

Strength Amid Discord: Decentralized State Building in the Gulf

Steve L. Monroe*

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1 Introduction

Oil-rich Kuwait is in a housing crisis. Over one hundred thousand Kuwaitis are on a government waiting list for public housing support¹ in a country where average home prices trade more than twenty times average annual income.² Though the wait for public housing cannot exceed five years by law, Kuwaiti media is replete with stories of applicants waiting for a decade³ or longer.⁴ Almost a fifth of Kuwaitis surveyed in the 2024 Arab Barometer listed unaffordable housing as the country’s most serious economic issue,⁵ and roughly three quarters of respondents were dissatisfied with the government’s housing policies.⁶ Poor infrastructure, slow bureaucracy, and parliament’s inability to approve budgets for housing projects obstruct the Kuwaiti government’s capacity to provide affordable housing to its citizens.⁷

Kuwait’s housing crisis stands in sharp contrast to public housing support in the United Arab Emirates (UAE). The UAE’s federal government has spent over USD 16 billion in public housing initiatives since 1999,⁸ benefiting over 90,000 Emiratis.⁹ At the same time, the emirates of Abu Dhabi, Dubai, Sharjah, and Ras Al Khaimah have all launched government

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¹Hagagy 2025.

²Al Bader and Al Sabah 2025, p.1.

³Khalil 2024.

⁴Qasim 2022.

⁵Al Najjar 2024, p.6.

⁶Al Najjar 2024, p.12.

⁷Khalil 2024.

⁸Mannan 2025.

⁹Al Helou 2025.

housing initiatives, collectively outspending the federal government’s housing programs.¹⁰ As a result, more than ninety percent of Emiratis are homeowners, up twenty one percentage points from 2017.¹¹ The average wait time for public housing support in the UAE is one year.¹² In a 2018 online survey, more than three-quarters of Emirati respondents rated the government’s performance in providing affordable housing as “good” or “very good”.¹³

This divergence in state support between these two oil-rich Gulf states extends beyond housing. According to the World Economic Forum, the UAE has the best roads in the region and the sixth best in the world.¹⁴ Kuwait’s roads are some of the worst in the Middle East, and are of comparable quality to roads in Laos - a country with one fifteenth Kuwait’s GDP per capita.¹⁵ Indeed, almost a third of Kuwaitis in the 2024 Arab Barometer listed improving roads as a top priority for their country.¹⁶ Beyond roads, the UAE is home to the world’s ninth largest container port¹⁷ and second busiest airport.¹⁸ Dubai’s ports alone handled sixteen times as many containers as Kuwait’s main civilian port.¹⁹ Passenger traffic in Kuwait’s airport was six percent of all passenger traffic in the UAE in 2010.²⁰

In terms of governance, the UAE scores almost twenty points higher than Kuwait in the World Bank’s 2024 Government Effectiveness indicator.²¹ The UAE has a more robust fiscal system. Taxes and social contributions represented a fifth of the UAE’s GDP in 2023, a rate seventeen times higher than Kuwait’s.²² The UAE has also modernized its military over the past two decades, earning the “Little Sparta” moniker from foreign policymakers and journalists. Though the Kuwaiti regime has tried to modernize its military after its liberation from Iraq in the 1991 Gulf war, the Kuwaiti military lags behind its Gulf peers. Kuwait has the lowest rate of military spending as a percent of government spending in the Gulf.²³

Why is the UAE better at delivering public services, collecting taxes, and modernizing its military than Kuwait? Classic explanations for a state’s capacity to provide goods, mobilize resources, and enforce rules struggle to explain the UAE’s state strength and Kuwait’s

¹⁰Mannan 2025.

¹¹Mannan 2025.

¹²Al Khaleej 2024.

¹³Mazaheri 2023, p.117.

¹⁴TheGlobalEconomy.com 2026.

¹⁵TheGlobalEconomy.com 2026.

¹⁶Al Najjar 2024, p.8.

¹⁷World Shipping Council 2026.

¹⁸Hunter 2026.

¹⁹Herb 2014, p.166.

²⁰Herb 2014, p.166.

²¹World Bank 2026.

²²Our World in Data 2026.

²³P. Moore and S. Yom 2026, p.15.

relative state weakness. Theories of state capacity premised on population size,²⁴ oil abundance,²⁵ and market openness²⁶ would predict no difference in capacity. Neither state obtained nor sustained independence through war, an explanation for state building in medieval Europe.²⁷ The UAE's recent militarization is a consequence of state strength, not a cause. Income cannot explain this difference in state capacity. Both states boast some of the highest GDP per capita in the world. Geopolitics do not create this divergence either. Both states stand firmly under the US's security umbrella. Geographic theories of state capacity that point to population density²⁸ or the presence of one dominant urban center²⁹ would expect stronger capacity in Kuwait.

Scholarship on the Gulf explains the divergence in capacity between the UAE and Kuwait on domestic institutions.³⁰ Though both states are autocracies, Kuwait has an elected National Assembly that can veto the government's initiatives. This assembly represents a broad socio-economic spectrum of Kuwaiti society with diverging interests.³¹ Though it only has lawmaking authority - Kuwait's ruling family monopolizes the executive - the National Assembly arms its representatives with institutional levers to halt the regime's policies through audits, interpellations, and votes of confidence. Disagreements between the regime and the National Assembly over the past three decades have created a politics of obstruction. Kuwaiti parliamentarians pester the regime with inquiries and votes of confidence. A frustrated regime then dismisses the National Assembly only to contend with more antagonistic opposition parliamentarians after elections for a new National Assembly.³²

The UAE's rulers, by contrast, neither duel nor compromise with such a fiery opposition. Nor are they accountable to parliamentary grillings or audits. Unencumbered, the UAE's ruling families execute policies swiftly, be it building world class infrastructure, modernizing the military, or providing public housing.

Though this scholarship accurately captures contemporary Kuwaiti politics, it overlooks that Kuwait once had high state capacity. In the 1960s and 1970s the Kuwaiti regime had the capacity to flatten most of Kuwait city's old Medina to modernize the capital,³³ resettle

²⁴Jugl 2019.

²⁵Karl 1997.

²⁶Saylor 2014; Mazzuca 2021.

²⁷Tilly 1990.

²⁸Herbst 2015.

²⁹Soifer 2015.

³⁰Herb 2014; Hertog 2010a; P. Moore and S. Yom 2026.

³¹Tavana and York 2025; Tavana 2026; Herb 2014.

³²The Kuwaiti regime has disbanded the National Assembly eleven times between its founding in 1961 and 2022 (Allarakia 2025, Table 1).

³³Al Nakib 2016, Chapter 4.

the country's nomadic population,³⁴ and build more than two hundred public schools,³⁵ a new port,³⁶ and at the time, the world's largest desalination plant.³⁷ This massive and unprecedented state building occurred while the regime confronted a National Assembly whose members vetoed the government's first cabinet,³⁸ grilled royal family members over land purchases,³⁹ and exited the assembly in protest.⁴⁰ Kuwait's more pluralistic political system might enable parliamentary obstruction of state building; it does not determine it.

Elite cohesion is more determinative of state capacity in Kuwait than its parliamentary system. Elite cohesion refers to the political, economic, and security elite's ability to act collectively.⁴¹ Fears of Iraq's invasion in the wake of independence pushed Kuwait's regime and merchant elite to put aside their historical differences and agree to the powersharing arrangements enshrined in the Kuwaiti constitution and practiced in the National Assembly. Kuwait's first post independence ruler, Sheikh Abdullah, was also more open to political pluralism and pan-Arabism than his relatives.⁴² This endeared him to the merchant elite, cementing elite cohesion in newly independent Kuwait. Elite cohesion allowed the regime to pass and enforce state building policies, many of which brought vast fortunes to the merchant elite,⁴³ with minimal obstruction from the National Assembly.

This elite cohesion withered when the threat of Iraq's invasion receded and Sheikh Abdullah's passing in the late 1960s. The regime's decision to politically weaken the merchant elite by expanding rural, tribal constituents' representation through gerrymandering in the early 1980s fractured Kuwait's elite cohesion and deepened socio-economic cleavages within the National Assembly. These cleavages have hardened over time, transforming the National Assembly into a choke point of state building.

Elite cohesion, however, cannot explain the UAE's state building success. The emirate's ruling elite were divided at independence. The United Kingdom's unexpected withdrawal from the Trucial Coast in the late 1960s pushed the rulers of these six and then seven frequently feuding Trucial Coast emirates into a federation. The families that ruled the seven emirates fought - at times violently - over territory, taxes, and the authority of the new state's military. While Kuwait's ruling elite ratified the country's constitution within a year after independence, the UAE's founding fathers never agreed to a final constitution.

³⁴Al Nakib 2016, p.96.

³⁵El Mallakh 1979, p.22.

³⁶Kuwait. Ministry of Guidance and Information 1963, p.160.

³⁷Hewins 1963, p.251.

³⁸Al Najjar 1984, p.57.

³⁹Herb 2014, p.156.

⁴⁰Al Najjar 1984, p.54.

⁴¹Slater 2010, p.5.

⁴²Herb 2014, p.97.

⁴³Al Najjar 1984.

They settled for a provisional one that eventually became permanent a quarter century later.⁴⁴ Tensions between the UAE's ruling elite were so severe that three of the UAE's seven emirates threatened to leave the union in 1978, less than a decade after the country's independence.⁴⁵ The UAE's ruling elite were so divided in the 1970s that one Saudi academic titled his book on the history of the UAE "Unity in Fragmentation."⁴⁶

Unlike in Kuwait, elite divisions did not derail state building in the UAE. This is because of decentralization. Political decentralization is the allocation of authority and resources from a central to a subnational territory of governance.⁴⁷ The UAE is highly decentralized; the Emirati constitution grants each emirate substantial sovereignty over its territory, including over the extraction of natural resources and taxes.⁴⁸ Kuwait, by contrast, is highly centralized.⁴⁹ Subnational territories of governance have little authority. Power and resources emanate from the Al Sabah royal family and the elected National Assembly which has lawmaking authority over the executive.

Decentralization catalysed state capacity in the UAE by channeling elite competition over political authority into state building. Competition over citizens' loyalty between the emirates, and between the emirates and the new federal government, pushed both emirate and federal governments to provide public goods and economic growth. This unleashed an expansive, albeit uncoordinated, construction of roads, ports, schools, and hospitals. At the same time, the political autonomy inherent in a decentralized system allows subnational governments to experiment and implement varied developmental strategies. Dubai was a first mover in investing in transport infrastructure to become a world class logistics hub. Other emirates quickly followed. Decentralization also confined policies that can be detrimental to state capacity - like unregulated banking policies - to their subnational government. This process of competition, emulation, and containment in decentralization systems powered state capacity amid elite divisions in the UAE.

Highly centralized systems, by contrast, direct elite political competition into policymaking *before* implementation. Centralized systems can implement state building policies decisively, uniformly, and at scale when the political elite are united. This occurred in Kuwait's first decades of independence. Elite divisions in centralized systems, however, devolve policymaking institutions into choke points that can strangle state building. By directing elite rivalries into state building, decentralization can propel state capacity in states where the

⁴⁴Ulrichsen 2017.

⁴⁵These were Dubai, Ras Al Khaimah and Umm al-Qawain (Davidson 2008, p.222).

⁴⁶Ulrichsen 2017, p.60.

⁴⁷Rodden 2004.

⁴⁸Ulrichsen 2017, p.6.

⁴⁹Al Nakib 2016.

political elite are divided.

This insight from the Gulf uncovers a new and overlooked driver of state capacity: decentralization. Though policymakers, practitioners, and academics have heralded decentralization as a tool for better public services and accountability,⁵⁰ scholars of state capacity have largely ignored decentralization. This is in part due to definitions of state capacity. Some equate centralization with state capacity,⁵¹ defining state capacity as “the extension of authority from the center to the periphery”.⁵² Others equate political centralization with political consolidation.⁵³ Those who have studied decentralization and state building warn that decentralization weakens state capacity by empowering societal groups and compromising bureaucratic autonomy.⁵⁴ This reasoning defines state capacity in terms of a bureaucracy’s ability to penetrate and regulate society. A state’s bureaucratic footprint on society, however, neither equates to nor determines a regime’s ability to rule, provide for, or protect its citizens.⁵⁵ Likewise, decentralization does not inhibit state capacity if capacity is defined in terms of public goods, taxes and security. Switzerland, the modern exemplar of political decentralization, had the eighth highest state capacity score in 2015 according to Hanson and Sigman (2021)’s state capacity index.

This comparative analysis of Kuwait and the UAE also nuances our understanding of elite cohesion and state capacity. Scholars generally cast elite cohesion as a prerequisite for state capacity. Postcolonial states cannot hope to broadcast power and authority if the political, economic and security elite are divided.⁵⁶ Elite cohesion, spurred by fears of mass revolt, gives authoritarians a foundation to extract resources and organize their most powerful allies, creating powerful Leviathans.⁵⁷ Elite rivalries, meanwhile, can broaden coalitions through side payments to the lower and middle class.⁵⁸ These side payments - such as public sector jobs and subsidies - can derail state capacity if they weaken bureaucratic competencies and steer investment away from growth enhancing infrastructure and industry. The UAE, however, demonstrates that elite rivalry is not anathema to state capacity when it is contained within a decentralized system of government.

These two insights forge a new theory of decentralized state building. Delegating political authority from the center to the periphery can steer elite rivalries away from violence and into

⁵⁰DeSisto, Pop-Eleches, and Robertson 2026.

⁵¹Schenoni 2024, p.10.

⁵²Soifer 2015, p.32.

⁵³Acemoglu and Robinson 2013, p.87.

⁵⁴Migdal 1988.

⁵⁵Cingolani, Thomsson, and Crombrugghe 2015.

⁵⁶Slater 2010, p.4-5.

⁵⁷Slater 2010, p.7.

