Dubai’s socio-economic transformation between 1998 and 2008: the case of a rentier, developmental and competition state hybrid model

PA Thompson
University of Seychelles
sacar.d.c@gmail.com

ABSTRACT

This article explores the relations between socio-economic development in modern Dubai with reference to a rentier developmental and competition state (RDC) hybrid model. A recent academic study on Dubai has shown that there is a positive correlation between the city’s rapid socio-economic modernisation or transformation and a multipronged paradigmatic approach to development. Similar to other countries, the semi-autonomous city state of Dubai has used various ecosystems of integrated development plans to dictate the pace and direction of the city’s development trajectory. The conclusion drawn in this paper is that there is no one path to development; the government of Dubai is cognisant of that and has thus used the capacity and resources of the state to transform the once impoverished and marginalised sheikhdom into a ‘commoditised’ prosperous city-corporate entity within a short period of time.

Keywords: rentier, developmental and competition state, Dubai Strategic Plan, hybrid model

1 INTRODUCTION

Dubai has developed a pragmatic approach to poverty alleviation and development; this post-hydrocarbon city state has had to reorient itself in such a way that it was able to effectively embrace the process and benefits of economic globalisation. This in addition to the fact that the United Arab Emirates’ (UAE’) second most important Islamic principality of the seven had been experiencing dwindling hydrocarbon reserves. In 1996 it was estimated by 2010 the city would have run out of oil reserves, thus the government of Dubai adopted an eclectic and pragmatic approach to state-led socio-economic development. The development strategy and model that has unfolded in recent years in Dubai reflect the geopolitical landscape of the region, socio-cultural history, its demographic makeup, the development agenda, size and political tenacity of the
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emirate and, most importantly, its history prior to the post-Pax Britannica period. The epistemic developmentalism ethos or agenda of Dubai is not merely about encountering development, but instead about sustaining socio-economic development for its citizens for many generations to come.

The subnational government of Dubai, following neither the Washington Consensus prognosis (in its totality) nor the Santiago Consensus, has opened itself to the question: what development paradigm or paradigms are being embraced in the city state? In response to this question, this article argues that Dubai’s socio-economic development achievements cannot be pigeonholed into any one development paradigm, but instead represents a hybridisation of theories.


There are several approaches which can be attempted to explain the rapid socio-economic development of the UAE and Dubai (one of the seven emirates that comprise the federation of the UAE) in particular. This paper adopts the central premise that the theoretical framework of Dubai’s development as a city state cannot be limited or be pigeonholed into one of the mainstream development paradigms, but instead is an admixture of three approaches. The chosen theoretical concepts of rentier and competition states are derived from international political economy (Cerny 2000), whilst the theory of developmental states emanates from development studies and international sociology (Abe 2006:6) as the appropriate barometers by which to gauge and situate this paper.

This paper draws on the pioneering works of Hussein Mahdavy (1970) who first coined the phrase the ‘rentier state’ which was subsequently used by Beblawi and Luciani (1987), Luciani (1990) and Yates (1996). The rentier state theory describes ‘a state reliant not on extraction of the domestic population’s surplus production but on externally generated revenues, or rents, such as those derived from oil’ (Anderson 1990 cited in Kuru 2002:52). Johnson (1982), Deyo (1987), Woo-Cummings (1999), Amsden (1989), Wade (1990) and Evans (1995) have collectively brought the concept of a developmental state into prominence as a theoretical developmental construct. According to scholars such as Johnson and others a developmental state is said to exist when the state possesses the vision, leadership and capacity to bring about a positive transformation of society within a condensed period of time (Fritz & Menocal 2007:533). This developmental state theoretical construct is ‘positioned between a liberal open economy model and a centrally planned model [which] suggests its being neither capitalist nor socialist in texture’ (Bolesta 2007:106). Cerny (2004) and Cerny & Evans (2000), were instrumental in developing the heuristic theory of the competition state, which refers to ‘the transformation of the state in consequence of elite perceptions of the imperatives of globalization’ (Evans & Lunt 2010:1).

