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# **The U.S.-U.A.E.**

## Trade and Investment Relationship 2009 Update

**Submitted by Michael Moore**

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March 2009



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## Trade and Investment Relationship

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### Executive Summary

The United States and the United Arab Emirates (U.A.E.) enjoy a robust trade and investment relationship. Moreover, this has been one of the fastest growing U.S. economic partnerships in the world. The volume of U.S. exports and foreign direct investment into the U.A.E. in recent years has grown dramatically and far greater than the comparable figures for the world as a whole. This growth reflects the torrid pace of recent U.A.E. economic growth, the increasingly diversified U.A.E. economy, and its leading role as a modernizing influence in the Arab world. The depth of the commercial friendship and cooperation is reflected in the path-breaking nuclear energy agreement between the U.S. and the U.A.E. signed in January 2009.

This economic relationship likely will deepen further in coming years given the U.A.E.'s growing status as a regional business powerhouse. Despite this fundamentally sound relationship, the U.S. and U.A.E. naturally will face pressures in the current economic crisis that are common to all nations integrated into the world economy. There are additional short- and medium-term stresses for the U.S.-U.A.E. including: significant contractions in the financial services and real estate sectors, especially in Dubai; falling values of U.A.E. sovereign wealth fund investments in the U.S.; and dramatically lower oil prices. These effects are likely to result in a retrenchment of investment from the U.A.E. in the United States and a reduction in U.S. exports to the U.A.E. in the short term. The long-term relationship is likely to remain robust given the stable political and commercial environment in the U.A.E. as well as the positive steps both countries' governments are making to contain the effects of the crisis.

### Highlights

- U.S. goods exports to the U.A.E. increased from \$3.6 billion in 2002 to \$15.7 billion in 2008. This represents a 338 percent increase compared to a 50 percent increase for U.S. goods exports for all countries during the same period. The U.A.E. has become the single largest export market for U.S. goods in the Middle East.
- U.S. goods exports to the U.A.E. originate from a wide variety of U.S. states. In 2008, the five largest sources were: Washington (22 percent); Texas (13 percent); New York (11 percent); California (7 percent); and Florida (4 percent).
- U.S. foreign direct investment in the U.A.E. more than tripled from at least \$1.1 billion in 2002 to \$3.8 billion in 2007. This far exceeds a worldwide increase of U.S. outward foreign direct investment of 73 percent in the same period and an increase of only 8.4 percent in Saudi Arabia.
- The pace of investments between the U.A.E. and the U.S. also is substantial. General Electric and Mubadala Development Company recently announced an \$8 billion joint venture in high technology. Other recent examples of U.A.E. investments in the U.S. include a 90 percent share of the Chrysler Building, a 20 percent share in NASDAQ, a 7.5 percent share in the Carlyle Group, an 8.1 percent share in Advanced Micro Devices, and a 4.9 percent stake of Citigroup.
- Economic strains between the two countries are rare. There are however concerns in the U.S. that some U.A.E. commercial activity with Iran is allegedly in contravention of the U.S. sanctions regime.

- The U.A.E. government has intervened to help stabilize the economy that has been buffeted by collapsing oil prices, a worldwide credit crunch, and rapid deterioration in the Dubai financial and real estate sectors. These efforts include a \$13.3 billion capital injection into the financial system and a \$10 billion purchase by the U.A.E. central bank of Dubai issued bonds that will help ensure stability.
- The U.S. and the U.A.E. have also agreed in recent months to extend their cooperation in areas touched by security concerns. This includes a \$3 billion contract in December 2008 with Raytheon and Lockheed Martin for the delivery of PAC-3 anti-missile systems to the U.A.E., the first-ever release of the THAAD system, as well as a pact for cooperation on peaceful nuclear energy development.

## Introduction

The United States and the United Arab Emirates have developed ever-stronger economic ties in recent years, with the growth of trade and investment among the highest of any major U.S. partner. This improved economic partnership reflects the U.A.E.'s role as a regional leader in terms of economic reform, openness to international trade and investment, and its political stability.