⁵⁸Waldner 1999.

state building. This is easier said than done. Like the United States (US), the UAE was born a decentralized state and remained one because its founding leaders kept the federation united by balancing competing demands for greater centralization and decentralization. Many decentralized systems collapse shortly after independence either because one subnational unit leaves⁵⁹ or conquers the others.⁶⁰

Finally, decentralized state building in the UAE demonstrates the many paths to state capacity. Emirati state building was not built from within-state or inter-state violent conflict. The UAE does not have the democratic or constitutional checks on the executive that are hallmarks of the inclusive economic and political institutions that powered prosperity in Western Europe and among settler colonies.⁶¹ Not is the UAE a developmental state. Bloodline determines who commands state institutions, and personal and family ties frequently blur boundaries between the public and private sector, especially among the elite. The UAE's path to capacity illustrates how decentralized systems can harness elite rivalries to catalyze state building.

This article proceeds as follows. The next section defines state capacity and explains decentralized state building. The comparative case study is next. I begin by describing the rise of state capacity in early independent Kuwait due to centralization and elite cohesion. The next section recounts how elite divisions in Kuwait's centralized system has obstructed state capacity in subsequent decades. The analysis then turns to the UAE. I first describe the origins of the country's political decentralization and elite divisions at independence. I then trace how decentralization channeled the UAE's elite divisions into state building through competition and emulation. This article concludes by discussing the implications of decentralized state building for state capacity in the Middle East.

2 State Building: Existing Explanations

While definitions vary,⁶² state capacity in this analysis is a regime's ability to obtain its wants.⁶³ Most regimes want to: 1) maintain internal order, 2) repel external threats, 3) govern and supply the infrastructure for economic activity, and 4) extract revenue.⁶⁴ State capacity is a regime's ability to protect its state's borders, deliver public services, and raise revenue. For ease of reading, I treat state capacity and strength as synonyms. State building

⁵⁹Singapore's separation from Malaysia.

⁶⁰The rise of the People's Republic of South Yemen after the collapse of the Federation of South Arabia.

⁶¹Acemoglu and Robinson 2013.

⁶²Berwick and Christia 2018.

⁶³Cingolani 2013.

⁶⁴Hanson and Sigman 2021, p.1497.

refers to efforts to develop capacity, not efforts delineate territorial borders.⁶⁵ Evidence of state capacity include well functioning roads and infrastructure, public services like schools and hospitals, as well as government institutions to collect taxes, police streets, and regulate commerce.

Explanations for state capacity vary across time and place. Medieval rulers in Europe needed to tax their subjects to fund wars and protect their borders. This created the fiscal and cadastral institutions that produced state capacity.⁶⁶ War did not generate state capacity in East Asia. Huang and Kang (2022) argue that rulers of states neighboring China in the first millennium of the Common Era developed state capacity by emulating the hegemon’s state building initiatives.

Nor did conflict produce capacity among “latecomer” states⁶⁷ - states that became independent after colonization.⁶⁸ Some of this scholarship points to political geography. Sub-Saharan African states born with low population densities have weaker state capacity because they pay higher administrative costs to govern larger territories.⁶⁹ Latin American states with multiple urban centers have weaker state capacity. This is because their early independence leaders believed that a stronger, more interventionist state would impede market-led growth.⁷⁰ Early independence leaders’ choice of whether and how to incorporate peripheral regions also affected long-term state capacity. Ruling pacts between urban and landed elites sabotaged state capacity by allowing patrimonial rule in the periphery in exchange for the uninterrupted flow of agricultural exports to port cities.⁷¹ In post-Cold War East Asia, resource constraints and geopolitical insecurity pushed the ruling elite in Korea, Singapore and Taiwan to create strong “high performing” states to coopt their potentially restive populations. Rulers in Indonesia, Malaysia and Thailand never confronted these pressures, resulting in less ambitious state building.⁷²

Moving to the Middle East, a first generation of scholarship investigated why state capacity is weak throughout the region. Some point to colonialism and foreign interventionism. Western interventionism prevented big states like Egypt, Syria and Iraq from becoming strong states through war making.⁷³ Ayubi (1995) argues that the absence of a strong national identity that aligns with MENA states’ territorial borders forces the region’s ruling

⁶⁵Mazzuca 2021.

⁶⁶Tilly 1990.

⁶⁷Mazzuca 2021; Herbst 2015; Slater 2010; Centeno 2002.

⁶⁸Though Schenoni (2024) contends this.

⁶⁹Herbst 2015.

⁷⁰Soifer 2015.

⁷¹Mazzuca 2021.

⁷²Doner, Ritchie, and Slater 2005.

⁷³Lustick 1997.

elite to rule through violence, creating “fierce” states but not strong ones. Others blame coalition politics for weak capacity. Elite rivalries at early independence led to the rise of revolutionary cross-class coalitions. Side payments in the form of public sector jobs, subsidies and tariffs welded these cross-class coalitions. But these policies also undermined economic competitiveness, to the detriment of state capacity.⁷⁴ Saouli (2012) maintains that the region’s rulers face a dilemma between broadening their ruling coalition with side payments so as to better repel external threats - which weakens state capacity - or ruling with a narrow coalition with stronger capacity but greater vulnerability to foreign intervention.

A more recent wave of scholarship questions the assumption that MENA regimes are weak. This work argues instead that state capacity in the region varies across domains.⁷⁵ States have strong coercive capacities (hence they are “fierce”) and inept bureaucracies. This work also questions the underpinning assumption that regimes *want* strong capacity, as conceptualized by public goods provision and fiscal extraction. Instead, the region’s regimes weaken capacity in some domains for some citizens (public goods provision) and strengthen it in others (security).⁷⁶

This new wave of scholarship is right to remind that not all regimes desire strong capacity. However, it does not answer why some regimes desire and deliver all facets of state capacity. Incentives must matter. I argue that political decentralization can incentivize regimes and their ruling elites to deliver public goods, raise revenue and provide security.

3 Decentralization, Elite Cohesion and State Building

Decentralization has been one of the most common governance reforms since the end of the Cold War.⁷⁷ Political decentralization is the delegation of authority and resources from a central or federal territory of governance to a subnational territory of governance.⁷⁸ Development organizations and practitioners have promoted decentralization in low and middle-income countries as a means to improve public services, government accountability and citizen engagement. The touted benefits of decentralization are largely at the local level. Decentralization shortens the distance between citizen and government official. This greater proximity helps inform officials of their citizens’ needs. It also helps citizens monitor their officials’ performance. Greater local autonomy in policymaking and implementation allows officials to design policies and provide public services in ways that are best adapted to local

⁷⁴Waldner 1999.

⁷⁵Heydemann and Lynch 2024; Hertog 2010b.

⁷⁶Heydemann and Lynch 2024.

⁷⁷DeSisto, Pop-Eleches, and Robertson 2026.

⁷⁸Rodden 2004; DeSisto, Pop-Eleches, and Robertson 2026.

conditions and preferences.⁷⁹ Decentralization’s empirical record, however, is mixed. Decentralization’s ability to deliver better public goods and accountability is highly context dependent.⁸⁰

Scholars of capacity view decentralization as a symptom and cause of state weakness. Decentralized systems often originate as pacts between rulers of regions that are too weak to defend themselves from a larger state’s invasion, and too weak to rule each other.⁸¹ Decentralization can calcify weak capacity by providing external federal support to prop ineffective rulers on the periphery.⁸² Decentralization can also entrench subnational political identities whose proponents resist state building efforts.⁸³ For these reasons, many decentralized systems - especially federal⁸⁴ ones - have failed among newly decolonized states.⁸⁵ Centralization, by contrast, concentrates decision making and authority in one supra-national unit that rules over an entire territory. Political centralization helps rulers bulldoze over opponents of state building, to the benefit of state capacity.

Elite cohesion, however, is necessary for political centralization to enable capacity. Elite cohesion refers to the ability of a state’s political, economic and security to collectively organize. External⁸⁶ and domestic⁸⁷ threats to the elite can push the elite to set aside their differences and work together. State building in postcolonial states requires elite cohesion.⁸⁸ The elite hold the scarce political and economic capital necessary for state building. If the elite are divided, then centralizing political authority would not help channel elite capital into state building.

At the same time, too much elite cohesion can turn the state into an elite cartel where the ruling political and economic elite have little incentive to build infrastructure, tax systems, and public services that would benefit the non-elite and uphold state capacity.⁸⁹ For these reasons, external or internal threats wake elite cartels from their slumber and push them into state building.⁹⁰

Decentralization, however, can also incentivize the elite to commit to state building through two mechanisms. The first mechanism is through competition over political au-

⁷⁹Bardhan 2002.

⁸⁰Mookherjee 2015.

⁸¹Riker 1964, p.8, 11.

⁸²Mazzuca 2021.

⁸³Soifer 2015.

⁸⁴Federalism is a form of decentralization where subnational units have representation and influence in national levels of government (Rodden 2004).

⁸⁵Kavalski and Żółkoś 2008.

⁸⁶Katzenstein 1985; Doner, Ritchie, and Slater 2005.

⁸⁷Slater 2010.

⁸⁸Slater 2010.

⁸⁹Mazzuca 2021.

⁹⁰Doner, Ritchie, and Slater 2005.

thority. The political elite in decentralized systems confront two avenues of competition for their citizens' allegiance. The first is between subnational governments. When rulers of subnational units of governments have the authority and resources to govern - i.e., political and fiscal decentralization - citizens and firms will gravitate to the unit with the best public services.⁹¹ This incentivizes local authorities to provide public goods in exchange for citizens' and corporations' taxes and support.

The second source of competition in a decentralized system is between the subnational and the central or federal government. Decentralized systems are not static. There is an inherent tension in political authority between federal and subnational units, even when ruling constitutions define each level of government's authority. Subnational and federal governments compete for citizens' allegiance through public goods provision and economic performance, both to the benefit of state capacity.

Centralized systems funnel elite competition over political authority into controlling the principal governing unit that delegates policy. If the elite are divided, the elites who are unable to determine policy will not see their policy preferences implemented. Short of violent rebellion, divided elites in centralized systems invest their political capital in winning over the necessary actors to craft policy.

Emulation is the second way decentralization can bolster state capacity. Emulation occurs when political actors copy policies or ideas from another polity because they believe those policies or ideas are appropriate.⁹² Emulation is similar to learning, though learning pertains to adopting ideas or policies based on costs and benefits, not appropriateness.⁹³ For ease of reading, this analysis treats learning as a part of emulation. Decentralization is fodder for emulation because subnational political autonomy allows for policy diversity and experimentation. Over time, subnational polities can copy their neighbors' successful state building policies. Unsuccessful state building policies stay confined to their sub-unit of origin.⁹⁴ Decentralization also prevents the central government from imposing unsuccessful state building policies on to *all* sub-units.⁹⁵

Centralized political systems have less policy diversity, and thus fewer catalysts of emulation. This is because centralized systems limit the number of policy makers who can design and then implement policy. While centralization can produce more cost effective policies by avoiding redundancies and enhancing cooperation across sub-units, if a state building initiative in a centralized state fails, the costs of that failure are paid across the entire territory.

⁹¹Tiebout 1956; Oates 1972.

⁹²Dobbin, Simmons, and Garrett 2007.

⁹³Huang and Kang 2022, p.27-28.

⁹⁴Hayek 1945; Volden 2006.

⁹⁵Taleb 2012; Madison 1788; Qian and Weingast 1997.

Contemporary China exemplifies how decentralization can strengthen state capacity. Though the Chinese Communist Party (CCP) monopolizes political control, local governments are responsible for providing public services, collecting taxes, and maintaining law and order.⁹⁶ CCP-appointed local officials have significant autonomy in making decisions and allocating resources,⁹⁷ producing a variety of policies across provinces.⁹⁸ CCP-determined economic and developmental goals push local governments to compete against each other in economic output and public service provision.⁹⁹ Decentralization in China also encourages emulation. Successful industrial policies in Guangdong, for example, were quickly replicated by local officials in Shanghai.¹⁰⁰

Table 1 illustrates the theorized expectations about the relationship between elite cohesion and political centralization on state capacity. A united political elite in a centralized system can help a regime collect and mobilize resources for state building (top-left). However, absent of threats, cohesive elites in a centralized system have less incentive to build capacity. By contrast, elite divisions in a decentralized system incentivize state building through competition and emulation (bottom-right). Political centralization paired with elite division is the worst combination for state building, as divided centralized systems devolve into state building choke points (bottom-left). Finally, elite cohesion amid political decentralization generates medium levels of state capacity. Elite cohesion can help raise resources for state building. However, elite cohesion could dampen competitiveness between elites to build state capacity (top-right).

Table 1: Elite Cohesion, Centralization and State Capacity

	Centralized	Decentralized
Elite Cohesion	+	+
Elite Division	–	++

Decentralization has its costs. Decentralizing governance duplicates governing and state building institutions. This erodes costs savings from economies of scale - which small states like Kuwait and the UAE already lack. Decentralization is also inefficient. Diverse regulations within a state can obstruct exchange between sub-units. For these reasons, smaller states are generally more centralized than larger ones.¹⁰¹ Decentralization can also condone

⁹⁶Ang 2016; Landry 2008.

⁹⁷Ang 2016, p.6.

⁹⁸Cheng-Gang 2010.

⁹⁹Ang 2020.

¹⁰⁰McGee 2025, p.256.

¹⁰¹Gerring and Veenendaal 2020, p.263.

inequality. More prosperous sub-units will coexist next to poorer ones without a strong central government to redistribute wealth across sub-units.

These inefficiency costs may be worth the state building benefits of decentralization, especially when the political elite is divided. Duplication creates an oversupply of public goods. While this oversupply might seem redundant in times of peace, redundancy promotes resiliency in times of crisis.

