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ANWAR GARGASH
DIPLOMATIC
ACADEMY

الإمارات العربية المتحدة

UAE ECONOMIC DIPLOMACY REPORT

2024-2025

WHAT CAN ECONOMIC DIPLOMACY DO IN A MULTIPOLAR WORLD ?

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ECONOMIC DIPLOMACY REPORT 2024-2025

Over the last two decades, the role of economic diplomacy has expanded significantly, evolving from a secondary function in foreign policy to a principal mechanism for fostering international economic relationships. Diplomats are no longer confined to the realm of political discourse. Empirical evidence now suggests that the opening of an embassy is equivalent to an ad valorem tariff reduction of 2–8%. This demonstrates that diplomatic efforts are not merely symbolic but can actively drive economic outcomes such as trade and investment flows.

In an era where global economic interdependence is increasingly shaped by geopolitical considerations and national security concerns as the two largest economies enter a period of intensified competition, the importance of economic diplomacy is only likely to increase. These factors have contributed to a rise in trade barriers and a decline in foreign direct investment as a share of global GDP.

Nonetheless, even with our advanced economic models and analytical tools, economists remain unable to anticipate the future of globalisation, as the risks of fragmentation of the multilateral trading system continue to grow. However, economic diplomacy offers a potential pathway for mitigating the risks of a fragmented global economy. Economic diplomacy might offer a way to re-engineer international economic linkages, protecting the gains of trade and investment, while reducing uncertainty.

This edition of the UAE Economic Diplomacy Report strongly emphasises the evolving role of economic diplomacy in a multipolar world as its central theme. The report seeks to address the following question:
What can economic diplomacy do in a multipolar world?

We hope that within these pages, you will find insightful answers and a deeper understanding of how economic diplomacy can navigate this complex global landscape.

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ACRONYMS AND ABBREVIATIONS

ADB	Asian Development Bank
ADGM	Abu Dhabi Global Market
ADIA	Abu Dhabi Investment Authority
ADIC	Abu Dhabi Investment Council
ADNOC	Abu Dhabi National Oil Company
ADPF	Abu Dhabi Pension Fund
ADQ	Abu Dhabi Developmental Holding Company
AED	United Arab Emirates Dirham
AfCFTA	African Continental Free Trade Area
AfDB	African Development Bank
AI	Artificial Intelligence
AML	Anti-Money Laundering
AML/CFT	Anti Money Laundering and Countering the Financing of Terrorism
AUM	Assets Under Management
b/d	barrels per day
BITs	Bilateral Investment Treaties
BRICS	Brazil, Russia, India, China, and South Africa
CA	Current Account
CBDC	Central Banks Digital Currencies
CBUAE	The United Arab Emirates Central Bank
CEO	Chief Executive Officer
CEPA	Comprehensive Economic Partnership Agreement
CET	Common External Tariff
CIB	Commercial International Bank
CTF	Combating Terrorist Funding
DAE	Dubai Aerospace Enterprise
DEPA	Digital Economic Partnership Agreement
DEWA	Dubai Electricity & Water Authority
DFM	Dubai Financial Market
DIF	Dubai Investment Fund
DIFC	Dubai International Financial Centre
DMCC	Dubai Multi Commodities Centre
DNFBPs	Designated Non-Financial Businesses and Professions
DP	Dubai Port
EBRD	European Bank for Reconstruction and Development
EDI	Economic Diversification Index
EFTA	European Free Trade Association
EIA	Emirates Investment Authority
EIB	European Investment Bank
EIF	Enhanced Integrated Framework
EMDE	Emerging Market and Developing Economies
ENEC	Emirates Nuclear Energy Corporation
ENOC	Emirates National Oil Company
EO	Executive Office
EPD	Economic Policy Dialogue
ESG	Environmental, Social, and Governance
EU	European Union
EUGF	European Union Global Facility
EVs	Electric Vehicles
FATF	Financial Action Task Force
FCM	Financial Compliance and Monitoring
FCSC	Federal Competitiveness and Statistics Centre
FDI	Foreign Direct Investment
Fin-Tech	Financial Technology
FIUs	Financial Intelligence Units
FSRBs	FATF-Style Regional Bodies
FTA	Free Trade Agreement
FX	Foreign Exchange
G7	The Group of Seven
GAFTA	Greater Arab Free Trade Areas
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
GNI	Gross National Income
GREs	Government-Related Enterprises
GSWF	Global Sovereign Wealth Fund
HC	Higher Committee
IBRD	International Bank for Reconstruction and Development
ICD	Investment Corporation of Dubai
ICT	Information and Communication Technology
IFD	Investment Facilitation for Development
IFSWF	International Forum of Sovereign Wealth Funds
IIAs	International Investment Agreements
IMF	International Monetary Fund
IOs	Immediate Outcomes
IPOs	Initial Public Offerings
IRIs	Investment Related Instruments
IsDB	Islamic Development Bank
IT	Information Technology
KIA	Kuwait Investment Authority
KIC	Korea Investment Corporation
LDCs	Least Advanced Countries
LEAs	Law Enforcement Agencies
LI	Lowy Institute
LIC	Low-Income Country
LMIC	Lower Middle-Income Country
M&As	Mergers and Acquisitions
MADCTs	More Advanced Developing Countries and Territories
MC	Ministerial Conference
MDB	Multilateral Development Banks
MENA	Middle East and North Africa
MENAFATF	Middle East and North Africa Financial Action Task Force
MER	Mutual Evaluation Report
ML	Money Laundering
MNCs	Multinational Companies

MNEs	Multinational Enterprises
MOE	Ministry of Economy
MOFA	Ministry of Foreign Affairs
MOIAT	Ministry of Industry and Advanced Technology
NAMLCFTC	National Committee for Anti-Money Laundering and Combatting the Financing of Terrorism and Financing of Illegal Organizations
NDB	New Development Bank
NGOs	Non-Government Organizations
NIIP	Net International Investment Position
NRA	National Risk Assessment
OCHA	Office for the Coordination of Humanitarian Affairs
ODA	Official Development Assistance
OOF	Other Official Flows
OPEC	Organization of Petroleum Exporting Countries
PIF	Public Investment Fund
POPR	Post-Observation Period Report
PPP	Purchasing Power Parity
QIA	Qatar Investment Authority
RAKEZ	Ras Al Khaimah Economic Zone
S&DT	Special and Differential Treatment
SAM	Sharjah Asset Management
SDGs	Sustainable Development Goals
SEZs	Special Economic Zones
SFE	Sovereign Wealth Fund of Egypt
SIDS	Small Island Developing States
SIPRI	Stockholm International Peace Research Institute
SK	Samruk-Kazyna
SMEs	Small and Medium Enterprises
SOIs	State-Owned Investors
SRTI Park	Sharjah Research Technology and Innovation Park
SWF	Sovereign Wealth Fund
TF	Terrorist Financing
TFS	Targeted Financial Sanctions
TIPs	Treaties with Investment Provisions
TMG	Talaat Moustafa Group
UAE	United Arab Emirates
UK	United Kingdom
UMIC	Upper Middle-Income Country
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
US	United States
USSR	Union of Soviet Socialist Republics
WEIDE	Women Exporters in the Digital Economy
WHO	World Health Organization
WTO	World Trade Organization
y-o-y	year-over-year

ABOUT
THE ANWAR GARGASH DIPLOMATIC ACADEMY (AGDA)

The Anwar Gargash Diplomatic Academy (AGDA) is a globally recognised diplomatic centre of excellence in Abu Dhabi, UAE. It delivers accredited academic programmes and high-impact executive training to develop future diplomats, as well as the government and business leaders of tomorrow. AGDA brings together an intellectual community from the world of diplomacy, academia, and research. As a respected and evolving regional think tank, AGDA produces research that advances knowledge and capabilities relevant to the UAE's foreign policy objectives. The Academy is a producer of leading resources, including indices and publications.

Learn more at: www.agda.ac.ae

MESSAGE FROM THE DIRECTOR GENERAL

Nickolay E. Mladenov

Director General
Anwar Gargash Diplomatic Academy

In an era characterized by geopolitical complexities and transformative global challenges, economic diplomacy has become an essential mechanism for fostering stability, growth, and prosperity. The UAE, through its visionary leadership and strategic engagement, exemplifies the quest of middle powers to navigate the emerging multipolar and multi-aligned world.

The UAE Economic Diplomacy Report 2024–2025 provides an in-depth exploration of how the UAE has harnessed economic diplomacy to create impactful partnerships and foster inclusive growth. This report highlights the UAE's achievements in advancing global trade, attracting foreign investment, and providing foreign aid, all while reinforcing its role as a hub for innovation, collaboration, and connectivity.

For the Anwar Gargash Diplomatic Academy (AGDA), this report is both a reflection of our mission and a cornerstone of our vision. As a leading institution for diplomatic education and research, AGDA is dedicated to equipping future diplomats and policymakers with the knowledge and tools needed to navigate a rapidly evolving world. By producing this report, AGDA not only aims to contribute to the intellectual discourse on economic diplomacy but also to reinforce our role as a thought leader in shaping innovative strategies that align with the UAE's foreign policy objectives.

The report comes at a time when the global economy faces challenges such as increasing trade barriers, shifting alliances, and a growing need for multilateral cooperation. By showcasing initiatives like the Comprehensive Economic Partnership Agreements (CEPAs), strategic investments by sovereign wealth funds, and active participation in multilateral fora, the report illustrates the UAE's approach to overcoming these challenges while strengthening economic ties and promoting sustainable development.

A key feature of this edition is its focus on emerging trends in economic diplomacy and their implications for the UAE. Topics such as the evolving role of technology, the impact of deglobalization, and the potential of platforms like BRICS and the New Development Bank are explored, offering valuable insights into the future of global economic governance.

This report is designed to serve as a resource for policymakers, academics, and stakeholders seeking to understand how economic diplomacy can address global challenges and create opportunities for collaboration. For AGDA, this report symbolizes our contribution to the UAE's diplomatic endeavours, reinforcing the Academy's mandate to produce actionable knowledge, foster thought leadership, and inspire the next generation of global leaders.

PREFACE

Dr. Mohammed Ibrahim Aldhaheri

Deputy Director General
Anwar Gargash Diplomatic Academy

The Anwar Gargash Diplomatic Academy's "UAE Economic Diplomacy Report", now in its second edition, is a body of work that illustrates how the UAE's proactive and multifaceted approach to economic diplomacy is not only a driver of domestic growth but also a key contributor to regional and global prosperity.

As a world class diplomatic academic institution, AGDA provides a unique learning experience in the training of diplomats and government leaders in international relations and economics. Tasked with preparing Emirati diplomats and government officials to effectively represent the UAE's interests on a global scale, AGDA plays a crucial role in advancing the UAE's foreign policy agenda through its advanced curricula and training.

Through its research arm, AGDA is committed to facilitating and enhancing the UAE's status as an important contributor to global dialogues by acting as a thought leader on cutting-edge topics.

This report represents a substantial contribution to our evolving understanding of economic diplomacy. The first edition tried to answer an important question: how does the UAE define economic diplomacy and how does it navigate the intricate maze of international economics and foreign policy? We tried to provide a comprehensive and uniquely Emirati perspective in 2023 by scanning the UAE's place within the broader global economic landscape and delineating the country's economic diplomacy strategy, including its foreign aid practices and the work of its sovereign wealth funds.

In this year's expanded version, the report now connects the UAE's ever-evolving economic diplomacy arsenal with the country's multilateral engagements. It delves further into the background and ethos behind the UAE's proactive and multifaceted approach to economic diplomacy by outlining the country's initiatives in an increasingly complex world.

By publishing this comprehensive body of work, we hope to provide considerable insight into the UAE's strategy and position as an outward-looking business hub that is always keen on facilitating trade and investment relations globally, and connecting with various countries worldwide.

As you go through the following chapters, we hope that our readers will further understand the dynamics behind the UAE's policies of economic diplomacy, and that you will discover a valuable tool and a significant point of reference.

Finally, I would like to thank the various contributors to this year's edition for their efforts in creating an impactful document and deepening our commitment to thought leadership and diplomatic expertise. I hope that you find merit in the report's contents and message.

INTRODUCTION: THE UAE'S ECONOMIC DIPLOMACY REPORT 2024-2025:

What Can Economic Diplomacy Do in A Multipolar World?

Ahmed Rashad
Kamal El-Wassal
Alaa Elshazly

The UAE Economic Diplomacy Report 2024–2025 comes at a critical moment for the global economy. Economic integration and international cooperation have provided opportunities for billions of people to escape poverty, access employment, and increase productivity. The International Monetary Fund (IMF) suggests that global GDP has nearly tripled, and approximately 1.5 billion people have escaped extreme poverty since the end of the Cold War. However, this 'Great Escape,' as Nobel Laureate Angus Deaton described it, faces significant headwinds. These include geopolitical tensions in Europe and the Middle East that have marked much of 2024, a surge in new trade restrictions, and concerns that the new US administration may deepen the trade war with China, leading to the fragmentation of the global economy into rival economic blocs. Such developments could hinder the developing world's ability to catch up with advanced economies.

Over recent decades, the UAE has undergone a remarkable transformation, standing today as one of the world's most dynamic and influential economic players. The UAE's journey in economic diplomacy stands as a testament to its innovative and collaborative vision. Confronted with fluctuating oil prices, a shifting geopolitical landscape, and an increasingly interconnected world, the UAE has evolved from a modest, resource-reliant state into a globally recognized economic hub and powerhouse. By redefining its trajectory through a cooperative and inclusive approach to economic diplomacy that fosters long-term prosperity, the UAE sets an example of how visionary policies can drive sustainable transformation, balancing economic growth with environmental and social responsibility. This transformation is not solely a product of its vast oil wealth; rather, it is driven by a sophisticated, balanced, forward-thinking, and proactive approach to economic diplomacy that fosters mutual benefits and underpins the fact that the UAE prioritizes mutual gains over unilateral advantage.

By focusing on creating win-win situations, promoting open markets, and investing in sustainable and innovative ventures, the UAE has leveraged its economic diplomacy to strengthen global partnerships. Its approach exemplifies how middle powers can navigate the complexities of a multipolar world through deliberate, collaborative strategies that foster shared growth, ensuring that all parties in economic partnerships contribute to and benefit from mutual economic gains.

Defining Economic Diplomacy: Beyond Traditional Diplomacy

Economic diplomacy, defined as the actions of state and non-state actors intended to promote a state's national and international economic interests, transcends traditional diplomacy. It is not a passive process; rather an active process entailing the states' strategic use of economic tools to foster partnerships, resolve disputes, and shape global economic frameworks. As we witness the world becoming less economically integrated, the ability of states to navigate these challenges through diplomacy and cooperative approaches for economic prosperity is more critical than ever. In this context, economic diplomacy is perceived as an opportunity to create win-win solutions that benefit all players.

The UAE has embraced the complexities of a multipolar world, reaffirming the centrality of economic diplomacy as both a bridge to renewed globalization and a framework for building resilient partnerships. The UAE has utilized its strategic geographic location and robust economic frameworks to foster collaboration across diverse markets. These efforts are reinforced by the UAE's dedication to aligning economic policies with global standards of transparency, inclusivity, and sustainability in addition to its active participation in multilateral forums. By doing so, the UAE has cemented its position as a global hub for trade, innovation, and international cooperation.

The Purpose and Significance of This Report

This report situates the UAE's economic diplomacy within this broader global context, offering a compelling case study of how middle powers—committed to global progress—can utilize economic diplomacy to navigate global challenges, foster inclusivity, achieve Sustainable Development Goals (SDGs), and enhance their international standing. The success of these efforts lies not only in their immediate outcomes but also in their ability to establish long-term, mutually beneficial economic and diplomatic relationships with partners across the globe. Through a nuanced examination of the UAE's strategies and tools, the report sheds light on the relevance of pragmatic economic diplomacy in securing a nation's future.

This report, while focusing on the UAE's economy —a dynamic and open economy—provides a unique lens to explore the challenges confronting the global economic landscape. Through the UAE's economy, which is deeply intertwined with global trade and investment, the report highlights broader issues such as the challenges confronting the international trade system, the rise of BRICS countries in the global economy, the potential role of the New Development Bank (NDB), and the future of the US dollar as the dominant reserve currency. By examining these challenges through the perspective of the UAE's economy, the report provides critical insights to the readers both in the UAE and abroad.

Structure of the Report

Structured around a cohesive narrative, the report underscores the UAE's deliberate and dynamic strategies in economic diplomacy, articulating how the UAE has leveraged economic diplomacy to foster global markets, address contemporary challenges, and seize emerging opportunities. These efforts have solidified the UAE's position as both a regional and an influential global actor, embodying economic inclusivity, connectivity, influence, and shared growth.

By focusing on the intersections of commercial diplomacy, trade diplomacy, development cooperation, and finance, the report provides a detailed understanding of the tools and strategies that reflect the UAE's mutually beneficial and multifaceted approach to economic diplomacy.

Organized into four key parts—from an overview of the global outlook and conceptual frameworks to an exploration of strategic trade agreements, transformative investments, and targeted aid programs to a discussion of robust regulatory reforms, culminating in an examination of future trends in economic diplomacy—the chapters of this report are meticulously crafted to reflect the UAE's inclusive approach to economic diplomacy. Each chapter addresses a critical element of the UAE's economic diplomacy toolkit, offering nuanced insights into the UAE's strategies and their global impact.

Global Economic Outlook and Conceptualization of Economic Diplomacy

This part situates the UAE's economic diplomacy within the contemporary global economic context, while providing a theoretical framework for understanding economic diplomacy and introducing the first Economic Diplomacy Index for the UAE, setting the stage for deeper analysis in subsequent chapters.

- The global economy serves as the environment or the context that shapes the economic policies and diplomatic priorities of all countries, including the UAE. Therefore, examining macroeconomic trends in the world is crucial for understanding the UAE's economic interactions with the rest of the world. ***Chapter 1 (Recent Developments in the Global Economy: A Soft or Hard Landing?)*** situates the UAE's economic diplomacy within the contemporary global economic context and sets the stage for deeper analysis in subsequent chapters by covering developments across time, starting 2021 through projections for 2025, it examines global macroeconomic indicators such as growth, inflation, trade and FDI and offers stylized facts about advanced economies, emerging market and developing economies (EMDEs), the Gulf Cooperation Countries (GCC) and the UAE thus reflecting on the UAE's quick, effective and innovation-driven strategic responses to tackle global economic challenges like economic slowdowns, inflationary pressures, shifting trade patterns and reduced FDI inflows. By proceeding in this manner, this chapter ensures that the reader has an up-to-date understanding of the broader economic landscape and provides readers with a comprehensive understanding of how global trends influence the UAE's economic diplomacy.

- We then delve into the theoretical underpinnings of economic diplomacy, framing the UAE's approach as a model for shaping national interests in an interconnected world, where economies are linked to reap the benefits of shared success. Building on the foundational pillars introduced in last year's report, ***Chapter 2 (Conceptualization of the UAE's Economic Diplomacy)*** further develops the cohesive framework of the UAE's economic diplomacy pillars rooted in the UAE's economic principles that are introduced in this year's edition. It explores how the pillars of the UAE's economic diplomacy—trade agreements, sovereign wealth funds, foreign aid, and investments—alongside with active engagement in global forums and high-level economic and diplomatic representation, are leveraged to enable the UAE to navigate a competitive global landscape and a multipolar world. This year's report introduces the first Economic Diplomacy Index for the UAE, thus offering insights about the country's relative economic diplomacy power compared to a selected group of countries, including the world's largest economies.

Part

I

Evolving UAE Instruments of Economic Diplomacy: Trade, Aid, and Investment

This part provides an in-depth analysis of the UAE's economic diplomacy pillars, utilizing the most recent data available. By building on the 2023 report, it enables a comprehensive assessment of the evolving trajectory of these pillars, highlighting the UAE's progress in its pursuit of economic diversification.

- Economic diplomacy aims to reduce trade barriers, open markets, and facilitate smoother cross-border trade, ensuring mutual benefits. With trade facilitation at the core of the UAE's economic diplomacy, the country has amplified its trade influence and positioned Comprehensive Economic Partnership Agreements (CEPAs) as a cornerstone for its trade diplomacy. The year 2024 witnessed a significant increase in the number of CEPAs signed or under negotiations. Since the first CEPA was signed in 2022, the UAE has concluded a total of 24 CEPAs up to December 2024. By delving deeply into the UAE's trade diplomacy, ***Chapter 3 (UAE's Foreign Trade)*** provides a nuanced analysis of trade figures, uncovering trends across goods and services, listing top trading partners and examining trade structure and dynamics. It also emphasises the indispensable role CEPAs play in building bridges by linking diverse economies and creating interconnected trade networks. The chapter concludes by highlighting how the UAE leverages its position as a strategic trade hub to foster regional trade integration, economic and diplomatic alliances with the Global South.

- Turning attention to the UAE's sovereign wealth funds (SWFs), which are among the largest and most influential in the world. These funds secure long-term prosperity while serving as critical tools for the UAE's economic diplomacy—promoting economic security, fostering economic diversification, and building long-term partnerships. ***Chapter 4 (Strategic Prosperity: The UAE's Sovereign Wealth Funds and the New Era of Economic Diplomacy)*** expands and builds upon last year's report by incorporating recent developments and initiatives, showcasing the UAE's evolving role as a global investor. The chapter offers case studies illustrating the use of SWFs in fostering strategic partnerships with global institutions and governments by leveraging their financial strength to foster economic cooperation and advance the UAE's diplomatic and economic interests. The chapter introduces emerging trends in SWF investments, such as artificial intelligence and food security, and highlights the commitment of the UAE's SWFs to sustainable investment practices and environmental stewardship. Additionally, the chapter delves into governance improvements, emphasizing tools like the Governance, Sustainability, and Resilience (GSR) Scoreboard and their role in enhancing transparency, credibility, and soft power.

- A closer look at FDI as a pillar of economic diplomacy: ***Chapter 5 (UAE's Foreign Direct Investment Strategies)*** explains why FDI serves as a cornerstone for the UAE's growth and economic diplomacy by analysing how the UAE has successfully positioned itself as a destination for global investments and a magnet for FDI. The chapter discusses the key determinants of FDI inflows, the competitiveness of the UAE's economy, and how FDI has enabled the UAE to diversify its economy and enhance productivity.

- Shifting focus to the UAE emergence as a leading and an active donor of foreign aid: the UAE strategically uses foreign aid not only to promote global goodwill but also as a tool of economic diplomacy aiming at prioritizing capacity building and supporting developing communities. In doing so, the UAE cultivates relationships, reinforces its image as a responsible global partner and enhances its soft power. ***Chapter 6 (Strategic Significance of UAE Foreign Aid in Economic Diplomacy)*** expands upon last year's report by incorporating updates on the 2023–2024 aid initiatives, including the UAE's critical humanitarian efforts in Gaza, Ukraine, and Sudan. The chapter analyses foreign aid data and provides detailed statistics on disbursements and funding sources. Additionally, the chapter provides a deeper focus on the modalities of aid distribution, the growing role of private sector contributions, and the UAE's strong support for "beyond aid" initiatives.

Part

II

UAE Diplomatic and Regulatory Achievements in 2024: Events and Milestones

This part focuses on the UAE's international cooperation achievements, specifically its leadership in the WTO's 13th Ministerial Conference to reform the international trade system and its collaboration with the Financial Action Task Force (FATF). These achievements underscore the UAE's commitment to transparency, reform, and multilateral cooperation.

- In a time where achieving regulatory excellence ensures compliance with international standards, ***Chapter 7 (How Did the UAE Enhance Its Global Financial Standing? A Story of Reform and Progress)*** serves as a unique reference for investors, illustrating the UAE's commitment to transparency and regulatory excellence. It provides a detailed account of the UAE's successful efforts to exit the FATF's grey list by documenting the reforms and progress that strengthened the UAE's financial regulatory framework. The chapter demonstrates the country adherence to international standards, highlighting the significance of financial governance in strengthening economic and diplomatic ties. This chapter stands out as the only document in the UAE that comprehensively outlines the journey to exit the list.

- By positioning itself at the forefront of trade discussions, the UAE's prominence and its growing influence in shaping the future of global trade and its strategic role in fostering international partnerships are exemplified by its leadership at the WTO's 13th Ministerial Conference. The Abu Dhabi Ministerial Declaration underscores the UAE's commitment to fair global trade, multilateralism, and cooperative global economic governance. ***Chapter 8 (WTO's Abu Dhabi Ministerial Declaration: The UAE's Commitment to Advancing Global Trade)*** discusses the significance of the Abu Dhabi Declaration in advancing the international trade system. It provides a critical analysis of the key successes of the ministerial conference and the challenges facing the global trade.

Part

III

Future Trends in Economic Diplomacy and Global Shifts

This part has been newly incorporated into this year's edition, aiming to address international issues related to economic diplomacy that impact the UAE, either directly or indirectly. It examines the emerging trends shaping the new multipolar world, highlighting both opportunities and challenges. This part studies the NDB, the financial arm of BRICS, and the potential it holds for the future of the BRICS group. It also discusses the implications of the future of the US dollar as the world's reserve currency and concludes with an analysis of the future of economic diplomacy in a multipolar and increasingly deglobalized world.

- The rise of the US dollar as the world's most widely accepted currency following the Suez moment of 1956 exemplifies the US monetary sovereignty and underscores its role as an essential tool of the US foreign policy and economic diplomacy. The strategic use of the dollar in foreign policy, rather than solely as a medium of exchange and unit of account, has encouraged some countries to reduce their reliance on it. ***Chapter 9 (On War, Debt, and Hard Currencies)*** addresses the future of the US dollar as a reserve currency and whether it will be dethroned by other currencies. In addition to its paramount importance to the global economy, the question posed in this chapter carries significant implications for the UAE, as the peg of its currency to the US dollar anchors its monetary policy to the Federal Reserve's actions, thereby limiting the flexibility of domestic monetary interventions. This makes the future trajectory of the dollar—its role as the global reserve currency—directly relevant to the UAE's monetary framework and economic stability. Interestingly, the chapter explores the potential of digital currencies in settling cross-border transactions and reducing reliance on hard currencies.

- The UAE's decision to join BRICS and its involvement in NDB reflect its strategic pivot toward strengthening ties with the Global South aligning with its broader economic diplomacy. ***Chapter 10 (BRICS and the New Development Bank)*** analyses the potential of the New Development Bank as a critical instrument of economic diplomacy for the BRICS group.

- The UAE's economic diplomacy is based on fostering mutually beneficial economic gains and establishing cooperative frameworks that ensure win-win outcomes for all partners involved. By aligning economic and diplomatic efforts, the UAE fosters a stable and interconnected global environment, where shared interests pave the way for sustainable growth and peaceful collaboration. ***Chapter 11 (Economic Diplomacy's New Frontier? Reinventing the Liberal Peace in a Deglobalizing World)*** critically discusses the liberal peace concept using historical evidence, highlights its limitations and offers policy recommendations for countries to maintain leadership in economic diplomacy, emphasizing innovative strategies to adapt to shifting global dynamics.

Part

IV

Conclusion: A Blueprint for Economic Diplomacy

As global challenges evolve, economic diplomacy must adapt. The UAE's success highlights the importance of innovation, adaptability, and strategic foresight. By aligning domestic resources with international opportunities, it has secured its global economic position and set a foundation for future generations. The UAE's visionary approach offers a model for middle powers, fostering global connectivity and resilience while shaping the future of economic diplomacy.

GLOBAL ECONOMIC OUTLOOK AND CONCEPTUALIZATION OF ECONOMIC DIPLOMACY

Part

I

1 Recent Developments in the Global Economy

A Soft or Hard landing?

Kamal El-Wassal

1.1. Introduction

To some extent, the economy operates similarly to an airplane, with policy makers serving as its pilots. They alter their policy tools to guide their economies through turbulence, shocks, and crises, with the goal of reaching their destination smoothly. The question now is whether the global economy will experience a soft or a hard landing. What do the indicators of growth, inflation and unemployment tell us? What do economic policy trends in major economies tell us? And how the outcome will be: soft landing or hard landing? This chapter tries as an attempt to answer this question.

For the first time in three years, global growth is expected to settle at 3.2% in 2024 despite heightened geopolitical tensions and high interest rates. The global inflation rate is expected to moderate, albeit at a slower rate than previously thought, with an average rate of 3.5% expected in 2024. However, service price inflation has hampered efforts to reinstate inflation and further complicated monetary policy normalisation (IMF, July 2024). As a result of continued inflationary pressure, central banks of not only advanced economies but also emerging market and developing economies (EMDEs) are likely to remain cautious when easing their monetary policies.

The International Monetary Fund (IMF) predicts a decrease in global economic growth from 3.3% in 2023 to 3.2% in 2024, with a subsequent increase to 3.3% in 2025. Global headline and core inflation are also expected to decrease gradually (IMF, July 2024). The outlook for global economic growth and trade in the medium term is the weakest in years, with progress towards improved living standards in middle- and low-income countries slowing down. The growth rate in EMDEs is expected to decrease from 4.4% in 2023 to 4.3% in 2024. Given the increasing conflicts and violence, the outlook remains bleak in many fragile economies, with over half of them expected to be in a worse state in 2024 compared to pre-pandemic times. Global trade growth is experiencing a resurgence aided by a rebound in merchandise trade. The increasing global political conflict may also result in volatile commodity prices (IMF, April 2024b).

The remainder of this chapter is organised as follows: it begins by analysing global economic growth trends, followed by an exploration of inflation trends worldwide. It then examines recent developments in international trade and foreign direct investment before concluding.

1.2. Global Economic Growth

The outlook for global economic growth is projected to remain largely consistent at 3.2% in 2024 and 3.3% in 2025 (IMF, July 2024), as seen in Table 1.1. During the global disinflation of 2022–2023, economic activities showed unexpected resilience. Despite central banks increasing interest rates to stabilise prices, major economies managed to maintain steady growth in employment and income because of positive demand and supply factors. As inflation moves towards target levels and central banks shift towards easing monetary policies, the tightening of fiscal policies focusing on reducing high levels of government debt through increased taxes and reduced government spending is anticipated to have a dampening effect on economic growth. The rate of growth is predicted to remain below average due to various factors such as the ongoing impact of the COVID-19 pandemic, conflict in Ukraine, sluggish productivity growth, and rising geoeconomic fragmentation (IMF, April 2024b).

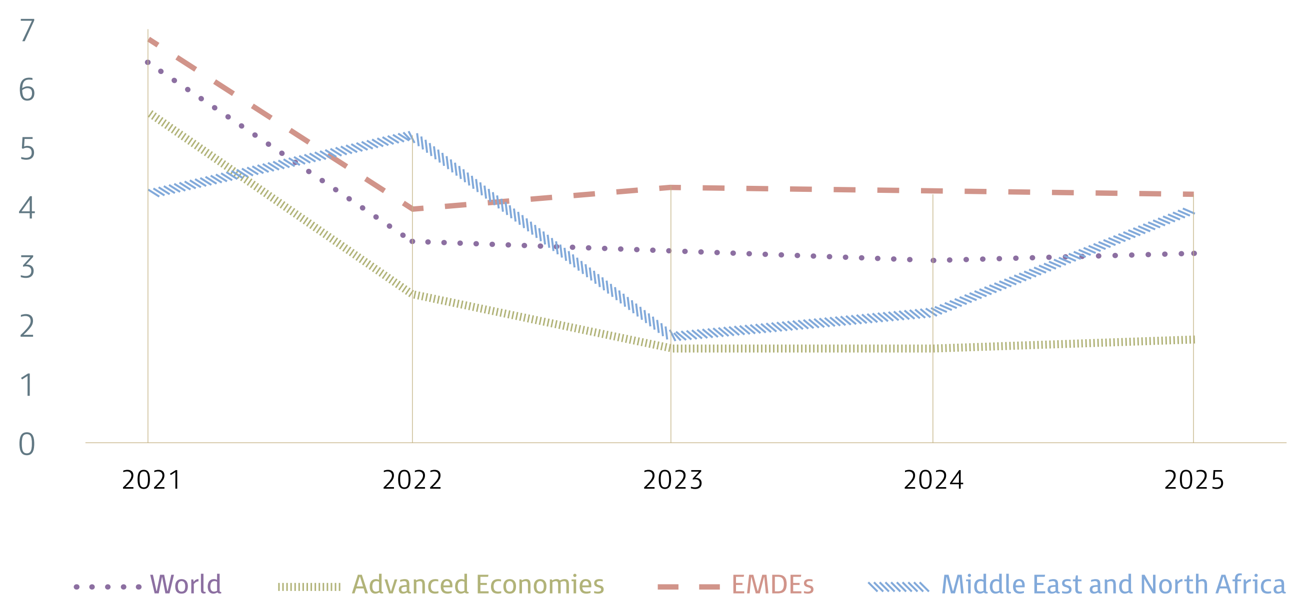
Table (1.1)
World Real Output, Percentage Change

	2021	2022	2023	2024	2025
World	6.5	3.5	3.3	3.2	3.3
Advanced Economies	5.7	2.6	1.7	1.7	1.8
EMDEs	7.0	4.1	4.4	4.3	4.3
Middle East and North Africa	4.3	5.4	1.8	2.2	4.0

Source: Author's compilation using IMF, World Economic Outlook Update, July 2024, p.5

In almost 60% of the economies, representing over 80% of the global output and population, growth during 2024–2025 is expected to be lower than the average pace observed in the 2010s. The less optimistic perspective emphasises a long-term slowdown in potential growth in many major economies despite the expected ease in cyclical headwinds. Countries with high inflation rates, compared to those before the pandemic, have seen a significant decrease in growth, mainly due to disruptions in supply chains and increases in commodity prices. However, this pattern is expected to persist, indicating a lasting weakness in supply.

Figure (1.1):
World Real Output, Percentage Change



Source: Author's compilation using IMF, World Economic Outlook Update, July (2024) data

The financial conditions of EMDEs became more accommodative in 2024. Moreover, after two years of strict tightening worldwide, the fiscal policy is expected shift to being generally favourable towards growth in 2025, particularly in advanced countries. While the market's view of sovereign credit risk has improved in 2024, borrowing costs for EMDEs remain elevated. Assessments of credit ratings and debt sustainability reveal that approximately 40% of EMDEs are at high risk of debt-related pressures.

EMDEs' growth is forecasted to increase slightly to 4.3% in 2024 and settle in 2025–2026. In many EMDEs, this increase indicates a better local demand, backed by decreasing inflation and improving financial conditions, as well as a cyclical rebound in trade due to stronger demand from certain advanced countries (IMF, April 2024b). It is forecasted that the growth of low-income countries (LICs) will increase from 3.8% in 2023 to 5% in 2024. This reflects the increasing activity among several poverty-exporting economies (World Bank, 2024).

Recovery from the global recession of 2020 is expected to be feeble, with many LICs and economies in fragile and conflict-affected situations anticipated to fall short of the pre-pandemic growth rates by at least 0.5%. According to the World Bank's Global Economic Prospects report (June 2024), several LICs are currently experiencing higher levels of poverty compared to 2019 and are expected to face ongoing economic difficulties, such as limited progress in reducing poverty, decreased financial resources, and increased vulnerability to debt crises (World Bank, 2024).

1.2.1. Advanced Economies

Growth in advanced economies slowed to 1.7% in 2023, with a notable divergence. As seen in Table 1.2, growth in the United States (US) strengthened to 2.5% in 2023, primarily because of robust consumption, government spending, and significantly reduced imports of goods and services. Consumption was supported by continued spending of savings accumulated during the pandemic and a healthy expansion of household balance sheets as equity prices rapidly increased in 2023. A substantial widening of the US budget deficit in fiscal year 2023 to over 6% of the gross domestic product (GDP) at the federal level also played a role in boosting growth. In contrast, Table 1.2 signals that the Euro area's growth slowed sharply in 2023, driven by weak consumption growth, thus reflecting the impact of high energy prices on household budgets.

Table (1.2):
Advanced Economies Real Output, Percentage Change

	2021	2022	2023	2024	2025
United States	5.8	1.9	2.5	2.6	1.9
Euro Area	6.0	3.4	0.5	0.9	1.5
Japan	2.6	1.0	1.9	0.7	1.0

Source: Author's compilation using IMF, World Economic Outlook Update, July 2024, p.5

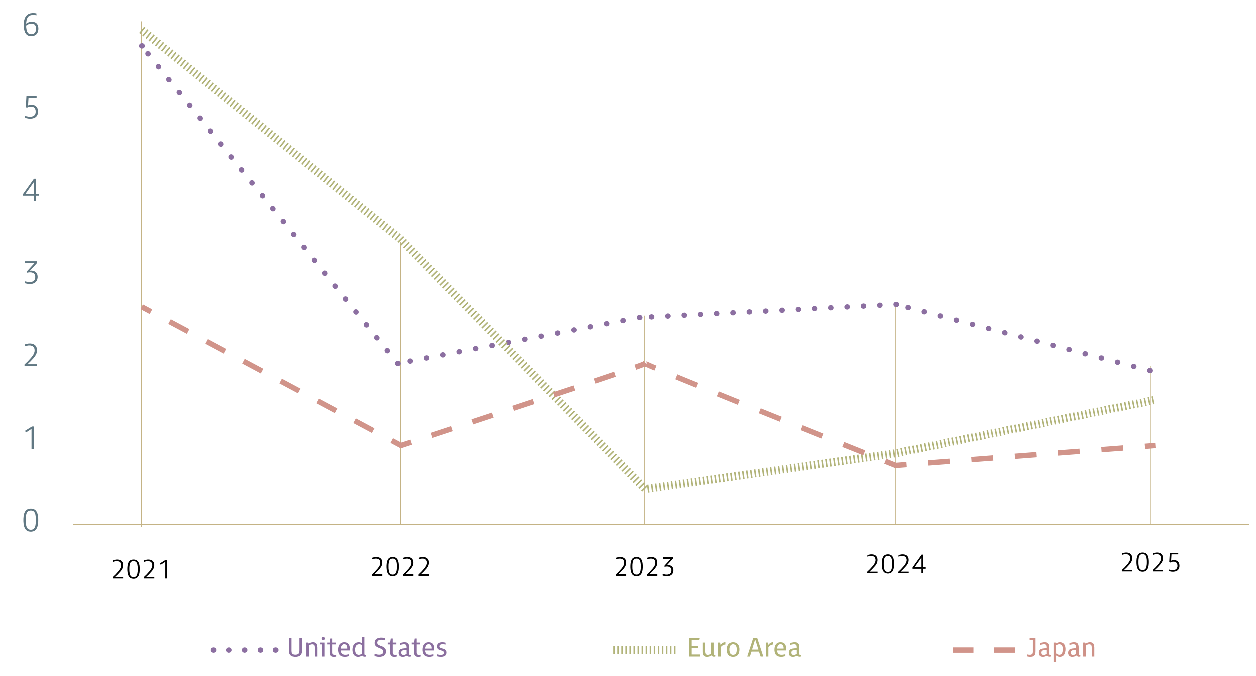
The United States

In the US, the projected growth is 2.6% in 2024, reflecting the slower-than-expected start of the year, as the gradual fiscal tightening and softening in labour markets slow aggregate demand. Growth is expected to slow to 1.9% in 2025 as the labour market cools and consumption moderates, with fiscal policy starting to tighten gradually. By the end of 2025, growth is projected to taper to its potential, closing the positive output gap (IMF, July 2024).

The slowdown in 2025 is expected to be driven primarily by the cumulative effects of past monetary tightening and contractionary fiscal stances. Elevated real borrowing rates are set to restrain household spending on durable goods and residential investments. In line with the recent softening of high-frequency indicators, broader consumer spending is expected to slow due to moderating growth in household income as labour market tightness recedes and savings diminish.

On the fiscal side, with a relatively stable or slightly lower deficit expected over the next few years, fiscal policy is not expected to be a significant driver of growth. In 2026, growth is expected to remain at 1.8%, as a further slowdown in fiscal spending offsets the modest increases in consumer spending and business investment. By the end of 2026, borrowing rates are expected to decline substantially as inflation returns to its target levels (World Bank, 2024).

Figure (1.2):
Advanced Economies Real Output, Percentage Change



Source: Author's compilation using IMF, World Economic Outlook Update, July (2024) data.

The Euro Area

In 2023, growth in the Euro area decelerated significantly due to constrained credit, weak exports, and high energy costs. In 2023, trade volumes decreased for the first time, largely due to a drop in export competitiveness caused by high energy prices. Growth appears to have reached its lowest point; however, there are distinct variations between sectors and member countries.

A slight increase of 0.9% in the GDP is predicted in 2024 for the Euro area owing to improved performance in services and better-than-anticipated net exports in the first six months; growth is forecasted to reach 1.5% by 2025. This is supported by increased consumer spending due to higher real wages, along with an uptick in investment fuelled by improved financing terms resulting from gradual monetary policy relaxation in the current year (IMF, July 2024).

Japan

In Japan, the expected output growth is set to decrease from 1.9% in 2023 to 0.7% in 2024 due to a weak increase in consumption and declining exports caused by the normalisation of auto production and the stabilisation of tourism demand. A robust Shunto wage agreement is anticipated to bolster the recovery in household spending from the latter part of the year. However, the forecast for growth in 2024 has decreased, mostly because of temporary supply disruptions and low private investment in the first quarter (Q1). Output is expected to increase by 1% in 2025 and 0.9% in 2026, owing to small enhancements in consumer spending and capital investment (IMF, July 2024).

1.2.2. Emerging Markets and Developing Economies

Following a decrease in the second half of 2023, economic activity in EMDEs generally levelled off at the beginning of 2024, with signs of domestic demand, such as retail sales and consumer confidence, showing some improvement. The start of 2024 saw an increase in headline manufacturing and service sectors' Purchasing Managers Index, which showed a more significant improvement. Economic conditions exhibited differences because of the ongoing fragility in susceptible EMDEs. Countries with higher credit ratings have experienced faster economic growth than countries with lower ratings, which are struggling with high debt, financing costs, and domestic challenges such as conflict and violence (World Bank, 2024).

Growth in EMDEs is projected to remain steady at 4.3% in 2024 and 2025, as the slowdown in emerging and developing Asia is offset by increased growth in economies in the Middle East, Central Asia, and Sub-Saharan Africa (IMF, April 2024b).

A closer look at China's economic conditions reveals a slight expansion in early 2024, boosted by a favourable impact from net exports, which counteracted the weakening domestic demand. After a decline in the previous year, both exports and imports improved. Simultaneously, investment growth generally remained sluggish as strong infrastructure and manufacturing investments were offset by decreasing real estate investments. In the face of low consumer confidence, domestic consumption continued to be restrained, with retail sales growth falling below the pre-pandemic levels. China's growth in 2024 is projected to be 5%, driven mainly by a resurgence in private consumption and robust exports in the initial quarter. By 2025, China's GDP growth is expected to decrease to 4.5%, and it is predicted to continue decreasing gradually to 3.3% by 2026 owing to challenges presented by an ageing population and slowing productivity growth (IMF, July 2024).

1.2.3. Middle East and North Africa

Growth prospects of the Middle East and North Africa (MENA) region are marked by an uneven recovery amid armed conflicts, reliance on hydrocarbons, and ongoing structural challenges. The short-term growth is expected to remain weak, increasing slightly to 2.2% by 2024 (up from 1.8% in 2023). The main reasons for this downgrade are the voluntary cuts in oil production by some Gulf Cooperation Council (GCC) countries, decreased revenues from lower hydrocarbon prices leading to reduced fiscal spending by hydrocarbon exporters, negative effects of conflicts in Sudan and Gaza causing disruptions in the Red Sea, and ongoing tight monetary policies in GCC countries.

It is expected that this region's growth will increase to 4.0% by 2025, as some of the factors holding back growth this year will slowly disappear. Nevertheless, in the foreseeable future, growth is expected to remain lower than the historical norms in many economies because of enduring structural issues such as ongoing financial stresses for certain economies and a continued slowdown in hydrocarbon expansion. The growth prospects of some countries are hampered by the prevalence of conflict in the region, which tends to have lasting adverse social and economic impacts. Meanwhile, other countries could be affected by trade diversions stemming from geopolitical developments and uncertainty.

Security threats in the Red Sea are causing increased concerns regarding how conflicts will affect trade and shipping expenses. With the Suez Canal handling 12–15% of global trade, Egypt's economy is especially vulnerable to these disruptions (IMF, April 2024a).

1.2.4. The GCC Countries and the UAE

In the coming years, non-hydrocarbon activity is expected to continue being the primary driver of growth in GCC countries. The temporary slowdown in growth in 2024 is anticipated to persist owing to voluntary oil production cuts, particularly in Saudi Arabia. It is expected that there will be a slight increase in growth to 2.4% by 2024. However, ambitious strategies to expand economies are anticipated to decrease the reliance on fluctuating hydrocarbon production and enhance stability, making non-hydrocarbon activities the primary contributors to future growth in Oman, Saudi Arabia, and the United Arab Emirates (UAE). The IMF predicts that economic expansion in the GCC will increase to 4.9% in 2025 due to higher hydrocarbon production and then stabilise at approximately 3.5% in the medium term (IMF, April 2024b).

Table (1.3):
GCC Countries, Real GDP Growth

	2021	2022	2023	2024	2025
Bahrain	2.6	4.9	2.6	3.6	3.2
Kuwait	1.7	6.1	-2.2	-1.4	3.8
Oman	3.1	4.3	1.3	1.2	5.1
Qatar	1.6	4.2	1.6	2.0	2.0
Saudi Arabia	5.1	7.5	0.8	2.6	6.0
UAE	4.4	7.9	3.4	3.5	4.2

Source: Author's compilation using IMF, World Economic Outlook Database, April 2024

1.3. Inflation Trends Around the World

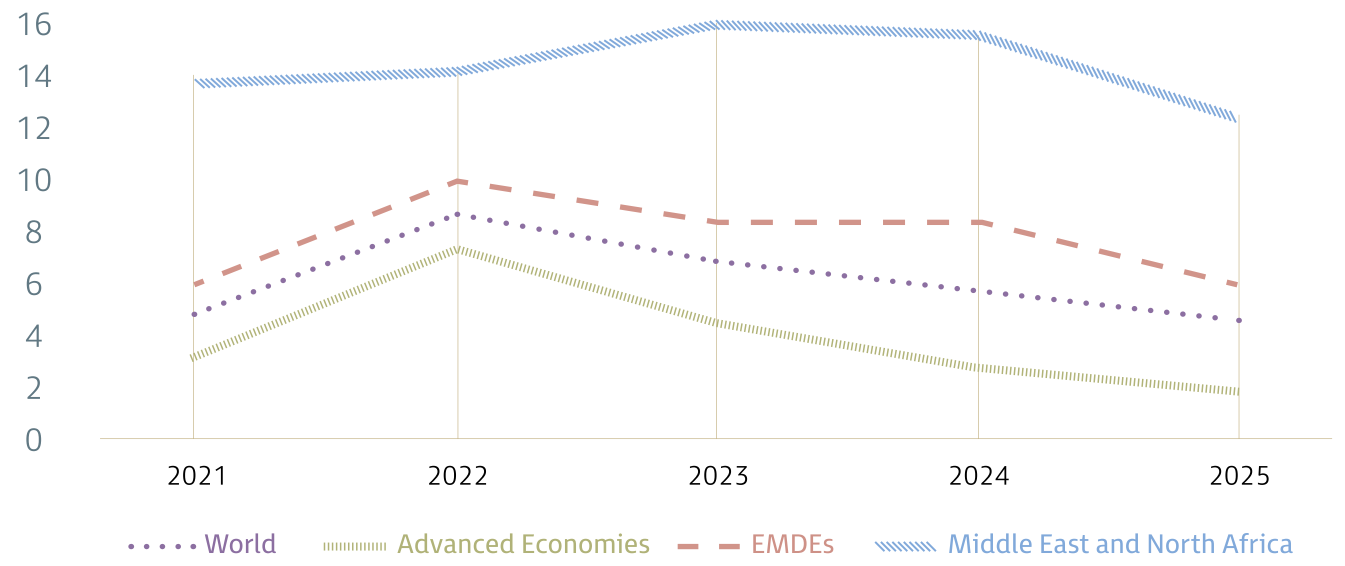
Table (1.4):
World Headline Inflation Rates

	2021	2022	2023	2024	2025
World	4.7	8.7	6.8	5.9	4.5
Advanced Economies	3.1	7.3	4.6	2.6	2.0
EMDEs	5.9	9.8	8.3	8.3	6.2
Middle East and North Africa	13.8	14.3	16.0	15.4	12.4

Source: Author's compilation using (IMF, April 2024a, p. 37; April 2024b)

The overall global inflation rate is expected to decrease from an average of 6.8% in 2023 to 5.9% in 2024 and further to 4.5% in 2025, as displayed in Table 1.4. Advanced economies are projected to experience a sharper decrease in inflation compared with EMDEs. It is anticipated that advanced economies will return to their pre-pandemic average rates, reaching an inflation rate of 2.0% in 2025, approximately a year ahead of the EMDEs' return to their pre-pandemic average of approximately 5.0%. Simultaneously, there will be significant variations in inflation forecasts across EMDEs, with rates ranging from 2.4% in emerging and developing Asia to 18.8% in emerging and developing Europe (IMF, April 2024b).

Figure (1.3):
World Headline Inflation Rates



Source: Author's compilation using (IMF, April 2024a, p. 37; April 2024b, p. 37)

1.3.1. Advanced Economies

As displayed in Figure 1.3, in advanced economies, inflation is projected to hit 2.6% in 2024 and 2.0% in 2025, with consumer goods prices appearing to have bottomed out and consumer services inflation remaining high. Over the past few months, the US has seen consistently high core inflation due to resilient economic activities and a rapid rise in housing costs. The strength of US productivity growth has helped reduce the inflationary impact of increasing wages to some degree. On the other hand, low productivity in the Eurozone has led to increased labour costs across the economy, supporting high core and services inflation despite weak demand in the Eurozone (World Bank, 2024).

The IMF analysis shows that the Euro area and United Kingdom have experienced a greater decrease in core inflation than the US due to the rapid decline in pass-through effects from previous energy price shocks.

1.3.2. Emerging Markets and Developing Economies

In EMDEs, headline inflation has progressively decreased to 8.3% annually by 2023 and is expected to remain steady in 2024. China experienced an unexpected drop in inflation of 0.2% due to significantly lower domestic food prices and their effect on core inflation. In most EMDEs in East Asia and the Pacific as well as Latin America and the Caribbean, inflation rates remained close to or below the pre-pandemic levels in late 2023 and early 2024 (World Bank, 2024). However, in developing countries, inflation exceeded expectations mainly because of the impact of rising international food, fuel, and fertiliser costs on domestic prices (IMF, April 2024b).

In 2024, inflation is expected to continue to decrease or remain at a low level in major economies of East Asia and the Pacific, mainly because of falling commodity prices. In Latin America and the Caribbean, headline and core inflation continue to decline throughout the region, although the decrease is happening at a slower rate. In this area, food prices will rise again, but not as drastically as in 2022. All major central banks lowered their policy interest rates from their previous high levels in an effort to combat inflation in the second half of 2023, although the rates are still elevated (IMF, April 2024b).

1.3.3. The GCC Countries and the UAE

Inflation in the GCC is still well contained and decreasing. In 2022, the average inflation in the region was approximately 3.3% year-over-year (y-o-y), showing a notable increase compared to the 2.2% (y-o-y) recorded in 2021. The largest jumps were observed in Bahrain, Qatar, and the UAE, and the smallest were in Oman, with a decrease in inflation in Saudi Arabia. By the end of 2022, most inflationary factors shifted from tradable to non-tradable goods. This change was a result of decreased inflation in traded goods caused by increased interest rates; a slowdown in global economic growth; and the ongoing implementation of subsidies and price controls on specific items, such as staple goods, gasoline, electricity, and water. Following a significant increase, the inflation of non-traded goods also decreased, leading to a slowdown in inflation of approximately 1.6% (y-o-y) in August 2023. The impact of the conflict in Ukraine led to only a slight increase in the volatility of global commodity prices.

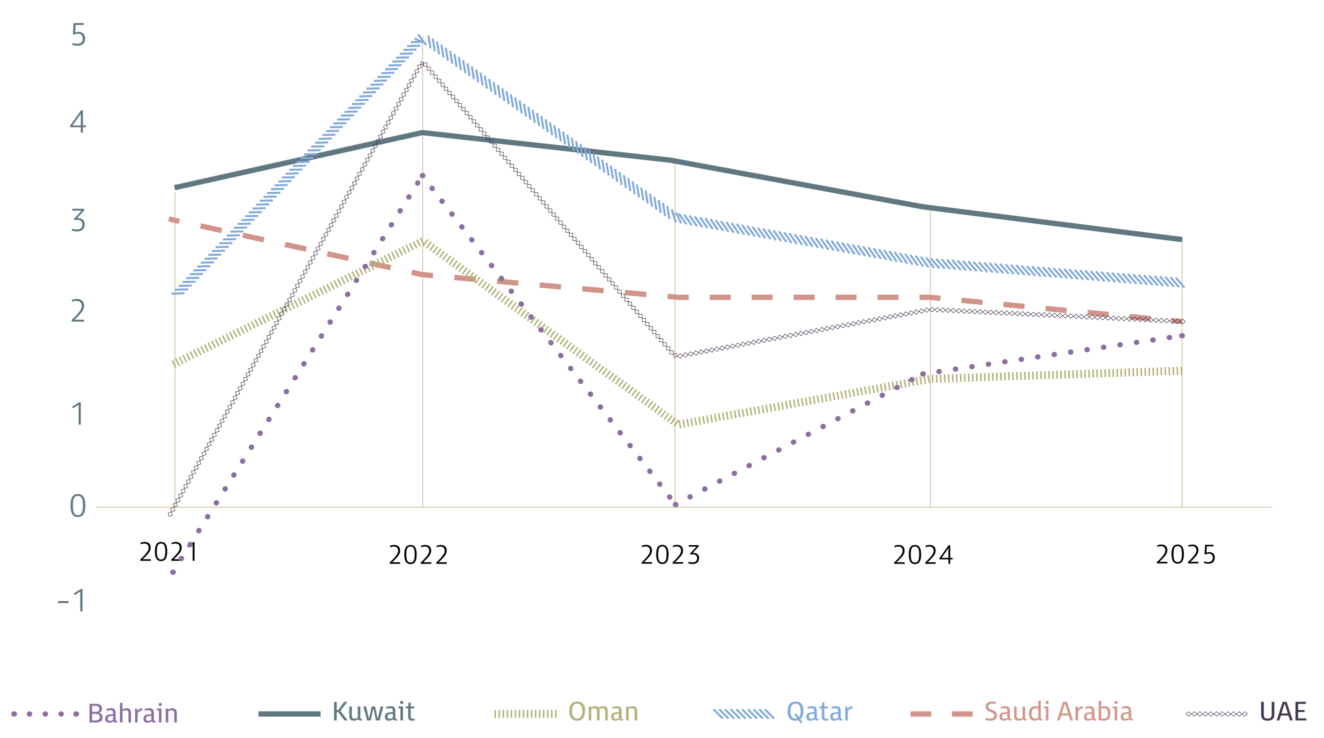
Table (1.5):
GCC Countries, Headline Inflation

	2021	2022	2023	2024	2025
Bahrain	-0.6	3.6	0.1	1.4	1.8
Kuwait	3.4	4.0	3.6	3.2	2.8
Oman	1.5	2.8	0.94	1.3	1.5
Qatar	2.3	5.0	3.1	2.6	2.4
Saudi Arabia	3.1	2.5	2.3	2.3	2.0
UAE	-0.1	4.8	1.6	2.1	2.0
GCC	1.6	3.78	1.94	2.15	2.08

Source: Author's compilation using IMF, World Economic Outlook Database, April 2024

In 2023, inflation driven by non-tradable goods dominated headline inflation. Increased economic activity and higher housing costs increased prices. Real estate prices were rising rapidly in Dubai and moderately in Saudi Arabia, with rents also were increasing in Kuwait. In GCC countries, wage growth was kept under control, as no significant increase in prices and wages has occurred simultaneously. A moderate supply of expatriate workers and higher labour force participation are the reasons for modest wage growth in the GCC (IMF, 2023).

Figure (1.4):
GCC Countries, Headline Inflation



Source: Author's compilation using IMF, World Economic Outlook Database, April 2024.

1.4. Global Trade Developments

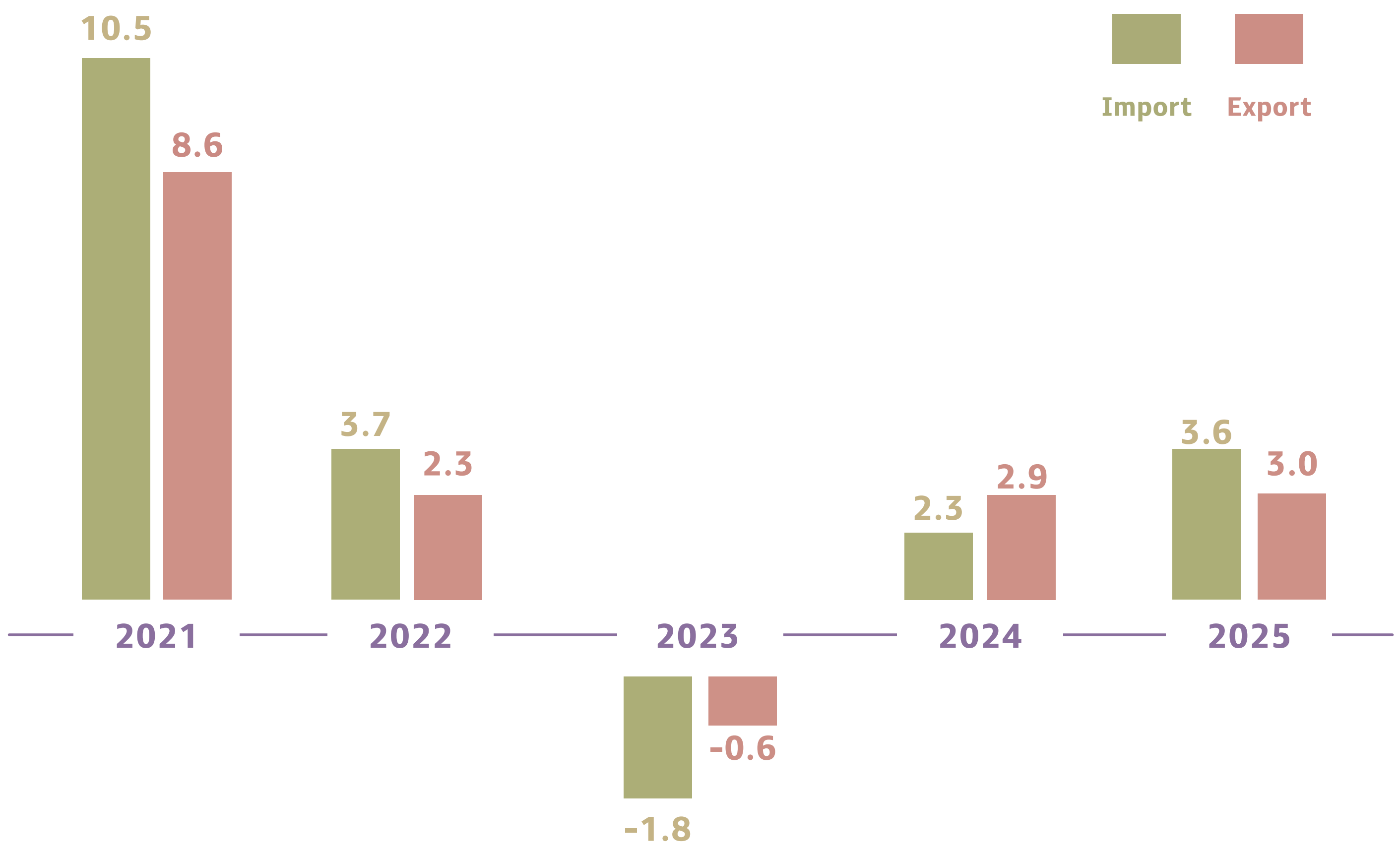
The volume of global merchandise trade is projected to increase by 2.6% in 2024 and by 3.3% in 2025, owing to an increase in demand for traded goods after a decline in 2023. Expensive energy and inflation have significant lasting impacts on the demand for manufactured goods that rely on trade; however, this demand is expected to bounce back slowly in the next few years as inflation eases and household income increases (WTO, 2024).

Despite an increase in cross-border trade restrictions that affect trade between geographically distant groups, the global trade-to-GDP ratio is projected to remain steady (IMF, July 2024). Given the subdued economic growth forecast, the ratio of total world trade to GDP (in current US dollars) is anticipated to average 57% over the next five years, similar to the trends seen since the global financial crisis (IMF, April 2024b).

In the short term, the reaction of worldwide trade to global production is expected to remain diminished compared to the pre-pandemic levels due to slow investment expansion and the increasing number of global trade barriers. The volume of goods trade decreased by 1.9% throughout 2023, owing to a significant decline in global industrial production.

Countries reliant on commodities experienced slower growth in the current year. Following a decline in goods exports in 2023, the recovery observed in early 2024 was relatively constrained, particularly in economies relying heavily on export-oriented manufacturing industries, partly because of weak external demand from key trading allies (World Bank, 2024).

Figure (1.5):
Merchandise Trade Volume, Percentage Change



Source: Author's compilation using WTO Stats Portal data

The modest drop in merchandise trade in 2023 hides notable differences across regions, with Europe seeing a steep decrease in import demand, North America experiencing a decline, Asia remaining steady, and major fuel-exporting economies witnessing an increase. Subdued demand led to lower export volumes in Europe and hindered a more robust economic recovery in Asia, with varying results in other regions.

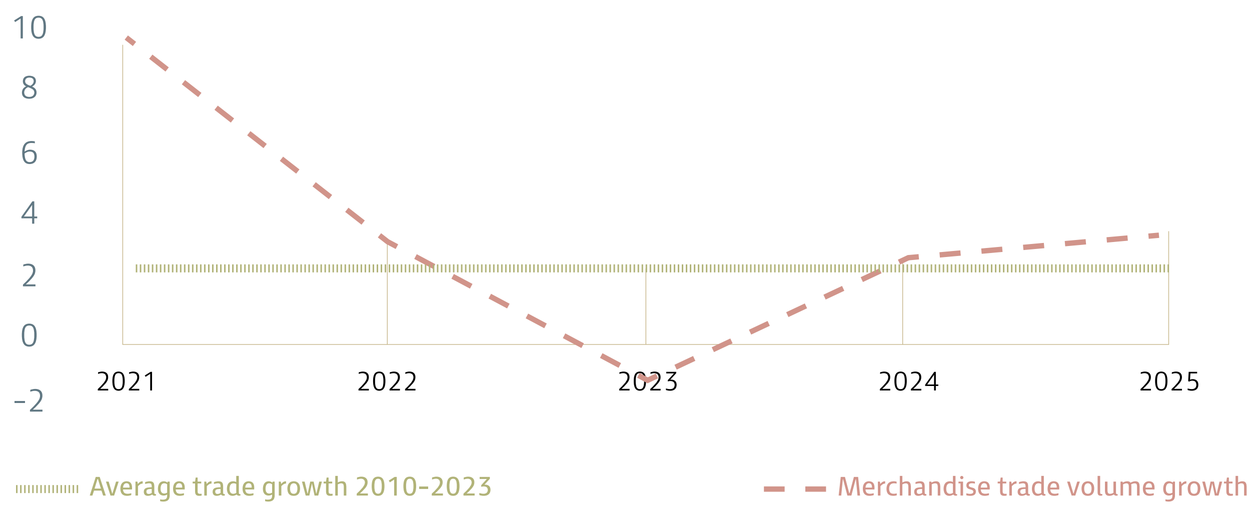
The current forecast is highly uncertain because of numerous risk factors in the global economy such as regional conflicts, geopolitical tensions, and increasing protectionism. Given the uncertainty, trade volume could increase by up to 5.8% or decrease by as much as 1.6% in 2024 (WTO, 2024).

