

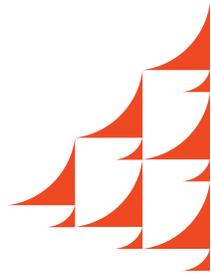


The Arab Gulf States  
Institute in Washington  
Building bridges of understanding



## UAE Security Forum 2017: Defense Industry and Economic Diversification

Conference Report



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February 20, 2018

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The Arab Gulf States Institute in Washington (AGSIW), launched in 2015, is an independent, nonprofit institution dedicated to increasing the understanding and appreciation of the social, economic, and political diversity of the Gulf Arab states. Through expert research, analysis, exchanges, and public discussion, the institute seeks to encourage thoughtful debate and inform decision makers shaping U.S. policy regarding this critical geostrategic region.

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## About This Report

This report is based on the discussion during the “UAE Security Forum 2017: Defense Industry and Economic Diversification” held on December 6, 2017 in Abu Dhabi, the United Arab Emirates.

The discussion was captured by independent journalist Taimur Khan. The UAE Security Forum 2017 was sponsored by Raytheon Company.

For more information visit [www.uaesf.org](http://www.uaesf.org).

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## Welcome Letter

Dear Colleagues,

It gives me great pleasure to present to you the final report of “UAE Security Forum 2017: Defense Industry and Economic Diversification.” The forum was sponsored by Raytheon and held at the Emirates Palace in Abu Dhabi on December 6, 2017.



Ambassador Marcelle M. Wahba, President, AGSIW

Held under the patronage of H.E. Sultan bin Saeed Al Mansoori, the minister of economy of the United Arab Emirates, this second iteration of UAESF went a long way in establishing the gathering as the forum where U.S., Emirati, and regional partners gather to find creative solutions to some of their most pressing, common challenges.

Since the inaugural UAESF in 2016, our analyses and conversations with key interlocutors in the region identified economic diversification as a top national security priority to meet the demands of a growing, well-educated young population and the challenge of lower revenue from natural resources.

As we see in many countries, including the United States, the defense sector is a significant force as an engine of economic growth, technological advancement, and job opportunities. That is why we decided to bring together experts and business leaders to identify promising opportunities for private sector growth and innovation with special attention to the security sector.

We were pleased to have with us Stephen J. Hadley, the former assistant to President George W. Bush for national security affairs. You will find his insightful comments on U.S. policy in the Middle East, and the importance of regional partnerships, in the pages of this report.

I would like to thank our partners, The National newspaper, Etihad Airways, AmCham Abu Dhabi, the U.S.-U.A.E. Business Council, and the American Business Council in Dubai. Above all, I would like to thank our sponsor Raytheon, without which this forum would not have been possible. I hope you find this report informative and useful and look forward to the next iteration of the UAE Security Forum in 2018.

Sincerely,

A handwritten signature in black ink, appearing to read "Marcelle M. Wahba".

Ambassador Marcelle M. Wahba  
*President, Arab Gulf States Institute in Washington*

## Executive Summary

The past half century has seen unprecedented modernization and growth among the oil-rich Gulf Cooperation Council countries, which today rank among the world leaders in per capita income. However, GCC leaders recognize that oil resources alone cannot sustain economic prosperity over the long term, and so are seeking to create a diversified private sector that generates income from a variety of thriving industries.

On December 6, 2017, the Arab Gulf States Institute in Washington partnered with Raytheon to host the second annual UAE Security Forum. “UAESF 2017: Defense Industry and Economic Diversification” brought together private sector leaders from technology-driven industries in the United Arab Emirates, U.S. defense industry representatives, and policymakers to offer their perspectives on challenges and opportunities in the UAE and neighboring Gulf countries’ efforts to wean their economies off government spending and state-controlled growth.

The forum aimed to aid in the creation of a diversified private sector in the GCC states, with the security sector at the core, and help introduce new policies that promote economic inclusion. Speakers identified sectors in which the GCC states might enhance private sector job growth and innovation in new technologies, security, and manufacturing. Additionally, they considered GCC state initiatives to foster government accountability and accessibility. Lastly, panelists suggested ways in which U.S. companies can assist in economic diversification efforts and the creation of sustainable private sector jobs.

## Key Findings and Recommendations

### Overarching

- State-led growth has reached its term limit with the new reality of oil markets and the dangers associated with economies dependent on state investment. A new model for economic growth that includes more private sector actors and creates more avenues for forms of citizen participation is imperative.
- The GCC states have become the center of power in the Arab world. Consequently, greater heavy lifting to help stabilize the region – particularly in postconflict reconstruction – will be demanded of the UAE and its Gulf neighbors. Economic diversification is therefore critical as the ripple effects of shrinking Gulf budgets are already being felt across the region.
- Economic diversification plans entail structural changes such as new forms of budget revenue like taxes, and a stronger private sector untethered from the state. Inevitably, demands for greater political representation will grow. One way for Gulf monarchies to mitigate demands for political reform is more responsive governance to address corruption in all its forms.
- Integration into international supply chains – those of the future centered on Asia, specifically – is key to economic diversification away from oil. Economic transformation plans must be formulated with the question of how they will be integral to China’s Belt and Road Initiative.

- Competing visions for how the region should be shaped by the GCC have created a split in the bloc and rivalries that will complicate these efforts. Political integration and common purpose is unlikely, but Gulf countries must seek greater economic integration to achieve economies of scale and increase their economic negotiating power as they seek greater integration with Asian markets. Integration of the regional market and greater access would also help private sector small- and medium-sized enterprise growth and entrepreneurship.

