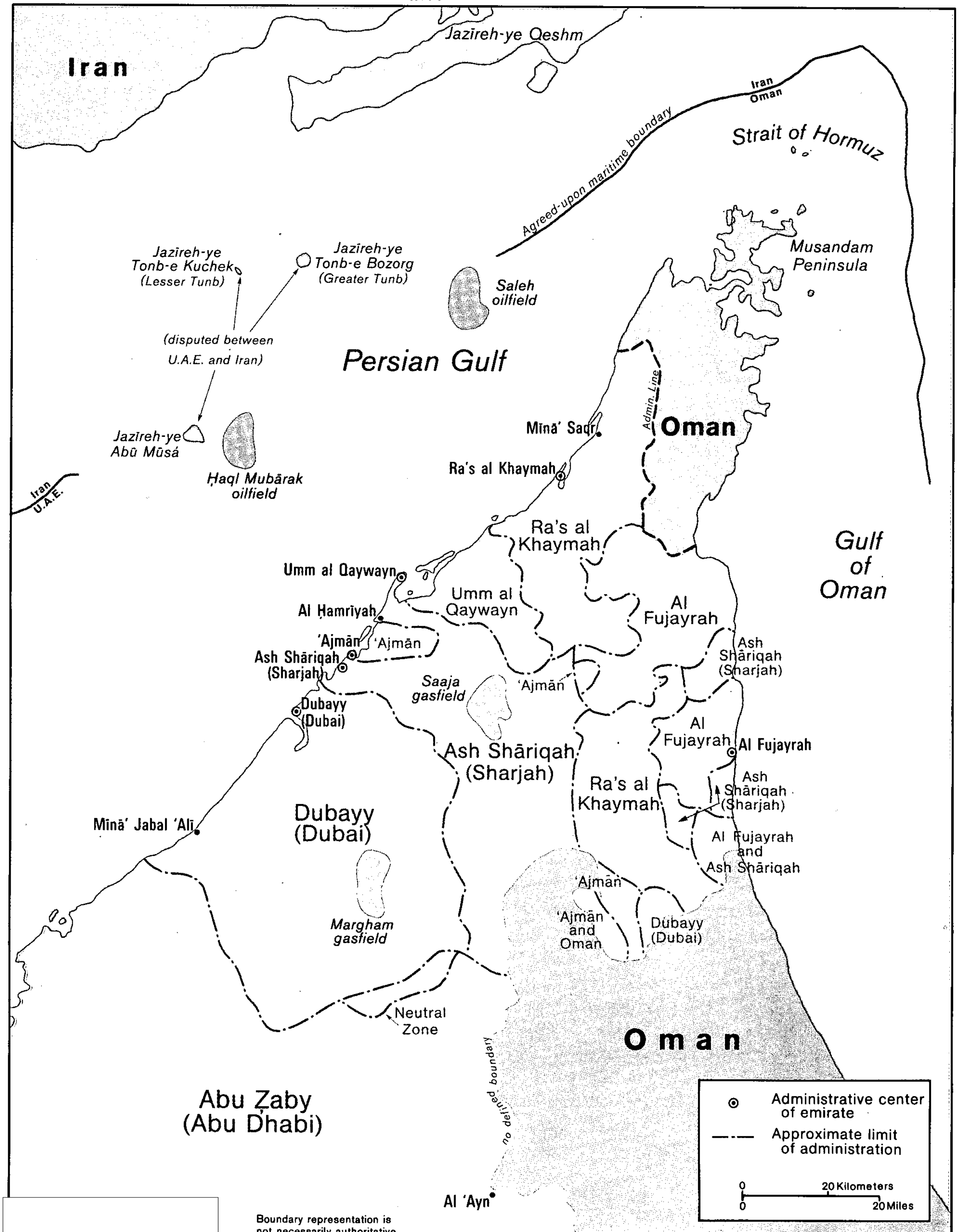
Sharjah's higher earnings have brightened economic prospects by financing new projects to exploit gas resources. Natural gas currently flared will be linked by pipeline to a liquefied petroleum gas (LPG) plant, whose output will feed into loading terminals at Al Hamriyah port on the Persian Gulf. This joint venture with Amoco and C. Itoh of Japan will cost about $300 million, and LPG exports to Japan should begin in 1986. Other Sharjah natural gas—now flared—will be developed either to fuel generators linked to a forthcoming UAE electricity grid or to sell to Dubai. 25X1 Sharjah also is considering an ammonia-urea fertilizer plant proposal by Taiwan to utilize the natural gas. Unlike Saudi Arabia or Abu Dhabi, there are no grandiose schemes for petrochemicals or steel production. 25X1