1.4.1. Merchandise Trade Developments

Figure (1.6) depicts merchandise trade developments during the period (2019-2023), which show that the merchandise trade volume of goods remains significantly higher than that before the pre-pandemic level in 2023 (WTO, 2024). Although the global export value declined by 5% to US$ 23.78 trillion in 2023. The decrease was caused by a mix of factors, such as decreased trade volume, reduced prices of primary commodities, and fluctuations in exchange rates. Nevertheless, the decrease was not substantial enough to eliminate the significant increases compared to before the pandemic, as the overall trade in goods in 2023 was 25% higher than that in 2019. Leading the decline in exports was the Russian Federation, whose exports dropped by 28%, and manufacturing-focussed Asian economies such as China (-5%), Japan (-4%), and the Republic of Korea (-8%). Among other major economies, the US saw a 2% decrease, Germany experienced a 1% increase, and Mexico experienced a 3% rise. Overall, exports from the European Union (EU) to other countries grew by 2%, but trade within the EU decreased by 1%, resulting in stable overall exports to the US (WTO, 2024).

At the same time, imports of goods decreased in many countries, partly because of lower prices of resources such as natural gas, which experienced an average price drop of 63% by 2023. Several key economies experienced slower growth, except some major energy-exporting countries, such as the UAE (+7%), Russia (+10%), and Saudi Arabia (+11%) (WTO, 2024).

Figure (1.6):
World Merchandise Trade Volume Growth (2021-2025)



Source: Author's compilation using WTO (2024).

1.4.2. Services Trade Developments

Unlike the trade in goods, the value of global trade in services rose by 9% in 2023 to reach US$ 7.54 trillion, driven by increased spending on travel and other services following the recovery after the COVID-19 pandemic. The growth in services trade counteracted the decrease in goods trade in 2023, resulting in a slight 2% decrease in global export of goods and commercial services on a balance of payments basis to US$ 30.8 trillion (WTO, 2024).

In 2023, the transportation sector made up nearly 25% of global services trade. Transport exports in Asia decreased by 25%, with China experiencing the biggest drop by 40%. Europe experienced an 8% decline. The decrease in transport in 2023 indicates a drop in shipping rates to the levels observed before the pandemic. The assault on Red Sea shipping last year caused a turnaround in the declining freight rates. Freight prices can increase substantially when supply chain disruptions occur. However, the effect of recent disturbances on shipping costs is relatively low compared to the highest levels seen during the COVID-19 crisis (WTO, 2024).

The international passenger transport sector, which was severely impacted by the pandemic, saw continued recovery in 2023 as airlines began to profit again. North America saw a 7% increase in passenger transport exports, driven by a 30% rise in air passenger transport within the US. Before the pandemic, transportation exports accounted for 44% of the country's total exports. The International Air Transport Association reported that international air connectivity, measured by the frequency of global flights, reached 94% of the pre-pandemic levels by the end of 2023 (WTO, 2024).

In 2023, growth in other commercial services rebounded and increased by 9%. The lacklustre results of 2022 were mainly because of the fluctuating exchange rates in the currency markets of major traders, especially for the Euro and British pound (WTO, 2024).

1.4.3. The GCC Countries and the UAE

In the MENA region, shifting trade patterns were primarily observed in oil-exporting countries with regard to hydrocarbon exports, as the EU replaced some of its Russian-supplied oil and gas. The share of EU hydrocarbon imports from MENA increased from 2.3% in Q1 2022 to 5.8% in Q4 2023, with GCC countries, specifically Saudi Arabia, experiencing a significant increase. Because of geopolitical events in the area, commercial cargo ships in the Red Sea were targeted in Q4 2023, causing a significant disruption to maritime trade. This caused major ocean carriers to cancel or reroute routes initially planned to pass through the Red Sea. The extended trip resulted in higher insurance premiums, increased fuel expenses, and reduced shipping efficiencies, leading to price hikes for imported products such as essential shipments of grain from Asia and oil from the Middle East (IMF, April 2024a).

1.5. Foreign Direct Investment Developments

Global flows of foreign direct investment (FDI) decreased in 2023. Investors' doubts about the economy's condition and the possible repercussions of economic fragmentation trends influenced capital flows in advanced economies and EMDEs. Stringent financial conditions have led to a decrease in global project finance deals and cross-border mergers and acquisitions (M&As). There has been an increase in announcements of new greenfield projects, which may indicate improved opportunities in the future.

FDI inflows totalled US$ 1.33 trillion in 2023, a decrease of 2% compared to 2022. The main figure is affected by the volatile fluctuations in a few small European conduit economies. FDI inflows to EMDEs that were previously strong dropped by 7% in 2023. Excluding channels, investments in advanced economies dropped by 15% (UNCTAD, 2024b).

However, the largest MNEs continue to maintain high profit levels, as seen in reinvested earnings, which is an important aspect of FDI. Additionally, funding terms are becoming more favourable following a period of elevated interest rates, potentially aiding the resurgence of global project financing. The M&A market is predicted to bounce back, but cross-border deals may experience delays. In general, while the initial signs for Q1 2024 remain low, there is a chance of a slight growth for the entire year.

1.5.1. Advanced Economies

In 2023, FDI inflows to advanced economies increased by 9%, reaching US$ 464 billion. However, the situation was made more complex by substantial variations and adverse FDI outcomes in multiple European countries that have experienced considerable conduit FDI activity over the past few years. The introduction of a minimum tax on big multinational corporations in 2024 occurred simultaneously with a surge in corporate financial reorganisation and asset sales. FDI in advanced economies, excluding the impact of conduit flows decreased by approximately 15% (UNCTAD, 2024b).

As seen in Table 1.6, there has been a significant change in FDI inflows to Europe, from US$ 106 billion in 2022 to US$ 16 billion in 2023. Multiple economies such as Ireland, Luxembourg, the Netherlands, Switzerland, Britain, and Northern Ireland recorded significant negative figures when combining inflows for 2022 and 2023 (UNCTAD, 2024b).

Table (1.6):
FDI Inflows by Region, 2021-2023 (Billions of Dollars)

Region	2021	2022	2023	%
World	1,480	1,356	1,332	-2
Advanced economies	597	426	464	9
Europe	51	-106	16	--
European Union	152	-85	59	--
North America	453	379	361	-5
EMDEs	884	936	867	-7
Africa	79	54	53	-3
Asia	734	678	621	-8
Central Asia	7	10	7	-27
East Asia	380	315	386	-9
South Asia	52	58	36	-37
Southeast Asia	212	223	226	1
West Asia	81	72	65	-9
Latin America and the Caribbean	137	196	193	-1

Source: Author's compilation using UNCTAD (2024a) & (UNCTAD, 2024b).

FDI inflows have decreased in North America and most other advanced countries. FDI inflows in the US decreased by 6% to US$ 311 billion, mainly because of a significant drop in M&A activity by 40% to US$ 81 billion. FDI in Canada rose by 9% to US$ 50 billion, whereas FDI in other advanced countries such as Australia, Japan, and the Republic of Korea declined significantly (UNCTAD, 2024b).

1.5.2. Emerging Markets and Developing Economies

FDI inflows into EMDEs dropped by 7% to US$ 867 billion, representing 65% of global inflows, as seen in Table 1.6. Developing Asia, the largest recipient of FDI in Asia that makes up almost 50% of global inflows, saw an 8% decrease in inflows, but FDI still remained high, reaching US$ 621 billion. This decrease impacted the overall outcome. Moreover, there was a 3% decrease in inflows to Africa, dropping to US$ 53 billion. The African Continental Free Trade Area (AfCFTA) Investment Protocol, approved in 2023, is anticipated to boost intra-regional FDI growth (UNCTAD, 2024b).

On the other hand, there was a rise in the amount of money flowing into the LDCs (UNCTAD, 2024b). FDI in Latin America and the Caribbean stayed consistent, reaching a total of US$ 193 billion, while LICs and vulnerable groups received a relatively small portion of global FDI inflows (UNCTAD, 2024b).

Most of the increase in greenfield initiatives in emerging markets occurred in the manufacturing sector in terms of both project values and quantities. Over the past 20 years, there has been a gradual decrease in project numbers within the manufacturing industry, whereas the service sector has seen a rise in prominence. The rise in 2023 was a positive deviation from the usual pattern, considering the significance of manufacturing initiatives for economic expansion, industrial advancement, and involvement of EMDEs in global value chains (UNCTAD, 2024b).

1.5.3. The GCC Countries and the UAE

A rise in FDI would help boost non-oil growth and increase economic diversification. Since the COVID-19 pandemic, GCC countries have received a higher percentage of FDI relative to their GDP compared to advanced economies and EMDEs. In 2022, the UAE attracted US$ 26 billion in FDI, making it the leading FDI destination in the region (see Chapter 5 for details). This was due to regulatory changes such as permitting 100% foreign ownership of onshore companies and promoting private sector engagement through public-private partnership legislation updates. In addition, the UAE moved up two spots on the list of leading locations for greenfield projects, reaching the top five in 2022 (UNCTAD, 2024b).

The improved business environment in Saudi Arabia owing to ongoing reforms and the new FDI law in Qatar is also expected to encourage more FDI. Examining both entering and exiting FDIs, the GCC has grown in importance within the global FDI network over the last 10 years.

1.6. Conclusion

The outlook for global economic growth is projected to remain largely consistent in 2024 and 2025 because of sluggish investment growth, tight monetary policies, and slowing consumption growth caused by decreased savings and reduced fiscal support (IMF, July 2024). Trade growth is expected to boost growth in 2025–2026, with a cautious monetary policy easing supporting activities in advanced economies and EMDEs (World Bank, 2024). Advanced economies are anticipated to grow slightly, driven by a rebound in the Euro area, from the period of modest growth in 2023; however, EMDEs are forecasted to maintain steady growth with regional variations until 2025.

Global inflation continues to decrease, moving closer to the targets of central banks in advanced economies and EMDEs, although not as quickly as originally anticipated. Core inflation has persistently remained elevated in many economies due to rapid increases in service prices. Throughout the remainder of 2024, sustained tight monetary policy measures and decreasing wage growth are expected to contribute to further reductions in inflation. Global inflation is projected to reach an average rate of 2.8% by the end of 2026, aligning closely with the central banks' goals (World Bank, 2024).

The outlook for FDI in 2024 continues to be difficult, with a drop of more than 10% in global foreign investments for the second year in a row. Increasing trade and geopolitical tensions along with inadequate funding in a decelerating global economy are the main factors behind this decrease (UNCTAD, 2024b).

The setting of global trade and FDI across different countries will remain difficult in 2024, and economic growth is predicted to decrease. Global economic fracturing trends, shifting trade dynamics, geopolitical tensions, industrial policies, and corporate efforts to diversify supply chains are reshaping international production and FDI patterns (UNCTAD, 2024b).

The UAE's growth trajectory is anticipated to be sustained by the reduction in dependence on fluctuating hydrocarbon production and the persistence of stable oil prices. In addition, inflation in the UAE is expected to remain at 2.6% in 2023 and 2.3% in 2024, mirroring US rates due to ties to the US dollar. Despite the political and military tensions in the region, especially the Red Sea, the UAE's foreign trade is expected to not be negatively affected in light of the ongoing Ukrainian Russian heat and the shift in trade patterns in favour of the GCC. Worth highlighting those updates to public-private partnership legislation, along with regulatory changes, are anticipated to maintain UAE's status as a favoured FDI destination.

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2 Conceptualization of the UAE's Economic Diplomacy

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2.1. Introduction

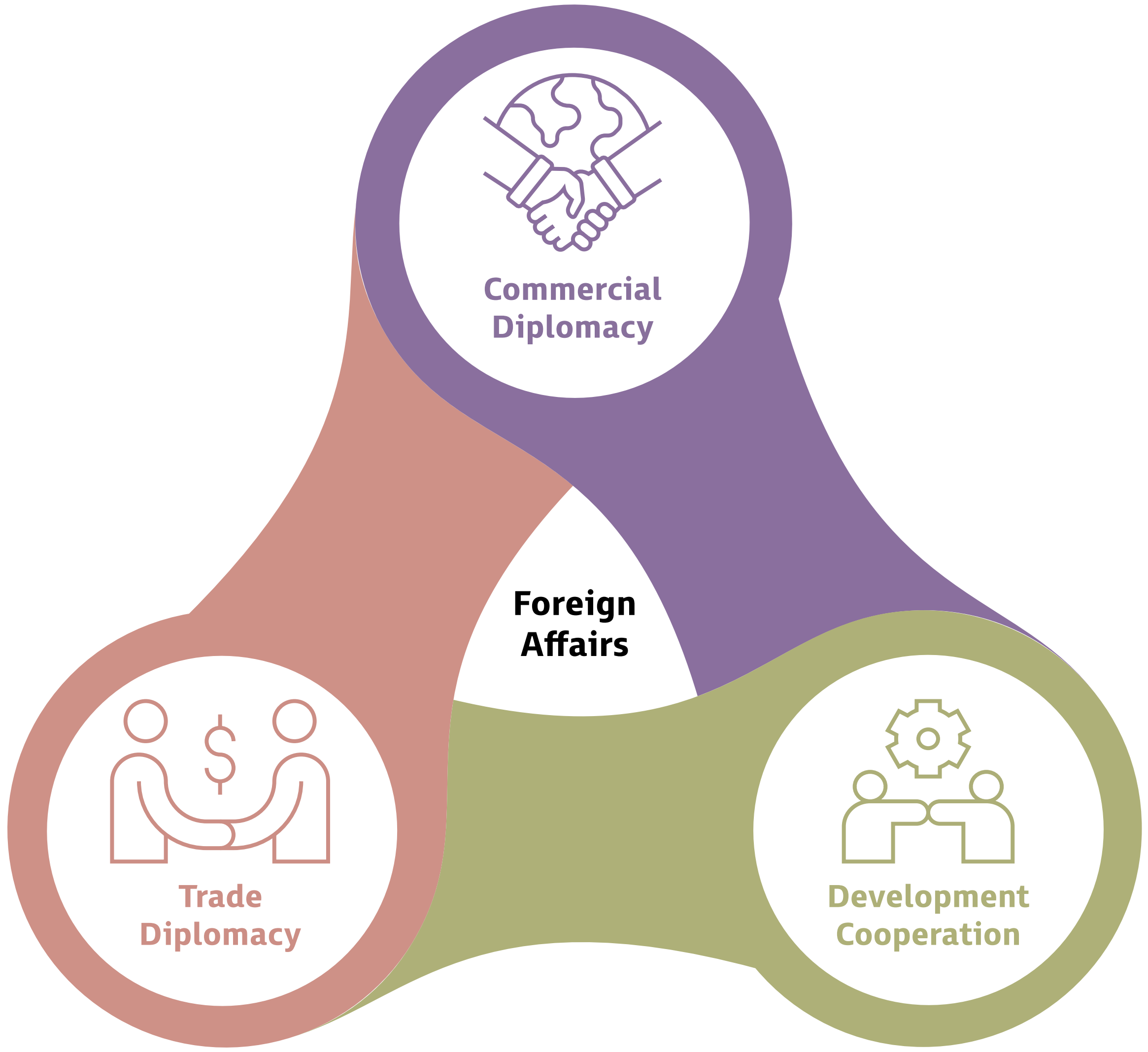
The United Arab Emirates (UAE) is a rapidly developing country that has made significant strides towards diversifying its economy beyond oil and gas. This has positioned the UAE as a major player in the global economy with a focus on trade, investment, and innovation. The UAE has actively pursued economic diplomacy to enhance its global standing and achieve its national interests.

This chapter aims to develop a framework for understanding the pillars of the UAE's economic diplomacy in addition to calculating its first Economic Diplomacy Index. Economic diplomacy is a critical tool in the UAE's strategy to promote global economic interests. By identifying the key pillars of the UAE's economic diplomacy and defining their scope along with the main players involved, this framework provides a conceptual structure for identifying the elements of economic diplomacy and serves as a guide for policymakers and researchers to understand the main components and principles of the UAE's economic diplomacy.

Before delving into the pillars of the UAE's economic diplomacy, it is necessary to present a clear definition of economic diplomacy. The origins of diplomatic relations can be traced back to the early human societies engaged in economic and trade activities. In fact, diplomacy began with trade. As civilisations sought to establish economic connections, negotiate agreements, and ensure the smooth flow of goods, diplomatic efforts emerged naturally. For example, murals found in ancient Egyptian temples depict trade expeditions to the land of Punt (Eritrea) and showcase the diplomatic efforts undertaken by Egyptian pharaohs to secure trade routes, establish trade agreements, and maintain favourable economic ties with leaders of the Punt.

From the perspective of diplomatic studies, economic diplomacy can be defined as the utilisation of government resources to foster the expansion of a nation's economy through activities such as enhancing trade, expanding market access, attracting investments, and engaging in collaborative efforts to negotiate bilateral and multilateral trade agreements (Yakop & Van Bergeijk, 2009). Building on this definition, Okano-Heijmans (2016) classified the dimensions of economic diplomacy into three parts: commercial diplomacy, which focuses on trade and investment promotion; trade diplomacy, which involves negotiations on trade agreements; and development cooperation: which encompasses offering various types of aid. She called these dimensions the trinity in economic diplomacy (Figure 2.1).

Figure (2.1):
The Trinity in Economic Diplomacy



Source: Okano-Heijmans (2016)

Additionally, economic diplomacy can be viewed differently as the use of economic power to advance foreign policy objectives, such as by granting foreign aid and imposing economic sanctions (Baldwin, 2020; Blanchard & Ripsman, 2008). Thus, economic diplomacy addresses both economic and political aims.

According to Bayne and Woolcock (2017), economic diplomacy is distinguishable from other forms of diplomacy in two main aspects. First, it involves various players and government entities beyond ministries of foreign affairs (MOFAs), such as the ministries of economic affairs, agriculture, and tourism, a point this chapter explores in detail. Second, economic diplomacy is closely linked to the private sector, which is the primary beneficiary of diplomatic facilitation.

The increasing importance of economics, especially among new rising powers (e.g. China, India, and Brazil), as well as the diversity of economic diplomacy stakeholders, has motivated governments to change the structure of national diplomatic bodies to ensure a holistic approach. This is evidenced by some countries merging their MOFAs with development cooperation or integrating their ministries of economic affairs with foreign services (Okano-Heijmans, 2016).

2.2. The Pillars of the UAE's Economic Diplomacy

The UAE has a rich historical legacy that is deeply rooted in trade and commerce. For centuries, the country has served as a vital hub for maritime trade routes connecting Asia, Africa, and Europe. Building upon its historical trade legacy, the UAE recognised the importance of economic diplomacy in furthering economic opportunities abroad and deepening relations with other countries by fostering economic interdependence. The country adopts a practical approach to engage with the international community by forging strategic partnerships, attracting foreign investments, and expanding its trade networks (Al-Shayeb & Hatemi-J, 2016).

The discovery of and reliance on oil as the main source of revenue transformed the UAE's economy into one with vast wealth and modern infrastructure, strengthening its economic leverage on a global scale. However, the dependence on oil also presented inherent risks as fluctuations in oil prices and market dynamics could significantly impact the country's economy. Recognising the need to diversify its economy and reduce its reliance on oil, the UAE embarked on a comprehensive strategy for economic diversification. By leveraging its diplomatic relationships and international engagements, the UAE aims to unlock new economic opportunities, promote the non-oil sectors, and foster knowledge-based economic activities.

Recently, the UAE has intensified its efforts to expand its economic diplomacy. The UAE's approach to economic diplomacy is centred on a set of economic principles (see Box 2.1) aimed at establishing extensive trade and economic partnerships, enhancing global competitiveness, and strengthening the UAE's position at the core of the global free-market economy (UAE Government, 2023).

Box (2.1):
The Economic Principles of the UAE

1. The UAE is a globally open free-market economy
The UAE serves as a model of a free economy, open to the entire world, welcoming international and regional economic ties and trade without constraints. It forges economic connections with the world, providing a global economic environment with clear and competitive advantages and incentives to drive investment and both inbound and outbound trade. It continually explores new economic opportunities to boost exports, diversify import sources and establish extensive trade and economic partnerships, thereby strengthening the UAE's position at the core of the global free-market economy.

2. The UAE attracts top talent
The UAE provides an environment that both attracts the world's top talent, entrepreneurs and innovators, and nurtures home-grown talent. It offers attractive incentives for skilled professionals and creative minds and provides a climate that supports turning great ideas into commercial opportunities and helping them develop and thrive. It offers world-class infrastructure, including healthcare, education, leisure and other facilities that combine to provide a place where people can live, learn, work and play in an environment of safety, security and stability.

3. The UAE invests in the digital economy
The UAE serves as a global hub for the digital economy, offering an international platform for digital transactions and a compelling investment environment for pioneers in big data, technology development and innovation. This is achieved through the continuous development of both the UAE's best-in-class digital infrastructure and business-friendly regulations. The UAE remains committed to investing in transformative technologies like Artificial Intelligence, which will play a critical role in shaping the future of the global landscape.

4. The UAE invests in developing and creating opportunities for its youth
The UAE is committed to integrating young Emirati talent in the country's economic model, enabling them to discover and leverage opportunities across the economy by providing them with the skill sets and capabilities to ensure their competitiveness in international markets. Across the public and private sector alike, encouragement and investment are devoted to the creation of diverse and viable employment and professional development opportunities for young talent.

5. The UAE manages a sustainable and balanced economy
The UAE is focused on ensuring the sustainability of the country's economy through advanced legislations, policies that safeguard resource sustainability, environmentally friendly energy sources, and government plans and strategies aimed at preserving our natural resources for future generations. It invests in global sustainability initiatives and promotes sustainable practices, business and public infrastructure at home.

6. The UAE offers a strong and stable financial system
The UAE maintains the strength and stability of its financial systems and practices, ensuring sound and resilient public finance together with a well-regulated financial sector that meets the highest international standards of transparency, efficiency and security. Embracing innovative financial instruments and models together with future-focused regulation and a strong role in the international financial system, the UAE provides an attractive environment for global banks and financial institutions to develop and prosper.

7. The UAE offers a strong and fair legislative environment

The UAE continuously develops its legislative system and processes to guarantee a robust investment environment supported by flexible laws and business-friendly policies. Its legislation serves to bolster the UAE's status as a secure, competitive and attractive destination for businesses and provide a framework for them to develop and grow globally. The UAE is investing in a legislative framework that is agile and adaptable to embrace current and future developments. It also continues to foster a strong, safe and fair business environment.

8. The UAE upholds the principles of transparency and the rule of law

The UAE is dedicated to upholding transparency, compliance and the rule of law, creating an environment where trade can flourish against a background of credibility, probity and responsible economic management. The UAE actively strives to facilitate access to information from reliable sources and provide accurate public data supporting business decision-making and intelligence, fostering investor confidence and supporting sound opportunities for investment and economic growth.

9. The UAE's business community is supported by a strong banking sector

The UAE is committed to the development and operation of a robust and advanced banking system, in line with the best global standards, committed to safeguarding personal savings and supporting secure financial transactions for clients, both at the individual and business level. It collaborates with international organizations to implement best practices in compliance, banking data protection and financial security. Already home to world-class financial centres, thriving stock markets and global financial institutions, the UAE will continue to invest in expanding and supporting a financial sector that in turn supports business growth and investment.

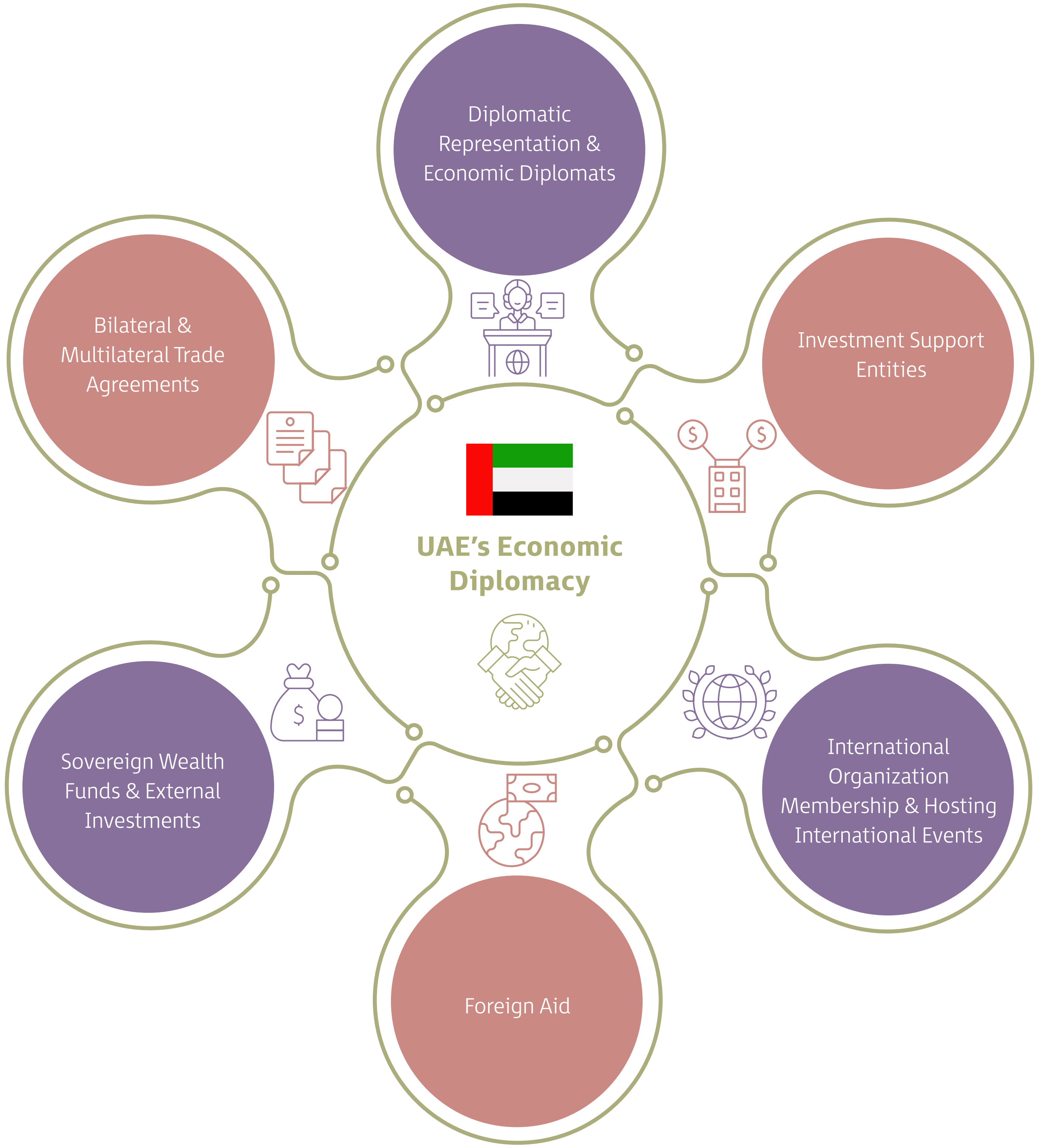
10. The UAE offers the world's finest transport and logistics infrastructure

The UAE continues to develop the world's most advanced transport and logistics infrastructure, including world-leading ports, airports, airlines and shipping companies. This effort solidifies its position as a major global hub for the movement of goods and people, a centre of trade that links East and West, North and South and, together with one of the most advanced global communications infrastructures, truly connects the world.

Source: UAE Government (2023)

In this section, we outline a framework that encompasses the diplomatic economic tools, which we refer to as the foundational pillars of the UAE's economic diplomacy. The six pillars presented in Figure 2.2 collectively form the foundation of the UAE's economic diplomacy, which is grounded in the UAE's Economic Principles (Box 2.1). Below, we briefly discuss each of these six key pillars.

Figure (2.2):
The Pillars of the UAE's Economic Diplomacy



Source: Authors' Compilation.

2.2.1. Pillar 1: The Diplomatic Representation and Economic Diplomats

The UAE MOFA plays a crucial role in establishing and maintaining economic relationships with other countries. The MOFA supports and participates in the negotiation and signing of bilateral and multilateral trade agreements and participates in international forums and organisations such as the World Trade Organization (WTO) and United Nations Conference on Trade and Development (UNCTAD).

The MOFA's diplomatic missions include embassies, consulates, and other representations and serve as platforms for economic diplomacy. The UAE enjoys an extensive global presence with 92 embassies (Chehab, 2022), 21 consulates, and three additional representations that actively support the country's economic goals, as diplomats can facilitate the promotion of foreign direct investments (FDIs) and open markets for the UAE's exports. Diplomats also provide valuable information and advice on trade and investment opportunities. In addition, they actively support and organise trade missions from the UAE.

2.2.2. Pillar 2: Investment Support Entities

The UAE has several federal and local government entities that support positioning the UAE as an attractive investment destination. Although these entities are not part of the MOFA, they are instrumental pillars of economic diplomacy in the UAE and play a crucial role. They attract investments, facilitate business growth, and promote economic development. For example, the Ministry of Economy (MOE) is responsible for developing and implementing policies and initiatives to promote economic growth and development. It oversees the country's trade and investment promotion programmes. It also supports local and foreign investors and enhances the competitiveness of the country's economy.

Besides the MOE, these investment support entities include the new Ministry of Investment announced in 2023, Dubai FDI, Abu Dhabi Investment Office, Abu Dhabi Investment Council, Sharjah Investment and Development Authority (Shurooq), Ras Al Khaimah Economic Zone, and Chambers of Commerce of the seven emirates.

Figure (2.3):
Investment Support Entities in the UAE

Source: MOE (2023).

2.2.3. Pillar 3: Bilateral & Multilateral Trade Agreements and Export Development Entities

To promote economic integration and widen trade networks, the UAE's strategy has relied on trade diplomacy and recently on comprehensive economic partnership agreements (CEPAs). While traditional free trade agreements (FTAs) focus mainly on goods, CEPAs are more ambitious in terms of regulatory aspects and ensure a holistic coverage of areas such as services, investment, intellectual property rights, government procurement, and disputes (Mounir & Sandoz, 2023). The UAE has entered into several significant regional agreements. The UAE is also a member of the Gulf Cooperation Council (GCC), which consists of Kingdom of Bahrain, Kingdom of Saudi Arabia, Sultanate of Oman, State of Qatar, and State of Kuwait. Furthermore, the UAE is part of the Greater Arab Free Trade Area (GAFTA) along with Algeria, Bahrain, Egypt, Iraq, Kuwait, Lebanon, Libya, Morocco, Oman, Palestine, Qatar, Saudi Arabia, Sudan, Syria, Tunisia, and Yemen. Additionally, the UAE is part of the GCC FTA with the European Free Trade Association (EFTA).

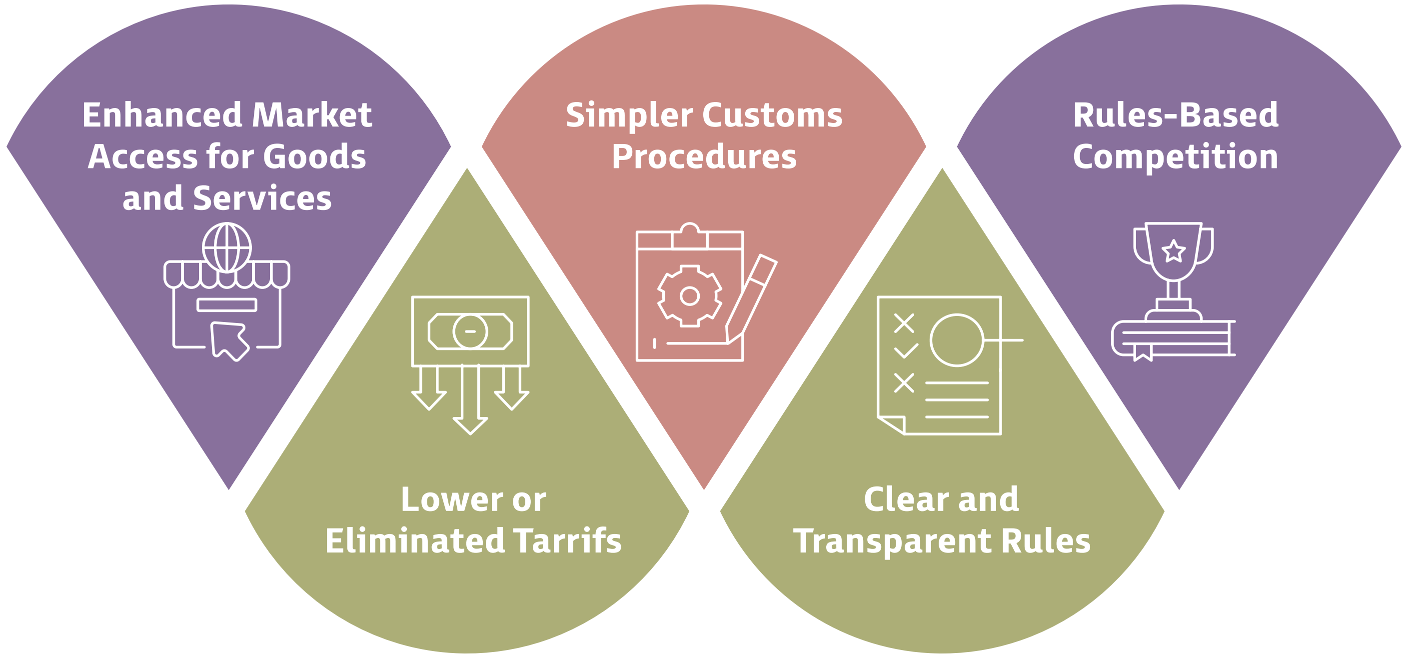
Dr Thani bin Ahmed Al Zeyoudi, the UAE Minister of State for Foreign Trade, articulated the country's future trade vision as follows:

> *With our strategic coastal position and need for goods that are beyond our ability to produce, we have always been an outwards-looking nation, one with port cities that connect us to the wider Middle East and the Indian subcontinent. It is why trade became the focal point of our ambitious new economic agenda, which was crystallized in the Projects of the 50*[1].

The UAE has concluded and signed CEPAs with twenty-four countries up to December 2024, the benefits of which are outlined in Figure 2.4. The UAE has signed 15 CEPAs with India, Indonesia, Türkiye, Israel, Cambodia, Georgia, Colombia, Costa Rica, and South Korea, Mauritius, Chile, Serbia, Jordan, Viet Nam, and Australia, and the first six have already entered into force. Moreover, the UAE finalized CEPAs with in 2024 with Ukraine, Republic of Congo, Kenya, Morocco, Malaysia, New Zealand, Eurasian Economic Union. The UAE's foreign trade continued to benefit from the CEPA agenda, which is creating frictionless market access to strategic markets around the world. Total non-oil exports with CEPA partners increased by 42.3% to AED135 billion, representing 24% of our nation's total non-oil exports..These CEPAs hold the potential for substantial gains, although their actual realisation hinges on the UAE's capacity to attract complementary foreign investments (Mounir & Sandoz, 2023).

[1] For details, see https://www.thenationalnews.com/opinion/comment/2022/06/17/the-case-for-global-trade-in-a-volatile-world/.

Figure (2.4):
Benefits of CEPAs



Source: MOE (2023).

2.2.4. Pillar 4: Development Cooperation and Foreign Aid

The UAE's foreign aid serves as a crucial pillar in its economic diplomacy efforts. The country has consistently been one of the world's leading donors, providing substantial financial assistance and humanitarian aid to countries in need. The primary objective of the UAE's foreign aid is to improve life and reduce poverty in less-fortunate communities.

The UAE's foreign aid not only aligns with its values of solidarity but can also bring several benefits to the UAE economy (Young, 2017). Foreign aid allows the establishment of robust partnerships with recipient countries. This could also facilitate the growth of trade and investment connections with emerging economies. Owing to the interconnection between the UAE economy and other developing countries, the economic growth of these countries can support the growth of the UAE economy, as the UAE is a trade and logistics hub for the Middle East, Africa, and South Asia. For example, the economic transformation of developing countries can generate increased demand for UAE products, create new markets, open up investment opportunities for government-related enterprises, and prioritise economic rivals.

The UAE's foreign assistance includes numerous donor entities that collaborate to provide financial support and implement aid programmes. These UAE donors comprise more than 45 organisations, including humanitarian foundations, charities, development funds, UAE private-sector corporations, and individuals. The Abu Dhabi Fund for Development holds significant importance among the various UAE donor entities and accounts for most of the distributed funds.

Figure (2.5):
UAE Top Five Donors in 2021

Source: MOFA (2022).

The UAE's foreign aid programmes have been used to promote its economic diplomacy goals. By providing aid and support to other countries, the UAE has been able to strengthen its political and economic relationships with these countries, while also positioning itself as a key player in the global aid landscape.

2.2.5. Pillar 5: Sovereign Wealth Fund and Overseas Investment

Economic diplomacy encompasses the UAE's capacity to engage in overseas investment through sovereign wealth funds (SWFs) and government-related enterprises (GREs). The UAE has established several key SWFs in response to a significant surplus in the balance of payments. These avenues enable the UAE to allocate resources abroad strategically and actively participate in global economic activities. The most prominent UAE SWFs with an international orientation are as follows:

Abu Dhabi Investment Authority (ADIA): The ADIA is one of the world's largest sovereign wealth funds, with an asset value of US$ 993 billion in 2024. It manages surplus funds of the Emirate of Abu Dhabi and focusses on preserving and growing wealth for future generations. ADIA's investments span a wide range of global asset classes, encompassing various regions and sectors. ADIA has diversified its investment strategies. For example, its real estate portfolio is typically allocated within the range of 5–10%, and the proportion of ADIA's investments in Europe generally falls within the range of 15–30% (see Chapter 4 on SWFs for details).

Mubadala Investment Company: Mubadala is a strategic investment company owned by the Abu Dhabi government. It actively drives economic diversification in the UAE by investing in various sectors including aerospace, energy, technology, healthcare, and real estate, with an asset value of US$ 302 billion in 2024.

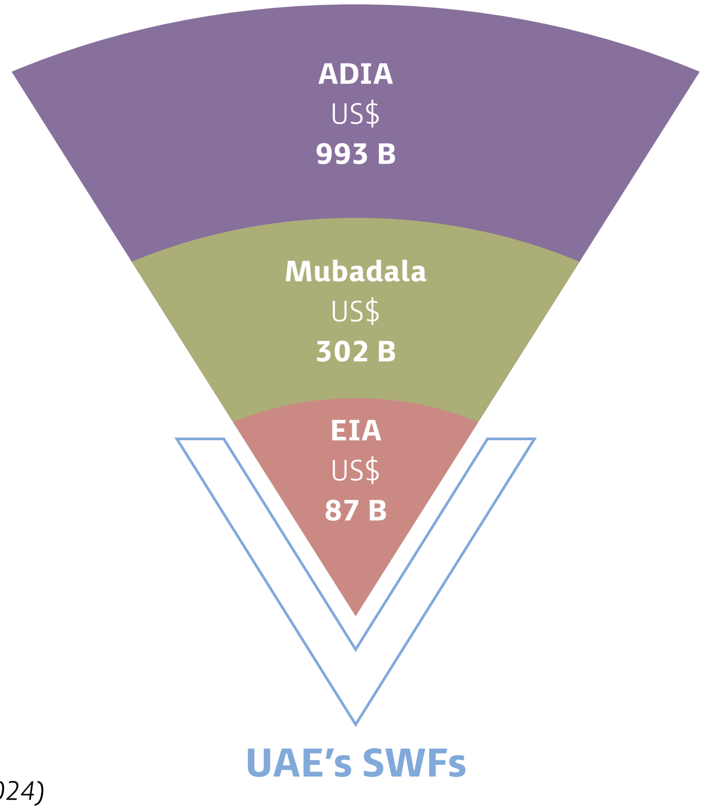
Emirates Investment Authority (EIA): The EIA is the sovereign wealth fund of the UAE federal government. It invests surplus funds and maximises returns to benefit the UAE economy. The EIA's investments cover various sectors and asset classes, both domestically and internationally. The EIA's assets are valued at US$ 87 billion.

The UAE's SWFs international investments have provided the country with significant economic leverage and helped diversify its economic portfolio. In addition, they play a role in addressing global challenges such as climate change and poverty alleviation.

The investments made abroad by UAE GREs also add to the country's economic diplomatic power. An example is DP World, a global port operator headquartered in Dubai that operates multiple ports and terminals worldwide. It has made strategic investments in ports and logistics infrastructure across continents.

Emirati GREs have also elevated the UAE's soft power by building consumer confidence and enhancing global recognition of the UAE's role. For example, Emirates and Etihad Airways have secured naming rights for stadiums such as the Emirates Stadium (Arsenal's Stadium) and Etihad Stadium (Manchester City's Stadium).

Figure (2.6):
Key UAE's SWFs with Global Orientation



Source: SWF Institute (2024)

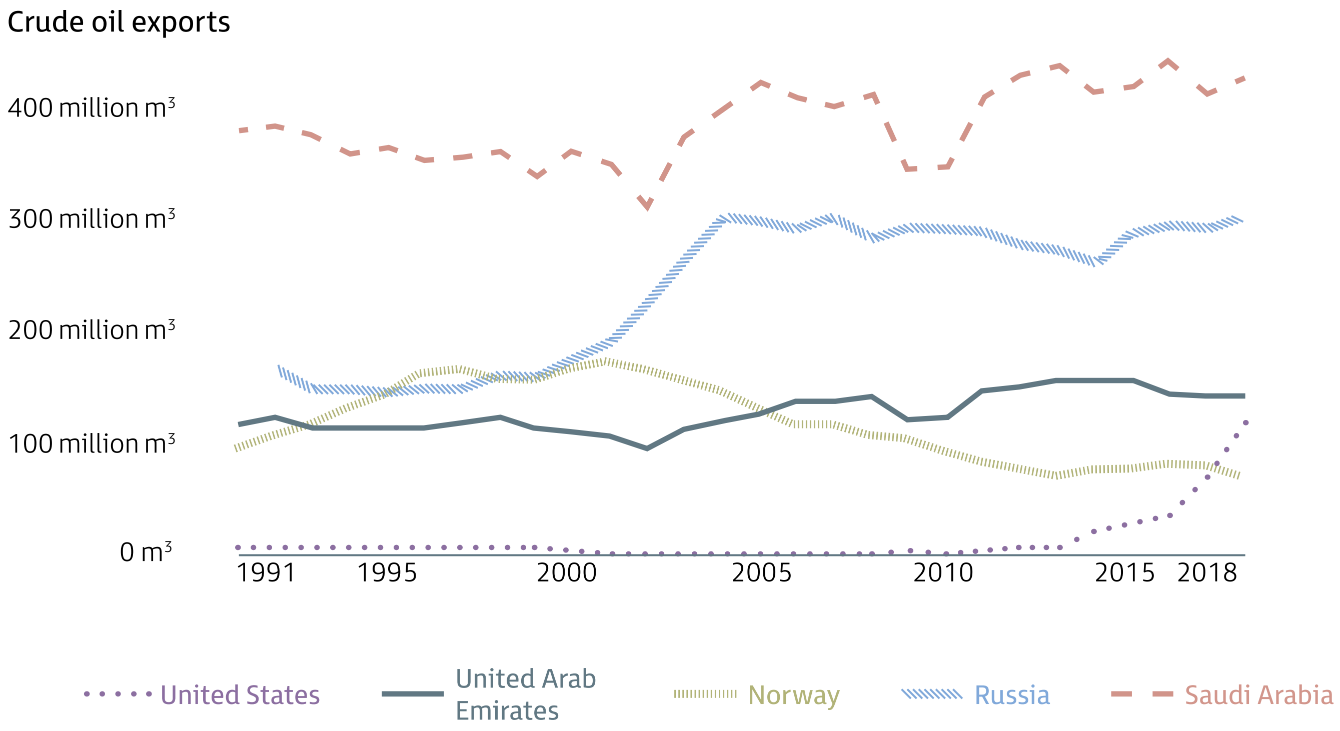
2.2.6. Pillar 6: International Organisation Membership & Hosting International Events

The UAE is a member of various international organisations with a significant voice. With the discovery of oil and gas more than 50 years ago, the UAE has emerged as a prominent participant in the global hydrocarbon energy market. The UAE's crude oil output reached 3.22[2] million barrels per day (b/d) in 2024, up from 2.7 million b/d in 2021. As the seventh largest producer of liquid fuel in the world in 2022, third largest oil producer within the Organization of Petroleum Exporting Countries (OPEC), and one of only two members with a notable spare crude oil production capacity to address potential supply shortfalls, the UAE actively participates in shaping global energy security and price stability.

The energy sector significantly influences the UAE's economic diplomacy because the UAE and OPEC+ countries play an important role in the energy market. The UAE's energy diplomacy focusses on maintaining stability in the oil market and mitigating price volatility. Given its role in energy production, the UAE actively participates in shaping climate change discussions, such as by hosting the 28th United Nations Climate Change Conference COP28 in 2023.

[2]About 1 million b/d below its capacity

Figure (2.7):
Top Oil Exporting Countries (1991-2018)



Source: US Energy Information Analysis (EIA)
Note: This includes the production Of crude Oil, including lease condensate.

The UAE also plays an active role in setting the global trade agenda and engages with the WTO, which provides a platform for multilateral trade negotiations and promotes trade liberalisation. The UAE has actively participated in WTO negotiations and has been a vocal advocate of free trade and economic cooperation. In 2024, the UAE hosted the WTO's 13th Ministerial Conference, which concluded with important achievements as manifested in the Abu Dhabi Declaration (see Chapter 8 on the WTO MC13 chapter for details).

The UAE has recently joined the BRICS bloc of emerging economies as of January 2024. This membership is seen as an opportunity to expand and strengthen trade ties with the Global South and to enhance the UAE's role in multilateral support by injecting capital into the new BRICS Development Bank.

The UAE's hosting of international events has become a prominent pillar of its economic diplomacy. These events provide a platform for the UAE to showcase its capabilities, promote its economic sectors, and attract global investment and tourists. As previously discussed, the UAE has successfully hosted several high-profile events, such as Expo 2020, COP28, and the WTO's 13th Ministerial Conference. By hosting high-profile events, the UAE strengthens its position as a global player on various topics and its contribution to international dialogue, such as on climate change, trade issues, and the future of technology.

2.3 The UAE's Economic Diplomacy Index

In the pursuit of measuring the UAE's economic diplomacy performance, we take advantage of the Economic Diplomacy Index advanced by the Lowy Institute (LI) as a sub-measure of the Asia Power Index. Importantly, the LI systematically measures economic diplomacy across Asia. However, it does not include GCC countries in the index. Nevertheless, our calculations facilitate a comparison of the UAE with countries included in the index, providing valuable insights for UAE policymakers.

The LI defines economic diplomacy as *'the use of economic instruments to pursue collaborative interests and beneficial geopolitical outcomes'*. This can be considered a narrow definition of economic diplomacy compared with the one employed in this report.

In this regard, estimation of the Economic Diplomacy Index is based on tracking not only bilateral and multilateral FTAs but also overseas foreign assistance flows to developing countries across the globe and in selected parts of Asia; thus, the index encompasses only two of the six aforementioned pillars. Therefore, the LI index focusses on two aspects of Okano-Heijmans (2016) economic diplomacy framework—trade diplomacy and economic cooperation—while overlooking commercial diplomacy.

The LI's index covers 26[3] countries and territories in the Asia-Pacific region, including some of the world's major economic powers, such as the United States (US), China, India, and Japan, as well as a wide range of countries reaching as far west as Pakistan, as far north as Russia, and as far into the Pacific as Australia and New Zealand. The significance of an Economic Diplomacy Index emanates from the fact that it constitutes an analytical tool that reflects a country's capacity to exercise influence and leverage through economic interdependencies and sharpens the debate on the changing distribution of power in the region (Patton et al., 2023).

The Economic Diplomacy Index[4] is primarily composed of four sub-measures: global concluded bilateral and multilateral FTAs, regional concluded bilateral and multilateral FTAs with index countries, annual overseas official development assistance (ODA) and other official flows (OOF) to developing countries, and ODA and OOF to the Far East and South and Central Asia. The latest iteration of the Asia Power Index in 2023 used the 2022 data for FTAs and 2020 data for foreign aid.

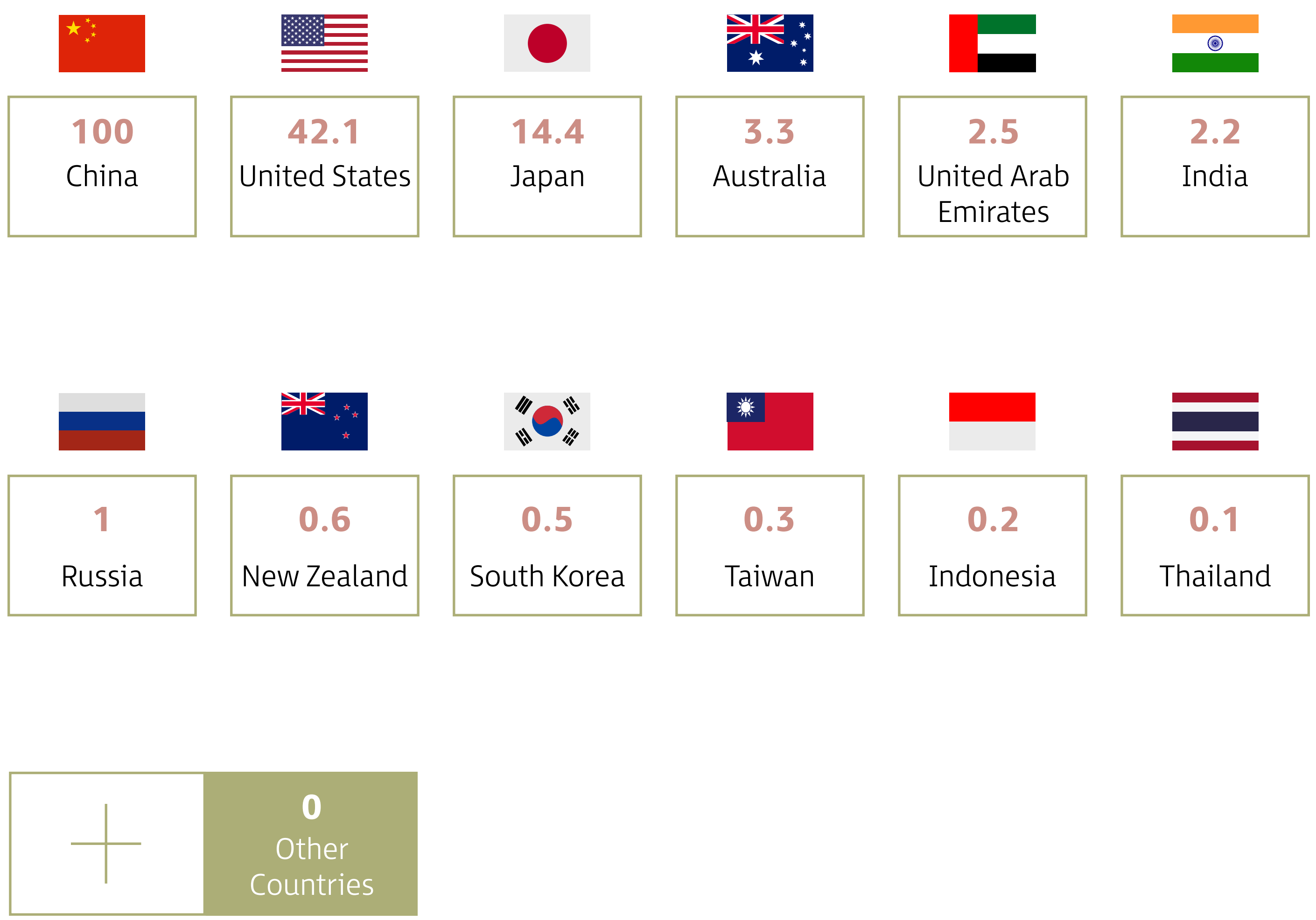
While the LI focuses primarily on Asia's power dynamics, which is not the central focus of this report, we adjusted its Economic Diplomacy Index to emphasise global measures rather than region-specific indicators. Since the UAE's geographical location is in the Middle East, it is not in close geographical proximity to the rest of the Asia Power Index countries, which vary in location within the South, East, and Southeast Asia, or to other countries in the Pacific. We updated the FTAs numbers following the same approach the LI applied for the year 2023, which implies that the FTAs numbers cannot be directly compared to the LI's 2023 index numbers.

The UAE performed best in the global overseas official foreign assistance measure, where it ranked fifth with a value of US$ 1.76 billion in 2020. Although it scored 2.5, the UAE still placed above India and Russia, but it was preceded by China, the US, Japan, and Australia as regards foreign assistance provided to developing countries across the globe (see Figure 2.8).

[3] Australia, Bangladesh, Brunei, Cambodia, China, India, Indonesia, Japan, Laos, Malaysia, Mongolia, Myanmar, Nepal, New Zealand, North Korea, Pakistan, Papua New Guinea, Philippines, Russia, Singapore, South Korea, Sri Lanka, Taiwan, Thailand, the US, and Vietnam.

[4] A distance-to-frontier approach is used to compare a country's results with the best-performing country in each dataset. The advantages of this method are that it preserves the relative distance between the original data values and notions that power in international relations is relative and not absolute. Scores for sub-measures and the index are calculated as the relative shares of each country out of the highest achiever in each dataset.

Figure (2.8):
Global Foreign Assistance Sub-measure
(measured in %)



Source: Authors' compilation, LI and OECD (2023).

In an astonishing record, given the official foreign aid share of each country's gross domestic product (GDP), the UAE allocated 0.5% of its GDP in 2020 to offer foreign assistance to developing countries, which was the highest share dedicated to aid among all index countries in that year. For instance, the US, one of the world's largest economies and donors in absolute terms, ranked second in terms of the foreign aid measure, but its aid represented a much smaller share of its GDP than that provided by the UAE (Table 2.1).

Table (2.1):
Global Foreign Aid and GDP in 2020
(Billions of US$)

Rank	Country	Global Foreign Aid	GDP	Foreign Aid Share of GDP
1	China	71.2	14860	0.48%
2	United States	30	21320	0.14%
3	Japan	10.243	5060	0.20%
4	Australia	2.34	1360	0.17%
5	United Arab Emirates	1.762	349.47	0.50%
6	India	1.6	2670	0.06%
7	Russia	0.693	1490	0.05%
8	New Zealand	0.454	210.26	0.22%
9	South Korea	0.356	1640	0.02%

Source: Authors' compilation, LI, OECD and IMF (2023).

The UAE has thus achieved an exemplary rank among the group of global donors, reflecting its consistent dedication to humanitarian aid and sustainable development finance offerings. It is also noteworthy that the UAE continues to progress in providing development aid as observed from the significant increase in its official foreign aid flows in 2022, reaching US$ 2.56 billion (OECD, 2023). Meanwhile, the total UAE funding towards international aid amounted to US$ 3.45 billion. Notably, 2022 marked a significant upswing in the UAE's foreign assistance, with a growth of 12% over the previous year. Over the span of three years, from 2020 to 2022, the UAE displayed a strong commitment to global development and humanitarian aid, with cumulative foreign aid disbursements totalling US$ 9.31 billion, as reported by the UAE's government portal. While the UAE ranked 17th with a score of 33 for global FTAs in 2023, it has been relentlessly and rapidly seeking to establish trade agreements, whether on its own or as a part of the GCC. Since initiation, the UAE concluded and signed 24 CEPAs up to December 2024; of which 6 have entered into force, 9 have been signed, and 9 have been concluded.

Figure (2.9):
Global FTAs Sub-measure
(measured in %)

100	Singapore
82	China
78	South Korea
70	Australia
70	Japan
59	Malaysia
56	Indonesia
56	New Zealand
56	Vietnam
52	United States
44	Thailand
41	Brunei
37	Cambodia
37	India
37	Philippines
37	Russia
33	United Arab Emirates
30	Laos
30	Myanmar
15	Pakistan
15	Papua New Guinea
15	Taiwan
11	Sri Lanka
4	Bangladesh
4	Mongolia
4	Nepal
0	North Korea

Source: Authors' compilation, LI, WTO and MOE (2023).

The UAE ranked 15th on the Economic Diplomacy Index amongst 26 other countries with a score of 20, which means that the UAE has 20% of the economic diplomacy power of China, the highest achiever in the index with a score of 100 (see Figure 2.10). However, according to the International Monetary Fund, the UAE's GDP in 2023 was estimated at US$ 504.17 billion, while that of China was estimated at US$ 17.66 trillion, which indicates that the size of UAE's economy was 2% of the size of the Chinese economy (IMF, 2023). Furthermore, the UAE is very close to India, which scored 22. Much of the current global growth has been led by economies in the Asia-Pacific region, particularly large emerging economies such as China and India, the UAE's top trading partners. Thus, the UAE's economic diplomacy score reflects its emergence as a major economic and diplomatic player in the global arena, specifically in the Asia-Pacific region.

Figure (2.10):
Economic Diplomacy Index

(measured in %)

100 China	55 Singapore	52 United States	47 Japan	43 South Korea	41 Australia
33 Malaysia	31 New Zealand	31 Indonesia	31 Vietnam	25 Thailand	22 Brunei
22 India	21 Russia	20 Philippines	20 Cambodia	20 United Arab Emirates	16 Myanmar
16 Laos	8 Taiwan	8 Papua New Guinea	8 Pakistan	6 Sri Lanka	2 Nepal
2 Mongolia	2 Bangladesh	0 North Korea			

Source: Authors' compilation, LI, WTO, and OECD (2023).

The UAE is likely to improve its ranking in the Economic Diplomacy Index in the coming years as more CEPAs are signed, thereby leveraging its strategic geographical position and enhancing its global economic ties. The UAE's continuous increase in official aid offerings pinpoints its exceptional dedication to humanitarian objectives and genuine aspiration to assist other less-fortunate nations in alleviating poverty and achieving sustainable development and prosperity, thus underscoring its pioneering role in the international assistance arena.

2.4. Conclusion

In conclusion, the UAE has successfully implemented a comprehensive economic diplomacy framework that has helped position the country as a major player in the global economy. This chapter outlined and discussed the six foundational pillars of the UAE's economic diplomacy rooted in the country's economic principles. The chapter further provided a score for the UAE's economic diplomacy, thus offering insights about the country's relative economic diplomacy power compared to a selected group of countries, including the world's largest economies. The next chapters will discuss the most important pillars in detail.

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EVOLVING UAE INSTRUMENTS OF ECONOMIC DIPLOMACY: TRADE, AID, AND INVESTMENT

Part

II

3 UAE's Foreign Trade

Jamel Zarrouk

3.1. Introduction

The United Arab Emirates (UAE) is one of the most open economies in the world and relies significantly on foreign trade for its economic development. Trade is a cornerstone of the UAE economy, given its strategic geographic position as a trade hub for the region, connecting trade flows between Asia, Europe, and Africa. The UAE has built an excellent reputation for shipping and air hub activities and developing free zones with advanced infrastructure, making it an attractive location for multinational companies' operations within global value chains.

Building upon its long history as a trade hub, the UAE has advanced economic diplomacy to further promote trade and investment, attract technology, and support economic diversification through strategic partnerships and expanded trade networks. The 'We the UAE 2031' vision (The Office at the Ministry of Cabinet Affairs, 2023) aims to double the country's Gross Domestic Product (GDP) from AED 1.49 trillion to AED 3 trillion and, ultimately, increase foreign trade to AED 4 trillion by 2031, underscoring that foreign trade will continue to be pivotal in the UAE economy. Consequently, the UAE's economic diplomacy is critical in identifying opportunities for trade network expansion and fostering resilient supply chains to foster foreign trade enabled and reinforced through the CEPA agenda.

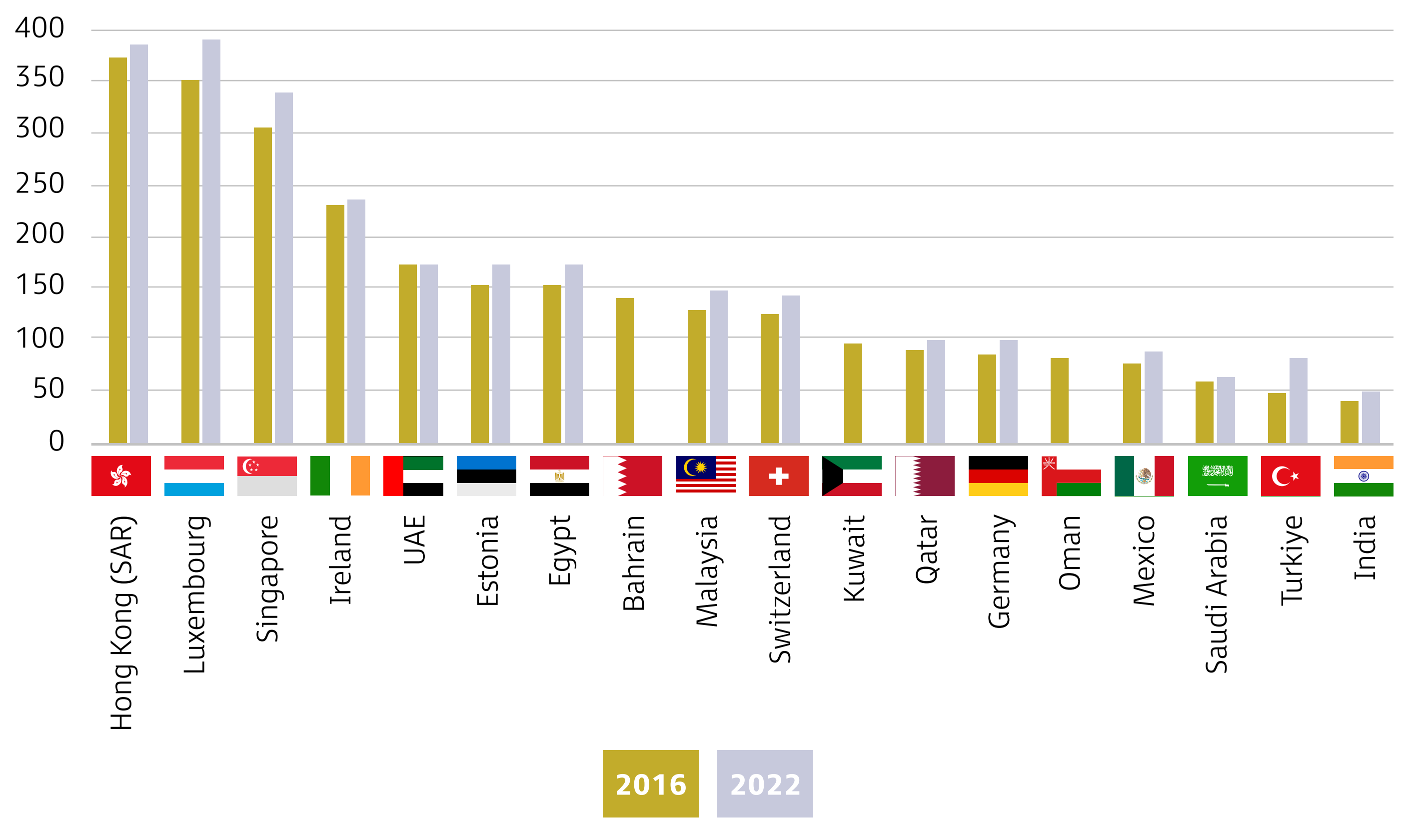
This chapter first analyses key trends and developments in the UAE's foreign trade in merchandise and services during the post-pandemic period of 2022–2023. It highlights the opportunities and challenges arising from the UAE's trade openness in maintaining its position as a leading trade partner in global markets. Subsequently, the chapter delves into the role of the UAE trade diplomacy in implementing an active trade policy to leverage the UAE's strengths in three specific areas of focus: positioning the Emirates as an anchor location for key global value chain activities that will drive trade in goods, services, and data and movement of skilled international talent in the future; expanding trade networks; and deepening regional integration as a stepping stone towards global integration. The chapter concludes with key takeaways.