Scope conditions bound these expectations. The central government must have some capacity to rival and even govern subnational territories for decentralization to incentivize state building through competition and emulation. Chinese decentralization underscores this point. Pressures to please Beijing push local government officials to build responsive bureaucracies, deliver public goods, grow the economy, and outperform their neighbors.¹⁰² This incentive system requires a centralized governing authority (the CCP) to rule over local officials. Acting as a referee *and* coach, the central government determines the benchmarks, assesses local officials' performance, and then punishes or rewards. China's decentralized state building relies on a central government with the power to delegate subnational authority and monitor subnational performance. The rulers of the central government must either want or threaten greater centralization for subnational governments to resist centralization through state building.

Elite divisions are also bounded. Extreme divisions that result in war and secession are not good for state capacity. The benefits of decentralized state building are most likely to occur in states where elites are divided but still depend on another. Though elites disagree over policy, neither exit nor coercion are viable solutions to these disagreements.

4 Centralization, Elite Cohesion and State Capacity in the Gulf

Kuwait and the UAE bore many similarities at independence. Both states were oil abundant, thinly populated, and under-developed. The emirates that would form the UAE were foreign aid recipients for most of the 1960s.¹⁰³ Abu Dhabi's first hospital was built just four years before independence.¹⁰⁴ The UAE had fewer than fifty native college graduates at the time¹⁰⁵ and a literacy rate of ten percent in the 1950s.¹⁰⁶ Likewise, Kuwait had one state hospital

¹⁰²Blanchard and Shleifer 2001.

¹⁰³Hawley 1970, p.232.

¹⁰⁴Barnwell 2024, p.111.

¹⁰⁵Al Alkim 1989, p.27.

¹⁰⁶Mazaheri 2023, p.111.

and a dozen schools in the decade before independence.¹⁰⁷ Only a third of Kuwaitis were literate at that time.¹⁰⁸

The two states adopted similar economic policies in their early independence. Both paired open markets with large public sectors. With regards to trade, Kuwait joined the General Agreement on Trade and Tariffs (GATT) two years after independence. Kuwait had low tariffs and few import restrictions.¹⁰⁹ The UAE also embraced trade openness, ratifying forty economic, trade and industrial agreements between 1971 and 1976.¹¹⁰ In spite of their open trade policies, both regimes still coopted their state's merchant elites with government contracts, joint ventures and exclusive franchising and import licensing rights.¹¹¹

In terms of public sector employment, Kuwait's civil service law guaranteed public sector jobs for all Kuwaitis.¹¹² By 1976, roughly half of the national labor force worked in the public sector, despite a quarter of civil servants being illiterate and nearly a third not completing primary education.¹¹³ The number of public sector employees tripled between 1965 to 1985, eventually consuming roughly a third of government expenditures.¹¹⁴ The UAE also had a massive public sector. Public sector employees at both the federal and emirate levels of government represented a third of the country's total labor force in 1980.¹¹⁵ The UAE's large civil service would continue into the 21st century. By 2008 almost nine in ten Emirati citizens worked in the public sector.¹¹⁶

Neither sprawling bureaucracy was initially high functioning. Almost ninety percent of Kuwaiti government personnel in the 1970s did not have more than an elementary education.¹¹⁷ A 1965 report on Kuwait's public sector by the International Bank for Reconstruction and Development observed that personal connections trumped qualifications in obtaining a government job.¹¹⁸ That same report decried government offices' low productivity while noting that "the amount of work done by each person or section is small because there sometimes simply is not enough work to fill the day".¹¹⁹ The UAE also lacked domestic human capital to staff its nascent bureaucracies; expatriates constituted eighty percent of

¹⁰⁷Daniels 1971, p.132.

¹⁰⁸Hewins 1963, p.253.

¹⁰⁹El Mallakh 1979, p.62.

¹¹⁰Abdulla 1985, p.235.

¹¹¹Ulrichsen 2017, p.7; El Mallakh 1979, p.63.

¹¹²Al Dekhayel 2000, p.86.

¹¹³S. L. Yom 2016, p.72.

¹¹⁴Al Dekhayel 2000, p.93.

¹¹⁵Abdulla 1985, p.213.

¹¹⁶Mazaheri 2023, p.111.

¹¹⁷Daniels 1971, p.186.

¹¹⁸Al Dekhayel 2000, p.87.

¹¹⁹S. L. Yom 2016, p.72.

the UAE's public sector labor force in 1980.¹²⁰

Lastly, both states gained independence after the discovery of unimaginable oil abundance. Due to their small native populations, Kuwait and the UAE are “extreme rentier” states.¹²¹ How these newly independent regimes managed, protected, and invested their oil wealth would determine their economic and political trajectory. Amid these broad similarities between the UAE and Kuwait, two factors at independence distinguished the Gulf states: levels of political centralization and elite cohesiveness. Together, these factors would shape the two states’ diverging state building trajectories over the next half century.

5 Kuwait, Centralization, and the Rise and Fall of State Capacity

Kuwait obtained independence in 1961, a decade before the UAE. Independence came peacefully and officially after the United Kingdom (UK) annulled the Anglo-Kuwait agreement of 1899. The Anglo-Kuwait agreement had given Kuwait’s ruling Al Sabah family full authority over domestic affairs, while the UK directed the oil abundant emirate’s foreign policy. As common in other Gulf states, a long-standing division of political labor between a ruling family and an urban merchant elite marked Kuwait’s political economy. The Al Sabah governed and protected the territory in exchange for the merchants’ taxes. Kuwait’s ruling family would also abstain from commerce and consult with the merchant elite prior to making major decisions.¹²² The contours of this bargain swayed with time. The Al Sabah and the merchant elite - known as the *Asil* - periodically contested the extent of which the Al Sabah needed to consult with the merchant class over governance. By independence, however, Kuwait was already one of the world’s largest oil exporters.¹²³ Oil ended the Al Sabah’s dependence on the merchants for taxes, and with it, much of the merchants’ leverage on the ruling family.¹²⁴ The Brits condoned this separation of labor, which perpetuated the Al Sabah’s continued monopolization of executive power after independence.

Though obtained peacefully, Kuwait’s independence triggered a regional crisis. Iraq’s leader Abdul-Karim al Qasim claimed Iraq’s historical ownership of Kuwait and threatened invasion less than a week after Kuwait declared independence. Kuwait was too small to repel an Iraqi invasion; Iraq’s army outnumbered Kuwait’s by more than twenty to one.¹²⁵

¹²⁰ Abdulla 1985, p.217.

¹²¹ Mazaheri 2023, p.112.

¹²² Al Najjar 2000, p.243.

¹²³ Hewins 1963, p.236.

¹²⁴ Crystal 1990.

¹²⁵ S. L. Yom 2016, p.66.

The Brits quickly dispatched troops to the Iraqi border.¹²⁶ The Brits' return to Kuwait, however, upset pan-Arab sentiments in Kuwait and abroad. The Egyptian leader Gamal Abdel-Nasser, at the height of his regional popularity in the wake of the 1958 Suez Crisis, called on Arab league forces to defend Kuwait instead of British ones.¹²⁷ Meanwhile, the USSR vetoed Kuwait's application to join the United Nations in support of Iraq.

Scholars and historians of Kuwait argue the regime's campaign for international recognition of Kuwaiti independence solidified the country's pluralistic political system.¹²⁸ Amid the powerful decolonization movements across the Global South of that time, Kuwait had all the symptoms of a colonially constructed state, fabricated by the British to produce oil and attract British capital.¹²⁹ Iraq's representative to the UN described the new state as the product of a "unholy alliance between feudalism and colonialism."¹³⁰ Kuwait had a small population (less than 200,000¹³¹), a large foreign one, and a singularly oil-based economy. It was unclear whether Kuwait could survive as an independent state without British support.

The Al Sabah found allies in the *Asil* and international recognition by agreeing to a constitution and parliamentary system that could check its power. Indeed, the Al Sabah invited the *Asil* to help draft Kuwait's constitution.¹³² Members of Kuwait's prominent merchant families toured with the royal family across the Arab world's capitals to lobby for recognition of Kuwaiti independence. The Al Sabah - *Asil* partnership helped broadcast that all Kuwaitis supported independence from the UK and Iraq, legitimizing the Al Sabah in the eyes of the rulers of the Arab republics.¹³³

Two hallmarks of Kuwait's political system formed at independence. The first is political pluralism. Kuwait's National Assembly is the strongest legislative institution in the Gulf, if not the Arab World.¹³⁴ Though the Al Sabah monopolize the executive, its policies must have a majority approval from the National Assembly's fifty elected members of parliament (MPs). MPs are elected by secret ballot every four to five years. In addition to voting on legislation, MPs can investigate, oversee, and interrogate members of the executive (i.e. the cabinet). The National Assembly can pass a vote of no confidence against a Minister (Article 101), and dissolve the National Assembly if a majority have no confidence in the Prime Minister (Article 102). Lastly, a majority of MPs must also approve the Emir's choice

¹²⁶S. L. Yom 2016, p.66.

¹²⁷Herb 2014, p.90.

¹²⁸Herb 2014; Al Najjar 2000.

¹²⁹Herb 2014, p.90.

¹³⁰Herb 2014, p.91.

¹³¹Hewins 1963, p.237.

¹³²Herb 2014, p.97; Al Shehabi 2015, p.156.

¹³³Herb 2014, p.92.

¹³⁴Tavana and York 2025.

of Crown Prince. Outside of the National Assembly, Kuwait has historically had one of the most vibrant presses in the region. It is also home to an active civil society, thanks to the constitution's lax organizational restrictions.¹³⁵

Extreme centralization is the second hallmark of Kuwait's political system. Very little authority is delegated beyond the Al Sabah-led and the National Assembly-checked central government. Kuwait is one of the most fiscally centralized countries in world, with all government revenue and spending emanating from the central government.¹³⁶ Urban planning and governance are also highly centralized.¹³⁷ The central government owns ninety percent of the land in Kuwait.¹³⁸ It is responsible for developing most of Kuwait's territory.¹³⁹ Governors and mayors, meanwhile, have largely ceremonial roles.¹⁴⁰

The *Asil* and the Al Sabah backed political centralization for three reasons. Most importantly, by delegating executive authority and resources to rulers of subnational territories, decentralization violated the Al Sabah and *Asil*'s historical division of labor. Second, there were few settled communities outside of the capital at the time of independence to delegate political authority to. Kuwait's rural, tribal *Bedu* communities resided in the country's exterior, and were still nomadic or semi-nomadic. The state's resettlement of the *Bedu* into semi-urban neighborhoods accelerated after independence. Kuwait's high urban concentration enabled the well-resourced central government to absorb the responsibilities of more local governments. Finally, the *Asil* opposed any overtures that could empower the *Bedu*. For example, the merchant elite lobbied for Kuwait to have one electoral constituency to prevent the *Bedu* from dominating the National Assembly.¹⁴¹ Decentralization would divert resources and authority from the central government in Kuwait city to rulers of *Bedu* communities on the periphery. Neither the Al Sabah nor the *Asil* wanted this.

Centralization does not mean unanimity. Divisions existed within the Al Sabah and the *Asil*. The Al Sabah is a large ruling family with two branches in the royal family tree that alternate rule as Emir.¹⁴² Emir Jabir, Kuwait's third post-independence Emir, had reportedly married over forty wives and fathered at least seventy children.¹⁴³ Because the Al Sabah staff the upper echelons of government ministries, intergenerational divisions and rivalries within the royal family forged "institutional fiefdoms" within the Kuwaiti government.¹⁴⁴ In these

¹³⁵S. L. Yom 2016, p.74.

¹³⁶Dziobek, Gutierrez Mangas, and Kufa 2011, p.11 - 15.

¹³⁷Al Nakib 2016, p.98.

¹³⁸Herb 2014, p.150.

¹³⁹Herb 2014, p.180.

¹⁴⁰Alrasheed and Cruz 2023; Al Nakib 2016, p.98.

¹⁴¹Al Najjar 1984, p.47.

¹⁴²The Washington Post reporter Steve Coll estimates an extended family of 1,200 royals (Coll 2024, p.157).

¹⁴³Coll 2024, p.157.

¹⁴⁴Al Sayed 2022.

early years of independence, the Al Sabah disagreed over the extent of the constitution's political liberalism.¹⁴⁵ The *Asil*, meanwhile, were split over pan-Arabism.¹⁴⁶

5.1 Early Independence: Elite Cohesion and Centralization

Despite these differences, Kuwait's early independence elite were much more politically united at early independence than in subsequent decades. Fears of Iraq's invasion in 1961 muted disagreements and united the Al Sabah and the *Asil*. Much like how external threats from inter-war Germany forged compromises between the political and economic elite of small European states,¹⁴⁷ the terrifying possibility of foreign occupation and international indifference pushed Kuwait's political and economic elite to compromise and collaborate. Hence the elites' speedy ratification of Kuwait's constitution within a year of independence.

Cooptation and policy concessions also helped unite the elite.¹⁴⁸ The regime's oil-funded Land Acquisition Program or *Tathmeen* was one of its most expensive tools of elite cooptation.¹⁴⁹ Under the *Tathmeen*, the regime would buy land from private owners at inflated market prices and then resell it at lower prices.¹⁵⁰ Between 1957 to 1963, the Kuwaiti government spent more on land purchases than defense, health care, education and public utilities combined.¹⁵¹ The *Tathmeen* consumed more than a third of all government expenditures in Kuwait's first decade of independence, eventually falling to five to ten percent of all expenditures in the early 1980s.¹⁵² By that time, the regime had spent almost USD 10 billion on the Land Acquisition Program.¹⁵³

The regime also coopted Kuwait's merchant elite with favorable trade and business policies. The Law of Commercial Companies of 1960 required that at least 51 percent of all companies in Kuwait be owned by Kuwaitis.¹⁵⁴ Four years later, the regime passed an imports law that restricted importing merchandise to companies with at least 51 percent Kuwaiti ownership.¹⁵⁵ As a result, though Kuwait had low tariffs and belonged to the GATT, prices for some importers goods were much higher than justified by transport costs due to exclusive dealerships for highly sought after products.¹⁵⁶ By 1980, thirty eight commercial agents ran

¹⁴⁵Herb 2014, p.97.