Sharjah's British- and Egyptian-educated ruler, Shaykh Sultan bin Muhammad al-Qasimi, has consistently pushed for a stronger UAE federation, from which he has much to gain, according to US Embassy reporting. The emirate benefits from federal spending, and many educated Sharjans have federal jobs. Moreover, the Shaykh had hoped a stronger federation would assist Sharjah in its long-festering border dispute with Dubai. According to US Embassy reporting, he was frustrated that neither UAE federal officials in Abu Dhabi nor UAE federal defense 25X1 forces stationed in Sharjah did anything to stop Dubai's recent efforts to find oil or gas in the disputed territory. Instead, Dubai and Sharjah emirates worked out a border agreement on their own last spring. 25X1

Ra's al Khaymah: Oil at Last

Ra's al Khaymah was the second northern emirate to strike oil. The Saleh field, about 50 nautical miles southwest of the Strait of Hormuz and just inside the offshore border with Iran, was discovered in January 1983. Production began a year later, and Ra's al 25X1 Khaymah exported its first oil in June 1984. The government's Ra's al Khaymah National Petroleum Company owns half the field, and Amoco and Gulf each own one-fourth. Current production of 10,000 b/d is scheduled to rise later this year to about 26,000 b/d as additional facilities are installed. A fourth

Figure 5
Northern Emirates of the United Arab Emirates



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Sharjans have been feeling good since Saaja field began exporting in 1982. The Chamber of Commerce places these signs at construction sites throughout the emirate.

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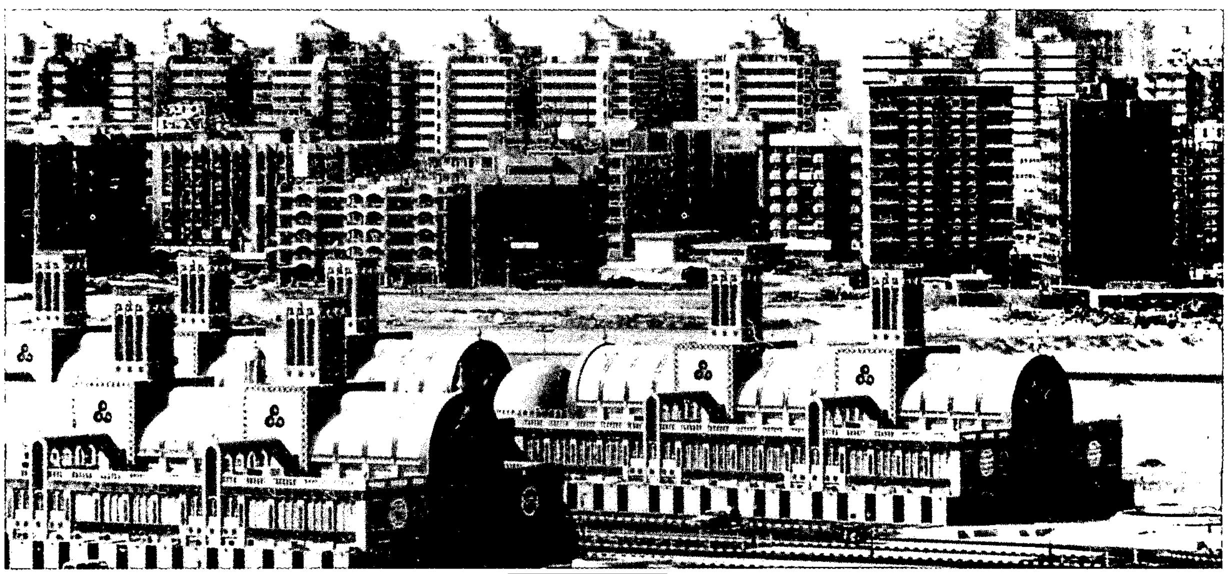

High-rise commercial blocks overlooking Sharjah souk.

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delineation well, tested in January 1985, confirmed that substantial hydrocarbons exist east of prior drilling limits, according to press reports. This lends some credence to earlier press speculation that the field may have the potential to produce 100,000 b/d. If this level is reached, Saleh field's annual gross oil revenues would approach $1 billion at current prices.

