CHAPTER III
The United Arab Emirates' economy depends on a single depletable resource -- petroleum, which accounts for nearly 80 per cent of the country's total export earnings and 85 per cent of government's revenue receipts. Earnings from oil exports not only account for bulk of UAE's national income but work as fuel for the entire economy.¹

In terms of its geography and demography, the UAE is one of the small states in the world. Its total area is 77,700 sq. km and, in 1994, its population has increased to 2,230,000 from 1,622,464 at the time of the 1985 census. Of the total population, only 20 percent are the UAE nationals and the rest comprises Iranians and immigrants from the Indian subcontinent.

The total length of the coast line of the seven emirates is 650 km (400 miles) and stretches from Oman to Khor al-Odaiid on the Qatari peninsula in the Persian Gulf. Six of the emirates are on the Persian Gulf coast,

while the seventh (Fujairah) is located on the eastern coast and has direct access to the Gulf of Oman. The sea around the UAE is shallow and its coast is punctuated by offshore islands, coral reefs, sand-banks and small gulfs. The waters of the Gulf contain abundant quantities of fish.\footnote{2}

According to estimates made in 1991, about 6,89,500 persons were gainfully employed. Of this, 6.3 per cent were engaged in the agriculture and allied activities as against 21 per cent in 1965, 30.9 per cent in industry (32 per cent in 1965) and 62.8 per cent in services (47 per cent in 1965).\footnote{3} UAE's per capita gross national product (GNP) stood at US $ 21,430 in 1993.\footnote{4} The country has been classified by both the World Bank and the United Nations Development Programme (UNDP) as a High-Income Country.\footnote{5} In fact, only Israel, Kuwait and Qatar are termed as high-income countries in the Middle East.


\footnote{3}{The role played by the immigrants in the economic activity of the country can not be underestimated. In 1968 UAE nationals comprised about 90 per cent of the population; by 1973 their proportion had dropped to 50 percent and by 1980 to 27 percent, see S. N. Asad Rizvi, "From Tent to High Rise: Economic Development of the United Arab Emirates", Middle Eastern studies (London), Vol. 29, no. 4, 1993, p. 667. Another unique feature of demography is that as per 1985 census, males account for 65 per cent of the total population which is a result of large immigration that is indispensable for sustaining the economic growth, see Middle East and North Africa 1995 (London, 1996), p. 998.}

\footnote{4}{Human Development Report, 1996, United Nations Development Programme, OUP, New Delhi.}

\footnote{5}{The UNDP classifies countries above US $ 8, 625 GNP per capita as High-Income Countries; Middle-Income Countries with $ 696 to $ 8, 625, and Low-Income Countries with less than $ 695 GNP per capita, see Human Development Report 1996 (New York, 1996), p. 226. However, the World Bank classifies countries into four categories -- high income (GNP per capita $ 8, 956 and above), upper-middle income ($ 2, 896 to $ 8, 955), lower-middle income ($ 726 to $ 2, 895) and low income ($ 725 or less). But the UAE falls into high income group, see From Plan To Market: World Development Report 1996 (New York, 1996), p. 239.}
As evident from the table, the economic profile of UAE is singularly dominated by export earnings. Exports continue to account for almost 65 per cent of its national income. If imports and exports are taken together, it is seen that the total trade volume is even higher than the country's national income. This peculiarity stems from the fact that bulk of the economic activities in the country is organised around one exportable, namely oil, whereas to meet the domestic...
demand for other goods and services UAE has to substantially depend on imports. However, in recent years concerted efforts on the part of the federal government has seen a gradual change taking place in this regard. Not only that the newer items, other than petroleum and petroleum products, are making their presence felt in the Country’s export basket, but the traditional dependence on import of certain items of basic needs such as food is also declining as policy initiatives to achieve self sufficiency in select areas are being earnestly taken up. This aspect finds further elaboration in later parts of this chapter.