Paradoxically, the competition state deviates from and negates the Washington Consensus’s neoliberal prescription of a minimal state. Instead Cerny (2007:251) notes that in most cases there is an ‘actual expansion of de facto state intervention and regulation in the name of competitiveness and marketization’. Thus, the theoretical or conceptual framework for analysing the socio-economic development strategies of Dubai over the period 1998–2008 is
part of a broader framework for explaining a possible development model as there is no single development model, but instead a seeming hybridisation of models.

3 OVERVIEW OF DUBAI'S SOCIO-ECONOMIC TRAJECTORY

In the social and economic landscape of the 21st century:

the UAE is by many standards a contented place. Its citizens, who account for less than a fifth of the country’s 8.2m residents, are among the most pampered globally. The population enjoys generally a cradle-to-grave welfare; lavished by the oil-rich state and the advantage of what has long been the Gulf’s most open and tolerant way of life (The Economist 2011).

It is worthwhile to note that the UAE in general and Dubai in particular were not always that prosperous. Walters, Kadragic and Walters (2006:78) recount that:

as late as 1950, Dubai was a city of huts and unpaved streets. In 1970, literacy rates hovered just above 20 percent. Only a fraction of the mothers of today’s college students had graduated from high school, and that fraction was only slightly higher for their fathers.

At the turn of the 20th century, Dubai was on the periphery of the global economic system. Its politics were at best tribal, patriarchal and authoritarian, coupled with an economy that was supported by trading, pearling and primary products. Pacione (2005:255) remarked that ‘over a period of half a century the city state of Dubai has progressed from pre-industrial to industrial to a post-industrial status. Change is evident in the economic, social and cultural characteristics of the city and, most visibly, in the scale, pace and nature of urban development’. The socio-economic landscape of Dubai irreversibly changed when ‘the pearl trade took a beating during the Wall Street crash of 1929, and secondly when oil was discovered in 1966’ (Nyarko 2010:6). The discovery of oil in Dubai created a new socio-political economy in the emirate, when the once sleepy and underdeveloped sandy village ushered in a new wave of transformative socio-economic activities. The then ruler of the tiny Islamic sheikhdom ‘Sheikh Rashid Bin Saeed Al-Maktoum used the proceeds from oil to invest in institutions, physical infrastructure, schools and hospitals with the vision of enhancing Dubai’s socio-economic development’ (Salem 2010).

The sociology and politics of development in the sheikhdom of Dubai ‘from its inception, has been considered by its rulers as an economic tool before anything else: hence the term “Dubai Enterprise”, attached to it from the days of late Sheikh Rasheed (reigned 1959–1990). Dubai has always been seen as a profit-making business’ (Lavergne 2006:263). The Dubai Inc hybrid model of state-led development has shown that the ‘sanctity of’ (Chang 2004:26) development does not lie totally in the hands of the private sector or those of a ‘minimalist state’ (ibid: 26). It has now been well discussed within the annals of development discourse that the sheikhdom of Dubai has evolved over the last decade as a glaring example of what a state-led capitalistic approach to development can achieve. The socio-economic transformation of the city state has been achieved partially by interlocking of the country’s tribal neo-patrimonial form of socio-political system with a modern bureaucratic structure. The epistemology and historicity of socio-economic underdevelopment in the Emirate is unlike a number of other nation states, as the city did not bridge its development gap or deficiency through a process of primitive accumulation.
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The dirigiste-minded ruling elites in the city used rent extraction from oil production and other non-traditional sources to hasten Dubai’s entry into the global political economy.