Ra's al Khaymah's agricultural sector has been spurred by UAE federal subsidies. The emirate benefits from rain in the Musandam mountains that replenishes local aquifers. Using careful conservation methods—not the wasteful flood irrigation of the past—Ra's al Khaymah has sufficient water to support intensive production of vegetables, dates, citrus fruit, tobacco, and hay. The ruler of Ra's al Khaymah, Shaykh Saqr bin Muhammad al-Qasimi, has encouraged farming by giving land grants to local citizens. Federal government programs—although very wasteful elsewhere in the UAE—have enhanced local efforts:

- Subsidized seeds, weed killers, insecticides, and fertilizers are sold at far below market prices.
- Federal employees plow the farmers' land for them, drill water wells for free, and erect plastic greenhouses.
- A federally funded UN Food and Agricultural Organization research station is teaching more efficient irrigation methods and is studying how to adapt crops and farming techniques to local conditions.

Beyond oil and agriculture, Ra's al Khaymah has few assets. A small but modern deepwater port at Mina' Saqr serves as the export outlet for two adjacent cement plants financed by Kuwaitis. Mina' Saqr is also equipped to handle large quantities of rocks and boulders, exported as aggregate throughout the area. Demand for cement and aggregate, however, has declined with the end of the construction boom in the Gulf region, making it all the more urgent for Ra's al Khaymah to concentrate on oil and agriculture.

Al Fujayrah: Scenery and a Strategic Location

Al Fujayrah produces no oil or gas, but its Petroleum Ministry is optimistic about prospects along the Gulf of Oman coast. Two Canadian companies were scheduled to begin exploratory drilling this summer. Farming, fishing, transshipment services at its port, and the manufacture of cement, tiles, and rockwool insulating material are Al Fujayrah's main economic activities. The emirate government is also promoting its fledgling tourist industry. The mineral bath resort at Al Fujayrah town with separate men's and women's pools is being touted for Arab families. The underutilized Al Fujayrah Hilton on the east coast is being promoted as a weekend escape for Westerners and others working in the UAE and neighboring countries.

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Because of its limited economic assets, Al Fujayrah relies on UAE federal support. Although there are no data on federal expenditures within Al Fujayrah, increased construction activity since the oil price boom of the 1970s is evidence of federal largess. Without Abu Dhabi oil revenues funneled through the federation, Al Fujayrah would still be without most of its infrastructure such as the mountain road that provides the main link between Al Fujayrah and the other emirates. Abu Dhabi also has invested heavily in housing.

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Sustained belt-tightening in Abu Dhabi because of lower oil revenues will reduce resources for Al Fujayrah's development. As a result, Al Fujayrah is trying to exploit its location on the Gulf of Oman, east of the Strait of Hormuz, by promoting an export pipeline from Abu Dhabi's oilfields. For the moment, however, both the UAE federal government and the Gulf Cooperation Council have put off any discussion of the various pipeline schemes to bypass the Strait of Hormuz. There also has been press reporting about building "strategic" grain storage facilities for the Arab states on the Persian Gulf at Al Fujayrah port, but no action has been taken.

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Umm al Qaywayn: Hoping for Oil Wealth

Umm al Qaywayn had hoped that its 15-percent share of the Haql Mubarak field—shared with Sharjah and Iran—would provide independent wealth, but output has been disappointing. Nonetheless, it receives gross oil revenues of about $18 million per year from its

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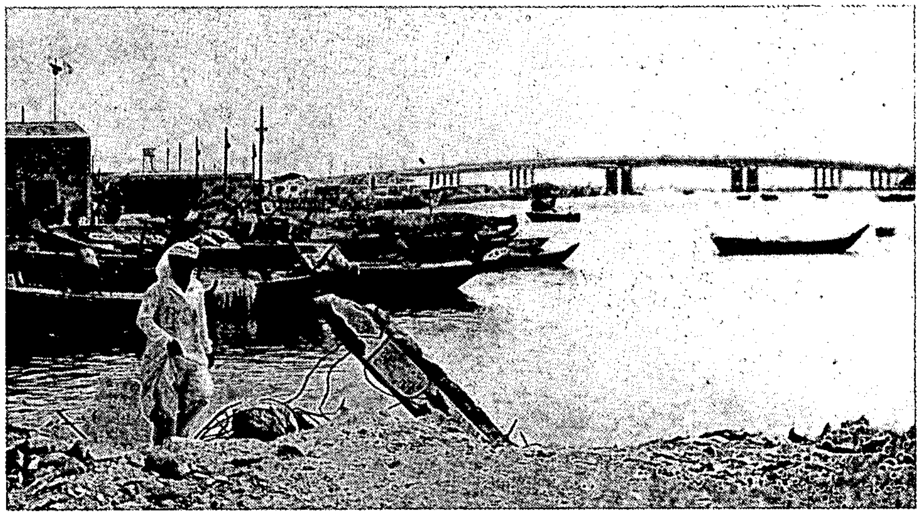
Fishing boats near Al Nakheel bridge, linking the main suburbs, Al Ras and Al Nakheel, of Ra's al Khaymah town on the Persian Gulf coast.