## The United Arab Emirates

- A premium is now placed on defense contracts and partnerships with foreign firms that contribute to the UAE's ability to create products domestically that can be exported and enter regional and global supply chains.
- The UAE's strong relationship with the U.S. defense industry and government can contribute to diversification efforts.
- Dubai has become a regional hub for tech entrepreneurs, allowing some to leverage the emirate's business-friendly policies to achieve success unattainable elsewhere in the region.
- The UAE has clearly expressed its Centennial 2071 goals, helping international companies to align with its vision.

## Job Creation and Education

- The Middle East and North Africa is the most youthful region in the world and will be until at least 2050. The region has one of the highest rates of youth unemployment, despite high levels of education. The most important economic policy objective must be job creation and employment.
- Women in the MENA region are graduating from universities in unprecedented numbers, and yet are still underrepresented in the workforce. Greater participation by women is essential to economic diversification, and this requires social and cultural changes.
- GCC states in some cases are becoming net exporters of talent for the first time because of a lack of opportunities locally. Even nationals and foreign highly skilled workers whose education and training has in some cases been subsidized by the state prefer to open businesses abroad due to barriers in the GCC states.
- A transformation of educational systems and curricula is necessary to produce students with skills matched to the innovative knowledge economies envisioned in GCC diversification plans. GCC countries must invest massively in science, technology, engineering, and math, or STEM, for K-12 education and contribute to new educational models that the Arab region can adopt.
- Entrepreneurship, particularly in technology sectors, has the potential to absorb some job seekers, but the private sector still faces far too many obstacles in the MENA region.

- As the public sector remains the most attractive employer for young GCC citizens, the state must use government jobs to train them for skills necessary for private sector employment, even if it means temporarily subsidizing public employment. Both the state and private sector must do a better job of communicating the longer-term benefits of employment in private businesses and multinational corporations.
- The private sector, academia, and the state must increase their collaboration and coordination so that education and economic goals are aligned and greater efficiency in meeting those goals is realized.

## Defense Industry

- The defense industry may offer the beginnings of a model for state-private sector partnerships that allow for organic private sector growth while maintaining the state's interests and power.
- When it comes to partnerships with national defense industries, GCC countries will find it difficult to turn down agreements with, for example, Russia, which is offering greater technology and skills transfers and even joint production of high-end systems. This will inevitably have implications for regional security structures.
- GCC state investments in partnerships with global industrial, particularly defense, firms allow the companies to test and bring disruptive new technologies to the region's supply chains, contributing to diversification efforts and the overall innovation and technology ecosystem through technology transfer, skills training, and employment.
- GCC domestic defense industries must offer a technologically superior product or a much cheaper one to compete in an already oversupplied global market.

## Introduction

A central plank of the economic transformation visions of the United Arab Emirates, Saudi Arabia, and other Gulf Cooperation Council states to end their fiscal reliance on oil revenue and reduce the role of the public sector in education and employment is the privatization of the countries' respective defense industries. Contracts with Western defense firms for advanced weapons and systems over the past 40 years have featured offset programs to transfer expertise and technology, with the aim of increasing indigenous defense capabilities and catalyzing human capital growth in technology and science among GCC citizens. This model had a mixed track record, but the current no-alternative economic diversification imperatives have brought about a



Thomas A. Kennedy, Chairman and CEO, Raytheon Company

concerted refocus on the nature of Gulf countries' relationships with defense suppliers. Gulf states are demanding more from these relationships and are planning for the partnerships to play a key role in shouldering part of the expense and providing expertise for developing products and to fertilize the envisioned export-focused industry to attract greater private investment.

The UAE and Saudi Arabia hope that this planned expansion of the defense industry will also spur the growth of an ecosystem of economic development, from primary education centered on science, technology, engineering, and math, or STEM, to technology innovation and advanced science expertise that translates into a range of industries capable of producing for global markets and supply chains. Significant barriers remain for the achievement of these plans, however, including restrictive regulatory frameworks for the private sector across the GCC states, a lack of economic integration within the region, the schism within the six-member bloc, and a number of challenges around creating effective public-private partnerships.

## Economic Inclusion Builds Regional Security: Challenges for the UAE and GCC Countries

*"The single most important economic policy objective has got to be job creation and employment." – Nasser Saidi*

During the forum's first session, the panelists discussed the challenges – demographic, economic, political, and regional geopolitical – and obstacles to GCC states' efforts to create private sector growth, reorient their educational infrastructure, and diversify their economies amid unsustainably low oil prices. Additionally, they considered the stabilizing, and potentially destabilizing, ripple effects the outcomes of these efforts will have on the broader Middle East. The regional impact of moves by GCC rulers to reduce reliance on state-led growth will attenuate foreign labor remittance flows to the Middle East and North Africa, as well as sub-Saharan Africa and South Asia. Additionally, GCC foreign investment will shrink, as will aid, possibly exacerbating already steep social inequality and postconflict instability.

As the Middle East's center of economic, diplomatic, and military gravity consolidates in the GCC states, and as they become more active powers, the burden of regional leadership and stabilizing countries recovering from violent turmoil will increase proportionally. The United States, under President Donald J. Trump, is also maintaining Washington's desire for Gulf partners to do more heavy lifting in the region. "As we go into a period of necessary postconflict aid and reconstruction where the Gulf states will be pivotal, this becomes more important.

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*MENA countries fall into three categories – those in turmoil, transition, or transformation – each with their own matrix of structural dynamics.*

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The sources of revenue need to be more sustainable so the support they can give to the wider region is more consistent," said Karen E. Young, AGSIW senior resident scholar, at the top of the discussion she moderated with Adel Abdellatif, senior strategic advisor at the United Nations Development Programme's Regional Bureau for Arab States; Mohammed Baharoon, director general of b'huth; and Nasser Saidi, president of Nasser Saidi & Associates and the former chief economist at Dubai International Financial Centre.