The emirates are extremely wealthy now, in striking contrast to the poverty of only a few decades ago. Individual emirates enjoy considerable autonomy in economic affairs and they rarely make public their budgets. Every member has its unique characteristics:

Abu Dhabi, oil rich, Dubai (is) a great trading centre, Ras al-Khaimah (is) a green exception to the sandy norm, Sharjah (is) living on the memory of past glories and Ummal-Quwain has a fish hatchery and Ajman has a small ship repair yard.

The five small emirates mostly depend on the federal aid that comes from the big and richest emirate of Abu Dhabi and partly from Dubai. Building on the wealth created by

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6 Article 3 of the Provisional Constitution of the UAE has granted member-emirates the sovereignty on their “territorial lands and waters in all matters which do not fall within the domain of union”.

petroleum trade, the UAE has been developing the infrastructure base. Abu Dhabi has developed hydrocarbon industry which earned massive revenue for the emirate. The income from this sector peaked to more than $ 20 billion in 1980 pushing up the per capita income of the entire UAE. ⁸

Dubai, with its long tradition of entrepot trade, has relatively small oil reserves but it developed non-petroleum industry to a great extent. ⁹ Before the discovery of oil, one of the attractions of the country for the outside world was the pearl trade. However, pearl trade had been badly affected by the great depression of the 1930s and by the entry into the market of the Japanese cultured pearls.

The UAE’s economy and its impact on the federation is discussed in the following sections: I) Agriculture, II) Petroleum Industry, III) Developmental Planning, IV) Finance and Investment, which are followed by Conclusions.

AGRICULTURE

Historically, agriculture in the entire Gulf was based on 'nomadic pastoralism', and there has been some oasis cultivation on the east coast and at Liwa, Dhaid, al-Ain and Falaj al-Mualla. However, with the technical

assistance provided by the Food and Agricultural Organisation (FAO), UAE has been able to improve its farm sector to such an extent that it could impose a ban on the imports of those food items in which the country is self-sufficient. The FAO established an agricultural experimental station at Digdagga in Ras al-Khaimah in 1955 with the intention to help the country to enhance its food security.

Though contribution of agriculture to gross domestic product (GDP) has increased six fold, its sectoral share still remains at a low of 2.5 per cent of GDP, according the latest figures available for 1994. By 2000 the country is expected to attain 100 per cent self-sufficiency in wheat and 95 per cent in fish.

According to news reports, the UAE has attained 80 per cent self-sufficiency in dairy products and 75 per cent in poultry -- a remarkable achievement made possible by the federal Ministry of Agriculture and Fisheries. As much 60 per cent of the demand for eggs is met out of domestic production. Tables II and III show the volume of farm products in the UAE.\textsuperscript{10}

\textsuperscript{10} Khaleej Times (Dubai), July 25, 1996.
TABLE: II
PRINCIPAL CROPS
(000 metric tons)

<table>
<thead>
<tr>
<th>Cereals</th>
<th>1992</th>
<th>1993</th>
<th>1994</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tomatoes</td>
<td>125</td>
<td>178</td>
<td>243</td>
</tr>
<tr>
<td>Cucumbers and gherkins</td>
<td>12</td>
<td>13</td>
<td>13</td>
</tr>
<tr>
<td>Aubergines</td>
<td>60</td>
<td>63</td>
<td>67</td>
</tr>
<tr>
<td>Green chillies and pepper</td>
<td>9</td>
<td>8</td>
<td>6</td>
</tr>
<tr>
<td>Water melons</td>
<td>4</td>
<td>4</td>
<td>6</td>
</tr>
<tr>
<td>Melons</td>
<td>5</td>
<td>8</td>
<td>10</td>
</tr>
<tr>
<td>Dates</td>
<td>205</td>
<td>236</td>
<td>240</td>
</tr>
<tr>
<td>Tobacco (leaves)</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
</tbody>
</table>


Intensive farming holds the key to the record increase -- 200 per cent in the decade following the formation of the federation -- in UAE’s agricultural output. Rainfed agriculture is impossible on account of harsh climatic conditions. Only 2 per cent of the water requirements for agriculture comes from the ancient underground falaj system and the rest comes from wells. Agriculture uses nearly 75 per cent of the country’s usable water resources and leading to the depletion of acquifers at an alarming pace.11

As Malcolm C. Peck notes, various agricultural projects employ sophisticated, state-of-the-art techniques. Another project with the assistance of the University of Arizona produces a variety of fruits and

11 Peck, n. 5, p. 108.
vegetables in an artificially controlled environment. Peck gives credit to the federal government for this success: "The federal government's commitment to promoting the nation's agriculture is evident in its annual budgetary allotment, now close to $50 million a year". The country exports the surplus supply of fruits and dates to many neighbouring countries. Strawberries from UAE even reach up to supermarkets in England."

