Economic and Business Analysis: United Arab Emirates

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Summary

The United Arab Emirates has grown immensely in the past 30 years. The two largest of the country's seven sheikhdoms, Abu Dhabi and Dubai, account for 80% of the country's GDP[1]. Abu Dhabi, the larger of the two, has transformed from a largely barren land of nomads into the second-largest oil exporter (per capita) in the world[2] in 40 years. Dubai was a sleepy fishing village as recently as World War II, but today has the world's tallest building and is constructing the world's largest port. The rapidity of the region's growth—and the problems it now faces—can be understood through the UAE's Relational Model (RM) configuration: 70% Authority Ranking (AR), 15% Market Pricing (MP), 5% Equality Matching (EM), and 10% Communal Sharing (CS).

Relational Model analysis

Alan Fiske's Relational Model Theory (RMT) describes four elementary ways that cultures implement their social systems[3]. Authority Ranking, in which people "have asymmetric positions in a linear hierarchy," dominates the UAE's RM configuration. Market Pricing, in which "relationships are oriented to socially-meaningful ratios such as prices [or] cost-benefit analysis," makes up substantially less of the RM configuration, though more so today than in the past. Communal Sharing, in which "people treat each other as equivalent," may seem like a significant part of the RM configuration, but we argue that the UAE communities evincing CS (and MP) characteristics cleave along class and ethnic lines, reinforcing, rather than challenging, the AR component.

AR pervades the UAE's cultural makeup. UAE President Khalifa bin Zayid al-Nuhayyan is absolute ruler of Abu Dhabi, and directly or through his family owns most of his sheikhdom's property. Vice President Muhammad bin Rashid al-Maktum rules Dubai, and also heads the family that owns (through Dubai World) most of the property there. The men are cousins, tracing their ancestry and their legitimacy back to the prophet Mohammad. Only Emirati may hold offices of power or have significant financial control in the country; and most of these leaders are related to each other and to the ruling families. The UAE has a legislature and a judiciary, but neither wields any true power. Within each sheikhdom, the sheikh's word is law.

Members of the Royal Family also respect the hierarchy. Sheikh Sultan al Qassemi, a member of the ruling family in next-door Sharjah, only half-joked in a presentation to our class that he feared losing

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[1] Country Profile: UAE, July 2007. Library of Congress, Federal Research Division. Retrieved 3 January 2010.
[2] Country Comparison: Oil – Exports. CIA Factbook. retrieved 4 January 2009; also "OPEC Revenues Fact Sheet," Dept. of Energy, retrieved 4 January 2009.
[3] The remainder of this analysis assumes that the reader is familiar with Fiske's theory.

his passport should his criticisms of Dubai offend either Sheikh Muhammad or President Khalifa. In AR cultures, this kind of obedience to authority is a principal characteristic in the social influence domain, which al Qassemi, a product of the culture, has internalized.

AR also manifests in the way people display their relationships with others, both personally and symbolically. Monumental architecture is the most obvious and public facet of this. The desire to have the biggest, the best, and the most impressive buildings comes from a desire to demonstrate authority and power. History provides examples: the Egyptian Pharaohs constructing ever bigger tombs than their predecessors; the *moai* of Easter Island; even the competition between New York and Chicago in the late 19th and early 20th centuries to build the world's tallest buildings.

Today, Dubai has the world's tallest building, the 828 m (2,717 ft.) Burj Khalifa[4]. The structure's immensity demonstrates to the world that Dubai matters; the authority Sheikh Muhammad wielded to get it built testifies to his personal power; and the new name, conferred at its January 4th opening, lets everyone—including Sheikh Muhammad—understand that Sheikh Khalifa wields the most power in the UAE[5]. This is not to say that a culture configured towards Community Sharing would never contemplate such an ostentatious display, or an Equality Matching culture would find the whole project too individualistic and unfair. But Dubai's AR configuration allowed the project to proceed without waiting to build consensus or find equality.

Sheikh Muhammad clearly wants the benefits of MP cultures for Dubai. The Burj Khalifa project, along with all the other commercial real estate development, is a highly visible part of his vision to make Dubai the financial and commercial hub of the Middle East. In special areas like the Jebel Ali Free Trade Zone and the International Financial Center, Dubai has opened up to Western commerce, going so far as to import British law (and British judges) for the benefit of some foreign-owned companies.