The period examined in the study, 1998–2008, was marked by heightened intensive socio-economic planning (as reflected in the emirate’s macro-economic indicators) by the government of Dubai. In late 1996, Dubai announced its first ambitious strategic development plan called ‘Into the 21st century’ that included US$12 billion worth of projects to bolster the non-fossil fuel sectors of the economy. Further comprehensive planning are encapsulated in Vision 2010 and the Dubai Strategic Plan (DSP) 2015, which seek to achieve organised, integrated and holistic social and economic development. These strategic plans represent a catalytic or a holistic roadmap for the socio-economic development of the city or what I refer to as the ‘Arabian Falcon’. Collectively, Dubaï’s strategic plans can be described as being:

 evidência based policy-making, that essentially use statistics and other sources of information to highlight issues, inform programme design, policy choice, forecast the future, monitor policy implementation and evaluate policy impact (UNDP 2007:1–2).

The political economy of Dubai’s development plans is an offshoot of the combined typology of development paradigms which form the theoretical framework of this paper which is positioned as the rentier developmental and competition (RDC) hybrid model. The fundamental imperatives of the DSPs are influenced by the city’s ‘catch-up’ developmental agenda and developmentalist tendencies.

4 DUBAI’S RENTIER DEVELOPMENTAL AND COMPETITION HYBRID MODEL

4.1 Embedded rentierism

The canonical literature on rentier states and the ‘resource curse’ by Ross (1999), Karl (1997) and others, has shown that oil and gas exporting countries have demonstrated a tendency to become authoritarian as is the case in Dubai, albeit benevolently so. The epistemic perspective of such authoritarianism has its roots in genealogy as noted by Hunter and Malik (2005:148–149) as a:

 rentier-state is financially independent from the society, and is politically autonomous…. therefore it does not need to obtain political legitimacy through democratic representation; and that a rentier state inherits its political order from history and does not create their own.

Financial independence of the Dubai subnational state is due in part to the following: first, the sheikhdom being constitutionally embedded into the rentier federal state of the UAE, secondly, Dubai derives a stream of revenue from its dwindling reserve of hydrocarbon, and thirdly the increasing financial surplus generated from the emirate’s large pool commercially oriented government-related entities (GREs). Dubai, and her sister emirates, are governed by a monarchical authoritarian regime that practices dynastic succession and is in the process of creating its own political order and history, given that it did not inherit a colonial state per se from the British when self-governance was achieved in 1971.
The overarching tentacles of the rather pervasive Dubai state have been extended to be the prime benefactor of its highly dependent or rent-seeking/rentier-mentality citizens. The citizenry through constitutional provisions are the recipients of heavily subsidised petrol, food items, housing loans, electricity, water, marriage grants, land, healthcare and free education. The paternalistic-distributive or rentier nature of Dubai has changed the conventional or traditional role of this semi-autonomous state. The state has become preoccupied with building both its external rent extraction and distribution capacity, which essentially is used to buy off political loyalty and legitimacy that ultimately reinforces political authoritarianism. In the UAE and Dubai in particular, oil and non-oil external rents have relieved both federal and local governments from the need to impose taxes on its citizens. In concert with the rentier or allocation thesis, the bureaucracy has used different social and welfare mechanisms to generously redistribute substantial resources that have accrued directly to the state. Table 1 below provides a snapshot of the distributive nature of this oil-rich society.

**Table 1.0 UAE: Current government expenditures by emirates in AED millions**

<table>
<thead>
<tr>
<th>Emirates</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Abu Dhabi</td>
<td>10 778</td>
<td>6 590</td>
<td>7 272</td>
<td>13 836</td>
<td>23 066</td>
<td>23 748</td>
<td>N/A</td>
</tr>
<tr>
<td>Dubai</td>
<td>888</td>
<td>1 008</td>
<td>1 207</td>
<td>1 469</td>
<td>2 103</td>
<td>4 906</td>
<td>7 582</td>
</tr>
<tr>
<td>Sharjah</td>
<td>42</td>
<td>45</td>
<td>63</td>
<td>120</td>
<td>134</td>
<td>1535</td>
<td>N/A</td>
</tr>
</tbody>
</table>

Source: IMF (2007); IMF (2009); IMF (2011)

From the aggregation of historical expenditure on social services and welfare as shown in table 1, Dubai spent almost AED 20 billion or US$5.438 billion on social services and welfare on the less than one million Emiratis (local population) between 2002 and 2007. Huge windfall profits from oil revenues and other sources of non-traditional rent are being used to finance the rentier structures in Dubai and the UAE in general.