The high degree of cooperation between the two countries, both in commercial terms and broader strategic interests, is reflected in the signing of the historic agreement on nuclear energy cooperation. This agreement provides the basic ground rules for U.S. firms operating in the estimated \$40 billion U.A.E. plan for the development of a nuclear power generation capacity to meet burgeoning U.A.E. electricity demand. In addition, the U.A.E.'s agreement to officially renounce any uranium enrichment or reprocessing sends a strong signal about a model for the secure development of nuclear energy within a strict non-proliferation regime in a region of profound national security concerns for the United States.

The current global financial and economic crisis has put enormous pressures on the U.S. and U.A.E. economies but which are unlikely to alter this fundamentally good relationship. The U.S. will be running unprecedented budget deficits in the coming years that will require substantial amounts of foreign capital to fund these deficits. The U.A.E. is likely to play a significant role in this process by recycling petroleum earnings into U.S. investments, though falling oil prices and financial pressures in Dubai could reduce investment totals. The economic crisis will likely

result in a reduction in the total volume of trade and investment flows between the two countries, especially as the U.A.E. growth rate slows from its torrid pace in recent years.

Given the U.A.E.'s role as a major oil exporter and the U.S. as a major petroleum importer, one might expect that these two countries' economic relations would be dominated by petroleum. In fact, the U.A.E. sends very little oil to the U.S. The relationship instead is characterized by a set of high-value trade and investment activities that often have little to do directly with oil exports.

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## The U.A.E. is the largest export market for the United States in the Middle East.

*Source: U.S. Census Bureau*

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There are a host of prominent examples of the depth of this economic alliance:

- In August 2008, the Abu Dhabi-based Mubadala Development Company announced a 50 percent acquisition of the Kor Hotel Group and a 25 percent share in the John Buck Company.
- GlobalFoundries, a joint venture between AMD and Advanced Technology Investment Company, announced plans for a \$4.2 billion manufacturing facility in Saratoga County, New York in early March 2009.
- In July 2008, Mubadala and General Electric announced an \$8 billion joint venture in high technology activities, including in the Masdar City complex in the U.A.E.
- In July 2008, the Abu Dhabi Investment Council purchased a 90 percent stake in the Chrysler Building for \$800 million.
- In January 2008, Dubai World, the investment arm of the Dubai government, purchased property in South Carolina worth \$600 million for future economic development.
- In November 2007 the Abu Dhabi Investment Authority announced a critical \$7.5 billion dollar capital infusion into Citigroup. This will result in a

4.9 percent share in Citigroup, which had recently faced financial difficulties associated with the subprime mortgage problems.

- In January 2009, construction began on the Cleveland Clinic Abu Dhabi hospital that will be a 360-bed facility dedicated to high-quality health care using physicians who will receive training in Cleveland Ohio.
- In October 2007, New York University, in partnership with the Abu Dhabi government, revealed plans to establish a comprehensive liberal arts university in Abu Dhabi. This effort, which will enroll its first students in 2010, will expand the influence of U.S. educational traditions, including adherence to principles of academic freedom and tolerance.

These instances are particularly notable in that they occurred after the controversy surrounding the attempt of Dubai Ports to purchase port facilities in the U.S. The episode initially raised concerns about the potential for long-lasting strains. However, the positive economic ties between the two countries even in the midst of the current economic crisis suggest that the controversy did not fundamentally damage the relationship.

Beyond these particular examples, overall statistics show a vibrant trade and investment partnership.

In recent years, the U.A.E. has ranked regularly as one of the 25 most important U.S. goods export markets. This ranking is particularly striking given the small number of people who live in the U.A.E.. Indeed, U.S. exports to the U.A.E. in 2008 exceeded those sent to other Middle Eastern countries with much larger populations, including Turkey (by 51 percent) and Egypt (by 161 percent). This level of trade is also particularly impressive when compared to the U.A.E.'s neighbors in the high-income area of the Persian Gulf. U.S. exports to the U.A.E. alone equaled 43 percent of the combined total to the other GCC countries in 2008. U.S. exports to the U.A.E. even exceed that of Israel in 2008 (by almost 10 percent).