3.2 Trade Performance Trends

3.2.1 Trade Openness

The UAE is one of the world's most open economies, with foreign trade contributing significantly to its income and wealth. The extent of this openness in comparison with that of other economies can be measured by the ratio of foreign trade (the value of total imports plus exports) to the GDP. In 2022, the UAE total merchandise trade was almost twice its GDP, reaching 170% in 2022 (World Bank, 2024). Comparing the UAE to other highly open economies such as Hong Kong, Singapore, and other Gulf countries, the openness indicator shows that the UAE ranks among the top five most open economies (Figure 3.1).

Figure (3.1):
Trade Openness: Foreign Trade as % of GDP

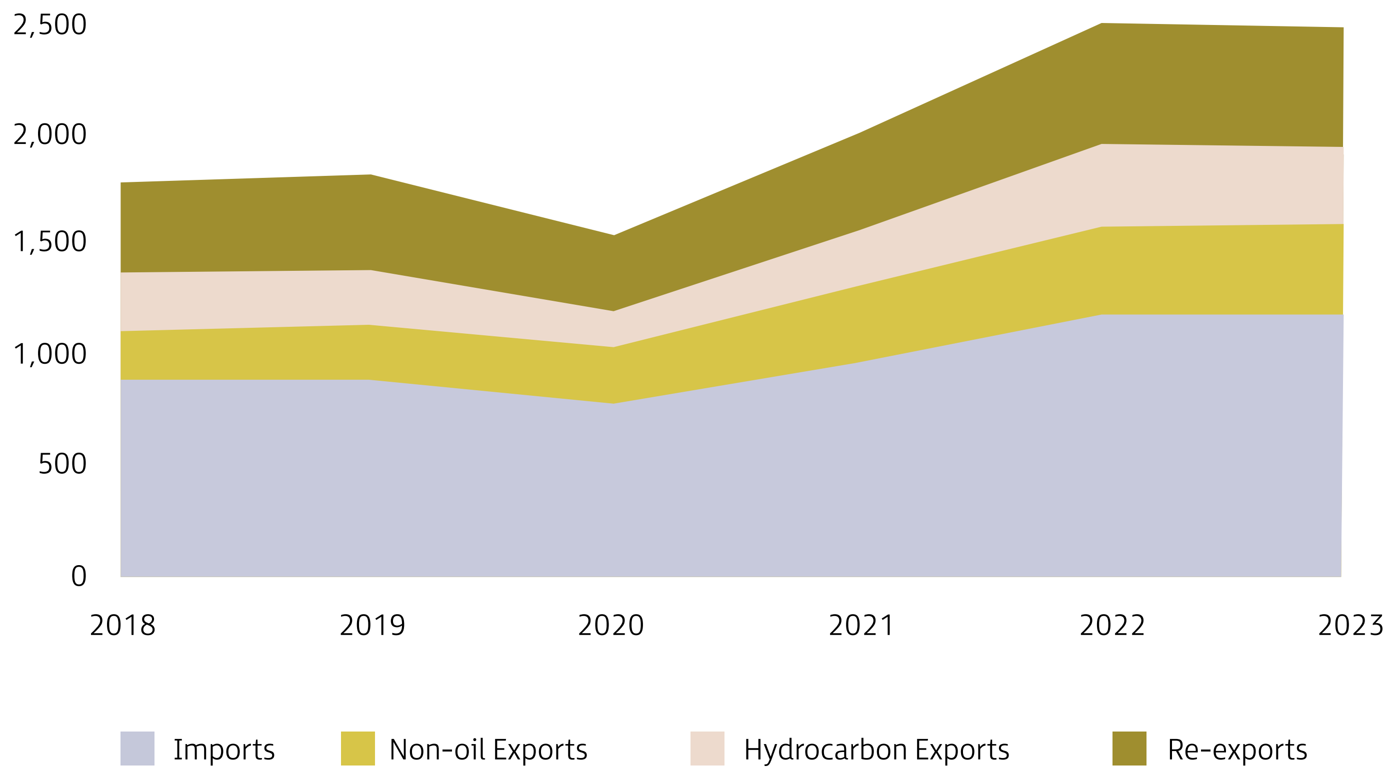


Source: World Bank, World Development Indicators (2024).

3.2.2 Merchandise Trade Growth

Important developments have occurred in the UAE's trade pattern during the post-pandemic period. First, there has been a sharp increase in the value of merchandise trade (imports, total exports, and re-exports) reaching AED 2.5 trillion in 2023, a 41% increase between 2019 and 2022 (see Figure 3.2). This growth reflects accelerated global recovery and increased imports, consistent with the surge in domestic demand.

Figure (3.2):
Trends in the Value of UAE Trade (AED billion)



Source: Federal Competitiveness and Statistics Centre (FCSC) (2023); IMF data from Article IV Consultation Report (June 2023).

Moreover, as the UAE has moved towards creating a more diversified economy, reliance on exports of hydrocarbons has declined, which reached 41% of total exports in 2023, while the share of non-hydrocarbon exports constituted 59%. This development has been supported by the UAE signature of several Comprehensive Economic Partnership Agreements (CEPAs) with key trading partners and two bilateral agreements to settle trade payments in yuan and rupee (IMF, 2023c).

Imports Dynamics

The UAE has been a major importer of merchandise, not only to meet domestic consumption but also as a major import gateway for re-exports to neighbouring countries. The UAE's total imports reached AED 1.22 trillion achieving a ratio of 65% of GDP in 2022 and 2023. A significant share of the UAE imports into free zones is subsequently used for manufacturing and logistics activities as part of the global value chain and then exported or re-exported abroad.

Regarding the provenance of imports, the UAE has been an important hub for imports from over 200 countries and customs territories. China and India are the UAE's top import partners, with China increasing its share from 16.5% in 2018 to 19% in 2023. India remained the second largest source of imports, but its share declined from 9.9% in 2018 to 7.7% in 2023 (FCSC). The other major import partners per 2023 trade data are mostly the traditional industrialised exporters, namely the United States (US) (7%), Turkiye (4.2%), Japan (3.6%), Germany (3%), Switzerland (2.8%), and Italy (2.6%). Noteworthy among the top major partners, was Vietnam with a share of 2.4%, taking the 9th position compared to 33rd in 2010, and Guinea, which also moved up to the 10th position with a share of 2.4% of the UAE's total imports in 2023. According to the WTO (2024), the UAE ranked 16th among the leading importers in global merchandise trade in 2023 and move up two places from the previous year, underscoring the importance of Jebel Ali Port in Dubai and Port Khalifa in Abu Dhabi as import hubs for re-exports to Africa, the Commonwealth of Independent States, and neighbouring countries (Figure 3.3).

Figure (3.3):
UAE Imports from Top 10 Trading Partners in 2023 (%)

19 China	7.7 India	7 USA	4.2 Turkiye	3.6 Japan
3 Germany	2.8 Switzerland	2.6 Italy	2.4 Vietnam	2.3 Guinea

Source: Federal Competitiveness and Statistics Centre (FCSC) (2023).

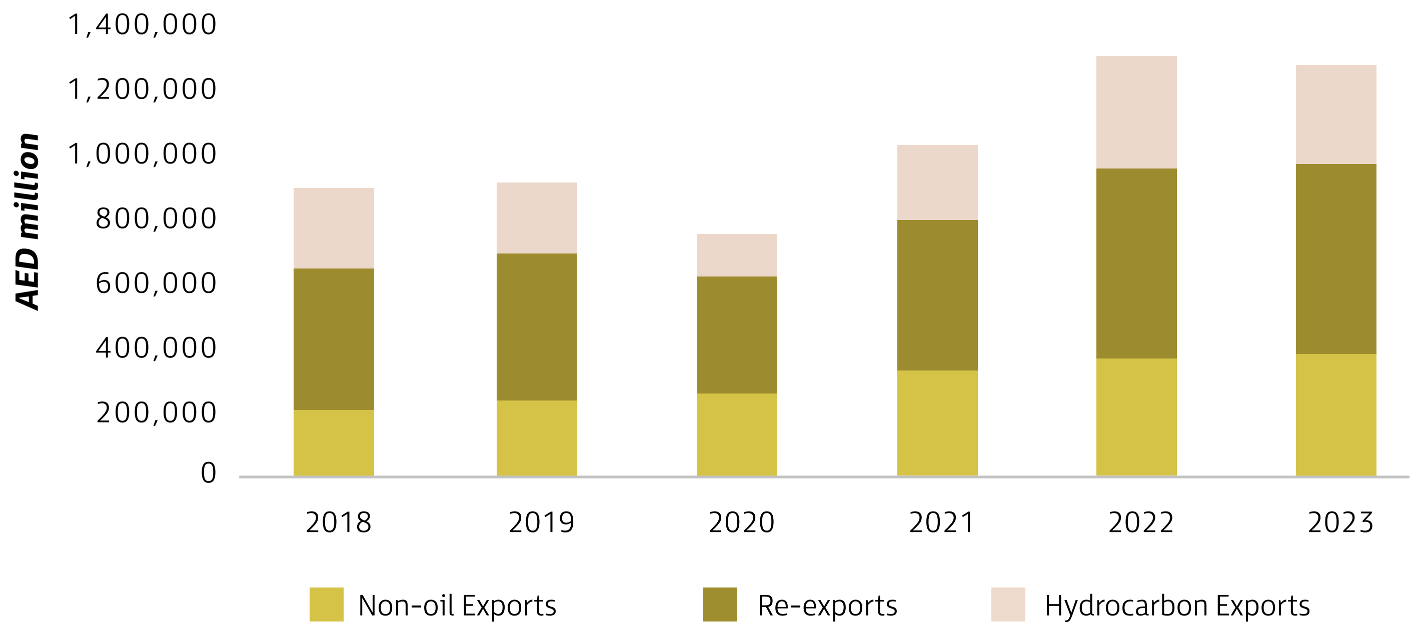
Export Dynamics

The total value of merchandise exports from the UAE (including hydrocarbons exports, non-oil exports, and re-exports) registered notable increases in the post-COVID pandemic period, growing by 36% in 2021 and 27% in 2022 and then slightly declining by 2% to reach AED 1.27 trillion in 2023, reflecting lower global energy prices and slower world GDP growth and trade (see Figure 3.4).

The UAE hydrocarbon exports registered historically high increases by 52% to AED 350 billion in 2022, partly due to higher international hydrocarbon prices as global trade rebounded in the post-pandemic in the first quarter of 2021 and the energy crisis in Europe triggered by the war in Ukraine. According to IMF (2023b) estimates, the value of the UAE hydrocarbon exports was expected to decrease by 12% to AED 308 billion in 2023, reflecting lower global energy prices and slower growth in the global economy and trade.

Regarding the UAE non-oil exports, FCSC data show an increase of 11% in 2022 and a slower pace 3% in 2023, reaching AED 381 billion. Non-oil exports have received a boost since the UAE launched the national Agenda for Non-oil Export Development in June 2021, aiming to increase exports by 50% in the coming years and to penetrate 25 new export markets (UAE Cabinet, 2021). In addition, the UAE negotiated and signed a host of bilateral free trade agreements (FTAs), including CEPAs with key trading partners, opening new trade and investment opportunities and further supporting the UAE's diversification efforts.

Figure (3.4):
UAE Export Structure



Source: Federal Competitiveness and Statistics Centre (FCSC) (2023) and IMF (2023b).

Regarding the destination of the UAE non-oil exports, FCSC data indicate that Turkiye emerged as the top export market accounting for 10.8% of the total exports in 2023, while India and Saudi Arabia moved to the second position to equally hold 9.1% share of the total (Figure 3.5).

Figure (3.5):
UAE Non-oil Exports to Top Trading Partners in 2023
(Share in % of the total)

10.8 Turkiye	9.1 India	9.1 KSA	8 Switzerland	5.8 Hong Kong
5 Oman	4.2 Macedonia	3.8 USA	3.6 Iraq	3 Kuwait

Source: Federal Competitiveness and Statistics Centre (FCSC) (2023).

As for the value of the UAE re-exports, they registered a 26% increase in 2022 to surpass the pre-pandemic levels but increased at a slower pace by 2% in 2023 to reach AED 586 billion.

Re-export Dynamics

Re-exports have been a major UAE trading activity, which was built on the long history of leveraging the UAE's favourable geographical location as a global shipping hub for the region with strong connections to other regions (Asia, Europe, and Africa). The UAE has also developed free zones with world-leading infrastructure facilities and is a market leader in efficient trade logistics through DP World, the port and terminal operator, among over 78 marine terminals worldwide (DP World, 2023), contributing to keeping Dubai among the world's most important maritime centres.

Re-exports by destination indicate that a large share of the total went to neighbouring countries, with Saudi Arabia remaining the most important destination accounting for 10.6% of the total, followed by Iraq (10.4%), India (7.7%), Qatar (4.2%), and Kuwait (3.8%) (Figure 3.6).

Figure (3.6):
UAE Re-exports to Top Trading Partners in 2023
(Share in % of the total)

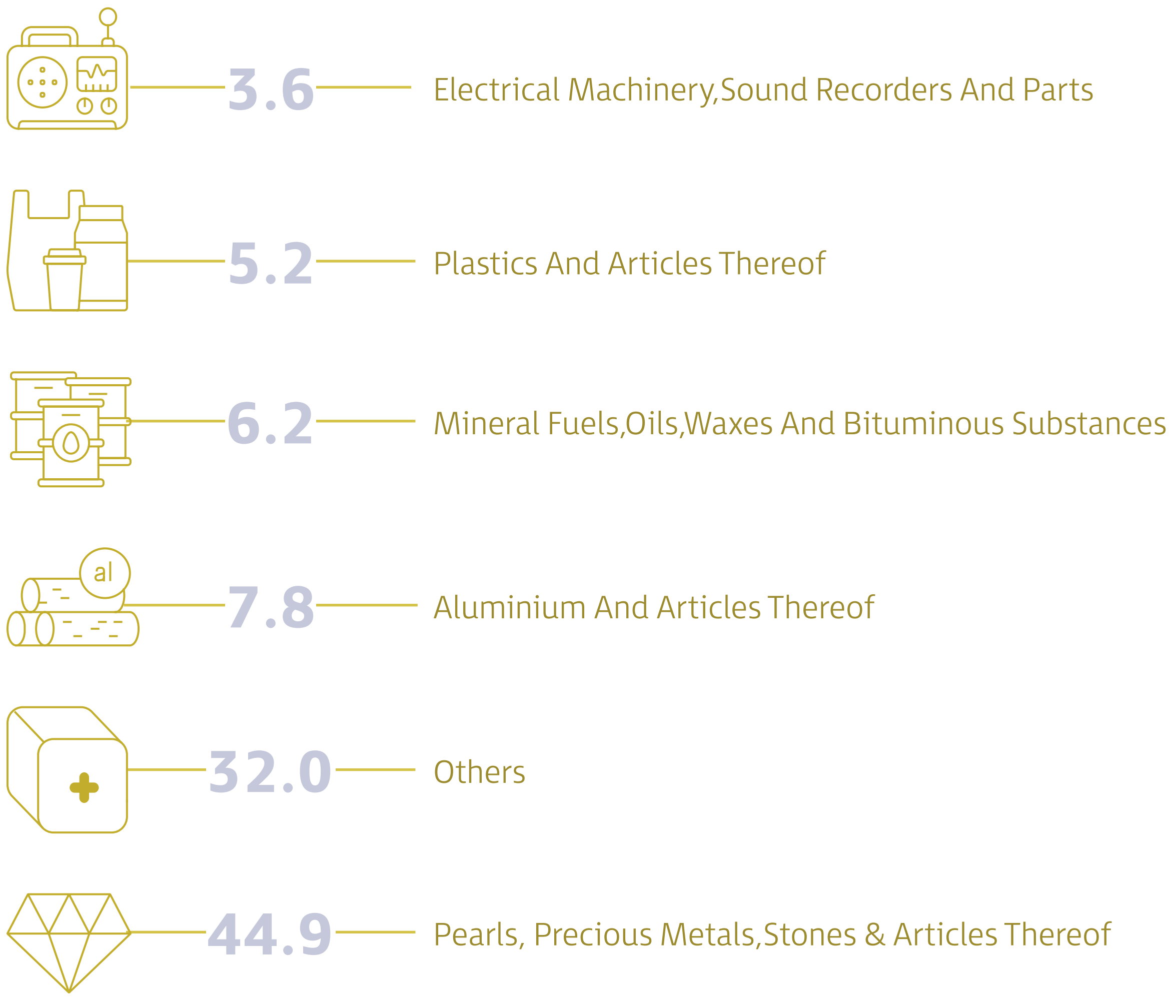
10.6 KSA	10.4 Iraq	7.7 India	5.7 USA
4.2 Qatar	3.9 China	3.8 Kuwait	3.7 Hong Kong
3 Turkiye	3 Iran	3 Oman	

Source: Federal Competitiveness and Statistics Centre (FCSC) (2023).

Commodity Composition of Non-oil Exports and Re-exports

While non-oil exports have increased from 18% of non-oil GDP in 2018 to 29% in 2023, such robust growth has been concentrated in the production and export of precious metals (gold, diamond, and pearls), accounting for 45% of non-oil exports (Figure 3.7). In particular, Dubai has had a strong comparative advantage in these commodities for over a century. The production and export of Aluminium follows, representing (7.8%) of the total value of non-oil exports, then mineral fuels obtained from bituminous substances (6.2%), and finally machinery and electric equipment (4.2%).

Figure (3.7):
Commodity Composition of UAE Non-oil Exports
(% of total non-oil Exports)



Source: Federal Competitiveness and Statistics Centre (FCSC) (2023).

Over the last decade, the share of exported low-value products has been declining in favour of intermediate and consumer products, which is an indicator of the UAE's relative success in industrial diversification. Under ***Operation 300bn*** (UAE Ministry of Industry & Advanced Technology: MOIAT), the UAE's Industrial Strategy, launched in 2021, aims to develop the UAE's industrial sector and enhance its role as a driver of growth by substantially increasing its contribution to the GDP by 2031. Similarly, sector-specific supportive efforts have gained momentum, including the *Make it in the Emirates* Initiative by the UAE's Ministry of Industry and Advanced Technology and those by the Dubai Multi Commodities Centre (DMCC) (n.d.), which offers an industry cluster for the gold value chain from research to production to trade and investment to become the global gold trade hub.

3.2.3. Trade in Services Growth

Trade in services plays an increasingly important role in the UAE economy. The nation has built an infrastructure of excellent trade-related services such as shipping, air transport, tourism, and financial services. Foreign trade in services covers three main categories: (1) transportation (maritime, air transport, and other transport services, including logistics, storage, and warehousing services); (2) travel, which includes tourism, hospitality, and other travel-related services (hotels and restaurants and travel agencies, etc); and (3) other services covering a wide range of services, including construction, financial services, telecommunication and broadcast services, computer and data services, information and media services, and use of intellectual property rights.

According to the latest data available in the UAE Balance of Payments, the value of exports of services amounted to AED 266 billion in 2019 (CBUAE, 2020) rebounded from the COVID-19 pandemic period and reached AED 356 billion in 2022 (IMF, 2023b), with strong growth of 34% between these two years. The share of service exports also increased from approximately 22% of non-oil GDP in 2019 to 27% in 2022, while the share of service imports increased from 20% to 23% of non-oil GDP during the same period.

Trade in Services Dynamics by Type

Two main categories dominate the UAE exports of services: transportation, representing 40% of the total value, and travel (tourism), 30%. The third category, other commercial services, accounts for 30% of the value of service exports (see Figure 3.8). This is similar for the UAE imports of services: transportation dominates service imports, followed by travel (tourism).

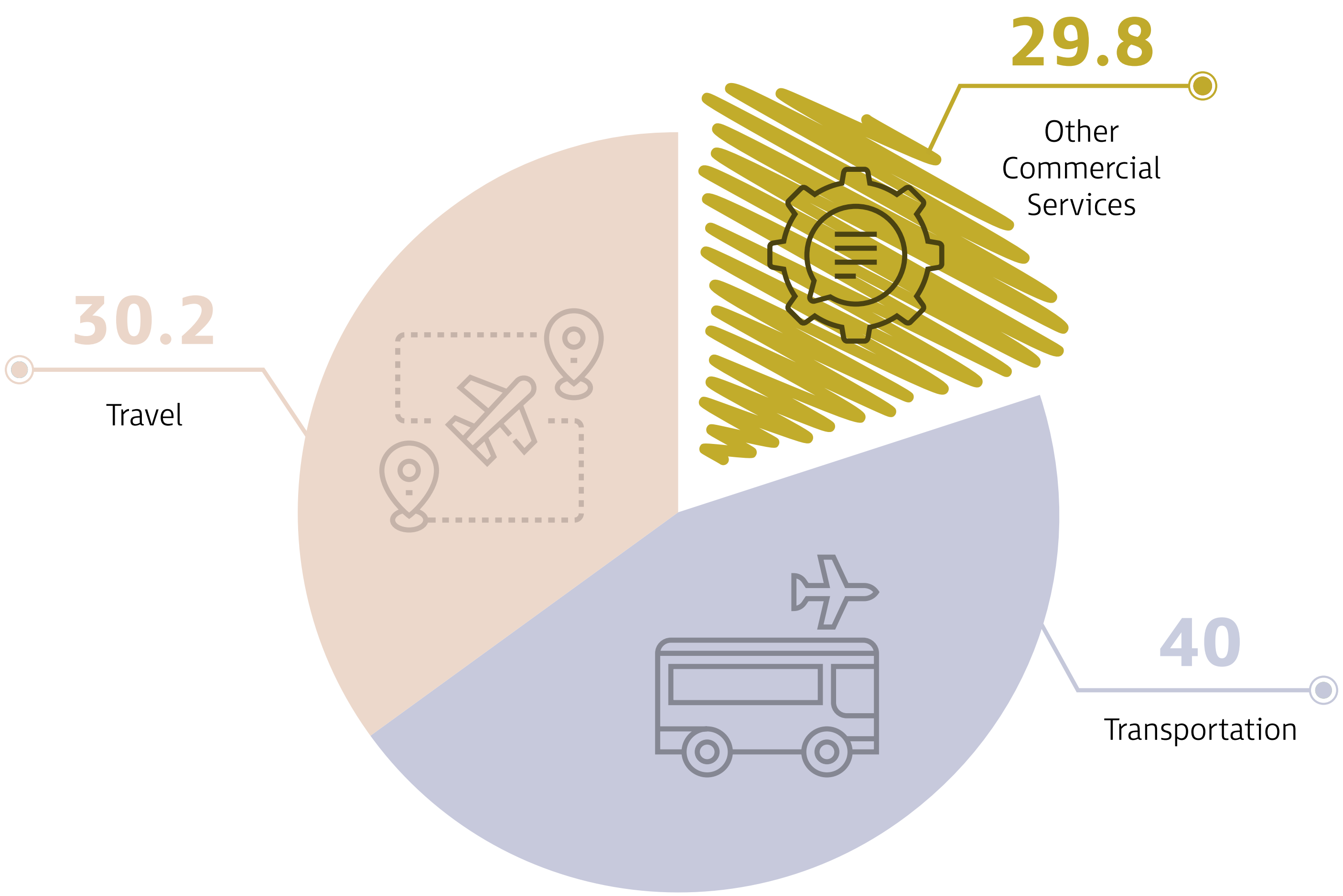
Transportation is the most traded service in the UAE, with two main subcategories: maritime and air transportation. Maritime transport services are led by two vibrant maritime centres (Abu Dhabi and Dubai ports) that are growing and diversifying rapidly, with DP World playing a major role in the region's economic activity and positioning Dubai to remain among the world's most important maritime centre.

Meanwhile, air transportation is a fast-growing sector, led by two major airlines (Emirates Group and Etihad) involved in airfreight shipments and cargo. Moreover, the sector is served by five major international airports that offer connections worldwide. For instance, the Dubai International Airport (DXB) connects 262 destinations in 104 countries worldwide via over 100 international carriers (CBUAE, 2024).

Tourism (travel and hospitality) is the second-largest traded service in the UAE and remains one of the fastest growing sectors. Tourism receipts cover expenditures on goods and services by international tourists during their stay in the UAE. For instance, the Central Bank data show that Dubai received over 17 million international visitors in 2023, representing a 19.4% increase from that in 2022. This surge in international visitors surpassed the pre-COVID-19 pandemic levels and was particularly attributed to international arrivals for the COP28 Conference, which gathered approximately 85,000 delegates (CBUAE, 2024).

Moreover, while the surge in tourism boosted the travel account in 2022 and 2023, the government measures announced in 2022 to make the UAE a magnet for foreign talent, innovators, and skilled workers have contributed towards creating an attractive work environment in the pursuit of further diversification to support long-term growth and development.

Figure (3.8):
UAE Trade in Services by Type
(in % of total)



Source: UAE Central Bank: Developments in the Balance of Payments (29/03/2020); IMF Article IV Consultation Report 2023.

For other commercial services, the Central Bank's statistics show that the exports of telecommunications, computers, information services (digitally delivered services), professional and technical activities, and construction and related engineering services constituted the majority of this category. While more recent data were not available, as the UAE Central Bank has not published Balance of Payment statistics since 2020, WTO reports estimate that the UAE exports of digitally delivered services amounted to US$ 48 billion in 2023, up from US$ 29 billion in 2019. The UAE ranks 20 among the top exporters of digitally delivered services globally. These services are traded across countries through computer networks and include everything from online gaming and remote education to streaming music and video and professional services. The global value of exports of these services reached US$ 4.25 trillion in 2023, surpassing pre-pandemic levels by over 50%.

Another noteworthy point is that trade in commercial services tends to generally be complementary to foreign direct investment (FDI). FDI facilitates expansion of transactions in long-distance services (communication services, technical advice, etc.) and the movement of service providers (intra-corporate transferees). Information and communications technology has benefitted from technological changes in the UAE owing to an increase in international business moving to Abu Dhabi and Dubai. The significant growth of the UAE's digital economy indicate that IT operations and computer services will remain the most dynamic commercial services sector in the future.

3.3. Trade Diplomacy Focus

The global economy has been changing rapidly owing to technological changes, the expansion of AI and digital economy, and the growth of large emerging economies, notably China and India. However, in recent years, global trade has encountered a series of adverse shocks related to the effects of the COVID-19 pandemic. Moreover, recovery has been hindered by supply chain disruptions and increased trade policy uncertainty caused by geopolitical rivalries.

While the UAE economy has rapidly recovered from the COVID-19 pandemic owing to an effective government response supported by strong fiscal measures, it has actively pursued ambitious trade policies to boost trade and investment aiming to generate new sources of growth. To this end, the UAE's trade diplomacy focuses on three areas. First, strengthening the UAE's position as an anchor location for key global value chain activities that will drive trade in goods, services, finance, and data in the future; second, gaining new market access into a range of countries through bilateral FTAs (e.g. CEPAs); and third, fostering regional trade integration and economic and diplomatic alliances with the Global South.

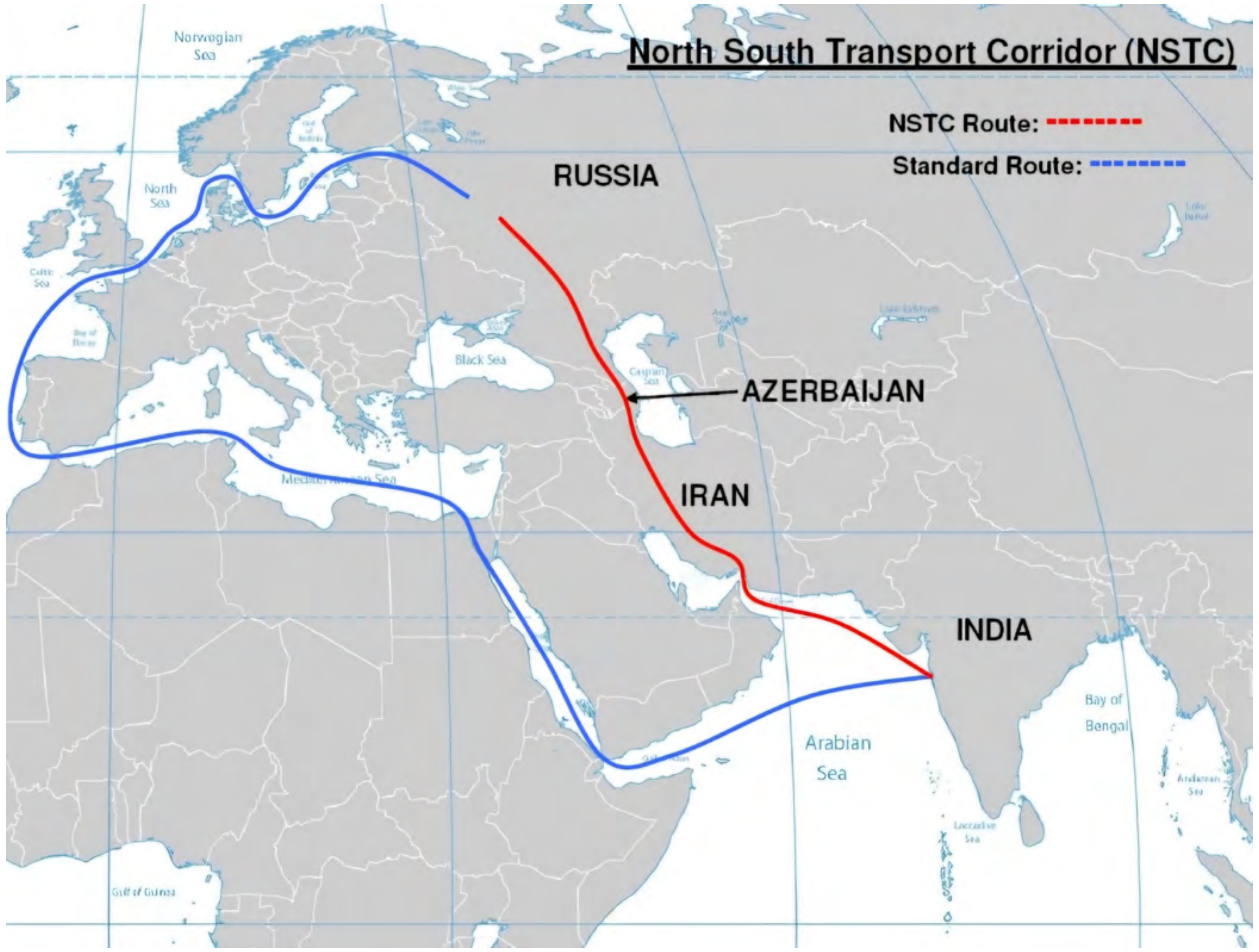
3.3.1. The UAE as a Strategic Trade Hub

The UAE has a long history of leveraging its location as a trade hub for the region to intermediate and connect trade flows originating in other regions (Europe, Asia, and Africa). As global growth has been led by the Asia-Pacific region economies, particularly large emerging economies such as China and India, the UAE has made strides in actively strengthening its position as an anchor location for key global value chain activities that are driving global trade.

Notably, China has been the UAE's main import partner sharply increasing its share from 15.5% in 2016 to 18.4% in 2022. In the context of the Belt and Road initiative, China's major foreign and economic diplomacy program for facilitating trade and mobility with partner countries and regions has increased investments, making the UAE a main gateway for goods destined for the Middle East and African markets (Watanabe, 2019). In particular, such investments have led to the development of Jebel Ali Port in Dubai and Port Khalifa in Abu Dhabi, which have become global hubs for various industries and services that will attract skilled international talent and FDI that serve regional and global markets.

India, the other fast-growing economy in the world, is the UAE's second main trade partner, accounting for 9.1% of the UAE exports and 7.7 % of imports. India has been a key export destination of the UAE for the past two decades. Recently, the UAE has deepened its trading relationship by signing CEPA, which covers tariff elimination or reductions on approximately 80% of goods, in addition to liberalising bilateral trade in services, facilitating foreign investment for Small and Medium Enterprises (SMEs) in the domestic market, and granting preference provisions on government procurement.

India and the UAE have been strategic partners, possessing a comparative advantage over China in terms of services. The North-South Transport Corridor linking India with Russia through Iran and Central Asia (see the map below) is another important corridor for promoting the trans-shipment of goods and services and technology through the UAE (Business Turkmenistan (BT), 2023).



Source: wikimedia

3.3.2. Advancing CEPAs to Gain New Market Access

Along the quest to shape its economic cooperation and connectivity to serve as new source of growth in the region and globally, the UAE has been pursuing bilateral free trade by signing CEPAs with trade partners spanning Africa, Asia, Europe, and South America (Table 3.1). The overall aim is to boost the UAE trade and integration into value chains and attract FDI. The UAE's willingness to separately negotiate bilateral FTAs with many countries, rather than within the framework of the Gulf Cooperation Council (GCC), could be partly triggered by its desire to exchange bilateral preferences, offering trading opportunities that directly benefit both countries' supply chain activities, enabling two-way FDI flows, and improving joint knowledge exchange across sectors in advanced technology, food security, and healthcare (Walters, 2024).

As the UAE's trade diplomacy presents like-minded candidate countries for the CEPA, the geographic location of many of those signed or under negotiation lies within the Asia-Pacific region, which is a key driver of global economic growth and potential trade route in major supply chains. For instance, the recent CEPA with South Korea, signed on 30 May 2024 aims to '***reinforce east-west supply chains, facilitate two-way FDI flows, and enhance joint research and knowledge exchange across a range of sectors, including energy, advanced manufacturing, technology, food security, and healthcare***' (WAM, 2024).

Table (3.1):
List of Signatory CEPA Countries with the UAE
(As of August 2024)

	CEPA in Force	CEPA Under Negotiation or Waiting for Ratification	Share of UAE Exports* (2022) %	Share of UAE Imports (2022) %
Australia		X	0.52	1.10
Cambodia	X		0.02	0.08
Chile		X	0.03	0.08
Colombia		X	0.05	0.08
Rep. of Congo		X	0.06	0.58
Costa Rica		X	0.01	0.01
Mauritius		X		
Georgia		X	0.13	0.00
India	X		10.92	8.24
Indonesia	X		0.49	0.99
Israel	X		0.31	0.24
Kenya		X	0.81	0.19
South Korea	X		0.90	1.29
Malaysia		X	1.14	0.89
New Zealand		X	0.09	0.20
Pakistan		X	1.28	0.86
Philippines		X	0.26	0.44
Serbia		X	0.01	0.02
Thailand		X	0.74	1.48
Turkiye	X		5.64	2.90
Ukraine		X	0.04	0.10
Vietnam		X	0.39	2.26

** Non-oil Exports.*

Source: UAE Ministry of Economy; FCSC, Trade Statistics; Various media reports.

In quantifying the expected gains for the UAE economy from CEPA, an IMF study (2023c) shows that the reduction of tariffs on intermediate inputs as part of the CEPAs could enhance competition and the quality of inputs and facilitate the transfer of technology. The overall welfare gains could be between 0.3% and 2.1 % of the level of real GDP in the medium-term. Although this estimate depends on many factors including the attractiveness of the UAE's FDI environment, the expected gains are likely to be within the lower bound of these ranges.

3.3.3. Fostering Regional Trade Integration and Economic and Diplomatic Alliances with the Global South

The UAE has played a critical role in fostering regional cooperation within the GCC as well as the wider Middle East and North Africa (MENA) region by being a founding member of the Greater Arab Free Trade Area (GAFTA). Similarly, the UAE has expanded its cooperation with Africa and, more recently, was invited to join the BRICS in August 2023, along with three other regional countries (Saudi Arabia, Egypt, and Iran), in addition to Ethiopia and Argentina.

The UAE and Intra-GCC Trade

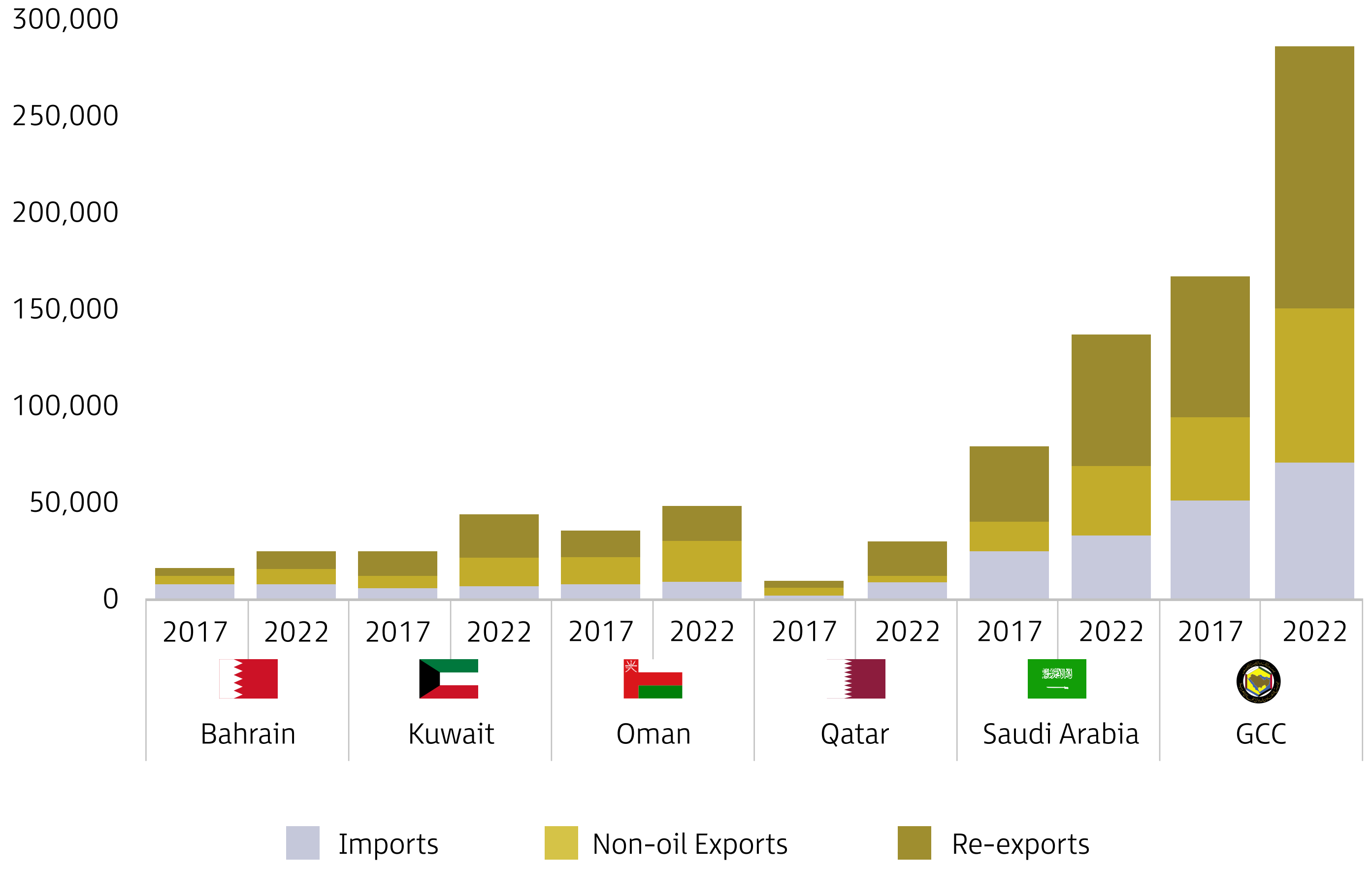
The GCC, created during the meeting of the Heads of the member States in Abu Dhabi on 25 May 1981, called for the formation of a customs union. The GCC customs union was launched in 2003 with the implementation of a GCC (unified) Custom Law and a common external tariff (CET) of 5% for most of the tariff lines. In January 2008, the GCC deepened its integration by launching the Gulf Common Market, with one of its major goals being to achieve equal treatment among citizens of GCC member states when engaging in economic activities and property ownership.

So far, the GCC has collectively negotiated and concluded a regional trade agreement with Singapore in 2013 and an agreement with the member States of the European Free Trade Association (EFTA) in 2014.

Data on the UAE's total value of trade with the GCC member countries show an increase in the post-COVID-19 pandemic, in 2022 and into 2023, reaching AED 287 billion, accounting for 13% of the total UAE trade in 2022 (Figure 3.9). Despite this increase, intra-GCC trade remains low, averaging only 10% of total non-oil trade of all the member countries. The UAE data also indicate that re-exports account for approximately half of the UAE's total trade with the GCC, followed by non-oil exports (28%) and imports (24%).

Of the AED 287 billion in the UAE trade with the GCC, the UAE imports account for only approximately 6% of its total imports. This suggests low complementarities within the bloc, most likely due to similar production structures across the GCC economies (IMF, 2018). Overall, the data highlight the UAE's role as a major re-exporting hub for the GCC, particularly for Saudi Arabia and Oman, as Saudi Arabia is the largest GCC market for the UAE, accounting for approximately half of its total trade to the bloc.

Figure (3.9):
UAE Trade with GCC
(AED million)



Source: Federal Competitiveness and Statistics Centre (FCSC) (2023).

Meanwhile, the GCC integration process has recently gained momentum owing to member states intensifying cooperation to cover tourism services and value chains in the green industry. For instance, cooperation to make the GCC a single regional and global tourism destination has been sought to collectively increase travel and tourism flows. To this end, the GCC member states are considering issuing a unified visa for tourists and business visitors that would allow entry into all GCC countries. Tourism remains one of the region's fastest-growing sectors in the GCC's individual economies. The value of the GCC's exports of tourism services reached approximately 50% of total services exported (receipts) by the bloc. The UAE and Saudi Arabia with leading positions as leisure and religious tourism destinations, respectively, and collectively account for more than 75% of the GCC travel receipts (IMF, 2023a).

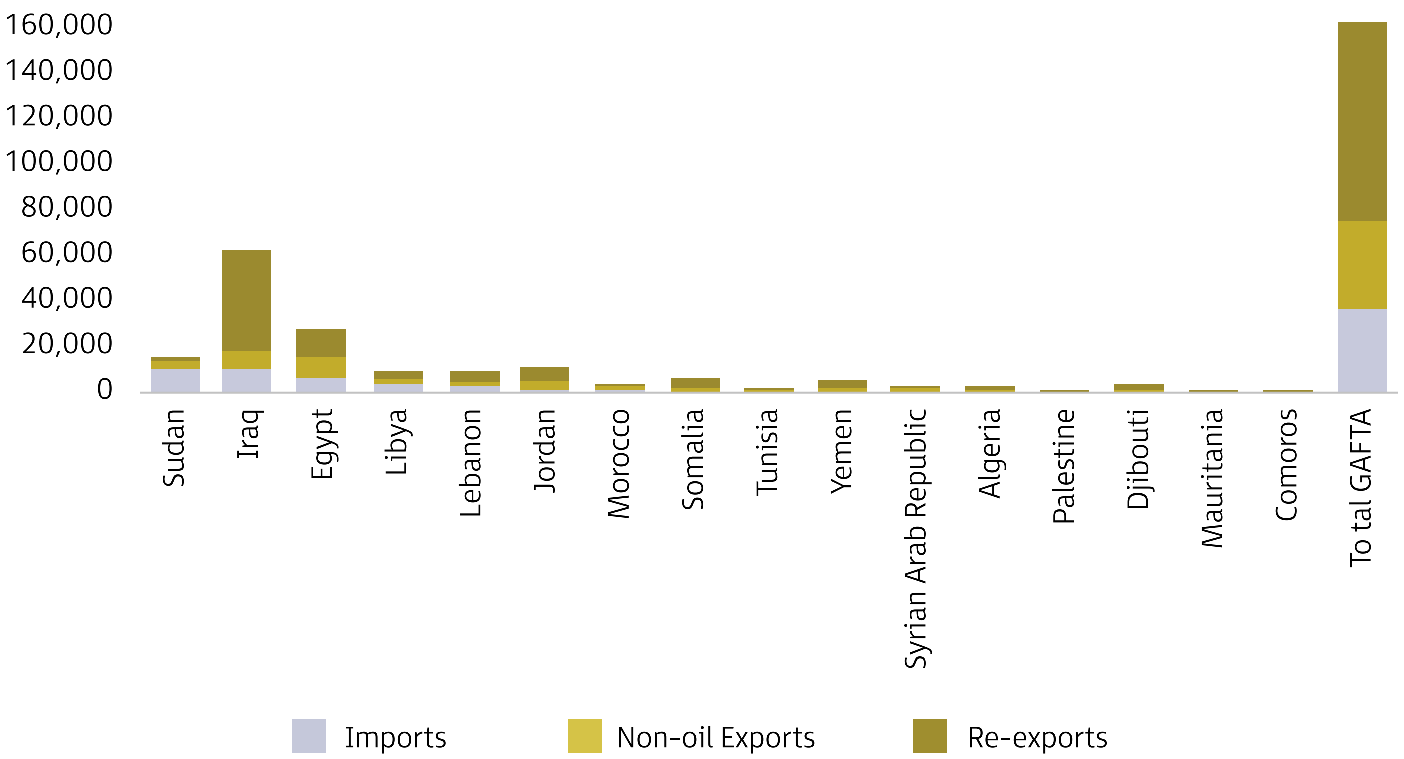
Additional areas of increasing regional cooperation targeted improving supply chains in the joint production of electric vehicles (EVs). In this regard, the UAE and Bahrain (GCC members) entered into an agreement with Egypt and Jordan to use Bahrain's FTA agreement with the United States (US) to jointly produce EVs for export to North America and regional markets. Such joint ventures further support the GCC's economic diversification efforts and increase its economic role in the wider MENA/Arab region (IMF, 2023c).

The UAE and Intra-GAFTA Trade

Concerning trade cooperation in the wider Arab region context, the UAE has been a member of the GAFTA since its creation in 2005 and has removed tariffs on imports from GAFTA countries, except for some products for public health or safety reasons.

Trade statistics show that the UAE's total trade with the (non-GCC) GAFTA members (16 countries) reached AED 164 billion in 2022, which only accounts for 9% of the total value of the UAE exports (Figure 3.10). Noteworthy is the high concentration in the direction of UAE trade with a few GAFTA countries. For instance, approximately three quarters of the total UAE imports from GAFTA originated in three countries (Egypt, Iraq, and Sudan) and half of the non-oil exports and re-exports went to two countries (Iraq and Egypt). Overall, these statistics raise some issues concerning the supply capacities of the GAFTA countries in terms of diversification and sophistication in accessing the highly competitive UAE market despite tariff removals on the UAE imports from GAFTA countries.

Figure (3.10):
UAE Trade with Non-GCC GAFTA Countries
(AED million)



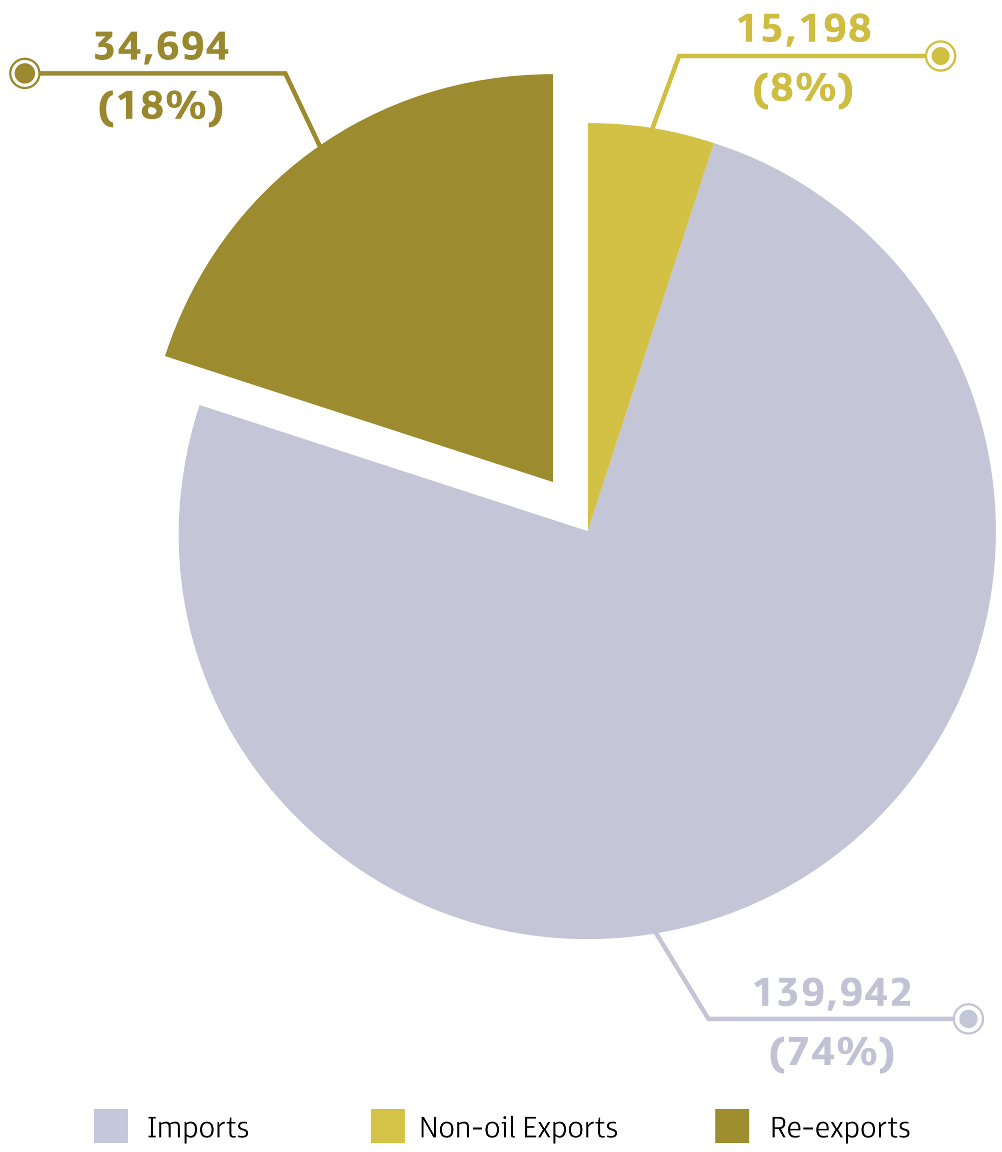
Source: Federal Competitiveness and Statistics Centre (FCSC) (2023).

The UAE and African Trade Relations

The UAE's trade with Africa has grown, with the total trade reaching AED 200 billion in 2022. The imported share in total UAE imports nearly doubled between 2016 and 2020, from 8.8% to 16.9% as result of efforts by stakeholders from both the public and private sectors to build economic and trade ties between the UAE and the African counties.

While the UAE's total value of trade with African countries has increased, it accounts for only 10% of the total value of UAE trade. Moreover, trade statistics indicate that the sources of the UAE imports from Africa were quite diversified and that 95% of all imports originated in 25 African countries, although trade with Africa is mainly led by Dubai, which registers 85% of total UAE non-oil trade (Figure 3.11).

Figure (3.11):
UAE Trade with Non-Arab African Countries
AED million (% of total)



Source: Federal Competitiveness and Statistics Centre (FCSC) (2023).

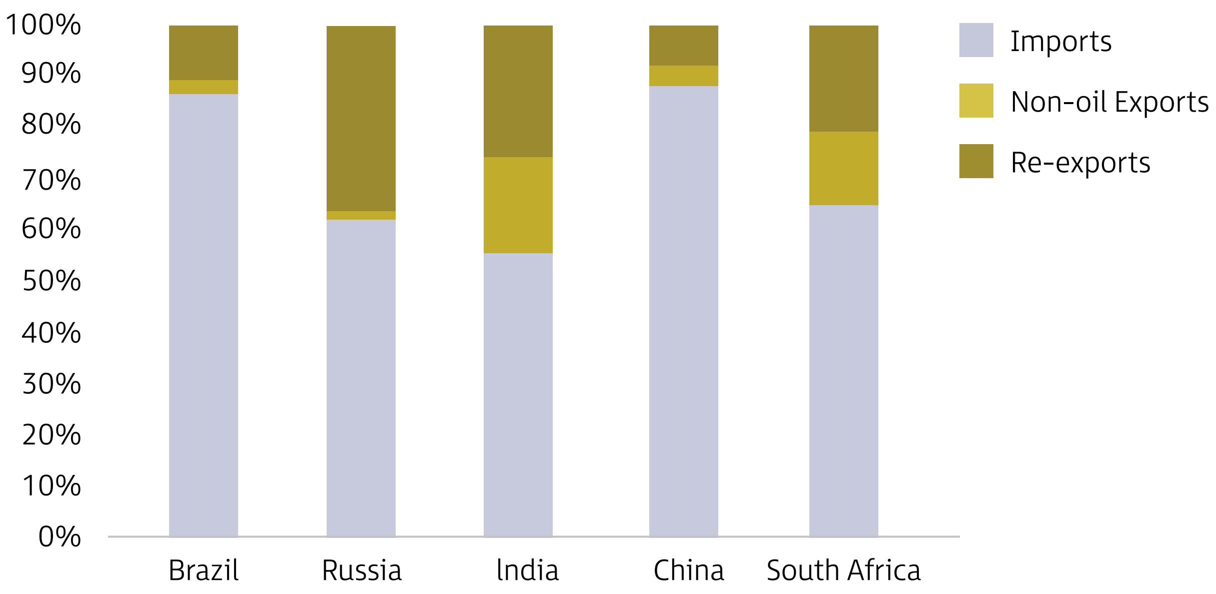
In the recent past, the UAE economic diplomacy has been active in Africa, and efforts towards generating activities that nurture mutually beneficial trade and growth for Africa and the UAE have been pursued by stakeholders from the public and private sectors (e.g. DP World, Dubai Chamber of Commerce, etc.). For African countries, the UAE is well-positioned as a major partner, as the preferred hub for African travel and the movement of goods from and to Africa. This was highlighted during the Dubai Week in Africa, Kenya Forum, held in 2021 (WAM, 2021). Moreover, UAE firms are expected to lead the expansion of trade and investment partnerships with African countries in advanced technology, such as digitalisation and financial innovation, and support the integration of the African agrobusiness industry into global supply chains (Dubai Chamber, 2019).

Box (3.1):
The UAE's Membership in BRICS

In the quest to increase its diplomatic and economic opportunities with the global South, the UAE received an invitation in August 2023 to join The BRICS group of countries (Brazil, Russia, India, China, and South Africa). The UAE accepted the invitation to join BRICS starting in 2024. By joining BRICS, the UAE is expected to strengthen economic relations with the group of countries representing 46% of the world's population and contributing to 32.1% of global GDP. The UAE value of trade with BRICS reached AED 560 billion in 2023, accounting for 25% of the total trade (Figure 3.12). The share of UAE imports from BRICS represents 31% of the total imports, followed by re-exports (15%) and non-oil exports (13%) (FCSC).

The UAE's membership is expected to offer access opportunities not only to its top trading partners (China and India) but also to other major markets, such as Russia, which has the world's 8th largest GDP, Brazil (11th), the newcomer to the group, alongside Egypt, Iran, and Ethiopia (Alexander & Bou Serhal, 2023). Overall, the partnership with BRICS will open up important trade and investment opportunities for the UAE, as well as enhance its global presence and foster its diplomatic alliances.

Figure (3.12):
UAE Merchandise Trade with BRICS in 2023
(Sum of imports, exports and re-exports in percent)



Source: FCSC; International Trade Statistics.

3.4. Conclusion

The UAE's strategic emphasis on foreign trade and economic diplomacy has cemented its role as a leading global trade hub. Key trends and developments in the UAE's foreign trade performance post-pandemic indicate robust growth in both merchandise and services trade. Diversification efforts have made significant progress, reducing reliance on hydrocarbons and boosting non-oil exports, supported by initiatives such as the CEPAs and the renewed cooperation within the GCC.

There has been a rebound in the value of merchandise trade reaching AED 2.5 trillion in 2023, on the path towards achieving the targeted AED 3 trillion mark by 2031 per the 'We the UAE 2031' vision. Moreover, exports of hydrocarbons reached 41% of total exports in 2023, indicating that the UAE is less reliant on oil and has shifted to a more mature diversified economy. In addition, the growing importance of trade in services, particularly transportation, tourism, and digital delivery of services, showcases the UAE's dynamic economic sectors. According to the WTO, the UAE exported US$ 48 billion worth of digitally delivered services in 2023, ranking among the top 20 global exporters of such services, including online gaming, remote education, and streaming music and video, among others.

Foreign trade has been a cornerstone in the UAE's strategy to enhance trade relations and economic cooperation. To strengthen its position as a major trade hub between the East and the West, the UAE has negotiated bilateral FTAs (e.g. CEPAs) with its trading countries. As of December 2024, six of these CEPAs are in force, and twenty four have been concluded.

Fostering diplomatic and economic opportunities with the Global South has been another pillar of the UAE's trade diplomacy in the pursuit of a comprehensive approach to international trade and investment. To this end, the UAE's full membership in BRICS is expected to expand its political and economic leverage in the global markets.

Overall, the UAE's strategic initiatives and active trade policies have driven economic growth and successful diversification. The UAE continues to leverage its geographical advantage, advanced infrastructure, and proactive economic diplomacy to foster sustainable growth, attract foreign investments, and ensure its position as a preferred global trade and investment destination.

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4 Strategic Prosperity

The UAE's Sovereign Wealth Funds and the New Era of Economic Diplomacy

Mona El-Sholkamy

4.1. Introduction

The United Arab Emirates (UAE) strives to achieve strategic prosperity as it aspires to diversify its oil-dependent economy through ambitious visions, such as the Dubai Plan 2030 and Abu Dhabi Economic Vision 2030. These plans emphasise support for innovation-focussed businesses, knowledge-based industries, clean energy investments, and tourism. Sovereign wealth funds (SWFs) play a critical role in this scenario. Government-controlled investment pools or state-owned investors (SOIs) employ excess oil export revenue to fund strategic domestic projects in these focus areas and invest globally, attracting foreign expertise and technology to the country.

Economic diplomacy complements the strategy. As an integral element of its foreign policy, economic diplomacy involves the use of market tools, such as SWF investments, to build partnerships and influence. By investing in friendly nations, the UAE strengthens its political ties, secures access to new markets, fosters trade and investments, and propels its economic transformation.

This chapter explores the UAE's ambitious tactics towards prosperity and economic diversification that are achieved through its SWFs. The chapter delves into how these state-owned enterprises, considered as one of the country's strategic investment tools, have been centre stage in expanding the UAE's international presence, soft power, and economic diplomacy. The chapter also presents a comprehensive preview of UAE SWFs' investment channels and worth, while exploring the future outlook.

4.2. The Foundations of UAE's Sovereign Wealth Funds

Key SWFs in the UAE: Non-exclusive examples: Abu Dhabi Investment Authority (ADIA), Mubadala Investment Company, and the Investment Corporation of Dubai (ICD).

Global SWF is an industry maven focussed on SWFs and public pension funds. It defines SWFs as *'investment vehicles owned by national or regional governments that buy, hold, and sell securities and/or assets on behalf of their citizenry in pursuit of financial and/or economic returns'.* Nevertheless, many variables create unique characteristics of SWFs, giving them features beyond the scope of this definition. SWFs may not share the same wealth source. In most cases, wealth comes from the accumulation of excess returns from substantive oil ***(or other natural resources such as gold or diamonds)*** sector export earnings (known as commodity wealth)[1]. This classification is commonly found in oil-rich countries in the Gulf region and is central to powerful states such as the Kingdom of Saudi Arabia (its Public Investment Fund, PIF), the UAE, and Kuwait[2]. In contrast to poverty-wealth-based SWFs, non-commodity funds handle their accumulated foreign currency reserves by issuing financial assets (market securities) or proceeds from privatisation initiatives[3]. At the other end of the spectrum, some SWFs are described as 'wealthless'. These do not possess the wealth nor the funds needed to 'inject' into investment projects, but rather they 'receive' financial boosters in the form of stakes and strategic partnerships in their national companies (López, 2023)[4].

Investment mandates of SWFs play a pivotal role in shaping the way they conduct their business. The industry has three main investment mandates. These include (a) stabilisation mandates, which act as financial cushions in times of economic recession; (b) savings mandates (also known as intragenerational funds) that strive to guarantee the availability of wealth to future generations; and (c) strategic (or development) mandates that display a shared mix of economic, social, and profitability gains (El-Sholkamy & Rahman, 2022; López, 2023). Funds can choose to adopt more than one mandate. Hence, it has become more challenging in recent years to compartmentalise SWFs according to the restricted definitions of their respective mandates. Thus, a more flexible and interconnected investment framework has become common. Finally, according to López (2023), SWFs' investment activities can be grouped based on outreach as follows: (a) Overseas investors are those who intentionally choose not to invest domestically to avoid overheating their economies. One of the largest, if not the largest, SWFs in Norway adopted this philosophy. (b) Domestic investors are those who, as their name indicates, try to ensure maximum contribution to their local economies, especially emerging ones, and simultaneously work to attract foreign direct investments (FDIs) as a form of collaboration with mutual benefits. Finally, (c) flexible investors choose to amalgamate their domestic and cross-border investments to achieve multiple objectives and economic gains, as in Abu Dhabi's active Mubadala.

Abu Dhabi and Dubai, renowned economic hubs in the Middle East, are home to some of the world's most numerous and largest SWFs. These SWFs, which were established to manage and invest in surplus oil revenue, have evolved into key players in the global financial landscape. They are instrumental in driving economic diplomacy and diversification, influencing investment trends, and shaping the region's economic future.

In Abu Dhabi, the ADIA[5] stands as a prominent figure in the SWF domain. With estimated assets under management (AUM) exceeding US$ 700 billion (Global SWF, 2024), the ADIA portfolio spans a vast spectrum of asset classes, including equities, fixed income, real estate, private equity, and infrastructure. Renowned for its prudent risk management and long-term investment approach, the ADIA has consistently generated stable returns, establishing itself as a reliable and resilient institution. The funds' global investment footprint includes significant holdings in both advanced and emerging markets.