Theoretically and typically in rentier states, there is no taxation coupled with the lack of effective and functional civil societies that prevent the imposition of checks and balances on these states. A careful analysis of Dubai’s political economy and in particular its state-society relationship reveals that there is a lack of either civic or political opposing forces. In other words, the state-society relations in Dubai lack the ‘golden triangle’ matrix of state, citizens and society. Instead, it is an admixture of the traditional and hereditary mode of political governance. This is supported by a modern constitution that legitimates the use of coercive state power, accompanied by its responsibilities and the rights of citizens. Gramsci’s hegemonic concept may be used to describe the state vis-à-vis the societal relations in Dubai in which the state uses its consolidated power to display hegemonic power over the society. The resultant effect is the creation of a weak society that is not able to articulate its ideological aspirations. The post-Pax Britannica state is linked to the society not by ideological rhetoric, but instead to a large extent by religion, culture and language. It may also be argued that Dubai’s state-society relationship has been fossilised since 1971 ‘into an authoritarian regime with strong bureaucratic capacity’ (Zhao 2001:9) and
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an extensive patron-client relationship that invariably diffuses any opposition to the legitimacy of autocratic monarchical rule.

4.2 Developmental state

An epistemological evaluation of Dubai’s macro-economic framework and development trajectory provides a mirror image or the embodiment of a benevolent autocratic developmental state. This statement is made against the background that city state’s economic architecture that strategically straddles the neoliberalism paradigm on the right and state-centric developmentalism on the political left. Dubai’s statist and interventionist ‘developmentalism’ ethos, policies and approach have been well integrated and articulated in the development plans of the DSP 1996, Vision 2010 and DSP 2015. With key socio-economic targets in mind, the emirate has been able to effectively marshal the external economic rent and investment funds from the international capital market that are needed to achieve macro-economic objectives contained in the emirate’s development plans. Economic growth patterns of the city between 1998 and 2008 are depicted in table 2.

Table 2: Timeline of fiscal years (1998-2008) (millions of UAE Dirhams)

<table>
<thead>
<tr>
<th>Year</th>
<th>1998</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dubai</td>
<td>45,918</td>
<td>62,335</td>
<td>70,033</td>
<td>81,281</td>
<td>98,923</td>
<td>140,200</td>
<td>168,779</td>
<td>226,513</td>
<td>302</td>
</tr>
<tr>
<td>Sharjah</td>
<td>16,803</td>
<td>21,380</td>
<td>24,842</td>
<td>28,795</td>
<td>35,393</td>
<td>35,718</td>
<td>42,837</td>
<td>68,463</td>
<td></td>
</tr>
</tbody>
</table>


The almost fivefold expansion in Dubai’s gross domestic product between 1998 and 2008 shown in table 2 did not occur without a developmental commitment among state elites, by mere wishful thinking nor did it occur in isolation, but instead was due to a combination of economic and political factors. The macro-economic, geo-economic and political factors fuelling the growth spurt in the city state included the:

government[’s] massive investment in infrastructure which boosted economic activities, increased private investment, availability of cheap capital and few capital controls, and the availability of relatively cheap labour from neighbouring Arab countries and the Indian sub-continent (Dubai Chamber of Commerce and Industry 2010:1).