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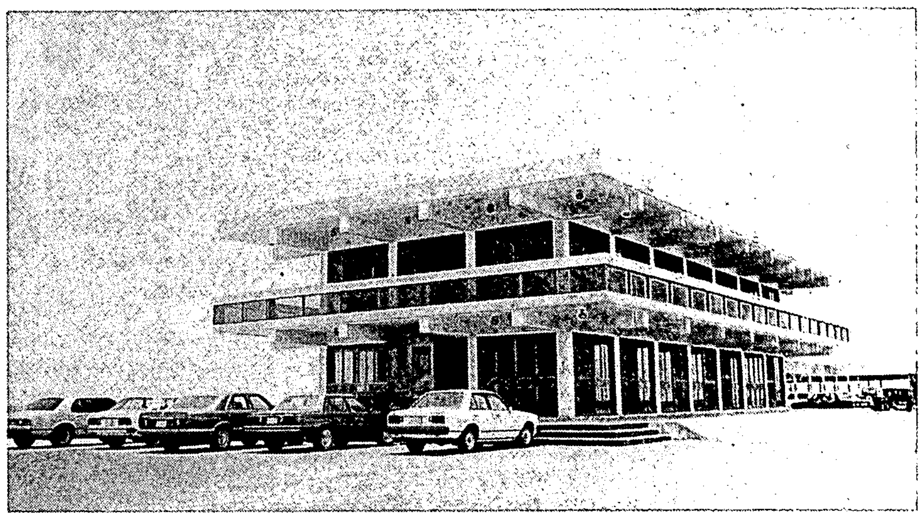
The Umm al Qaywayn Petroleum Company has a sleek, uncrowded new building.



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1,800-b/d share. The emirate is sandwiched between new oil producers—Sharjah and Ra's al Khaymah—and is hoping that a Canadian consortium will find oil. Exploration started last year after an oil concession agreement was signed in July. The emirate's other assets consist of a small port, an experimental fish-farming station, and an asbestos plant. Fishing remains important to coastal residents.

'Ajman: Tiniest Emirate Thinks Big

'Ajman has a population of only 37,000, but its ruler, Shaykh Humayd bin Rashid al-Nu'aymi, and its Chamber of Commerce think in grander terms. In 1983 a master development plan was commissioned from a British firm to guide emirate development to the year 2000. Presently, 'Ajman has a mineral water bottling plant, a small ship repair facility, a joint venture with a Korean firm manufacturing furniture, and a film studio. The local government relies on UAE subsidies. 25X1

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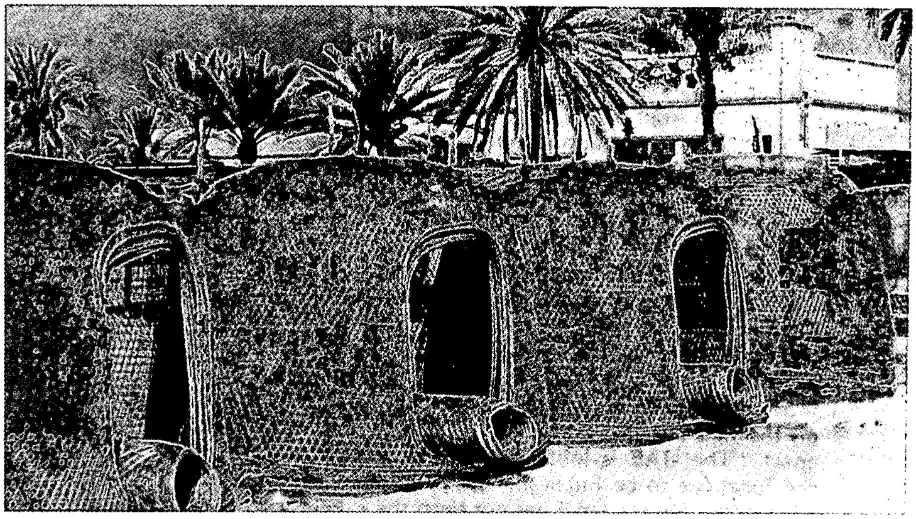
'Ajman would like to become involved in the petroleum industry and is seeking to obtain a 180,000-b/d oil refinery, the largest in the UAE, according to press

The manufacture of wire fish traps is still an important industry in 'Ajman.