<table>
<thead>
<tr>
<th>TABLE: III</th>
</tr>
</thead>
<tbody>
<tr>
<td>LIVESTOCK</td>
</tr>
<tr>
<td>(000 head)</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>1992</td>
</tr>
<tr>
<td>Cattle</td>
</tr>
<tr>
<td>Camels</td>
</tr>
<tr>
<td>Sheep</td>
</tr>
<tr>
<td>Goats</td>
</tr>
</tbody>
</table>


The federal Ministry of Agriculture and Fisheries has been successful in achieving co-ordination among different regions. It is committed to develop both the human and technological resources needed to create a modern farm sector. The country has been divided into four agricultural areas which maintain agricultural training centres to provide farmers with advanced

\[77-657^n\]

12 Ibid., p. 104.

13 Alan Taylor, "Staking Out a Place of Their Own". The Middle East (London). Number 186, April 1990, p. 33.
techniques and scientific information. More than 200 demonstration farms are in existence.\textsuperscript{14}

Having achieved internal cooperation in the federation, the UAE has also set its sight on regional cooperation as a strategy to realise its developmental and security goals. Though it was mainly created to serve the security interests of the Gulf states, the Gulf Cooperation Council (GCC) has been active in other areas too. For example, the GCC Ministers of Agriculture have adopted a comprehensive plan entitled, \textit{The Joint Agricultural Policy for the Arab States of the Gulf Cooperation Council}. The plan "seeks to supplement and support local efforts at growth in agricultural production, optimum use of available water resources and self-sufficiency in food. The GCC has decided to co-ordinate its agricultural plans and policies with the Arab Organisation of Agricultural Development. In a related area, there have been occasional pronouncements on the need to create a strategic food reserve. In the context of the threat of supply disruptions such a reserve would serve as a good insurance".\textsuperscript{15}


PETROLEUM INDUSTRY

Oil exploration began in various parts of the Trucial states in the 1930s when a consortium of foreign oil companies decided that Abu Dhabi held out good prospects. A number of agreements had been concluded between these companies and Abu Dhabi to carry out the explorations. The most important agreement was undertaken by Petroleum Concessions Ltd which was later on, after two decades, restructured as the Abu Dhabi Petroleum Company (ADPC). ADPC was subsequently granted exploration rights for the whole of onshore and parts of offshore activities. It discovered the first commercially viable reserves at Bab in 1958. However, a huge field offshore at Zakum had finally put Abu Dhabi on the world oil map. In 1967, the Organisation of Petroleum Exporting Countries (OPEC) had admitted Abu Dhabi as its ninth member. Later, in 1974 Abu Dhabi’s membership was transferred to the UAE.\textsuperscript{16}

UAE is also a member of the Organisation of Arab Petroleum Exporting Countries (OAPEC).\textsuperscript{17} The OAPEC is primarily involved in promoting regional oil related projects as also overseeing the price and production profiles of its respective members. As a group, OAPEC has not only been an important source of oil but very militant, posing serious threat to the stable supplies.

\textsuperscript{16} The OPEC was established in 1960. It has now a membership of 13 countries: Algeria, Ecuador, Gabon, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, UAE and Venezuela, see \textit{OPEC Bulletin} (Vienna) Vol. XXV no. 4, April 1994, p. 30.