The stakes for economic transformation, and the attendant rethinking of political models that allow for more representation in governance in the GCC states, are, therefore, extremely high, all the participants agreed.

MENA countries fall into three categories – those in turmoil, transition, or transformation – each with their own matrix of structural dynamics. Saidi said a number of key elements are common to these dynamics across regional states. Perhaps the most crucial element is demographic. The MENA region is the most youthful in the world, with 30 percent of the population under 24 years of age. On the surface, this youth bulge is well-educated. However, there are few jobs available, particularly in the formal private sector, and unemployment rates for young people in the region are among the highest in the world. In the GCC monarchies, subsidies, public sector jobs, and other benefits disbursed by the welfare state as part of the social contract are eroding due to fiscal shortfalls, just as the planned economic transformations move forward. “The single most important economic policy objective has got to be job creation and employment,” Saidi stressed. The political models of the GCC states will face increasing strain from young people encountering the highest rates of unemployment in the world – and the highest penetration of social media. Improvements in health outcomes since the 1960s in postcolonial Arab states mean that the youth bulge will remain until 2050, during which time populations will double. Along with similar trends in sub-Saharan Africa, the combined region will have the largest concentration of youth in the world “maybe for another century,” Abdellatif said.

Decreasing demand for oil as the viability of renewables gains momentum, along with a glut of supply, will mean that the traditional economic resource of the UAE and Saudi Arabia will likely remain trapped in the ground in the future. How will GCC states diversify their fiscal revenue in the wake of this “double shock” of budget deficits and a precipitous loss in value of their key commodity? A new 5 percent value-added tax is a small but important first step, as is the reduction of fuel and electricity subsidies. But this drive to diversify revenue will have political effects that will require a necessary modulation of avenues for representation. “That also means accountability,” Saidi noted. “No taxation without some sort of voice and representation. How will that come up?”

The non-energy private sector must make up for unsustainable government jobs for young people as the Gulf economies work

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*Overhauling state-controlled education systems – particularly at the primary school level – is another key condition for economic transformation in the MENA region.*

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to end near total budget dependence on oil revenue, the speakers agreed. “The private sector is not a fashionable issue in the Arab region, but it has to happen, otherwise how [will] young people find opportunities?” Abdellatif added. “Governments tried to absorb everything and control everything and became obese. Now we have to slim down.” State control of economies is no longer creating a middle class to support and populate state institutions. Instead, it is fueling growing inequality in the Arab region.

In order to change incentives for young people and drive them to seek work in the private sector in the shorter term, and reduce the gap in salaries between public and private sectors, states should consider subsidizing employment for government employees in the private sector, Saidi said. “This shift has to start happening.”

Overhauling state-controlled education systems – particularly at the primary school level – is another key condition for economic transformation in the MENA region. The GCC can lead the way, although the GCC model of development may not be replicable in other countries.

One of the guiding themes of the discussion was how to reduce the government's role in the economy. But tension emerged between proponents of a laissez faire, significantly reduced role for government, and an approach that maintains the state's control but via public-private partnerships and state-led efforts to diversify the economy through the private sector. "The economic development model needs to have a big change ... It's not going to be able to enter [artificial intelligence] and all the rest until you free up the private sector. So, privatization has got to be on the agenda," Saidi said, adding later that "the government's role is in enabling it ... Facilitate the establishment of companies that can be purely digital, otherwise our young people are going to enter into a highly divided world" of increasing inequality of income and skills.

In the GCC countries, however, the state is not going to relinquish its control of the economy. "Remember China," said Baharoon. "It is still a state-oriented economy, but it is doing [well] because it is a state economy, because it is a one-party system. There is still a lot the state can do as a leader to the private sector rather than sitting back and deregulating." But it is imperative, panelists stressed, that the nature of that control shifts to creating an environment in which private business can thrive, without state intervention and picking winners in the non-oil sector. Shocks to energy prices have a direct impact on the non-oil private sector because of outsized state investment and control.



Nasser Saidi, Founder and President, Nasser Saidi & Associates;  
Former Chief Economist and Head of External Relations, DIFC Authority

For the non-oil private sector to gain a larger share of gross domestic product on its own, Saidi mentioned that more important than production diversification is the diversification of a country's export base and its ability to create competitiveness by entering global supply chains.

While the changing balance of power in the Middle East means the Gulf is now the region's center, the small size of GCC states and the similarity of their diversification strategies mean that greater economic integration is imperative for fulfilling their geoeconomic and geopolitical potential. "We need greater integration because when you're negotiating an international trade deal, when you're thinking about your role in the world economy, your power depends on whether you speak with one voice as opposed to several voices," Saidi stated. "The GCC countries, for example, have not been instrumental in entering world trade. The number of trade agreements that we have is very limited. We need to think of new trade agreements, for example with China, our number one trade partner for the GCC, as the main source of exports for our oil and energy. India is next door; we haven't done enough." The break between Qatar and its two most powerful GCC neighbors, in particular, has extinguished hope of greater

economic integration, however, let alone political or strategic integration within the bloc.

Greater GCC economic integration would allow increased integration into international markets, which Saidi underscored is necessary for the success of any Gulf country's transformation plans. "If you want to diversify economically, to me it's very straightforward – you have to enter global supply chains. And the global supply chains today are not those of the past," he said. Rather than the United States and Europe, emerging markets, particularly in Asia, are where GCC countries must look to create a role for themselves beyond suppliers of energy. "The question is what is your role in the Belt and Road [Initiative]? What is your role with China and what are you doing about it?"