Another commonly used measure of the current state of this relationship is the bilateral trade balance. The United States has experienced a consistent and growing bilateral merchandising surplus with the U.A.E. in recent years that stands in stark contrast with the overall U.S. trade deficit as well as bilateral trade deficits with most trading partners. Figure 1 shows that the U.S. trade surplus with the U.A.E. rose almost five-fold from \$2.7 billion in 2002 to over \$14.5 billion in 2008. This compares to an overall trade deficit with the Gulf Cooperation Council countries as

a whole (which includes the U.A.E., Bahrain, Kuwait, Oman, Qatar, and Saudi Arabia) that rose from \$6.8 billion in 2002 to \$14.3 billion in 2007 and \$28.7 billion in 2008.

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The depth of the commercial friendship and cooperation is reflected in the path-breaking nuclear energy agreement between the U.S. and the U.A.E. signed in January 2009.

~Dr. Michael Moore

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This overall goods trade balance with the U.A.E. reflects large transactions in civilian aircraft over the period. However, even if one removes all aircraft exports from the data, the U.S. bilateral surplus with the U.A.E. remains: \$1.7 billion in 2002 and \$10.6 billion in 2008. Figure 1 makes clear that the U.S. goods surplus with the U.A.E. excluding aircraft trade has increased steadily in recent years, which reflects steady economic integration between the two countries. Available data from the U.S. Department of Commerce do not include services trade between the U.S. and U.A.E. Thus, the vibrant oil services sector is absent from the trade balance figures. Inclusion of that and other services sector data would almost surely cause the reported surplus to be substantially larger.

U.S. foreign direct investment into the U.A.E. has increased over six-fold in the last few years, which reflects a strong vote of confidence by U.S. multinational firms in the U.A.E.'s future economic and political stability. In particular, the U.S. Bureau of Economic Analysis reports that the stock of U.S. foreign direct investment (FDI) on a historical-cost basis in the U.A.E. rose from \$540 million in 1999 to at least \$3.9 billion in 2007, the most recent year for which data is available. Notably, this increase in the stock of U.S. investment in the U.A.E. actually far surpassed that for Saudi Arabia, where U.S. FDI increased by only 60 percent from \$3.4 billion in 1999 to \$5.3 billion in 2007.

The relationship clearly has been characterized by rapidly expanding trade and investment flows.

The near total absence of serious bilateral trade disputes with the U.A.E. is indicative of the health and stability of this mutually beneficial association. There have been no instances of either country bringing the other to the WTO for review by the Trade Dispute Body. This reflects both the lack of serious frictions between the two trade partners and that if trade disputes do arise, they can be handled without recourse to formal WTO procedures. The most important major controversy to arise between the two countries occurred when Dubai Ports planned to invest in U.S. port facilities. There also have been continuing Congressional concerns about transshipment of U.S. goods through the U.A.E. to Iran, in violation of U.S. economic sanctions. U.A.E. authorities have taken concrete actions to ensure that individuals do not circumvent these sanctions. However, geographical proximity and traditional commercial ties between Iran and the U.A.E. necessarily make a complete cessation of trade problematic.

The Bush administration tried to further formalize the excellent relationship between the U.S. and the U.A.E. through a free-trade-agreement (FTA). This effort ultimately foundered after the Dubai Ports controversy, the lapse of the President's Trade Promotion Authority, and difficulties surrounding U.A.E. agency laws. The Bush administration made some progress towards deepening an existing Trade and Investment Framework Agreement (TIFA) that has been in place since 2004. There is little chance that there will be further work towards a U.S.-U.A.E. FTA in the foreseeable future since the Obama administration will likely take a very different approach to trade policy generally and free trade agreements in particular.