¹⁴⁶Al Shehabi 2015; Al Najjar 1984.

¹⁴⁷Katzenstein 1985.

¹⁴⁸Tavana and York 2025.

¹⁴⁹S. L. Yom 2016, p.61.

¹⁵⁰Al Dekhayel 2000, p.168.

¹⁵¹S. L. Yom 2016, p.61.

¹⁵²Herb 2014, p.155.

¹⁵³S. L. Yom 2016, p.76.

¹⁵⁴Tétreault 1991, p.580.

¹⁵⁵Al Dekhayel 2000, p.175.

¹⁵⁶Al Dekhayel 2000, p.176.

companies that managed almost three quarters of total imports to Kuwait by 1980.¹⁵⁷

With regards to industrial policy, the 1965 National Industrial Law exempted local industrial firms from taxes, tariffs on inputs, and exemptions on export fees. The government also pledged to purchase locally produced industrial goods so long as the cost was no more than ten percent higher than an imported good.¹⁵⁸ The regime sold land for industrial use at cheap rates to encourage industrial production.¹⁵⁹ It also bought shares in local companies to help business owners raise capital. The state owned more than a third of all shares of listed firms by 1979.¹⁶⁰

The land acquisition program, commercial ownership laws, and industrial policies all favored the urban elite over rural and poorer Kuwaitis. These policies inflated the costs of land and imports, to the benefit of the *Asil*.¹⁶¹ Indeed, almost two-thirds of the state's expenditures on the *Tathmeen* program went to the wealthiest eighty merchant families.¹⁶²

Policy concessions also welded greater elite cohesion in Kuwait's early years of independence. Kuwait's emir at independence, Sheikh Abdullah, was more supportive of political openness than his peers and successors.¹⁶³ When the National Assembly vetoed his first cabinet because of some ministers' ongoing ties to business, Sheikh Abdullah accepted the veto and ordered the Prime Minister to form a new cabinet that was closer to the National Assembly's preferences.¹⁶⁴ The regime also nationalized Kuwait's oil industry in 1975,¹⁶⁵ a long-standing demand of pan-Arabist MPs.

Foreign policy was another realm that enabled elite cohesion. The Kuwaiti regime struck a much more pan-Arab foreign policy than other Gulf states.¹⁶⁶ It was a vocal supporter of Palestine and Algeria, and tried to stay non-aligned during the Cold War.¹⁶⁷ Kuwait was one of the first Gulf states to have open diplomatic relations with the Soviet Union.¹⁶⁸ Kuwait also sent funds to Jordan and Syria to support their resistance to the 1978 Camp David peace accords between Israel and Egypt,¹⁶⁹ and allowed the Palestinian Liberation Organization to run schools in Kuwait.¹⁷⁰ More broadly, the Kuwaiti regime created the Kuwait Fund for

¹⁵⁷Al Dekhayel 2000, p.176.

¹⁵⁸El Mallakh 1979, p.46.

¹⁵⁹Herb 2014, p.155.

¹⁶⁰S. L. Yom 2016, p.77.

¹⁶¹Alessa 1981, p.47.

¹⁶²S. L. Yom 2016, p.76.

¹⁶³Herb 2014, p.97.

¹⁶⁴Al Najjar 1984, p.57.

¹⁶⁵Al Najjar 1984, p.249.

¹⁶⁶Al Sayed 2022.

¹⁶⁷S. L. Yom 2016, p.75.

¹⁶⁸S. L. Yom 2016, p.76.

¹⁶⁹S. L. Yom 2016, p.75.

¹⁷⁰Ryan and Stork 1977.

Arab Economic Development, which distributed over USD 5 billion in loans between 1962 to 1989 to low and middle-income countries.¹⁷¹ These policies reflect the policy preferences of Kuwaiti Emirs. However, the regime readily incorporated vocal and at times critical Arab nationalists into the foreign ministry.¹⁷²

Elite cohesion within Kuwait's highly centralized political system enabled high state capacity in Kuwait's first two decades of independence. Bolstered by its vast oil wealth - Kuwait was the second largest oil exporter after Venezuela in 1953¹⁷³ - the newly independent state underwent massive state building in the 1960s and 1970s. The number of schools grew from sixty in 1956¹⁷⁴ to more than three hundred two decades later.¹⁷⁵ Youth illiteracy dropped fifteen percentage points from 60 percent in 1957 to 45 percent almost two decades later.¹⁷⁶ Kuwait had one hospital in 1950. By 1965 the government built eight hospitals, over two hundred health establishments, and eleven motherhood welfare centers.¹⁷⁷ Kuwait's tuberculosis rate in 1975 was a fifth of its rate a decade earlier.¹⁷⁸ There was also a massive expansion in housing. Through its desertification program, the government settled 14,000 Kuwaitis into public housing from 1953 to 1973.¹⁷⁹

Early independence Kuwait also had strong capacity in infrastructure. The state demolished much of Kuwait City's old town to build newer and wider roads, residential neighborhoods and public spaces.¹⁸⁰ The government commissioned a "Who's Who of the international giants" in architectural modernism to build a new international airport, the National Assembly - designed by the same architect behind the Sydney Opera House, the Central Bank, and ball and pin shaped water towers that have become national landmarks.¹⁸¹ Kuwait was also home to the world's largest desalination plant in 1963.¹⁸² By 1968, the plant generated 23 million gallons of water per day, up from 9 million the year prior.¹⁸³ The government built a new port of Shuwaikh in 1960 to accommodate larger tankers and facilitate oil exports,¹⁸⁴ and the Shuaiba industrial complex shortly after to encourage industrializa-

¹⁷¹S. L. Yom 2016, p.75.

¹⁷²Al Sayed 2022; Al Najjar 1984, p.63.

¹⁷³Hewins 1963, p.236.

¹⁷⁴Daniels 1971, p.76.

¹⁷⁵El Mallakh 1979, p.22.

¹⁷⁶El Mallakh 1979, p.19.

¹⁷⁷Daniels 1971, p.132-133.

¹⁷⁸El Mallakh 1979, p.24.

¹⁷⁹El Mallakh 1979, p.25.

¹⁸⁰Al Nakib 2016, Chapter 4.

¹⁸¹Al Nakib 2016, p.116.

¹⁸²Hewins 1963, p.251.

¹⁸³Daniels 1971, p.126.

¹⁸⁴Kuwait. Ministry of Guidance and Information 1963, p.160.

tion.¹⁸⁵ Shuaiba’s fast construction impressed the American-Egyptian economist Ragaei El Mallakh, who noted that “even with the democratic process in planning which might slow down the decisions and implementation, Kuwait’s record remains enviably efficient in conceiving and realizing development projects.¹⁸⁶” The Kuwait-based British accountant John Daniels was also awed by the scale and speed of Kuwaiti state building in the 1970s. In prose resembling coteremporary paeans to Dubai, Daniels writes “The State continues to make such rapid strides that one almost runs out superlatives in describing her progress and numerous activities. One is terribly conscious that before the ink is dry another record has been broken.¹⁸⁷”

Kuwait’s parliamentary system did not derail state building at that time.¹⁸⁸ The National Assembly was not a rubber stamp parliament in the 1960s and 1970s. It vetoed the Al Sabah’s first proposed cabinet¹⁸⁹ and grilled royal ministers over land purchases.¹⁹⁰ Some parliamentarians even quit the first National Assembly in protest.¹⁹¹

Elite cohesion, however, allowed the Al Sabah to leverage the country’s extreme oil wealth and political centralization to undertake massive state building. Unlike in subsequent decades, the regime faced little political resistance to its state building projects.¹⁹² It helped that the *Asil*, like the mercantile elite in other resource abundant countries,¹⁹³ profited from the state’s infrastructure and other state building projects - though some pan-Arabists objected to Kuwait’s desalination plant, arguing that the country should continue to import water from Iraq.¹⁹⁴ Kuwait’s early independence state building policies reflected a fusion of mercantile and rentier interests that would emerge in other Gulf states. Political unity between the Al Sabah and the merchant elite who led the National Assembly disarmed the assembly from blocking state building. Centralization allowed the state to implement its state building policies uniformly, quickly, and at scale.

5.2 Elite Division, Centralization, and Low Capacity

Kuwait’s elite unity began dissipating in the mid-1960s. Iraqi strongman’s Abdul-Karim al Qasim’s fall in a 1963 coup blunted the existential threat that had brought Kuwait’s

¹⁸⁵El Mallakh 1968, p.138.

¹⁸⁶El Mallakh 1979, p.138.

¹⁸⁷Daniels 1971, p.126.

¹⁸⁸El Mallakh 1968, p.138.

¹⁸⁹Al Najjar 1984, p.57.

¹⁹⁰Herb 2014, p.156.

¹⁹¹Al Najjar 1984, p.54.

¹⁹²Al Nakib 2016, Chapter 4.

¹⁹³Saylor 2014.

¹⁹⁴Daniels 1971, p.54.

political and merchant elite together. Kuwait's subsequent recognition in the UN National Assembly shortly thereafter ended the pretense for many Al Sabah of the need to have a pluralistic system to gain international recognition.¹⁹⁵ Sheikh Abdullah's death in 1965 was another blow to elite unity. Abdullah's heirs and relatives were much more opposed to parliamentary oversight and compromise.¹⁹⁶ The first National Assembly election after Sheikh Abdullah's death in 1967 was riddled with irregularities, leading to a crushing defeat of pan-Arabist candidates.¹⁹⁷ Some elected MPs then withdrew from the assembly in protest over the Al Sabah's electoral interference.¹⁹⁸ Parliamentary opposition would become so intense over the next decade that the regime eventually dissolved the National Assembly extra-constitutionally in 1976, banning opposition newspapers and shutting civil society organizations.¹⁹⁹

The death knell of the Al Sabah's alliance with the merchant elite came when the regime expanded the number of electoral districts from ten to twenty-five in the 1981 National Assembly elections. This redistricting benefited rural, *Bedu* constituents over urban ones,²⁰⁰ and "adulterated the few areas where the merchants and old Arab nationalists thrived".²⁰¹ The Al Sabah believed that Kuwait's rural constituents would be more supportive of their authoritarian rule than urban constituents.²⁰² Between 1965 to 1981, most of the over 200,000 residents that the Kuwaiti regime extended citizenship were of *Bedu* and rural origins.²⁰³ Redistricting also divided urban neighborhoods along predominantly sectarian lines, facilitating Shi'ite candidates' entrance into the National Assembly.²⁰⁴ The regime expected this political ascendancy of rural and the Shi'ite representatives in the National Assembly to counterbalance the predominantly urban and Sunni merchant - Arab nationalist opposition.

This redistricting, however, fractured Kuwait's political elite. By broadening parliamentary representation, the regime added new class and sectarian cleavages into parliamentary oversight. The National Assembly became more representative of the Kuwaiti middle class.²⁰⁵ Rural MPs' fiscal, labor and economic policy preferences clashed with their urban peers. Smaller districts also lowered the barriers of entry for MPs with more pronounced and varied ideologies. Islamist politicians ascended into the parliament as well. The share

¹⁹⁵Herb 2014, p.90.

¹⁹⁶Al Najjar 1984, p.56 - 57.

¹⁹⁷Herb 2014, p.106.

¹⁹⁸Al Najjar 1984, p.60.

¹⁹⁹Al Najjar 1984, p.69.

²⁰⁰Tavana 2026.

²⁰¹S. L. Yom 2016, p.82.

²⁰²S. L. Yom 2016, p.81.

²⁰³S. L. Yom 2016, p.81.

²⁰⁴Tavana 2026, p.628.

²⁰⁵Hertog 2010a, p.287.

of National Assembly MPs with ideological affiliations grew after 1981.²⁰⁶ Kuwaiti politics in the 1980s consisted of an increasingly authoritarian executive checked by an increasingly diverse and divided legislature.

Worse for the Al Sabah, the politically ascendant rural MPs were no pushovers.²⁰⁷ The opportunity to shape if not block policy had “politicized” Kuwait’s tribal MPs.²⁰⁸ The National Assemblies of the 1980s were much more focused on “domestic politics and economic issues. Ministerial corruption and financial impropriety were popular topics of debate.²⁰⁹” The 1981 and 1985 National Assemblies had more cabinet interpellations or “grillings” than the previous four assemblies combined.²¹⁰ Opposition in the National Assembly became so unruly that the regime disbanded the parliament extra-constitutionally again in 1986.²¹¹

Kuwait’s elite fragmentation and its impediment to state capacity quickly surfaced after the Souq Al Manakh stock market crash in 1982. The Al Manakh stock market was an unregulated parallel stock market involving offshore Gulf companies. This market ballooned and then burst, leaving 5000 Kuwaitis with more than USD 90 million in debt,²¹² an amount four times Kuwait’s GDP.²¹³ Many local banks had backed these debts, putting Kuwaitis’ savings and the country’s once sterling financial markets at risk. The timing of the Al Manakh crash could not have been worse for the Kuwaiti economy. Oil prices dropped fifteen percent between 1981 to 1983, halving Kuwait’s oil exports during that same period.²¹⁴ The state incurred its first fiscal deficit in 1981, which was only exacerbated by the Al Manakh crisis in 1982.²¹⁵

Kuwait’s elite disagreed how to respond to the crisis. The merchant elite favored some form of a government bailout for distressed debtors and banks. Though most were not directly implicated by the crash, the *Asil* feared that the crash would hurt Kuwait’s official stock market and weaken the broader wider financial system.²¹⁶ Rural and Islamist MPs, meanwhile, opposed any government support to wealthy debtors. Cabinet was also divided. The minister of finance opposed bailouts. The ministers of oil and industry and trade, however, backed state intervention to contain the crisis.²¹⁷

²⁰⁶Tavana and York 2025, Fig. 5.