\textsuperscript{17} The OAPEC was set up in 1968 with the membership of three Arab countries: Saudi Arabia, Kuwait and Libya. Later, the following were admitted: Algeria, Bahrain, Qatar, UAE (1970), Iraq and Syria (1971).
Because, unlike the OPEC, the OAPEC has a political agenda and it never hesitated to use oil as a political weapon. So much so that many observers consider the latter to be a parallel organisation created to weaken the former.\textsuperscript{18}

Abu Dhabi started producing oil in 1962 followed by Dubai in 1967 and Sharjah in 1980s. As recently as 1983, Ras al-Khaimah’s first commercial oil discovery was made with initial production at 6,000 barrels per day which went later up to 10,000 barrels per day. Thus, four out of seven emirates possess oil reserves which provide the essential cushioning to the country’s economy.

The country’s proven oil reserves of 98.1 billion barrels account for around ten per cent of the total world reserves (and 12.9 per cent of reserves available with OPEC). According to some estimates, the total reserves of UAE may be in the range of 200 billion barrels. “The vast majority -- some 92 billion barrels or 94 per cent of the UAE’s total -- are concentrated in Abu Dhabi, a reserve-production ratio of well over 100 years”.\textsuperscript{19} Abu Dhabi also possesses 91.4 per cent of natural gas reserves of the UAE. Dubai has another 4 billion barrels of reserves in its four main offshore fields. Sharjah has some 1.5 billion barrels of mostly condensate reserves, while Ras al-Khaimah’s total


\textsuperscript{19} The prospects of further oil discovery are bright for Abu Dhabi. Ibid., p. 34.
reserves are estimated to be around 400 million barrels.\(^{20}\)

Oil dominates the economy as well as the polity of UAE and as regards UAE, Abu Dhabi dominates the oil policies. Between 1971 and 1980, the country's economy registered about 25 fold growth -- the period between 1973 and 1976 being witnessed to one of the fastest economic expansions.\(^{21}\) During this period, the public sector grew at an annual rate of 72 per cent. The second half of the 1970s faced retrenchment and the mid-1980s witnessed the impact of a recession. It was natural that quota policies of OPEC have had adverse impact on the oil revenues of the UAE. The 'oil shock' of the 1970s and the 'oil glut' of the 1980s have, in different ways, led to the decline of OPEC as an effective group of suppliers. As Sreedhar records:

By late 1980s and early 1990s with a glut in the international crude oil market, and security of the ruling elite of the oil producing countries in Islamic world, becoming an issue of paramount importance, the inter-dependent relationship between producers and consumers got converted into the oil producers becoming totally dependent on the latter.\(^{22}\)

\(^{20}\) Ibid.

\(^{21}\) "In January 1973, the price per a barrel of oil was $ 2.37. A year later, it zoomed to $ 11.65 or five times of what obtained earlier. Six years later, it touched $ 30 (or 12.5 times the price in January 1973) per barrel", M. S. Agwani, Contemporary West Asia (New Delhi, 1995), p. 34. Middle East and North Africa 1995, n. 3, p. 999.

UAE has been well prepared to absorb any external shock stemming from fluctuations in the world oil markets. It demonstrated remarkable flexibility in order to adjust itself to new realities. For example, being the member of OPEC, only Abu Dhabi is bound by the Organisation's quota ceilings. But, Sharjah and Dubai can produce crude oil at whatever levels they prefer.  

<table>
<thead>
<tr>
<th>Table: IV</th>
</tr>
</thead>
<tbody>
<tr>
<td>VALUE OF OIL EXPORTS OF OPEC MEMBER COUNTRIES, 1970-1993</td>
</tr>
<tr>
<td>(millions of dollars)</td>
</tr>
<tr>
<td>Algeria</td>
</tr>
<tr>
<td>Gabon</td>
</tr>
<tr>
<td>Indonesia</td>
</tr>
<tr>
<td>Iran</td>
</tr>
<tr>
<td>Iraq</td>
</tr>
<tr>
<td>Kuwait</td>
</tr>
<tr>
<td>Libya</td>
</tr>
<tr>
<td>Nigeria</td>
</tr>
<tr>
<td>Qatar</td>
</tr>
<tr>
<td>Saudi Arabia</td>
</tr>
<tr>
<td>UAE</td>
</tr>
<tr>
<td>Venezuela</td>
</tr>
<tr>
<td>TOTAL</td>
</tr>
</tbody>
</table>