Alongside ADIA, Mubadala Investment Company has created a distinct niche in the Abu Dhabi SWF landscape. While smaller than ADIA in terms of AUM, Mubadala distinguishes itself through an active investment strategy and focusses on strategic sectors, such as aerospace, technology, healthcare, renewable energy, and

[1] Commodity-based SWFs retain their wealth and invest the revenue derived from the sale of commodities, including oil, gas, copper, phosphate, and diamonds, usually to avoid the resource course or Dutch disease (Bauer, 2015).
[2] The Kuwait Investment Authority (KIA) has been inaccurately identified as the first SWF ever to be established in 1953. The correction states that first form of SWF arguably emerged in Ohio in 1803 when the State Constitution was signed, and a land trust was created to finance public schools (López, 2023).
[3] A well-known example is the Korea Investment Corporation.
[4] Examples include the Sovereign Wealth Fund of Egypt (TSFE) and Kazakhstan's Samruk-Kazyna.
[5] ADIA was established in 1976.

real estate[6]. Mubadala's collaborative approach, which often involves partnerships and joint ventures with leading global companies, has been instrumental in fostering economic diversification and technological advancement in Abu Dhabi[7].

A more recent addition to Abu Dhabi's SWF ecosystem is the Abu Dhabi Developmental Holding Company (ADQ). Established in 2018, the ADQ has rapidly expanded its portfolio through strategic investments in key sectors, such as healthcare, food and agriculture, utilities, and industrial manufacturing. With a mandate to accelerate Abu Dhabi's economic transformation, the ADQ played a crucial role in shaping the sustainable development trajectory of the emirate. The current assets of ADQ are valued at US$ 199 billion in December 2023.

In Dubai, the ICD operates as the primary investment arm of the Dubai government. Although not as large as its Abu Dhabi counterparts, the ICD is a critical player in Dubai's economic development. The ICD's strategic investments across a diversified portfolio, to be showcased in section 4.2, have fortified key industries, created employment opportunities, and attracted foreign investment, further solidifying Dubai's position as a global economic powerhouse[8].

In December 2023, Dubai announced the formation of a new investment fund, *Dubai Investment Fund (DIF),* under the Department of Finance. The fund was announced to be Dubai's new investment entity responsible for bringing together what was described as 'chunky assets', that is, fixed, highly illiquid assets, in partially private companies, as in the case of the Capital's ADQ. DIF plans to acquire stakes in a collection of 10 recently privatised government corporations, such as the Dubai Electricity & Water Authority, toll operator SALIK, and Dubai Taxi Company (Global SWF, 2024)[9]. The privatisation of these once-public entities was an attempt of divestment the government wished to adopt to cut down on its government expenditures; reduce fiscal pressure; and, according to a Reuter's report, *'boost stock market activity, repay debt and deepen capital markets'*. The total value of the government's ownership of the three entities alone was estimated at US$ 34 billion in early 2024. Separately, a US$ 47 billion stake affiliated with Dubai World (which largely comprises DP World) will be linked to DIF in its initial start-up phase while maintaining its legal identity and name. Accordingly, DIF's total expected AUM in its first launch phase could be US$ 80–100 billion[10].

The collective influence of these wealth funds extends far beyond their individual investments. Investment decisions significantly affect global markets, industries, and economic growth patterns. As Abu Dhabi and Dubai continue to evolve and adapt to the changing global economic landscape, their wealth funds are expected to play an even more significant role in shaping their future.

[6] ADIA spun off of Abu Dhabi Investment Council (ADIC) in 2007. ADIC later became part of Mubadala Investment Company in 2019, which is also owned by the government of Abu Dhabi.
[7] In 2007, it was decided that the local portfolio of ADIA's financial institutions would be put into a separate SWF called ADIC, or *the Council.* ADIC was to invest both locally and internationally, unlike ADIA that did not inject investments domestically. In 2019, ADIC along with other smaller SWFs merged into the Mubadala group.
[8] As the main investment arm of the emirate's government since 2006, ICD was seeded with a portfolio of assets from the Department of Finance and now spans six segments in total: financial services, transportation, energy real estate, hospitality, and retail.
[9] **DIF was announced to be** formed under the remit of Sheikh Mohammed Bin Rashid Al-Maktoum's son Sheikh Maktoum (UAE's Minister of Finance) to potentially replace **Dubai World** as an umbrella entity by absorbing **DP World**. Elder son and Crown Prince Sheikh Hamdan, ***Fazza***, manages the larger SWF, **ICD**.
[10] According to the Global SWF report of 2024, Dubai's existing SWF community comprises three state-owned holding companies with a total AUM of US$423 billion: Investment Corporation of Dubai (ICD), Dubai World, and Dubai Holding.

Table (4.1):

Global SWF rankings of the top 100 SWFs in 2023 & 2024

(Ranks no. 1 and 2 are just for comparison purposes).

Rank (2024)	**SWF – By country**	**Founding Year**	**AUM US$ Billions** (GSWF Report 2023)	**AUM US$ Billions** (GSWF Report 2024)	**Percentage of domestic investments** (GSWF Report 2024)	**GSR[11] 2023 score** (%age) **based on** (GSWF Report 2024)
#1	NBIM, Norway	1997	1,145	1,379	-	88
#2	CIC, China	2007	1,351	1,240	-	72
#4	ADIA	1976	993	984	0%	56
#9	ICD	2006	300	341	49%	56
#11	MUBADALA	1984	284	276	23%	88
#12	ADQ	2018	157	199	80%	56
#19	EIA	2007	91	91	60%	32
#34	DUBAI WORLD	2005	42	47	33%	76
#38	DUBAI HOLDING	2004	35	35	NA	36
#78	SAM - Sharjah	2008	2	2.1	NA	28

Source: Compiled by the author based on Global SWF Reports of 2023 and 2024.

[11] GSR: Governance, sustainability, resilience practices of SWFs, an analytical tool introduced in 2020 reported annually by the Global SWF. The score typically ranges between 0% and 100%, with higher scores indicating better governance, sustainability, and resilience practices. The score is not a ranking but rather an assessment of how well a fund performs against a set of best practices.

Governance, Management, and Operational Strategies of UAE based SWFs

The legitimacy of SWF is based on the basic principle of isolating themselves from any political decision-making or policymaking process (El-Sholkamy & Rahman, 2022).

Historically known for their opacity, SWFs have recently improved their transparency through good governance initiatives. They face investment challenges similar to other investors; however, government ownership raises concerns about potential political influence. To maintain credibility, SWFs must uphold higher governance standards. SWF governance is influenced by the home country's governance level and membership in the International Forum of Sovereign Wealth Funds (IFSWF). IFSWF members often exhibit higher transparency and governance by adhering to the 'Santiago Principles', a set of globally recognised standards for sovereign funds[12] (Mayall, 2023).

In 2020, a governance analysis tool called the 'GSR Scoreboard' was introduced as a comprehensive instrument to assess the governance, sustainability and resilience (GSR) practices and efforts of SWFs and SOIs in general. It is driven by an annual review of the best practices of the world's top-100 funds, focusing on 25 elements, 10 of which are associated with governance and transparency, 10 with sustainability and responsible investing, and five with resilience and legitimacy. Since its inception, the GSR Scoreboard has become a key testament to an SWF's best practices and is published annually by the Global SWF industry expert. The 25 elements assessed in the tool are answered binarily (yes/no) based on publicly available information and are gaining recognition as the thermometer of the industry's best practices. It is quantifiable and completely independent as the assessment is not commissioned or charged to any fund. The score typically ranges between 0% and 100%, with higher scores indicating better governance, sustainability, and resilience. The score is not a ranking but rather an assessment of how well a fund performs against a set of best practices (El-Sholkamy & Rahman, 2022).

Table (4.2):
GSR Scoreboard for UAE based SWFs, Global SWF GSR Report 2024

Fund	G	S	R	GSR	GSR (%)	Diff
ADIA	6	3	4	13	52%	0%
ADPF	4	1	1	6	24%	0%
ADQ	7	9	2	18	72%	12%
DH	3	3	1	7	28%	n.a.
DUBAI-WORLD	7	9	2	18	72%	0%
ICD	7	5	2	14	56%	8%
Mubadala	10	8	4	22	88%	0%
SAM[13]	4	2	-	6	24%	0%

Source: Compiled by the author based on the Global SWF GSR report released on 11 June 2024.

[12] The Santiago Principles were drafted in 2008 by the 26 founding members of the IFSWF and aim to foster good governance, accountability, transparency, and prudent investment practices. While voluntary and subject to local laws, all full members of the IFSWF commit to implementing these principles

[13] Sharjah Asset Management (SAM) is the investment and asset management arm established by the government of Sharjah, UAE. Its current AUM is $1.9 billion

Owing to the alarming influence of SWFs on economic agendas and diplomatic ties across countries, economists and the financial world have become increasingly excited to explore the impact of governance rankings on the latter. It is critical for host countries to provide business-friendly and welcoming environments for their guests. In doing so, they need to prove their best governance practices, magnify their transparency standards, and minimise the chances of corruption. Although policymakers in most recipient countries strive to attract and facilitate SWF investments, they tend to conceal concerns about the motivations of SOIs and the possible threats posed to political, economic, and sometimes financial stability (Bagnall & Truman, 2013).

The GSR scores of UAE-based SWFs have become increasingly influential in shaping the investment strategies and economic diplomacy goals of the Gulf states. These scores have been proven to impact SWFs' investment strategies in various ways. As a start, high GSR scores signal strong governance and ethical practices and hence serve as an attractive element for 'responsible investors' and partners. This allows UAE SWFs to access a broader range of investment opportunities and negotiate favourable terms with stakeholders who prioritise sustainable and responsible investment practices. Good GSR scores demonstrate robust risk management frameworks and a focus on long-term resilience. This reassures investors and stakeholders by reducing the perceived risk and volatility associated with investment in the UAE's SWFs.

Examples from the UAE include Mubadala (scoring 88% on the GSR scoreboard for two consecutive years, 2023–24) and the ADQ (with a total improvement during 2022–24 of *+24%*). In 2024, the ADQ will publish a new and detailed website and its first sustainability report with many details and metrics. Right before the commencement of 28th United Nations Climate Change Conference or Conference of the Parties (COP28), which took place in November 2023 in Dubai, the ADQ succeeded in setting an example by aligning national priorities with the Sustainable Development Goals.

However, it is difficult to overlook the effect of good GSR scores on a country's soft power. High GSR scores contribute to the UAE's soft power projection by showcasing its commitment to responsible investments and sustainable development, as mentioned earlier. This positive image enhances the country's influence and diplomatic leverage in international forums and negotiations. Some SWFs might be more active in this domain than others. For example, Mubadala's active engagement with the GSR framework and focus on sustainability have significantly boosted its score, opening doors for partnerships with global investors who prioritise environmental, social, and governance (ESG) considerations. In addition, as a relatively new SWF, the ADQ's emphasis on transparent governance and sustainable investments has helped establish credibility and attract international partners, contributing to Abu Dhabi's economic diversification goals.

4.3. Past and Emerging Trends in SWFs' Investment Strategies

Through strategic investments, SWFs can exert global influence through multiple approaches. One could be the strategic asset acquisition of stakes, for example, in critical companies, whether tech-related or infrastructure-oriented, and, by doing so, gain leverage in key industries. Another is through an impactful presence in financial markets, where capital lumpsums drive stock market movements, bond purchases, and other financial assets. A more long-term strategy could involve economic development assistance in the form of win–win agreements in which investments are injected into earmarked industries in promising developing nations. Such moves not only endorse economic diplomacy ties and highlight soft power and goodwill but also enhance SWFs' standings.

A 'popular' pathway has surfaced onto the scene lately involving investments in technological innovations, such as artificial intelligence (AI) and Fin-Tech. SWFs can invest in cutting-edge technologies and research-and-development initiatives globally, contributing to technological advancements and gaining a competitive edge in the global market. Ultimately, geopolitical goals tend to be attended to in favour of their respective home countries, regardless of whether an SWF chooses to adopt one or more approaches to globally influential investment strategies. Subsequently, diplomatic ties are strengthened, securing access to strategic resources when needed and promoting regional stability.

Investment Trends of UAE SWFs: Years 2023–2024 in Review

The UAE SWFs continued to prioritise investments with long-term horizons, seeking stable returns and capital appreciation over time. These funds maintained their diversified portfolios, investing in a wide range of assets, such as private equity, fixed income, real estate, and infrastructure. They also sustained strong interest in infrastructure projects and real estate assets, both domestically and internationally. Changing trends show an increase in allocations to alternative assets, such as private equity, venture capital, and hedge funds, seeking higher returns and further diversification. These funds place greater emphasis on ESG considerations in their investment decisions, aligning their portfolios with sustainability goals and responsible investment principles. The UAE SWFs have demonstrated a growing interest in technology companies and innovative ventures, recognising their potential for high growth and disruptive impact.

ADIA's investment portfolio was stable and consistent across 2023–2024 when the emphasis on equities remained high. The ADIA believes that equity is the most reliable path to long-term growth (AGDA, 2023). No significant changes occurred during the past year, although future outlooks predict a greater presence in emerging markets, particularly in India and China.

Figure (4.1):
ADIA's Investment Portfolio by Asset Class

Asset Class	Min	Max
Developed Equities	32%	42%
Emerging Market Equities	7%	15%
Small Cap Equities	1%	5%
Government Bonds	7%	0%
Credit	2%	7%
Financial Alternatives	5%	10%
Real Estate	5%	10%
Private Equity	7%	12%
Infrastructure	2%	7%
Cash	0%	10%

Source: Prepared by the author based on ADIA's published reports 2023 data.

Table (4.3):
ADIA's Investments by Region

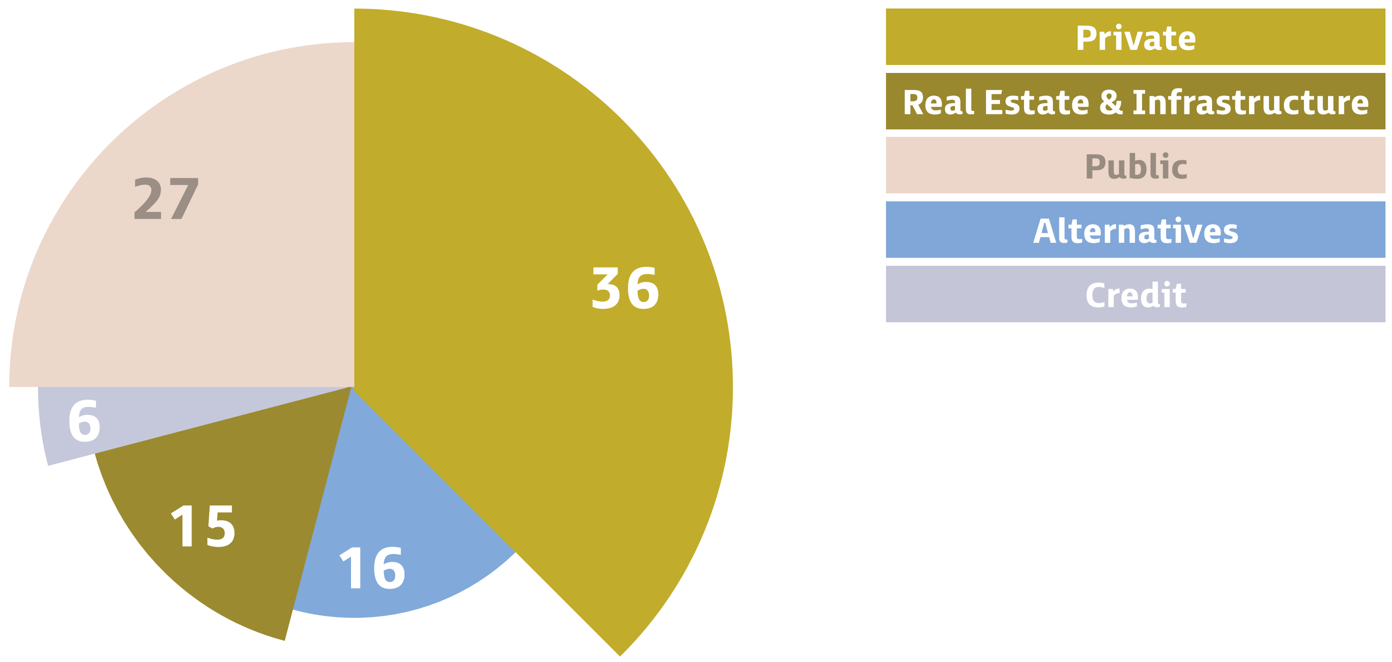
Region	Minimum Investment (%)	Maximum Investment (%)
North America	45	60
Europe	15	30
Emerging Markets	10	20
Asia	5	10

Source: Prepared by the author based on ADIA's published reports 2023 data.

ADIA's investment strategy and global outreach have the same characteristics. The ADIA continues to seek government bonds because of their safety and predictability amid continuing tightened monetary policies and high interest rates. This makes them ideal counterbalances for risky portfolio investments. ADIA's investment strategy, as reflected in its portfolio, is a combination of risk diversification and the pursuit of steady long-term returns. By investing across a broad spectrum of assets, from safe and steady to riskier high growth, ADIA aims to ensure the preservation and growth of Abu Dhabi's future generations (AGDA, 2023).

Mubadala's investment strategy, according to its released reports, is consistent with that of the ADIA.

Figure (4.2):
Mubadala's Portfolio by Asset Class



Source: Prepared by the author based on the Mubadala Database (2023).

Significant trends in Mubadala's investment strategy recorded in 2023 include the following:

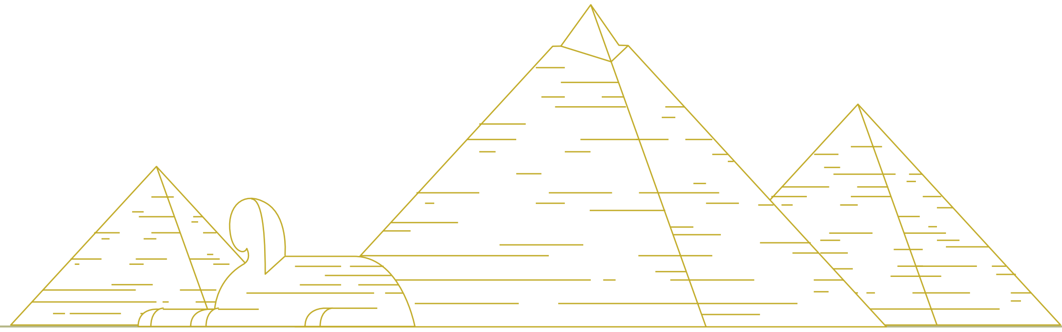
- *Mubadala, since its inception in 2002, is poised to invest heavily in AI and space technology, two rapidly growing sectors that are currently attracting substantial global interest. AI, long used in various technologies but gaining significant momentum with the advent of generative AI, is expected to be one the hottest investment opportunities*[14].
- *Mubadala also possesses long-term allocations for Asia, including Japan, China, Korea and India, 'in line with its focus on mega trends and global demographics', according to its chief executive officer.*
- *The SWF is also reaching out to invest in the world's largest private offshore wind energy developer for their power renewables, along with India's Tata Group, and is solidifying its commitment to sustainable stewardship.*
- *Healthcare also holds a significant interest in Mubadala's portfolio, as demographic trends, specifically ageing populations, are emerging as new opportunities in healthcare.*

ADQ showcased renewed interest in emerging markets. Among the top-10 most active funds, five preferred emerging markets over other regions in 2023: PIF, GIC, Temasek, Qatar Investment Authority (QIA), and ADQ (Global SWF, 2024).

Box (4.1):
Case study: ADQ-led project in Ras El-Hekma, Egypt's North Coast

In a major boost for Egypt's development, ADQ[15] announced a US$ 35 billion investment plan in the northern coast of the country. This includes acquiring development rights for Ras El-Hekma[16] (US$ 24 billion) to create a large new city and investing US$ 11 billion in other key projects across Egypt[17]. The project was given the name: "Partnership for Development". Ras El-Hekma's master plan will help attract foreign direct investments, boost trade, support Egypt's private sector via an in-country localization program and drive job creation to maximize economic benefits. Furthermore, the coastal region will be a first-of-its-kind Mediterranean holiday destination, financial centre and free zone. The Egyptian Government declared keeping 35% stake form the project's profits. This project manifests the long-standing partnership between the two countries. The political and economic alliance between them paved the way for turning the Gulf-based investment partner into a crucial development catalyst for Egypt. The partnership entails bringing together ADQ's investment funds with local mega-developers such as Talaat Moustafa Group (TMG)[18], which will deliver value across multiple sectors of Egypt's economy. The project will turn Ras El-Hekma into a free zone and international touristic port, making it the largest FDI deal in Egypt's history. According to Egypt's Prime Minister (Mostafa Madbouli) who mediated the signage of the deal, the project is expected to "attract a minimum of US$ 150 billion during implementation phases". The residential districts, prestigious international hotels, tourist resorts, expansive entertainment venues, and service facilities such as hospitals, schools and universities will act as catalysts of job creation, foreign currency reserves increase, among many other economic developments. Anticipated to be completed by 2028, the project represents a pivotal step in Egypt's future urban development endeavours.

The Egyptian-Emirati collaboration serves as a solid illustration of how economic diplomacy tools, namely SWFs, accentuate the profound mutual benefits that can arise from such bilateral cooperation. By pooling their comparative advantages, Egypt and the UAE can establish a model for regional partnership grounded on economic diplomacy ties, that is not limited to urban development alone, but expands to other joint ventures across multiple sectors.



Global Trends and Future Directions in SWF Investment Strategies

The 2020 pandemic and subsequent events, such as Russia's invasion of Ukraine, caused global disruptions in supply chains, inflation, and economic uncertainty. This led SWFs to reassess their investment strategies, resulting in new trends and investment patterns. First, there was a noticeable surge in the value of co-investments, which grew by 16% during 2023–2024 to reach a total of US$ 48 billion from US$ 32 billion (Global SWF, 2024)[19]. In the UAE, **Mubadala** partnered with **ADQ**, ***Brookfield***, Dubai-based payments provider *Network International Holdings*, and US-based *Resilience* in the biopharma sector. Although interest in the healthcare sector was always an integral part of UAE SWFs, pandemic-catalysed investments in the field were a precaution against future repetitions. Accordingly, the ADQ reported a US$ 10 billion listing in PureHealth[20] in late 2023, which was created from the fund's assets in entities such as the SEHA[21], Daman,[22] and the Abu Dhabi Stem Cells Centre[23].

[14] The global AI market is expected to hit nearly $739 billion by 2030, from an estimated $306 billion this year, at a compound annual growth rate of almost 16%, according to data from Statista.
[15] Both ADIA and ADQ are chaired by National Security Advisor Tahnoun bin Zayed al-Nahyan, the influential brother of President Muhammed bin Zayed. The Ras al-Hekma investment represents over 10% of ADQ's portfolio.
[16] Ras El-Hekma is a popular summer resort destination located on a cape approximately 212 km west of Alexandria (second largest and most populated city after Cairo) and about 350 km northwest of Cairo. It is known for its turquoise waters and white sandy beaches, and it has been attracting significant investment in luxury developments in the past 20 years.
[17] The US$11 billion of UAE deposits with the Central Bank of Egypt will be utilised in other investments across Egypt.
[18] TMG is a prominent real estate developer renowned for its exceptional track record in creating expansive, dynamic, and diverse communities. It is known for delivering high-quality experiences complemented by outstanding amenities. TMG is considered a major player in the industry and showcases world-class developments across various real estate asset categories.
[19] According to Global SWF's 2024 report, a seven-year growth projection expects SOIs to manage US$71 trillion by 2030.
[20] PureHealth is the largest integrated healthcare network in the UAE. Its operations include hospitals, clinics, diagnostics, insurance, pharmacies, health-tech, and procurement.
[21] Part of PureHealth's hospital-network
[22] Health insurance company in the UAE
[23] Part of PureHealth's research-based network

Food security has also risen as a priority investment channel, given the sensitive nature of the region's climate. For example, ADIA and ADQ participated in forums held in Morocco in 2022, where they agreed to promote investment in Africa as food security concerns increased. Mubadala also actively invests in this domain, and it recently sealed a deal with Australia worth AUS$ 6.4 billion (US$ 4.3 billion) to explore high-quality fertilisers in one of the largest urea facilities in the world (John, 2023). The project will address the rising demand for high-quality fertilisers, reduce Australia's reliance on imports, support the provision of food security, and reduce the carbon footprint of its partner, Mubadala. The UAE has dealt with relatively food-secure countries, such as Kazakhstan, Romania, and Serbia, but mostly with countries in Africa, where most of the world's unused agricultural land is found, including Egypt, Ethiopia, Sudan, and Zimbabwe (AGBI, 2024).

Box (4.2):
Regions of interest

Mubadala balanced North America and Emerging Markets. Lastly, **ADIA** maintained a very similar mix in 2023, with 63% of the investment value in North America, and 14% in Europe. Overall, sovereign investment in Europe (including the UK) and in Advanced Asia-Pacific (despite renewed interest in Japan) hit a 10-year low, to the benefit of North America and emerging economies globally. Specific countries are usually in the forefront such as Egypt and India, as emerging markets. As a matter of fact, Saudi Arabia, the UAE and Qatar have engaged in what appears to be a bidding war for influence, with **Egypt** emerging as a major target and significant attention in **Turkiye** and other markets (Global SWF, 2024). The Egyptian TSFE has been providing the necessary facilitation for smooth inward injections of the latter. ADQ also established an office in Egypt after a huge investment was made in one of the country's largest international banks, the Commercial International Bank (CIB), alongside SODIC, one of Egypt's top-notch real estate developers, and Abou Kir Fertilizers in the petrochemicals industry.

Box (4.3):
Worldwide 'economic' and market disruptors shaping SWFs' global influence

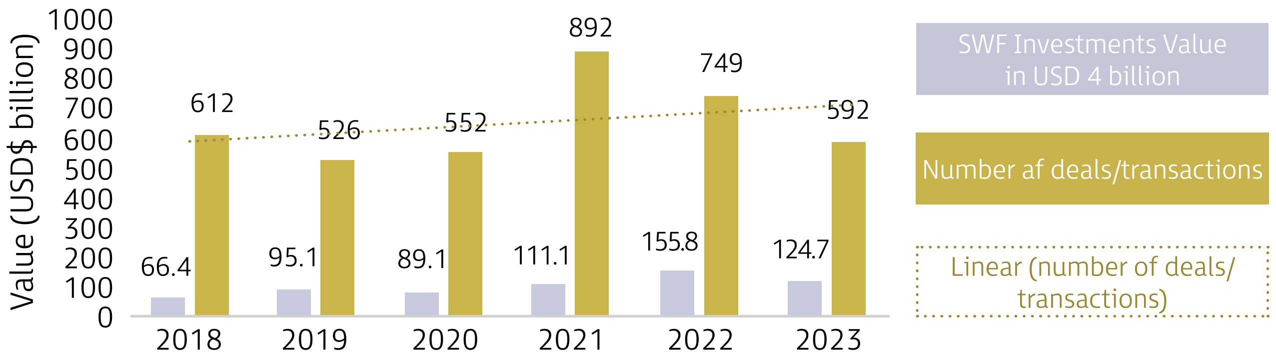
Major disruptors influencing SWF investment decisions involved changes in macroeconomic policies in response to external events. One major disruptor was the COVID-19 pandemic that gave rise to a surge in healthcare sector investments[24]. ADIA for instance pushed forward massive injections in "Moderna"; even prior to the Pandemic; contributing to the expansion of the startup-turn-into-unicorn business. It was reported that in December 2020, Moderna was granted FFDA approval to produce the Corona virus vaccine, with ADIA investing US$ 100 million as far back as 2018.

Climate change and worldwide social pressure to reduce the Earth's temperature by 1.5 degrees Celsius also propelled SWFs into the realm of renewable energy. Termed as "the energy transition" era, SOIs were reported to have invested – unprecedently in 2021 & 2022 – more in renewables than in oil and gas. The Global SWF reported a US$ 22.7 billion investment in the industry with 37 "green investments" sealed.

In 2022, geopolitical tensions reached their peak with the Russian invasion of Ukraine. Food price inflation soared, the US-dollar was appreciating, interest rates hiked, and stagflation bells were heard almost globally. The IMF expected a contraction of economic growth from 3.4% in 2022 to 2.8% in 2023 (IMF, 2023), and the Federal Bank continued to announce interest rate increases. These global disruptors put emerging markets and their respective SWFs in the spotlight (Macchiarelli et al., 2022). Accordingly, the number of transactions and sealed deals of SWFs' investments dwindled, as portrayed in the figure below. It is evident how the overall value of investments dropped as well.

It was no surprise that the SOIs were more cautious in 2023. Compared to the year before, investments by SWFs dropped by 20% (Global SWF, 2023). However, despite this sluggish growth, the three UAE based SWFs were from the top 10 active dealmakers: ADIA, Mubadala, and ADQ. The Asian hemisphere attracted most of their investments; namely India, Indonesia, and China; alongside Brazil. 25% of the investments were devoted to real estate.

Figure (4.3):
Investment Activity of SWFs



Source: Compiled by the author based on the Global SWF Data Platform, Annual report 2022-23.

[24] The healthcare sector was identified as the 'Industry of the Year' due to the speedy momentum it gained since 2020.

The Global SWF Report of 2022 stated that the size of the SWF industry would grow by 6% annually in 2021, surpassing the US$10 trillion mark for the first time in history. This growth was fuelled by the price of equities and the soaring of oil prices[25]. It was noted that some sectors and asset classes gained momentum and attracted more investments than others, such as healthcare, retail, and technology, at the expense of more conventional asset classes in real estate. There were also divestments and active sale of entities such as Mubadala—which underwent two initial public offerings—and the ADIA's exit from the gas corporations in Australia and China (Global SWF, 2022). Mubadala earned the title of '2021 Fund of the Year' based on its active dealings and dynamic investment portfolio. The 'Asset Class of the Year' was earned by venture capital, which surged by 81% reaching US$ 18.2 billion.

Economic Diversification and the Significance of SWFs' Investments in New Markets

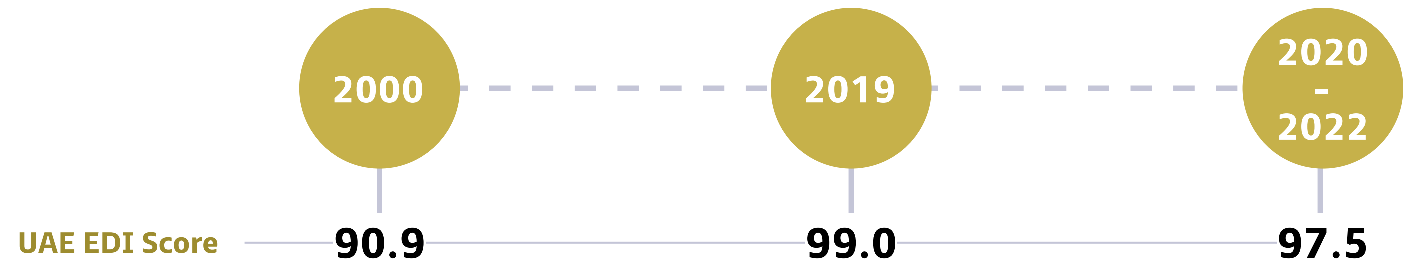
Countries that rely heavily on commodities or a narrow range of products and services prioritise economic diversification, which is a gradual yet transformative process. It not only leads to greater macroeconomic stability but also enables a shift towards higher value-added economic activities, reducing overdependence on primary commodities. It also expands a country's export capabilities by increasing the variety of products it offers to a wide array of trading partners. Accordingly, the Global Economic Diversification Index (EDI)[26] captures countries' capacity to achieve economic diversification across several parameters, including the (a) total output produced by a country (GDP), (b) trade volume and mix, and (c) government revenue (Prasad et al., 2024). The latest edition, released in 2024, added the impact of the COVID-19 pandemic and the move towards the digital economy to the three main indices. It was renamed as the 'Global EDI+'. According to the latest edition of the EDI, published in 2024, the UAE stands as follows.

Figure (4.4):
UAE EDI Ranking

UAE Economic Diversification Scores. Overall Average = 95.71

Source: Compiled by the author based on the EDI 2024 report.

Figure (4.5):
UAE EDI Scores 2000-2022



Source: Compiled by the author based on the Global EDI report 2024.

Box (4.4):
The UAE from the World Bank's Lens

According to the World Bank (2024), the "UAE continues to demonstrate robust growth in its non-oil sectors"; where its non-oil sectors registered a significant year-on-year (Y-o-Y) increase of 7.3% in the second quarter of 2023. This showed that Dubai's economy expanded by 3.5% YoY in the 3rd quarter of 2023, with notable growth in transportation and inventory facilities at 12%, and accommodation and food services activities at 16.1%. Abu Dhabi's non-oil sector alone stood a YoY growth of 10.4% by the end of 2023. The country's GDP real growth rate is projected to accelerate to 3.9% in 2024. A key driver of this shift is the impressive strategic investment approach, its SWFs that aims to diversify a country's sources of revenue. These vast financial vehicles are not just securing financial returns but actively shaping a more sustainable future for the UAE.

[25] Public pension funds (which are not a focal point of this chapter) also accomplished a historical milestone after growing past the US$20 trillion mark and experienced higher year-on-year growth of 8.7% due to increased exposure to US stocks and increased contributions from pensioners around the world (Global SWF, 2022).

[26] The first edition of the EDI was published in 2022 by the Mohammed Bin Rashid School of Government in Dubai. It encompassed 90 countries across the 2000–2019 period and included as its key pillars metrics related to the diversification of ***trade, output, and government revenue.*** This was followed by a second edition in 2023, which expanded coverage to 105 countries and included the influence of the global pandemic. The results of the second report showed that the top-10 ranked countries in the EDI remained the same as those in the first edition, suggesting that well-diversified economies can weather shocks such as the COVID-19 pandemic better and remain more resilient. The 2024 report expands the coverage of countries further, to a total of 112 countries (7 additional countries compared to the previous EDI edition).

The Role of UAE SWFs in Driving Economic Diversification

ADQ and Mubadala are exploring uncharted territories, venturing into sectors such as nuclear energy[27] (Levesque, 2023), pharmaceuticals and healthcare, transport and logistics, food and agriculture, financial services, industrial manufacturing, entertainment, and culture (ADQ, 2024). This involvement in several industries allows for greater growth through inventions and minimises the chance of being affected by oil and gas market fluctuations. Undoubtedly, venturing into diverse industries fosters innovation and reduces dependence on volatile energy markets.

This impact extends far beyond borders. These SWFs have forged strategic partnerships across continents. Co-investments with international players bring not only capital but also expertise and technology transfers. Investments in private equity have become common among the SWFs. Such investment helps SWFs solidify their co-investment schemes and keeps FDIs attractive to their home countries. According to the Global SWF (2024) report, the value of private equity deals originating from SOIs grew by *4%* from US$ 76.5 billion to US$ 79.4 billion.

Table (4.4):
Major Investments by Gulf Sovereign Wealth Funds in Western Assets in total

Fund	Asset	HQ	Co-investor	Value (US$ b)
ADIA*	Ardian Funds	France	Ardian	6
ADIA*	VTG AG	Germany	GIP	2.6
Mubadala*	Skyborn Renewables	Germany	PIF	2.5
ADIA*	Zendesk	USA	GIC, H&F, PA	2.5
QIA	RWE AG	Germany	-	2.4
ADIA*	Climate Technologies	USA	Blackstone	2.4
KIA	Direct Chassis Inc	USA	GIC, OMERS	1.5
Mubadala*	Envirotainer	Sweden	EQT	1.5
PIF	Savvy: ESL, FACEIT	USA	-	1.5
ADIA*	Merchants Fleet	USA	Bain Capital	1.3
Mubadala*	Pharma Intelligence	UK	WP	1.2
PIF	Embracer	Sweden	-	1.1
ADQ*	Vistria	USA	Vistria	1
ADIA*	Landmark JV	USA	Landmark	1
ADIA*	Apollo S3	USA	Apollo	1
ADIA*	Rockpoint JV	USA	Rockpoint	1

Source: Adapted from the Global SWF (2023) report.

*UAE based.

[27] In 2020, ADQ added the Emirates Nuclear Energy Corporation (ENEC) to its portfolio. Later in April 2024, ENEC, together with Mubadala, announced a joint venture with France's nuclear plants as a move to expand investments in clean energy.

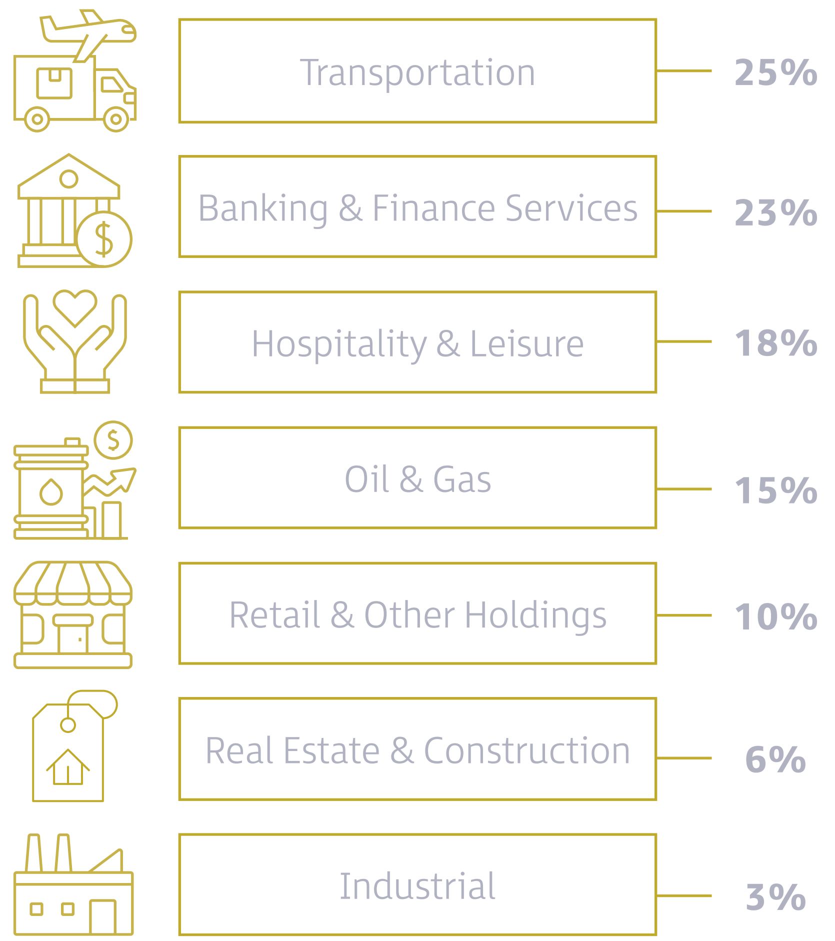
Box (4.5):
SWFs in Focus: ICD: Investment Corporation of Dubai

Established in 2006, ICD invests both locally and internationally. According to its latest announcement in June 2024, ICD's Group's total assets under management stood at an excess of 1 trillion Dirhams[28] and presented itself as the principal investment arm of the Dubai government. Its portfolio expands across six continents and 87 countries.

ICD's investment strategy is based on its mandate to manage, preserve, and grow the Government of Dubai's existing investments. This involves providing financial and strategic oversight to ensure sustainable value growth and enhancing returns through diversified investments, both locally and internationally. Initially, ICD focused on consolidating the portfolio, which has remained relatively stable and performed well. In recent years, the focus has shifted towards active portfolio management and capital deployment, with a growing emphasis on international markets and diversified asset classes to improve long-term risk-adjusted returns.

Figure (4.6):
ICD's Investment Portfolio

Portfolio Breakdown by Sector % based on ICD's investrnent as of 31 December 2022



Source: Compiled based on ICD website.

[28] According to ICD's financial portfolio. https://icd.gov.ae/group-performance/. Accessed 9 June 2024.

ICD's investment portfolio is widespread across several sectors.

Finance and Banking:

With five major holdings in the banking and finance sectors, ICD's portfolio encompasses a diverse range of financial institutions, including traditional banks like Emirates NBD and Commercial Bank of Dubai, alongside Islamic finance leaders like Dubai Islamic Bank and National Bonds Corporation. Additionally, ICD holds significant stakes in key financial exchanges through Borse Dubai, including controlling interests in the Dubai Financial Market (DFM)[29] and Nasdaq Dubai, and a substantial investment in Nasdaq Inc. ICD's investments in the global banking and finance sector aim to achieve economic diplomacy objectives by fostering strategic partnerships, enhancing Dubai's financial hub status, and attracting foreign investment. These investments also promote local talent development, innovation, and stronger diplomatic relations.

Transportation:

ICD's investments in this field focus mainly, but are not restricted to, the aviation sector. The portfolio encompasses well-known brands such as Emirates airlines, Dnata, Flydubai, and Dubai Aerospace Enterprise (DAE)[30]. Dubai's significant investments in airports and logistics in general have driven the rapid growth of its aviation sector and taken it to sophisticated dimensions of quality and customer satisfaction. Beyond economic diversification, Dubai's aviation sector has become a powerful tool for soft power projection. The SWF's investments in the aviation sector subsequently play a crucial role in economic diplomacy. The expansion of Dubai's aviation network often involves signing bilateral air service agreements with other countries, fostering economic cooperation and diplomatic ties. Dubai's aviation and port-logistics sectors have transformed the emirate into a major player in the global transportation landscape. One of its major port operators, Dubai Ports (DP) has strengthened Dubai's position as a major maritime hub, leveraging its investments as a tool for economic diplomacy and expanding Dubai's global reach.

Oil and Gas and "other" investments:

ICD's oil and gas activities operate through its well-known Emirates National Oil Company, ENOC that was established in 1993. ENOC's share in ICD's total revenues is equivalent to 29% (ICD, 2024). The "other" segment includes 25 holding companies and investments in real estate, construction, leisure, retail, and the industrial sector. The activities in this broad-band segment are mainly for economic diversification purposes for the Emirate. Its share of ICD's total revenues mounts to 11%.

[29] DFM is the leading financial market in the region, operating as a thriving and powerful multi-platform marketplace for raising capital, listing, and trading across a range of securities and asset classes. It plays a profound role in empowering economic development in the UAE.

[30] DAE is an international aviation services company with headquarters in Dubai. It has been in the market for 35 years and has subsidiaries in Ireland, Jordan, Singapore, and the United States (US).

Box (4.6):
SWFs and Global Disruptors: AI

AI carries the promise of turning industrial activities into more efficient and sustainable practices. Referred to as the "technological prime mover", AI is considered one of the major "disruptors' in the current time. With all the threats, and opportunities, AI holds, governments and SWFs alike have embraced its presence and are striving to find ways to boost their economic performance and competitiveness. AI has no doubt revamped industrial strategies and reshaped business models in ways completely unprecedented.

ADIA has become deeply acquainted with AI and machine learning in recent years. In 2022, ADIA assembled a skilled team of over 50 quantitative investors, known as the "Q-team," who utilize sophisticated models to analyse data, generate investment ideas, and assess investment decisions across various asset classes, including fixed income and real estate (Oxford Analytica, 2024). In late 2022, the Q-team established ADIA Lab, an independent subsidiary focused on fundamental and applied research in data and computational sciences. The team's core functions are to capitalize on AI, employing it wisely to create jobs, innovate, enhance productivity and efficiency, explore new industries, and mainly establish decision making policies that are data driven to maximize returns. Investments in AI often necessitates technology transfer and collaboration among countries who might enjoy a comparative advantage in this domain over others (Ajami & Karimi, 2023). To foster economic diplomacy, AI related ventures serve as a common ground for FDIs and promotes what is known as "digital diplomacy"[31] (Montambault Trudelle, 2024).

The UAE has launched several initiatives to promote AI adoption and development, including the UAE Strategy for Artificial Intelligence and the establishment of the Mohammed bin Zayed University of Artificial Intelligence. The UAE is also investing in AI startups and research centres to foster innovation and attract talent. These efforts are aimed at positioning the UAE as a global leader in AI and using AI to diversify its economy and enhance its diplomatic influence. AI is playing a transformative role in shaping the global economic landscape and is increasingly becoming a tool for economic diplomacy. 92 Countries that embrace AI and invest in its development are likely to reap the benefits of economic diversification, enhanced competitiveness, and stronger diplomatic relationships.

[31] AI-powered tools are being used to enhance digital diplomacy efforts, such as social media analytics, sentiment analysis, and chatbot diplomacy. This enables countries to engage more effectively with global audiences and promote their economic and political interests.

4.4. UAE SWFs and Strategic Partnerships in Economic Diplomacy

The UAE SWFs strategically partner with global institutions and governments by leveraging their financial strength to foster economic cooperation and advance the UAE's diplomatic and economic interests. These partnerships often involve co-investments in strategic sectors such as infrastructure, technology, and renewable energy, contributing to economic development in both the UAE and its partner countries. By aligning financial interests with diplomatic goals, the UAE SWFs strengthen bilateral relationships and enhance their global standing as reliable and influential economic partners.

Case studies illustrating the UAE's use of SWFs in fostering international relationships and economic partnerships

Some of the success stories in the international alliance domain emerge from the UAE's long-term strategic ally and economic partner, Egypt. Some of the most prominent projects contributing to development aid in Egypt included the Abu Dhabi SWF ADIA's injections into various sectors such as real estate, banking, and infrastructure. As far back as 2018, the ADIA planned an injection of US$ 2 billion into the Egyptian market, which coincided with the launch of the Egyptian government's initial public offering programme on the Egyptian Exchange (Mubasher, 2018). This investment contributed to job creation, stimulated economic growth, and spurred the interest of ADIA to invest in more projects, particularly in industrial zones in Egypt.

In 2018, Mubadala partnered with Egyptian companies to develop renewable energy projects such as solar and wind farms. Mubadala Petroleum[32] (which changed its name to Mubadala Energy in 2022) completed its acquisition of a 20% participating interest in the 'Nour' North Sinai Offshore Area concession[33], which is an offshore exploration block in Egypt, from Italy's Eni. This was considered another step in Mubadala Petroleum's growth strategy, marking its second investment in Egypt in 2018. More recent collaborations between the Emirati Energy SWF and Egypt were announced in December 2023, encompassing new investments in energy and decarbonisation projects (Ahramonline, 2023). These projects have helped Egypt reduce its reliance on fossil fuels and transition to a more sustainable energy mix.

In April 2024, Mubadala announced that its total investments for 2021–2022 amounted to US$ 40 billion in the Indian healthcare and financial services sectors, further strengthening grassroots trade ties between the two countries. India has long been an attractive destination for SOIs, particularly renewable sources. Adding to Mubadala's interest in India's huge healthcare sector, ADIA boosted its investments in the Indian capital city alongside Canadian and Singaporean SWFs, which unanimously acknowledged the country's vast potential regarding its renewable energy capacity (Global SWF, 2024).

The ADQ has invested in various sectors in Jordan, including healthcare, education, and infrastructure. In mid-2024, the UAE SWF announced that its investment schemes in the kingdom would reach an estimated US$ 5 billion (ADQ, 2024). These investments are meant to improve the quality of life of Jordanians, support the country's economic development, and strengthen the economic-diplomacy ties between the two. Other ADQ investments include the construction of new hospitals and schools and the development of transportation infrastructure[34]. These collaborations will be facilitated by the ADQ's own creation, The Investment Fund for Infrastructure in Jordan, which has yet to be officially announced by Jordan's Investment Ministry. The ADQ was said to have established this investment fund in accordance with the regulations outlined in the Jordanian Investment Fund Law. This initiative aims to channel investments to various infrastructure and development projects in Jordan (Jordanian Ministry of Investment, 2024). The Jordanian government has expressed its unwavering support for establishing investment funds, especially in sectors that catalyse economic growth and competitiveness.

In addition to the extensive list of cross-border collaborations between the UAE SWFs and the rest of the world, it is worth highlighting the investments made by Dubai's SWF and ICD in various sectors in Morocco, including tourism, agriculture, and renewable energy. These investments were meant to help diversify Morocco's economy and create new jobs. For example, the ICD has invested in the development of new hotels and resorts, as well as in the construction of solar power plants.

Investments by the UAE SWFs have a significant impact on regional development. They help create job opportunities, stimulate economic growth, develop and modernise infrastructure, and enhance the quality of life of people in general. In addition, these investments can help promote regional stability and cooperation. However, SOI expeditions cannot thrive without shared challenges and impediments. Although SWFs play a positive role in promoting development, they are vital to safeguard transparency and accountability. There is a need to align SWF investments with national development priorities and be mindful of the environmental and social impacts. Evidence shows how current investment trends across SWFs, adhere to responsible investment practices to maximise positive developmental outcomes. Overall, SWFs in the UAE are increasingly playing a crucial role in creating fruitful collaborations and synergies in the region. Their investments are helping build a more prosperous and sustainable future for the people of the Middle East and North Africa region and beyond.

4.5. Sustainability and Responsible Investing

Commitment of UAE's SWFs to Sustainable Investment Practices and Environmental Stewardship

The UAE's SWFs have shown commitment to ESG matters. They continuously seek opportunities to minimise their environmental impact and promote responsible consumption. For example, after calculating its carbon footprint for 2022, ***ICD*** implemented measures to reduce energy use, improve waste management, and raise employee awareness about sustainability (ICD, 2024). In 2023, the corporation trained its employees in ESG policies and various codes of conduct. It also offset its 2021 emissions by purchasing carbon credits and participating in the One Planet Sovereign Wealth Funds annual meeting to discuss climate-related issues, including the need for standardised climate data in private markets (One Planet Sovereign Wealth Funds, 2022).

[32] Established in 2012 as Mubadala Petroleum, it came to be known as Mubadala Energy in 2022. This SWF focusses on expanding across global gas value chains and into new energy sectors to play its part in the energy transition. It is considered an international energy company with operations stretching across 11 different countries mainly in East and North Africa, Russia, and Southeast Asia.

[33] The Nour exploration block is in the prolific East Nile Delta Basin of the Mediterranean Sea, approximately 50 km offshore in the Eastern Mediterranean, with a water depth ranging from 50 to 400 m and covering a total area of 739 km^2.

[34] According to a press release by the Jordanian Ministry of Investment, other projects include a waste-to-energy conversion station, operation and management of a multi-purpose port in Aqaba, and construction of an internal railway connecting mining areas to the Aqaba port. Each project will be managed by separate subsidiary companies, operating within the legal framework defined by the Jordan Investment Fund Law and its regulations.

Mubadala also joined the One Planet Initiative and was committed to integrating climate change considerations into investment decisions. It launched a platform dedicated to exploring investment channels in projects that adhered to ESG principles. The Abu Dhabi SWF walked an extra mile when it launched its one-of-a-kind ***'responsible-investing policy'***, promising the delivery of sustainable financial returns while creating opportunities for future generations (Mubadala, 2023). One core principle of the policy is to encourage the appropriate disclosure of ESG considerations by the entities in which it invests. This contributes to its governance stance and increases its transparency rankings as well. Mubadala aims to implement responsible investment values at the institutional, portfolio, and individual investment levels (Mubadala, 2023). It has also outlined its communication and reporting protocols by externally publishing its annual review and showcasing its financial and non-financial performance indicators, with a special emphasis on ESG efforts. It also undergoes periodic internal reporting to key decision makers.

Box (4.7):
SWFs contributing to narrowing the financing gap for sustainable development

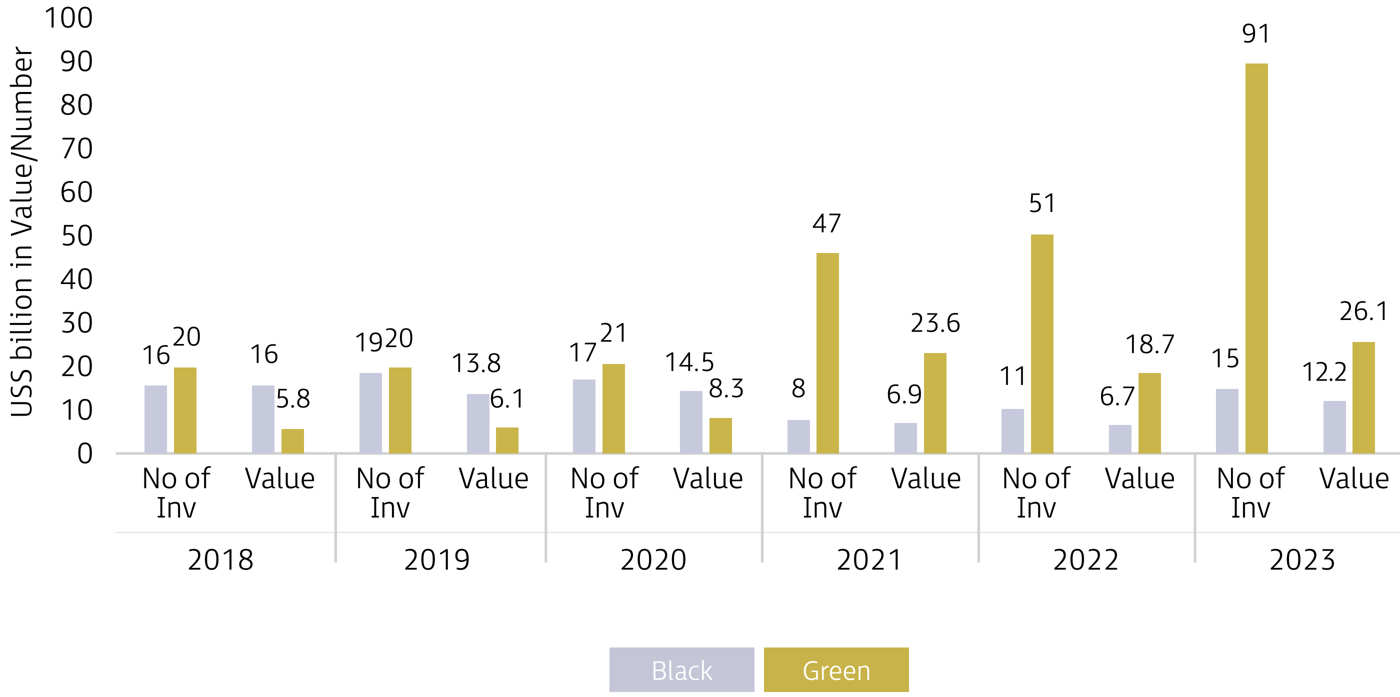
Despite extensive discussions during COP28 to address the financing gap for sustainable development and climate change, SWFs are still holding back their potential to contribute to the urgently needed funding. According to the International Forum of SWFs (IFSWF), powerful SWFs (like the largest Norwegian and Abu Dhabi based ones) face challenges in locating investments with "predictable returns" and success factors. The largest SWFs of which are sustained by oil-revenues have committed less than US$ 10 billion to the climate cause, when the amount needed, disclosed by the UNCTAD, mounts to a striking US$ 125 trillion to achieve net zero by 2050. Some SWFs rose to the scene with unexpected achievements, like the Bahraini SWFs, Mumtalakat, which boosted its investments in renewables and carbon offsetting and embarked on increasing its allocations to green bonds and assets in 2023 (George & Al Sayegh, 2023). Nevertheless, it is worth noting that Mubadala is leading the way in energy transition through its renowned "Masdar" project alongside ADIA's Tata power, a collaboration with the former.

Participation in Global Initiatives and Frameworks for Responsible Investing

The Global SWF announced that 2024's theme will be 'energy transition'. This coincided with the UAE hosting the successful COP28. At the event, UAE SWFs showcased their inclination towards sustainability by launching a US$ 30 billion climate-focussed investment fund that included collaborations from overseas SWFs and prominent asset management funds such as BlackRock[35]. During COP28, UAE SWFs committed to 'energy transition' schemes across various asset classes. They adhered to engagement across the entire energy transition value chain, from natural resource extraction of lithium, nickel, cobalt, manganese, graphite, and copper to green hydrogen and electric vehicle production. They engaged in discussions pertaining to 'greening' of existing carbon-intensive industries through various decarbonisation policies and initiatives.

The UAE SWFs' commitment to ESG factors and responsible investment across several industries showcase the country's dedication to development goals and solidify its reputation as a responsible and forward-thinking investor. This enhances UAE's economic diplomacy protocols and soft power in international forums and negotiations. A strong ESG investment profile attracts global investors and opens doors for collaboration with international partners, thus leading to economic growth and diversification of resources.

Figure (4.7):
Investments by Sovereign Wealth Funds in Black vs Green Assets



Source: Compiled by the author based on the Global SWF Annual Report 2024.

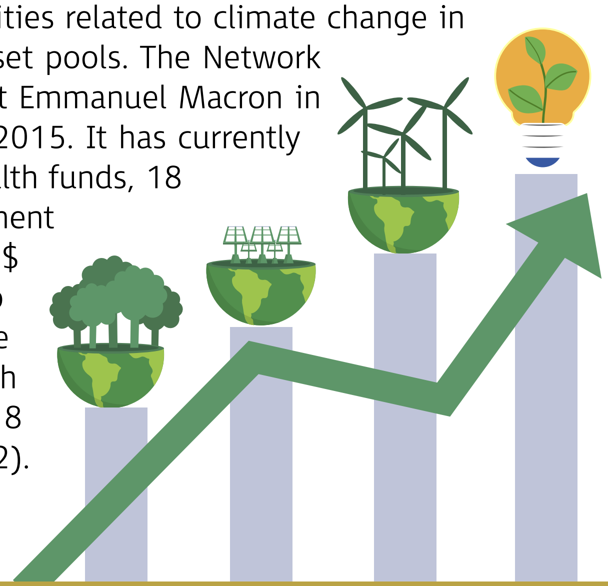
[35] BlackRock is one of the world's leading providers of investment management, advisory, and risk management solutions, based in New York City. Founded in 1988, it now has a prominent presence in not only the US but also Asia, Brazil, and the Middle East. In the first quarter of 2024, the company's AUM hit a record US$10.5 trillion, up by US$1.4 trillion year-over-year (Lahiri, 2024).

Examples from the UAE context include Mubadala's Acelen[36] in Brazil, which witnessed an investment of US$ 2.5 billion to remodel aviation fuel technologies, turning them into cleaner versions extracted from natural resources such as soybean, palm, and macuaba oils (Acelen, 2021). Overall, Gulf SWFs, particularly UAE-owned ones, have proven their serious intentions to accelerate the energy transition and invest in more 'green' assets[37], as opposed to 'black' ones[38]. According to the 2024 Global SWF report, the uptick in green asset investments for the year before comprised 50% of the total coming from Gulf SWFs.

Box (4.8):
Integrating climate change risks and investing in the smooth transition to a low emissions economy

The first "One Planet" Summit was held on 12 December 2017. Founded by six member SWFs:
ADIA, Kuwait Investment Authority, Qatar Investment Authority, Norges Bank of Norway, Saudi Arabia's Public Investment Fund, and NC Super fund. Mubadala joined in 2020 (alongside The Sovereign Fund of Egypt and Nigeria's Sovereign Investment Authority in 2021).

Given both their global influence and long-term investment horizons, SWFs are uniquely positioned to promote economic diplomacy outcomes. Accordingly, the "One Planet Sovereign Wealth Fund Working Group" was established at the event to accelerate efforts to integrate financial risks and opportunities related to climate change in the management of large, long-term asset pools. The Network was championed by the French President Emmanuel Macron in alignment with the Paris Agreement of 2015. It has currently 46 members including 18 sovereign wealth funds, 18 asset managers, and 10 private investment firms. Collectively, they manage over US$ 37 trillion in assets and are committed to actively collaborating to implement the principles of the OPSWF Framework, which was introduced at the Élysée Palace in 2018 (One Planet Sovereign Wealth Funds, 2022).



[36] Acelen is an energy company owned by Mubadala Investment Company. Acelen was created to actively participate in the global energy transition. Acelen's most notable asset is the Mataripe Refinery, formerly known as the Landulpho Alves Refinery, which is the second largest refinery in Brazil. Mubadala Capital, the asset management subsidiary of Mubadala Investment Company, fully acquired the refinery from Petrobras in 2021.
[37] Green assets are related to renewable energy projects or investments and injections into the critical resources industry that is shifting towards lithium, cobalt, manganese, and copper, as well as expansions into electrical vehicles.
[38] These are carbon-intensive fossil fuels.

4.6. SWFs and FDIs

SWFs increasingly use FDIs to diversify their portfolios, mitigate risk, and pursue strategic objectives. This growing trend has positive implications for economic development in recipient countries but also raises concerns about transparency and government influence. The increasing involvement of SWFs in FDIs necessitates greater adherence to international investment standards as outlined by the Santiago Principles.

UAE sovereign investors, fuelled by growing assets and pursuing higher returns, are increasingly making direct investments into alternative assets (e.g. AI, infrastructure, renewable energy, and real estate). This trend is significant because, as traditional multinational corporations become more hesitant about their foreign investments, sovereign investors are emerging as a critical source of capital for countries seeking investment.

Multinational corporations dominate large-scale FDI projects. This trend is expected to change after the ADQ announced a record US$ 35 billion investment in Egypt's Ras al-Hekma project. This deal highlighted the increasing importance of SWFs in shaping FDI flows. SWFs, traditionally focussed on investing government funds in public markets, are now taking a more active role in direct investment, fuelled by their rapidly growing AUM. Data collected by the IFSWF shows that SWFs' direct investments into private assets—both domestic and abroad—rose from US$ 52.2 billion in 2016 to hit US$ 74.2 billion in 2021 and US$ 71.3 billion in 2022 (the latest data available). Their exposure to these assets also increased. An Invesco survey of 85 SWFs and 57 central banks showed that they increased their exposure to infrastructure and renewables from 2.8% of the AUM in 2016 to 7.1% in 2023. Exposure to real estate rose from 6.5% to 8% during the same period (FDI Intelligence, 2024).

Box (4.9):
UAE SWFs and FDIs in focus

Sovereign investors challenge corporations' dominance in the clean energy sector, a key area for foreign direct investment. Abu Dhabi's Mubadala, through its subsidiary Masdar, has become a major player in renewable energy, announcing projects worth US$ 20.8 billion in 40 countries, ranking it among the top global investors in Q1 of 2024. Additionally, Masdar is part of the Infinity Power venture, developing a massive US$ 34 billion green hydrogen project in Mauritania (FDI Intelligence, 2024).

In March, Mubadala's subsidiary, Masdar, acquired a 49% stake in the world's largest offshore wind farm, Dogger Bank in the UK, partnering with the German power company RWE[39]. This collaboration allowed Masdar to leverage the RWE's expertise in offshore wind development and enhance its capabilities. Furthermore, Masdar's international investments in wind energy have proven valuable back home with the inauguration of the UAE's first commercial wind farm in October–a project previously considered unfeasible owing to low wind speeds.

Sovereign investors are also interested in strategic manufacturing ventures. In 2020, ADIA spearheaded a group that purchased the elevator division of Thyssenkrupp, a German steel conglomerate, at US$ 18.9 billion. Additionally, the ADQ acquired the Turkish medical supplies manufacturer Birgi Mefar Group in 2022 with the goal of establishing a comprehensive healthcare and life sciences hub in the UAE.

[39] Based in Germany, the RWE Group is a world leader in renewables.