²⁰⁷Al Najjar 2000, p.246.

²⁰⁸P. W. Moore 2004, p.121.

²⁰⁹P. W. Moore 2004, p.126.

²¹⁰Allarakia 2025, Fig 4.

²¹¹P. W. Moore 2004, p.123.

²¹²P. W. Moore 2004, p.125.

²¹³S. L. Yom 2016, p.85.

²¹⁴P. W. Moore 2004, p.125.

²¹⁵P. W. Moore 2004, p.125.

²¹⁶P. W. Moore 2004, p.130.

²¹⁷P. W. Moore 2004, p.130.

The regime ultimately sided with the *Asil* and opted for bailouts to distressed banks and lenders. Cabinet worked with representatives of the merchant elite and the Kuwaiti Chamber of Commerce and Industry to pass a repayment plan in parliament.²¹⁸ The government also spent over USD 2 trillion between 1982 and 1984 to buy stocks of companies and banks that were heavily exposed to the crisis.²¹⁹ However, the regime was unable to overcome parliamentary opposition for a more extensive bank bailout.²²⁰ This was the first time that the National Assembly used its parliamentary power to change the government’s distributional choices.²²¹ That year also marked the first time the National Assembly successfully used the threat of a no confidence vote to force a minister’s resignation.²²² The regime could only muscle through its bank bailout law with extra-parliamentary approval after it suspended the National Assembly in 1986 - four years after the the Al Manakh market collapsed.²²³

Iraq’s invasion in 1991 further divided Kuwait’s political elite. Unlike at independence when Iraqi aggression stimulated elite cohesion, many Kuwaitis viewed the government as responsible for the country’s quick collapse to Iraqi forces.²²⁴ Indeed, Kuwait’s foreign minister Sabah Al Sabah believed Iraqi strongman Saddam Hussein’s violent rhetoric in the months before Kuwait’s invasion was mere bravado.²²⁵ The Al Sabah had failed in their traditional role to protect the state. Resentment toward the Al Sabah simmered during the Iraqi occupation, with some Kuwaiti opposition members refusing to support the Emir’s return unless he reopened parliament and held elections after liberation.²²⁶

Since its reopening after Kuwait’s liberation, the National Assembly remains a locus of elite division. Legislator diversity underpins this division. Members of the National Assembly represent intersecting urban and rural, wealthy and middle class, Islamist and liberal interests. The diversity of legislatures remained throughout 1990s and early 2000s,²²⁷ though the share of MPs with ideological affiliations dropped after the government adopted five electorates (down from twenty-five) in 2006.²²⁸ Elite diversity does not predetermine elite division. However, the low barriers to parliamentary supervision enshrined in the Kuwaiti constitution discourages political compromise across ideological and socio-economic boundaries. Any MP can interpellate or “grill” a minister. Only ten MPs are needed to call a

²¹⁸P. W. Moore 2004, p.132.

²¹⁹Kireyev 1997, p.42.

²²⁰P. W. Moore 2004, p.133.

²²¹Herb 2014, p.176.

²²²Herb 2014, p.102.

²²³P. W. Moore 2004, p.134.

²²⁴P. Moore and S. Yom 2026, p.12.

²²⁵Coll 2024, p.159.

²²⁶P. Moore and S. Yom 2026, p.12.

²²⁷Tavana 2026, Figure 2.

²²⁸Tavana and York 2025, Figure 5.

vote of confidence.²²⁹ This gives any parliamentary minority the “ability to essentially veto government policy - the mere threat of an interpellation caused the government to surrender whatever policy it sought to pursue.”²³⁰ The number of National Assembly grillings of cabinet members has grown exponentially since 1990. The 2016 National Assembly launched more than thirty interpellations, more than six times the number of interpellations in 1985, which at that time was a record.²³¹ The regime, meanwhile, has disbanded the National Assembly nine times between 1990 and 2022.²³²

Amid elite divisions, Kuwait’s extreme political centralization turns the National Assembly into a state building chokepoint. The National Assembly has lawmaking authority over ninety percent of land in Kuwait and the distribution of oil revenue.²³³ The State Audit Bureau, which responds to the National Assembly, is another lever MPs can use to oversee policy implementation. Extreme parliamentary oversight and centralization enables Kuwait’s MPs to torpedo a wide spectrum of state building initiatives. The National Assembly has blocked state efforts to drill oil fields in northern Kuwait,²³⁴ diversify Kuwait’s petrochemical industry through mergers with multinational corporations,²³⁵ and build a new deep water port.²³⁶ The National Assembly has also scuttled defense procurement contracts.²³⁷ MPs have grilled ministers over land purchases, sales, and rents.²³⁸ Parliamentary supervision over land is so intense that the government circumvents parliamentary scrutiny with a build-operate-transfer (BOT) mechanism that makes land open to investors for a period until it reverts back to the state.²³⁹ This discourages investment, however, because the private investor receives no compensation when it turns the land and all buildings on it to the state when the BOT expires. Fears of the State Audit Bureau scares investors from funding and government officials from approving BOT projects and infrastructure projects more broadly.²⁴⁰

The rise and fall of state capacity in Kuwait demonstrates that political centralization can obstruct state building when elites are divided. Centralization allowed the early independence alliance between the Al Sabah and the *Asil* to invest Kuwait’s colossal oil wealth

²²⁹Herb 2014, p.171-172.

²³⁰Herb 2014, p.171.

²³¹Allarakia 2025, p.117.

²³²Allarakia 2025, p.117.

²³³Herb 2014, p.150.

²³⁴Tohow et al. 2026.

²³⁵Herb 2014, p.143.

²³⁶Hertog 2010a.

²³⁷P. Moore and S. Yom 2026, p.18.

²³⁸Herb 2014, p.157.

²³⁹Herb 2014, p.157.

²⁴⁰Herb 2014, p.160.

into infrastructure and human welfare. This alliance came at the cost of politically excluding Kuwait’s rural and middle class communities. Though the regime’s electoral redistricting in the 1980s expanded these communities’ political representation, it fractured the political elite. The low barriers to parliament’s oversight over the executive allows the fractured elite to halt policy implementation, even over universally coveted public goods like roads. Centralization amid elite division blocks the state from building and adapting.

6 Elite Divisions and Decentralized State Building in the UAE

The UAE had neither elite unity nor political centralization when it became independent in 1971. The UAE was a thinly populated federation of six soon to be seven²⁴¹ motley and rivalrous emirates at independence.²⁴³ The emirates differed in size and resources. Abu Dhabi, the largest, has a land mass of 26,000 square miles. Ajman, the smallest, has a land mass of a hundred square miles.²⁴⁴ Wealth is also unevenly distributed across the emirates. Abu Dhabi produced 95 percent of the UAE’s total crude oil production in 2014.²⁴⁵ Dubai is the second wealthiest emirate, though its wealth no longer stems from oil, but from trade and services. Together, Abu Dhabi and Dubai constitute the UAE’s “two poles of political and economic gravity”.²⁴⁶

The UAE’s British colonizers helped seed the fruits of decentralization by institutionalizing administrative boundaries between the ruling families that governed the emirates on the Trucial Coast. The UK initially dealt with each ruling family bilaterally, allowing each emirate’s ruler to issue their own passports, stamps, and flags.²⁴⁷ After World War II, the Brits established a Council of Rulers and then the Trucial State Council and Development Council where heads of each of the seven emirates met to coordinate issues of governance.

Despite British efforts, the “rulers (of each emirate) manifested hardly any interest in mutual cooperation.”²⁴⁸ Land was a central source of conflict. There were more than a dozen inter-emirate frontier disputes at the time of the UAE’s independence.²⁴⁹ The emirates of Abu Dhabi and Dubai had fought a three year war three decades earlier.²⁵⁰ UK protection

²⁴¹242

²⁴³Fenelon 1976, p.6.

²⁴⁴Ulrichsen 2017, p.5.

²⁴⁵Ulrichsen 2017, p.4.

²⁴⁶Ulrichsen 2017, p.4.

²⁴⁷Taryam 1987, p.33.

²⁴⁸Taryam 1987, p.34.

²⁴⁹Anthony 1975, p.215.

²⁵⁰Heard-Bey 1982, p.312.

under colonialism further disincentivized inter-emirate cooperation or unity because each ruling family could “shelter under the British umbrella” when confronting foreign and domestic aggression.²⁵¹ Divisions among the emirates were so entrenched that foreign analysts feared that the UAE would splinter into separate states after independence.²⁵² The ruler of Ras Al Khaimah, the last emirate to officially join the UAE, sent his son to the US to plea for recognition as an independent state in exchange for a military base. The US declined.²⁵³ A UK diplomat at the time described the UAE as the “most vulnerable of the new states. It is bedeviled by a lack of cooperation between the rulers and the constituent states, with a continuation of their traditional distrust and tribal rivalries.”²⁵⁴

The UK’s unexpected decision to withdraw its military commitments “East of the Suez” in 1968, however, pushed the Trucial Coast’s fractious rulers into greater cooperation and into eventually forming the UAE. Without the British, ruling families across the emirates worried that their emirate was “so small as not to be politically or economically viable on their own.”²⁵⁵ Some also feared that inter-emirate discord would encourage larger neighbors to claim rights and suzerainty over their emirate.²⁵⁶ Saudi Arabia had a long-standing claim to the oil-rich Buraimi oasis in Abu Dhabi. Iran seized three islands in the Straits of Hormuz just weeks before the UAE’s official independence. The Brits had protected the emirates’ sovereignty from larger states.²⁵⁷ Without the UK to prop them up, ruling families in smaller emirates felt vulnerable to both foreign and local rivals. Joining the UAE helped quell both of these threats. As in Kuwait, external threats at independence thawed cold divisions between the UAE’s elites.

Though fears over external and internal security united the emirates in accepting the UAE, demographic and economic disparities between the emirates helped forge the UAE’s extreme decentralization. The UAE’s two largest emirates - Abu Dhabi and Dubai - disagreed over the extent of the new state’s centralization, with Dubai advocating for greater decentralization and Abu Dhabi wanting more centralization.²⁵⁸ Meanwhile, the union’s smaller emirates worried about the larger emirates’ dominance.²⁵⁹ Abu Dhabi and Dubai’s opposing preferences for centralization, coupled with smaller emirates’ fears of being dominated by either Abu Dhabi or Dubai, and *every* emirate’s fear of foreign domination, created

²⁵¹Fenelon 1976, p.19.

²⁵²Morris 1974, p. 98.

²⁵³Anthony 1975, p.203.

²⁵⁴Ulrichsen 2017, p.59.

²⁵⁵Fenelon 1976, p.19.

²⁵⁶Fenelon 1976, p.22.

²⁵⁷Waldner and Smith 2021; Bradshaw 2019.

²⁵⁸Anthony 1975, p.108.

²⁵⁹Anthony 1975, p.105-108.

the compromises that built the UAE’s decentralized system of governance.

The UAE has extreme political decentralization. As declared in Article 3 of the UAE’s constitution,²⁶⁰ each emirate has full sovereignty over its land, and by extension, its hydrocarbons.²⁶¹ As a result, the UAE is home to several emirate-backed oil companies: ADNOC, ENOC, SNOC, and Tarqa. The ruling families of each emirate managed their emirate’s budgets and retained considerable fiscal autonomy.²⁶² Indeed, in 2017 subnational (i.e. emirate-level) government spending in the UAE represented 85 percent of all government spending, making the UAE the most fiscally decentralized country in the world.²⁶³ In the early years of UAE statehood, each emirate could also pursue its own trade²⁶⁴ and foreign policy.²⁶⁵ Finally, the constitution allowed each emirate to raise and fund its own military.²⁶⁶

Decentralization emanated from the emirates’ elite divisions. The UAE’s highly decentralized structure eased each emirate’s entrance into the union. Decentralization continued many existing laws and governing institutions within each emirate.²⁶⁷ Political leadership within each emirate remained unelected, top-down, and highly personal. The new constitution allowed ruling families to continue governing, staffing the upper echelons of their emirate’s bureaucracies and federal government.

Inter-emirate powersharing at the federal level accompanies the UAE’s extreme decentralization. Article 120 of the constitution tasks the federal government with responsibility over foreign affairs, defense, education, and public health.²⁶⁸ However, while more than half of the constitution’s 152 articles define the federal government’s responsibilities, the individual emirates’ powers are “surprisingly unspecific”.²⁶⁹ Many of the emirates still commanded federal government responsibilities, like traffic rules and police operations, in the UAE’s first decade of independence.²⁷⁰

The Federal Supreme Council (FSC) is at the apex of the UAE’s federal power. The FSC consists of the seven rulers from each emirate and has the highest executive and legislative authority in the country.²⁷¹ FSC agreements require five out of seven votes, while the emirates of Abu Dhabi and Dubai each have a veto. The council of ministers sits below the

²⁶⁰Ulrichsen 2017, p.6.

²⁶¹Tétreault 2000, p.132.

²⁶²Richards 2000, p.57.

²⁶³International Monetary Fund 2017, p.2.

²⁶⁴Heard-Bey 2005, p.388.

²⁶⁵Al Suwaidi 2023, p.96.

²⁶⁶Anthony 1975, p.105.

²⁶⁷Heard-Bey 2005, p.373.

²⁶⁸Ulrichsen 2017, p.6.

²⁶⁹Heard-Bey 2017, p.262.

²⁷⁰Axon and Hewitt 2019, p.78.

²⁷¹Ulrichsen 2017, p.5.

FSC. The council, or cabinet, implements FSC policy. As with the FSC, cabinet positions are allocated to emirates based on their demographic weight, with Abu Dhabi and Dubai holding the most ministerial positions.²⁷² Abu Dhabi has six ministerial posts, often in vital positions such as foreign affairs or ministry of interior. Dubai and Sharjah have three,²⁷³ and the smaller emirates have one or two. By convention, the president of the UAE is from Abu Dhabi, while the prime minister is from Dubai.

