DUBAI: AN EXEMPLAR OF STATE CAPITALISM

One of the most important developments in the post-Britannica era of the sheikhdom of Dubai (UAE) is the emergence of state capitalism as an alternative to liberal capitalism. The dynastic socio-political structures of Dubai and other Gulf states make them susceptible to a statist model of economic development. The government led by Sheikh Al-Maktoum has not confined itself merely to a regulatory or facilitator role in the economy. But instead, through a raft of Government Related Entities (GREs) and Sovereign Wealth Fund, the city has become the epitome of state-led development and capital accumulation. In this article, the author narrates how Dubai has emerged as an exemplar of contemporary state capitalism in the Gulf Cooperation Council (GCC), even though there is a blurred line between the assets owned by the ruling family and that of the state.

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TURKISH POLICY QUARTERLY
Summer 2016

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The world of development theories does not appear to make sense "because if it did, Dubai would be: miserable, poor, and suffering from the 'oil curse' syndrome or theory."[1] On the contrary, from a comparative perspective, no other Middle East city has been more economically dynamic in recent years than Dubai until it was hit hard by the global financial crisis of 2008-09. From an impoverished, insignificant socio-political entity, "Dubai from the late 19th and 20th centuries has metamorphosed from little more than a fishing and pearl diving base into a global financial and trading hub."[2] An examination of dependency, neo-liberalism, and oil curse theories would characterize the rapid socio-economic transformation of Dubai as an aberration or exceptional case that should never be a candidate for economic success. This is due in part to the fact that the city's political economy is deeply immersed in a socio-economic development model that is state-led, state-centric, and features a deeply embedded system of state-sponsored patronage.

Though observers and the authorities insist that Dubai (UAE) is a custodian of liberal free market capitalism, many authors are of the view that this proclamation is ideologically misleading. This article argues that Dubai has emerged as a quintessential exemplar of a new brand of authoritarian state capitalism supported by state-owned/co-owned profit-driven entities. A distinguishing feature of state capitalism in Dubai revolves around the fact that government related entities (GREs) do not exist on the margins of the economy, and/or are they scattered within a predominantly private capitalist system. Instead, these entities have taken on a "mid-wifery" role in the economy, which means these entities facilitate the emergence nor shifting of commercial activities into new areas which are believed to be conducive to national development. I would like to frame my analysis in four thematic dimensions: contextualizing state capitalism, providing insight into the Dubai Inc. model, analyzing the role of Dubai's GREs, and recapitulating the issues raised in the article.

Contextualizing State Capitalism

The practice of contemporary capitalism in Dubai has much to say about the Emirate's history and the spread of global capitalism. Literature on the historicity of social and economic development in the Middle East shows that the state has always occupied center stage in Arabian political economy. This has led to a question of epistemological importance, which is whether or not the government of Dubai's increased ubiquitous and omnipotent presence in the local economy since the 1990s constitutes state capitalism. By way of definition, state capitalism from a historical perspective, is defined by C.L.R James in his book *State Capitalism and World*

[1] Jonathan Wight, "Public Policy, Human Instincts, and Economic Growth," *Independent Review,* Vol. 15, No. 3, (2011), p. 351.

[2] Christopher Davidson, *Dubai: The Vulnerability of Success* (New York: Columbia University Press, 2008), p. 9.

Revolution as a "system in which the state assumes the functions of capital and the workers remain exploited proletarians."[3] A major criticism of James' definition, similar to others such as that of W. Baer et al., is that the definition does not adequately distinguish itself from the typology of capitalist systems. It also lacks specificity in terms of a minimum quantifiable level of state intervention and/or ownership of the economy. Noted writer on the concept, Ian Bremmer provides a more contemporary definition "…state capitalism is a system in which the state functions as the leading economic actor and uses markets primarily for political gain."[4] It is important to note that Bremmer's definition should not be regarded as a repudiation of earlier definitions, but instead the encapsulation of issues of state ownership, intervention, and clearly stratified tenets of state capitalism.