With a view to streamline the government's oil policies, the President of the federation had issued a

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23 Peck, n. 5, pp. 94-5.
decree proposing the abolition of the Department of Petroleum and the dissolution of the board of directors of the Abu Dhabi National Oil Co (ADNOC). A 11-member Council was appointed to discharge the responsibilities of the Department of Petroleum and the board of directors. The Council came to administer and supervise the country's petroleum affairs.24

With a small population, large financial reserves and sizable potential to produce oil, UAE is better placed to face any crisis in comparison to other members and remains in a position to play a major role in OPEC. Above all, Abu Dhabi has become the 'swing producer' in the country.

Oil has, no doubt, contributed to the unity of the federation, but failed to resolve traditional rivalries. Moreover, differences over production and pricing of oil led to serious controversies between Abu Dhabi and Dubai. They often accuse each other of subverting the OPEC quota system. It is clear that the constituent units of the UAE are finding it difficult to reduce their crude production within the limits set by the OPEC. One factor responsible for the lack of coordination among member emirates is the fact that the federal Constitution allows each emirate to pursue its own petroleum policies. The federal government can neither arrive at a consensus nor impose a compromise on the emirates. For example, Dubai always maintains that any OPEC proposal is addressed to Abu Dhabi and it does

not have to follow suit. Dubai does not publish its oil production or revenues.

At regional level, UAE tends to coordinate its oil policies with Saudi Arabia. That both the countries are locked in a prolonged border dispute does not come in the way of following common policies to optimise their interests. The UAE backs whatever proposal is mooted by Riyadh.

<table>
<thead>
<tr>
<th>OECD</th>
<th>Japan</th>
<th>W. Europe</th>
<th>US</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1128.7</td>
<td>222.7</td>
<td>90.5</td>
<td>1544.0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Developing Countries</th>
<th>Singapore</th>
<th>S. Korea</th>
<th>India</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>174.7</td>
<td>157.9</td>
<td>135.0</td>
<td>697.4</td>
</tr>
</tbody>
</table>

Note: Totals include other countries in the two groups.

The Gulf war of 1990-91 pushed up oil prices considerably benefitting the suppliers. But that boom having faded within a couple of years, the world oil prices have now reached a plateau. According to experts the low prices are likely to continue for at least a decade.
DEVELOPMENTAL PLANNING

There are wide-spread regional disparities within the UAE. Per capita GDP of Abu Dhabi is nearly five times more than that of Ras al-Khaimah. In fact, developmental planning is one area where the federal set-up is the weakest. And, Abu Dhabi’s annual budget is more than the budget of the entire federation. As a result, all developmental activities invariably depend on the resources transferred by Abu Dhabi and Dubai, the second richest emirate.

Relations between Abu Dhabi and Dubai, the corner stones of the federation, are generally cordial and cooperative. But there are inevitable differences between the emirates -- one owns one of the world’s largest reservoirs of oil and accommodates the bureaucracy of the federation. While the other aims to be a regional services centre. The two approaches are not always compatible.25

Until the early 1980s, all developmental expenditure came from the federal budget. The first decade of the federation was characterised by the lack of any long-term integrated economic planning. Because member-emirates had disagreed over the scope and purpose of a federal plan. "The sharp disparity in the wealth and resources of the different emirates and their rivalry in trying to attract federal development projects to their own area made it difficult to reach agreement over an integrated national

Only Abu Dhabi had had a brief experience with planning in the late 1970s. But, the absence of planning did not come in the way of improving social services.

<table>
<thead>
<tr>
<th>TABLE: VI</th>
<th>A COMPARISON OF VITAL STATISTICS OF THE GCC COUNTRIES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Life expectancy (years) (1993)</td>
<td>71.7</td>
</tr>
<tr>
<td>Real GDP per capita, (PPPS) (1993)</td>
<td>15,500</td>
</tr>
<tr>
<td>Adult literacy (%) (1993)</td>
<td>84.1</td>
</tr>
</tbody>
</table>

Percentage of Population with access to:

- Health (1985-95) | -- | 99 | -- | 100 | 97 | 96 |
- Water (1990-95)  | -- | 95 | -- | -- | 95 | 63 |
- Sanitation (1990-95) | -- | 77 | -- | -- | 86 | 78 |

Square brackets [ ] indicate rankings of the 1996 Human Development Index (HDI) prepared by the United Nations Development programme (UNDP).