SWFs are increasingly impactful in FDI, and this influence is concentrated in a small but powerful group. Data from IE University in Madrid, Spain for 2022 indicates that only seven of the world's roughly 100 SWFs were responsible for 84% of the industry's direct investments. Singapore's Temasek and GIC led the pack, followed by prominent Gulf funds such as Mubadala, ADIA, QIA, PIF, and ADQ.

4.7. Conclusion

Economic diplomacy, a key component of the UAE foreign policy, leverages economic resources and relationships to achieve political goals. The SWFs play a pivotal role in this strategy by facilitating investments in various countries and sectors. Through strategic partnerships and investments, the UAE has fostered stronger ties with countries worldwide by promoting cooperation, trade, and mutual economic benefits. For example, the UAE SWFs' investments in renewable energy projects in various countries have not only yielded financial returns but also solidified diplomatic relations.

The UAE SWFs boast diversified investment portfolios, targeting strategic sectors such as technology, AI, digital transformation, real estate, food production, healthcare, and infrastructure. This diversification strategy is crucial for mitigating risk and ensuring long-term financial stability. Furthermore, investments in emerging markets in Europe, Asia, North and East Africa, and the US have expanded the UAE's global economic footprint and influence.

Recognising the importance of sustainable development, the UAE SWFs have demonstrated a strong commitment to responsible investments and environmental stewardship. They actively participate in global initiatives and adhere to frameworks that promote responsible investment practices. For instance, Mubadala's investments in renewable energy projects and ADIA's focus on sustainable infrastructure exemplify the UAE's dedication to a green future.

Looking ahead, the UAE SWFs are poised to play an even more significant role in the country's economic diplomacy. Emerging trends such as digital transformation and the transition to a green economy present new opportunities for strategic investment. By adapting to these global shifts and continuing to prioritise sustainability, the UAE SWFs will remain instrumental in bolstering the UAE's economic resilience, enhancing its global influence, and driving sustainable development on a global scale.

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5 UAE's Foreign Direct Investment Strategies

Damyana Bakardzhieva

5.1. Introduction

The current international context of increased geoeconomic fragmentation can be perceived as an impediment to the UAE's strategic objective to attract foreign trade and investments for economic growth and diversification. Nevertheless, it can also be interpreted as an opportunity for the UAE to strengthen its position as a middle power and an efficient hub for redirected trade and investment. During turbulent times, remaining highly attractive to FDI requires a strong and resilient economy and smart geopolitical neutrality.

According to UNCTAD (2023a), after a strong rebound in 2021, global FDI fell by 12% in 2022 to US$ 1.35 trillion. Experts cited the reasons as the cascading global crises – from the international health crisis, whose combatting led to soaring public debt, through the climate crisis, to the war in Ukraine - which led to elevated uncertainty, high food and energy prices, and together tarnished prospects for international investments.

The decline in FDI was felt mostly in developed economies, where inflows fell by 37% to US$ 378 billion, while those to developing countries grew by 4%, but slumped to the least developed countries, which are also the most vulnerable.

Similarly, in 2023, global FDI continued to weaken, while developing economies did not fare better than their higher-income counterparts (UNCTAD, 2024a). The major global investment risks originated from the fragmentation of trade networks, the divergence of regulatory environments and the reconfiguration of international supply chains. While marginal, the 2% additional decrease to US$ 1.33 trillion indicates that global investment flows remain very vulnerable to trade and geopolitical tensions and the resulting slump of the global economy (UNCTAD, 2024b). Excluding the positive flows through Luxembourg and the Netherlands, the annual global decline was equivalent to 10%.

FDI to developing countries fell by 7% to US$ 867 billion, with an 8% decline in Asia, 3% in Africa, and 1% in Latin America. Within this context, the UAE performance in 2023 is remarkable, given that its FDI flows increased by 35% to US$ 31 billion, allowing it to gain 10 positions to the 11th position in the ranking of the top FDI host economies, surpassing countries such as India and Australia. Even more impressive is the UAE's second place among the major greenfield investment recipients with 1,323 projects announced after entering the top five only in 2022 (UNCTAD, 2024b).

To understand the reasons for UAE's success in attracting FDI, even in highly volatile geoeconomic times, this chapter first explores the past and current position of the UAE in foreign investments, analysing the evolution of its inward FDI volumes, sectors involved, major partner countries, and distribution by emirates. These trends are studied through the lens of the UAE's ambitions for diversification towards a service and knowledge economy.

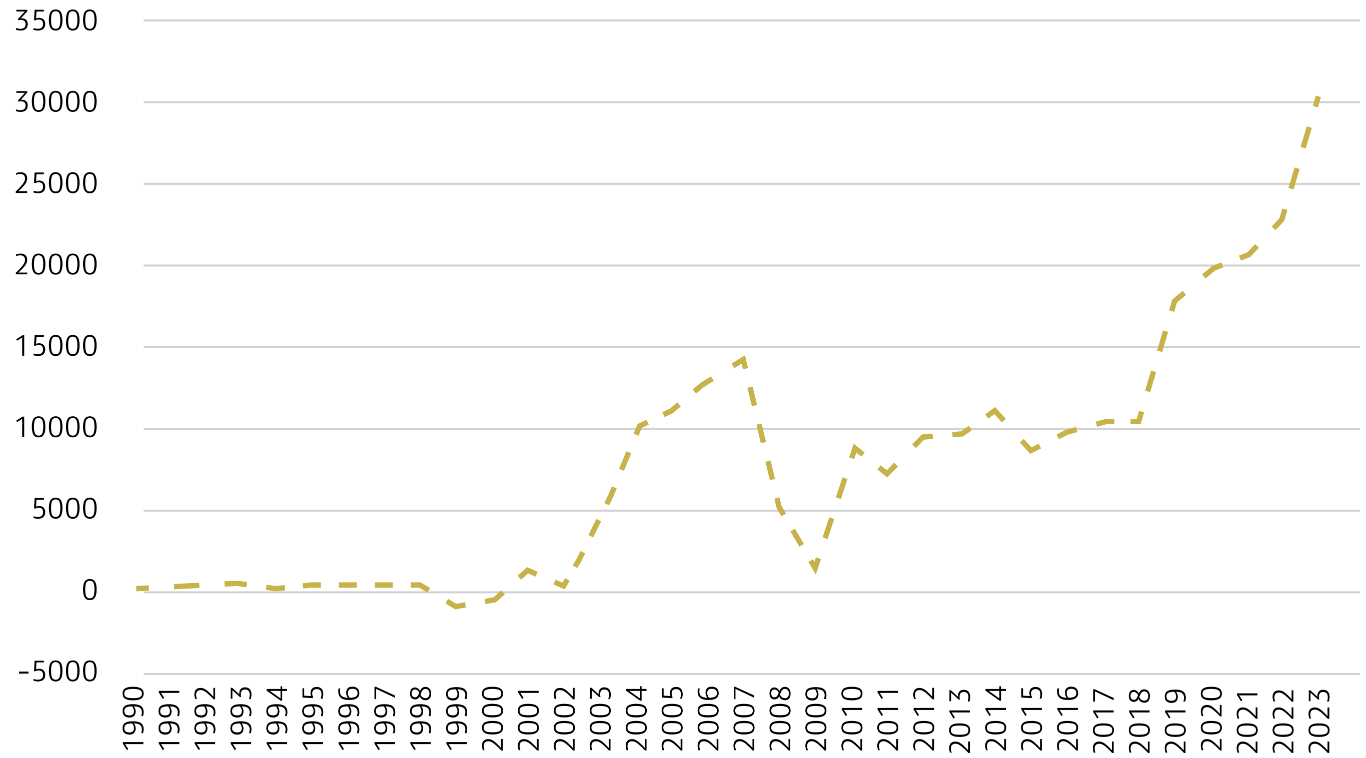
Next, the chapter examines the theoretical and practical elements of the UAE investment attractiveness strategy. It explores the major positive factors and policies that have improved the UAE's performance in these domains. The final section offers policy recommendations for the future and concludes the discussion.

5.2. Inward FDI Trends, Sectors, and Partners

While the UAE is rich in capital thanks to the proceeds from its vast oil reserves, attracting FDI remains a valid strategy for economic diversification and development because it provides access to foreign markets, better management practices, and technical know-how, which upskills the workforce and enhances productivity (Ianchovichina et al., 2013). Furthermore, FDI has an economic multiplier effect, as foreign economic agents interact with local suppliers and accelerate economic growth (De Clercq et al., 2021). Finally, foreign investors can increase domestic market competition for local firms, forcing them to become more agile and efficient.

Over the past two decades, the UAE has adopted a series of policies to become an attractive investment destination. This strategy has been beneficial, as even during the COVID-19 pandemic, the UAE was considered a global anomaly. While FDI inflows shrank by 35% worldwide, inflows to the UAE increased by over 11% from US$ 17.8 billion in 2019 to US$ 19.8 billion in 2020 (Figure 5.1).

Figure (5.1):
FDI Inflows into the UAE
(in millions of dollars)

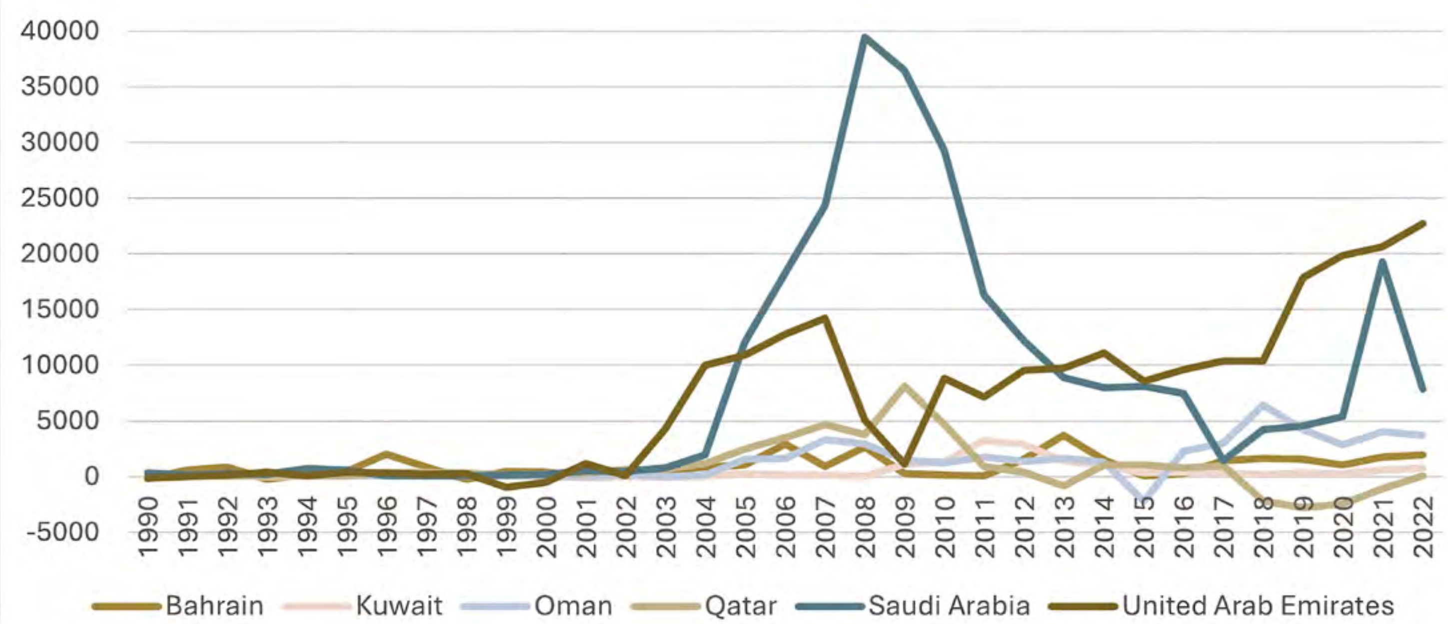


Source: UNCTAD World Investment Report (2024b)[1]

[1] Note: Negative FDI inflows indicate reverse investment or disinvestment.

FDI inflows to the UAE were subdued until the early 2000s, followed by a peak in 2007 before a slowdown due to political stability concerns around the Arab Spring, the Global Financial Crisis in 2008–2009, and low oil prices. However, in the subsequent decade the UAE remained resilient, given its advanced economic diversification.

Figure (5.2):
GCC FDI Inflows Regional Comparison
(in millions of dollars)



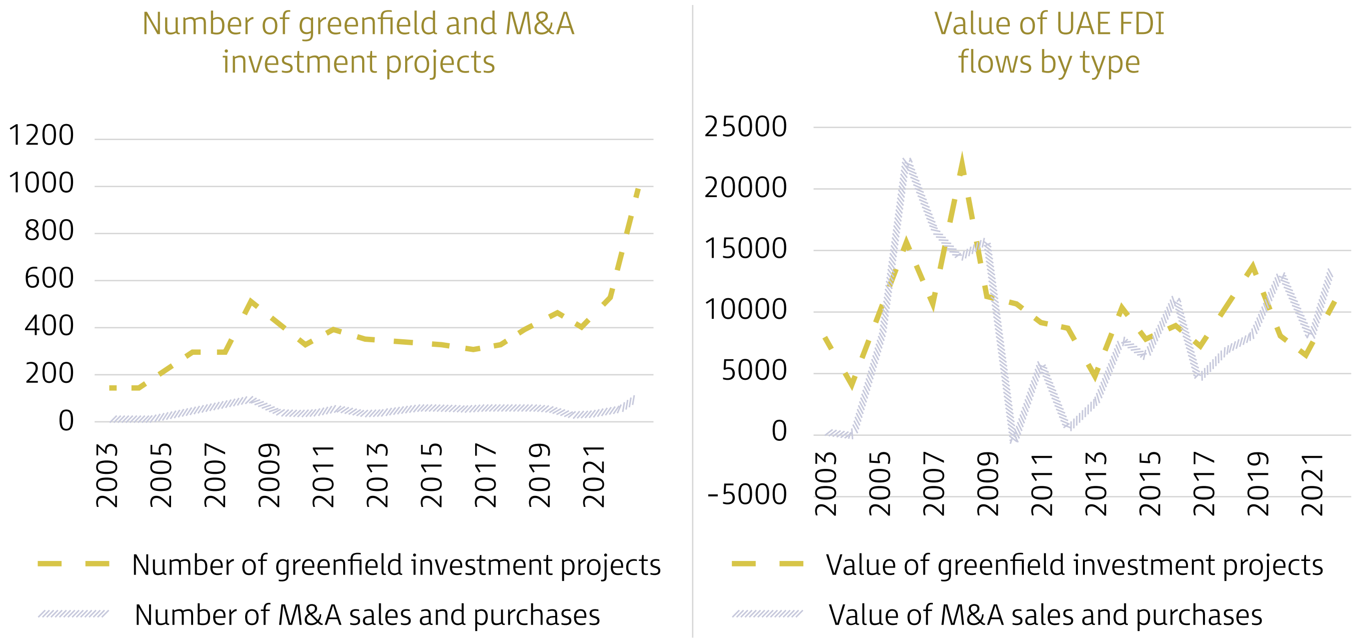
Source: UNCTAD World Investment Report (2024b)

Historically, FDI to the Gulf Cooperation Council (GCC) countries has been skewed towards the UAE, which was the preferred destination for over 80% of all flows in 2020 (Figure 5.2). The value of these inflows in 2023 amounted to US$ 31 billion, up 35% from US$ 23 billion in 2022, ranking the country 11th globally and first in the Middle East and North Africa (MENA).

In 2023, the UAE attracted 1,323 greenfield projects to rank second worldwide after the US. Among these projects, the most notable ones included: the opening of a regional headquarters for US company Odys-Aviation that specialises in hybrid electric vertical take-off and landing aircraft; Indian company Infinite Mining and Energy building a petroleum refinery in Sharjah; Saudi's ACWA Power building a seawater reverse osmosis plant at Hassyan in Dubai; MASDAR teaming with France's EDF to install Abu Dhabi's largest solar rooftop at Warner Bros; Averda's joint venture with US company WasteFuel to build a municipal waste-to-energy methanol plant in Jebel Ali; and electric vehicles' manufacturers Triton EV (USA) and AXL EV (Canada) opening plants in the UAE. Greenfield investments indicate that a foreign company starts new operations abroad by building a brand-new subsidiary, while brownfield investments, also known as cross-border mergers and acquisitions (M&As), involve a foreign company purchasing all or part of an existing domestic firm. While both types of FDI provide fresh capital to the economy and can transfer advanced management techniques, greenfield investments could be more beneficial for the host country because they spur growth through the creation of new jobs (Johnson, 2006) and spillovers to increased productivity (De Mello Jr, 1999) and typically result in technology and know-how transfers (Blonigen & Piger, 2011).

In 2022, some of the largest greenfield investments included the building of a neutron therapy hospital, medical university, and convention centre in Abu Dhabi by Star Energy (Austria) and the building of a green hydrogen plant in the Khalifa Industrial Zone in Abu Dhabi by Korea Electric Power (UNCTAD, 2023b).

Figure (5.3):
UAE Greenfield and Brownfield M&A Projects



Source: UNCTAD World Investment Report (2023b)

Historically, M&As have grown faster than greenfield investments (Calderón et al., 2002) because they are cheaper, faster, and safer from the investor's perspective; this has not been the case for the UAE based on the number of projects in the past two decades and only occasionally and marginally true by volume (Figure 5.3). This may indicate that the investment environment in the UAE is sufficiently welcoming and conducive for foreign entrepreneurs to start brand-new businesses.

At the sectoral level, the distribution of FDI to the UAE is diverse. Major foreign investments go into service-oriented sectors like trade, real estate, business services, finance, and insurance, but also into manufacturing, mining and construction, food processing businesses, and fertiliser production. Greenfield investments are still concentrated in oil and gas, with Infinite Mining and Energy (India) investing US$ 2.5 billion in a refinery in Sharjah in 2023 (Zawya, 2023). Business services are second only to greenfield investments and renewables come third.

At the country-of-origin level, the main investors in the UAE are the United States, India, the United Kingdom, France, and Italy, with China replacing Italy in the fifth rank when looking only at greenfield investments (Emirates NBD, 2024). This indicates that the UAE is maintaining a balanced approach by appealing to both its Western partners and the largest emerging economies.

At the recipient emirate level, Dubai attracts the most FDI of all the emirates, with nearly half of the overall inflows. As indicated in Figure 5.4, investments to the emirate take the form particularly of greenfield investments in the service sectors and originate mostly from the US, the UK, and India. Dubai was the leading city in 2023 with its 1,036 projects, ahead of Singapore and London, with Abu Dhabi ranking 6th globally with 172 projects (Emirates NBD, 2024).

Figure (5.4):
FDI Inflows to Dubai by Sector and Origin Country in 2023
(Million AED)

FDI Capital by Sector

11,463	Financial Services
8,939	Business Services
2,393	Software & IT services
1,551	Real Estate
1,452	Textiles
1,447	Consumer Products
1,162	Food & Beverages
828	Transportation & Warehousing
776	Hotels & Tourism
508	Industrial Equipment

FDI Capital by Source Country

6,885	United States
3,246	UK
2,157	India
1,010	France
660	Germany
431	Switzerland
410	China
410	Italy
385	Singapore
109	Spain

Source: Dubai FDI Monitor

While it only attracted 13% of the total number of projects in the UAE in 2023 (Emirates NBD, 2024), Abu Dhabi still accounted for US$ 4.48 billion of FDI inflows as it had the highest number of projects that exceeded US$ 200 million (eight projects versus five for Dubai). Among the total stock of FDI to Abu Dhabi as of 2021, the main sectors were financial and insurance services (US$ 109.4 billion), public administration and defence (almost US$ 42 billion), and transport and storage (US$ 11.2 billion). The sectors attracting the most FDI flows in 2021 were real estate, mining and quarrying (including oil and gas), and electricity, gas, water supply, and waste-management. The fastest growing inflows were registered in the health and social care sector, followed by the ICT and financial and insurance services sectors (Oxford Business Group, 2023). Sharjah followed in third place in 2023 with US$ 2.75 billion, with most of the inflows coming from India's investment in a new petroleum refinery in the Hamriya Free Zone.

5.3. Theoretical and Practical Elements of Investment Attractiveness

The academic literature on attracting FDI posits that investors are generally risk averse and do their best to minimise uncertainty. Therefore, they screen all potential investment destinations and rank them based on two sets of criteria. First, they explore the investment **pre-conditions,** without fulfilling which the destination would not make it to the short list, and then the **incentives**, which are crucial in the final selection stage (Michalet, 1997). By following this checklist, countries can significantly increase their chances of attracting foreign capital and benefitting from its contributions to their economies.

Investment Pre-conditions

When orienting their choice towards potential localisation, multinational companies (MNCs) compile information on a list of **pre-conditions** that must be satisfied by a host country for it to be shortlisted. These pre-conditions are as follows:

- political stability—both internal and external (regional);
- economic stability—solid GDP growth and stable inflation and exchange rates;
- good institutions—predictable and non-discriminatory regulations, established dispute settlement mechanisms, bureaucracy and corruption under control, and a well-functioning financial system.

UAE Political Stability

Although the Middle East has been perceived as endemically unstable since the 1950s, the Gulf area claims to be a relatively calm enclave. Although the world is currently witnessing several wars and a significant increase in the activity and number of non-state armed actors, including rebels, militias, armed traffickers, and violent extremists (UCDP, 2022), the UAE has not been the scene of any violent conflicts. The recent normalisation of diplomatic and economic relations of the UAE with Israel through the Abraham Accords, the Al Ula accords, ending the Gulf crisis that had isolated Qatar, and the potential normalisation of relations between Saudi Arabia and Iran also positively signal the stability of the country and the Gulf region as a whole.

UAE Economic Stability

On the economic front, the fixed exchange rate of the UAE dirham to the US dollar has delivered monetary policy credibility and low and stable inflation (IMF, 2018). Even when world prices rose significantly post-pandemic, forcing the US and EU into restrictive monetary policy, and despite the rise in world food and oil prices after the Russia-Ukraine conflict, inflation in the UAE increased but remained broadly contained. Moreover, economic growth has been sustained and quickly rebounded after the COVID-19 pandemic (IMF, 2023).

UAE Investment Institutions

Among the reforms adopted by the UAE to satisfy the pre-conditions of MNCs were the lifting or easing of restrictions on foreign ownership of businesses and real estate in the mainland (Rashad, 2023) and the establishment or expansion of economic and trade free zones, also referred to as Special Economic Zones (SEZs), with no limits to foreign ownership.

Special Economic Zones

According to Goussous et al. (2020), by 2018, the UAE was home to over 47 SEZs and still holds the highest number among the GCC countries (Figure 5.5). In the same year, the UAE adopted Federal Decree No. 19 of 2018 that allowed 100% foreign ownership of mainland companies, excluding economic activities with a strategic impact, such as the production of oil, weapons, and utilities, as well as services such as banking and insurance, recruitment, medical retail trade, and air and land transportation, among others (UAE, 2018).

Figure (5.5):
Special Economic Zones in the Gulf Countries in 2023

Source: Data from Ducab (2023)

The use of SEZs is analysed in economics through the concepts of business clusters and internal and external economies of scale. One of the major advantages of clusters is the proximity between competing businesses, which is expected to increase productivity and innovation as they attempt to outperform one another. In a more collaborative spirit, proximity also encourages partnerships that can lead to knowledge spillovers, and therefore, the creation of new products, processes, services, and revenue streams that would spur the entire industry's growth. Having a geographic concentration of similar businesses undoubtedly results in high concentration of skilled specialists and labour, creating a vibrant talent pool for the companies settled in the zone. Finally, the cluster also encourages the geographic concentration of downstream and upstream business partners, making value chains more efficient.

Noteworthy, some SEZs have been specifically designated to support the UAE's pivot towards the East, particularly China. The China-UAE Industrial Capacity Cooperation Demonstration Zone in Abu Dhabi is an example of such designation, helping to support the economic diplomacy objectives of the country (Interesse, 2022).

Another interesting example of the use of SEZs to promote FDI is the NextGenFDI initiative launched in July 2022 by the UAE Ministry of Economy. The initiative is a partnership with eight free zones—ADGM, DIFC, Dubai Internet City, Dubai South, DMCC, Sharjah Media City (Shams), Sharjah Research Technology and Innovation Park (SRTI Park), and Ras Al Khaimah Economic Zone (RAKEZ); three banks—Emirates NBD, WIO Bank, and Sharjah Islamic Bank; and four other entities—Sharjah FDI Office (Invest in Sharjah), G42 cloud, ARADA, and Citizens School. NextGenFDI aims to attract AI and digitally enabled businesses worldwide, offering the necessary market entry fundamentals needed to launch and scale from within the UAE (UAE Ministry of Economy, 2022). This would allow the country to fulfil its ambition to diversify into a knowledge-based economy – one where sustained investments in education, innovation and ICT will result in more knowledge created and used in economic output, thus leading to sustained economic growth (Chen and Dahlman, 2006).

Zero Bureaucracy

Among other pre-conditions, reducing the bureaucracy facing foreign investors has been successfully implemented in the UAE using digital solutions, one-stop shops, and e-government portals. According to Goussous et al. (2020), investors can avail streamlined end-to-end investor journeys, from application and registration all the way to end of service operations including clarity on the exit process. This is typically done through a single window and a digitised seamless interface with the various governmental and private stakeholders involved in the investor journey, thus minimising bureaucracy.

With the adoption of the Zero Government Bureaucracy Programme in 2023, the UAE sought to eliminate redundant government procedures and requirements, significantly simplifying the administrative process. Ministries and government entities are tasked with the immediate implementation of the programme, which includes cancelling a minimum of 2,000 government measures, halving the time required for procedures, and removing all unnecessary bureaucracy by end of 2024. (UAE Government Portal, 2023).

Investment Promotion Entities

To help investors navigate the complexities of moving into a new market and to promote its favourable economic environment, the UAE has established several investment promotion agencies (Table 5.1). Their role is to provide information on the investment climate, laws, regulations, and procedures in the country; organise visits and matchmaking meetings for foreign investors and local counterparts; assist with obtaining administrative approvals and bank financing; advise investors on the appropriate entry strategy; assist local investors in identifying potential foreign partners and vice versa; and make policy recommendations on improving the investment climate.

Table (5.1):
UAE Investment Promotion Agencies

Emirate or Federal	Name	Website
UAE (federal)	Ministry of Investment	www.investemirates.ae
Abu Dhabi Emirate	Abu Dhabi Investment Office	www.investinabudhabi.ae
Dubai Emirate	Dubai Foreign Investment Office	www.dubaifdi.gov.ae
Sharjah Emirate	Sharjah FDI Office	www.investinsharjah.ae

Source: Author's compilation

While some of these agencies originated in the late 1990s, they have been restructured in recent years into modern entities with updated websites that often serve as one-stop shops for foreign investors. In 2023, the UAE government created the Ministry of Investment, a new federal entity that now coexists with the emirate-level agencies.

The new ministry focuses on the importance of investments to the UAE economy. It aims to 'develop the UAE's investment vision, stimulate the investment environment and enhance the competitiveness of legislation to ensure the UAE remains a global investment hub and an active player in the movement of international investment', according to Sheikh Mohammed bin Rashid Al Maktoum, Vice-President and Prime Minister of the UAE, and Ruler of Dubai (Al Amir, 2023). The Ministry of Investment plans to create a sustainable platform for the advancement of technology, trade, and human capital in the country to ultimately generate a positive impact that extends far beyond the seven emirates and benefits the entire region (UAE Ministry of Investment, n.d.).

Investment Incentives

Once the **pre-conditions** have been fulfilled and a country is shortlisted by the MNCs as a potential investment destination, it must provide sufficient **incentives** to the investor to become the FDI localisation choice. Following Kamar and Bakardzhieva (2002), these can be summarised in two broad categories:

- infrastructure development – including the standard telecommunications and physical infrastructure, but in a broader sense also encompassing a competitive labour force, access to information, and existence of performing local enterprises;
- and market accessibility—population size, consumer affluence, geographic proximity, and regional market size.

The UAE government offers various incentives to attract FDI. These include assistance with registering and opening businesses, streamlined licencing procedures finalised within a month, permits and visas to recruit the necessary foreign labour, financial incentives, such as tax benefits, exemptions from import duties on raw materials and equipment, and duty-free access to other markets. A recent example of a targeted incentive scheme to attract FDI is the UAE's NextGenFDI program, as aforementioned.

These and other targeted efforts have led to a surge in the UAE's competitiveness, placing the country seventh among the 67 countries covered in the 2024 IMD World Competitiveness Ranking (International Institute for Management Development, 2024). In the same report, the country ranked first among its peers in the MENA region for the eighth consecutive year. Contributing to this high global ranking are various factors listed in Table 5.2, all of which have recorded improvements from their 2023 rankings.

Table (5.2):
UAE Competitiveness Indicators

Indicator	Rank	Sub-indicator	Rank
Economic Performance	2	Domestic Economy	6
		International Trade	3
		International Investment	22
		Employment	2
		Prices	16
Government Efficiency	4	Public Finance	2
		Tax Policy	5
		Institutional Framework	13
		Business Legislation	8
		Societal Framework	13
Business Efficiency	10	Productivity and Efficiency	13
		Labour Market	3
		Finance	16
		Management Practices	25
		Attitudes and Values	7
Infrastructure	25	Basic Infrastructure	8
		Technological Infrastructure	15
		Scientific Infrastructure	35
		Health and Environment	35
		Education	27

Source: IMD World Competitiveness Ranking (2024)

Table 5.3 clearly illustrates that the UAE excels in the elements corresponding to the investment **pre-conditions**, namely, economic performance and government efficiency. However, there is still room for improvement in the aspects corresponding to the investment **incentives**, particularly in the infrastructure field. We explore some of these hereafters.

Logistics Performance

Based on the World Bank Logistics Performance Index (LPI), the UAE holds the fourth highest score and is ranked seventh worldwide, with only Singapore, Finland, Denmark, Germany, the Netherlands, and Switzerland having better-performing logistics and trade infrastructure (Table 5.3). The country scores half a point (out of five) above the GCC regional average and a full point above the global average.

Table (5.3):
Logistics Performance Index in 2023

	UAE	GCC Average	World Average
Overall LPI Score	4	3.5	3
Customs Score	3.7	3.2	2.8
Infrastructure Score	4.1	3.7	2.9
International Shipments Score	3.8	3.3	2.9
Logistics Competence and Quality Score	4	3.4	3.0
Timeline Score	4.2	3.6	3.2
Tracking and Tracing Score	4.1	3.6	3.1
World Rank	7	--	--

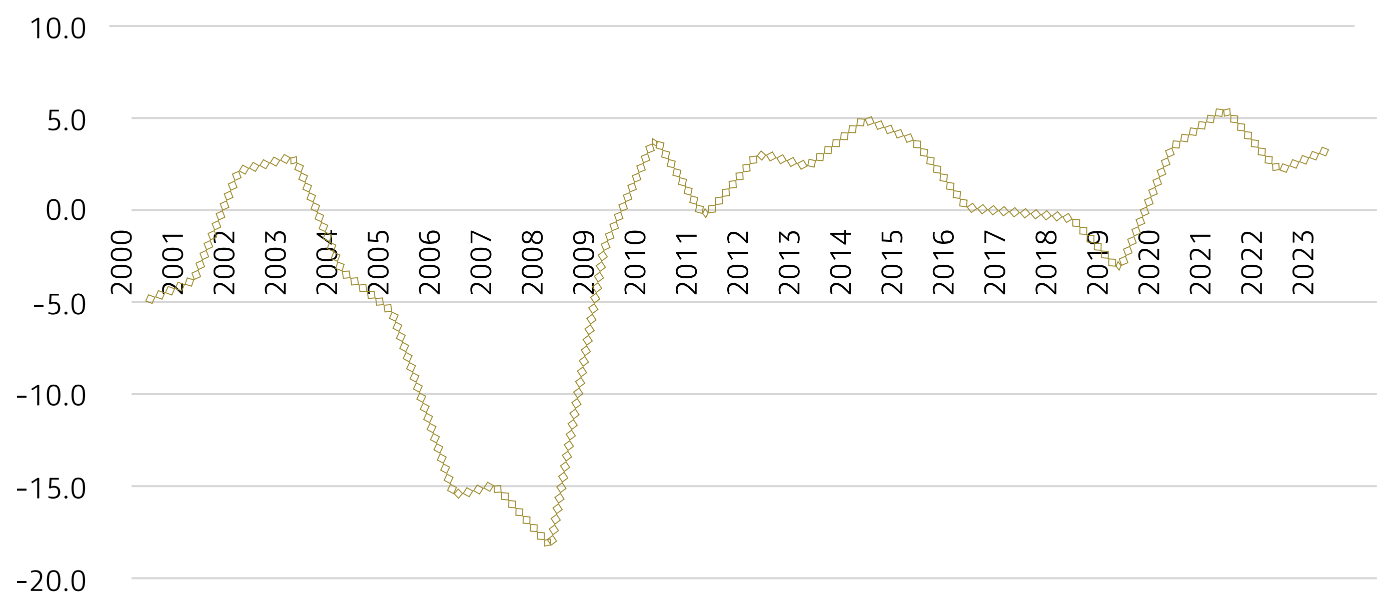
Source: Author's calculations based on LPI World Bank (2023) data

Competitive Labour Force

The UAE has traditionally enjoyed significant inflows of expatriate labour, with an annual workforce growth rate of 10.53% in 2023 (UAE Ministry of Human Resources and Emiratisation, 2024). With attractive tax-free salaries and global quality of life standards, the country ranks first in the world in its capacity to attract talented people in the Global Prosperity Index 2023, compiled by the Legatum Institute, underscoring its position as the most favoured country worldwide in 2023 for international professionals seeking employment visas, according to the global HR platform Deel. In addition, it ranks third in the world for highly skilled foreign personnel according to the IMD's World Competitiveness Yearbook 2023 and third in brain retention and labour force digital skills in the INSEAD Global Talent Competitiveness Index 2023.

With massive investments in human capital development, the UAE labour force has received knowledge and skills upgrades, and its productivity has been consistently increasing in the past decade. As indicated in Figure 5.6, the labour productivity growth rate has been positive since 2012, with the notable exception of the COVID-19 pandemic; even then, the decrease in productivity lasted only one year.

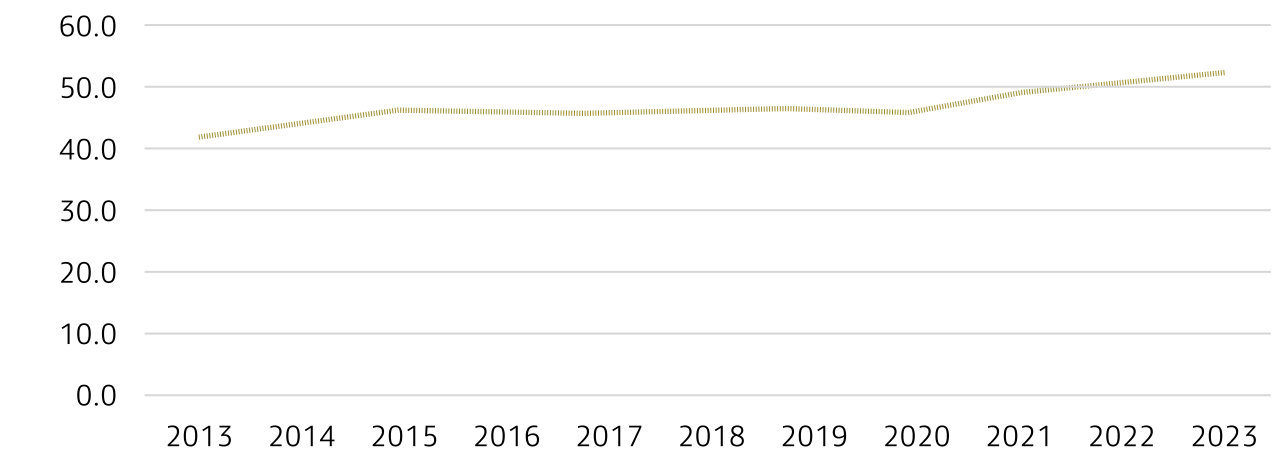
Figure (5.6):
UAE Growth Rate of Labour Productivity Per Person Employed



Source: The Conference Board Total Economy Database (2024)

Some experts worried that adopting a four-and-a-half-day workweek in 2022[2] would lead to a slump in productivity, but the data evidently dispute those concerns. Employee sentiment has also indicated that productivity is on the rise, while employers have reported improved staff attendance (Khaleej Times, 2023). Indeed, Figure 5.7 illustrates that after stagnating from 2015 to 2020, productivity per hour worked in the UAE has been increasing.

Figure (5.7):
UAE Labour Productivity Per Hour Worked
(in 2022 international dollars at PPP)



Source: The Conference Board Total Economy Database (2024)

[2] The Emirate of Sharjah directly adopted a four-day workweek.

Human capital is a key determinant of export performance, and FDI and its development shall continue to be supported by sustained investments in the education system. In addition, the education curriculum's outputs would need to be further aligned with the needs of the labour market and the economy overall because mismatches can be a leading cause of economic competitiveness loss.

Market Size

In terms of market size, the UAE has a young, consistently growing and affluent working-age population (Ellawn, 2023), which is conducive to investments, especially in new technologies.

Furthermore, FDI considers the target market in the regional context, particularly for horizontal investments. The so-called 'horizontal' or 'Krugmanian' FDI strategy characterises foreign investments that aim to secure an advantage when the host country opens its domestic market. Therefore, FDI can be considered an extension of the export strategy and can also be defined as 'market seeking', as it targets the local market enlarged to the host country's regional market.[3]

Thus, free trade agreements (FTAs) and other regional cooperation agreements render destinations more attractive. First, the UAE economy is attractive because it is a member of the GCC customs union, with a population of 65 million and a real annual output of US$ 3.5 trillion. The IMF (2022) estimates that closer intra-GCC integration could attract additional FDI inflows into the region.

To further enlarge its market size, besides concluding GCC-wide FTAs with the European Free Trade Association (EFTA), Singapore, and South Korea, the UAE is a member of the Greater Arab Free Trade Area (GAFTA) whose population is 433 million people and boasts an economic output of US$ 2.8 trillion.

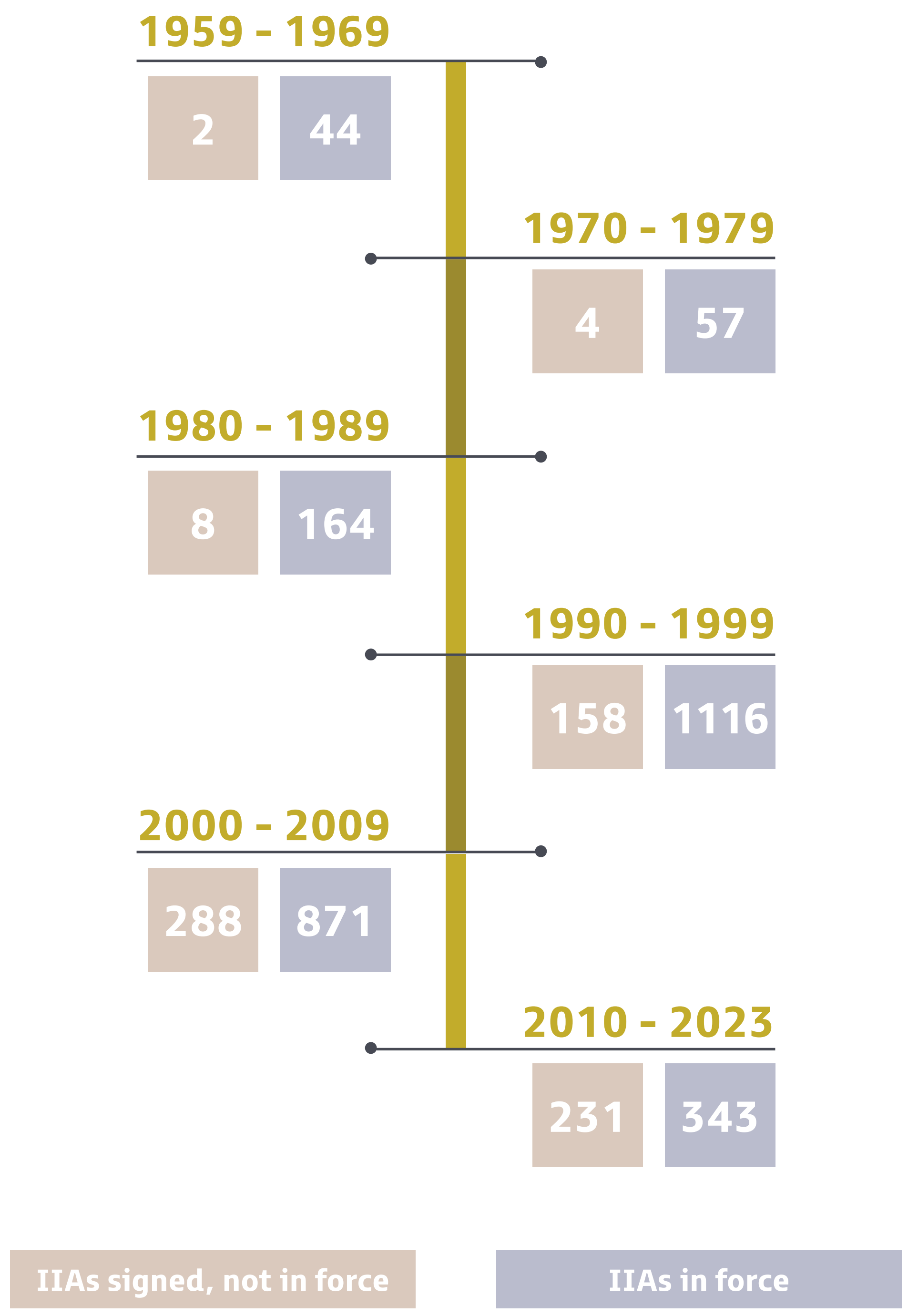
In addition, by joining the enlarged BRICS group in 2024, the UAE is also gaining access to the bloc markets with a combined GDP surpassing US$ 27 trillion and a population exceeding 3 billion.

Finally, the UAE has signed bilateral cooperation treaties given that negotiations at the minilateral and multilateral levels are more complex and take much longer[4]. As of December 2024, the UAE had ratified six Comprehensive Economic Partnership Agreements (CEPAs) with India, Indonesia, Israel, Türkiye, Cambodia, and Georgia and is currently negotiating or has already concluded over a dozen additional agreements, which will contribute to enlarging both its non-hydrocarbon GDP and market access for potential investors.

International investment agreements (IIAs) are equally important in promoting cross-border investments by offering investors minimum protection levels based on international legal standards. These include bilateral investment treaties (BITs), treaties with investment provisions (TIPs), and investment-related instruments (IRIs). At the global level, the number of such agreements signed has been decreasing since the 1990s (Figure 5.8). However, the GCC countries are conscious of the benefits of these agreements and, as a bloc, have joint TIPs with the EU, Lebanon, India, Singapore, the EFTA, the USA, and Peru, while the UAE alone has 111 BITs (UNCTAD, 2023).

[3] Contrarily, the vertical or 'Ricardian' FDI strategy implies a new production system specialising in one particular phase of the production process and foreign enterprises aimed at lowering the production costs. Here, the target market often includes the entire world, and the empirical evidence suggests that proximity to the countries of origin is particularly relevant as a determinant of FDI under the vertical strategy.
[4] Those are explored in detail in another chapter of this report.

Figure (5.8):
Number of International Investment Agreements (IIAs), 1959–2023



Source: UNCTAD World Investment Report (2024b)

The last factor accelerating FDI inflows into the UAE is the country's buoyant initial public offerings (IPOs), private equity, and venture capital markets (Standard Chartered, 2022). In this respect, 2022 was a record-breaking year. According to KAMCO Invest (2023), the two most significant examples include the IPOs of Dubai Electricity & Water Authority (DEWA), which raised US$ 6.1 billion, and Abu Dhabi's petrochemical company Borouge, raising US$ 2 billion, adding to the UAE's total of US$ 13.96 billion over the year. While 2023 also registered numerous issuances, they gathered significantly less funds. Based on data from Markaz (2023) and Hughes and Pau (2023, 2024), the largest deals involved sales of minority stakes in two subsidiaries of the UAE's oil giant ADNOC—ADNOC Gas (US$ 2.47 billion) and ADNOC Logistics and Services (US$ 769 million).

5.4. Policy Recommendations

To continue achieving the ambitious investment goals of its national economic diplomacy strategy and as competition from other emerging markets remains strong, the UAE needs to monitor and further improve its investment environment. With the increased geoeconomic fragmentation, the UAE can further position itself as a middle power if it acts as an efficient hub for redirected foreign investments. In turbulent times, maintaining high FDI attractiveness requires a strong and resilient economy and smart geopolitical neutrality.

Regular surveys of the business community sentiment can help identify specific FDI attractiveness gaps, as well as areas where further regulatory work might be needed. The potential areas include the following:

- Further investment in infrastructure and, more specifically, in the country's scientific and health infrastructure;
- Complementing investments in scientific infrastructure with investments in upscaling the education system and aligning its curricula with the needs of the labour market;
- Providing easier access to a large talent pool by spreading the use of talent-based Golden Visas;
- Providing easier access to affordable bank credit especially for micro and small businesses;
- Eliminating the remaining bureaucratic obstacles for small businesses through the strict implementation of the government's Zero Bureaucracy policy;
- Guaranteeing equal access to government procurement tenders;
- Encouraging further domestic productivity through digitalisation and organisational efficiency.

While the UAE already has strategies and programmes for improving many of these areas, it is important that those strategies be operationalised as quickly and efficiently as possible to yield the expected competitiveness benefits for the economy.

5.5. Conclusion

In just two decades, the UAE went from an insignificant recipient and source of FDI to an active international player, positioning itself 18th in Kearney's FDI Confidence Index, the highest among all GCC and Arab countries (Kearney, 2023). Strategic changes to domestic regulations increasing its openness and transparency, significant domestic infrastructure investments, a stable macroeconomic environment, low or no tax rates, and boosting technological capabilities are among the main features that allowed the UAE to rise to middle-power prominence in international investment networks.

Similar to the country's increased trade attractiveness (Bakardzhieva, 2023), its investment allure is the result of conscious efforts by the UAE government to improve investment policy and promote FDI within the framework of its national long-term vision and agenda. Increasing FDI inflows is a tool of economic diversification, especially if the foreign flows are efficiency-seeking,[5] in particular, 'export-oriented and leveraging local factors of production to reduce production costs. Such FDI involves the transfer of production and managerial know-how, access to distribution networks, and sources of finance' (World Bank, 2017), which contribute to the prosperity of the domestic economy.

[5] The economic literature distinguishes four types of FDI: (i) natural resource-seeking investment (focused on exploiting natural resources); market-seeking investment (serving large domestic or regional markets); strategic asset-seeking investment (driven by investor interest in acquiring strategic assets through M&As); and efficiency-seeking investment.

While the UAE has evidently succeeded in its FDI promotion strategy thus far, it rightfully continues to integrate plans to enhance its attractiveness into its national strategies. For instance, in November 2023, the government adopted the Charter of Economic Principles as a roadmap to steer the development of the country's economy. The first of the 10 principles positions the UAE as a globally open free-market economy. To abide by this principle, the UAE is committed to forging economic connections with the world and providing a global economic environment with transparent and competitive advantages and incentives to drive investment to and from the country.

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6 Strategic Significance of UAE Foreign Aid in Economic Diplomacy

Husain Haqqani
Kamal El-Wassal

6.1. Introduction

The United Arab Emirates (UAE) has emerged as one of the world's major providers of humanitarian assistance at a time when frequent natural disasters—ranging from earthquakes to flooding—and increased conflict within and between nations require the allocation of greater resources for saving lives, providing necessities and healthcare, and protecting human dignity. International assistance, especially contributions to humanitarian emergencies, has become a key component of the UAE's expanding strategic diplomacy.

The UAE's commitment to humanitarian endeavours should be understood in connection with its extensive track record of international economic diplomacy. Governments from wealthier and more influential nations have traditionally aided other countries in increasing their influence, forming alliances, and backing a strategically crucial partner in times of war. From the 18th century, military aid has been enhanced through economic assistance, beginning with Prussia providing subsidies to its allies in the modern era. During the 19th and 20th centuries, certain European colonial rulers provided resources to their colonies to strengthen infrastructure and increase their economic benefits. After World War II, there was a significant shift in the type and extent of foreign aid (Morgenthau, 1962).

Currently, foreign aid pertains to the global transfer of capital, goods, or services from one country or international organisation to another for its benefit. Aid from other countries can have economic benefits through enhancing productivity, as well as military and humanitarian purposes that may not directly benefit the donor.

Moreover, the predominant form of assistance is Official Development Assistance (ODA), provided by wealthier nations to less wealthy ones to encourage development and reduce poverty. Bilateral grants are the main source of ODA, although they can also be funnelled through entities such as the International Monetary Fund (IMF), World Bank, various United Nations (UN) agencies, and International Non-Governmental Organisations (NGOs).

The US, having the largest economy globally, gives the most in absolute terms but less in proportion to its Gross Domestic Product (GDP) compared to Sweden and the UAE. For instance, in 2015, the US provided US$ 30 billion in assistance, which represented less than 0.2% of its gross domestic product. In 2016, Sweden and UAE allocated 1.4% and 1.09% of their GDP, amounting to US$ 8.5 billion and US$ 4.89 billion, respectively, for assisting poorer countries (Myers, 2016). Furthermore, US aid is frequently directly linked to current US foreign policy objectives. Significant sums of money were designated for Iraq and Afghanistan, with the US also having a substantial military presence in both nations. Aid to other countries has declined, but assistance to Ukraine has increased after the US chose to support Ukraine in its fight against Russia. Sweden, alongside other Scandinavian nations and the UAE, offer development finance and humanitarian aid without expecting immediate political benefits (Congressional Research Service, 2023).

6.2. What Motivates Countries to Aid Others?

In a world where countries rely on each other, there are numerous motives for providing aid to other nations, with the aim to improve their security being one distinct motive. Economic support can help to prevent supportive governments from being swayed by unsupportive ones. Military support may be exchanged for permission to create or utilise military bases in a foreign country. Moreover, political, ideological, and economic justifications are also made for providing aid.

As it is easier for donor countries' populations to understand the national security motivation, the economic and social necessities may not be fully grasped. Americans and Europeans acknowledge the need to stabilize countries affected by conflict and prevent the recruitment of individuals for terrorism. Additionally, aid is a means for fostering economic ties by ensuring the aid recipient uses the aid to purchase products or goods from the aid donor. Consequently, wealthy nations with numerous economic migrants should assist poorer countries in their development to reduce the need for migration.

In the Cold War era, the US and its allies provided financial support for movements opposed to communism. Following the Cold War, the promotion of democracy became a crucial requirement in foreign aid initiatives. In the past three decades, aid from governments and international organisations has been aimed at building and enhancing political institutions in recipient nations (Ali & Zeb, 2016). Foreign aid is utilised for financing or overseeing elections, supporting judicial reforms, and aiding human rights organisations and labour unions. Assistance can serve as a reward for promoting democratic reforms or be denied as a consequence for opposing such reforms.

Additional justifications for aid initiatives include addressing cross-border issues such as drug smuggling, trafficking of humans and arms, terrorism, and international criminal activities. Foreign aid improves the ability of underprivileged and underdeveloped nations to manage these global threats. For instance, the International Narcotics Control program distributes US funds to other nations to combat drug manufacturing. The US Anti-Drug Abuse Acts of 1986 and 1988 require recipient countries to actively fight against drug production and trafficking to qualify for foreign aid and access to US markets.

Moreover, foreign assistance can assist in achieving a government's political objectives by securing diplomatic acknowledgment or backing. This aid enhances the donor's standing in international organisations and its diplomats' access to foreign nations. Foreign aid also aims to boost the exports of a nation and to disseminate its literature, culture, or religion. During the Cold War era, the US and the Soviet Union established American Centres and Friendship Houses respectively, while countries such as Britain, France, and China followed suit with British Councils, Alliance Française, and the Confucius Institutes, respectively, as a means of cultural outreach through libraries, film screenings, and educational opportunities.

Nations that prioritise the compassionate element rather than the strategic advantages of aid allocate their assistance towards improving human development and providing humanitarian aid. For instance, numerous European donors and the UAE frequently offer assistance to alleviate the effects of disasters such as famine, disease, and war. Major global powers frequently participate in such initiatives even if they are not the ones spearheading them. Disaster relief is provided following occurrence of various natural disasters such as earthquakes and floods. External support assists to manage medical emergencies including the COVID-19 pandemic and HIV/AIDS epidemic in countries with high prevalence and limited resources. Humanitarian aid aims to reduce the suffering of the people impacted by disasters, conflicts, or socio-economic issues. Its goal is to meet urgent requirements such as food, water, housing, medical care, and safety for at-risk groups. Thus, humanitarian assistance provides overall benefits including preserving lives, alleviating pain, and fostering stability in conflict-stricken areas.

Humanitarian aid, as outlined by the UN Office for the Coordination of Humanitarian Affairs (OCHA), is guided by principles of humanity, neutrality, impartiality, and independence to ensure assistance is given solely based on need and without bias. However, as with many aspects of the economic and political spheres, there are restrictions. According to OCHA, humanitarian aid may lead to dependence, potentially impeding sustainable development initiatives. Moreover, obstacles such as coordination, financing, and accessibility to impacted regions can hinder the successful and timely provision of assistance. Donor countries may also use humanitarian aid as apolitical tool to further their geopolitical interests, further complicating the situation.

In sum, many nations frequently offer support to alleviate suffering resulting from either human-caused or natural calamities such as drought, disease, and war. Humanitarian assistance fosters economic growth, enhances governmental structures, and mitigates key issues, for example, cancer treatment, counterterrorism, and environmental protection. Nonetheless, humanitarian efforts can be politicised, serving as a means to exert influence.

6.3. Foreign Aid in the 20th Century

Since World War II, the key defining factors of foreign aid include the humanitarian aspect; magnitude, which now reaches trillions of dollars; universality, as it is now provided by increasingly more countries; and relative transparency. The UN agencies and Bretton Woods Institutions have played a key role in allocating international funds, determining the technical qualifications for receipt of aid, and assessing the impact of foreign aid. During the Cold War era, foreign aid had a partisan or bloc orientation. The US and Soviet Union often used foreign aid as a tool to bolster political alliances and strategic advantages. Aid was withheld to penalize states that were viewed as close to the other side (Ali & Zeb, 2016).

The most prominent example of foreign aid in the 20th century is the Marshall Plan of 1948, founded on the belief that providing aid served the national interests of the US. For the US to achieve a politically stable and peaceful Europe, it was necessary to support the economic integration and development of European nations to prevent future wars and conflicts. George Marshall (1948) clarified that US policy aimed to address hunger, poverty, desperation, and chaos, and was not targeted to any specific country or doctrine. Foreign aid should aim to revive the global economy to create the necessary conditions for the existence of free institutions in political and social realms (Marshall, 1948).

Countries in Scandinavia, including Sweden, prioritise aid for human development and institution-building. Meanwhile, others, such as France, are more inclined to provide assistance to their former colonies, regardless of their governing systems. Historically, the US has directed majority of its aid, other than to Europe, to either the Greater Middle East or East Asia. Japan's assistance began as a component of reparations but has since evolved into one of the major bilateral donors whose aid is perceived as unconditional.

Germany was one of the first European countries to initiate a foreign aid program shortly after World War II ended and gaining stability. Germany, which is the most powerful economy in Europe, is currently among the top nations that consider foreign assistance crucial to its foreign policy. In 2017, German Foreign Minister, Annalena Baerbock, emphasised that Germany had committed to promoting worldwide peace, with this commitment

being aimed at a shared future. Germany promised € 210 million for humanitarian assistance to Africa (The Federal Foreign Office of Germany, 2023) and € 100 billion for addressing the climate crisis (Baerbock, 2022). Other European countries have also participated over time. According to the Federal Foreign Office of Germany (2023), the EU designated € 70 billion for development cooperation in 2022.

Japan, also heavily impacted by World War II, but eventually becoming a strong economic force, established a comprehensive foreign assistance initiative. This initiative originated from Japan's post-World War II reparations, initially benefiting Asian nations and later extending support globally. In terms of absolute dollar amount, Japan is the second largest donor globally, after the US. The Ministry of Foreign Affairs of Japan describes Japan's development vision as addressing global challenges, such as climate change and humanitarian crises, which cannot be tackled by one country alone and further claims that Japan considers it beneficial to assist in creating a stable, peaceful, and prosperous global community that includes developing countries. This is based on a free and open international order governed by the rule of law, aiming to establish trust with numerous countries (Ministry of Foreign Affairs of Japan, 2023).

China is the most recent addition to the major aid providers worldwide. In early 21st century, China had emerged as a significant contributor of foreign assistance, particularly in Africa. Starting in 2013, China provided infrastructure loans to numerous countries in East Asia, Africa, and South America as a component of its extensive Belt and Road Initiative. China aims to create connections and investments through the Belt and Road Initiative, focusing on addressing the infrastructure financing gap through hardware and funding provision. In 2020, China's Ministry of Finance reported that China provided US$ 2.9 billion in foreign assistance, a decrease from the US$ 3.2 billion, in 2019 (Ministry of Foreign Affairs of Japan, 2023). China's aid is not subject to the Organisation for Economic Co-operation and Development's (OECD) ODA regulations. China continues to consider itself as a developing nation (OECD, 2022) and emphasises that its investment and aid strategies should not mirror those of developed countries.

In the 1970s, the UN established 0.7% of a nation's gross national income (GNI) as the standard for international assistance. Only a few countries, mainly Scandinavian, achieved that level, with US assistance typically hovering at 0.2% and never exceeding 0.4% of GNI. In 2015, the UAE became the first non-European nation to donate more than 1% of its GNI as international development aid (OECD, 2022).

6.4. Foreign Aid and Their Impact on Donors and Recipient Countries

Assistance from the military can help to uphold peace and security by enhancing the defence capabilities of less powerful countries, preventing attacks, and enhancing stability in the region. A study by the Stockholm International Peace Research Institute (SIPRI) found that military aid can decrease conflict and enhance stability in fragile states (SIPRI, 2021). Military assistance has the potential to promote strategic partnerships and enhance collaboration within the military, ultimately bolstering global security frameworks. However, critics contend that it promotes militarisation and encourages arms races, taking away resources from vital areas such as development and human welfare. Assistance to the military may fall into the wrong individuals, exacerbating conflicts or allowing human rights violations.

Thorough evaluation and surveillance are essential to guarantee appropriate utilisation of military assistance for its designated objectives and avoiding unforeseen outcomes. In certain situations, military assistance given to weak governments can be seized by insurgents or violent non-state groups, such as terrorists, thereby fuelling conflict instead of curbing it.

Foreign aid for economic development includes providing financial resources, goods, knowledge, or training in technical skills. If the recipient is not ready to manage change, economic growth can negatively impact the societal structure. The effectiveness of economic foreign aid is often determined by factors such as the recipient country's intellectual, moral, and political conditions rather than its economic viability. Predicting the political consequences of effective foreign economic assistance is often challenging as well. Over the past 70 years, certain nations have changed from rural areas to advanced, technology-driven economies thanks to the assistance received following their independence from colonial rule. However, certain nations continue to rely on aid without an established foundation for sustained progress and advancement.

According to the World Bank (2020), various research and publications have demonstrated the effectiveness of focused international assistance, such as conditional cash transfers and social safety net programs, in diminishing poverty in numerous nations. A 1998 report by the World Bank found that increasing foreign aid by 1% of GDP led to a rise in the recipient nation's annual growth rate by approximately 0.04% (Dollar & Svensson, 1998). Economic theories suggest that foreign aid supports the economic growth of developing countries by supplying funds for investment. In 1966, Chenery and Strout submitted that foreign aid bridges the difference between savings and foreign exchange, according to Abate (2022). A study conducted in 2021 in 37 developing nations revealed that foreign assistance had a beneficial impact on the economy's expansion (Azam & Feng, 2022).

The UN has always advocated that humans and their development should be the primary factors in evaluating development, rather than merely focusing on economic growth. The annually published UNDP Human Development Index report aims to encourage countries to increase investments in healthcare, education, and quality of life. Many countries worldwide rely on external assistance to improve their human development indicators. For instance, the UAE played a significant role in the campaign to eliminate polio, while EU members together with India aided African countries in managing the HIV/AIDS epidemic. These contributors also assisted in expanding projects aimed at ensuring safety in childbirth, boosting vaccine coverage, and nearly eliminating polio. International aid has supported public health research, development, and innovation in underdeveloped nations that have been unable to afford the advanced solutions present in wealthier countries.

Foreign aid has exhibited altruism in various parts of the world through funding for malaria eradication efforts. Low-income African governments have long relied on donor aid to increase efforts in eliminating malaria owing to insufficient tax revenue to fund neither basic healthcare system nor to expand malaria control measures. Malaria incidences dropped significantly due to specific assistance provided to these countries, either directly or through the World Health Organization (WHO). From 2000 to 2012, malaria deaths among African children under five decreased by 51%, as reported by Sachs (2012).

The achievements in global development outcomes since World War II, when development aid became widespread, have been very impressive. In the last 30 years, there has been a significant decrease in extreme poverty, dropping from 1.9 billion people (36% of the global population) in 1990 to 592 million (8%) in 2019. The rates of maternal, infant, and child mortality have decreased by 50%. The average life span increased from 65 to 72 years worldwide between 1990 and 2017. Ultimately, smallpox has been conquered, polio eradicated in all but two nations, and malaria fatalities reduced by 50% between 2000 and 2017 (Sachs, 2012).