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Sheikh al-Maktoum, along with his next of kin and close confidants, have moved the city in the direction of a corporate entity under the unbranded banner of state capitalism. The corporatist approach pursued by the government of Dubai/ruling family was necessitated by compelling internal socio-political, economic, and regional geopolitical imperatives. Such factors include: (i) the creation of a post-oil economy in light of dwindling hydro-carbon reserves, which persuaded the authorities to focus intently on a process of creating a *dirgiste* state from the 1990s onwards (ii) the Emirate of Dubai is categorized as a *minority state*, given that "nationals" consist of only 20 percent of the city's population and an even smaller indigenous private sector. Thus, state capitalism is essentially one way of compensating for a small indigenous private sector while simultaneously de-leveraging the hegemonic power of transnational corporations in the post-Britannica economy.

Autocratic state capitalism in Dubai disproves what Adam Smith claimed two centuries ago when he said that "capitalism would be promoted only through the presence of competing actors who would optimize economic resource allocation 'as if by an invisible hand' of the market."[5] Instead, what has emerged is the visible hand of the state that acts as an owner, supervisor, manager regulator, referee, and creditor all at the same time. State capitalism in Dubai and elsewhere in the region

[3] C.L.R James, *State Capitalism and World Revolution* (Chicago: Charles H. Kerr Publishing Company,1950)
[4] Ian Bremmer, "State Capitalism Comes of Age," *Foreign Affairs*, May/June 2009, http://www.foreignaffairs.com
[5] Alissa Amico, "The 'invisible hand' of the state in MENA economies," *Washington Post*, 4 March 2015, http://www.washingtonpost.com/blogs/monkey-cage/wp/2015/03/04/the-limits-of-privatization-in-the-middle-east)/

cannot and should not be viewed or analyzed within the annals of regional political economy and/or development discourse as a political ideology, but instead as a development strategy.

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Dubai Inc. State Capitalist Model

When Sheikh Mohammed Bin Rashid al-Maktoum officially took over as ruler of Dubai and Vice-President of the UAE from his brother in 2006, the transition laid the foundation for the intensification of a hybrid variant model of soft autocratic state capitalism in the Emirates. It is argued by scholars and observers that Dubai's Inc. model of autocratic state capitalism represents a one-man political dream or agenda. Be that as it may, similar to the political transition that took place in 2006, there was a fundamental shift in the Emirates' business-state relationship and by extension a reconfiguration of Dubai Inc.'s political economy. The term Dubai Inc. has emerged recently with reference to "Dubai's network of commercial companies and investment arms owned directly by or related closely to the Ruler of Dubai, his family, or the government of Dubai (GD)."[6] The conglomerate of government-related entities in the city are owned by these three large holding companies: (i) Dubai Holding (Owned by the Ruler of Dubai), (ii) Dubai World, and (iii) Investment Corporation of Dubai. As a conglomerate, Dubai World is owned exclusively by the Dubai Government. Its portfolio of shareholdings/ownership includes Nahkeel Properties, Dubai dry docks, Dubai Port World, Dubai Maritime City, and Jabel Ali Free Zone and financial institutions. The ICD is 100 percent owned by the government of Dubai, whose primary functions include acting as an agency that collects, administer, and invests government assets. Dubai Holding is owned by His Highness Sheikh Mohammed ruler of Dubai. This conglomerate represents his personal financial fiefdom and has investment in a wide array of economic sectors including real estate, hospitality, and financial services. A Moody's Report in 2008 states that "Dubai World and Dubai Holding have a greater resemblance to real corporations."[7]

Dubai, or rather the Sheik Mohammed-inspired model of state capitalism, is characterized by a "hybridized" "spectrum of state intervention/ownership: Leviathan

[6] "United Arab Emirates: 2009 Article IV Consultation—Staff Report; Public Information Notice; and Statement by the Executive Director for United Arab Emirates." *International Monetary Fund,* February 2010, https://www.imf.org/external/pubs/ft/scr/2010/cr1042.pdf