The economic transformation initiatives will have implications for the more assertive roles that the UAE, Saudi Arabia, and Qatar are now playing beyond their borders, and will shape future security structures and relationships in the region.

With an emphasis on transitioning to knowledge economies in which the defense industry is an engine that both drives growth in the advanced sciences as well as foundational new STEM education infrastructure, countries willing to adopt more generous knowledge and technology transfers will become closer partners with GCC states. Baharoon pointed to the example of the continually deferred GCC desire to purchase the fifth-generation F-35 fighter jet from the United States. A Russian offer still under negotiation to jointly develop and produce a fifth-generation jet with the UAE – if accepted – "will mean there is going to be a different type of change" in thinking about traditional partnerships and alliances, Baharoon said. Looser technology transfer controls than U.S. or European Union defense manufacturers are able to offer could create momentum that leads to the joint production deal and beyond. "If Russia says we are not only going to help you develop your own fifth-generation fighter, but we are also going to help you develop your own indigenous air defense system based on the S-300 [surface-to-air missile], that would be extremely difficult for the UAE or Saudi to look away from," he added. "If accepted, that's possibly going to change long-standing relationships and would possibly change the idea of regional security structures as we've traditionally known them."

Expanding investment in the Horn of Africa and elsewhere in the continent by the UAE and Saudi Arabia – also part of economic diversification efforts – will inevitably change their security role in the Red Sea region. "The UAE and Saudi haven't been big partners in Red Sea security previously," Baharoon noted. "I think that is going to change." Engaging African countries in the Saudi-led Islamic Military Alliance is in part aimed at creating a more indigenous security footprint in the region that will allow Riyadh to avoid putting its own boots on the ground.

In addition to the potential geopolitical shifts produced by economic diversification in the GCC states, internal security, particularly in Saudi Arabia, will also face some uncertainty. As Riyadh works to change Saudis' self-perception away from solely being the leader of the Islamic world to the leader of the Middle East's economy, social transformation will be a necessity, if not political change. Social transformation will be vital to Saudi Arabia's post-oil economy efforts.

GCC states must view efforts to transform their economies into post-oil economic engines as benefitting much of the MENA region, not only their own citizens. "If that engine will not pull the others, [the GCC] will become an oasis for peace and security, but for how long will it be

able to maintain this internal peace and security” if it is surrounded by increasing turmoil, Abdellatif asked.

If the GCC is to be the regional growth engine, Saidi stressed that member states must change investment laws to allow for a hundred percent foreign ownership and remove the sponsorship system to allow greater labor market flexibility. “Much of the human capital will reinvest into a country [in the GCC] rather than sending it out” to their home countries or elsewhere if such reforms of current legal frameworks is implemented, Saidi added. Working-class labor in the Gulf, now mostly South Asian, could be replaced with labor from Yemen and elsewhere, he added. “Instead of employing and educating Yemenis and others, we get [workers] from the Indian subcontinent. We need to change all that; it’s perfectly feasible.”

## Partnership with the Private Sector for Growth and Innovation

*“When it comes to building an industrial revolution in the UAE we need a community effort.” – Dalya Al Muthanna*

All GCC transformation initiatives seek to reinvent their post-oil economies as largely revolving around technology innovation, with the goal of exporting digital and advanced science products. So far, only Dubai has managed, to some degree, to create the regulatory and business environment to foster an organic tech startup ecosystem, as well as larger public-private partnerships with industrial multinational corporations that will play a key role in economic diversification. Structural barriers common across the GCC states remain, however, and the second panel featured speakers representing three perspectives of the UAE’s technology and innovation sector: Rabea Ataya, CEO of the employment platform Bayt.com, Inc.; Dalya Al Muthanna, president and CEO of GE Gulf; and Hoda Al Khzaimi, director of New York University Abu Dhabi’s Center for Cyber Security. The discussion was moderated by Sharief Fahmy, chairman of the American Chamber of Commerce Abu Dhabi and CEO of Middle East General Enterprises. The speakers outlined the successes the UAE has had in creating a fertile environment for digital entrepreneurship as well as in working with private industry and academia on long-term partnerships aimed at achieving both sides’ strategic goals.



Dalya Al Muthanna, President and CEO, GE Gulf

According to Muthanna, the relationship between the public and private sectors was essentially transactional but has evolved into partnerships. She noted that GE has aligned its resources and capabilities with the Gulf countries it partners with and is “bringing the knowledge required to help these countries achieve their ambitions.” The UAE in particular has put forward a clear vision that has allowed companies like GE to better align themselves with the UAE’s Centennial

2071 goals. "It really helps us to know where we're heading," she noted. The state's desire to transition the economy toward exportable, innovative tech products also complements similar transitions within manufacturers like GE that are applying emerging technologies in their industrial products. "There is a lot of similarity between how GE is disrupting itself and reimagining itself and the way the UAE government as well keeps disrupting itself and rethinking how they want to position themselves in the economy," Muthanna said.

GE works with government utilities and entities to understand how these emerging, disruptive digital technologies can be introduced to the supply chain in the Gulf region. Muthanna mentioned, "It helps us when there is a platform for us to work with governments to have the right priority test beds to advance this technology."

For such relationships with industrial and defense companies, the UAE, rather than simply purchasing equipment, benefits from the training expertise companies bring to the country as well as the production of new technologies that address the needs and challenges specific to the GCC states. GE, for example, brings financing solutions, relationships with export credit agencies, and investment in talent and leadership, Muthanna said.