Dubai’s strategic developmental plans emphasise high rates of economic growth (the improvement in all macro-economic variables) and the internationalisation of domestic policies and services. The primacy and politics of development in the emirate of Dubai conforms to the conventional theory that a developmental state is ‘one whose ideological underpinnings is fundamentally “developmentalist”, as its major preoccupation is to ensure sustained economic growth and development on the back of high rates of capital accumulation’ (Mkandawire 2001: 291). The growing ecosystems of free zones and other spatial development initiatives designed and implemented by the city’s plethora of GREs, typifies the developmentalist nature or ideology of the semi-autonomous state of Dubai.
The ontological status of Dubai’s political economy and socio-economic development is, quintessentially, characterised by “a “strong state” that enjoys what Evans (1995) has famously termed “embedded autonomy” from social forces that might otherwise dissuade it from the use of its capacity to design and implement policies that are in its long-term interest’ (Castells 1992 & Myrdal 1968, cited in Mkandawire 2001:290). Emblematically, the federal government acts as a social and political anchor that prevents bureaucratic elites within the emirate of Dubai from using its embedded autonomy in a predatory manner. This positions Dubai as displaying features of a developmental state that is deeply immersed in a religious, historical, cultural and commercial network of alliances that pursue non-ideological socio-economic development.

The pervasive spread of neoliberal dogma and globalisation has not stymied the capacity of the state in Dubai. The city state has taken full advantage of globalisation, transient skilled and unskilled labour and information technology to transform the fledgling post-Pax Britannica state and morph it into a strong, modern, bureaucratic and authoritarian service-oriented state. Similarly, it is potently narrated in developmental state literature that there is a strong correlation between a successful developmental state and a competent state, be it autocratic or democratic. The state-led developmental model and the culture of Dubai is one that engenders a doctrine or philosophy of urgency and pragmatic enunciation as an approach to national development goals. It is with this in mind Boukhars (2011:156) commented that in ‘recent years the small emirate of Dubai emerged as the poster city-state for all those theorists and policy-makers who believe that autocracies are best positioned to build up state capacity (the sequential argument) and elevate their countries from underdevelopment and backwardness (developmental state)’.

The importance of a competent state which is needed for the formulation and implementation of the emirate’s developmentalist agenda, which forms the basis of the city state’s development strategies mentioned earlier, is not lost on the Dubai government. Afshin Molavo, writing for Newsweek International, noted that the state apparatuses in Dubai and elsewhere in the region ‘are not sinecures for tea-sipping bureaucrats, they rather attract top talent’ (Molvao 2007). These top talents are drawn from what Boås and McNeill (2004) along with Cox (1987) call the ‘transnational managerial class’, in conjunction with what Sklair (2001) describes as the ‘globalizing bureaucrats’. In view of the above statements, the Dubai state displays some special characteristics in terms of its capacity to transcend the Weberian model of bureaucracy in order to take advantage of the benefits of its strategic locality. It is important to note that whilst the Dubai state embraces the traditional custodian role as an enforcer of rules, legislation and regulations, it has also taken on midwife and producer roles. As a midwife the state assists in the attraction of multinational corporations and/or foreign direct investments and its role as a producer, the state has shifted from being minimalist to one that is at the epicentre of the economy providing various types of goods and services via its GREs. The abovementioned activities are fundamental features of a developmental state.

4.3 Competition state

The competition state orthodoxy can be used to some degree to explain the Dubai Inc model of economic transformation and experimentation with a hybrid of overlapping development paradigms. An important corollary of the competition state development paradigm is a fundamental
shift from macro-economic to micro-economic policy prescriptions and instruments. The socio-political, religious and cultural history of the federal state of the UAE and Dubai in particular dictates that public policy focuses on micro-economic intervention policies in tandem with its macro-economic objectives. This becomes particularly important if the emirate’s development strategies and objectives embodied in DSPs of 1996, 2010 and 2015 were and are to be achieved. It is also of significance to note that Dubai is obliged, out of necessity, to focus on micro-economic policies as a development strategy, given that it has ceded its fiscal and monetary policy planning authority to the federal government by virtue of being a member of the seven-emirate federation.