[7] See Moody's Report. *Global Corporate Finance Demystifying Dubai Inc.: A Guide to Dubai's Corporatist Model & Moody's Assessment of its Rising Leverage Report* (2008).

is a sole, majority investor or minority investor in almost every facet of economic activity locally and internationally."[8] This has given rise to a complex system of interlocking ownership, investment vehicles, and shareholdings of assets across various sectors in the economy. With such complexity, the thorny issue of the conflation of or inseparability of the state's own assets and that of the ruling family created confusion in 2009 when many GREs, including Dubai Port World, were unable to make payments on their international and domestically denominated debts. The following example illustrates the complexity of the intertwined ownership of assets in the city; Bourse Dubai is owned by ICD, the Dubai Government, and Dubai Holding at ratios of 60 percent, 20 percent, and 20 percent, respectively.[9] In this case, the state, Sheikh Mohammed conglomerate, and a state-owned holding company were co-owners of Bourse Dubai. The interlocking ownership of Dubai Inc. blurs the line between the ruling family assets and that of the state and is run by a small handful of individuals who are key members of Dubai's political inner circles and close associates of the ruler.

"Dubai is a sort of financial mirage or sub-prime in the desert creating an artificial economy dependent on borrowed capital."

In unpacking the role of the state in Dubai, we see that GREs in Dubai are not unlike the Communist Party of the Soviet Union, which in 1990 was "the biggest entrepreneur in the economy developing and speculating in property; owning ports around the world; owning and operating free zones; owning and financing commercial activities and operating hotels."[10] The impetus behind such extensive involvement in the economy is explained in an OECD report which notes that "in Gulf states including Dubai, GREs and SWFs are used as key levers of industrial and economic competitiveness."[11] Comparatively speaking, Dubai's hybrid model of state capitalism is substantively different from that which prevailed in Syria and Egypt during the 1950s and 1960s respectively, in that ruling elites in the Emirates chose not to pursue a strategy of nationalization, import substitution and heavy-handed state/ruling family intervention, but instead it has been outward looking and created sheikdom champions. A question of ideological and paradigmatic importance

[8] Aldo Musacchio and Sérgio G. Lazzarini, *Reinventing State Capitalism*, (London: Harvard University Press, 2014), pp. 2-3.

[9] Karim Kamal, "Dubai World debt restructuring will hit its economy, but the ripples across the region may be short-lived," *GCC Research Note,* 10 December 2009, http://www.kuwait.nbk.com/InvestmentAndBrokerage/ResearchandReports/$Document/GCCResearchNote/en-gb/MainCopy/$UserFiles/GCCResearchNote20091210%20(1).pdf

[10] David Moore, *International Political Economy* (University of Port Elizabeth: Port Elizabeth, 2001), p. 40.

[11] "State-Owned Enterprises in the Middle East and North Africa: Engines of Development and Competitiveness?" *OECD*, 21 October 2013, http://dx.doi.org/10.1787/9789264202979-en

> *"Structuralists have emphasized that imperialism turned the Middle East into a periphery of the Western-dominated world system."*

has arisen in terms of how sustainable Dubai's model of state/royal capitalism is. The conflation between state and personal assets – in addition to insufficient fiscal control over GREs – poses a serious risk to the sustainability of Dubai's model of state-led capitalism as we saw in 2008-09. This model cannot be replicated in the GCC in its entirety, especially given that these societies are not economically homogeneous, and with the exception of Bahrain, the other GCC societies remain essentially petro-states. What this model has taught the GCC, notwithstanding its inherent weaknesses, is that state capitalism can be a success and a government does not have to subscribe to the doctrine of a minimalist state or the so-called 10 commandments of the "Washington Consensus."[12]