The building of an indigenous cybersecurity industry has involved a partnership between Abu Dhabi, industry, and academia. Khzaimi worked for over a decade in the UAE's defense industry on cybersecurity research and development. In 2012, she helped establish the Center for Cyber Security at New York University Abu Dhabi. Khzaimi, and all of the speakers, called for greater involvement by the state in convening stakeholders in academia and the private sector to determine the other's needs and how each can help address those needs. "We cannot have a thriving economy based on building businesses around cyber without having the stakeholders taking action, and it is urgent in the UAE," she stressed. "When it comes to building an industrial revolution in the UAE we need a community effort."

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*The labor market across the Middle East is oversupplied with a growing number of educated young people who are not learning skills that make them marketable to the private sector.*

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Muthanna recommended establishing a council comprised of representatives from academia, the private sector, and relevant ministries – such as Emiratization or Higher Education. The council would address issues such as why the private sector is not able to find the right talent in the region; what kinds of jobs both the private sector and government want to see in coming years; and how cultivating talent can be addressed in primary and higher education. "Everyone is working on their own," she said. "If we could all come together it would help connect the dots."

A structural hurdle to any GCC economic transformation strategy is education. Panelists agreed that the current education system is not preparing regional youth for existing private sector employment, let alone the envisioned jobs of the future. Sclerotic state-controlled education systems across the MENA region produce well-credentialed graduates in the sciences, but they lack interpersonal skills and applicable work experience.

The labor market across the Middle East is oversupplied with a growing number of educated young people who are not learning skills that make them marketable to the private sector. According to Ataya, the online employment site Bayt.com has over 30 million subscribers

on its database, with close to 6 million having registered in the past year alone. When Bayt started in 2000, over 400 people applied for each of its job listings – compared to 100-200 applicants for a similar position in India. Since the Arab Spring in 2011, over 1,000 people apply for a single position. “There has been a massive growth in the number of job seekers, and the number of jobs has actually been declining across the region,” Ataya stated, adding, “and that’s a dangerous trend.” Rather than viewing the massive number of job seekers as an opportunity, employers are “continually complaining about the quality of the talent pool.”

The dynamics of labor flows in the MENA region are also changing due to the austerity environment in the GCC states. The Levant and North Africa were net exporters of workers, while the GCC region was a net importer. But Gulf countries are no longer able to import workers at previous levels and are beginning to export talent that cannot find employment in the GCC states, Ataya said. In Saudi Arabia, however, most of Bayt’s business is helping local companies hire Saudis. Significantly, citizens are searching for service jobs. “It used to be if you hired a Saudi national it was for a management role – that’s certainly not the case anymore.”

In smaller GCC states, nationalization efforts have proved more difficult. In the wealthier UAE, for example, where there is no pressure for a small population of nationals to take service jobs traditionally performed by foreign workers, building skill sets to meet the demands of the private sector is an ongoing challenge. “I don’t see the numbers [of UAE nationals] coming to GE [that] I would like to see,” Muthanna mentioned. “We’ve been doing a lot to help increase that number and there are a couple of reasons why the number is where it is.”

One factor is the small population of these states, another is the enduring preference for notionally secure public sector jobs that also hold significant social capital, especially for young people wanting to marry. The perception is that career progression is also more secure in a ministry when compared to the uncertainty and vagaries of the private sector. Echoing the discussion from the first session, Muthanna said the public sector should be used as a pooling mechanism into the private sector after training. She added that multinational corporations and the state can improve efforts to communicate to students that career progression and remuneration at multinational corporations over time are greater than they are in the public sector.

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*Dubai’s efforts to become a regional hub for tech entrepreneurs has allowed some, such as Ataya, to leverage the emirate’s business-friendly policies to achieve success unattainable elsewhere in the region ...*

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Internships for high school and university students with technology firms is one model that has proved successful on a small scale in terms of providing young people with skills that match employment in digital jobs. But, fundamentally there are not enough employment opportunities. “It doesn’t matter if we have an amazing education program to build talent if [we] have all this and by the end of the day talent is built but can’t find a platform” for employment, Khzaimi suggested. The NYUAD project of liberal arts education – diversity in education – along with bringing the best students from around the world to Abu Dhabi is part of the UAE’s diversification plans. But, Khzaimi said, the next step after creating an organic education ecosystem in Abu Dhabi is translating research done there into commercial opportunities and opening new companies based in the UAE. “We need to build diversity around [NYUAD]; we need to push for businesses,” she added.

Dubai's efforts to become a regional hub for tech entrepreneurs has allowed some, such as Ataya, to leverage the emirate's business-friendly policies to achieve success unattainable elsewhere in the region, where even registering a company can be a burdensome undertaking riven with corruption. The tech ecosystem has managed to grow despite this, although structural, regulatory, and bureaucratic stumbling blocks remain in place for the burgeoning creative, young entrepreneurial community in Dubai. A lack of economic integration in the region means that the market is fragmented and startups have trouble finding access, Ataya said. "That has made us more of a consumer world than a production world. It's a signature away from being different ... At least give us greater access to each other's markets and I think you'll see an immediate revolution in what this region can bring forth."

The legal framework governing foreign investment also dampens enthusiasm by venture capitalists to invest, because it remains unclear how they will be able to withdraw their profits. The UAE has "been the shining light" for facilitating small- and medium-sized enterprises through a regulatory framework with few obstacles, Ataya mentioned. "But regretfully those barriers have come back up." However, the UAE's anti-corruption drive over recent years has created its own unintended barrier for the private sector by empowering and incentivizing even lower-level bureaucrats to shut down a business, but few are empowered to unfreeze it even after charges have been dropped, he explained.