Finally, the UAE has a legislative body that is much weaker than Kuwait's National Assembly. The Federal National Council (FNC) approves, amends or rejects draft bills proposed by the FSC²⁷⁴ - though the FSC has the constitutional right to overrule these objections. The FNC consisted of forty appointed members when it was first established. The constitution allocates each emirate a number of seats on the FNC based on the emirate's size. FNC members were traditionally members of the local merchant families or representatives of the business community.²⁷⁵ The FNC is a consultative body which at times publicly debated laws proposed by the FSC. It also offered recommendations to the FSC in the early years of independence on how to strengthen the UAE's federation.²⁷⁶

The makeup of Kuwait and the UAE's elite coalitions at independence difference. Kuwait's elite alliance at independence paired the political elite, the Al Sabah, with the economic elite, the *Asil*. The UAE at independence did not have a politically assertive economic elite outside of Dubai.²⁷⁷ Instead, its elites represented the families ruling the seven emirates. Thus while one unelected ruling family monopolizes Kuwait's executive, seven unelected ruling families share power at the UAE's national level of governance, and each ruling family governs a separate emirate. The UAE's more homogeneous elite coalition, however, did not promote elite unity.

Elite divisions obstructed the UAE's constitutional development. The deadline for independence pushed the emirates' rulers to accept the UAE's first constitution as a temporary one. However, unlike in Kuwait, whose elites ratified the country's constitution in a year, Emirati rulers were unable to substantially reform their temporary constitution into a permanent one. Federal powersharing at the national level²⁷⁸ and defiance at the emirate level blocked Emirati leaders' efforts to forge a permanent and more centralized constitution.

Centralization was and is the UAE's fundamental political fault line. Led by its ruler Sheikh Zayed, Abu Dhabi pressed for greater centralization at the onset of independence.

²⁷²Ulrichsen 2017, p.56.

²⁷³Heard-Bey 2005, p.367 - 368.

²⁷⁴Ulrichsen 2017, p.55.

²⁷⁵Ulrichsen 2017, p.55.

²⁷⁶Ulrichsen 2017, p.56.

²⁷⁷Herb 2014, Chapter 3.

²⁷⁸Al Alkim 1989, p.21.

Dubai insisted on the decentralized status quo. Dubai also refused to contribute to the UAE's federal budget. As a result, the UAE's proposed constitution did not obtain a consensus in the FSC; the federal government extended the provisional constitution for five more years in 1976.²⁷⁹ And though thousands of Emiratis protested for greater centralization, the rulers of Dubai and Ras Al Khaimah refused to endorse the reformed constitution. External mediation from Kuwait and Saudi Arabia ultimately helped the UAE move beyond this impasse, where Dubai agreed to contribute to the federal budget in exchange for its rulers assuming the position of Prime Minister.²⁸⁰

Beyond the UAE's constitutional deadlock, elite divisions halted the construction of a new capital, initially slated to have been built within seven years of the constitution's ratification.²⁸¹ Violent territorial clashes between the emirates continued in the 1970s.²⁸² The UAE then faced an existential crisis in 1976 when three emirates threatened to leave the federation over their refusal to disarm their local militaries and defer to a national army.²⁸³ Commenting on the UAE's political crisis at the time, the editors of Middle East Report declared that if the UAE is "going to come apart, it won't be due to mass pressures, but because of tribal feudalism and the antagonisms between the ruling Sheikhs".²⁸⁴ Elite division bodes poorly for state capacity.²⁸⁵ Yet as the next sections demonstrates, the UAE's extreme decentralization channeled the new state's intense elite rivalries into unprecedented state building through competition and emulation.

6.1 State Building through Competition

Decentralization powered state building in the UAE by spurring political competition between the ruling families over citizens' loyalty to their emirate or the federal government. The emirates fought this competition over political loyalty through state building. The UAE's ruling families lost a powerful patron when the UK began withdrawing from the Trucial Coast in the late 1960s. Though the UAE's decentralized structure guaranteed continued sovereignty over local affairs, joining the UAE meant that most of emirates' ruling families would lose their more direct, bilateral ties with the UK. The emirates were also entering a political arrangement where one emirate - Abu Dhabi - monopolized most of new state's oil revenue.

²⁷⁹Ulrichsen 2017, p.62.

²⁸⁰Ulrichsen 2017, p.62.

²⁸¹Ulrichsen 2017, p.6.

²⁸²Ulrichsen 2017, p.60.

²⁸³Davidson 2008, p.222.

²⁸⁴Ryan and Stork 1977, p.17.

²⁸⁵Slater 2010.

Sheikh Zayed - the ruler of Abu Dhabi - believed that building a functioning and prosperous UAE required greater centralization.²⁸⁶ He quickly marshaled Abu Dhabi's oil windfall to finance state building in the UAE's poorer emirates.²⁸⁷ Indeed, roughly forty percent of the UAE's first federal budget, funded exclusively by Abu Dhabi, was invested in development projects outside of Abu Dhabi.²⁸⁸ Abu Dhabi favored greater centralization, in part, to better manage the disbursement of federal funds.²⁸⁹

The rulers of the other emirates, however, feared that centralization would demote their authority to "walis" or governors of Abu Dhabi.²⁹⁰ They worried their residents would favor the new federal government in Abu Dhabi over their local emirate.²⁹¹ They feared that federal funding could compromise their emirate's political autonomy. Dubai's ruler Sheikh Rashid, for example, believed that Dubai would lose political influence within the UAE if his emirate depended on Abu Dhabi for financial support.²⁹² Dubai sought foreign instead of federal funding for its infrastructure projects for these reasons.²⁹³ Thanks to decentralization, the UAE's ruling families had the political and economic autonomy to raise funds, craft policy, and provide public services to compete against the federal government and other emirates for their citizens' loyalty.

This competition pushed *both* the federal and local (i.e emirate) governments to invest in state building during the UAE's first decades of independence. Between 1972 and 1980 the size of the UAE's federal workforce grew from 4,000 to over 100,000 - almost one fifth of the active labor force.²⁹⁴ At the same time, however, the size of emirates' local civil service ballooned to 60,000 employees.²⁹⁵ These public sector jobs were not just patronage opportunities for Emiratis. Foreigners made up the vast majority of public sector employees at the local and federal level because of the dearth of educational opportunities among the native Emirati population at the time.²⁹⁶ The concomitant rise in the federal and local civil service duplicated public sector institutions tasked with the same purpose and constituency.²⁹⁷ The UAE state - both federal and local - built almost 130,000 houses between 1975 and 1980, and paved over 4,000 miles of road.²⁹⁸ The number of schools in the

²⁸⁶ Al Alkim 1989, p.43.

²⁸⁷ Morris 1974, p.80.

²⁸⁸ Heard-Bey 2017, p.193.

²⁸⁹ Heard-Bey 2017, p.263.

²⁹⁰ Heard-Bey 2017, p.263.

²⁹¹ Heard-Bey 2017, p.261.

²⁹² Herb 2014, p.108.

²⁹³ Axon and Hewitt 2019, p.22.

²⁹⁴ Abdulla 1985, p.213-214.

²⁹⁵ Abdulla 1985, p.213.

²⁹⁶ Abdulla 1985, p.218.

²⁹⁷ Abdulla 1985, p.212.

²⁹⁸ Abdulla 1985, p.99.

UAE grew eight-fold from 42 to 400 between 1970 and 1982. The UAE's student population rose from 30,000 to over 140,000 in that period.²⁹⁹

Infrastructure was another site of political competition between federal and local government. The UAE built three international airports, fifteen ports and three television stations in its first decade of independence.³⁰⁰ Some scholars argue that Dubai's dizzying port construction and expansion in the 1970s was "an attempt by Dubai's rulers to strengthen the emirate's commercial standing and their bargaining power in relation to its neighbor (Abu Dhabi) which enjoyed greater resources."³⁰¹ Dubai's decision to build Jebel Ali port on territory once claimed by Abu Dhabi³⁰² was part of a "multi-faceted bargaining over the federal structure of the UAE, in which Abu Dhabi relinquished its claim allowing Dubai to build Jebel Ali port in return for the al-Maktum (Dubai's ruling family)'s fidelity to the newly founded federation."³⁰³ Poorer emirates, meanwhile, were much more dependent on federal assistance from Abu Dhabi for infrastructure funding.³⁰⁴ Abu Dhabi funded jetties in the poorer northern emirate of Ras al-Khaimah to help the emirate export its silicon, limestone and rocks for construction.³⁰⁵

Inter-emirate competition also catalyzed state building. Wary of relying on Dubai, which handled two-thirds of imports to the UAE in 1978,³⁰⁶ both Sharjah and Abu Dhabi began expanding their ports,³⁰⁷ even though Abu Dhabi's Port Zayed is only one hundred kilometers away from Dubai's port at Jebel Ali. Ruling families' fear of relying on other emirates to access imports stemmed from the "deep-rooted mutual mistrust and fear" that tainted inter-emirate relations in the 1970s and 1980s.³⁰⁸

Analysts and critics cast the UAE's massive state building, and the rampant duplication of state building projects in the 1970s and 1980s as inefficient, wasteful, and uncoordinated.³⁰⁹ "The UAE was plagued with overbuilding and a duplication of investments," writes UAE scholar Christopher Davidson. "Similar factories were built in different emirates, leading to over-capacity, and - most infamously - the UAE soon found itself with a surplus of international airports."³¹⁰ Four international airports in a country of less than

²⁹⁹ Abdulla 1985, p.100.

³⁰⁰ Abdulla 1985, p.100.

³⁰¹ Keshavarzian 2010, p.274-275.

³⁰² Khalili 2020, p.70.

³⁰³ Keshavarzian 2010, p.275.

³⁰⁴ Axon and Hewitt 2019, p.16.

³⁰⁵ Khalili 2020, p.75.

³⁰⁶ Axon and Hewitt 2019, p.30.

³⁰⁷ Axon and Hewitt 2019, p.15.

³⁰⁸ Taryam 1987, p.226.

³⁰⁹ Taryam 1987, p.255.

³¹⁰ Davidson 2009, p.64.

two million inhabitants cannibalize one international airport's cost savings and economies of scale from serving the entire country. Greater economic coordination across the emirates would cut these inefficiencies. The costs of these infrastructure projects were also abnormally high, "thirty to sixty percent more than similar projects in developed countries".³¹¹ There was also little inter-emirate coordination. Despite massive investment infrastructure, there was no four-way highway between Abu Dhabi and Dubai until 1980 - almost a decade after independence.³¹²

Subnational inequality is another shortcoming of decentralized state building. By the late 1990s, Abu Dhabi and Dubai produced more than four-fifths of the UAE's GDP.³¹³ Smaller and poorer emirates cannot rely on the federal government to police the larger emirates and ensure a more equitable provision of public goods. In a 2003 session at the Federal National Council, a deputy from a smaller emirate lamented to the ministry of planning that "The National Council for Planning is frozen, funds and personnel are absent, and the local offices in most of the emirates and especially the influential emirates in the union perform the functions of the federal ministry of planning....This is the case in most of the federal ministries - the ascendance of the role of local authorities over the role of the federal ministries... There is no true intention to revive the role of the ministry, and in the end the ministry is helpless."³¹⁴ More recently, a 2018 online survey of over five hundred Emiratis found that citizens from the country's northern and poorer emirates of Ajman, Fujairah and Ras Al Khaimah were almost twice as likely to view the government's performance as "very bad" than citizens in Abu Dhabi.³¹⁵

Though valid, these critiques overlook three benefits of the duplication stemming from the UAE's decentralized state building. First, the UAE's uncoordinated and inefficient state building brought prosperity to one of the poorest corners of the world in less than generation. On a visit to the northern tip of the UAE in 1989, a foreign correspondent gushed that "Roads of a quality which would not disgrace the United States or the better served parts of Western Europe have opened up the entire area. Villages have been settled and improved by better water supplies, small power stations and schools. Order and discipline has been imposed by means ranging from the creation of police barracks to better administration. The citified Arab from the main town on the west coast, or the innocent tourist, can drive almost to the heart of the Hajar mountains on a high class tarmac with a cheery wave, rather than a

³¹¹Taryam 1987, p.255.

³¹²Davidson 2009, p.64.

³¹³Ulrichsen 2017, p.88.

³¹⁴Herb 2014, p.130, endnote 1010.

³¹⁵Mazaheri 2023, p.124.

possible bullet from the local inhabitants.³¹⁶ Furthermore, “It did not matter all that much to the recipients whether this progress was engineered through the growing administration of the individual emirate or through federal channels,” notes the historian of the UAE Frauke Heard-Bey. “But when certain expected improvements, which other communities already enjoyed, were slow in coming, it was usually the distant federal administration with its seemingly limitless funds which was blamed.³¹⁷” Emiratis - and foreigners - saw the federal government as an “indispensable safety” net whenever local emirates failed to deliver.³¹⁸ Emiratis could look to two governing bodies for state building.

Second, as seen in the correspondent’s relief of not encountering a “possible bullet” in the Emirati countryside, decentralized state building helped transform the UAE’s “old political quarrels between the ruling families” into a “commercial rivalry”.³¹⁹ This transformation was not easy. Violence stained relations between the ruling families in the decades before independence. Much of these conflicts pertained to land, which were only exacerbated in the post-World War 2 race to claim oil concessions.³²⁰ At least twenty border areas between emirates were still not officially demarcated when the UAE became independent.³²¹ Shortly after independence, more than a dozen Emiratis died in an armed clashes between the emirates of Sharjah and Fujarah over ownership of a well.³²² Dubai and Sharjah were on the verge of arms in 1979 over Sharjah’s plan to build a mall on disputed territory.³²³ There was also violence *within* the UAE’s ruling families. In 1972, the ruler of Sharjah Sheikh Khalid bin Mohammed Al Qasimi was assassinated by his predecessor.³²⁴ Abu Dhabi quickly dispatched its defense forces to end the attempted coup and anoint a new ruler from the ruling Al Qasimi family.