Nonetheless, the economies of these two nations continue to be more and more interrelated. The deepening relationship reflects a growing U.S. confidence that the U.A.E. is an economic leader in the Gulf region. Dramatically lower oil prices will undercut the red-hot economic growth throughout the Gulf region. However, U.S. businesses will likely be drawn especially to those countries with attractive economic environments and political stability. The evidence suggests that U.S. firms have decided that the business opportunities associated with the U.A.E.'s growing reputation for being what some observers have called the "Hong Kong of the Middle East" will lead to an even more profound economic partnership.

## **U.A.E. Overview**

The United Arab Emirates (U.A.E.) is a federation of seven emirates situated on the Gulf and bordered by

Saudi Arabia and Oman. The U.A.E. has become an economic powerhouse in the region during recent decades, with the original impetus arising out of its petroleum exports, which reached 2.8 million barrels of oil per day in 2006. In the last few years, the U.A.E. has diversified its economy as a regional financial, services, and tourism center, especially in Dubai, which has relatively few petroleum reserves. This movement to a non-commodity based export economy provides opportunities for U.S. businesses to tap into an increasingly complex economic environment in the U.A.E.

The U.A.E. is recognized in the region as a business-friendly country with a government focused on economic reform and diversification. In fact, only about one third of economic activity is in the petroleum and gas production sectors compared to about three-fourths in 1980. Services, especially transport, represent about one-half of overall economic activity in the U.A.E.. Dubai in particular has been a leader in economic liberalization, not just in the Gulf area, but also in the entire Middle East. This has led to strong development of tourism, transportation, and financial services sectors though these sectors have suffered a dramatic slowdown during the recent economic crisis.

Despite the recent strong economic downdrafts, the U.A.E.'s monetary and fiscal policies have resulted in a very stable macroeconomic environment. The U.A.E. currency is pegged to the U.S. dollar that helps maintain external stability. The expansion of oil income in recent years has resulted in a substantial increase in U.A.E. government revenue, with a subsequent budget surplus. A substantial part of these funds have been used for investments across the world through agencies such as the Abu Dhabi Investment Authority, which manages an estimated \$250 billion in overseas assets according to a study by researchers at the Council on Foreign Relations.

Petroleum exports and a drive to diversify the economy have combined to bring economic prosperity to the U.A.E. Nominal GDP reached \$105 billion in 2004 and an estimated \$222 billion in 2008, according to the Economist Intelligence Unit. This translates into GDP per capita of at least \$24,000 in 2004 and an estimated \$29,000 in 2008, calculated on a purchasing power parity basis. Economic growth has been very strong in recent years, reaching almost 10 percent in 2006 and 8 percent in 2007 and 2008. This was accompanied by an inflation rate that more than doubled from 6.2 percent in 2005 to 14 percent in 2008. Surging domestic demand came from both private sector increased incomes (e.g. a 70 percent rise in pay to U.A.E. federal workers last year) and enormous

infrastructure projects. The fixed exchange rate regime limits the range of possible actions. However, the dollar's weakness in early 2008 increased the costs of imported goods, especially from Europe, that put further pressure on prices.

Rapid economic growth resulted in the need to attract large numbers of foreign workers from abroad, especially in the construction industries, with an estimated 80 percent of the country's labor force coming from non-U.A.E. citizens according to Global Insight. Concerns about U.A.E. citizens' employment and business opportunities have created some restrictions on economic activities, especially by foreign nationals. For example, the U.A.E. puts restrictions on the abilities of non-citizens to act as agents or licensees in commercial activities and limits foreign participation to non-majority status in investment.

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This economic relationship likely will deepen further in coming years given the U.A.E.'s growing status as a regional business powerhouse.

*~ Dr. Michael Moore*

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Current global economic conditions have caused a reassessment of the U.A.E.'s economic situation as in other countries around the world. The collapse of world petroleum prices has resulted in a dramatic downturn in export revenues. The financial crisis has sent shock waves through Dubai, which has positioned itself as a regional financial hub and which has experienced a construction boom. There will be significant changes in the labor market as foreign workers are laid off as a result of delayed and cancelled construction projects, some of whom may leave the U.A.E., at least in the short-run, as the economy digests the consequences of the crisis.