## U.S.-UAE Cooperation: How Can the U.S. Defense Industry Assist UAE Diversification Efforts

*"... you need to ensure at least some sort of sustainability of your defense capabilities available to your armed forces." – Fahad Saif Harhara Al Yafei*

The UAE has become Washington's closest Arab partner after two decades of Emirati participation in multilateral military operations and counterterrorism initiatives, as well as its development of the most effective military force within the GCC states. Its unique capabilities and role as a partner able to burden share in regional security has also allowed U.S. defense firms to sell the most advanced systems to the UAE, such as the Terminal High Altitude Area Defense (THAAD) anti-missile system, or the unarmed Predator drone. Abu Dhabi has long wanted to make its indigenous defense industry a cornerstone of its post-oil economy. Further, Abu Dhabi has aimed to model it on the U.S. military industrial complex to create an ecosystem of knowledge creation, training, research, and development that can spin off into civilian tech and industrial sectors – expanding training, the understanding of global markets and supply chains, and the growth of a business model for both public-private partnerships and, crucially, the private sector. "Diversification of the industry does not mean a simple sell-off; it is the creation of a development pipeline."<sup>1</sup> With the GCC states the largest defense market in the world, the economic transformation plans of all the Gulf Arab governments rely on growing domestic defense industries, and hedging in their strategic partnerships, including with the United States. Diversification toward a private defense sector and the development of products with export demand will require a rethinking of the offset model that has until

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<sup>1</sup> Karen E. Young and Michael Elleman, "[Unlocking Growth: How the Gulf Security Sector Can Lead Economic Diversification](#)," *Arab Gulf States Institute in Washington*, December 6, 2017.

now been the core concession to the UAE. The establishment of Raytheon Emirates, a local operation, announced at the UAE Security Forum follows the announced discussions on a locally developed Russian-Emirati fifth-generation fighter jet and Sweden's Saab establishing a joint production facility in the UAE.

The final panel at the forum explored the question of how the UAE's strong relationship with the U.S. defense industry and government can contribute to diversification efforts, and where this complements U.S. companies' own expansion plans. The panel was moderated by Hussein Ibish, AGSIW senior resident scholar, and included: David Des Roches, associate professor and senior military fellow, National Defense University; Fahad Saif Harhara Al Yafei, chief programs officer, Tawazun Economic Council; and John D. Harris II, CEO, Raytheon International, Inc.

The UAE's short-term goal for expanding its domestic defense production is tied to its national security strategy at a time of relative uncertainty about future security architecture in the Gulf. "Relationships, you know, they change," Yafei said. "And you need to ensure at least some sort of sustainability of your defense capabilities available to your armed forces."

Through Tawazun, the UAE established a secured industrial special zone intended to attract defense firms to set up facilities. Facilitating a concentration of defense firms in Abu Dhabi will allow for technology spillover and the establishment of local second and third tier companies to supply the larger industries based there. The Emirates Defense Industries Company was formed in 2014 through the consolidation of Emirati defense manufacturers, and its high-end manufacturing facility is a successful example of this approach. Contracts with the UAE military for a range of fighting vehicles produced by the Emirates Defense Industries Company's NIMR, including 400 8x8 armored vehicles worth over \$660 million, were signed at the 2017 International Defence Exhibition and Conference in Abu Dhabi.<sup>2</sup> NIMR vehicles have been sold to regional militaries, such as Algeria, and the advanced machine shop today fills orders for munitions with defense firms that do not have any other contracts with the UAE, according to Yafei.



Fahad Saif Harhara Al Yafei, Chief Programs Officer,  
Tawazun Economic Council

The next step, Yafei said, is to increase the focus on partnerships with foreign firms for deeper transfers of technology in order to develop a more advanced private sector that can become a key supplier to global as well as regional supply chains. The desirability of relationships with foreign companies is measured both in the kinds of technology being brought into the UAE and what will be produced locally, and how the production contributes to training, the creation of intellectual property, and market-ready exports. So far, the UAE's defense production partnerships have mostly been formed with smaller industries in, for example, Eastern Europe, that have fewer restrictions on albeit less sophisticated technology.

<sup>2</sup> Dania Saadi, "[Idex 2017: Nimir Wins Contract to Supply Armoured Vehicles to UAE Armed Forces](#)," February 23, 2017.

A longer-term goal is to be able to collaborate with U.S. and other defense industries to at least contribute components to the most complicated systems such as missile defense. Yafei noted, "It takes time; this is a highly guarded [intellectual property] of advanced companies ... you can't achieve that within 10-15 years. It's a longer-term solution, but you have to build the foundation, the mindset of a new generation. It's a work in progress."

U.S. companies like Raytheon have also realized that there is value for their strategies in partnering locally with the UAE, to the extent allowed by U.S. tech transfer laws, to "make more efficient use of our resources," Harris stated. Raytheon hopes to create local capacity that can support immediate contracts and programs, but also fulfill the more strategic investment objective of creating capacity that can be a part of global and regional supply chains.

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This theoretical vision for the future of UAE-U.S. defense industry ties is still far from the messy, frequently frustrating reality of domestic, bureaucratic,

geopolitical politics of U.S. defense sales and technology transfers through Washington's Foreign Military Sales program. "To have an established industrial [sector] in the UAE it only makes sense from an economic point of view if I can export a product from this entity and generate revenues," Yafei said. "In many instances we get restrictions from [governments] - 'This tech is for you, but only for you to use.' So, I cannot export. So, in the end, how much of that is contributing to my GDP? Not much." Raytheon has had to go through "multiple gates of qualification" to guarantee end-user control in the transfer of technology to the UAE, he added, with mixed results.