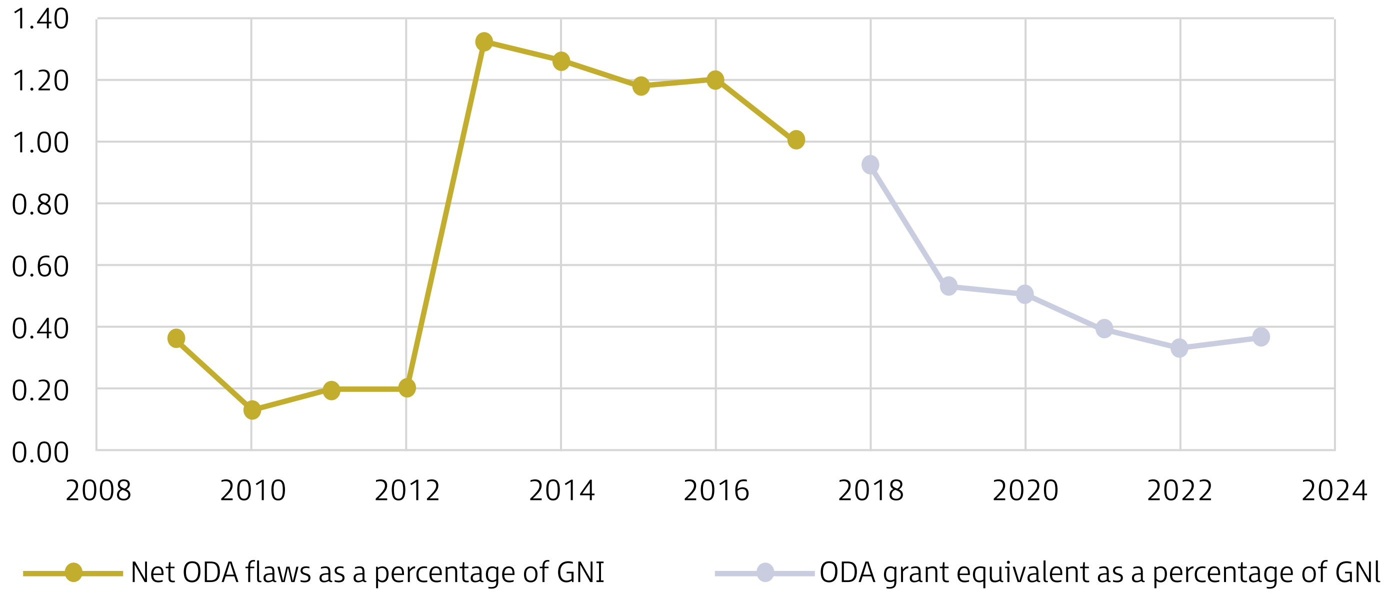
6.5. UAE's Foreign Aid Approach and Achievements

The UAE has continuously surpassed expectations in providing foreign assistance. The dedication to provide humanitarian aid is based on the sense of nobility that has been a defining trait of the leadership of the UAE, beginning with Sheikh Zayed bin Sultan al Nahyan, the country's founder. Sheikh Zayed believed that the UAE was rich in oil resources and emphasised the importance of sharing this wealth with less privileged countries and populations. In spite of its own development needs, Sheikh Zayed was determined to create the Abu Dhabi Fund for Development (ADFD) early on after the nation's establishment in 1971. Since 2013, the UAE has continuously exceeded the UN's goal of foreign aid, becoming part of an exclusive group of a few countries (Figure 6.1). The UAE has consistently ranked among the top 10 ODA/GNI donors out of all OECD countries for almost 10 years.

The UAE has become a major ODA provider with the introduction of its foreign aid policy (2016–2026), specifically prioritising aid to vulnerable states and regions.

In 2016, the UAE introduced a five-year foreign aid strategy that outlines key partner countries and global issues (transport and urban infrastructure, government effectiveness, and women's rights and empowerment). This policy focuses on the UAE's strengths through a demand-driven strategy and partnership with various development partners, including bilateral providers, multilateral organisations, and the private sector.

Figure (6.1):
The UAE ODA as a Share of GNI (2009–2023)

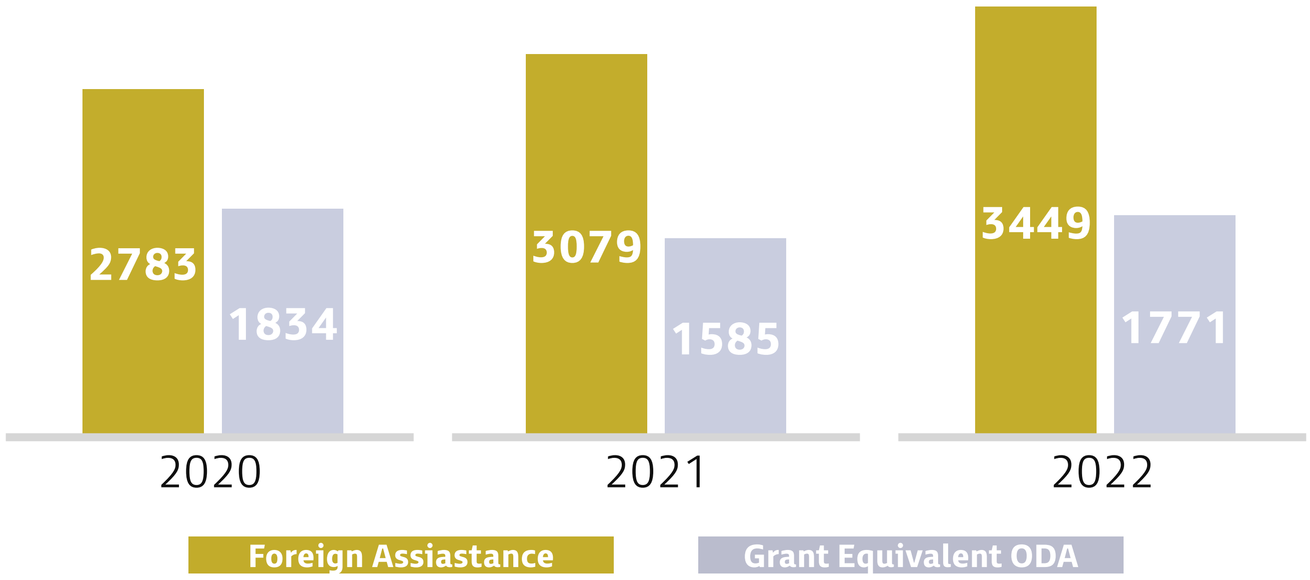


Source: https://www.oecd-ilibrary.org/sites

This policy is based on the dedication to tackling ignored issues and marginalised communities, prioritising sustainability, and guaranteeing transparent assistance aimed at producing concrete outcomes. One crucial element of the UAE's worldwide sustainable development efforts involves promoting global peace and prosperity, with humanitarian assistance playing a crucial role. The UAE is a strong supporter of the "beyond aid" movement and is actively raising funds from various sources, focusing on involving the private sector.

In 2021, the UAE allocated AED 11.31 billion (US$ 3.08 billion) in foreign assistance, a 10.4% rise from 2020 allocations. Of the total amount, AED 2.63 billion (US$ 717.3 million; 46%) was designated to assist 38 of the Least Developed Countries, who constitute 0.19%. This also aligns with the UN goal of providing (0.15–0.20%) ODA/GNI to Least Developed Countries. Figure (6.2) shows total UAE disbursements between 2020 and 2022.

Figure (6.2):
UAE Total Disbursements, Net ODA (2020–2022)



Source: UAE Foreign Aid Report: 2022.

Categories of Foreign Aid

The UAE's foreign assistance is divided into three categories: development, humanitarian, and charitable aid. Development assistance pertains to initiatives created to enhance the economic or social well-being of the citizens. Charity aid consists of initiatives that have a religious or cultural alignment, while humanitarian aid is centred on endeavours to preserve lives, including emergency and relief missions. The 2021 Foreign Aid Report of the UAE shows that 69.5% of total foreign aid (AED 7.86 billion or US$ 2.14 billion) was dedicated to development aid (Figure 6.3). Humanitarian aid represented 26.6% (AED 3 billion or US$ 818.8 million), while charitable donations made up 3.9% (AED 446.7 million or US$ 121.6 million). According to the report, the UAE's foreign aid increased by 12%, totalling AED 12.67 billion (US$ 3.45 billion), in 2022 compared to previous years.

Box (6.1):
UAE as a Humanitarian Aid Provider to Conflict Regions

The UAE has become a leading provider of humanitarian assistance to people caught in the middle of conflict in Gaza, Ukraine, and Sudan. In Ukraine, seven mediations conducted by UAE resulted in exchange of 1788 captives. Sudan has received $230 million since the outbreak of internal fighting in 2023, taking total UAE aid to that country to $ 3.5 billion over the last decade.

Following the start of the conflict in Gaza in October 2023, the UAE played a crucial role in offering humanitarian aid to the besieged Palestinian community in Gaza. From November 2023 to May 2024, the UAE delivered nearly 50,000 tonnes of critical aid, such as food and medicine, to Gaza.

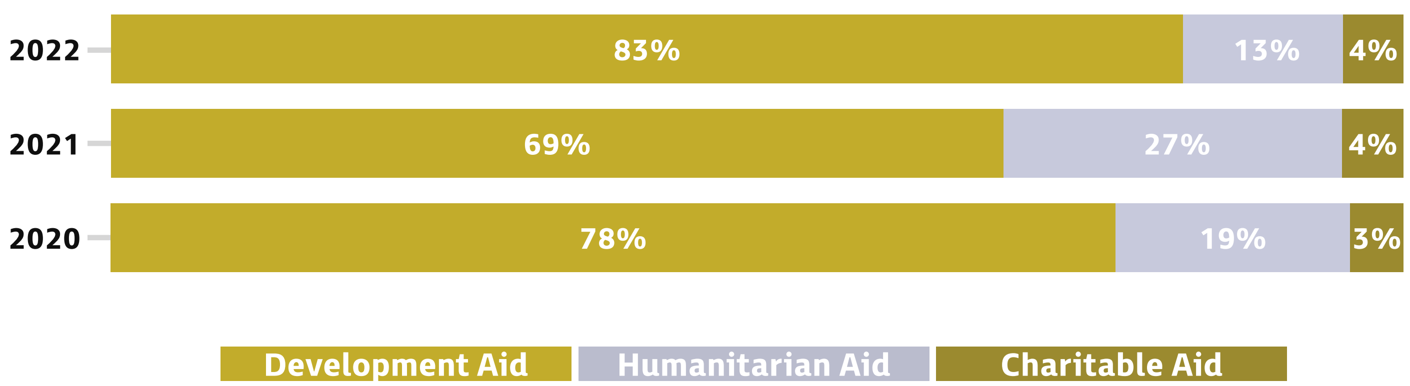
According to data from the Ministry of Foreign Affairs, the UAE's assistance initiative for individuals impacted by the conflict in the enclave included the transportation of 32,000 tons of aid through 260 flights and 1,243 lorries by May 13.

Three vessels also transported 13,190 tons of assistance to Al Arish Port in Egypt, to be given out to Gaza in a mission named Gallant Knight 3. The UAE played a role in setting up two hospitals, one of which has a special centre for amputees to offer prosthetic limbs to Palestinians injured in the conflict.

In addition to mediating the release of captives in the Ukraine-Russia war, UAE has also provided $105 million for humanitarian endeavours in Ukraine. UAE has provided assistance to Ukrainian refugees in Poland, Moldova, and Bulgaria. Food and relief supplies of 1015 tonnes have been dispatched aboard 14 aid flights to Kyiv and two ships to Romania. To alleviate the harsh winter conditions, 4250 electric generators were provided in addition to 50 fully equipped ambulances. Laptops and school bags were sent to support the continuation of education for Ukrainian children amidst war.

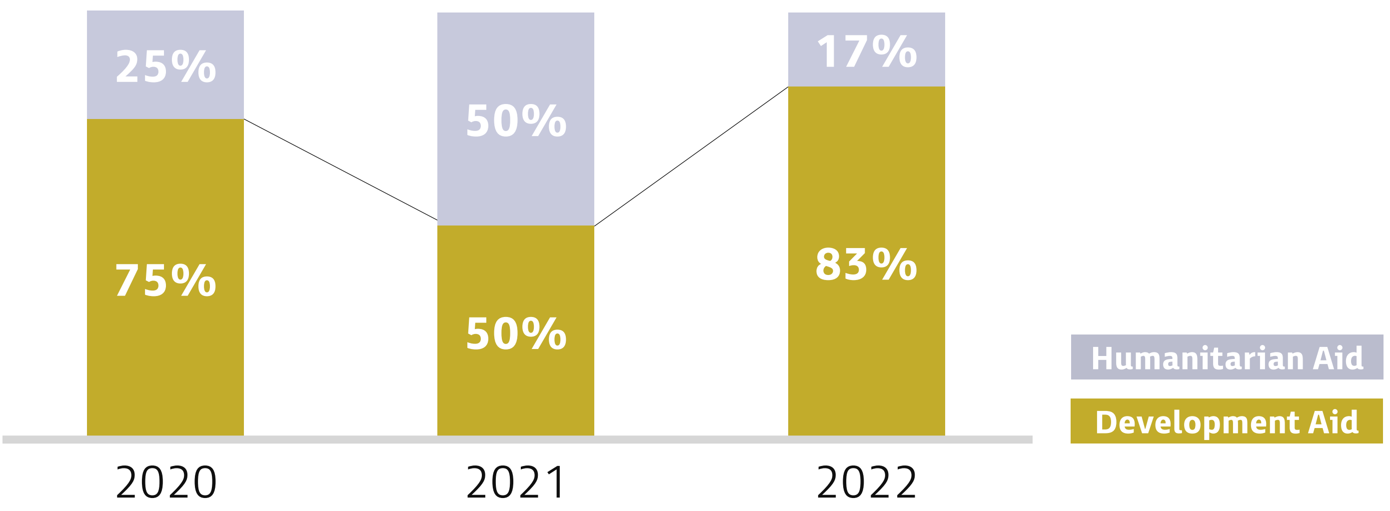
UAE assistance to Sudan since the beginning of its latest conflict has included 10,000 tonnes of food and medical supplies, 2 field hospitals, and 159 relief hospitals. At the International Humanitarian Conference for Sudan and Neighboring Countries held in Paris in April 2024, UAE pledged $100 million of which $70 million went to UN humanitarian organizations in Sudan along with a direct donation of US$ 30 million to support refugees in neighbouring countries (see appendix).

Figure (6.3):
UAE Foreign Assistance by Category (2020–2022)



Source: UAE Foreign Aid Report: 2022.

Figure (6.4):
UAE Grant Equivalent by Category (2020–2022)



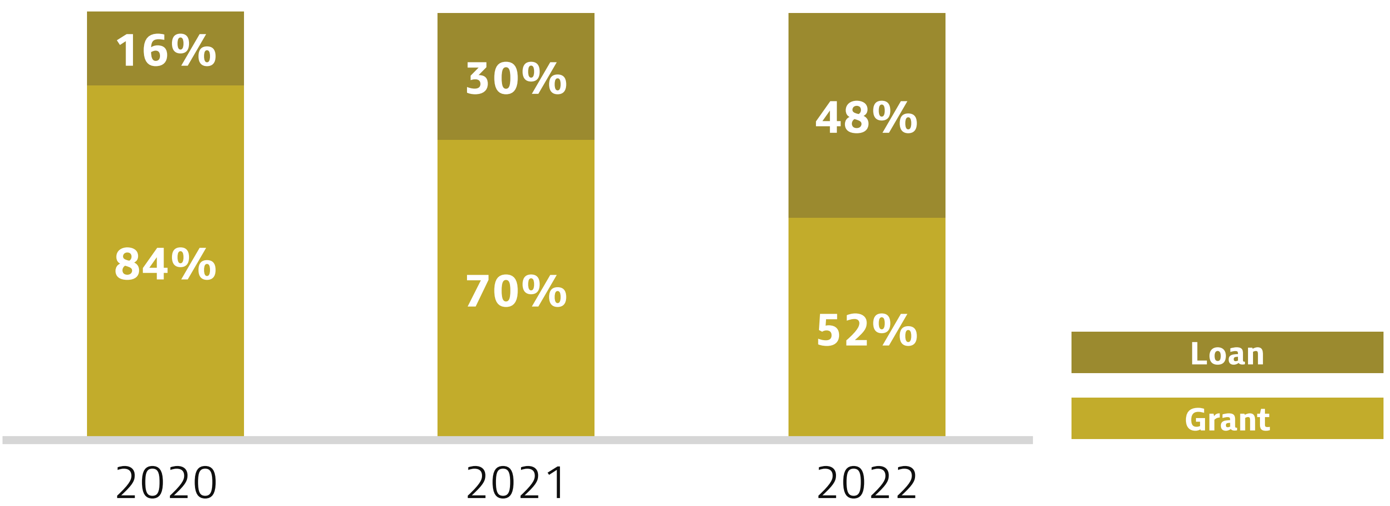
Source: UAE Foreign Aid Report: 2022.

Foreign Aid by Funding Types

The UAE offers two kinds of financial aid to foreign countries: grants and loans. Loans are described as transfers that involve legal responsibilities for the recipient, such as investment loans for emerging markets or joint venture loans. Contrarily, grants are described as payments of money, items, or assistance that do not require the receiver to fulfil any legal duties. In 2021, the UAE offered loans totalling AED 3.34 billion (equivalent to US$ 909.7 million) to 20 nations, representing 29.5% of the country's foreign aid. Of the total amount, 70.5% (AED 7.97 billion equivalent to US$ 2.17 billion), was given as grants to 154 countries.

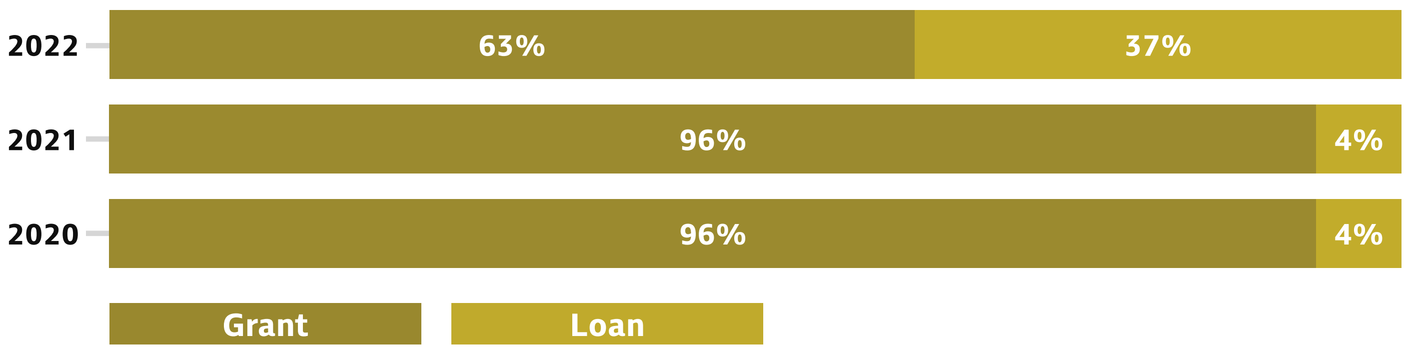
Figures 6.5 and 6.6 provide further insight into the funding sources for UAE Foreign Assistance and UAE Grant Equivalent.

Figure (6.5):
UAE Foreign Assistance by Funding Types (2020–2022)



Source: UAE Foreign Aid Report: 2022.

Figure (6.6):
UAE Grant Equivalent by Funding Types (2020–2022)

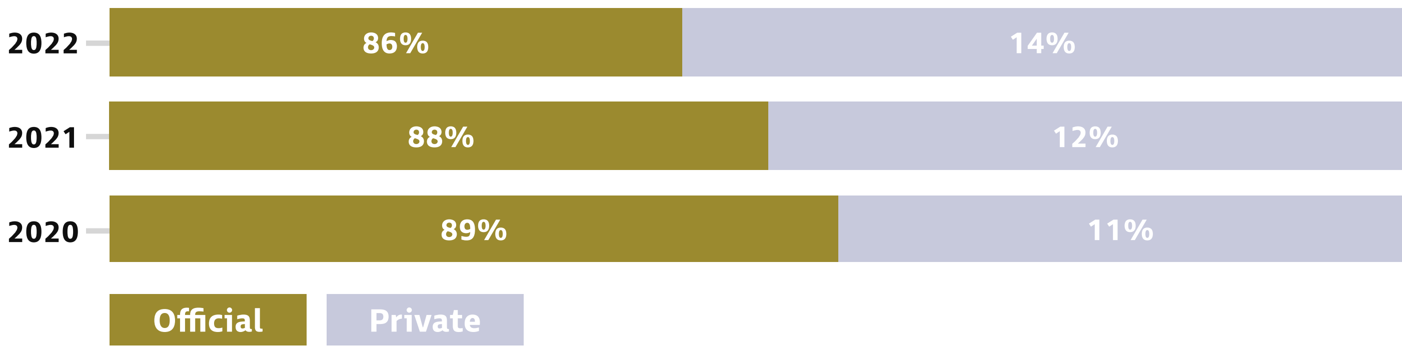


Source: UAE Foreign Aid Report: 2022.

Foreign Aid by Source of Funds

One of the key factors in determining ODA is the origin of the financial support. Financing can be obtained from official sources (government and public) or unofficial sources (private and individual). Private sector contributions to foreign aid have increased to 12%, at AED 1.36 billion (US$ 370 million), up from 11% in 2020 and 5.8% in 2019 see Figure (6.7). Even with the pandemic affecting business activities, the private sector in the UAE is increasing its efforts.

Figure (6.7):
UAE Foreign Aid by Funding Source (2020–2022)



Source: UAE Foreign Aid Report: 2022.

Foreign Aid by Modality of Disbursement

The main goal of UAE aid organisations is to optimise the efficiency of their aid initiatives. Hence, the methods of execution differ based on the type of projects: developmental, relief, or philanthropic. In 2021, foreign aid in the UAE was distributed through five main channels:

1. Assistance directly given to governments, known as Bilateral Assistance, making up 41% of all disbursements.
2. Direct Project Implementation: Donor-funded projects implemented by the donor or a contractor, comprising more than 29%, at AED 3.28 billion (US$ 893.8 million).
3. Designated Donation to Multilateral Organisations: Approximately 12% of the entire assistance, AED 1.33 billion (US$ 362.2 million), was allocated to this specific area.
4. A significant amount of AED 954.5 million (US$ 259.9 million) was set aside for assisting National NGOs and Civil Society Organisations within the development program.
5. Major contributions to international organisations: These major contributions made up 6% of the UAE's foreign aid strategies in 2021, that is, AED 691.2 million (US$ 188.2 million).

Altogether, these five channels were responsible for 96% of the UAE's foreign aid distribution methods in 2021 (see Table 6.1).

Table (6.1):
Disbursement of Funds, by Modality of Disbursement

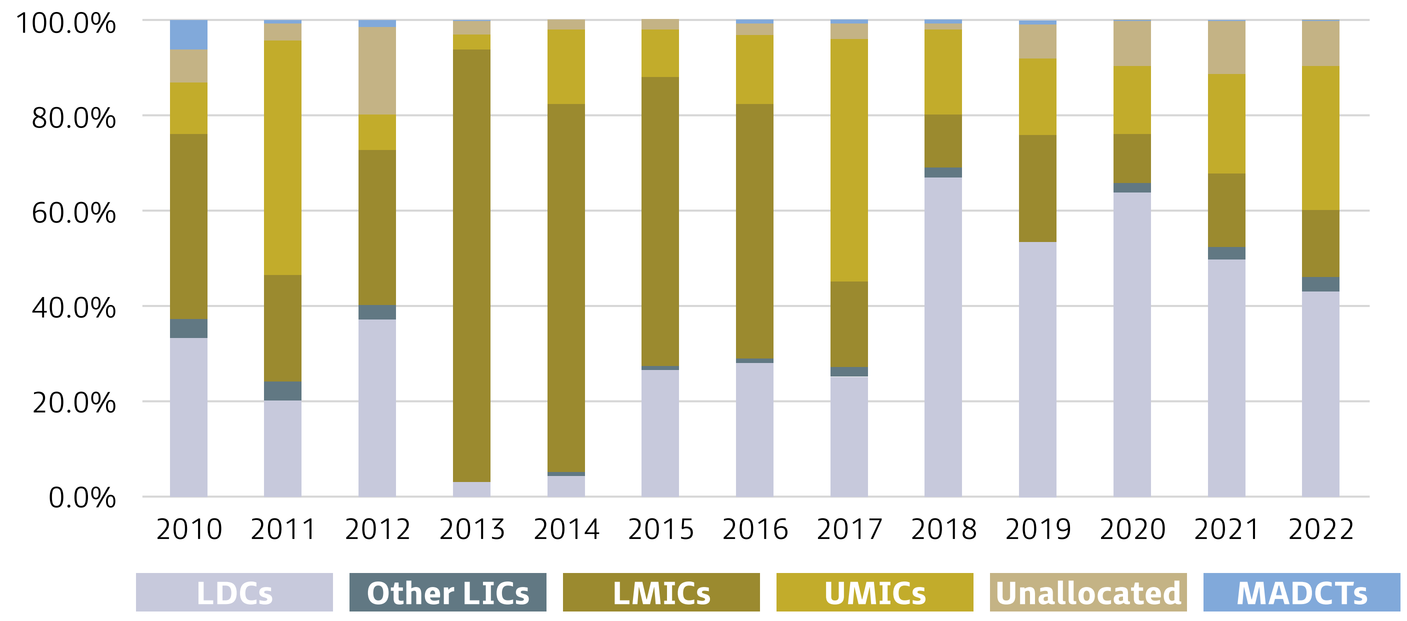
Disbursement	Percentage		
	2020	2021	2022
Bilateral Assistance to Governments	58%	41%	56%
Direct Project Implementation	26%	29%	23%
Contributions to National NGOs and Civil Society Institutions	7%	8%	8%
Earmarked Contributions to Multilateral Organisations	4%	12%	5%
Contributions to International NGOs	1%	2%	2%
Administrative Costs	1%	1%	2%
Experts and Technical Assistance	1%	1%	2%
Core Contributions to Multilateral Organisations	1%	6%	1%
Scholarships and Student Costs	1%	0.02%	0.1%
Refugees Cost in Donor Countries	-	-	0.002%
Grand Total	100%	100%	100%

Source: UAE Foreign Aid Report.

Foreign Aid by Income Group

In 2021, the UAE dedicated 50.5% of its total bilateral ODA, which equalled US$ 721.6 million, to the least developed nations (see figure (6.8) illustrating bilateral ODA by income group). This distribution accounted for the largest share of bilateral ODA (50.5%) to least developed countries among non-Development Assistance Committee (DAC) nations, far exceeding the non-DAC average of 13.7%.

Figure (6.8):
UAE Bilateral ODA by Income Group



Source: OECD, Development Co-operation Profiles: https://www.oecd-ilibrary.org/

Note: LDC: least developed country; LIC: low-income country; LMIC: lower middle-income country; UMIC: upper middle-income country; MADCTs: more advanced developing countries and territories.

In 2021, the UAE dedicated 15% of their total bilateral ODA to landlocked developing countries, amounting to US$ 214.5 million, and allocated 3.9% (US$ 55.2 million) to small island developing states (SIDS).

In the same year, 62.1% of the UAE's bilateral ODA was directed to the top 10 recipients. Figure (6.9) shows that most of the top 10 recipients are from Middle Eastern nations.

Figure (6.9):
UAE Top 10 Recipients 2022

Syrian Arab Republic	30.2
Morocco	31.2
Somalia	43.8
Maldives	44.7
Pakistan	61.9
West Bank and Gaza Strip	67.6
Sudan	89.5
Ethiopia	174.8
Yemen	386.6
Jordan	389.4

Source: OECD, Development Co-operation Profiles: https://www.oecd-ilibrary.org/

Geographical Distribution

In 2021, the UAE's foreign assistance saw significant expansion, benefiting more than 154 countries. Notably, 37 countries in Asia received a significant majority, 64% of the total aid from the UAE, that is, AED 7.29 billion (US$ 1.98 billion). Foreign aid from the UAE was distributed to 50 African countries, 20% of the total assistance, AED 2.23 billion (US$ 606.9 million). Additionally, AED 217.2 million (US$ 59.1 million) was distributed among 25 European countries, which accounted for 1.9% of the total aid. Furthermore, AED 181.2 million (US$ 49.3 million) in aid was given to 34 countries in the Americas, accounting for 1.6% of total aid received. Furthermore, assistance was provided to an additional 8 nations. Table 6-2 compares the distribution of UAE foreign aid across three years by geographical region.

Table (6.2):
Geographical Distribution of UAE Foreign Aid

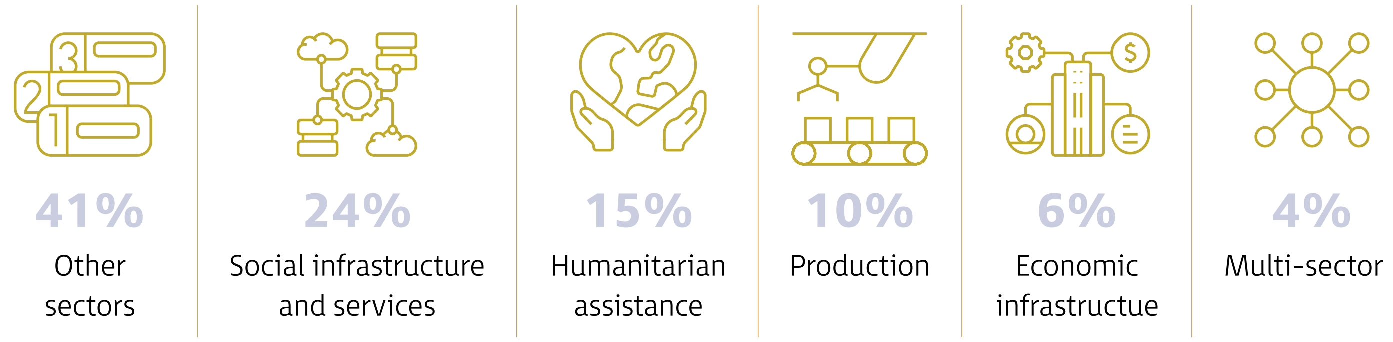
Continent / Assistance Category	2020 (% of total)	2021 (% of total)	2022 (% of total)
Asia	40%	64%	42%
Development	76%	68%	83%
Humanitarian	21%	30%	13%
Charity	2%	75%	4%
Europe	3%	2%	31%
Development	25%	75%	99%
Humanitarian	70%	16%	1%
Charity	5%	9%	0.2%
Africa	47%	20%	17%
Development	90%	58%	58%
Humanitarian	7%	29%	26%
Charity	3%	12%	16%
Global	7%	12%	9%
Development	48%	88%	72%
Humanitarian	52%	12%	28%
Charity	-	0.2%	-
Americas	3%	2%	1%
Development	37%	97%	94%
Humanitarian	0.3%	0.4%	3%
Charity	63%	3%	3%
Oceania	0.2%	0.1%	0.02%
Development	5%	85%	90%
Humanitarian	2%	13%	10%
Charity	93%	2%	-
Grand Total	100.0%	100.0%	100.0%

Source: UAE Foreign Aid Report: 2022.

UAE Bilateral ODA by Sector

In 2022, the majority of the UAE's bilateral ODA commitment was assigned to social infrastructure and services (see Figure (6.10)). The primary focus of these investments was health and population and education. Humanitarian assistance accounted for US$ 277.9 million, representing 15.2% of the overall allocation.

Figure (6.10):
UAE Bilateral ODA by sector (2022)

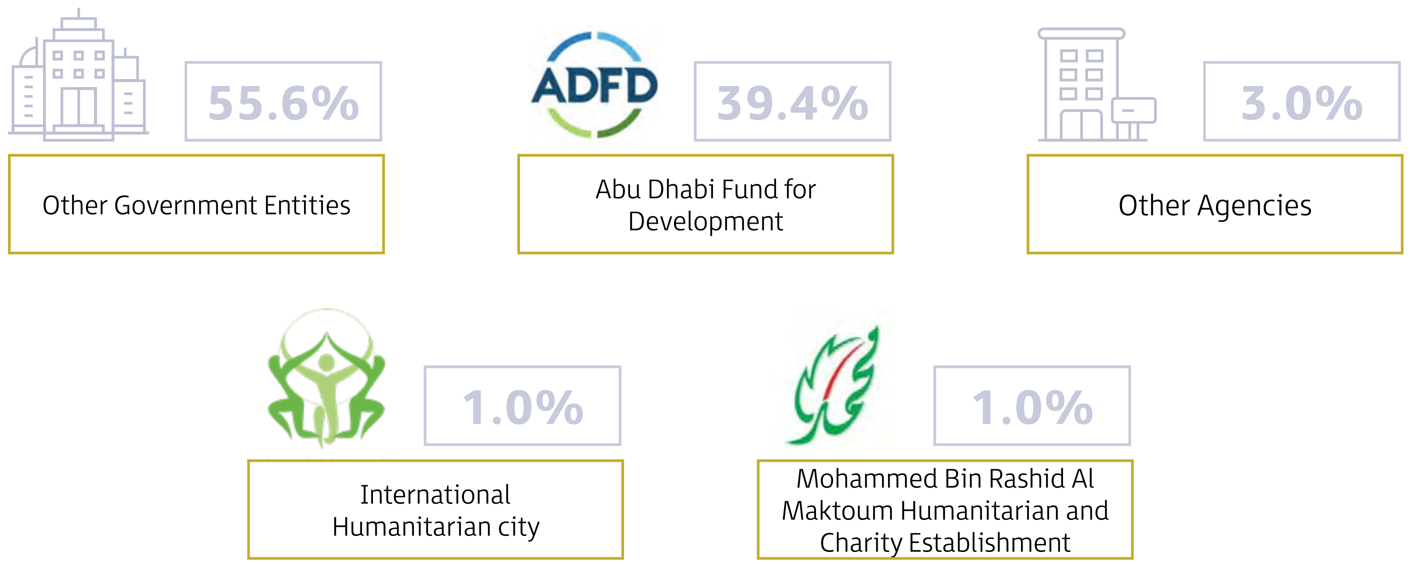


Source: OECD, Development Co-operation Profiles: https://www.oecd-ilibrary.org/

UAE Total ODA Disbursement by Government Agencies

The Ministry for Foreign Affairs is responsible for overseeing the UAE's development cooperation activities. This ministry is crucial in setting policy directions, setting geographic and sectoral priorities, and developing strategies for distributing and implementing foreign aid programs. Additionally, it acts as the primary organisation responsible for coordinating all public donors within the nation, such as the Abu Dhabi Fund for Development (ADFD). Moreover, the Ministry also plays a vital role in coordinating the contributions of private donors, such as civil society groups and private philanthropists, with those of public donors, promoting a unified strategy for development cooperation. Figure (6.11) illustrates the distribution of funds through government agencies.

Figure (6.11):
UAE Total ODA disbursed through government agencies (2022)



Source: UAE Foreign Aid Report: 2022.

Donor Contribution Breakdown

Multiple donors are engaged in UAE foreign aid programs, collaborating to offer financial support and execute aid projects. They consist of more than 25 contributors from the UAE, including charitable organisations, non-profit groups, investment funds, businesses, and individuals. For the fifth consecutive year, Abu Dhabi Fund for Development (ADFD) remains the leading foreign aid donor in the UAE, contributing AED 5.26 billion (US$ 1.43 billion), which is 47% of the country's total foreign aid disbursements in 2021. Additionally, the UAE Government, consisting of over 16 local and federal government entities, is the second largest provider of foreign aid for the fifth consecutive year funding AED 4.04 billion (US$ 1.1 billion), which is 36%. Next, the Emirates Red Crescent, which serves as the primary humanitarian organisation in the country, disbursed 666.2 million AED (equivalent of 181.4 million US$). The International Charity Organization (ICO) was fourth with AED 253.5 million (US$ 69 million), while Dar Al Ber Society was fifth with AED 220.9 million (US$ 60.1 million).

Table (6.3):
Funds Disbursed, by Donor

Donor	2020 (% of total)	2021 (% of total)	2022 (% of total)
Abu Dhabi Fund for Development	62%	47%	52%
Government Aid	21%	36%	30%
Emirates Red Crescent	5%	6%	5%
Private Sector and Individuals	1%	0.2%	3%
International Charity Organization	2%	2%	2%
Dar Al Ber Society	2%	2%	2%
Sharjah Charity Association	1%	1%	2%
Khalifa Bin Zayed Al Nahyan Foundation	1%	1%	1%
Mohammed Bin Rashid Al Maktoum Humanitarian and Charity Establishment	0.2%	1%	1%
Others	4.8%	3.8%	2.0%
Grand Total	100.0%	100.0%	100.0%

Source: UAE Foreign Aid Report (2022).

6.6. Conclusion

Currently, foreign aid involves provision of capital, goods, or services from one country or international organisation to another to improve the recipient nation. The UAE is one of the donors providing development finance and humanitarian aid without immediate political conditions.

The main principles guiding the UAE foreign aid programs are based on humanitarianism. The foreign aid strategy of the UAE has consistently shown a commitment to humanitarian goals and a sincere aspiration to help other countries to achieve sustainable development and prosperity. This policy is based on a dedication to tackling overlooked problems and disadvantaged groups, focusing on sustainability, transparency, and efficient aid distribution to achieve tangible results.

The UAE offers foreign assistance in three separate categories: development, humanitarian, and charitable. In 2022, a majority of the UAE's foreign aid, amounting to US$ 2.86 billion, was in the form of development assistance, accounting for 83%, humanitarian aid was US$ 435.9 million, making up 13%, while charitable donations totalled US$ 154.9 million, accounting for 4%.

In terms of financial support, the UAE offers two forms of foreign aid funding: grants and loans. In 2022, the UAE disbursed loans totalling US$ 1,671.8 million, representing 48% of the country's foreign aid, whereas US$ 1,777.3 million (52%) was given in the form of grants.

Financing may be obtained from formal sources, including the government and the public sector, or private sources, including private individuals. Private sector donations to foreign aid have witnessed a surge for the third consecutive year reaching a five-year high of US$ 487 million at 14%, up from 12% in 2021 and 11% in 2020.

Owing to the UAE's aid agencies' goal of optimising the efficiency of their aid programs, the methods of implementation differ based on the project's characteristics. Foreign aid provided directly to governments accounted for 56% of all disbursements, while donor-funded projects implemented directly or through a contractor were 23% of the total. The remaining 21% is covered by other modalities.

In 2022, the foreign assistance provided by the UAE experienced a significant increase of 12% compared to that in the previous year.

In Asia, 37 countries received the majority of aid from the UAE, accounting for 42% of the total assistance. Approximately US$ 1,320 million of the total bilateral ODA went to the top 10 recipients, primarily countries in the Middle East.

In the same year, the assistance covered a range of areas, such as humanitarian aid (15%), economic infrastructure and services (6%), multi-sector (4%), and various other sectors (41%).

Even though several donors work together in UAE foreign aid projects, the Abu Dhabi Fund for Development continues to be the top contributor, holding onto its leading role for the fifth year in a row. In 2022, it represented 52% of the total amount of foreign aid distributed by the UAE, amounting to US$ 1.79 billion.

In sum, the UAE has unquestionably reached a commendable position as a global donor, distinguishing itself in different aspects of foreign assistance through its goals, geographic coverage, aid strategies, and supported sectors. Moreover, its strong dedication to transparency and accountability, demonstrated through its reporting to OECD-DAC, highlights its leading position in the global aid sector.

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UAE DIPLOMATIC AND REGULATORY ACHIEVEMENTS IN 2024: EVENTS AND MILESTONES

Part

III

7 How Did the UAE Enhance its Global Financial Standing?

A Story of Reform and Progress

Rashed Alteneiji

7.1. Introduction

In less than 50 years, the United Arab Emirates (UAE) reaped the fruit of its dynamic decision making and adaptability, earning a place among the top business, financial, and trade destinations around the globe. In fast-growing economies, unethical practices naturally exploit this evolution. To ensure compliance with the highest standards of combating money laundering and the finance of terrorism, the UAE underwent a rigorous process to enhance its financial and economic framework and prevent the exploitation of its economic growth. This chapter analyses the UAE's progress in achieving the requirements set by the Financial Action Task Force (FATF), with a specific focus on the historical background, difficulties faced during the period of being on the grey list, strategic enhancements, and eventual removal from the list.

The FATF plays a pivotal role in the worldwide efforts to combat money laundering and terrorist funding (FATF, n.d.-b). While the UAE is not a member of the FATF, it participates in its activities through membership in the Gulf Cooperation Council (GCC) (FATF, n.d.-c). Nonetheless, the UAE is a member of the Middle East and North Africa Financial Action Task Force (MENAFATF), a FATF-Style Regional Bodies (FSRBs) that follows the guidelines of the FATF (MENAFATF, n.d.). The UAE has made significant efforts to align its Anti-Money Laundering and Countering The Financing of Terrorism (AML/CFT) frameworks with international norms, demonstrating its dedication to upholding a strong and transparent financial system (FATF, n.d.-e).

The UAE's efforts to enhance its AML/CFT framework demonstrate the strong economic diplomacy of the country, which plays an important role in pursuit of the UAE's economic achievements, such as attracting investments, promoting trade, enhancing regulations and governance to enhance the business environment, continuing digitalisation and attracting human talent, and promoting the UAE's initiatives on a global scale.

7.2. Historical Background

7.2.1. The History and Mandate of the Financial Action Task Force (FATF)

The FATF, an intergovernmental body, was established in 1989 during the G7 Summit in Paris in which leaders acknowledged the necessity for a synchronised global endeavour to counteract the illicit exploitation of financial systems by criminals (FATF, n.d.-d). Originally, the FATF comprised 16 member countries but has now grown to encompass 40 members and 9 FATF-Style Regional Bodies (FSRBs).

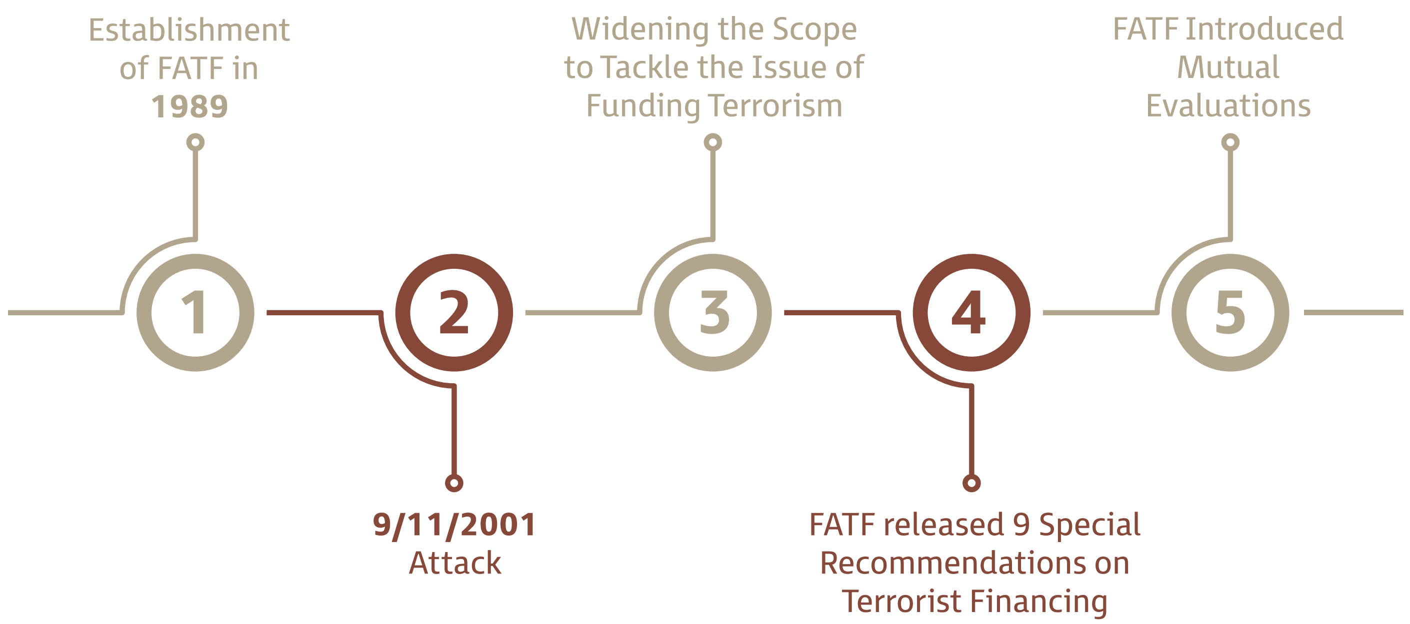
The main goal of the FATF was to formulate and advocate strategies to counteract money laundering. Emphasis on this issue emerged owing to acknowledgement that money laundering presents substantial risks to the soundness of the global financial system, potentially destabilising the economy and enabling other illicit activities. To accomplish its objectives, the FATF produced a set of guidelines that function as a complete framework for governments to adopt and enforce effective Anti-Money Laundering (AML) procedures.

A notable early accomplishment of the FATF was the publication of the 40 Recommendations in 1990. These suggestions include comprehensive instructions on the legislative and operational actions that nations should take to combat money laundering, including prohibiting money laundering, seizing illegal profits, establishing Financial Intelligence Units (FIUs), and collaborating internationally in law enforcement (FATF, n.d.-d).

One of the primary objectives of the FATF was to encourage global adoption and execution of these recommendations. To guarantee conformity, the FATF established a stringent assessment procedure, evaluating member nations' adherence to recommendations, and promoting enhancements where deemed required. The evaluation procedure not only promoted international collaboration, but also emphasised exemplary methods and exposed shortcomings in national AML systems. Over the years, the FATF has widened its scope to tackle emerging risks, such as funding terrorism and financing the spread of weapons of mass destruction. Nevertheless, the core objectives set in 1989, which aim to protect the global financial system from misuse and foster international collaboration in AML endeavours, continue to be the primary focus of the FATF's mission (Shah, 2022).

7.2.2. The Enhanced Role of the Financial Action Task Force (FATF) in Combating the Financing of Terrorism

Figure (7.1):
FATF Historical Development



Source: Author's Compilation.

The FATF experienced a substantial expansion in its responsibilities in the aftermath of the 9/11 attacks on 11 September 2001. In response to the pressing need to tackle the funding of terrorism, the FATF has taken significant measures to broaden its scope and enhance its impact in this domain (UN OHCHR, 2021). Shortly after the attacks, the FATF released 9 Special Recommendations on Terrorist Financing, which supplemented its existing 40 Recommendations on money laundering (FATF, 2001).

To guarantee conformity with these extended requirements, the FATF implemented a comprehensive monitoring and assessment procedure, referred to as 'mutual evaluations', to evaluate states' adherence to its recommendations (FATF, 2013-2023). This procedure entails in-depth evaluations of the counter-terrorism finance systems used by different countries, pinpointing any shortcomings and offering recommendations for enhancing them. Countries that fail to comply risk being grey-listed or blacklisted, which may lead to economic and reputational repercussions (FATF, n.d.-a). See Figure 7.1 illustrating the historical development of the FATF.

The enhanced jurisdiction of the FATF in countering terrorism financing has greatly strengthened global endeavours to restrict the financial systems that sustain terrorist operations. The FATF has contributed significantly to improving the integrity and security of the international financial system after the 9/11 attacks by encouraging global cooperation, promoting best practices, and enforcing accountability through its evaluation process.

7.2.3. The Initial Mutual Evaluation of the United Arab Emirates (UAE)

Prior to the implementation of effectiveness measures, the FATF primarily focused on evaluating the technical compliance of member nations with its 40 Recommendations on AML and 9 Special Recommendations on CTF. The evaluation procedure focused primarily on validating the presence and sufficiency of legal frameworks, laws, and institutional measures (FATF, 2012-2023).

The process commenced with countries submitting comprehensive self-assessment reports delineating their AML/CFT systems (FATF GAFI, 2009). Subsequently, an evaluation team consisting of specialists from various FATF member countries conducted onsite visits. During these visits, assessors interacted with various stakeholders, including government officials, regulatory agencies, and financial institutions, to authenticate information and monitor the enforcement of pertinent laws and regulations. Then, the evaluators prepared a detailed report emphasising the country's level of compliance with each proposal. The draft report was discussed and evaluated during the FATF plenary sessions, guaranteeing a cooperative and evaluative approach by peers. The final report presented comprehensive results and indicated any shortcomings or inadequacies in compliance.

This pre-effectiveness evaluation approach primarily assessed the presence of adequate AML/CFT measures in countries, rather than evaluating the actual effectiveness of these measures and their tangible effects in the real world. The findings provided guidance to countries in enhancing their legal and regulatory frameworks to ensure compliance with FATF requirements.

The 2008 Mutual Evaluation Report (MER) of the UAE (FATF, 2008) identified various significant findings and outcomes concerning the country's AML/CFT framework. The review acknowledged that the UAE had implemented a fundamental legal structure to address the issues of money laundering and terrorist funding. However, the following substantial areas required further improvement:

- The AML legislation necessitated modifications to broaden the scope of predicate offences and enhance the authority of the FIU.
- Furthermore, the legal framework for preventive measures in the financial sector was considered outdated, as it was established before the revised FATF Recommendations of 2003.
- The suspicious transaction reporting system yielded fewer reports than anticipated, suggesting the need for more explicit instructions and execution.
- The report suggested that the positive measures employed thus far, including the voluntary registration and supervision of Hawala traders, should be formalised into a regulated system.
- The MER report identified shortcomings in the expansion of the AML/CFT requirements to Designated Non-Financial Businesses and Professions (DNFBPs). It emphasised the necessity of a national strategy plan for AML/CFT to guarantee synchronised and efficient actions across different sectors and jurisdictions.

7.2.4. The Implementation of Efficiency Metrics

In 2013, the inclusion of effectiveness criteria in FATF evaluations augmented the technical compliance framework, thus shifting emphasis from the mere requisite laws and regulations to the degree of their implementation and tangible outcomes. This methodology evaluates the tangible results of a nation's AML/CFT framework. The effectiveness of the AML/CFT framework is assessed using 11 Immediate Outcomes that comprehensively evaluate its performance (see Figure 7.2) (FATF, 2023).

The review method involves scrutinising case studies, statistical data, and other evidence to ascertain the actual effectiveness and influence of AML/CFT systems. Evaluators conduct interviews and gather insights from different stakeholders to evaluate the practical efficacy. By prioritising effectiveness, countries can ensure that they accomplish concrete outcomes in their efforts to prevent and combat money laundering and terrorism financing. This simultaneous emphasis on adherence and efficacy offers a thorough assessment of a nation's AML/CFT system (FATF, 2023).

Figure (7.2):
FATF Immediate Outcomes

1. **Risk, Policy and Coordination**
   Money laundering and terrorist financing risks are understood and, where appropriate, actions coordinated domestically to combat money laundering and the financing of terrorism and proliferation.
2. **International Cooperation**
   International cooperation delivers appropriate information, financial intelligence, and evidence, and facilitates action against criminals and their assets.
3. **Supervision**
   Supervisors appropriately supervise, monitor and regulate financial institutions and DNFBPs for compliance with AML/CFT requirements commensurate with their risks.
4. **Preventive Measures**
   Financial institutions and DNFBPs adequately apply AML/CFT preventive measures commensurate with their risks. and report suspicious transactions.
5. **Legal Persons and Arrangements**
   Legal persons and arrangements are prevented from misuse for money laundering or terrorist financing, and information on their beneficial ownership is available to competent authorities without impediments.
6. **Financial Intelligence**
   Financial intelligence and all other relevant information are appropriately used by competent authorities for money laundering and terrorist financing investigations.
7. **Money Laundering Investigation & Prosecution**
   Money laundering offences and activities are investigated, and offenders are prosecuted and subject to effective, proportionate and dissuasive sanctions.
8. **Confiscation**
   Proceeds and instrumentalities of crime are confiscated.
9. **Terrorist Financing Investigation & Prosecution**
   Terrorist financing offences and activities are investigated and persons who finance terrorism are prosecuted and subject to effective, proportionate and dissuasive sanctions.
10. **Terrorist Financing Preventive Measures & Financial Sanctions**
    Terrorists, terrorist organizations and terrorist financiers are prevented from raising, moving and using funds, and from abusing the NPO sector.
11. **Proliferation Financial Sanctions**
    Persons and entities involved in the proliferation of weapons of mass destruction are prevented from raising, moving and using funds, consistent with the relevant UNSCRs-

Source: FATF (2016)

7.2.5. Obstacles Encountered by the UAE in the Second Mutual Evaluation

The UAE's second mutual evaluation was conducted by the FATF in July 2019. It identified numerous significant obstacles the country encountered in enhancing its AML/CFT framework. A crucial obstacle faced by the UAE was the necessity to strengthen its regulatory enforcement and risk-assessment capabilities.

The April 2020 MER by FATF (2020) highlighted the following points:

- Despite the implementation of the National Risk Assessment (NRA) and strengthening of the FIU, notable deficiencies remain to be addressed.
- The technical shortcomings in legislation and regulations have been resolved; however, the impact of these measures is not yet completely apparent due to their recent implementation.
- The NRA offers a fundamental comprehension of money laundering and terrorist financing concerns, but falls short in providing an in-depth examination of intricate matters such as trade-based money laundering and the exploitation of legal entities.
- Financial intelligence is not fully employed in the fight against money laundering and terrorist financing, despite its effective application in investigations related to terrorism funding and fraud.
- The FIU's inadequate capacity and resources restrict its capability to deliver top-notch financial intelligence to law enforcement agencies (LEAs).
- The investigation and prosecution of money laundering cases have shortcomings, as law enforcement does not consistently focus on important cases of money laundering that align with the UAE risk profile.
- The frequency of prosecutions and convictions for money laundering is low, particularly in locations with a high risk of such activities.
- Difficulties remain in implementing specific financial sanctions and ensuring efficient oversight of financial institutions and DNFBPs.
- The presence of a fragmented supervision structure and the recent introduction of supervisors for DNFBPs have resulted in inconsistently implementing AML/CFT measures across different sectors and jurisdictions.

These problems highlighted the need for a synchronised and comprehensive government strategy, AML/CFT, which should include improved cooperation among government agencies, more efficient distribution of resources, and ongoing endeavours to harmonise the UAE's framework with global benchmarks.

7.3. Challenges and Grey Listing Period

7.3.1. Observation Period and Grey Listing

Timeline of Events Leading to Grey Listing

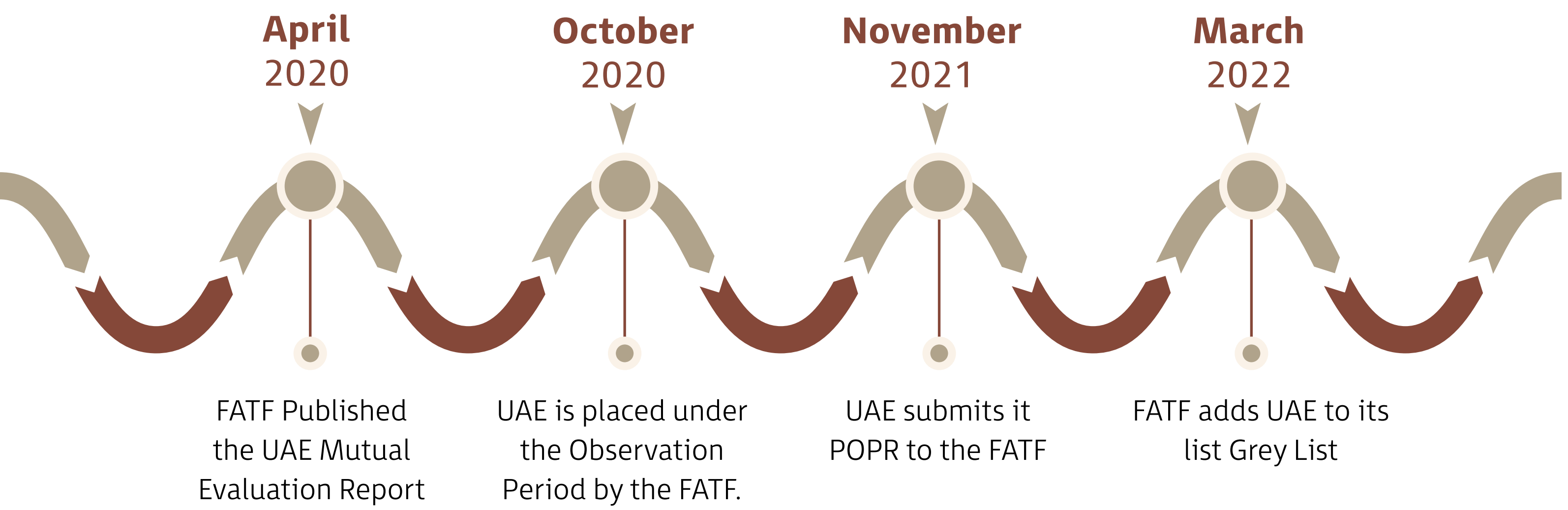
The UAE's efforts to strengthen its AML/CFT frameworks received global recognition through the publication of the FATF MER in April 2020. This evaluation examined the financial system of the UAE, identifying specific areas that required enhancement and focusing on aspects such as enforcing regulations, assessing risks, and coordinating across different agencies. The MER highlighted notable advancements in the establishment of the NRA, rectification of technical shortcomings in legislation and regulations, reinforcement of coordination mechanisms throughout the UAE, and enhancement of the FIU. Nevertheless, the extent of these advancements was not completely apparent during the on-site visits (FATF, 2020).

In October 2020, the UAE was placed under the Observation Period by the FATF for one year. The UAE was strongly determined to resolve and mitigate the identified deficiencies during this period, while demonstrating substantial progress in implementing effective AML/CFT measures.

The UAE submitted its Post-Observation Period Report (POPR) to the FATF in November 2021, outlining measures implemented to address these deficiencies. Although significant efforts were made and acknowledged by the FATF, it still decided during its March 2022 plenary to place the UAE on its list of Jurisdictions Under Increased Monitoring, also known as the grey list. This decision prompted the UAE to enhance its efforts and comply with global AML/CFT norms, thereby demonstrating its dedication to maintaining a strong and transparent financial system (FATF, 2022).

Following its placement on the grey list, the UAE provided the FATF with four progress reports between 2022 and 2023. These reports detailed the specific measures implemented by the UAE to enhance its AML/CFT systems and emphasised its actions, including the adoption of new laws and policies, strengthened collaboration between agencies, and improved enforcement methods. Figure 7.3 depicts the timeline of events leading to the grey listing.

Figure (7.3):
Timeline of Events Leading to the Grey Listing



Source: Author's Compilation.

Consequences of the Grey Listing

Technically, grey listing requires a comprehensive revision of regulatory frameworks to comply with the recommendations of the FATF. The UAE promptly enforced stricter compliance regulations in all sectors. These regulations aimed to promote transparency, enforce strict rules, and encourage financial firms to prioritise compliance. These efforts were not merely a response; they demonstrated a proactive approach by the UAE to strengthen its financial and non-financial sectors and maintain its reputation as a secure and dependable financial centre and global trade hub (Gibbon et al., 2024).

The heightened examination by the FATF during this period resulted in notable progress in the UAE's AML/CFT infrastructure, ultimately enhancing the financial system and bolstering international trust. The UAE capitalised on this opportunity to establish a sustainable and robust system for its AML/CFT operations, particularly focusing on the system's agility and sustainability. This aimed to ensure long-term compliance and effectiveness, enabling the UAE to effectively address future issues and promote sustainability within its AML/CFT framework (Gibbon et al., 2024).

7.3.2. Government and Inter-agency Collaboration

Comprehensive Government Approach

The UAE had strengthened its commitment to improving its AML/CFT framework through strategic international collaborations. These relationships have not only offered vital assistance but have also enabled the sharing of knowledge and skills, which have been important in aligning the UAE's practices with international norms.

The UAE's response to being placed on the grey list was marked by a comprehensive government strategy that entailed synchronised efforts from multiple ministries and regulatory entities. This strategy implied that all aspects of the government collaborated harmoniously to address the concerns raised by the FATF (Gibbon et al., 2024).

A multitude of government agencies and ministries, including but not limited to the Ministry of Economy (MOE), Central Bank of the UAE (CBUAE), Ministry of Justice (MoJ), Ministry of Foreign Affairs (MOFA), and Law Enforcement Agencies, were crucial in this coordinated endeavour. These entities worked together to establish and execute extensive reforms aimed at improving the UAE's AML/CFT framework. This integrated approach provided a seamless collaboration, allowing for quick policy development and efficient execution of regulatory actions.

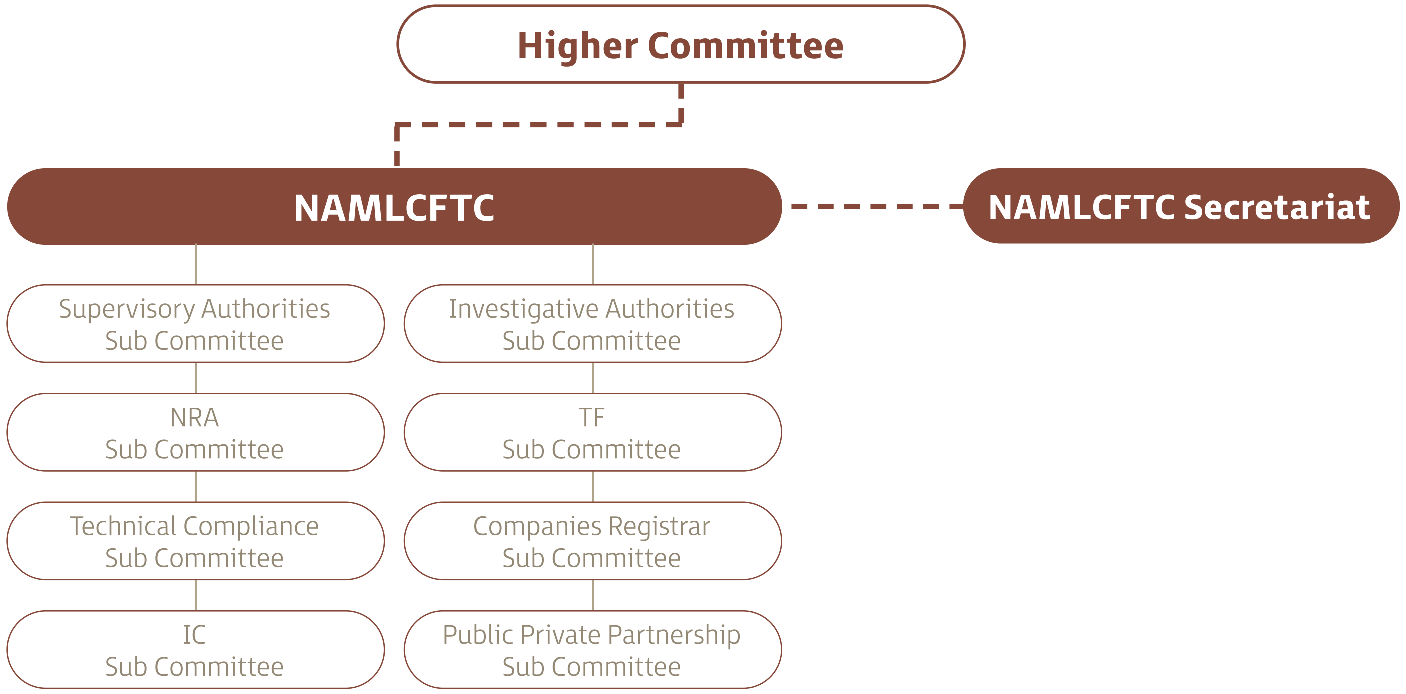
Collaborations and Initiatives between Multiple Entities

The UAE's aim to enhance its financial system depended heavily on inter-agency collaboration. This coordinated effort was demonstrated through the establishment of the National Committee for Anti-Money Laundering and Combatting the Financing of Terrorism and Financing of Illegal Organizations (NAMLCFTC). The NAMLCFTC (illustrated in Figure 7.4) played a critical role in promoting information sharing, coordinating policies, and ensuring coordinated efforts among many authorities.

One of the main initiatives within this cooperative framework was the creation of specialised task forces and subcommittees focused on tackling difficulties related to AML/CFT (NAMLCFTC, n.d.). Workshops and training sessions were held regularly to improve the capacities of the different agencies. These initiatives ensured that all involved parties were provided with the knowledge and resources to efficiently tackle financial crimes.

The UAE also enhanced its collaborations with international organisations and countries by establishing the Financial Compliance and Monitoring (FCM) section within the MOFA. FCM was tasked with leading external engagement strategies and efforts. One of its many tasks involved chairing meetings that focused on sharing AML/CFT methods and informing foreign counterparts of the UAE's efforts in AML/CFT matters. This was accomplished through the UAE's AML/CFT Expert Group, which included UAE specialists from different ministries and entities with expertise on specific Immediate Outcomes. These engagements played a significant role in improving international cooperation and sharing expertise and establishing long-lasting connections between UAE experts and their counterparts.