The first five year plan in UAE was initiated, with the assistance of a UN expert, for 1981-85. The plan outlay was distributed according to the following formula: Abu Dhabi-21 per cent; Fujairah-12.5; Sharjah-

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10.8; Ras al-Khaimah-9.4; Umm al-Qaiwan-7.7; Dubai-5.3; and Ajman-4.4. A substantial fall in oil incomes contributed to the failure of the first plan. Consequently, emirates have returned to their earlier approach of individual plans with federal aid.\(^{27}\)

The economic policy for development was guided mainly by the desire to diversify the economy so as to reduce its dependence on oil by increasing investment in industry and agriculture.\(^{28}\) The other goals of the plan were as follows:

1. Achievement of a balanced economic, social and cultural development in the country.
2. Providing support for the national economy and boosting its resources to realise self-reliance by utilising the accomplishments made in the country and diversifying activities.
3. Fulfillment of the country's national requirements in the field of social services.
4. Ensuring community welfare and social justice as one of the main goals of development by continuously increasing the living standards and consumption patterns.
5. Development of the national manpower.\(^{29}\)

\(^{27}\) *Middle East and North Africa 1995*, n. 3, p. 1009.

\(^{28}\) *Middle East Contemporary Survey, 1980-81*, n. 25, p. 505.

The UAE has made it a policy to make use of the GCC to achieve its policy goals. Being a donor to the GCC plan outlays rather than a recipient, UAE has been able to provide leadership to the developmental efforts of the Council. Along with other members, it agreed in April 1991 to establish a Gulf Development Fund (GDF), with a capital of $10,000 million for an initial ten-year period. The main purpose of the Fund is to aid the economically weak Gulf countries. It has also been decided to give priority to financing the private sector and the Fund’s activities would be incorporated into the World Bank and IMF programmes.

The GCC constituted an Economic and Social Planning Committee which adopted a comprehensive document -- The Objectives and Policies of Development Plans in the Arab States of the GCC. The document lays down broad principles and developmental plans in the sectors agreed upon.  

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30 Dietl, n. 14, p. 222.
The national currency, dirham (Dh), was created only in 1973. It replaced the Bahraini dinar and the Qatar/Dubai riyal which were in circulation until then. At present, one US dollar fetches Dh 3.671. The federation functioned without a strong central bank throughout the 1970s. The UAE Currency Board, also set up in 1973, performed the duties of a central bank to determine interest rates and exchange mechanisms. In December 1980, the UAE Central Bank was established in the place of the Board. Abu Dhabi and Dubai agreed to deposit a half of their respective revenues with the Central Bank. The new institution has performed well and brought about some order in the country’s financial and banking sector. For example, it severely restricted the mushrooming of foreign banks in the country.

In 1983, the Central Bank directed foreign banks operating in the country to restrict the number of their branches to eight. As a result, some of them became locally incorporated with UAE’s equity stake going up to as much as 60 per cent. Another reform the Bank introduced was to prescribe that no individual director of a bank should be allowed to take loans more than 5 per cent of the total lending of that bank. When Abd al-Wahab Galadari, the then chairman of the Union Bank of the Middle East, was found to have taken loans amounting 25 to 30 per cent of the total lending of the UBME, the Central Bank forced his resignation in 1983. This
precipitated the collapse of the UBME and the Central Bank intervened to settle depositors' grievances.\textsuperscript{31}

\begin{table}
\centering
\begin{tabular}{|c|c|c|}
\hline
 & 1993 & 1994 \\
\hline
Expenditure & 17,630 & 17,610 \\
\hline
Revenue & 15,900 & 16,200 \\
\hline
Deficit & 1,730 & 1,401 \\
\hline
\end{tabular}
\caption{Federal Budget (1993-94) (Dh million)}
\end{table}

Source: Middle East Economic Digest, Vol. 38(18), May 6, 1994, p.36.