Regardless, the UAE is in a better position to show that it has strong controls compared to many other U.S. partners. "There are a couple things the UAE has," Des Roches mentioned. "Unlike at least one defense partner I can think of, the UAE has a reputation for respecting intellectual property. Second is security. There are a number of countries where exports are routinely held up or denied based on the fact that we're just not certain that this country will be able to safeguard the tech." The UAE's history of involvement with U.S. military operations, and its growing role as a capable regional partner, also tilts approval in its favor, panelists said.

The diversification of the private defense sector in the UAE may also help fine tune understanding of an oversupplied market, where opportunities for new exporters are limited. Ships, jets, drones, artillery, surface-to-surface missiles, and other systems are over capacity, and finding competitiveness requires producing at a low cost or state-of-the-art products, according to panelists.

Des Roches identified a number of areas where innovation is needed immediately, all of which are key for GCC states' national security and would have a multiplier effect by requiring research that fits with the STEM education agenda in the region.

## A Conversation with Stephen J. Hadley

*“...events in the region don’t wait and force the hand.” – Stephen J. Hadley*

UAESF 2017 featured a conversation between Ambassador Marcelle M. Wahba, president of the Arab Gulf States Institute in Washington, and Stephen J. Hadley, national security advisor to former President George W Bush. Wahba and Hadley framed the regional security dynamics in which GCC economic diversification efforts are being conducted, including Iran’s successful bid for greater regional power, the rising political and military influence of Russia and other outside powers in an increasingly multipolar Middle East, and the opportunities presented for U.S. interests as the UAE and Saudi Arabia attempt to assert greater leadership in the region.

Hadley identified capacity and risks in the management of domestic expectations as the key challenges for the UAE and Saudi Arabia as they try to transform their societies and economies at the same time as they try to use their diplomatic and hard power to shape regional geopolitics and security. “My concern for the region is that there is so much on the plates of these countries both domestically and on foreign policy that it’s a lot to handle at one time,” he noted. The governments must “manage expectations domestically and then prioritize on foreign policy. But it’s difficult because events in the region don’t wait and force the hand.”

Since Russia’s military intervention in 2015 to support the regime of President Bashar al-Assad in Syria, Moscow has exploited both the Obama and Trump administrations’ desire for the United States to play a less direct role in the Middle East and return as



Stephen J. Hadley, Principal, RiceHadleyGates LLC;  
Former Assistant to the President for National Security Affairs

a key outside player. As such, Russia has gained the power to act as spoiler and kingmaker. Hadley said that Russian President Vladimir Putin’s strategy has been largely successful in achieving his objectives so far, with relatively low costs reaping significant gains in Moscow’s influence. Putin’s goals, he suggested, were to show Middle East governments that, unlike the United States, Russia would stand by its allies in the face of internal challenges; reverse the precedent set by the NATO-facilitated overthrow of former Libyan dictator Muammar al-Qaddafi; and secure its interests in the settlement of the Syrian civil war. As a result, Gulf countries have worked to strengthen their economic, political, and security ties with Moscow, and in these strengthened relations, Hadley suggested, may lie an opportunity for the UAE and Saudi Arabia to begin countering Iran’s power in Syria, where so far there have been few signs of any strategy by Washington to do so. The political process and reconstruction required in Syria may be such an opportunity, though the regime’s existential reliance on Iran’s military power will make it extremely difficult to truly sideline Tehran. Riyadh and Abu Dhabi’s recent outreach to Baghdad and Shia political forces in Iraq could also act to balance Iranian influence, and may also find support from Moscow. Hadley recommended that the United

States leave a force in Iraq even after the territorial defeat of the Islamic State in Iraq and the Levant, in order to reassert U.S. influence in the political sphere and provide a “platform” for Iraqi political actors to resist Iranian pressure. Wahba, for her part, was not optimistic that Russia could be meaningfully persuaded to abandon its close partner in the region, Iran, and she suggested it is unclear where the leverage exists in the postnuclear-deal environment where international sanctions have been lifted.

U.S. policy in the Middle East has not shifted dramatically under Trump from that of former President Barack Obama, but Hadley said that the atmospherics in this White House’s personal relationships with regional partners has increased Washington’s ability to work with partners and secure its interests. “In terms of the region, America is back because Trump reconnected with our traditional Arab allies and Israel,” he stated.

This reset in relations with the countries that upheld the U.S.-led regional status quo has allowed for the emergence of what Hadley termed a “new formula” for U.S. military engagement to empower its local partners to carry more of the burden of regional security. Small numbers of U.S. troops and special forces enable indigenous forces in Iraq, Syria, and Yemen to fight extremist groups. “The model of 160,000 Americans going into Iraq is rightly a thing of the past,” he said, adding that “the rest of the world tried for a hundred years to impose solutions on problems of the Middle East [and it’s] fair to say it did not work.”

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The emerging model of Washington working with regional partners to pursue common strategic interests

is most advanced in the U.S. relationship with the UAE, and this should receive greater acknowledgement, Hadley suggested. The close security cooperation is a real resource for both countries, and essential “if we are going to sort through the problems of the region.” U.S. and Emirati interests have not always aligned, and the more assertive UAE and Saudi regional posture has been a double-edged sword that has also impinged on U.S. interests, as seen by the Qatar crisis and the Saudi-led war in Yemen. Hadley did not address this issue but said that “sometimes I feel that [the UAE] has been a better ally to us than we have been to the UAE.”

“If we’re going to put extremism behind us and if the Arab world is going to make the kind of contribution to the 21st century that it can, the Emirates and Saudi Arabia are leading that effort,” he added. He pointed to New York University Abu Dhabi as one example of the scope of the ambition that the UAE has to train future leaders from across the globe, not just the region. It is “a vision of how you build a more inclusive society where people are trained for a knowledge-based economy, to innovate [and engage in] critical thinking, which is the best investment you can make to counter extremist ideology,” he stressed.