Figure (7.4):
NAMLCFTC Structure



Source: (NAMLCFTC)

7.3.3. The Higher Committee Responsible for Overseeing the National Strategy for Anti-Money Laundering and Countering the Financing of Terrorism

The Purpose and Composition of the HC

The Higher Committee (HC) was formed in August 2022 to oversee the National Strategy for AML/CFT. The HC sought to strengthen the UAE's AML/CFT framework by providing comprehensive guidance and coordination for the corresponding operations. In August 2020, the HC convened its first meeting to establish a foundation for a cohesive and all-encompassing AML/CFT strategy (UAE MOFA, 2020).

The HC, chaired by Sheikh Abdullah bin Zayed Al Nahyan, the UAE Minister of Foreign Affairs, comprises high-ranking officials from important ministries and regulatory authorities. The involvement of high-ranking officials guaranteed direct cooperation and coordination between relevant entities and the efficient execution of AML/CFT policies in the UAE.

The HC has played a substantial role in the UAE's endeavours to adhere to global AML/CFT norms. The establishment of a centralised body for coordination and oversight has greatly enhanced the efficiency of the UAE's AML/CFT systems. As of May 2024, the committee conducted 20 meetings, with each meeting focusing on different subjects derived from progress reports provided by the UAE to the FATF. The main areas of focus have been improving risk evaluation techniques, strengthening global collaboration, and encouraging adherence to private industry regulations (WAM 2024).

The HC made a substantial contribution to the UAE's AML/CFT efforts, highlighting UAE's high-level political commitment and dedication to upholding a secure and transparent financial atmosphere, conforming to global benchmarks, and promoting worldwide trust in its financial industry.

7.3.4. The Executive Office for Anti-Money Laundering and Countering the Financing of Terrorism

Establishment and Role of the Executive Office

The Executive Office for AML/CFT (EO for AML/CFT) was created in 2021 as a component of the UAE's comprehensive approach to advance its AML/CFT framework. Established under the supervision of the UAE Cabinet, this office was assigned the responsibility of consolidating and optimising the UAE's AML/CFT efforts (UAE MOFA, 2021).

The EO for AML/CFT was tasked with supervising the execution of the National AML/CFT Strategy and National Action Plan. Its main function is to coordinate the efforts of different ministries and entities, oversee adherence to regulatory standards, and ensure the efficient implementation of AML/CFT measures. The objective of centralising these duties was to improve the efficiency of the UAE's AML/CFT framework (UAE MOFA, 2021).

The formation of the EO was a noteworthy achievement in the UAE's dedication to addressing financial crimes. The EO for AML/CFT established a strong institutional structure to effectively tackle difficulties related to AML/CFT, while ensuring the resilience and security of the UAE's financial system.

Primary Tasks and Notable Accomplishments

Since its establishment, the EO for AML/CFT has implemented multiple measures to enhance the UAE's AML/CFT framework. This was achieved through significant progress in creating a thorough risk assessment approach. The EO's approach for AML/CFT resulted in a more accurate identification and reduction of risks associated with financial crime, providing guidance for policy making and allocation of resources.

In addition, the EO for AML/CFT played a crucial role in improving the regulatory frameworks of the UAE. The introduction of stricter compliance criteria and implementation of strong enforcement procedures aimed to guarantee adherence to AML/CFT rules. These actions have not only resolved the issues raised by the FATF but have also strengthened the general integrity and resilience of the UAE's financial system.

Moreover, the EO for AML/CFT had an essential role in advancing public-private partnerships in their collaborations to combat financial crime. The EO promoted cooperation between government agencies and the business sector, enabling the transfer of vital information and knowledge. The cooperative method resulted in substantial enhancements in identifying and reducing illegal financial operations (EO AML/CFT, 2023).

Furthermore, the EO for AML/CFT played an active role in international arenas where it represented the UAE and engaged in discussions and negotiations pertaining to AML/CFT matters. The UAE's strong participation in global efforts and strict compliance with international norms have strengthened its reputation as a dedicated and proactive participant in the battle against financial crime.

7.4. Partnerships, Improvements, and Delisting

The UAE has significantly reinforced its commitment to enhancing its AML/CFT framework through strategic international partnerships. These collaborations have not only provided essential support but also facilitated the exchange of knowledge and expertise, which have been essential in aligning the UAE's practices with global standards.

7.4.1. UAE-UK Partnership to Tackle Illicit Financial Flows

In September 2021, the UAE and the UK launched the UAE-UK Partnership to Tackle Illicit Financial Flows, which was co-chaired by HE Ahmed Al Sayegh, Minister of State, and the UK Home Secretary. This strategic initiative aims to address illicit financial flows and is structured around two main pillars: policy and operations. The policy pillar focuses on ensuring compliance with the FATF standards on numerous topics. The operational pillar centres on the collaboration between law enforcement agencies from both countries. This multifaceted approach underscores the commitment of both nations to combat financial crimes through comprehensive policy frameworks and robust operational cooperation (UAE FIU, 2024).

Numerous workshops have been conducted in Abu Dhabi and London since establishing the partnership, fostering in-depth discussions and practical cooperation regarding AML/CFT measures. This collaboration has been crucial in addressing the UAE's AML/CFT deficiencies and enhancing its compliance capabilities.

7.4.2. UAE-US AML/CFT Working Group

The UAE-US AML/CFT Working Group, established during the UAE Economic Policy Dialogue (EPD) in September 2022, represents another critical strategic alliance. This working group has been instrumental in fostering bilateral cooperation on AML/CFT issues (WAM, 2022). In November 2023, the restructuring of the Working Group introduced two key work streams: counterproliferation and illicit finance risks and risk assessments and the exchange of best practices on key international AML/CFT topics. These facilitated focused discussions and actions in areas of mutual interest and concern (UAE MOFA, 2023).

In 2022 and 2023, several workshops covered a wide range of topics, including counterterrorism, sanctions, targeted financial sanctions (TFS), financial stability, connectivity, and countering ransomware. The UAE-US partnership underscores the importance of strategic collaboration in tackling complex financial crimes and enhancing global AML/CFT standards.

7.4.3. UAE-EU Structural Dialogue on AML/CFT

The UAE-EU Structural Dialogue on AML/CFT has been an important communication mechanism between the UAE and the European Union. Five sessions of the Structural Dialogue have been held as of May 2024. This dialogue focuses on enhancing cooperation through open dialogue, exchange of information, and best practices and ensuring that AML/CFT measures are robust and effective.

Meanwhile, the EU Global Facility (EUGF), an EU-funded initiative that provides worldwide assistance to enhance AML/CFT measures, has been an important technical partner offering technical assistance and training programs. This support has been instrumental in building the UAE's institutional capacity to combat financial crimes. Since 2021, 32 workshops have been conducted between the relevant UAE entities and the EUGF. These workshops covered various topics, such as Beneficial Ownership, Metaverse Investigations, and Cryptocurrency Investigations, among others. The UAE has also collaborated with the EUGF to create a platform for Emirati experts to present on various topics in the AML/CFT sector. These contributions included the UAE's participation in the Constitutional Review Working Group between 2021 and 2023, the regional conference on 'AML/CFT and Art and Antiquities Criminality' in Egypt, and a regional event on strengthening judicial cooperation in the MENA region held in Bahrain.

7.4.4. Shift to Sharing Expertise[1]

As the UAE advanced in its AML/CFT efforts, it transitioned from a recipient of international assistance to an active contributor in the global AML/CFT landscape. This shift underscores the UAE's commitment to not only comply with international standards but also lead by example and share its expertise with other nations.

In developing its AML/CFT framework, particularly through extensive efforts from the beginning of the observation period in 2020, the UAE began to share its experiences and best practices through various international forums and initiatives. The UAE has hosted numerous international workshops and training programs, highlighting its journey towards FATF compliance and the lessons learned. This proactive approach has positioned the UAE as a key player in global AML/CFT initiatives, contributing to the development of international standards and frameworks.

The UAE's participation in global AML/CFT efforts, including the FATF and MENAFATF technical meetings and plenaries, demonstrates its dedication to fostering international cooperation. By sharing its expertise, the UAE helps other countries to strengthen their AML/CFT regimes, thereby promoting a more secure and resilient global financial system. For instance, the UAE's insights into addressing the complexities of beneficial ownership and combating trade-based money laundering have been particularly valuable for other jurisdictions facing similar challenges.

The shift from receiving assistance to providing support has been a significant milestone for the UAE. It highlights the country's progress in building a robust AML/CFT framework and its commitment to contribute to global efforts in combating financial crime. The UAE's proactive approach not only enhanced its own capabilities, but also strengthened the global AML/CFT network, fostering a collaborative environment in which countries can learn from each other's experiences and collectively address the challenges posed by financial crimes.

7.4.5. Delisting and its Impact

In February 2024, the UAE was successfully delisted from the FATF '"Grey List,' marking a significant achievement in its AML/CFT journey. This milestone was the culmination of rigorous efforts to address the deficiencies identified by the FATF and demonstrate a sustained commitment to implementing robust AML/CFT measures (Gibbon et al., 2024).

The delisting process involved a comprehensive on-site assessment by the FATF in early January 2024, culminating in UAE delisting in February 2024. The assessment verified that the UAE had implemented the required reforms and sustained them effectively. Over 30 jurisdictions applauded the UAE's delisting, acknowledging the country's significant progress in enhancing its AML/CFT framework (CVML, 2024).

[1] For more on the UAE's best practices, refer to EO AML/CFT (2023).

Delisting has had several positive impacts on the UAE. It has restored international confidence in the UAE's financial system, thereby enhancing its reputation as a secure and reliable financial hub. This restoration of confidence is expected to attract increased investment and facilitate seamless international trade and financial transactions. The UAE's financial institutions now operate with greater assurance that their compliance with international standards is recognised globally (CVML, 2024).

Moreover, the delisting underscores the UAE's commitment to maintaining a robust AML/CFT infrastructure. The UAE continues to work closely with its international partners, sharing its experiences and best practices to promote global financial integrity. The country remains vigilant in its efforts to prevent money laundering and terrorist financing, recognising that continuous improvement is essential to sustaining the progress achieved.

The UAE's journey from grey listing to delisting highlights the importance of political commitment, inter-agency collaboration, and international partnerships in achieving and maintaining FATF compliance. This experience serves as a valuable lesson for other countries facing similar challenges and demonstrates that significant improvements in AML/CFT frameworks can be achieved through concerted effort and cooperation. The UAE's proactive approach, rigorous implementation of reforms, and sustained political commitment have led to its delisting and set a benchmark for other countries striving to enhance their AML/CFT regimes.

Going forward, the UAE is committed to continue its efforts to strengthen its national AML/CFT regime. The country recognises that the fight against financial crime is an ongoing process and remains dedicated to maintaining and enhancing compliance with international standards. The UAE's successful delisting from the FATF grey list is a testament to its commitment to financial integrity and its role as a responsible member of the global financial community.

7.5. Conclusion

The UAE's successful journey from grey listing to FATF compliance demonstrates its unwavering dedication to enhancing its AML/CFT framework through strategic reforms and international partnerships. The comprehensive measures, including regulatory enhancements and inter-agency collaborations, have significantly strengthened the UAE's financial integrity. Moreover, the delisting in 2024 restored confidence in the UAE's financial system, positioning the nation as a proactive contributor to global AML/CFT efforts. Such efforts and milestones prove the successful economic diplomacy of the UAE and its continuous enhancement of the economy, as well as its efforts and cooperation with the international world, which leads to the protection of the global economy.

In 2024, the UAE Cabinet approved key amendments to the UAE's AML/CFT laws. The role and mandate of the Higher Committee Overseeing National Strategy on Anti-Money Laundering and Counter Terrorism Financing was passed into law, and the General Secretariat of the National Anti-Money Laundering and Combatting Financing of Terrorism and Financing of Illegal Organizations Committee was formally established. These amendments and advancements further strengthen and support the relevant Federal AML/CFT Laws across the seven Emirates, further reinforcing legal authority and obligations. The changes aim to centralize coordination, enhance expertise, and strengthen the UAE's AML/CFT framework, aligning with international standards and the nation's vision of becoming a global leader in this critical field.

However, the UAE recognises that there is still much more to accomplish. Efforts must continue, with the highest priority focused on this crucial file, as it is vital for the UAE's economic and reputational well-being. This experience underscores the importance of sustained political will, rigorous enforcement, and continuous improvement, serving as a model for other nations striving to enhance their compliance frameworks. The UAE remains committed to maintaining and advancing efforts to ensure long-term financial stability and integrity.

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8 WTO's Abu Dhabi Ministerial Declaration:

The UAE's Commitment to Advancing Global Trade

Dina Abduallah
Ahmed Rashad

8.1. Introduction

Over the past decade, global economic integration has encountered growing challenges. Trade restrictions and subsidies have surged, with global trade barriers nearly doubling between 2016 and 2021. This increase has been primarily driven by escalating tensions between the US and China and further exacerbated by the COVID-19 pandemic and conflict in Ukraine, which intensified the use of economic sanctions and blockades (Georgieva & Okonjo-Iwelala, 2023; Gopinath, 2024). There is a growing trend to re-engineer global supply chains based not on economic efficiency, but rather economic security and geopolitical considerations, which threaten to dismantle the global trade system built on economic interdependence and efficiency (World Trade Organization, 2023a). For instance, the World Trade Organization (WTO) estimates that, in a scenario where the world is divided into two trade blocs, global GDP could decrease by as much as 5%, whereas the IMF reckons that global losses from trade fragmentation could range from 0.2% to 7% (Georgieva & Okonjo-Iwelala, 2023).

Trade has been a cornerstone in shaping the history of the UAE, which has always called for more economic cooperation as part of its diplomacy and foreign policy to connect nations and people. The UAE's 10 economic principles strongly emphasise maintaining an open and free economy. It recognises that increasing trade restrictions would hinder global development and increase global poverty. The UAE has consistently advocated a rules-based global trading system in alignment with its long-term economic strategies and diversification goals.

Amid these growing divisions, the UAE took a leading role by hosting the 13th WTO Ministerial Conference (MC13), a move that reflects its leadership in shaping global trade for re-globalisation. MCs represent the highest decision-making body within the WTO, periodically convening to address key issues, set trade policy objectives, and negotiate trade agreements among member nations. Since the establishment of the WTO in 1995, MCs have played a crucial role in shaping the organisation's agenda, fostering cooperation among member countries, and advancing the principles of free and fair trade on a global scale (WTO, n.d.-b).

The MC13 faced the daunting task of securing global trade agreements and bridging differences, yielding mixed results with a few successes alongside some disappointments, as noted by WTO Director-General Ngozi Okonjo-Iweala (Okonjo-Iweala, 2024). This chapter discusses the notable outcomes of the MC, with the Abu Dhabi Declaration standing out as an important achievement in the UAE's diplomacy and multilateral cooperation.

Noteworthy, the UAE successfully hosting international events including Expo 2020, COP 28, and the WTO's MC13, underscores its strategic use of conference diplomacy to foster international cooperation and address critical international challenges, from climate change to economic fragmentation.

This chapter is structured as follows: the next section offers a review of the evolution of previous MCs. Then, it delves into the Abu Dhabi Declaration, discussing both its important successes and the challenges facing global trade in the context of the geopolitical landscape. Thereafter, the chapter presents the UAE's recent support for the WTO's mission, policy recommendations, and conclusions.

8.2. The Evolution of WTO Ministerial Conferences: Shaping Global Trade

The WTO stands as a cornerstone of the modern global economy, fostering international trade relations among its member nations. Born out of a rich history of trade negotiations and international cooperation, the WTO embodies the collective effort to establish a rules-based system for governing trade and resolving disputes on a global scale. At the core of the WTO's mission lies the belief that open, transparent, and predictable trade policies benefit all nations, ensuring prosperity and stability worldwide (WTO, n.d.-c).

The history of MCs dates back to the WTO's predecessor, the General Agreement on Tariffs and Trade (GATT), which held ministerial meetings to discuss trade-related issues among contracting parties. However, with the creation of the WTO, the scope and significance of MCs expanded, reflecting the organisation's broader mandate to govern international trade relations (WTO, n.d.-c).

MCs typically convene every two years, bringing together trade ministers and high-level representatives from WTO member countries, as well as observers from non-governmental organisations, intergovernmental organisations, and the private sector. These conferences serve as a forum for member countries to engage in dialogue, negotiate trade agreements, and address the challenges facing the global trading system (see Figure 8.1) (WTO, n.d.-a).

Each MC is characterised by a specific agenda that includes discussions on ongoing trade negotiations, resolution of trade disputes, review of trade policies, and consideration of new initiatives or proposals. Member countries use MCs as a platform to articulate their trade policy priorities, express concerns, and seek consensus on key issues affecting international trade.

Over the years, MCs have witnessed both success and setbacks, reflecting the complexities and dynamics of multilateral trade negotiations. While some conferences have led to significant breakthroughs, such as the conclusion of major trade agreements, others have ended without reaching a consensus on key issues, highlighting the challenges of reconciling divergent interests among WTO members.

Despite the challenges in reaching a consensus, MCs remain essential for maintaining the relevance and effectiveness of the WTO as a forum for trade negotiations and dispute resolution. By providing a platform for dialogue and cooperation among member countries, MCs play a vital role in promoting a rules-based, inclusive trading system that strives to benefit all nations.

Figure (8.1):
Ministerial Conferences Timeline

1996
9–13 DEC
Singapore
SINGAPORE MINISTERIAL CONFERENCE (MC01)
Information Technology Agreement (ITA) that aimed to eliminate tariffs on information technology products

1998
18–20 MAY
Geneva, Switzerland
GENEVA MINISTERIAL CONFERENCE (MC2)
Launch of negotiations on agriculture and manufacturing markets as well as trade-in-services (General Agreement on Trade in Services: GATS) negotiations and expanded intellectual property regulation (TRIPS)

1999
30 NOV– 3 DEC
Seattle, United States
SEATTLE MINISTERIAL CONFERENCE (MC3)
Failure to launch a new round of trade negotiations due to protests and disagreements among member countries. Protesters focused on issues including workers' rights, sustainable economies, and environmental and social issues

2001
9 – 13 NOV
Doha, Qatar
DOHA MINISTERIAL CONFERENCE (MC4)
Launch of the Doha Development Agenda (DDA), which aimed to address the needs of developing countries and liberalise trade in agriculture, services, and intellectual property.

2003
10 – 14 SEP
Cancún, Mexico
CANCÚN MINISTERIAL CONFERENCE (MC5)
Collapse of negotiations due to disagreements over agricultural subsidies and market access between developed and developing countries

2005
13–18 DEC
Hong Kong
HONG KONG MINISTERIAL CONFERENCE (MC6)
Agreement on the Doha Work Program, which outlined a framework for concluding the Doha Development Agenda negotiations

2009
30 NOV – 2 DEC
Geneva, Switzerland
GENEVA MINISTERIAL CONFERENCE (MC7)
Adoption of the Trade Facilitation Agreement (TFA) aimed at streamlining customs procedures and reducing trade costs

2011
15 – 17 DEC
Geneva, Switzerland
GENEVA MINISTERIAL CONFERENCE (MC8)
Accessions of Russia, Samoa, and Montenegro's WTO marked a major expansion of global trade integration. This milestone marked Russia's entry after 18 years of negotiations, making it one of the most impactful accessions in WTO history

2013
3 – 6 DEC
Bali, Indonesia
BALI MINISTERIAL CONFERENCE (MC9)
Adoption of the Bali Package, which included agreements on trade facilitation, agriculture, and development issues

2015
15–19 DEC
Nairobi, Kenya
NAIROBI MINISTERIAL CONFERENCE (MC10)
Adoption of the Nairobi Package, which included decisions on agriculture, cotton, and development issues, as well as the accession of Liberia to the WTO

2017
10–13 DEC
Buenos Aires, Argentina
BUENOS AIRES MINISTERIAL CONFERENCE (MC11)
Limited progress on negotiations, with discussions focused on issues such as fisheries subsidies and e-commerce

2022
12 – 17 JUN
Geneva, Switzerland
GENEVA MINISTERIAL CONFERENCE (MC12)
Co-hosted by Kazakhstan, led to the adoption of the 'Geneva Package' which addressed key trade issues and resulted in agreements on food security, pandemic response, TRIPS waivers, e-commerce, and fisheries subsidies, along with decisions on small economies and SPS challenges

2024
26 FEB – 2 MAR
Abu Dhabi, United Arab Emirates
ABU DHABI MINISTERIAL CONFERENCE (MC13)
Abu Dhabi Declaration, focusing on e-commerce, expanding WTO membership, and supporting small and medium-sized enterprises (SMEs) in global trade

Source: Authors' Compilation using WTO (n.d.-a) data.

8.3. Key Successes of the Abu Dhabi Declaration

The MC13 culminated in the adoption of a landmark document, the Abu Dhabi Declaration. This comprehensive declaration serves as a blueprint for the future of all WTO members, outlining a reform agenda, highlighting key areas for collaboration, and addressing contemporary challenges in the global trade landscape. This section examines the notable successes achieved in the Abu Dhabi Declaration, reflecting the UAE's role in narrowing the differences and the issues among WTO member countries that have remained difficult to resolve over the years.

8.3.1. Accessions

As stipulated in the Abu Dhabi Declaration, ministers welcomed the accession of Comoros and Timor-Leste as new WTO Members, the first two new member countries since 2016. This brought the organisation's membership to 166, representing 98% of world trade. The inclusion of these two Least-Developed Countries (LDCs) underscores the importance and relevance of WTO membership in promoting inclusivity in global trade (WAM, 2024b).

8.3.2. E-commerce

The extension of the e-commerce moratorium until MC14 on customs duties for electronic transmissions was a major achievement of the MC13. This is despite the significant divide that emerged between the African, Caribbean, and Pacific groups, which supported extending the moratorium on e-commerce tariffs, and countries such as Indonesia, India, and South Africa, which opposed it due to concerns on revenue losses and the advantages it gives to Big Tech. Ultimately, a compromise was reached to extend the moratorium until 31 March 2026 partly due to developing countries that saw it as beneficial to their service sectors (WTO, 2024a). This decision, vital for fostering a conducive environment for international e-commerce, highlights the UAE's diplomacy in narrowing the difference and aligns with the Digital Economic Partnership Agreement (DEPA) in which the UAE participates.

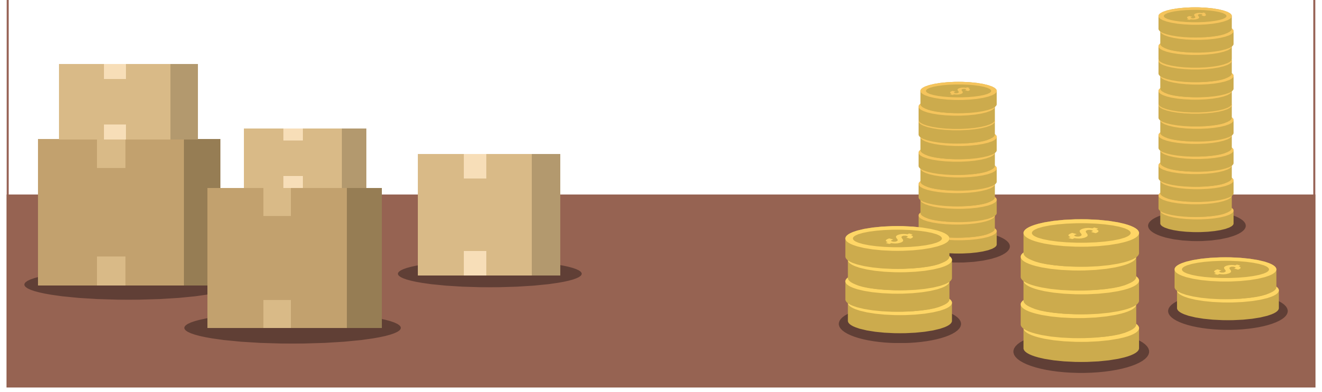
Box (8.1):
The WTO Moratorium on Customs Duties on Electronic Transmissions

The WTO Moratorium on Customs Duties on Electronic Transmissions, established in 1998, has been a critical measure in maintaining a duty-free environment for digital trade. This has allowed digital trade to flourish, becoming one of the fastest-growing sectors in the global economy. However, the moratorium's continuation is contingent upon unanimous approval from WTO members at each MC, making its future uncertain.

The intellectual property rights (IPR) implications of the moratorium are also significant. The moratorium helps to protect digital content from varying tariffs across different countries, which could complicate international digital trade and potentially hinder the global exchange of digital products and services. By maintaining a duty-free environment, the moratorium indirectly supports the enforcement and respect of IPR in the digital sphere, ensuring that creators and businesses can distribute their digital products globally without additional trade barriers.

Several WTO members, including India, Indonesia, and South Africa, have expressed concerns about the economic impact of the moratorium, arguing that it results in potential forgone customs revenues. They have also raised issues regarding the lack of consensus on defining what constitutes 'electronic transmissions' and whether these should be treated as goods or services.

Despite these challenges, many WTO members and organisations, such as the International Chamber of Commerce (ICC), advocate for the moratorium's extension, emphasising that its removal could lead to the imposition of tariffs on digital products, which would increase costs for businesses and consumers, hinder innovation, and create a fragmented digital trade environment. Furthermore, the moratorium supports the digital economy's development in developing countries by providing duty-free access to digital goods and services, which is crucial for their economic growth (International Chamber of Commerce, 2024)



8.3.3. Special and Differential Treatment

The Abu Dhabi Declaration and MC13 marked the adoption of measures to enhance special and differential treatment (S&DT) provisions, particularly in sanitary and phytosanitary measures and technical barriers to trade, to help producers in LDCs access global supply chains. These efforts, spearheaded by the UAE, aim to promote inclusivity and support development-oriented trade policies globally (WTO, 2024b). Developing countries and LDCs account for more than two-thirds of the WTO memberships. WTO agreements contain 155 special provisions that recognise the connection between trade and development, offering greater flexibility for LDCs (WTO, 2024f).

8.3.4. Domestic Regulation of Services

The Abu Dhabi Declaration also included an agreement on the domestic regulation of services, introducing new rules to simplify trade in services. The 72 members of the Joint Initiative on Services Domestic Regulation accounted for over 92% of the global trade in services (WAM, 2024b; WTO, 2024f). New guidelines on good regulatory practices for services trade were introduced to simplify the process of trading services. These guidelines aimed to reduce the unintended trade barriers caused by regulations related to licencing, qualification requirements, procedures, and technical standards. The implementation of these guidelines is projected to reduce global trade costs by more than US$ 125 billion. These new standards should be incorporated into countries' legally binding services trade commitments under the GATS (WTO, 2024d, 2024f).

For the first time, a WTO-negotiated text includes a provision to ensure that licencing and authorisation procedures do not discriminate between men and women, with the goal of promoting women's economic empowerment and increasing their participation in services trade.

8.3.5. Investment Facilitation

A major achievement of the Abu Dhabi gathering was the issuance of the Joint Ministerial Declaration, which marked the finalisation of the Investment Facilitation for Development (IFD) agreement. This milestone highlights a strong commitment to enhancing transparency and advancing investment facilitation measures.

This pioneering agreement, resulting from six years of dedicated efforts, was designed to help its signatories attract the foreign direct investment (FDI) needed to stimulate growth, boost productivity, create jobs, and integrate into global supply chains, particularly fostering sustainable economic growth in developing countries. The agreement excludes provisions on market access, investment protection, and investor-state dispute settlement. Over 120 WTO members, representing three-quarters of the membership, participated in the IFD initiative, including 90 developing economies, of which 26 are LDCs (WTO, 2024f). Members are proposing to include this agreement in Annex 4 of the Marrakesh Agreement, which established the WTO. The IFD agreement, which would be a plurilateral agreement open to all WTO members to join to streamline procedures, has no market access obligations or constraints to benefits both non-signatories and signatories alike (Lacey, 2024; Wolff, 2024; WTO, 2024f).

8.3.6. Outcomes in Favour of Least-Developed Countries

Despite constituting a relatively small portion of the global landscape, with only 45 countries classified as LDCs by the United Nations, LDCs are home to a substantial population of one billion individuals, representing 13% of the world's total. However, their contribution to global exports remains limited, accounting for only 1% of the total (UNCDF, 2024).

Recognising this disparity, the WTO has prioritized greater integration of LDCs into the global trading system. To facilitate this integration, the WTO has implemented measures, such as providing market access opportunities for LDC exporters of goods and services and granting LDCs greater flexibility in implementing WTO rules and regulations (WTO, 2024f).

However, ensuring seamless graduation from the United Nations' LDC category is crucial, as it entails the loss of a number of benefits, such as trade preferences, trade-related capacity building, discounts on UN contributions, and Official Development Assistance (ODA) flows (Fialho de Oliveira Ramos, 2015). Nonetheless, the MC13 outcomes included significant measures to support LDCs. The Abu Dhabi Declaration's introduction of a three-year transition period offers a smooth transition for these countries as they adapt to the new realities of their post-LDC status, which allows them access to LDC-specific trade-related technical assistance and capacity-building initiatives (WTO, 2024c). Similarly, the General Council adopted a decision encouraging WTO members to extend duty- and quota-free preference programmes for graduating LDCs (WTO, 2023b).

8.4. Divergent Views and Unresolved Issues in Global Trade

The MC13 in Abu Dhabi occurred during a challenging period marked by rivalry between the two largest economies, as well as armed conflict in Eastern Europe, which complicated economic cooperation and free trade. The Abu Dhabi conference revealed not only the familiar North-South tension, but also new tensions among developing countries, particularly regarding digital commerce and agriculture subsidies. The ongoing debate over agricultural subsidies, a contentious issue since the Doha negotiations, has become a significant roadblock to international trade discussions. Developing countries have long voiced concerns over the large agricultural export and production subsidies in developed countries, depressing prices and hurting growers in Africa. However, although a coalition of developing nations has persistently pushed for substantial reductions in these subsidies, public stockholding has exposed deep divisions among developing economies. However, the debate over agricultural subsidies and their impact on trade has effectively stalled progress in much-needed agricultural reforms and, in a broader sense, hindered efforts to reach a consensus on curbing environmentally harmful fishery subsidies according to the WTO Director General (Okonjo-Iweala, 2024).

Another significant and standing challenge for the WTO and global trade has been the weakening of the organisation's dispute settlement system, particularly owing to the United States' decision to block new appointments to its Appellate Body. In response, the WTO has initiated efforts to reform the dispute settlement mechanism with the goal of completing these reforms by the end of 2024 (CSIS, n.d.).

8.5. UAE Support to the WTO and Women's Entrepreneurship

Through the UAE Minister of Foreign Affairs, H. H. Sheikh Abdullah bin Zayed Al Nahyan, the UAE committed a substantial contribution of US$ 10 million to bolster several pivotal initiatives within the WTO. This allocation was divided among the Fisheries Funding Mechanism, Enhanced Integrated Framework (EIF), and Women Exporters in the Digital Economy (WEIDE) fund, which was launched immediately prior to the MC13 (WTO, 2024e). The new WEIDE fund with a budget of US$ 50 million for supporting female entrepreneurs in developing countries. The WEIDE fund seeks to empower women to expand their export activities by harnessing the potential of the digital economy. Through investment in female entrepreneurs and digital infrastructure, the UAE is actively working to eliminate barriers hindering women's participation in the global economy and to foster more inclusive economic development (WAM, 2024a; WTO, 2024e).

8.6. Policy Recommendations

The UAE's proactive engagement and diplomatic influence at the MC13 set a strong foundation for continued leadership in global trade discussions. To sustain this momentum and drive impactful outcomes leading to MC14, the following policy recommendations are proposed:

Championing reform: Continuous active participation in WTO reform initiatives and advocacy for streamlining processes and improving dispute settlement mechanisms.

Promoting inclusivity: Contributing to development initiatives and technical assistance programs to ensure that all countries benefit from the global trading system.

Embracing innovation: Fostering a culture of innovation and entrepreneurship, particularly in the digital economy, to capitalise on the opportunities presented by e-commerce and new trade technologies.

By assuming a leadership role in these areas, the UAE can contribute to a stable, efficient, and inclusive global trading system that benefits all nations.

8.7. Conclusion

Despite the challenges posed by geo-economic fragmentation, the Abu Dhabi Declaration marked several key achievements that bolstered the WTO's credibility. Notably, it included an agreement to ease the transition from an LDCs to a developing-country status. Comoros and Timor-Leste were welcomed as new members. Additionally, 125 members, including nearly 90 developing countries, successfully concluded the IFD agreement, with the potential of saving up to US$ 1 billion annually for participating countries.

The UAE has successfully navigated many differences amidst the challenging geopolitical landscape. It is important to remember that lowering trade barriers through negotiations is not a sprint but rather a marathon, as suggested by Dr. Thani bin Al Zeyoudi, the UAE's Minister of State for Foreign Trade.

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FUTURE TRENDS IN ECONOMIC DIPLOMACY AND GLOBAL SHIFTS

Part

IV

9 On War, Debt, and Hard Currencies

Mahmoud Mohieldin[1]

9.1. Introduction

The world is on the verge of a major shift. Economic and political fragmentation is the highest it has been in modern history (Gopinath, 2024). Inflation has in many places reached all-time highs in the last two years, while global economic growth is the weakest it has been in five decades and debt burdens continue to cripple development efforts (World Bank, 2024). Worsening climate change is costing the global economy at least US$ 1.4 trillion per decade in losses and damages alone, and warfare is sweeping the world on a scale unseen since the end of World War II (World Meteorological Organization, 2021). The world is watching horrors unfolding in Gaza despite the UN General Assembly's ceasefire resolution in December 2023 and other urgent appeals to stop the ruthless war machine. Likewise, the reverberations of conflict in Ukraine and the Occupied Palestinian Territories (OPT) are radiating outward through regional and international political and economic impacts that may be felt for generations. Confidence in the international order is declining and global polarization is intensifying such that a proliferation in outbreaks of more destructive wars seems likely.

The stability that held for decades after World War II, which now seems so fragile, has been attributed to two factors, both of which are now under threat (James, 2023). The first was nuclear deterrence or "mutually assured destruction" which ensured extreme restraint regarding the use of nuclear weapons. Yet Russia and the United States have both brandished the nuclear threat since the outbreak of the war in Ukraine. The second factor was the US dollar's pre-eminence as a reserve currency, which was itself based on two factors that are now fragile: the affordability of the dollar as an international currency with low interest rates and, much like a nuclear weapon, which loses all deterrence power if used, that the enormous power of the dollar was never weaponized.

As multipolarity driven by the growing economic weights of emerging powers has begun to take shape, succeeding the bipolarity of the Cold War era and the unipolarity that followed it, both features of the dollar have been altered. Recent high inflation has led the US Federal Reserve to increase interest rates, which made the currency more costly to obtain. As Tooze (2024) explained, "The global dollar system works best when dollars are abundant when US interest rates are low and other currencies are riding high. Easy access to dollars stokes economic activity around the world." Likewise the dollar has been weaponized against Russia, Iran, and Afghanistan.

[1] The views expressed herein are entirely those of Mahmoud Mohieldin and should not be attributed to either the UN, the IMF, its Executive Board or its management. The author acknowledges research assistance provided by Mariam Abdelnabi and Ahmed Zaki; Usual disclaimers apply.

These recent developments reopened the debate about the role of international currencies and their functions in the global economy and, in particular, the prospects of the US dollar as a hard currency. In this chapter, we discuss these debates. The chapter starts by identifying the characteristics of hard currencies, and then discusses the current influence of the US dollar. It then delves further into the emerging challenges facing the dominance of the US dollar, including the impact of high inflation and the role of technology. The chapter ends by highlighting lessons and experiences of history of relevance to the current dynamics.

9.2. Characteristics of Hard Currencies

For a currency to become a "hard" currency, let alone a reserve currency, it must first not be a "soft" currency. In other words, there must be agreement that it locally serves its three recognized functions as a unit of account in transactions, an accepted medium of exchange for payment, and a store of value (Shafey, 1962). If a currency grows soft due to a continuous deterioration of its value due to inflation and the increase in its supply to pay off debts, people turn away from it and look to other currencies to substitute it or use other means to hedge inflation, such as gold. Conversely, if a currency is stable and accepted domestically and the economy using it expands in production, investment, and exports, it will have greater appeal among people in other countries. It will be able to perform its three required functions in cross-border transactions such that it becomes an international currency. Hard currency issuers enjoy major prerogatives, such as being able to borrow abroad using their own currency and forcing every holder of their currency around the world to help them pay back their debt. If the country issuing the currency maintains strong and consistent growth and is backed by the rule of law, strong property rights, and deeply entrenched markets, it can evolve to become a reserve currency (Mooney, 2023). Central banks and other institutions benefit from their high liquidity and relative stability when they keep treasury bills, bonds, and other financial instruments denominated in a reserve currency.

Beyond the characteristics of the currency itself, there are conditions for the issuing country of such currency (Dalio, 2021). Such a state starts by investing in its human capital and economy, participates in trade, develops a capable defence system, and becomes a recognized hub of trade, knowledge, and economic activity before ultimately enjoying a reserve currency issue status. Consistent and high economic growth is a vital element; the Growth Commission Report (2008) lays out the key ingredients for high and sustainable growth that enable incumbent and emerging powers to progress economically and extend their influence globally (Commission on Growth and Development, 2008).

The UK pound sterling was the world's reserve currency for decades, but the seeds of its downfall were sown during World I. Despite its political and military victory, Britain sustained huge economic losses. It sold assets and borrowed what amounted to more than 130% of its gross domestic product to fund the war, increasing its national debt to six times its pre-war level (Eichengreen, 2004). The US dollar first emerged as a potential rival to the pound sterling in the 1920s, but the British government held it at bay by bringing inflation under control. The sterling was thus able to withstand the competition and, for a time, to retain the empire upon which the sun never set. However, during World War II the US benefited greatly from exporting weaponry to Europe and suffered much smaller losses than European countries. While the UK and USSR economies remained stagnant at best during the years of World War II, the US economy almost doubled in size between 1938 and 1945, vastly extending its lead as the world's largest economy (Maddison, 2003). Britain emerged politically and militarily victorious much as it had after World War I, but even larger foreign debt and mounting domestic obligations forced it to reduce the value of its currency. Before long, central banks reduced their holdings in sterling as demand for it shrunk. After the war, the Bretton Woods agreement that had been negotiated in 1944 cemented the US dollar's formal status as the world's reserve currency, when all other currencies became pegged to the dollar and the dollar became pegged to gold (World Bank). Then came the Suez Crisis of 1956. The United States stepped in to stop the aggression and dictate terms for the cessation of hostilities, and US President Eisenhower refused to support Britain and, by extension, its currency, which plummeted (Boughton, 2001).

Washington's unrivalled dominance over Western countries had been set such that even the Nixon shock and the following decoupling between the dollar and gold could not topple it. Ever since the US has been the world's leading economic power, and the dollar still dominates as the world's reserve currency. Yet it is clearly faltering in the emerging multipolar world order.

9.3. The Current State of Affairs and the Influence of the US Dollar

As we navigate a world marked by both turbulence and opportunity, the US dollar continues to stand as a pillar of global financial stability. Dollar transactions backed by the US financial sector come with attractive returns, and the more dollar holders there are, the more advantages accrue to the US Federal Reserve. The US can settle its international obligations in its own currency. It can also impose sanctions on others by using its currency; Russia can no longer participate in the SWIFT system because it is banned from trading in US dollars (Hotten, 2022). By expanding the international use of its currency beyond the size of its domestic economy, US monetary and fiscal policies can affect global economic conditions. Reducing the hegemony of the dollar was one of the motives behind the European drive to create a single currency. The Russians also want to rein it in, especially after it started being weaponised against them. The Chinese see the dollar's continued hegemony as an affront to global economic multipolarity. Cross-border dealings increasingly use other currencies.

However, the dollar's primacy as a hard currency continues. Many currencies of the advanced and developing countries alike are still linked or pegged to the dollar to various degrees. If they use a fixed exchange rate, it is one that is pegged to the dollar, and if they use a flexible exchange rate system it is also relative to the dollar. Even if the dollar is not directly involved in contractual arrangements or the settlement of transactions, it still acts as the standard or a vehicle currency by which the value of other currencies is measured. In total, the US Dollar's share in international reserves has declined, but it still has three times the Euro's share, with the latter standing at 20% of FX reserves. Indeed, the belief that weaponizing the currency would render it as useless as using a nuclear weapon has not yet been borne out. The dollar's share as a currency for international payments and loans has actually increased.

Figure (9.1):
Currencies Share in International Foreign Exchange Reserves

1975	
US Dollar	85%
Sterling Pound	11%
Franc	1%
German Mark	2%
Other Currencies	1%

2023	
US Dollar	59%
Euro	20%
Yen	5%
Sterling Pound	5%
Yuan	2%
Franc	0%
Australian dollar	2%
Canadian dollar	2%
Other Currencies	4%

Source: Author's compilation using International Monetary Fund – Foreign Exchange Database

Economists recognize three factors driving the continued dominance of the US currency. Brazilian President Luiz Inácio Lula da Silva, in 2023, identified the first: the dollar's dominance to "force of habit" and fear of change (Mohieldin, 2024). Whenever the subject of replacing the dollar with an alternative is raised, people get nervous, despite the adverse impacts the dollar has had on the economic affairs of low- and middle-income countries. US Treasury Secretary Janet Yellen identified the second in 2023 when she said that the dollar is "used widely in trade . . . because [the United States has] deep, liquid, open capital markets, rule of law, and long and deep financial instruments" (Mooney, 2023). Economist Prasad (2022) identified the third: the dollar still performs its main functions better than alternative conventional, emerging, or innovative currencies, despite the challenges it faces (Prasad, 2022). Yet as these challenges deepen, change is possible.

9.4. Emerging Challenges

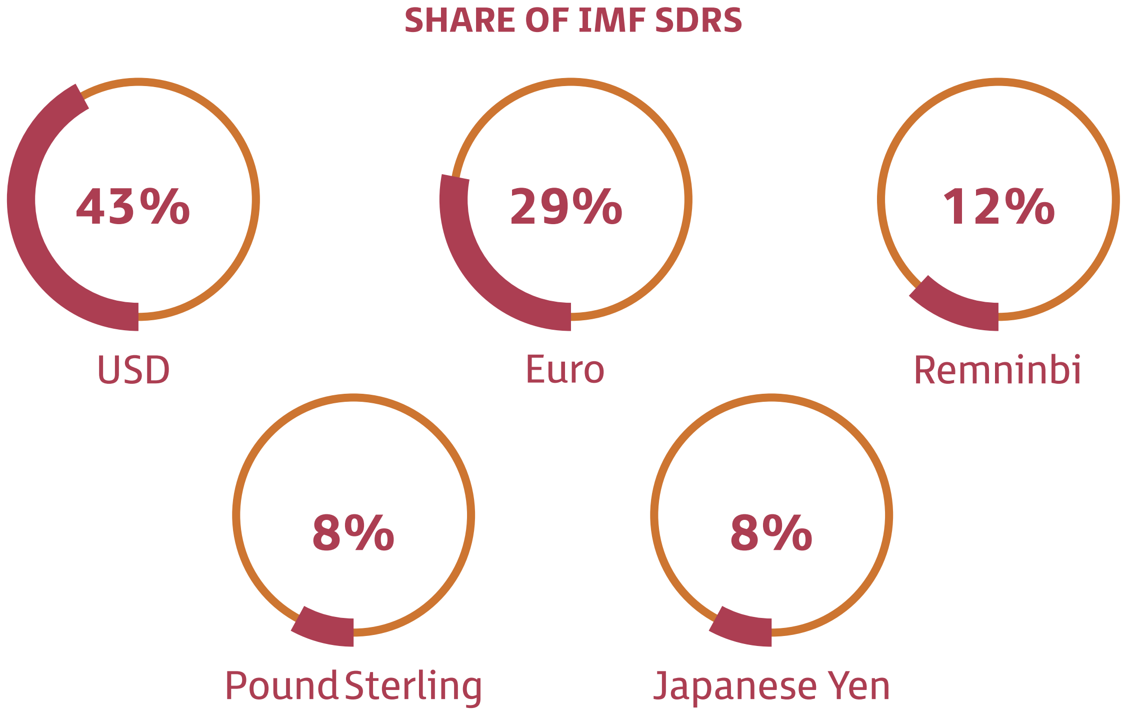
Various countries are acting to challenge the dominance of the US dollar. Unsurprisingly given he had attributed that dominance to habit and fear of change, President Lula da Silva called for breaking away from it at the Summit for a New Global Financial Pact held in Paris in June 2024, and South African President Cyril Ramaphosa backed him up with a call to promote the use of local currencies in international trade.[2] China, the current leader in international trade in terms of volume, has also been trying to utilize differently its own holdings of US debt lately, highlighting the strain resulting from US-China trade restrictions and geopolitical tensions (McGeever, 2024). Russia has been increasingly using the renminbi in its international trade after the West froze US$ 300 billion of Russian assets because of the war in Ukraine (Ziady, 2024). At the same time, even allies have historically challenged the dominance of the dollar, such as France, who objected in the 1960s to what they called the "exorbitant privilege" the US enjoys as the producer of the world's dominant currency. Calls to dethrone the dollar are thus both new and old. They are driven by the desire to limit its power in times of peace and prevent its weaponization in times of war.

Likewise, allies such as the European Union are among the countries and blocs taking incremental steps towards this goal. Global central bank gold holdings have been consistently climbing to all-time highs, almost to levels not seen since the peak of the Bretton Woods system (Arslanalp et al., 2024). Emerging economies like India and Turkiye, as well as China, have been drastically increasing gold holdings, especially since 2022 (World Gold Council, 2024). China has reduced its holdings of US Treasury Bonds to around US$ 775 billion, down from a peak of US$ 1.32 trillion in 2013, with the sharpest declines coming beginning April 2022 (Zhihua, 2024). Russian President Vladimir Putin recently announced that around 40% of Russian trade turnover was now conducted in rubbles (Meredith, 2024). All of these efforts explain the dollar's relative decline in the dollar's share in foreign exchange reserves.

Knocking the dollar off its perch ultimately requires the existence of an alternative currency or currency group that is better and safer than the US dollar. Thus far, all the possible alternatives to the dollar lack one or more of the pillars of a reserve currency. The Euro might be a strong candidate, but the Eurozone is a monetary and not a fiscal union, unlike the United States. The US economy also continues to outperform the EU economy, and the COVID-19 pandemic widened the gap (Rachman, 2023). The Chinese Renminbi is backed up by a strong and growing economy and 12% of the International Monetary Fund's (IMF's) special drawing rights basket is yuan-denominated. However, China's imposition of capital controls and perceived lack of transparency make it difficult for its currency to achieve reserve status.

[2] Quote Lula and Ramaphos

Figure (9.2):
Currency Basket of Special Drawing Rights



Source: International Monetary Fund. (2022, July 1). SDR valuation basket.

Another, more radical alternative to the US dollar is cryptos such as Bitcoin. But cryptos effectively lack all three tenets of regular currency. Cryptos are only as valuable as the dollars they can be exchanged for. They do not hold any intrinsic value. Likewise, a new currency alliance may take a long time to challenge the dollar. Such an alliance would likely revolve around a new cluster such as the growing alliance termed BRICS (Brazil, Russia, India, China, South Africa, Iran, Egypt, Ethiopia, and the United Arab Emirates). For the time being, at least, the political stability of BRICS and the viability of a common currency between its member states remain questionable, and it carries the same complications as the Eurozone.

At the same time, the pace of change is far faster than it used to be. One of the lessons of the pound sterling's removal from the throne that the dollar now sits on is how war, debt, and the performance of the UK economy eroded sterling's primacy as an international reserve currency (Mohieldin, 2023). However, the seeds of the next shift are sown in the 2020s, it seems unlikely it will be until the 2050s that the shift is complete in the way that the downfall of sterling took from the 1920s to the 1950s. For example, the use of information technology has enabled the development of central banks digital currencies (CBDC). These are ready to be put into circulation, one of the most advanced being the one China is working on through its own central bank and in collaboration with other countries. Other emerging economies are taking more advanced steps to advance CBDCs and joined the Bank of International Settlements' Project mBridge, a CBDC Cross-border trial, which initially included China, Thailand, the UAE, and Hong Kong (Jones, 2024). The next pre-eminent currency may have a distinctly different form from either the sterling or the dollar.

There are also growing bilateral arrangements for settling international transactions in local currencies and bypassing the dollar (Lawler, 2024). Thus, the power held in issuing the reserve currency may be eroding. To be sure, switching from one currency to another for international transactions will not improve an economy that performs poorly in substance. Attempts to set the price of a domestic currency vis-à-vis international currencies of different forms and types are not a substitute for what it really takes to enhance the local currency's value. Improving the economy through more investment, higher productivity, better competitiveness and stronger export performance will always be required.

As we examine the evolving dynamics of the global economic landscape, shaped by the historical and current influence of the US dollar amidst modern conflicts, it is evident that both advanced and developing economies are facing economic challenges. These challenges could significantly reshape and restructure the future of currencies, including the dollar. The interplay of geopolitical conflicts, economic policies, and shifts in global power underscores these issues.

The sections below explore three critical areas: the role and impact of digital currencies as nations seek greater financial autonomy, the persistent challenges posed by inflation and interest rate policies, and the broader implications for the future of international currencies. Each of these aspects offers insights into how economic strategies and geopolitical tensions might redefine the use of currencies globally, influencing not only daily transactions but also international financial stability.

9.5. Opportunities and Risks of Technological Advancements

While improving macroeconomic policies remains crucial for enhancing a currency's value, the evolving landscape of digital finance offers new opportunities and challenges that could redefine economic stability and the role of traditional currencies. Recent times have seen important developments in the realm of cryptos and central bank digital currencies. Most observers of financial and technological affairs have been engrossed in recent developments in artificial intelligence (AI) raising interests and concerns about the commercial goals of tech companies and digital platforms, especially those involved in circulating information and executing deals (Thornhill, 2024).

To what extent do these companies comply with the rules of sound governance? Do they endeavour to protect their customers' personal information and rights? To what extent do they stick to the rules and ethical standards for safeguarding customers' private information and the security of society as a whole, such that they are protected from any possible breakdown in AI that could threaten them?

A group of scientists and researchers warned of this very problem in an open letter calling for a pause in the race to train AI systems that would be more powerful than those that currently exist until effective regulatory practices are in place.[3] However, Thornhill (2024) has observed that the competitive fever to precisely develop these types of high-risk AI systems has only increased since the idea of the pause was first floated. This has heightened concerns over whether existing governance systems can find an appropriate balance between innovation and profitability, and the need to provide the necessary guarantees for countries' domestic security and international security.

Closer to the topic at hand, which is the future of the world's currencies in an era of warfare and debt, and the technological dimensions of currency development, Facebook attempted to launch its own crypto currency, the Libra, in 2019 (Mohieldin, 2022). The company promised Libra would increase the efficiency of transactions by lowering costs and increasing inclusiveness (Thornhill, 2024). The project encountered resistance from regulators for reasons to do with financial and monetary stability and protecting privacy and other rights, overriding the arguments of the developers that their products were more efficient, less costly, and more conducive to financial inclusion than Fiat currencies. In the end, regulators successfully stopped the Libra.

[3] The letter can be accessed through this link and so far, has almost 40,000 signatures https://futureoflife.org/wp-content/uploads/2023/05/FLI_Pause-Giant-AI-Experiments_An-Open-Letter.pdf

In another article in April 2021, the author argued that the domain that is likely to see the most development was the CBDCs. A digital version of the central bank's regular currency would enable people to make payments and settle transactions directly by using digital wallets or similar applications without having to pass through an intermediary if needed. "CBDCs would benefit from the advances in blockchain technology, and they would enjoy the advantages of a currency certified as legal tender by a sovereign central bank."

Meanwhile, cryptos continue to spread despite highly volatile price fluctuations. Dealers' nerves were further frayed by the recent crisis that rocked the largest cryptocurrency exchange, Binance, which led to the dismissal of its CEO, Changpeng Zhao, who had once presented himself as the industry's saviour. The US Federal Court that heard the case, sentenced Zhao to a US$ 50 million fine and Binance to a US$ 4.3 billion fine, one of the highest ever meted out to a corporate entity (Stempel, 2024).

Tett (2023) discussed the developments in connection with the Binance settlement of which two main observations can be emphasised: First, despite the difficulties involved, it is easier by far to trace transactions in cryptocurrencies than in cash. Despite the issuers' promises regarding the confidentially of transactions and the privacy of users, their guarantees are crumbling in the face of advances in monitoring and tracking technologies. Second, there are holes in the legislation needed to regulate the industry to protect cryptocurrency users. As a result, regulators have been forced to marshal the limited means at their disposal to protect the markets (Tett, 2023).

A positive note regarding the development of formal markets and the issuance of CBDCs was sounded at the FinTech Festival in Singapore in mid-November 2023. In her keynote speech at the event, IMF Managing Director Kristalina Georgieva said that "about 60 per cent of countries are exploring [CBDCs] in some form today" and added that the success of CBDCs will depend on government policy decisions and how the private sector responds (International Monetary Fund, 2023). The need to start raising awareness of CBDCs was emphasized specially concerning the financial needs of businesses and the general public. Experience, especially since the global financial crisis in 2008, has highlighted the need to communicate and share information about technological developments and financial innovations and their impacts on societies and markets. This communication is more vital than ever today in view of the increasing use of AI applications.

Georgieva noted that for now, CBDCs are "expensive, slow, and only available to the few," but called for their development, noting that in the future they stand to facilitate cross-border payments for trade, investment, and remittances. The current shortcomings the world is experiencing with the use of "hard currencies" for these purposes underscore the urgency of continuing the search for alternatives.

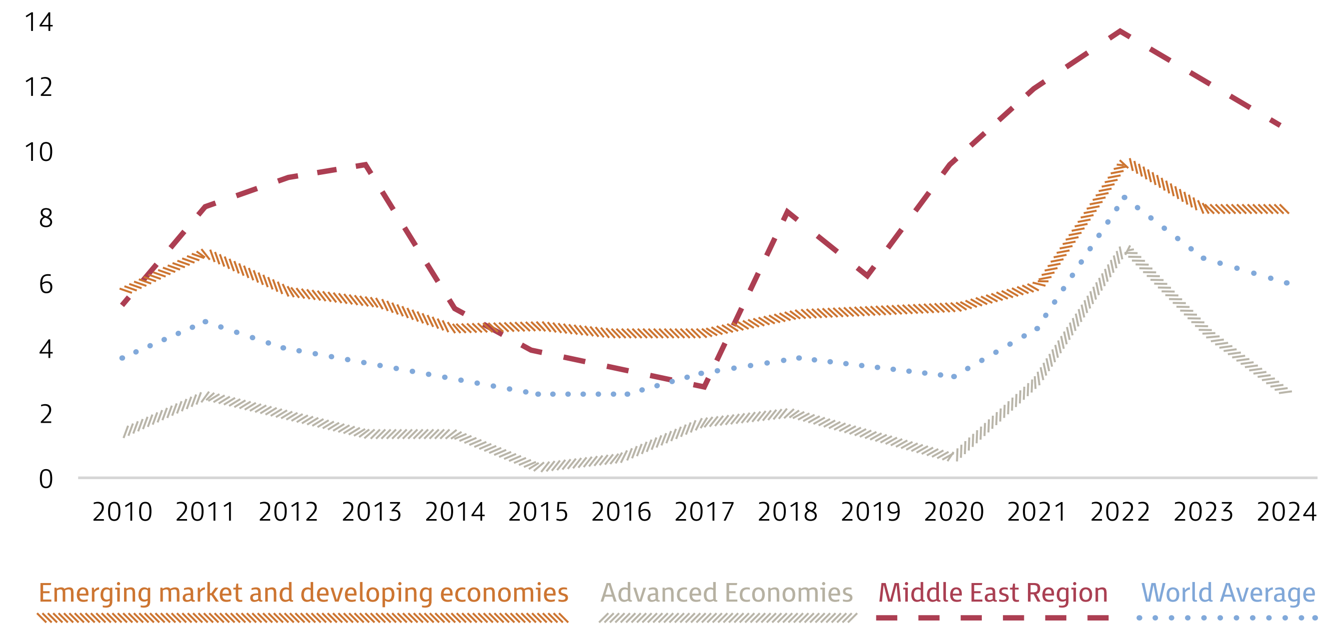
As important as technological changes are, the evolution of currencies does not challenge the underlying principles and fundamentals which guide economic development, which have very little to do with whether a currency consists of salt or some other commodity, is printed on paper like banknotes or stamped on metal-like coins or is made of plastic or digital in form.

9.6. Impact of High Inflation and Interest Rate Policies

Although global inflation has fallen below 7% in 2024, down from 9% last year, and is expected to fall to below 6% next year[4], interest rates are unlikely to return to levels familiar to the public and policymakers before the last inflationary wave. Recession remains a threat to the global economy, and the narrow escape following the COVID-19 pandemic can only hold if inflation is brought down. Likewise, the relatively high inflation rate in the US and Europe has revived vivid memories of the runaway prices of 40 years ago.

[4] Refer to estimates and forecasts by the IMF in latest World Economic Outlook update (April 2024) and World Bank Global Economic Prospects (last update January 2024)

Figure (9.3):
Inflation Rates in a Select Group of Regions and Country Groupings



Source: Author's compilation using IMF Data Mapper based on April 2024 World Economic Outlook Update

High interest rates and higher resulting financing costs will aggravate the difficulties of many developing countries, which had indulged in borrowing sprees in hard currency from international lenders without factoring in the risk of shocks related to changing interest and exchange rates.

According to the UN Conference on Trade and Development (UNCTAD), public debt rose from 35% of the gross domestic product of the developing nations in 2010 to over 60% in 2021, while external debt climbed from 20 to 30% over the same period. As a result, these countries grew increasingly vulnerable to interest rate fluctuations and sudden changes in hard currency exchange rates (United Nations Conference on Trade and Development, 2024). The COVID-19 pandemic pushed them to the brink, and they introduced measures of monetary easing so excessive that they were like showering banknotes from helicopters. Central banks in developing countries had to contain the inflationary impacts, but they delayed in the hopes that it would go away on its own, then instituted a rapid succession of interest rate hikes when it was clear it would not.

In developing nations, monetary policies, already confused about global interest rate and foreign exchange rate trends, were thrown into havoc. The sudden changes in the international economy sent tremors through financial and investment markets, and financial flows to emerging markets and the developing economies began to falter and shrink.

9.7. Navigating High Interest Rates and Inflation in a Volatile Global Economy

The volatility of the ebb and flow of money complicated debt management and the financing of growth and development programmes. Economic planners should have taken steps to guard against the risk of short-term shocks, especially in countries with low net foreign assets calculated by deducting a country's external debt from its foreign exchange rate reserves.

Rogoff (2023) predicted that interest rates will remain higher for the next decade than they were in the decade that followed the 2008 global financial crisis, even if major economies cut interest rates out of fears of recession or in response to public pressure (Rogoff, 2023). Rogoff lists several factors that encourage interest rates to remain high, such as soaring debt levels, deglobalization, increased defence spending, the green transition, populist demands for income redistribution, and persistent inflation.

In the advanced nations, high interest rates will impact corporate borrowing and the real-estate sector, which had been counting on relief in the form of a drop in interest rates. In the economic policies of the Global South, where inflation has sunk its teeth into many countries, the pain will be greater. Those in which policymakers dream of a quick return to the age of cheap borrowing so that they can recoup the sums that have evaporated from their ledgers will be particularly hard hit. Policymakers had mistakenly treated the flows of funds they enjoyed during times of low interest rates as investments when in fact they were simply short-term speculative debt (hot money). With some deft manipulation of the exchange rates, they were able to boast of the inflow of such money as a sign of economic progress – until the day of reckoning came with its repercussions on economic stability, which can now only be restored through costly reforms.

Economic policymakers in these countries should familiarize themselves with the public policy basics laid out by the Dutch economist and Nobel Prize winner Jan Tinbergen, in his work on economic policy that goes back to 1952.[5] In this work, Tinbergen differentiated between policy targets and measures. Based on this approach one can argue that targeting inflation is preferable to targeting exchange rates.

As Mohieldin explained in 2002 and 2004, many developing and industrialized nations can achieve progress in monetary stability, investment, and, hence, economic growth. Doing so, he showed, requires the application of a monetary policy framework that requires, first and foremost, effective coordination between public and monetary policies, the independence of central banks, curbing increases in the money supply, the adequate and timely use of monetary measures such as interest rates, an efficient foreign exchange market, and continuous and clear communications with economic stakeholders and the general public to keep them informed and up to date with the latest developments.[6]

As the inflation-targeting framework gains credibility, monetary stability becomes achievable, investments and remittances start to flow again, and producers, exporters, and importers can price their goods, conduct their activities, and manage their risks efficiently while avoiding exposure to uncertainty or ambiguous behaviours that raise doubts and undermine confidence. Given the high volatility of exchange rates worldwide and the probability that inflation rates will remain high for some time, it is crucial to activate the inflation-targeting framework that various advanced and developing countries have adopted.

9.8. Conclusion

History is a constant reminder of how change can happen, and contemporary history tells us how fast that change can be. Scholars have turned to past experience to learn more about the future of the dollar as an international currency, starting with the Greek drachma in the Fifth Century BCE, then the Roman denarius, the Byzantine solidus, the dinar of the Islamic Empire, and the Venetian ducat and Florentine florin that circulated at the same time. The first currency to be widely recognized as an international reserve currency was the Spanish silver dollar, whose sway lasted from the 16th to the 19th centuries in and beyond the realms of the Spanish Empire in the Old World and the Americas. The Dutch guilder preceded the sterling as the most influential currency. Its influence grew in tandem with the Netherlands' colonial expansion in the 17th and 18th centuries, and its demise took about a century. The guilder was based on the silver standard, and the Bank of Amsterdam used measures like those used by monetary authorities today to keep its value stable. Yet the sterling replaced it, and its demise took about 30 years. The dollar's demise may be much faster than that.

Similarly, historical precedent suggests how countries can achieve economic stability in a tumultuous, crisis-ridden world. However, in time the pound sterling, which was based on the gold standard, eclipsed the guilder thanks to Britain's colonial wars of expansion and growth in exports. At the height of its influence, 60% of international trade was conducted in sterling. Britain incurred heavy economic losses and massive debts as a result of World War I and World War II, despite being one of the victors. Yet, sterling continued to reign internationally for a time, perhaps due to a lack of awareness of the magnitude of Britain's economic ailments or because of the force of habit.

It takes time for international arrangements to accept a newcomer even as the flaws of the old and familiar become more and more apparent. Yet, by the time the Bretton Woods Agreement was drafted in July 1944 as the basis for the postwar economic world, sterling was discarded as the base currency for the new postwar financial arrangements, even though it continued to retain a 55% share of the world's hard-currency reserves until the Suez Crisis struck in 1956.