The growing number of a complicated web of GREs in Dubai is not dissimilar to the Communist Party of the Soviet Union, which in 1990 according to Kagarlitsky (cited in Moore 2001:40), ‘was the biggest entrepreneur in the economy. They develop and speculate in property, own ports around the world, own and operate free zones, own and finance commercial activities and operate hotels’. This carefully crafted policy of state capitalism, which amounts to state intervention, has been used by the Dubai government as a ‘new path to prosperity’ (Wittchen 2011). The bureaucratic-authoritarian state through its GREs adopted a corporatist approach to rapid economic development which intrinsically endorses significant features of the neoliberal paradigm or free-market capitalism. The pervasive codification of state institutions and commercial activism of the state has led Maurer (2010) to note the following about the Dubai state:

the state’s investments run through three holding companies: Dubai Holding, Dubai World, and the Investment Corporation of Dubai (ICD). Sheikh Maktoum directly owns Dubai Holding, while the latter two are formally owned by the Government of Dubai … of whom Sheikh Maktoum is the absolute ruler. All three holding companies have real estate arms charged with developing land granted to them by the emirate. ICD’s Emaar Properties developed the Burj Khalifa, while Nakheel created the offshore Palm and World developments on reclaimed land.

As with other competition states, the government of Dubai is an activist state that has become a major investor in a number of local and international companies. This is emblematic of the city’s use of public policy to be an entrepreneurial state for developmental reasons. Essentially, this was necessitated by the need to finance the rentier structures of the emirate. Also, the sociology of Dubai’s development plans and reality evokes the need for more state involvement and not less as means of compensating for the small indigenous private sector companies at the local level and simultaneously deleveraging the power of transnational corporations in the economy.

In Dubai, the social security of the wider expatriate community or guest workers and their resident families ‘is subordinated to the economic needs of international competitiveness’ (Kirby & Murphy 2007:9) by private sector actors in the economy. According to literature on the topic, this is a generic feature of the competition states. The same does not apply to the Emirati citizens who are protected by social welfare provisions, created by the federal government, which are deeply entrenched in Articles 16, 17, and 19 of the Constitution. The provision of public services is provided to non-citizen residents on a free-market, commercial basis; in the parlance of the World Bank, public services are provided to migrants on a ‘user-fee basis’.
The federal government of the UAE, including Dubai, has embarked on massive policy shifts through a process of labour market reforms. This involves the nationalisation of the domestic labour market, ‘in order to decrease “welfare recipients’” dependence on the state’ (Kirby & Murphy 2009:10). Empirical work carried out by Abdullah & Nicholson (2009) reveals that:

Local ICT companies receive no financial or technical assistance from the government. They compete with MNCs [multinational corporations] to hire knowledge workers and have limited access to educational and training systems. Unemployment is high among young nationals, particularly among the female population.

These items represent a few of the clearest indicators that Dubai demonstrates features of a competition state as articulated in the competition state literature by Cerny (2004, 2007), Evans and Lunt (2010) and Soederberg (2010).

5 CONCLUSION

The government of Dubai used a typology of unique development strategies that transcend any single conventional development paradigm to attack the ills of underdevelopment that were prevalent during the era of the presence of Europeans and in the immediate period of their departure from the former Trucial states. The implementation of the hybrid model posited in this paper aims to fundamentally prevent what McNamara (1980) cited by Keeton (1984:290) calls the ‘self-perpetuating plight of the absolute poor that tended to cut them off from economic progress that has taken place in other societies’. Furthermore, these policies and strategies have propelled Dubai into one of the world’s preeminent commercial hubs thereby quintessentially proving that the hybrid approach to exploring Dubai’s developmental path is appropriate. This sufficiently analyses the emirate’s developmental goals and efforts which are contrary to ‘the “official” doctrine of the World Bank’s neo-classical policies of deregulation, privatization, central bank independence, independent judiciary, and dismantling of the welfare state’ (Kim 2009:384). The abundance of development theories globally in vogue indicate that there is no single development theory that may be regarded as the panacea to the provision of solutions to the ills of absolute poverty and underdevelopment.

NOTES

1 For 2005 it includes AED6.2 billion that the government of Abu Dhabi contributed to its pension fund.
2 Excludes water and electricity, which are settled in an off-budget account.

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IMF see International Monetary Fund.


UNDP see United Nations Development Plan.


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