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reports from Saudi Arabia. An existing refinery in Wales will be dismantled, shipped, and reassembled on the 'Ajman coast if all goes as planned. This joint venture of Saudi and UAE private investors along with the 'Ajman emirate government would process Saudi or Abu Dhabi crudes and 'Ajman crude if current exploration efforts are successful. Three exploratory wells found only small, noncommercial oil deposits in 1984, but additional drilling is under way by Land Oil of the Philippines and Kuwaiti-owned Santa Fe.

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The Northern Emirates' Future Role in the UAE

Since the federation's inception, the northern emirates' economic dependence on Abu Dhabi has served as a unifying force within the UAE. We believe this will change, however, as greater economic independence puts further strains on federation unity. As these emirates achieve financial independence through oil or gas discoveries, each is likely to follow the example of economically self-sufficient Dubai emirate and seek greater autonomy. This trend already is evident in Sharjah's plans for an independent defense force modeled after Dubai's. Nonetheless, these emirates are aware of the benefits provided by the federation and are unlikely to take actions that would lead to its demise.

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Appendix

UAE Economic Data

A Note on Data

Current macroeconomic and population data from official UAE sources are generally not available, primarily because the UAE is reluctant to prepare and publish data that could be politically sensitive. For example, no census has been taken either by the federal or emirate governments because the composition of the population by emirate is considered a sensitive topic. Emirians are painfully aware of their minority status in their own country. Estimates of the indigenous portion of the population range from 15 percent (US Embassy) to 31 percent (UAE Ministry of Planning). Estimates by several sources place the total UAE population in 1984 at 1.2-1.5 million. [redacted] 25X1

The Abu Dhabi–Dubai dispute over contributions to the federal budget delays this important document and source of data. For example, the 1984 budget, due in January of that year, was not announced until July and was not formally approved until September. Lacking a budget, federal authorities instead send continuing resolutions to ministries to spend one-twelfth of the previous year's budget per month until a new budget is ready. [redacted] 25X1

Important data frequently go unreported because of the extreme secrecy of emirate rulers over their foreign assets and incomes. Abu Dhabi does not wish to reveal the extent of its assets and finances because this could encourage the other emirates to ask for greater transfers by Abu Dhabi through the federal budget. Dubai, as a matter of principal, reveals as little as possible about its income, expenditures, and assets. Instead it floods official publications with such data as ship loadings, import tonnage, air freight volume, and the direction of trade. [redacted] 25X1

Table 1
United Arab Emirates:
Industrial Origin of Gross Domestic Product at Current Prices, 1975-83

Million US $
(except where noted)

	1975	1980	1981	1982	1983
Crude oil production	6,655	19,025	18,875	15,238	11,391
Other	3,355	11,042	14,420	16,577	16,128
Agriculture	83	223	282	311	308
Mining and quarrying	25	63	61	75	86
Manufacturing [a]	93	1,130	2,310	2,767	2,769
Electricity and water	53	350	421	504	538
Construction	1,088	2,653	2,581	3,000	3,021
Trade	820	2,453	2,797	2,856	2,612
Transportation, storage, and communications	317	1,006	1,348	1,489	1,392
Finance and insurance	78	194	575	748	673
Real estate	343	1,080	1,259	1,807	1,705
Government services	344	1,615	2,402	2,575	2,558
Other services	107	274	384	445	466
Gross domestic product at factor cost	**10,005**	**30,067**	**33,295**	**31,815**	**27,519**
Indirect taxes and subsidies	−44	−442	−805	−861	−787
Gross domestic product at market prices	**9,961**	**29,625**	**32,489**	**30,954**	**26,732**
Percent change from preceding year	27.0	40.8	9.7	−4.7	−13.6

[a] Includes natural gas and petroleum processing industries. Crude oil plus manufacturing approximate the "oil sector" as there is very little other manufacturing in the UAE. With this definition, the "oil sector" amounts to the following:

	1975	1980	1981	1982	1983
Millions of dollars	6,749	20,155	21,185	18,004	14,159
Percent of GDP	67.7	68.0	65.2	58.2	53.0

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Table 2
United Arab Emirates:
Federal Government Budget, 1979-84

Million US $
(except where noted)

	1979	1980	1981	1982	1983	1984
Total Revenues	**2,334**	**4,768**	**6,320**	**4,386**	**3,791**	**3,502**
Abu Dhabi contributions	2,266	3,876	5,072	3,555	2,612	2,610
Foreign grants and loans made on behalf of the federal government			775	714		NA
Services on behalf of the federal government	1,010	1,889	2,375	2,127	NA	NA
Cash payment	1,255	1,987	1,921	713	NA	NA
Dubai contribution		811	1,090	699	1,057	695
Other (ministry fees and so forth)	68	81	158	132	121	197
Total expenditures	**2,287**	**4,157**	**5,628**	**5,443**	**4,485**	**4,696**
Current	1,991	3,342	4,049	4,093	3,818	4,120 [a]
Interior and defense	1,190	2,061	2,487	2,401	2,295 [b]	2,200 [a]
Education, youth, and health	415	525	602	704	NA	NA
Other ministries	314	386	482	541	NA	NA
Subsidies and transfers	72	371	478	448	188 [b]	NA
Development	161	277	367	442	450	341
Domestic loans and equity	19	367	287	170	NA	NA
Foreign equity participation	117	170	151	21	NA	NA
Foreign grants			776	714	218	218
Balance	**46**	**611**	**692**	**−1,057**	**−695**	**−1,192**
Abu Dhabi contribution as percent of total revenue	97.1	81.3	80.3	81.1	68.9	74.5
Dubai contribution as percent of total revenue		17.0	17.2	15.9	27.9	19.8
Other sources (fees and so forth) as percent of total revenue	2.9	1.7	2.5	3.0	3.2	5.6

[a] Estimate.
[b] Provisional 1983.

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Table 3
Abu Dhabi Emirate Budget, 1979-84

Million US $
(except where noted)

	1979	1980	1981	1982	1983	1984
Revenues	6,634	10,806	10,784	7,981	5,862	5,514
Oil	6,397	10,459	10,323	7,490	5,486	5,127
Other	238	347	461	491	376	387
Expenditures	3,432	3,677	4,951	4,181	4,026	3,432
Current	717	989	1,492	1,333	1,256	1,447
Development	1,453	1,243	1,385	1,461	1,607	1,294
Net domestic loans and equity	372	331	313	469	NA	NA
Foreign aid	890	1,113	1,761	918	NA	NA
Contribution to federal budget [a]	2,577	5,158	5,164	3,645	2,588	2,487
Foreign grants and loans on behalf of the federal government		909	774	604	NA	NA
Services on behalf of the federal government	1,329	1,984	2,393	2,328	NA	NA
Cash payment	1,249	2,265	1,996	713	NA	NA
Balance	625	1,971	670	155	−752	−406
Balance as percent of revenues	9.4	18.2	6.2	1.9	12.8	7.4

[a] Contributions can vary from the amount announced in the federal budget as Abu Dhabi makes up for other emirate contribution shortfalls.

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Table 4
Abu Dhabi: Government Development Expenditures, 1979-83

Million US $
(except where noted)

	1979	1980	1981	1982	1983	Percent of Total 1983
Total	**1,453.2**	**1,243.3**	**1,384.5**	**1,460.6**	**1,198.0**	**100**
Agriculture	13.3	26.4	52.9	47.7	58.3	5
Electricity and water	321.7	332.6	302.5	365.9	299.1	25
Industry	83.3	46.4	29.5	19.5	6.0	NEGL
Transport and communications	237.8	244.2	260.6	263.7	231.5	19
Housing and public building	122.1	110.6	138.0	113.0	54.8	5
Urban development	200.9	208.4	301.2	391.0	340.5	28
Sewerage	138.3	117.2	124.0	93.5	76.5	6
Sports and recreation	107.8	97.5	123.8	119.2	90.4	8
General administration	13.4	20.8	37.1	37.9	30.5	3
Commerce	54.9	39.2	15.0	9.2	10.0	1
Education [a]	4.7					
Health [a]	90.7					
Other [a]	64.3					

[a] Development spending for health, education, and other items was transferred from the Abu Dhabi budget to the federal budget in 1980.

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