Financing the Dubai Inc. Capitalist Model

Dubai is not unlike other developing states or quasi-states confronted with the difficult task of financing its own socio-economic development agenda. As far back as the 1950s, Sheikh Rashid al-Maktoum, a former ruler of the Emirate of Dubai, borrowed 400,000 pounds from Kuwait to dredge the city's creek in Bur Dubai, one of the oldest and historical trading districts in the city. This represented the beginning of the debt development financing model or the "mortgaging" of the city. Dubai's array of GREs have drawn extensively on debt financing amongst other sources including "portfolio investments (FDI), capital markets, and royalties and other transfers."[13] Some observers such as Bornstein-Botz, a prolific writer on Dubai holds the view that "Dubai is a sort of financial mirage or sub-prime in the desert creating an artificial economy dependent on borrowed capital."[14] The policy of leveraging private sources of financing for development projects has tripled Dubai's debt stocks (domestic and foreign) during the period 2000-2008 to almost 100 percent of GDP."[15]

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[12] The term was first coined in 1989 by John Williamson which consists of a list of the so-called Ten Commandments. These 10 commandments include: Fiscal discipline, privatization, deregulations, property rights, trade liberalization, liberalizing interest rates, competitive interest rates, tax reform, reordering public expenditures and liberalization of inward foreign direct investment.

[13] "Financing for Development Post-2015," *World Bank*, October 2013, https://www.worldbank.org/content/dam/Worldbank/document/Poverty%20documents/WB-PREM%20financing-for-development-pub-10-11-13web.pdf

[14] Thorsten Bornstein-Botz, "A Tale of Two Cities: Hong Kong and Dubai Celebration of Disappearance and the Pretension of Becoming," *Transcience*, Vol. 3, No. 2 (2012), p. 4, http://www2.hu-berlin.de/transcience/Vol3_Issue2_2012_1_16.pdf

[15] "United Arab Emirates: 2011 Article IV Consultation—Staff Report; Staff Supplement; Public Information Notice on the Executive Board Discussion," *International Monetary Fund*, May 2011, http://www.imf.org/external/pubs/ft/scr/2011/cr11111.pdf

Dubai's debt problem was exacerbated by the borrowing appetite of the constitutive elements that comprise Dubai Inc.; namely Dubai World, Investment Corporation of Dubai (DIC), and Dubai Holding. Collectively, these three holding companies account for over 77 percent of government and GREs debt stocks. This is demonstrative of the catalytic role played by Dubai state holding companies (SOHCs) in transforming Dubai's economic landscape. The point must be made that this scenario of excessive debt financing for development projects is not unique to Dubai or other Gulf sheikhdoms. However, the fundamental point of departure lies in the fact that it has pursued a deliberately crafted strategy of debt financing for its infrastructure projects, corporate entities, free zones, and port facilities locally and in other countries.

Role of Government Related Entities

As government owned businesses, GREs are required as a platform to assist the state or the royal palace in achieving targeted developmental imperatives. Operationally these entities are "tri-focal" in nature, which implies a combination of economic, socio-political imperatives as well as reshaping the unequal global balance of power.

Economic Perspective

GREs in the UAE, including Dubai, have always played a vital role in the economy and are instrumental in the sheikhdom's rapid economic development and diversification.[16] If we take for example, the period between 1990 and 2008, Dubai's Gross Domestic Product (GDP) rose from 45,918 United Arab Emirates dirham (AED) to 302 million AED, representing double digit increases over that period. This is due in part to the fact that, the policies of the Dubai Government and other GCC States have relied on non-petroleum, profit-oriented GREs to support and drive economic expansion. GREs in the Emirate were mandated to become the central foci of the city's 1996, 2010, and 2015 strategic and urban development plans.