However, the episode of the Bank of Credit and Commerce International (BCCI) which collapsed in 1991 has proved to be a disaster for the UAE in general and Abu Dhabi in particular. The federal President and the ruler of Abu Dhabi, Sheikh Zayed bin Sultan al-Nuhyan was a founder shareholder of the BCCI. The year prior to the ignominious collapse of the BCCI, President Zayed acquired 77 per cent stake in the bank with a view to extricate it from financial troubles. As part of his restructuring plans, the BCCI's headquarters was moved from London to Abu Dhabi. Abu Dhabi also took upon itself the task of compensating 35,000 private depositors to whom the bank owed $600 million. In August 1991 -- within a month after the collapse -- the Bank of Credit and

Commerce (Emirates) was renamed as the Union National Bank.

Finally, President Zayed's idealism to maintain a bank of international standards which would serve the interests of the Islamic countries as well as the developing world, was misused by the very people he trusted:

(President) Zayed was the biggest loser in the whole fiasco. The BCCI scandal not only marred the celebrations of his 25th anniversary of accession to the throne, but it was also, apparently, the largest single disaster in his 75 year life. While his integrity remained unimpeachable, Zayed had every reason to feel betrayed. He had been behind the bank since its inception in 1972 in person as well as in finance.32

Apart from the bottlenecks in banking sector, the UAE will have to address an issue of vital national importance. That is -- how it can sustain a high standard of living long after petroleum reserves are exhausted. By current estimates, oil reserves will last for at least a hundred years in Abu Dhabi. But the same is not true with other emirates with meagre oil reserves. So far the UAE's developmental strategy indicates that the country has realised this imperative and initiated measures to ensure sustainable and overall development.

Farzin, in a study carried out for the World Bank, argues that in order to maintain high living standards, the UAE must "make investments that yield sufficiently high rates of return".\footnote{Farzin, n. 1, p. 509.} His prescription that the country should adopt an active foreign investment strategy may be questionable. But, his stress on the need for the UAE to have a fairly long term diversified investment strategy can not be disputed.

Pant expresses a similar view that the UAE must reduce its dependence on oil:

However, oil being the leading sector of the economy facing price depression, UAE has to step up diversification of economy to accelerate the pace of its economy which has been growing relatively at slower rate.\footnote{Girijesh Pant, The Arab Gulf Economies: From Crisis to Reform (New Delhi, 1996), p. 157.}
CONCLUSION

The economic imperative has been the strongest for the seven emirates to come together as a federation. In a way, this is more important than the security factor because in case of an external aggression, like the one Iraq committed on Kuwait in 1990, the UAE is unlikely to be able to repel it on its own. What is true in case of other small states is also true of the UAE -- their security depends on many external factors over which they have no control. But, as the Kuwait episode has proved, the UAE's oil wealth can be an invitation to future aggressor and also a deterrent against it, because the great powers would, in order to ensure stable supply of oil, come to its rescue.

It is interesting to note that though federal structure continues to be weak in the realm of economic affairs the country's impressive progress in social services like education and health has been mainly on account of the resources transferred under federal grants. The UAE has proved the utility of regional cooperation, both within the country and in the region, long before 'regional approaches' to security problems and development became fashionable in international relations.

Agriculture has registered spectacular growth which is unprecedented in the region. UAE has already achieved
substantial self-sufficiency in many food items. Its reliance on food imports has become negligible and no more constitutes a 'threat' to its food security. Plans to diversify its economic activity so that dependence on oil could be reduced have been steady but slow. Unless the country adopts a comprehensive developmental plan within a well structured federal framework, long-term sustainable development may not be possible.

So far UAE could not decide whether to have a permanent federal constitution and this 'failure' certainly worked to its advantage. It enabled member-emirates to enjoy flexibility and substantial autonomy. But, economic imperatives may force the emirates in future to adopt a formal federalism.