At the same time, the Burj Khalifa has few (if any) tenants, and the city as a whole has a commercial vacancy rate around 40%[6]. Dubai's ongoing commercial real estate disaster has already caused a near-default on $26 billion in loans and a subsequent $10 billion bailout from Abu Dhabi[7]. Market Pricing cultures do experience market bubbles like this, when spikes in demand encourage investors to create excess supply. But in MP cultures, investors create the oversupply in *response* to the demand. Dubai's oversupply, in contrast, came from Sheikh Muhammad's personal efforts to *create* demand where no demand existed before. It was, in short, an AR way of creating an MP environment.

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[4] It is perhaps ironic that the Burj Khalifa's principal architect was formerly a partner in the Chicago office of Skidmore, Owings & Merrill, which designed the two tallest buildings in the western hemisphere: Chicago's Willis Tower and Trump International Tower.

[5] "With a blast of fireworks, Dubai opens world's tallest skyscraper, topping 2,717 feet," Adam Schreck, Associated Press, in *Chicago Tribune* 5 January 2010.

[6] "Dubai real estate is the real desert," Greg Burns, *Chicago Tribune* blog "Burns on Business," 5 January 2010. Also of note: "The Burj Dubai and architecture's vacant stare," Christopher Hawthorne, *Los Angeles Times* blog "Culture Monster," 1 January 2010.

[7] "A second life," *The Economist*, 17 December 2009.

Certainly, the professional class in Dubai have a more MP worldview. The mostly-foreign, highly-skilled professionals who live and work in the city have made rational choices to do so based on personal cost-benefit analyses. They stay only as long as it's worth it, in most cases only a few years. Since almost all businesses require 51% Emirati ownership, and since getting a government job depends on historical family connections rather than one's *curriculum vitae*, there is an absolute limit to the reach of MP culture.

At the highest and lowest levels of UAE society one can also find clear CS characteristics. Islam teaches that all Muslims are equal before Allah. In the UAE, any member of the faith can go to any mosque and pray. The ruling Emirati minority provides its members jobs, houses, some income, some status. Equality Matching also appears in the culture: Emirati of all levels traditionally wear the simple *dishdasha* (دشداشة), to show their equality with one another.

The migrant workers at the other end of the power continuum have food and shelter provided, in some cases, by the government, with some anecdotal evidence that people within the communities share and pool resources as in truly CS cultures. This not only comes from the CS and EM characteristics of Islam, which preaches that the wealthy must share with others less fortunate. It also comes from the AR culture, particularly in the reciprocal exchange ("superiors have pastoral responsibility to provide for inferiors") and contribution ("*noblesse oblige*: superiors give beneficently") domains.

The UAE shows some signs of conflict between these RM configurations. Whatever Abu Dhabi may think of its authority over Dubai, or Dubai's foray in to MP culture, its motivation for bailing out Dubai World may also have come from its EM characteristics. If so, they would expect something in return, to make the deal equal between them. Since the governments of both sheikhdoms have remained quiet about most aspects of the bailout, it's hard to know for sure.

RM configuration antecedents

Both Abu Dhabi and Dubai developed out of nomadic Bedouin fishing cultures dating back millennia. Bedouin culture emphasizes familial bonds, with hierarchies and loyalties dependent on degrees of kinship: "I and my brothers against my cousins; I and my brothers and cousins against the world."[8] Surviving the hostile desert environments of the Arabian Peninsula and the Sahara required discipline amid frightening uncertainty. Clear lines of authority minimized ambiguity and provided comfort. This hierarchical way of thinking exists even in the name of the UAE's principal ethnic group, the Emirati: the Arabic word *emir* (أمير) means "commander."[9]

The British occupied the area until 1961, but without setting up colonies as they had in other parts of the world. This left the Bedouin culture much the same as it had always been. But in 1966, prospectors discovered oil in Dubai and Abu Dhabi, bringing enormous wealth into the region after oil exports started in 1969[10]. This only intensified the country's AR characteristics. The immense

[8] "Bedouin," Wikipedia, retrieved 5 January 2010.
[9] "Emirati," Wikipedia, retrieved 5 January 2010.
[10] "Dubai Economic Analysis," Bank of America Corporation (Merrill Lynch), December 2009.

wealth earned through oil exports flowed through the ruling families outward, consolidating their power. When the country unified in 1971, its constitution formalized the existing power relationships, and set up the institutions to enforce them.

It soon became apparent that Dubai had only a small fraction of the country's oil reserves. The ruling family realized that future economic success required diversification, so starting in the 1980s and accelerating in the 1990s, they pushed for broader commercial development.