## Conclusion

UAESF 2017 explored the enormous opportunities for both industry and the GCC states, and the equally large challenges, to diversify the economy with a strong private sector. The panels addressed the regional security stakes for the successful transition of Gulf economies

away from oil at a time when some Gulf states are playing an increasing military and political role across the Middle East and parts of Africa. There was broad acknowledgement that the growth of the non-oil private sector is the only way the long-term MENA youth bulge can be meaningfully employed. However, there was less clarity about how the persistent role of GCC states in their economies can allow for this required transformation.

Only an estimated \$6 billion of the over \$130 billion annual defense procurement and services outlays by the GCC states is spent domestically.<sup>3</sup> As part of their urgent economic diversification plans, the UAE and Saudi Arabia, in particular, are aiming to reverse this imbalance and spend up to 50 percent of their defense budgets on the fruits of their own indigenous defense industries over the next decade. By then, these countries hope to have defense manufacturing bases at the core of economies freed of dependency on oil revenue. Through offset programs with Western defense firms and joint manufacturing partnerships, GCC countries have long sought to expand their own industries and gain greater technical skills, training, and technology transfers. So far, these efforts have garnered a slow but steady expansion of manufacturing and maintenance, repair, and overhaul services. There are now more than 80 defense manufacturing companies registered in the UAE. This growth, along with strategic investments in foreign defense industrial companies have, in the UAE, allowed for a significant absorption of skills and technology. Constraints on technology transfers stipulated by supplier governments have been a persistent hurdle.

Regional turmoil and geopolitical instability as well as the long-term decline in oil prices, however, have spurred a qualitative shift in the seriousness and immediacy with which GCC planners are approaching their defense industrial expansion plan – and the terms they are now seeking with foreign defense industry partners are set to change accordingly. But, for the security sector to be the engine that creates a new, innovative, technology-based economy and transforms national education systems to achieve this, there must be greater policy coordination within governments and between the public sector, private sector, and educational institutions. The current models of public-private sector partnerships and the terms of offset agreements will have to change in order to more quickly facilitate the new strategic objectives in the GCC states. Large global defense companies like Raytheon have begun moving to deepen their partnerships with important GCC customers by exploring how to establish collaborative research and production facilities located in the Gulf, such as the joint venture announced at the forum. The longer-term goals are to build a cutting-edge defense industry producing at least key components for international markets and supply chains. In the shorter term, these partnerships will aim to prove the growing capability of Gulf defense industries to compete in supplying domestic and regional markets, potentially a \$30 billion sector annually.

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<sup>3</sup> Haroon Sheikh, Bob Mark, and Bassem Fayek, [“The Emerging GCC Defence Market: The \\$30 Billion Opportunity,”](#) *strategy&*, July 25, 2017.

# Agenda

December 6, 2017

## Opening Remarks

Ambassador Marcelle M. Wahba, President, Arab Gulf States Institute in Washington

Thomas A. Kennedy, Chairman and CEO, Raytheon Company

## Session 1: Economic Inclusion Builds Regional Security: Challenges for the UAE and GCC Countries

### **Moderator:**

Karen E. Young, Senior Resident Scholar, Arab Gulf States Institute in Washington

### **Speakers:**

Adel Abdellatif, Senior Strategic Advisor, Regional Bureau for Arab States, United Nations Development Programme

Mohammed Baharoon, Director General, b'huth

Nasser Saidi, Founder and President, Nasser Saidi & Associates; Former Chief Economist and Head of External Relations, DIFC Authority

## Session 2: Partnership with the Private Sector for Growth and Innovation

### **Moderator:**

Sharief Fahmy, CEO, Middle East General Enterprises; Chairman, American Chamber of Commerce Abu Dhabi

### **Speakers:**

Rabea Ataya, CEO, Bayt.com, Inc.

Hoda Al Khzaimi, Director, Center for Cyber Security, New York University Abu Dhabi

Dalya Al Muthanna, President and CEO, GE Gulf

## Keynote Lunch

### **Moderator:**

Ambassador Marcelle M. Wahba, President, Arab Gulf States Institute in Washington

### **Keynote Address:**

Stephen J. Hadley, Principal, RiceHadleyGates LLC; Former Assistant to the President for National Security Affairs

## Session 3: U.S.-UAE Cooperation: How Can the U.S. Defense Industry Assist UAE Diversification Efforts

### **Moderator:**

Hussein Ibish, Senior Resident Scholar, Arab Gulf States Institute in Washington

### **Speakers:**

David Des Roches, Associate Professor and Senior Military Fellow, National Defense University

John D. Harris II, CEO, Raytheon International, Inc.

Fahad Saif Harhara Al Yafei, Chief Programs Officer, Tawazun Economic Council

## UAESF 2017 in Pictures



*(Clockwise from top left) Thomas A. Kennedy, chairman and CEO of Raytheon Company, presents opening remarks; A guest carries a copy of the UAE Security Forum 2017 agenda; John D. Harris II, CEO of Raytheon International, Inc., speaks during Session 3; (from left) Karen E. Young, Nasser Saidi, Adel Abdellatif, and Mohammed Baharoon during Session 1; Forum attendees listen to keynote remarks by Stephen J. Hadley*



*(Clockwise from top) (from left) Sharief Fahmy, Dalya Al Muthanna, Rabea Ataya, and Hoda Al Khzaimi during Session 2; AGSIW Board Member Fatima Al-Shamsi (right) speaks with a guest; (from left) Hussein Ibish, Fahad Saif Harhara Al Yafei, David Des Roches, and John D. Harris II during Session 3; Christopher J. Davis (right), president of Raytheon International, Inc., speaks with guests*

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