If one were to look at the Dubai Strategic Plan of 2015, which is the most comprehensive of the previous two, it signaled a new and emboldened socio-economic trajectory and ethos by the government. Dubai's two big State Owned Holding Companies (SOHCs) and an array of subsidiaries were tasked with the unenviable responsibility of assisting the public bureaucracy in achieving the following predetermined performance indicators:

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[16] "United Arab Emirates: Staff Report for the 2012 Article IV Consultation," *International Monetary Fund*, May 2012, https://www.imf.org/external/pubs/ft/scr/2012/cr12116.pdf

- 11 percent annual growth in real GDP, increasing per capita income to 44,000 dollars
- Raising the share of high-skilled jobs in the economy from 20 percent to 25 percent, to be achieved between the present time and 2015
- Achieving the GDP growth target which will double Dubai's GDP to 108 billion dollars in 2015 from 54 billion dollars in 2007
- Design and implement mega-infrastructural, commercial, and residential projects

In addition to the above targeted performance indicators, GREs in Dubai also contribute to the treasury with sufficient and additional non-oil revenues that will continue to relieve the state of the need to tax Emirati citizens and allow for the continued provision of cradle to grave state patronage. From a macro-economic framework perspective, GREs in Dubai have become the conduit through which the government led by Sheikh Mohammed can channel resources towards achieving his developmental goals for the society.

Socio-Political Perspective

GREs in Dubai are apparently not established purely to provide strategic goods and services to the minority Emirati population, and implement government led megaprojects, such as the Burj Khalifa or the Mohammed Bin Rashid Al-Maktoum City. Thus, in this section of the article, two interlocking propositions are being advanced. The first proposition is that as a socio-political decision, GREs in the sheikhdom have been ring-fenced to play a pivotal role in further entrenching and sustaining the soft despotic legitimacy of the ruling Al-Maktoum family, "the city's monolithic source of power."[17] The dynastic political structures in Dubai and other GCC states, are underpinned and sustained by a system labelled the *dimuqratiyyatal-Khubz,* Arabic for "the democracy of bread." Translated politically, the standard modus operandi of the government of Dubai and other Gulf states has been the "trade-off approach," or a tacit social contract in which the ruling family/state uses patronage derived from oil and non-oil revenue to buy off loyalty and legitimacy from the citizenry. The distribution of state patronage from non-oil activities generated from GREs such as Emirates Airlines and Emaar Properties have consolidated the culture of political passivism.

The second interlocking proposition is that operationally, GREs in the GCC and Dubai in particular are being used as a part of a broader citizen empowerment policy directive. State-owned entities or GREs in "MENA and Dubai in particular play an

[17] Vishu Padayachee, "*The Development Decade?: Economic and Social Change in South Africa, 1994-2004*," (Cape Town: HRSC Press, 2006), p. 22.

important developmental role in training the national manpower, which the local private sector is not willing or capable of undertaking."[18] This is due in part to negative perceptions and stereotyping of the local Emirati work ethic which has led to their partial exclusion from some segments of the private sector labor market. The epistemic perspectives of the Emirati work ethic hinges on the premise that Emiratis are neither serious nor loyal to any particular private sector organization. This is increasingly urgent "given the growing level of unemployment among local Emirati population."[19] The position here is that GREs have become the metonym of human resource development and socio-cultural empowerment in the city. Thus, the current web of state-owned entities in Dubai has been effectively used to empower the Emirati population by co-opting them directly into these entities and by extension the city's labor market, which is highly stratified based on race/ethnicity and cost.

> *"The pervasive presence of state-owned entities and the state itself in the sheikhdom have contributed significantly to its exponential economic growth."*

New Path from the Periphery

Structuralists have emphasized that the Middle East – once an independent civilization – was, under imperialism, turned into a periphery of the Western-dominated world system.[20] The sheikhdom of Dubai was not unlike many Middle East and developing countries at the turn of the 20th century in terms of being on the periphery of the eurocentric or Western hegemonic economic global construct. The limited political emancipation in Dubai is reflected in the continuity of asymmetrical or unequal core-periphery power relations even after administrative withdrawal of the British from the former Trucial States. The argument that is being made here is that the government of Dubai is using GREs and its geostrategic location to integrate itself into the international political economy via internationalization of the state or the royal palace. Examples of such internationalization of the state are Dubai Ports World (DPW), which is owned by the Government of Dubai, and in 2006 was involved in the takeover of the London headquartered P&O, beating Singapore-based rivals PSA, which was also interested in acquiring P&O.[21] Along with Emirates Airlines, SWF, and Dubai International Financial Centre, the government of Dubai is, in tandem with the indigenous capitalist class, shifting the