Economic opportunities and challenges

The last two months have exposed the fragility of Dubai's economy, and the extent to which the sheikhdom depends on its larger and wealthier neighbor, Abu Dhabi. The collapse of Dubai's commercial real estate market also demonstrated the dangers of trying to create a market-pricing economy in an authority-ranking culture. Abu Dhabi's reaction to Dubai's difficulties has simultaneously illuminated this tension and increased it.

Dubai's model rested on its ruler's assumption that business thrives in free and open environments. The government adopted a *laissez-faire* approach to most commercial dealings, and allowed foreign firms to invest with minimal regulation. However, the regulations that do exist have combined with some features of Dubai's AR configuration to produce economic instability. Formation of a free market relies on a whole-hearted respect of property rights and contract enforcements. In fact, the dominant AR configuration in the UAE endangers the fundamental elements of the free market and is slowing down MP development.

Businesses operate in Dubai free from many of the regulations that North American and European firms follow, for good or ill, but the requirement of 51% local ownership, *sharia* law, and the Muslim prohibition on lending at interest make foreign firms reluctant to invest permanently. This has led to an economy based more on extraction than production. Further, the AR reluctance to criticize leaders and its restricted flows of information (people higher up have more information but don't necessarily share it sideways or down; saving face is paramount for leaders) makes it hard to prevent problems from becoming crises. Our own CCMBA experience bears this out: on the day its CEO assured our class that business couldn't be better, Dubai World prepared its announcement of the likelihood of a massive debt default.

Dubai has, and continues to build, a comprehensive modern infrastructure. They have the opportunity to make Sheikh Muhammad's vision real. But the cultural context as of the larger UAE and of its strongly AR culture, this represents a real challenge of leadership.

Leadership opportunities and challenges

Direct foreign investment

Abu Dhabi's bailout has complicated Dubai's economic environment, as part of the price seems to have been a return to more conservative (that is, more AR) way of doing business. Companies from MP cultures such as the U.S. or U.K. will see compliance with stricter rules as a cost, rather than as a moral duty. For example, they may have to provide additional bonuses and perks to get their most-

qualified staff, many of whom are women, to spend several years in a country that severely curtails their freedoms.

Businesses from MP cultures seek to reduce risk in other ways to predict and enhance their returns on investment. To this end, European civil law and Anglo-American common law both have institutions that make business law very predictable. In AR cultures like the UAE, however, individuals have the power to decide cases *a priori,* sometimes based on family connections, side deals, or whim, which makes business deals much more risky from an MP-cultural perspective.

A U.S. company used to the streamlined, transparent, and above all *impersonal* dispute resolutions available in Delaware or New York may find itself in an expensive legal procedure in which the opposing party is a relative of an influential member of government[11]. To some U.S. companies, this risk alone argues against long-term investment. The closer the UAE can nurture (or allow Dubai to nurture) institutions that make the region more "MP friendly," like common-law courts and institutional protections for foreign property interests, the more FDI it will attract.

UAE investments abroad

DP World's public-relations fiasco following its 2006 purchase of P&O exemplifies the problems UAE companies face when investing in MP-culture businesses. In an AR culture, leaders personally negotiate a deal, and everyone else goes along. It would be unthinkable for the legislature of Dubai to block such a large and valuable arrangement, especially after all the right people had agreed to it. Yet the U.S. Senate, controlled by the president's own party and against the president's wishes, blocked DP World from operating U.S. ports.

UAE companies investing in MP countries need to remember that multiple constituencies have stakes in every transaction, and each of these groups will ask, "What's in it for us?"

Conclusion

Authority Ranking accounts for nearly all of the UAE's Relational Model configuration. The direct application of power common to AR cultures allows the UAE to act quickly and decisively, and to realize its leaders' broad visions of the future. At the same time, its strong AR culture prevents its leaders from hearing valuable information, and inhibits foreign investment because of the risk firms from MP cultures may perceive of arbitrary expropriation. Finally, a shortage of local talent limits the UAE's future opportunities. Its leaders should spend more on nurturing local talent and less on commercial property development in the long term.

If the UAE's leadership can resolve this tension to the satisfaction of their foreign partners, the region has tremendous growth opportunities in the future. But because of its strongly-AR cultural configuration, the government's credibility is critical. Their actions over the past few months have not been reassuring.

[11] The American idea "It's nothing personal; it's just business" makes no sense to an Emirati. *All* business is personal in non-MP cultures.

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