The three reasons explained above for the continued dominance of the dollar, as Lula, Yellen, and Prasad described, speak of countervailing forces and the possibility of its being unseated if the underlying balances change. However, any potential candidate as a replacement currency must be backed by good economic performance, open financial markets, and smoothly functioning institutions and processes, as well as being underwritten by a credible legal system and the rule of law. If such conditions are met, it will be just a matter of time before traders, investors, organisations, and the public grow used to the new alternative. They would also be wise to learn the lessons of history, and their relevance to the prospects of the dollar, on how the rise and fall of the guilder and the sterling, were linked to the rise and fall of the nations that minted and exported them. In a fast-changing world, it is important to continuously monitor international reserves currencies, as they might lose the necessary conditions for trust to serve in their functions.

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[5] For more, refer to the Tinbergen Rule on policy measures and targets
[6] Refer to (Mohieldin & Kouchouk, 2004)

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10 BRICS and the New Development Bank

Martin Feldkircher
Viktoriya Teliha

10.1. Introduction

At the beginning of this year, the BRICS group, encompassing Brazil, Russia, India, and China, was expanded to BRICS+ to include five new member states: Egypt, Ethiopia, Iran, and the United Arab Emirates (UAE). Since BRICS was coined (O'neill, 2001), the group has been loosely cooperating mainly with an economic motivation, that is, to gain market share through trade and economic cooperation. This changed in 2014, with an agreement to establish the New Development Bank (NDB), the first institutionalisation of the BRICS cooperation. NDB was the group's most tangible creation and the result of efforts to build alternatives to the so-called Bretton Woods institutions, including the International Monetary Fund (IMF) and the World Bank. The perception of underrepresentation of emerging markets in global institutions, such as the IMF, World Bank, and, particularly, the UN Security Council, in which Africa and the Middle East lack permanent representation, may act as a further catalyst for expanding the group. Russia and China have been particularly vocal in advocating the transition from a US-led unipolar world to a multipolar one that emphasizes equality among nations. This chapter analyses how the NDB serves as a vehicle to foster economic diplomacy through strategic investment within the region, as well as an external signal of strengthened cooperation to the global community. For instance, Ye (2023) demonstrated that the influence of the UAE and other BRICS countries within the multilateral development finance system has increased following the establishment and expansion of the NDB.

Subsequently, we mostly focus on the five founding members of the NDB—Brazil, India, China, and Russia—and to some extent, the new members added in 2021: Bangladesh, Egypt, and the UAE (June,2024). Among these, only Bangladesh is the only non-member country of the BRICS+ group.

10.2. Multilateral Banks as a Channel to Foster Economic Diplomacy

Multilateral development banks (MDB) are supranational institutions established by sovereign states to provide funding for development projects. These banks tend to lend for longer maturity compared to commercial banks (Hu et al., 2022), enabling them to finance larger investment projects. MDBs can either operate with a regional focus, such as the African Development Bank (AfDB), Asian Development Bank (ADB), European Investment Bank (EIB) for the European Union, or on a global scale (World Bank). Multilateral banks can play a significant role in fostering economic diplomacy through selective financing.

One of the most prominent MDBs is the World Bank, which was founded in the aftermath of World War II. Originally established to rebuild war-torn Europe, the World Bank has evolved into the primary international institution responsible for promoting global economic development. Abundant literature suggests that the bank's funding decisions are influenced by geopolitical considerations. For instance, Dreher et al. (2009) show that a significant share of World Bank's projects is assigned to politically important developing economies, such as those serving on the UN Security Council. This finding could be interpreted as the main World Bank stakeholders using the bank to win the favour of voting members of the UN Security Council, as a foreign policy tool.

Most MDB loans come with certain conditions for borrowers; however, conditional lending has often been ineffective in fostering long-term economic growth. One reason for this may be donor pressure. Using the World Bank as an example, Kilby (2009) demonstrates that its main stakeholder, the USA, enforces loan conditions less strictly when the borrowing country is considered an ally of the USA. For countries that are not aligned with US interests, the degree of enforcement is much stronger. From this perspective, MDBs have two implicit policy goals: helping developing countries grow faster by financing important infrastructure projects and gaining or maintaining political influence in countries aligned with the foreign policies of their main stakeholders. This argument does not pertain solely to the World Bank and the USA. For example, Lim and Vreeland (2013) show that Japan uses the ADB as a foreign policy tool. Hence, projects distributed through regional organisations are not solely financed based on economic considerations but also on foreign policy.

MDB lending can also be viewed from the demand side—from the borrowing country's perspective. Following Humphrey and Michaelowa (2013), it is important to distinguish MDBs according to whether the main stakeholders are typically lending countries (e.g. the World Bank) or the stakeholders are primarily borrowers (e.g. Asian Development Bank). In the following analysis, we showcase the NDB using insights from the economic literature.

10.3. The New Development Bank (NDB)

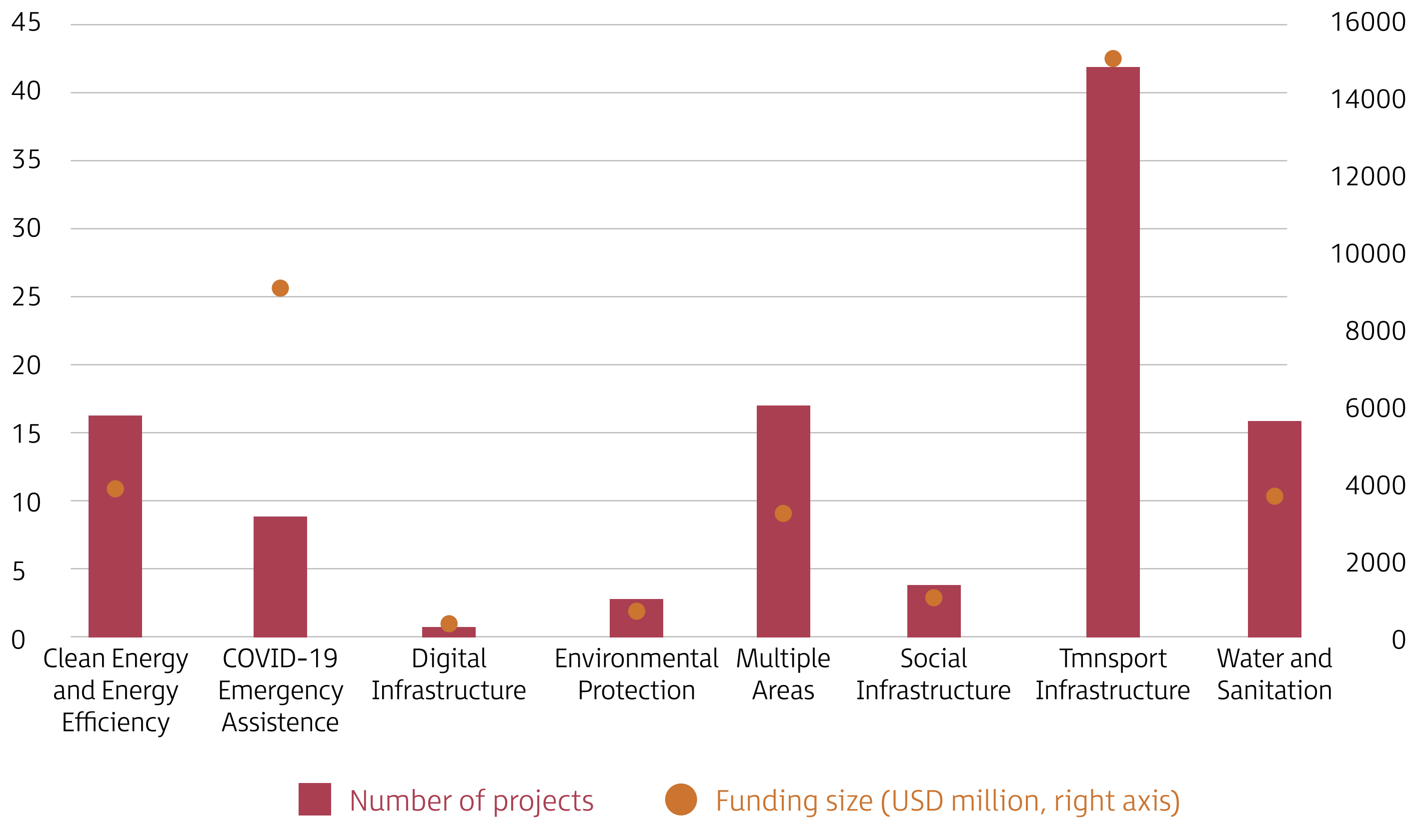
The NDB was established in 2014 by its founding members: Brazil, Russia, India, China, and South Africa. Its primary purpose is to close the financial gap in infrastructure development in the Global South, positioning it as a regional MDB. The main stakeholders are the five original founding members, each contributing capital worth US$ 10 billion. Other stakeholders include Egypt, Bangladesh, and the UAE, with capital contributions ranging from approximately US$ 500 million to US$ 1 billion. Consequently, the NDB is not solely a BRICS bank, as is often portrayed in the media, but rather an MDB with the original BRICS member states as the main stakeholders.

Distinct Features of the NDB

The NDB differs from other MDBs in several key aspects. It was the first MDB founded by emerging markets and developing countries. In addition, it has a narrow mandate, focusing exclusively on fostering development through investments in infrastructure and sustainable development. This contrasts with institutions such as the World Bank, which support a broader range of investments including education, healthcare, and women's rights, among others (Khanna, 2014).

Under its investment and sustainability mandate, the NDB invests in six core sectors: clean energy, digital infrastructure, environmental protection, social infrastructure (i.e. schools, hospitals, affordable housing, etc.), transportation infrastructure, and water and sanitation. Moreover, during the COVID-19 pandemic, the bank provided emergency funding, a stretch in interpretation of its narrow mandate. Nonetheless, certain projects cannot be assigned to a specific investment category, as they pertain to multiple categories; they are categorised under 'multiple areas'. Figure 10.1 illustrates the various investments.

Figure (10.1):
Projects and Funding Size Per Sector



Source: The NDB (2016-2024).

Figure 10.1 reveals that most projects have been devoted to transport infrastructure, followed by multiple areas, and clean energy. The significant share of clean energy projects aligns with the NDB's sustainability mandate. However, environmental protection and projects that aim to improve the digital infrastructure are still underrepresented in the NDB's overall investment portfolio, despite its sustainability mandate. Water and sanitation projects are also among prominent NDB projects of the NDB.

Based on the number of projects by sector, transport infrastructure has received the highest funding, approximately 40% of the NDB's total investment. This indicates NDB's priority to invest in upgrading transport networks such as roads, railways, and bridges. Substantial funding has been allocated to address the challenges occasioned by the COVID-19 pandemic in the period 2020-2021, amounting to approximately 25% of the overall funding. The three sectors—water and sanitation, clean energy, and multiple areas— have each received approximately US$ 4 billion, amounting to approximately 10% of the overall investment share. The remaining three sectors–digital infrastructure, environmental protection, and social infrastructure– have received approximately US$ 2 billion, which is approximately 6% of the overall investment.

The second distinguishing feature of the NDB is its use of so-called country systems (Hooijmaaijers, 2022). In other words, the NDB does not impose its own standards on environmental and social aspects or procurement processes, but instead considers the standards of the recipient countries as paramount. This approach further underscores the bank's primary focus on investment rather than centrally imposing conditions in exchange for funding, reflecting the BRICS group's strong commitment to protect national sovereignty. Another benefit is the reduced paperwork required in English, thereby accelerating project procurement, especially in emerging economies that may lack extensive bureaucratic capacity.

Another distinguishing and important feature of the NDB for emerging economies is the provision of local currency funding. Currently, approximately 25% of the approved projects are funded in local currencies, specifically the Chinese renminbi and South African rand. As the NBD expands its stakeholder base, this may open new possibilities, including funding in the UAE's dirham.

Although BRICS countries aim to reduce dependence on the US dollar, establishing a currency union is unlikely and economically unfeasible due to insufficient trade integration, differing business cycles, and varying inflation rates. Instead, BRICS countries could consider establishing a vehicle currency for invoice trading within the bloc economies. This vehicle currency should be stable within the bloc and outside and freely convertible. The Chinese renminbi is a natural candidate for becoming the vehicle currency. However, restrictions on financial accounts and considerable exchange rate volatility, especially since February 2022, may dampen its usefulness in this regard. Other potential contenders could be the Saudi riyal and the UAE dirham, both of which have full capital account convertibility for residents and foreigners and have been pegged to the dollar since the mid-1990s, providing a high degree of exchange rate stability. Among these, the UAE dirham stands out as a more market friendly option, open to trading with all BRICS currencies, as the UAE can be considered a financial hub for the region.

Despite these considerations, majority of NDB projects are still funded in US$, albeit some through the euro and Swiss franc. Providing funding in the borrower's local currency is an important and unique feature of the NDB, as many developing economies face large currency swings relative to the US dollar or euro, exposing them to severe exchange rate risks. As a side effect, lending to other BRICS currencies is a vehicle to foster capital markets within the region.

Another novelty that sets the NDB apart is its focus on private sector funding. While most MDBs almost exclusively focus on funding governments or state-owned enterprises, the NDB has made private sector funding one of its main pillars (Hooijmaaijers, 2022).

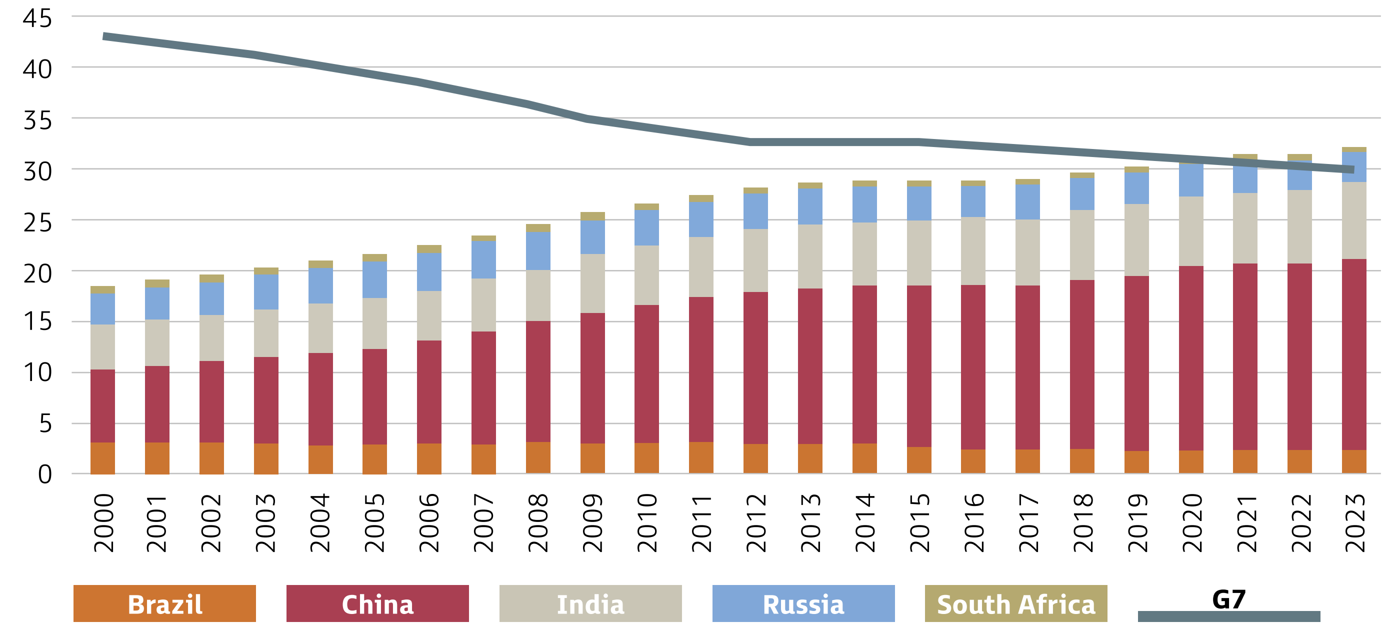
The NDB operates with a much leaner organizational structure than that of its peers, employing approximately 230 staff members in 2023. The bank's governance structure was significantly reorganised in 2020 and now comprises 21 departments (led by a Director General or equivalent), 24 divisions (led by Chiefs), and 4 Chief positions under the Corporate Secretariat, Internal Audit, Legal, and Office of the President. The Board of Governors has the highest decision-making authority, including one Governor at the ministerial level and one alternate appointed by each member country. All the powers of the NDB are entrusted to the Board of Governors. The second important structural component of the NDB is the Board of Directors, which is responsible for the general operations of the bank. The President of the NDB is a member of the Board of Directors, currently Ms. Dilma Roussef, and legally has no vote except for a deciding vote in case of an equal division of votes among the Board of Directors.

Headquartered in Shanghai, the NDB subsequentially established regional offices in Africa (2017), the Americas (2019), Eurasia (2020), and India (2022). These offices play a crucial role in enhancing the bank's operations and effectiveness across different regions and serve as vital hubs for project implementation, ensuring that the NDB can engage more effectively with local stakeholders. They facilitate field missions, advance dialogue with regional institutions, and strengthen the NDB's 'One Bank' culture. Additionally, these offices help to develop tailored country strategies and promote regional partnerships with other MDBs and international organisations, enhancing the bank's overall impact. By December 2023, the regional offices had approved 97 projects. In 2023, 8.5% of the NDB's total resources were allocated to these regional offices with an actual expenditure of 7.25%.

A final unique characteristic of the NDB is its system of equal voting rights, with no country having veto power. By contrast, voting rights in other institutions tend to be awarded based on economic size, but shifts in economic power have not been adequately reflected in a shift in voting power.

Figure 10.2 illustrates the shift in economic power by share of GDP (by purchasing power parity [PPP], in world GDP.

Figure (10.2):
GDP (at PPP, share in world GDP)



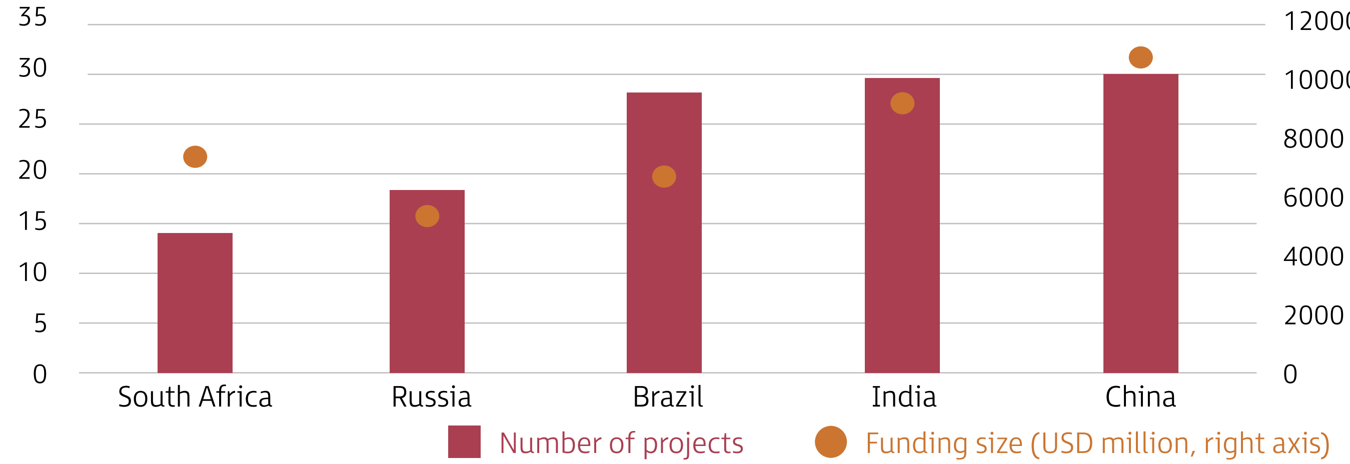
Source: IMF, WEO 2024-04-01.

Two key observations stand out. First, the BRICS region surpassed the G7 in terms of economic size for the first time in 2020. Second, although China and India are the largest BRICS countries, their dynamic growth over the last decades has been the primary driver of the region's overall economic size. Moreover, it is not that BRICS is overtaking the G7 rather, the two regions develop in opposite directions with BRICS increasing its share of global GDP while that of G7 declines. Moreover, compared to the G7, BRICS countries have been less affected by crisis events, such as the Global Financial Crisis 2008/09 or the COVID-19 pandemic. Nevertheless, this shift in economic power has not been reflected in the voting rights of the BRICS in the Bretton Woods institutions.

Funding Distribution of the NDB

The distribution of project funding is demand-driven; countries must submit valid project proposals. Figure 10.3 illustrates the regional distribution of these projects.

Figure (10.3):
Projects and Funding Size Per Country

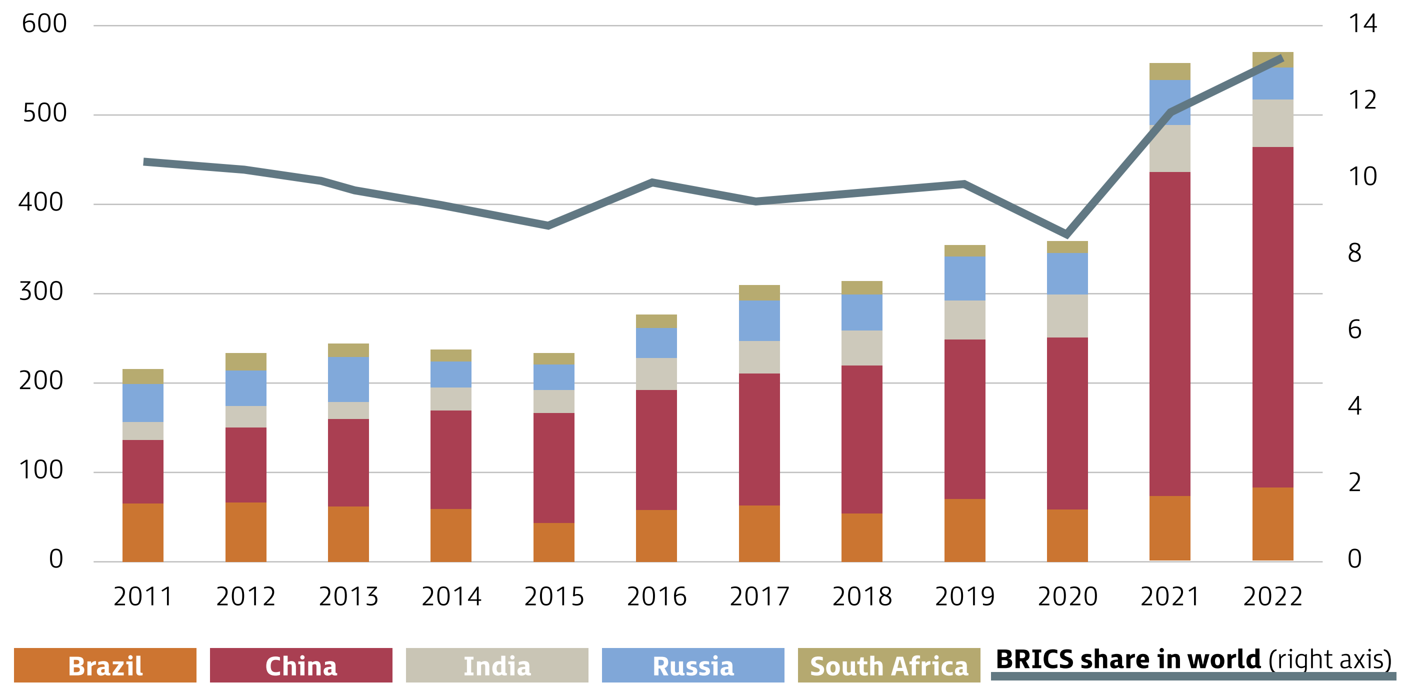


Source: The NDB (2016-2024).

The highest number of projects is attributed to China and India, followed by Brazil. The difference in financing needs, given the economic structures of the countries, suggests a broad scope of development activities supported by the NDB. Despite having the same extent of ownership of the NDB, considerably fewer projects have been funded in Russia and South Africa. In 2024 Q1, US$ 1.459 billion was invested in three projects in Brazil, India, and South Africa. The number of projects does not necessarily reflect the investment size. While China received the highest funding, India was the second largest recipient of funding, aimed for transport infrastructure and clean energy initiatives. Funding for Brazil targets clean energy and multiple-area development projects, such as Power Distribution Infrastructure Upgrade. For South Africa, the total funding was approximately US$ 7.4 billion with investments toward transport infrastructure and water and sanitation projects such as the National Non-Toll Roads Management Program. The total funding for (ongoing) projects in Russia was US$ 5.308 billion, focusing on infrastructure and social development.

The stock of foreign direct investment (FDI) inflows is used to assess whether the regional distribution of projects is skewed (see illustration in Figure 10.4). This serves as a complementary indicator reflecting how market forces regionally assign longer-term capital flows, which is the maturity segment addressed by MDBs.

Figure (10.4):
FDI Inflows to BRICS by Country and Group
(in bn of current US$)



Source: UNCTAD.

Since 2011, China has been the main recipient of FDI inflows with Brazil, India, and Russia also receiving steady inflows. A significant increase in FDI inflows to China was observed in 2021 and 2022 (the most recent data available), probably driven by Western investment into the Chinese semiconductor/technology sector. Additionally, in 2020, a new law was enacted to protect foreign investors.[1] Unlike the concentrated FDI inflows, NDB's regional project approvals are more evenly distributed, with nearly equal funding allocated to China, India, and Brazil. From 2021 onward, the share of FDI to the BRICS region in total (worldwide) has increased sharply, with approximately 15% in 2022, implying that global investors consider the region an attractive location for production and investment opportunities.

[1] https://investmentpolicy.unctad.org/investment-laws/laws/317/china-foreign-investment-law-of-the-people-s-republic-of-china

The Macroeconomic Environment of NDB Stakeholders

Analysing the macroeconomic environment of NDB stakeholders may provide deeper insights into the bank's development. Table (10.1) shows the current account (CA) and net international investment position (NIIP) for the stakeholders of the NDB.

Table (10.1):
CA and NIIP for the stakeholders of the NDB

2023	**CA** (in % of GDP)	**NIIP** (in % of GDP)
Brazil	-1.32	-44.87
Russia	2.53	26.40
India	-1.21	-10.37
China	1.50	16.47
South Africa	-1.62	28.99
Bangladesh	-0.747	NA
Egypt	-1.20	-67.33
UAE	9.28	NA

Source: IMF, WEO. All data refer to 2023, with the exception of NIIP for Russia (2021).

Focusing on the five original BRICS member states shows that Russia and China are net exporting economies and, therefore, lenders of capital to the rest of the world. This is reflected in their positive NIIPs, showing a build-up of foreign assets. As an oil-exporting economy, the UAE has a positive CA balance, positioning it as a net capital exporter. By contrast, Brazil, India, and South Africa tend to be capital borrowers. In this context, the NDB's ownership structure strikes a balance between lending (China) and borrowing (India).

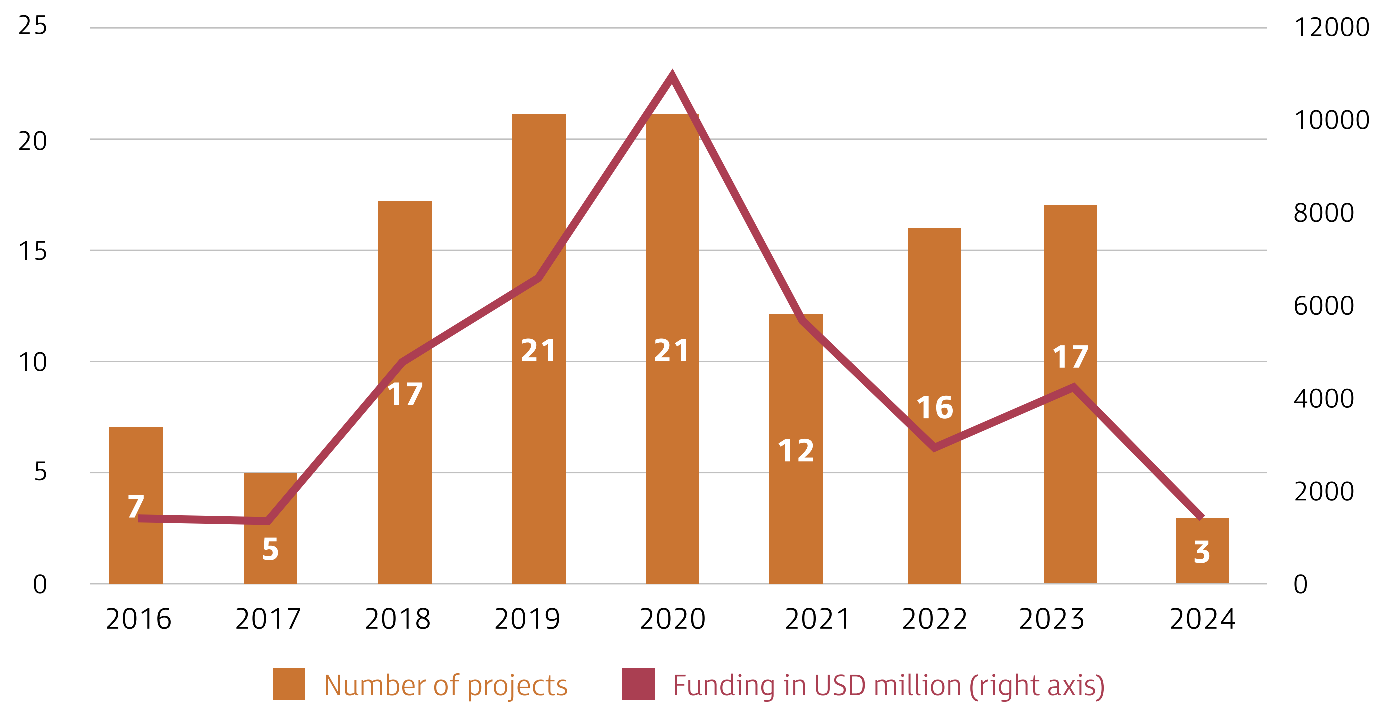
Currently, the funding sources of the NDB are assessed with the highest credibility rating. More specifically, S&P Global Ratings recently affirmed NDB's 'AA+/A-1+' ratings with a stable outlook[2]. This excellent rating is remarkable because, the NDB, although open to any United Nations economy in principle, does not feature any advanced Western economies among its stakeholders and the UAE, as an advanced economy, has only a small stake in the bank.

[2] https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/type/HTML/id/3168604

10.4. The Size of NBD-Funded Projects Compared to Its Peers

Since 2016, the NDB has considered 119 projects in Brazil, Russia, India, China, and South Africa. So far, the NDB has not yet financed projects in any of the new member countries that joined BRICS in 2024. An overview of the number of projects and their investment volumes is shown in Figure 10.5.

Figure (10.5):
Number and Size of Considered Projects



Source: Own calculations, NDB.

Of the 119 projects, 79 were approved (ongoing), 16 completed, 13 proposed, and 11 cancelled. The highest number of projects supported by the NDB reached 21 in 2019 and 2020. By 2021, the number of projects significantly decreased to 12. In 2022 and 2023, during the severe geopolitical crisis, the number of projects increased to 16 and 17, respectively, indicating the need for investment to bolster the economy.

In terms of funding size, in 2016, the NDB supported significant investments aimed at kickstarting major infrastructure and development projects, with a total contribution of approximately US$ 40 billion. In 2018, there was a noticeable increase in funding, reflecting the initiation of bigger and more numerous projects. Funding peaked in 2020, driven primarily by the COVID-19 emergency assistance with approximately US$ 11 billion, underscoring the urgency to respond to the pandemic's impact through significant financial resources to support healthcare and economic stability. In 2021, the funding size decreased significantly, parallel with a decrease in projects. In 2022, the funding size decreased even further, reaching nearly the lowest level since the inception of the NDB. This decrease in funding occurred in parallel with an increase in projects, hinting at a change in the strategy of funding more, but smaller projects. This trend reversed in 2023, again showing an increase in funding size with a slight increase in the number of projects.

In 2023, as the most recent data show, the global landscape of development finance saw significant engagement from different multilateral institutions (see Figure 10.6). Each of these organisations plays a key role in supporting economic development, infrastructure projects, and poverty alleviation worldwide. The NDB, although smaller in scale, continues to support targeted development projects within the BRICS, reflecting its strategic focus. Compared to the World Bank, the IMF, European Bank for Reconstruction and Development (EBRD), Islamic Development Bank (IsDB), AfDB, and International Bank for Reconstruction and Development (IBRD) supported 17 projects, with a total financing of approximately US$ 475 million in 2023. The NDB's financial capacity and scope of operations are smaller compared to those of other global institutions, which is consistent with its more recent establishment and focused mandate.

Among NDB's competitors, the World Bank remains one of the most significant players in global development finance. In 2023, it approved 322 operations in more than 90 countries, with a total financial commitment of US$ 72.8 billion. The substantial financial outlay allows the World Bank to support large-scale infrastructure projects, policy reforms, and poverty-alleviation programs on a global scale. The IBRD, a key arm of the World Bank Group, achieved record-equal levels of activity in 2023, with Annual Bank Investment reaching EUR 13.1 billion. This amount was distributed across 464 investment operations, in addition to 81 trade finance agreements under the Trade Facilitation Programme. The IBRD's investments are particularly focused on middle-income and creditworthy low-income countries, supporting them in reducing poverty and promoting sustainable development.

The IMF, while not primarily a development bank, plays a crucial role in global financial stability by offering financial support and policy advice to countries facing economic crises. In 2023, the IMF's capital expenditures, including the use of previously approved funding, amounted to US$ 96 million. This figure, while relatively small compared to that of development banks, reflects the IMF's operational expenditures rather than its broader financial interventions, which typically involve larger sums through lending programs to member countries.

The EBRD had a record year in 2023, financing 464 projects with a total investment of EUR 13.1 billion. This significant financial commitment reflects the EBRD's robust engagement in Europe, Central Asia, and North Africa, particularly in supporting private sector development, infrastructure, and green energy projects. The number of financed projects and the total investment highlight the EBRD's substantial impact on its regions of operation.

The IsDB approved a total financing of US$ 12 billion in 2023. The IsDB has a broader mandate and focuses on financing a range of projects, including comprehensive human development, addressing critical areas such as poverty alleviation, health improvement, education, governance, and economic prosperity in its member countries. This substantial financial commitment indicates the IsDB's significant role in supporting socioeconomic development in the Islamic world.

In 2023, the AfDB Group approved approximately US$ 10.67 billion in financing. This financial commitment underscores the AfDB's crucial role in supporting infrastructure development, poverty reduction, and economic integration across Africa. AfDB operations are vital for addressing the developmental challenges faced by African countries, including those related to infrastructure, energy, and social services.

Figure (10.6):
Financial Commitment in 2023
(in billions US$)

New Development Bank **(NDB)**	0.475
World Bank **(WB)**	72.8
International Monetary Fund **(IMF) (Capital Expenditures)**	0.096
European Bank for Reconstruction and Development **(EBRD)**	14.26
Islamic Development Bank **(IsDB)**	12
African Development Bank **(AfDB)**	10.67
International Bank for Reconstruction and Development **(IBRD)**	14.26

Source: The NDB, WB, IMF, EBRD, IsDB, AfDB, IBRD.

10.5. Conclusion

The establishment of BRICS as an intergovernmental organisation, later on the NDB, has significantly shaped the role of traditional commercial/trade diplomacy and economic diplomacy. The trade and FDI data presented in this chapter do not reveal any close economic ties among the five founding members underlying the differences between the BRICS countries. In addition, the literature underlines that different political-economic weights, geography, and military power do not prevent BRICS countries from cooperating in the form of organisations, demonstrating a shared social purpose and overcoming weak structural power (Beeson & Zeng, 2018; Hooijmaaijers, 2021).

In terms of internal institutionalisation, the NDB strengthens BRICS cooperation by creating a structured framework for interaction and shared purpose. However, challenges remain, particularly in achieving a balanced loan distribution, as some members, notably China and India, have received a larger share of funding. Recent efforts by the NDB to address these imbalances, such as establishing regional offices, demonstrate the progress in enhancing internal cooperation. Although the NDB remains a technical institution focused on infrastructure and sustainable development, it also has political dimensions, particularly in the context of sanctions and global trade tensions. One such example is the ongoing financing of Russian projects despite Western sanctions on Russia due to its war against Ukraine.

Externally, the NDB contributes to BRICS' institutionalisation by positioning itself as a leading development bank for emerging economies with the potential to benefit non-BRICS countries. The regional offices are pivotal to both internal and external institutionalisation, facilitating NDB's gradual expansion and cooperation with other development banks. NDB's observer status in the UN General Assembly further integrates it into global governance, underscoring its growing influence beyond BRICS.

While the NDB remains focused on its narrow mandate, its evolving role reflects the broader context of the rise of Emerging Markets and Developing Countries (EMDCs) and South-South cooperation. Despite being a relatively recent institution, NDB's internal and external institutionalisation provides valuable insights into the dynamics of BRICS cooperation (Hooijmaaijers, 2022).

Looking ahead, the NDB is focusing on expanding its membership. Besides its founding members, Egypt, Bangladesh, and the UAE have joined the bank, with Uruguay currently in discussions to become a member. The NDB has also set out a general strategy for the period 2022–2026, allowing assessment of its impact on the region in terms of project funding. During this period, the NDB plans to mobilise US$ 30 billion and increase private capital involvement through diversified financial instruments, special investment vehicles, and technical assistance.

Considering financing for impact, the NDB will focus on high-impact, climate-smart, disaster-resilient, and inclusive projects, dedicating 40% of its approval to climate change mitigation and adaptation. Currently, sustainability projects in clean energy and environmental protection are somewhat underrepresented, with most funding still directed toward the government (sovereign) sector. Strengthening lending to the private sector and expanding local currency financing are key areas where the NDB can distinguish itself from other well-established MDBs.

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11 Economic Diplomacy's New Frontier?

Reinventing the Liberal Peace in a Deglobalizing World

Peter A. G. van Bergeijk

11.1. Introduction

We live in an era that challenges if not shatters many long-held convictions. This chapter[1] investigates the role and potential for economic diplomacy in an era characterised by geopolitical turmoil and deglobalisation. The world clearly is no longer the global village that emerged on top of the globalisation wave and the ideas of a borderless or flat world now look like mere mirages of an overoptimistic generation of policy makers. In the early 1990s, I also fell victim to that optimism; telling is the switch in the titles of my writings from 'Diplomatic Barriers to Trade' (van Bergeijk, 1992) to *Economic Diplomacy, Trade and Commercial Policy: Positive and Negative Sanctions in a New World Order* (van Bergeijk, 1994).[2] The 1990s witnessed the breakdown of the Berlin Wall and Iron Curtain that for almost thirty years had divided the European continent and led to the creation of the European Union. It saw the end of the superpower conflict and the move from Marx to market in previously Centrally Planned Economies. It brought us the World Trade Organization. All these developments helped to enhance the effectiveness of global governance and seemed to vindicate the idea of the Liberal Peace. The major lessons of that decade not only supported the Liberal Peace as a theoretical concept underpinning much of the architecture of the international institutions but were also remarkable in terms of impact and results: the benefits of international exchange appeared to offer a powerful antidote against initiation of international conflicts. Indeed, it is this lesson that trade can help to avoid conflict that originally motivated the creation of the Bretton Woods institutions as an antidote against the recurrence of the World Wars. With hindsight the 1990s 'happy decade' can also be identified as the period where economic diplomacy as a scholarly concept started to gain currency and laid the basis for the emergence and acceptance of economic diplomacy as a recognised and effective tool of government policy.[3]

[1] Comments by Kamal Elwassal and Ahmed Rashad are gratefully acknowledged.
[2] The optimism was fed by a belief in the potential for economic integration containing nationalism and populism van Sinderen and van Bergeijk (1994) and econometric assessments of the economic potential of détente (van Bergeijk & Oldersma, 1990). The econometric assessments of the trade potential of détente have much better withstood the test of time (see van Bergeijk, 2015).
[3] See Moons and van Bergeijk (2017), Muniz (2018) and van Bergeijk and Moons (2018) for meta-analyses and structured reviews of the literature.

Our world today is very different from the era of globalisation and the outlook is sobering. The superpower conflict has re-emerged and the Russian war on Ukraine has brought large scale armed conflict to Europe again. The role of China and its aspirations regarding Taiwan is complicating this already complex re-emergence of a multipolar if not multisystem world. The Middle East peace process is completely derailed and the Oslo Agreements on trade between Israel and Palestine – for long seen as the last one standing (Leher, 2024) – have failed to do their job. Decision making in the UN Security Council and the World Trade Organisation is stalled. For more than a decade we observe the empirical reality that both policies and individual key policy makers are deliberately moving away from free trade and multilateralism.

Against this background, this chapter discusses the possible role, efficacy, and future of economic diplomacy and the potential implications this has for research and evidence-based policy making. The chapter is organised as follows. The next section revisits the Liberal Peace starting with a general overview of the paradigm and its empirical and theoretical foundations before discussing the drivers behind its apparent breakdown. Section 3 then discusses how economic diplomacy has an important role to play in this changing geopolitical context and details some of the implications for evidence-based policy making. The final section concludes.

11.2. The Liberal Peace Revisited

Let us start with an overview of how mainstream economists and policy makers where thinking about international trade and international conflict around the start of the current decade.[4] The hypothesis that international economic exchange provides a strong incentive against conflicts (international trade and Foreign Direct Investment stimulate peaceful cooperation and coexistence) has a long history and the writings of the Classical Economists already conjecture about the interrelationship of democracy, free trade and peace.[5] The standard point of departure for the literature on the Liberal Peace is Kant's (1983[1795]) essay on the Perpetual Peace where he argues that, while war is the natural state of humanity, peace can be established through deliberate design amongst trading republics (Murshed, 2018).[6]

Figure (11.1):
The Liberal Peace Tripod

Source: van Bergeijk (2019), Diagram 5.1, p. 124

[4] To be fair, as my own thinking for long has been along these lines, I use my own thinking and synthesis of the literature at that time (van Bergeijk, 2019, also for a more detailed discussion).
[5] For example, John Stuart Mill (1968[1840] p. 594) argued intensified international economic relations would reduce the incentives for conflicts among nations: 'It is commerce which is rendering war obsolete, by strengthening and multiplying the personal interests which are in natural opposition to it.' Among the Classical Economists, Adam Smith is an exception who feared that trade would stimulate conflict (Paganelli & Schumacher, 2019).
[6] The basic idea that an unequal distribution of resources that incentivizes the peoples of the world to trade and behave peacefully can be traced to ancient times. See Đào (2024), also for a non-Western perspective on ancient economic thinking regarding international trade.

This tripod (Figure 11.1) constitutes the multifaceted concept to which observers commonly refer to as the Liberal Peace. The key to peace according to this theory is not force (a balance of power or clear supremacy), as, e.g., in Mercantilist and Realist theories, but the incentive for peaceful behaviour is rather provided by the commercial benefits of undisturbed international trade and investment. This idea of the Liberal Peace underpins the design of the Bretton Woods institutions (IMF, World Bank and WTO), informed (West-)Germany's ***Neue Ostpolitik*** towards normalisation of relationships with the former Soviet Union and East Block and is the fundament of the European Union. Indeed, the basis of European economic integration is the idea to link former belligerents (in particular, France and Germany) economically, so that waging war does no longer pay. The absence of war since 1945 between EU member states and the ability to democratise former dictatorships such as Portugal, Spain and Greece as well as the binding in of the former communist countries in Eastern Europe (Poland, Hungary, Czechoslovakia, Yugoslavia) after the fall of the Iron Curtain made the European Union almost the flagship case for the Liberal Peace and the reason why Europe was awarded the 2012 Nobel Peace Prize.

While the Liberal Peace rests on three pillars, research has often focussed on the conflict-reducing impact of trade per se (so without the link to the prevalent political system). This literature starts with Polachek's seminal article 'Conflict and trade' (Polachek, 1980) than unveiled a conflict elasticity of -0.2 with respect to trade. The empirical evidence put forward for the Liberal Peace hypothesis is quite comprehensive and shows that a higher trade to GDP ratio is associated with a lower probability of war (Oneal & Russett, 1999; Russett & Oneal, 2001).[7] Of course, as with any scientific result with a potential political impact, the empirical findings have been contested and drivers such as an increase in the number of countries have been associated with increases in global war frequencies as well (e.g., Harrison and Wolf (2012)). On balance, however, the theory of the Liberal Peace has been found to provide significant explanatory power over a long period of time and a great many countries. This makes consideration of the apparent breakdown of the Liberal Peace in view of the Russian war on Ukraine and the stalemate in the Middle East the more relevant.

Box (11.1):
Scenario on the Breakdown of the Liberal Peace

The scenario (advanced in van Bergeijk (2019) and recently updated in van Bergeijk (2024b) paints a sombre picture, portraying a world where international cooperation has unravelled, leaving behind a vacuum of uncertainty and discord. This breakdown in global collaboration triggers a domino effect, leading to a decline in trade and investment and exacerbating armed conflicts and refugee crises.

At its core, the erosion of incentives for de-escalation and the diminishing role of international trade and investment usher the world back to an era reminiscent of pre-World War II conflict levels. Major players like the US turn their backs on multilateral organisations, with only a few exceptions, rendering these bodies largely ineffective. While countries remain part of these organisations, their ability to coordinate policies weakens significantly, with power shifting to smaller groups like the G7 and BRICS.

This scenario presents a host of challenges, including heightened economic, political, and military conflicts that erode trust and stability. The surge in arms build-ups diverts resources away from critical global objectives such as sustainable development, hindering progress towards SDGs and environmental targets. Additionally, isolationism, nationalism, and authoritarianism gain traction worldwide, further complicating matters.

The repercussions extend beyond traditional realms of trade and investment, impacting regional dynamics and megacities. Innovation and knowledge exchange suffer, economic hubs face threats as businesses seek alternative markets, and international transport infrastructure sees reduced utilisation.

Moreover, regional conflicts can exacerbate social tensions, particularly in culturally diverse populations, with significant security implications. Diplomatic efforts at the city and regional levels become increasingly complex due to intricate political and geoeconomic dynamics.

Indeed, energy and trade policies in Europe have been based on the idea that mutual benefits of trade with and investment in Russia could strengthen and stabilise political relationships and help to reduce conflict more or less in the same way as this had been achieved via intra-European trade flows during the buildup and extension of the European Union. Economic diplomacy was geared towards achieving increasing trade and investment flows. Notably, this resulted in the construction of major cross border infrastructure – the North Stream pipelines – aimed to glue the economies of East and West together in an even stronger and more permanent way than the removal of physical border protection measures and other non-tariff barriers had achieved in the 1990s. The political divide with Russia, clearly visible since its occupation of the Crimea, clarified the risks of the EU strategy. In purely economic terms, the EU was in a much better position than Russia to exert influence via economic diplomacy, trade, and commercial policy. However, the importance of the difference of the political regimes also became apparent for Russia dampened the impact that the loss of mutual benefits would have politically, while the differential impact of a Russian tit-for-tat had important heterogeneous effects that divided the democracies of the EU. Also, Europe learned the significance of long held policy views in the Kremlin that can be traced to Lenin's recognition that foreign direct investment can offer powerful leverage: 'We shall thus gain a lot and make it difficult for those powers that enter in deals with us to take part in military action against us, because war cancels everything, and should one break out we shall get possession of all the buildings, installations and railways' (Lenin, 1967[1967], p. 90). Also in this respect, there was an imbalance created by institutional differences: the European adherence to legal principles stood in the way of straight forward powerplay.

[7] Two meta-analyses of the trade-conflict nexus are van Bergeijk (2010) analyzing 15 primary studies published over the years 1980-2006 with an average conflict reducing genuine effect of –0.22 and Schwarz and Davis (2016) who analyze 48 journal articles published over the years 1996-2015 and report pacifying effects in 40% to 50% of the cases.

Perhaps most important is that the original analyses underlying the use of the mutual benefits of bilateral trade and investment did not take another potentially important mechanism into account, namely the theory of the Resource Curse that links the abundant availability of tradeable natural resources within a country to both lower growth and less democracy. The Resource Curse is not an iron law of course, and it is possible to avoid corruption and combine democratic institutions and natural resource exploitation. The point that this chapter makes is that the extension of the domain of the Liberal Peace to also consider the potential detrimental consequences of the Resource Curse puts the trade between Russia and the West in yet another perspective.[8] The main thrust of the 'political resource curse' theory is that natural resource income could reduce support for democracy (Jensen & Wantchekon, 2004; Ross, 2012). The political resource curse has been contested, and empirical research suggests, for example, that the validity of the hypothesis may be conditioned by the level of institutional and/or economic development but the central hypothesis that more trade in natural resources would not necessarily strengthen peaceful coexistence but could undermine the conflict-reducing potential of international trade relationships is supported by recent research.[9] Externally, energy trade increases the importer's economic vulnerability. It is this vulnerability rather than the exporter's benefits of trade that is the driver of the finding that energy trade reduces conflict between exporter and importer (Gökçe et al., 2021).

From this perspective some amendments on the general policy prescriptions that follow from the Liberal Peace paradigm should be considered, in a sense reflecting ideas that were already circulating at the time of the design of the Bretton Woods institutions (e.g., Hirschman (1980[1945])) and were to some extent also present in earlier analyses on economic security both in the Global North and the Global South (van Bergeijk & Moons, 2009). First, dependence on external suppliers would need to be reduced both by developing substitutes, demand management as well as diversification. This would not necessarily reduce trade flows, but rather open up potential alternatives. Second, the approach should be based on the explicit recognition of the uncertainty that is inherent to international economic relations.[10] Third, countervailing power should as far as possible be increased by means of an export package that predominantly consists of goods and services that are essential for the energy exporter's economy and at the same time by strategically broadening the economic, social and cultural interactions so as to enhance the interests of the energy exporter. With the second and especially the third amendment we enter the domain of a 'new' economic diplomacy that is the topic of the next section.

11.3. A Clear Role for Economic Diplomacy

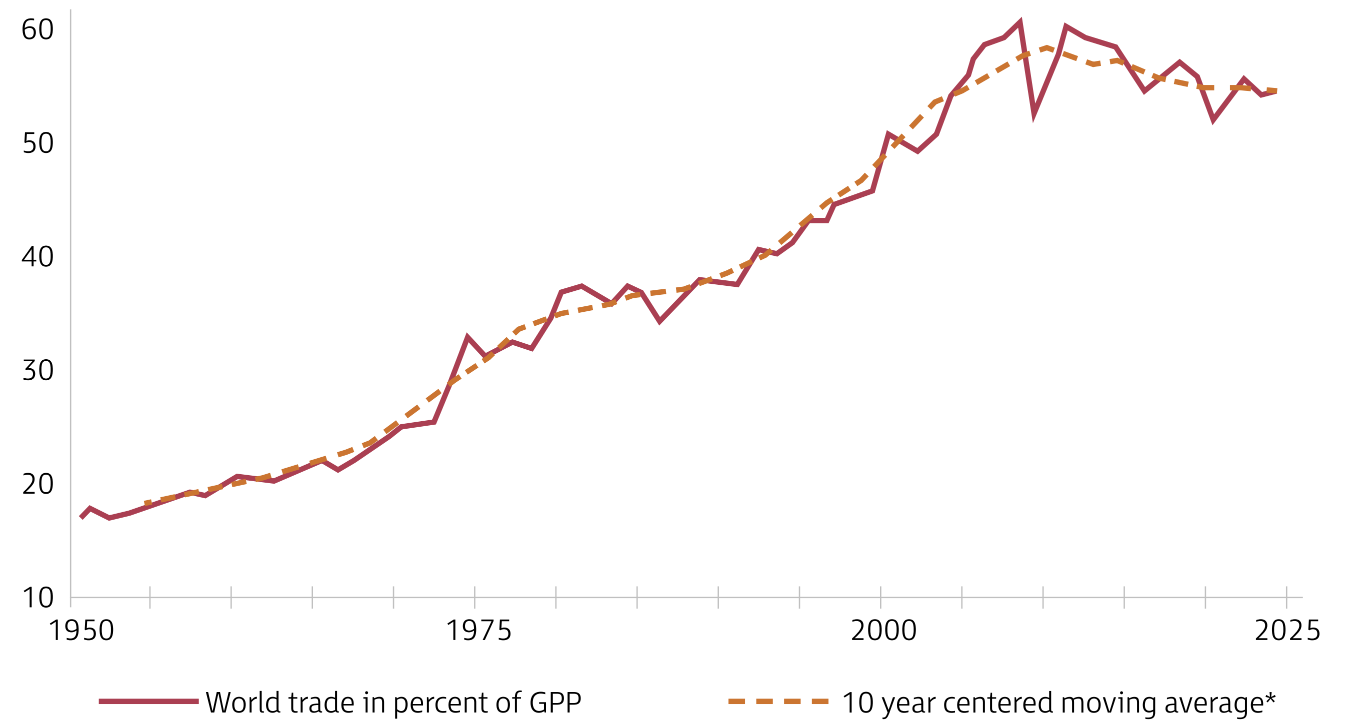
It is worth remembering at the start of this section that already before the great trade shocks of this decade – the world trade collapse during the Great Lockdown of the outbreak of the COVID-19 pandemic in 2020 and the disturbance of international value chains and associated price hikes due to the outbreak of the Russian war on Ukraine, the context for economic diplomacy was in turmoil.

The geo-economic shifts since the 1990s have fuelled nationalist sentiments among broad segments of the populations of the Global North. Rising inequalities and a sense of relative deprivation due to globalisation intensified conflicts between ruling elites and dissident groups and, these tensions resulted in a majority in the referendum vote for Brexit (an unprecedented withdrawal from a supranational regional integration framework)

[8] This paragraph is based on Dizaji and van Bergeijk (2024) who deploy a viewpoint on Russia of their discussion. A perspective on civil peace in the Gulf Cooperation Counsil is provided by Elbadawi and Makdisi (2021).
[9] See for example Gallea et al. (2022), Dizaji (2024) and Ghazalian and Hammoud (2021).
[10] The differential impact of political institutions on international specialization and the efficacy of diplomacy was already recognized in analyses of trade uncertainty in an expected utility framework in the 1990s (van Bergeijk, 1994, 1999; van Marrewijk & van Bergeijk, 1990). The differential impact of trade shocks in different political systems has also been documented for natural disasters (Li & van Bergeijk, 2019), health shocks (van Bergeijk, 2021b) and sanctions (van Bergeijk, 2019).

and the US explicit "America first" agenda. The move towards increased trade policy uncertainty, isolationism and de-globalisation also has its roots in the financial and economic crisis of 2008/9. This may threaten the multilateral system in a slower but similar sense as the collapse of trade and international capital flows in the 1930s, potentially repeating the policy errors of the 1930s that ultimately had a very negative impact on the periphery of the non-industrialised world. The coincidence of these clusters of issues and the transitions of global leadership is noteworthy (van Bergeijk et al., 2018).

Figure (11.2):
World Openness 1950-2024#
(World trade in percent of Gross Planetary Product)



Notes:
 # 2024: based on most recent IMF forecasts
** From 2020 on, based on most recent IMF forecasts up to 2029*

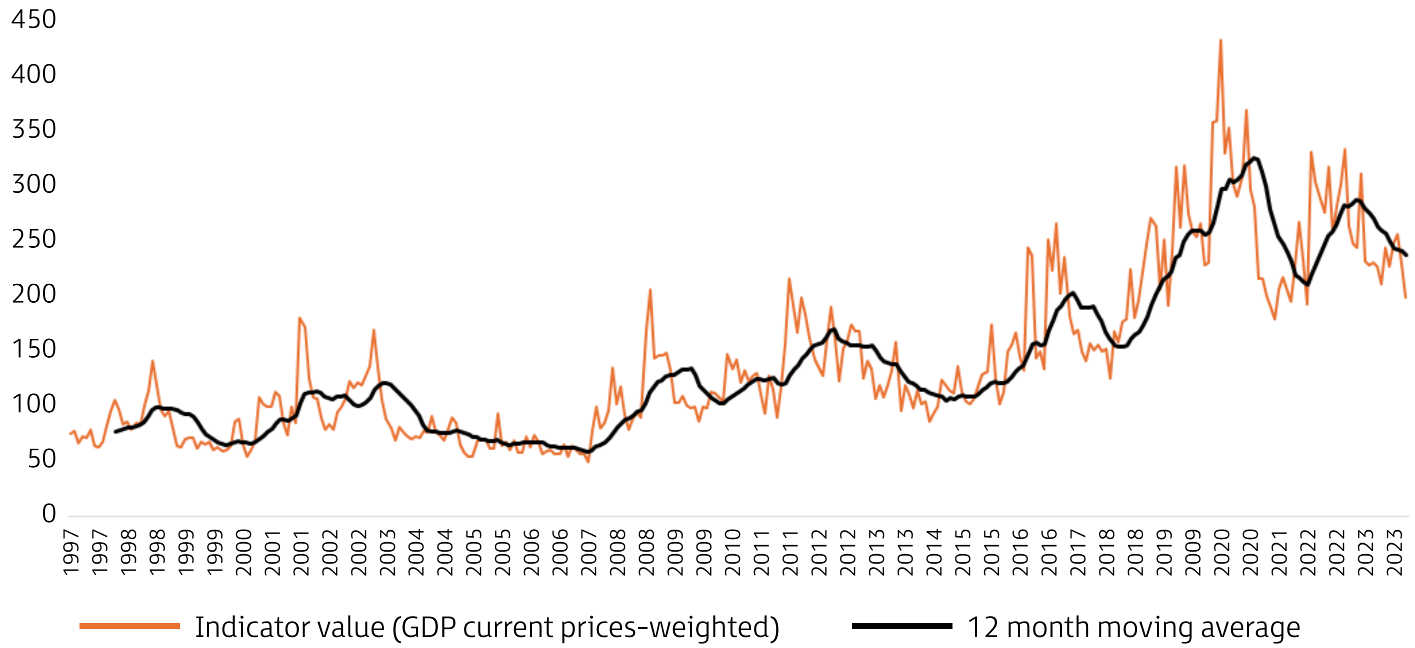
Source: van Bergeijk (2024a), updated using the IMF's World Economic Database April 2024, accessed April 22, 2024 and available at https://www.imf.org/en/Publications/WEO/weo-database/2024/April

This context is associated with a reduction of world trade in relation to world production as illustrated in Figure 11.2. The pandemic and the outbreak of war came after the crest of the globalisation wave had already broken during the Financial Crisis of 2007 (van Bergeijk, 2010, 2019). Symptoms of the deglobalisation occur in domains not typically related to economics, such as the tsunami in the number of economic sanctions (van Bergeijk, 2021a) and the increasing number of border walls and fences globally (Kamwela et al., 2023). So, discussions on economic diplomacy have been seasoned for almost two decades by considerations on how it could be used in mitigating the impact of the trade uncertainty, volatilities, and shocks, associated with economic turbulence and geopolitical change. The 'new' economic diplomacy continues to involve the strategic use of diplomatic channels and institutions to promote economic interests and stability. I see three main issues:

1. **Reducing Trade Uncertainty and Volatility:** The key insight here is that it is not only the disruption ex post but also and sometimes especially the ex-ante uncertainty in the political and economic system that may drive the development of international specialisation patterns. Shocks and threats influence expectations in a fundamental way, and this is translated into lower trade and investment levels and sometimes in

contradictory specialisation patterns (for example, against comparative advantage). Moreover, the uncertainty is not so much apparent in bilateral relationships as well as in the world's political and economic system in general, therefore exerting its influence also on countries that stay far away from the sources of turbulence. Figure 11.3 illustrates the threefold increase in global uncertainty from an indicator value of 86 on average up to the Financial Crisis and 262 averaged over the last five years. Economic diplomacy can help reduce trade uncertainty and volatility to quite some extent by fostering cooperation and dialogue between nations. Through bilateral agreements and negotiations, countries can establish clearer rules and frameworks for trade, providing businesses with more predictable environments. By maintaining open lines of communication, economic diplomats can also address misunderstandings or disputes before they escalate, contributing to a more stable trading environment.

Figure (11.3):
Global Economic Policy Uncertainty Index (1997-February 2024)



Source: Davis (2016) available at https://www.policyuncertainty.com/global_monthly.html and accessed May 18, 2024

2. **Managing Trade Shocks:** Economic diplomacy plays a crucial role in managing and mitigating the impact of trade shocks, whether they are caused by economic crises, policy changes, or geopolitical considerations. By building strong relationships with trading partners and actively engaging in diplomatic efforts, countries can work together to address the root causes of trade shocks and find mutually beneficial solutions. The resilience of world trade in the face of the increased frequency of trade collapses (and fortunately of trade recoveries) is hopeful (van Bergeijk, 2024b) although economic diplomacy cannot entirely be credited for the avoidance of the mistakes of the Great Depression the contribution of international production networks should also be acknowledged (van Bergeijk, 2013, 2019). Economic diplomats can also play a proactive role in coordinating responses to crises, such as providing support for affected industries or facilitating trade diversification strategies. Economic diplomacy is not a panacea, however. Outburst of trade wars have so far been contained to the 'America First' period, but threats can be observed in strategic trade policy developments of the major trading blocs. These threats are a dangerous undercurrent from President Biden's 2024 Trade Policy Agenda and President Xi's 'Made in China 2025', to the European Union's 'Strategic Autonomy' that undermine the multilateral defence against protectionism (van Bergeijk, 2022).

3. **Promoting Regional and Bilateral Cooperation:** In an era of increasing global uncertainty and threats to multilateralism, regional and bilateral cooperation have therefore become important mechanisms for advancing economic interests. Economic diplomacy can help countries navigate this shifting landscape by strengthening regional alliances. Mladenov (2023) discusses 'mini-lateralism' which provides a more flexible framework of concrete cooperation between a limited number of countries and creates alliances that go beyond the traditional bilateral and regional agreements that promote trade and investment, as it builds heterogeneous sometimes cross-continental coalitions that offer stepping stones for international economic cooperation and peaceful coexistence. Indeed, by building trust and cooperation among nations, economic diplomats can create more resilient trading networks that are less vulnerable to external shocks. Moreover, by promoting economic opportunities and cooperation, countries can improve their international reputation and attract support for their broader foreign policy objectives. Again, economic diplomacy is not a panacea as its opportunities vary depending on factors such as the size and political context of the country involved and also the heterogeneity of its effectiveness across countries should be an important consideration (van Bergeijk et al., 2011).

11.4. Conclusion

The chapter contrasted the optimistic globalisation era of the 1990s, marked by significant political and economic integration, with today's fractured geopolitical landscape, exemplified by the Russian war on Ukraine and tensions over Taiwan. It revisited the Liberal Peace theory, which links international trade to reduced conflict, highlighting its recent challenges. The diminished efficacy of economic diplomacy and free trade amidst stalled global institutions and the complexities introduced by the Resource Curse theory, emphasised the need for a nuanced approach to future economic diplomacy. Gradation and the avoidance of a one-size-fits-all approach has the potential to help to, so to say, reinvent the Liberal Peace.

There is, however, in my view no need for the creation of a 'New Economic Diplomacy'. Indeed, while the context in which economic diplomats operate has changed significantly over the last years, making the puzzles more complex (especially since often some pieces are missing), the importance of the work of economic diplomats has certainly not become lesser. Overall, there is a crucial role to be played in reducing the impact of trade uncertainty, volatility, and shocks by promoting cooperation, managing crises, and advancing economic interests both at the bilateral level, in regional cooperation and on the global stage. As the world faces increasing geopolitical and economic challenges, the role of economic diplomacy is thus likely to become both more diverse and more important.

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