[18] Jean-Francois Seznec and Kirk Mimi Ed, *Industrialization in the Gulf: A Socioeconomic Revolution,* (London & New York: Routledge 2011), p. 21.

[19] Seznec and Mimi, p. 21.

[20] Richard Hinnebusch, *The International Politics of the Middle East.* (Manchester: Manchester University Press, 2003), p. 17.

[21] John Mangan and Chandra Lalwani, "Port-centric logistics," *The International Journal of Logistics Management*, Vol. 19, No. 1 (2008), p. 29 – 4.1

contours of consumption, distribution and production of the regional economy, and to a large extent, aspects of the advanced core capitalist economies.

Guided by a judicious combination of state capitalism policies and free market tendencies, government-related entities in Dubai represent a pathway from the global political and economic periphery without the government having to institute democratic values. Essentially, they fulfil the purpose of preventing Dubai from backsliding into the socio-economic periphery. GREs are instruments of Sheikh Mohammed's regional and international supremacy ambitions and quest to make "Dubai amongst the world's chief financial and trading centers such as Hong Kong, Singapore and Frankfurt, and he believes that Dubai is on the road to becoming such."[22] Essentially, the ruling elites in the tiny quasi-state of Dubai are endeavoring to redraw the global balance of soft power or the power hierarchy through its national and international commercial champions, such as the Dubai International Financial Center.

The system of state capitalism in Dubai "is not exclusively one that systematically and continuously promotes the accumulation of capital."[23] But instead, it allows the city to shed itself of "the feeling of entrapment in the triangle of past dispossession, 'peripherialization' and future uncertainty."[24]

Dubai's Evolution of State Capitalism

Starting from a position of underdevelopment in the post-Britannica era in 1971, Dubai has been able to "catch-up" through a typology of direct state involvement and interventionist developmental policies and strategies. The city-state of Dubai has been able to defy economic literature by avoiding the rentier theory curse syndrome. Prior to the advent of the global financial crisis (GFC) of 2008-09, the Emirate was touted as an economic miracle and was the quintessential representation and embodiment of the ideals and aspirations of citizens in the Arab world. The Dubai miracle with all its shortcomings (in terms of labor abuses, lack of political pluralism, and an over reliance on an external capitalist class) contradicts the theoretical grandstanding by the apostles of a minimalist state or a minimum state intervention in the economy. The public bureaucracy in the Sheikhdom has demonstrated that the sanctity of development does not fully lie in the hands of the private sector nor does it have to fall within the realm of the Washington Consensus or the "minimalist state"

[22] Pranay Gupte, *Dubai: The Making of a Megapolis*. (New Delhi: Penguin Group 2011), p. 156.

[23] David Lane, "From Chaotic to State-led Capitalism," *New Political Economy,* Vol. 13, No. 2 (2008), p. 177-184.

[24] Firat Oruc Firat, "Kaleidoscopic Sovereignty: Literary Montage and Geopolitical Entanglement in the Postcolonial 1960s," *Postcolonial Text*, Vol. 8, No. 1 (2013), p. 1-12.

doctrine. The pervasive presence of state-owned entities and the state itself in the sheikhdom have contributed significantly to its exponential economic growth, not only through the process of non-threating facilitation, but by becoming the economy's chief capitalist. Dubai's GREs and sovereign wealth fund, which have become economic fortresses in the city, have saved Dubai's domestic economy from a path of underdevelopment and have helped the political elites reinforce their legitimacy through state patronage.