Due to their histories as separate and at times belligerent political units, each emirate had a local defense force at independence. Article 142 of the UAE’s provisional constitution allowed emirates to establish their own defense forces. As a result, no single government unit monopolized the use of violence over the UAE during the country’s first two decades of independence. Four military forces commanded by four ruling families inhabited the UAE’s security terrain. The Abu Dhabi Defense Force was the largest emirate military with 10,000 men. The Dubai Defense Force with a 1,000 men followed, with the National

³¹⁶Axon and Hewitt 2019, p.80.

³¹⁷Heard-Bey 2017, p.194.

³¹⁸Heard-Bey 2017, p.194.

³¹⁹Axon and Hewitt 2019, p.22.

³²⁰Anthony 1975, p.23.

³²¹Anthony 1975, p.215.

³²²Anthony 1975, p.214.

³²³Axon and Hewitt 2019, p.42.

³²⁴Ulrichsen 2017, p.60.

Guard of Sharjah and the Mobile Force in Ras al-Khaimah - with 250 soldiers each - the two smallest local defense forces.³²⁵ Rulers of each emirate, not the federal government, could also purchase their military equipment. The ruler of Umm al-Quwain sought to purchase anti-tank missiles from the British government in the 1970s. Fearing this would destabilize the UAE by stoking inter-emirate rivalry, the British government declined the request.³²⁶ The UAE's political elites were not only divided, they were - unlike in Kuwait - armed.

Integrating these local forces into a fully unified federal defense force occurred in the mid-1990s, a quarter century after independence.³²⁷ This was not for a lack of trying by the UAE's federal government. The UAE repealed Article 142 in 1976 and established the Union Defense Force (UDF) in 1978 to merge all defense forces in the emirates. Nevertheless, Dubai and Ras AL-Khaimah kept their separate military forces until 1996.³²⁸

Abu Dhabi did not force Dubai to demilitarize. Dubai officials at the time explained their decision in terms of cost-effectiveness. Dubai's rulers viewed their defense force as redundant because the UDF provided them with "a fully fledged and cost-effective defense capability".³²⁹

Dubai's demilitarization was a major departure from two decades prior when Sheikh Rashid threatened to secede Dubai from the UAE after Abu Dhabi's Sheikh Zayed appointed his second son to be the Commander-in-Chief of the UDF.³³⁰ Rashid viewed this appointment as a threat to his authority as one of his son's was then minister of defense. Indeed, shortly after the creation of the UDF, Sheikh Rashid refused orders to disarm from the UAE's new military command and purchased British Scorpion tanks for the Dubai Defense Force.³³¹ In a too rare example of peaceful demilitarization in the Middle East, the UAE's decentralized system allowed Dubai's rulers to continue building their emirate and eventually divest resources and authority away from military spending.

Dubai's demilitarization also points to a warming of inter-elite relations. Prosperity and time have cooled antagonisms between the emirates. Royal marriages might have also helped, such as the 2005 marriage between the daughter of the ruler of Dubai to the future Deputy Prime Minister Sheikh Mansour bin Zayed Al Nayhan of Abu Dhabi.³³² Abu Dhabi has also stepped in to help ruling families in times of need. Abu Dhabi helped mediate succession

³²⁵Ulrichsen 2017, p.64; Anthony 1975, p.105.

³²⁶Ulrichsen 2017, p.64.

³²⁷Ulrichsen 2017, p.63.

³²⁸Ulrichsen 2017, p.65; Davidson 2008, p.229.

³²⁹Davidson 2008, p.230.

³³⁰Axon and Hewitt 2019, p.41; Davidson 2008, p.222.

³³¹Axon and Hewitt 2019, p.43.

³³²Ulrichsen 2017, p.6.

disputes in Sharjah in 1987³³³ and Ras Al Khaimah in 2003,³³⁴ and as will be discussed, bail out emirates in financial distress.

6.2 State Building through Emulation

Lastly, the inefficiencies and redundancies of the UAE's decentralized government allowed state building through emulation. In giving subnational units policymaking autonomy, decentralization nurtures policy diversity. Subnational competition in the UAE motivated the country's ruling families to emulate successful policies derived from other emirates. "Successful" policies in the realm of state building raise revenue. At the same time, decentralization helps contain "unsuccessful" or revenue draining policies to their subnational unit of origin. The rise of the UAE's world class trade infrastructure and Special Economic Zones (SEZs) captures state building through emulating successful policies. The UAE's banking crises and ensuing regulation illustrate how decentralized systems help confine and reform unsuccessful policies.

Trade infrastructure is the first example of state building through emulation. While state building broadly pertains to public goods, trade infrastructure is a class good:³³⁵ the public pays for benefits that are concentrated to a few, in this case importers and exporters. The UAE rulers' strategy to build their emirate's trade infrastructure was designed to help diversify and globally integrate their economies. And they largely succeeded. Today, the UAE is a regional and global leader in trade infrastructure. The country hosts two of the world's fifty biggest ports as measured by container cargo volume, including the ninth largest³³⁶ and prior to the ongoing US - Iran war, the Middle East's busiest³³⁷ - Dubai's Jebel Ali port.

The seeds of the UAE's world class trade infrastructure were first planted in Dubai. In the 1950s, Sheikh Rashid dredged and deepened Dubai's creek to give his emirate a deep harbour. Thanks to its history as a customs-free port, Dubai had the largest merchant community among the emirates.³³⁸ Dubai's ruling family depended on its merchant community for revenue.³³⁹ As a result, Dubai's merchants aggressively lobbied their ruler for better trade infrastructure, like a renovated airport.³⁴⁰ Bonds from local merchants and a loan from

³³³Ulrichsen 2017, p.68.

³³⁴Henderson 2004.

³³⁵Mazzuca 2021, p.35.

³³⁶World Shipping Council 2026.

³³⁷Khalili 2020, p.71.

³³⁸Axon and Hewitt 2019, p.13; Herb 2014, p.108.

³³⁹Keshavarzian 2010, p.273; Ulrichsen 2017, p.30.

³⁴⁰Davidson 2008, p.94.

the Kuwaiti government financed Dubai's port infrastructure upgrading.³⁴¹ Dubai's ruling Al Maktoum family also profit from this upgrading. The land dredged from creek became reclaimed land that the ruling family leased.³⁴² Port Rashid - Dubai's first coastal port - became the Gulf's busiest³⁴³ and "the cheapest and most efficiently run".³⁴⁴

Port Rashid's success motivated Sheikh Rashid to build Jebel Ali shortly after independence. Hoping to attract foreign investment and diversify his emirate's economy,³⁴⁵ Dubai's ruler decided to build a man-made harbour forty-five kilometers south of Dubai city.³⁴⁶ Funded by eurodollar loans,³⁴⁷ Jebel Ali cost USD 2.5 billion³⁴⁸ and was completed in record time.³⁴⁹ With 67 berths and 17 km of quays,³⁵⁰ Jebel Ali was nearly twice the size of Port Rashid.³⁵¹ Jebel Ali was the largest man-made harbor in the world, creating a deep water harbor in the shallow Arabian Gulf.³⁵²

Jebel Ali galvanized more state building. Dubai built an aluminum plant, desalination plant, and a dry dock, one of the world's largest at the time, next to the new port.³⁵³ Dubai's investment in infrastructure would continue for the next two decades, consuming up to a quarter of the emirate's GDP.³⁵⁴

Dubai was a "first mover" in building trade infrastructure as a development strategy.³⁵⁵ Neighboring Sharjah was once a maritime hub because of its natural harbor. However, feuds within its ruling family,³⁵⁶ and opposition from the British colonial government,³⁵⁷ led to the gradual silting of Sharjah's harbor.³⁵⁸ This caused an exodus of merchants from Sharjah to Dubai.³⁵⁹ Abu Dhabi, meanwhile, had little infrastructure investment in 1960s. Its ruler for most of that decade, Sheikh Shakbut - the older brother of Sheikh Zayed - was reluctant to invest his emirate's oil resources into state building like education, healthcare, and other

³⁴¹Khalili 2020, p.69.

³⁴²Keshavarzian 2010, p.273; Ziadah 2018, p.185.

³⁴³Khalili 2020, p.272.

³⁴⁴Axon and Hewitt 2019, p.30.

³⁴⁵Keshavarzian 2010, p.271.

³⁴⁶Khalili 2020, p.70.

³⁴⁷Axon and Hewitt 2019, p.22, p.106.

³⁴⁸Bloch 2010, p.944.

³⁴⁹Khalili 2020, p.70.

³⁵⁰Keshavarzian 2010, p.272.

³⁵¹Davidson 2008, p.106.

³⁵²Khalili 2020, p.70-73.

³⁵³Keshavarzian 2010, p.272; Bloch 2010, p.944.

³⁵⁴Davidson 2008, p.107.

³⁵⁵Anthony 1975, p.187; Ulrichsen 2017, p.92.

³⁵⁶Axon and Hewitt 2019, p.10.

³⁵⁷Khalili 2020, p.69.

³⁵⁸Anthony 1975, p.185.

³⁵⁹Axon and Hewitt 2019, p.10.

public services. Abu Dhabi in the 1950s and 1960s had few paved roads,³⁶⁰ one strip of tarmac as an airfield³⁶¹ and one hospital.³⁶²

Many factors account for why Dubai began investing in port infrastructure before other emirates. As in pre-oil Kuwait, Dubai's ruling family depended on its merchant community for revenue.³⁶³ Infrastructure upgrading consolidated Dubai's ruling coalition of merchants and royals.³⁶⁴ This driver for state building was absent in neighboring Abu Dhabi, which lacked a substantial merchant community at the time.³⁶⁵ Leadership also matters. Sheikh Rashid was more open to trade than other Emirati rulers. He was also more willing to take risks. Sheikh Rashid invested substantial foreign capital³⁶⁶ in colossal infrastructure projects that bankers, engineers and scholars called white elephants.³⁶⁷

Sheikh Rashid's infrastructure bet paid off. Port Rashid and Jebel Ali profited from soaring demand for modern maritime facilities in the Gulf.³⁶⁸ Total container traffic grew forty percent between 1976 to 1980.³⁶⁹ The tanker war between Iran and Iraq in the 1980s was a boon for Dubai's dry dock as it became a hub for repairing and overhauling damaged tankers.³⁷⁰ By the mid-1990s, Port Rashid and Jebel Ali handled more than a third of all regional traffic.³⁷¹

Other emirates quickly emulated Dubai's infrastructure upgrading. After years of neglect, Sharjah dredged and renovated its port facilities shortly after Dubai announced it would dredge Port Rashid in the late 1960s.³⁷² While Dubai began work on Jebel Ali, Sharjah's government commissioned the cargo port of Port Minah in 1978.³⁷³ Abu Dhabi also built and then extended Port Zayed in the late 1970s, ostensibly to alleviate its dependence on Dubai for imports.³⁷⁴ Smaller emirates, like Ras Al Khaimah and Fujairah, also began port construction in the late 1970s.³⁷⁵

In addition to emulating Dubai's trade infrastructure, the other emirates replicated Dubai's trade and business policies. Ten years after the completion of the Jebel Ali Port,

³⁶⁰Owen 1957, p.89.

³⁶¹Morris 1974, p.66.

³⁶²Barnwell 2024, p.111.

³⁶³Keshavarzian 2010, p.273.

³⁶⁴Ziadah 2018, p.186.

³⁶⁵Axon and Hewitt 2019, p.12.

³⁶⁶Axon and Hewitt 2019, p.22.

³⁶⁷Axon and Hewitt 2019, p.67; Keshavarzian 2010, p.272; Ulrichsen 2017, p.92; Abdulla 1985, p.102.

³⁶⁸Ulrichsen 2017, p.92.

³⁶⁹Akhavan 2017, p.345.

³⁷⁰Keshavarzian 2010, p.276.

³⁷¹Akhavan 2017, p.346.

³⁷²Anthony 1975, p.187.

³⁷³Axon and Hewitt 2019, p.33.

³⁷⁴Axon and Hewitt 2019, p.15.

³⁷⁵Axon and Hewitt 2019, p.35.

Sheikh Rashid created the Jebel Ali Free Zone (JAFZA) in 1985.³⁷⁶ This special economic zone (SEZ), a first in the UAE and the Gulf, was designed to lure foreign investment in three ways. First, as the name indicates, goods imported to the JAFZA would not be charged tariffs. More broadly, companies operating in the zone would benefit from a 15-year tax holiday.³⁷⁷ Second, unlike in the rest of the UAE at the time, foreign companies operating in the JAFZA did not have to surrender 51 percent of ownership to a local partner;^{378, 379} Finally, JAFZA facilitates business operations by streamlining visa processing, subsidizing energy costs and providing direct access to the Jebel Ali port.³⁸⁰

JAFZA was a policy innovation that defied UAE's federal law.³⁸¹ Because of decentralization, each emirate had its own trade policies in the UAE's first decade of independence.³⁸² Trade and business policy differed so dramatically that foreign businesses were warned to treat each emirate as a separate market.³⁸³ However, as part of joining the Gulf Cooperation Council (GCC)'s Customs Union in the early 1980s, UAE federal government mandated that each emirate's tariffs fall within the GCC tariff structure of four to twenty percent.³⁸⁴ Additionally, the UAE's commercial company law of 1984 capped foreign business ownership to 49 percent.³⁸⁵ Dubai circumvented both of these federal laws through JAFZA.³⁸⁶

JAFZA's success was soon apparent. Starting with only 19 companies in 1985,³⁸⁷ JAFZA housed more than 300 companies five years later, drawing in roughly USD 400 million (or Dirham 1.5 billion) in investment five years later.³⁸⁸ By the end of the 1990s, JAFZA had attracted "2,000 international companies, created 35,000 jobs (mostly for non-nationals), and generated USD 4 billion in exports."³⁸⁹ JAFZA received a fifth of the UAE's Foreign Direct Investment.³⁹⁰ JAFZA encouraged other special economic zones such as the Dubai Airport Free Zone, Media and Internet City, and the Dubai Financial Center. These initiatives diversified Dubai's economy. By the mid-1990s the non-oil sector accounted for four-fifths of the emirate's GDP.³⁹¹

³⁷⁶Bloch 2010, p.944.

³⁷⁷Axon and Hewitt 2019, p.261.

³⁷⁸Keshavarzian 2010, p.275.

³⁷⁹Davidson 2008, p.115.

³⁸⁰Tilburg 2010, p.81.

³⁸¹Taryam 1987, p.214.

³⁸²Taryam 1987, p.275.

³⁸³Axon and Hewitt 2019, p.10.

³⁸⁴Al Alkim 1989, p.54.

³⁸⁵Tilburg 2010, p.81.

³⁸⁶Al Alkim 1989, p.54.

³⁸⁷Akhavan 2017, p.347.

³⁸⁸Axon and Hewitt 2019, p.261.

³⁸⁹Keshavarzian 2010, p.270.

³⁹⁰Ziadah 2018, p.187.

³⁹¹Ulrichsen 2017, p.98.

Emulation quickly followed JAFZA's success. Abu Dhabi, Ras Al Khaimah and Sharjah all built SEZs abutting their ports in the late 1990s and early 2000s.³⁹² This has helped diversify the UAE's oil-centered economy. SEZs remain a pillar of the UAE's efforts to attract foreign investment and develop new industries. SEZs bolster state capacity by generating revenue through economic activity.

Crucially, the emirates that followed Dubai's trade and logistics development strategy did not have the ruler - merchant political alliance that shaped Dubai and Kuwait's political landscape. Dubai's development path was influenced by and designed to coopt the emirate's merchant elite.³⁹³ The rulers of Abu Dhabi, Sharjah and Ras Al Khaimah did not have a merchant elite to coopt. Instead, by emulating Dubai, they created a merchant constituency, many from royal stock, that profited from these trade and logistics focused state building initiatives.

Decentralization also helps contain policies and outcomes that weaken state capacity. By draining state revenue, financial crisis is a threat to state capacity. Pairing vast oil wealth with no regulation, the UAE was vulnerable to financial crises throughout the 1970s and 1980s. Free from a central monetary authority with federal oversight, "laissez faire" conditions prevailed, abetted by rulers' backing of banks in their respective emirate³⁹⁴.³⁹⁵ With easy access to credit thanks to oil revenue, over fifty banks - almost half of them were locally incorporated³⁹⁶ - served a population of over a million.³⁹⁷ This made the UAE one of the most "over-banked" countries in the world in the late 1970s.³⁹⁸ A few large banks dominated the UAE's banking landscape. Two of the country's fifty one banks represented 43 percent of total deposits.

The UAE's first financial crisis began in 1977 when an economic recession led to a run on the Dirham. Lacking the foreign currency reserve to defend the Dirham, the UAE's currency board was unable to stop a run on the currency. This devastated Emirati banks that had borrowed in foreign currency but lent in Dirhams. Two banks collapsed, one of which was based in the Ajman emirate.³⁹⁹

This crisis pushed the UAE's federal government to centralize banking. The federal government responded by issuing a new moratorium on new banks and by tightening bank re-

³⁹²Davidson 2008, p.116; Khalili 2020, p.73; Axon and Hewitt 2019, p.302.

³⁹³Keshavarzian 2010; Ziadah 2018.

³⁹⁴Axon and Hewitt 2019, p.51.

³⁹⁵Richards 2000, p.161.

³⁹⁶Axon and Hewitt 2019, p.53.

³⁹⁷Axon and Hewitt 2019, p.195.

³⁹⁸Axon and Hewitt 2019, p.53.

³⁹⁹Axon and Hewitt 2019, p.83; Richards 2000, p.161.

serve requirements.⁴⁰⁰ While Dubai immediately ignored this law,⁴⁰¹ the currency board was able to restructure the fallen Ajman bank by providing loans guaranteed by Abu Dhabi.⁴⁰² After the 1977 crisis, the UAE upgraded its currency board into a central bank.⁴⁰³ With greater monetary leverage and legal coverage, the central bank wanted, in the words of its governor, “fewer banks, better banks and stronger banks”.⁴⁰⁴

Non-intervention was one strategy for bank consolidation. Due to decentralization, each emirate was responsible for rescuing failed banks in their territories.⁴⁰⁵ The central bank was not obligated to be a lender of last resort.⁴⁰⁶ As a result, over-extended banks collapsed in Ras Al Khaimah and Sharjah in the 1980s.⁴⁰⁷ Alternatively, emirates could seek foreign funding to rescue distressed banks. Sharjah obtained Saudi funding in 1989 after four banks almost collapsed when the emirate’s government defaulted on its loans.⁴⁰⁸ Emirate governments could also force distressed banks to merge. Each emirate managed banking crises within their territories “since it was they (the emirates) rather than the Central Bank that put up the necessary funds.”⁴⁰⁹

The wealthier emirates of Dubai and Abu Dhabi had the means to rescue distressed banks or pay aggrieved parties without soliciting central bank help. In 1983, the Dubai government bought a 73 percent stake in the bankrupt Union Bank of the Middle East⁴¹⁰ - the UAE’s fourth largest bank at the time with over USD one billion in total assets⁴¹¹ - and eventually merged the bank with the National Bank of Dubai. More notoriously, the UAE’s central bank stood aside while the Bank of Credit Commerce International (BCCI) collapsed in 1991. BCCI was a major global bank at the time, claiming USD 23 billion in assets with offices in 72 countries.⁴¹² A consortium of central banks, including the US Federal Reserve and the Bank of England, closed the bank after regulators uncovered the bank’s colossal debt.⁴¹³ Sheikh Zayed of Abu Dhabi was an initial investor in BCCI, and Abu Dhabi’s ruling Al Nahyan family owned USD 750 million of the bank’s shares at the

⁴⁰⁰Axon and Hewitt 2019, p.82 - 83.

⁴⁰¹Axon and Hewitt 2019, p.83.

⁴⁰²Axon and Hewitt 2019, p.83.

⁴⁰³Ulrichsen 2017, p.65.

⁴⁰⁴Axon and Hewitt 2019, p.217.

⁴⁰⁵Axon and Hewitt 2019, p.255.

⁴⁰⁶Axon and Hewitt 2019, p.255.

⁴⁰⁷Davidson 2009, p.65.

⁴⁰⁸Davidson 2007, Footnote 25, p.46.

⁴⁰⁹Davidson 2009, p.65.

⁴¹⁰Axon and Hewitt 2019, p.217.

⁴¹¹Abdulla 1985, Table 17, p.163.

⁴¹²Baxter and Saram 1997, p.371.

⁴¹³Baxter and Saram 1997, p.372.

time of the bank's collapse.⁴¹⁴ According to a report for the United State Congress, Abu Dhabi's ruling family was BCCI's "largest depositor, and its largest borrower, and for most of BCCI's existence, its largest shareholder".⁴¹⁵ Ultimately, the government of Abu Dhabi agreed to compensate small creditors of BCCI and contribute over USD two billion to the BCCI's liquidation fund.⁴¹⁶

Central bank intervention conditional on policy reform was another strategy for consolidating and strengthening banks. When the central government intervened to rescue a bank, as occurred in Ajman in the late 1970s, consolidation and regulation followed.⁴¹⁷ The most infamous example of central bank intervention in the UAE occurred during the 2008 financial crisis when the central bank agreed to a USD 10 billion bailout of the Dubai government-owned Nakheel real estate company.⁴¹⁸ Lax lending standards, foreigner-friendly property ownership and the ascension of government-backed property developers like Nakheel and Emaar fueled a massive real estate bubble in Dubai in the early 2000s. Dubai's government-backed property developers controlled up to seventy percent of Dubai's market and borrowed massively to fund their expansion.⁴¹⁹ When the financial crisis struck in late 2008, Moody's credit agency estimated that the "leverage of government-backed Dubai companies had already risen to US 50 billion, which was more than the 2006 GDP of the Dubai emirate."⁴²⁰ By 2009 the emirate's debt of USD 120 billion surpassed its GDP.⁴²¹

The UAE's central bank was initially reluctant to intervene. In February 2009, however, it supported a US 10 billion bond for the Dubai government. Ten months later, two Abu Dhabi owned banks provided a USD 10 billion loan, allowing Nakheel to immediately pay off its debt.⁴²² Central bank intervention came with strings attached. Dubai's bailout spurred federal banking policy reform. The central bank raised loan-to-value ratios for mortgage lending and debt-service-to-income limits to dissuade real estate speculation and limit banks' exposure to risky loans.⁴²³ More symbolically, Dubai renamed Burj Dubai, the world's tallest building, to Burj Khalifa in honor of Abu Dhabi's ruler and president of the UAE.⁴²⁴

The evolution of the UAE's banking policies exemplify how decentralization can help contain disastrous policies. As in Kuwait, the federal government's oil abundance is a pail

⁴¹⁴Davidson 2009, p.64.

⁴¹⁵Ulrichsen 2017, p.66.

⁴¹⁶Ulrichsen 2017, p.66.

⁴¹⁷Axon and Hewitt 2019, p.82-83.

⁴¹⁸Bloch 2010, p.948.

⁴¹⁹Bloch 2010, p.945.

⁴²⁰Bloch 2010, p.945.

⁴²¹Ulrichsen 2017, p.96.

⁴²²Bloch 2010, p.948; Ulrichsen 2017, p.96.

⁴²³International Monetary Fund. Middle East and Central Asia Dept. 2013.

⁴²⁴Bloch 2010, p. 945.

to bail out distressed banks and emirates. This invites moral hazard. However, unlike in Kuwait, the consequences of lax banking policies were concentrated within each emirate. Ruling families paid the costs of bank collapses - if they chose to rescue a distressed bank. This led to bank failures in some cases and within-emirate restructuring and bailouts in others. When the scale of financial crises exceeds an individual emirate's capacity, as occurred in Dubai in 2008, the central bank intervenes. Intervention, however, comes with regulatory strings attached. The cudgels of central government intervention, loss of autonomy, or having to pay for bailouts incentivize the UAE's ruling families to reward performance and discipline malfeasance. This limits the fallout of policies that weaken state capacity by depleting state revenue.

7 Conclusion

The divergence in state capacity between Kuwait and the UAE stems from centralization and elite cohesion. Decentralization in the UAE channeled elite competition over political authority into state building. The UAE demonstrates that neither political centralization nor elite cohesion is necessary for state capacity. Kuwait, by contrast, highlights the importance of elite cohesion for state building in highly centralized political systems. Centralization allows elite divisions to obstruct state building.

These insights expose overlooked paths to state capacity. War,⁴²⁵ inclusive institutions,⁴²⁶ trade,⁴²⁷ geography⁴²⁸ or oil⁴²⁹ cannot explain feverish state building in the UAE and stasis state building in contemporary Kuwait. The interaction between political centralization and elite cohesion can forge diverging paths to state capacity. State building is not only insulated from, it can accelerate when elites are divided in decentralized political systems. By contrast, elite divisions can jeopardize state building in highly centralized systems.

These findings probe the origins of centralization and elite cohesion. In the case of the UAE and Kuwait, pre-oil and pre-independence power sharing arrangements among the ruling elite and the UK engendered high political centralization in Kuwait and extreme decentralization in the UAE. Neither outcome, however, is fixed. The UAE has become increasingly centralized since independence. Future reform in Kuwait could delegate greater subnational political authority and autonomy. Kuwait is not too small for decentralization. Both its population and territory are larger than the UAE's five smallest emirates *com-*

⁴²⁵Tilly 1990; Schenoni 2024; Lustick 1997.

⁴²⁶Acemoglu and Robinson 2013.

⁴²⁷Mazzuca 2021.

⁴²⁸Herbst 2015; Soifer 2015.

⁴²⁹Karl 1997; Saylor 2014.

bined. There are territorially (St. Kitts and Nevis; Federated States of Micronesia) and demographically (Bosnia and Herzegovina) smaller countries than Kuwait that have highly decentralized political systems.

What causes elite cohesion also merits further investigation. As with small European states in the inter-war period,⁴³⁰ foreign threats encouraged elite cohesion in early independent Kuwait. Agency also mattered. Kuwait's first post-independence ruler Sheikh Abdullah was more politically aligned with the merchant elite and conciliatory than his successors. This alignment strengthened elite cohesion. Conversely, the regime's decision to disband the National Assembly and then elevate rural and middle-class constituents' parliamentary representation fractured Kuwait's historical alliance between the Al Sabah and the merchant elite.

This analysis has policy implications. The UAE's decentralized state building has made the state more resilient to the US - Iran war than other small Gulf states. The UAE's oversupply of ports, desalination plants, airports, and electrical grids has helped the country adapt and respond to Iranian coercion and the closure of the Straits of Hormuz.

Beyond the Gulf, the architects designing Syria's new constitution and the foreign states sponsoring this endeavor could learn some insights from the UAE. More so than oil abundance, the UAE was gifted with a balance of power between a political center and its periphery. The ruling families of the country's peripheral territories were too weak to leave the union. The center - Abu Dhabi - was unwilling and possibly unable to rule the periphery through force. This balance created the foundation for the UAE's decentralized state building. Decentralization can help the new Syrian regime govern its divided elite and incentivize state building. Foreign states can support decentralized state building in Syria by discouraging peripheral territories from seceding while encouraging the central government to delegate political authority and resources to the periphery.

⁴³⁰Katzenstein 1985.

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