The fundamentally different economic environment means that the U.A.E. government policy has shifted rapidly from an anti-inflationary mode within an overheated economy to concerns about a sharp economic downturn. Outside analysts now expect inflation to drop by one-half and economic growth to

fall to an estimated 1.3 percent in 2009, though there is considerable uncertainty about these estimates given global economic conditions. In September 2008, the U.A.E. central bank made available over \$13 billion to shore the troubled financial system. Reduced credit and uncertainty about intermediate term global economic growth has led to the delay of large-scale construction projects. Standard & Poor's recently estimated that the value of construction projects underway in Dubai fell by 40 percent in the final quarter of 2008. In February 2009, the U.A.E. central bank purchased almost half of a \$10 billion bond issue from the Dubai government after private subscription was insufficient. The U.A.E. also recently announced a \$11.5 billion increase in infrastructure spending, which represents a 24 percent increase from the previous year. These efforts suggest that U.A.E. policy makers are making concerted efforts to offset at least some of the sharp decrease in private sector spending though the overall growth prospects will remain substantially below what any one would have considered plausible just twelve months ago.

Despite these near term economic pressures, the U.A.E. will retain its status as one of the richest non-OECD countries in the world, with expanding economic opportunities for those wishing to do business in the country. These opportunities are further enhanced by the U.A.E.'s commitment to an open trade and investment environment.

### **Overall U.A.E. Trade Policy**

The trade relationship between the U.S. and the U.A.E. must be put in the context of overall U.A.E. trade policy. The U.A.E. currently adopts a very open environment to international competition. One manifestation of that commitment is through its multilateral trade policy regime conducted under the auspices of the WTO.

The U.A.E. became a contracting party to the GATT in 1994 and was an original WTO member when it was established. Consequently, the U.A.E. has taken on all of the rights and responsibilities of membership in those organizations.

The U.A.E.'s tariff is reflective of the common external tariff developed within the GCC. A recent profile of U.A.E. tariffs released by the WTO indicates the average final "bound" tariffs (i.e., the maximum tariff that can be charged under international obligations) for all goods is about 15 percent compared to a 5 percent average applied tariff (i.e., the tariff imposed by the U.A.E. in practice). For agricultural goods the average bound rate of 25 percent while the average applied rate is 6.5 percent. These differences are an important

reflection of the U.A.E.'s commitment to a more open international trade environment than mandated by international agreements. This compares favorably to other countries. For comparison, the average final bound tariff rate for India is 35 percent, compared to a 16 percent average applied tariff rate. Thus, U.S. exporters face average tariff barriers about three times higher in India than in the U.A.E. In addition, the WTO estimates that approximately 95 percent of imported goods into the U.A.E. enter the country at an applied tariff rate of 5 percent compared to only 4 percent of India's imports.

The U.A.E.'s integration into the global economy is also reflected in the growth of imports and exports. The WTO reports that exports of goods and services from the U.A.E. rose by almost 98 percent from 1995 to 2004, compared to 133 percent for imports. This increase in imports took place without the U.A.E. using any of its WTO-consistent trade remedy laws: the U.A.E. has never invoked antidumping or countervailing duty against any trading partner, including the U.S. In addition, the WTO notes that the U.A.E. has never been a complainant, a respondent, or a third party in any case at the WTO's Dispute Settlement Body.

U.A.E. export and import of goods reflects the country's extensive integration into the world economy. The U.A.E. has continued to diversify its exports so that only about one-half of its export value comes from petroleum exports (though that percentage obviously is sensitive to world oil prices.) U.A.E. goods exports in 2007 reflect its position as a major oil exporter. Japan, a major destination for oil exports, is the largest single purchaser with 24 percent and followed by South Korea (10 percent). The United States is only a relatively minor buyer of U.A.E. goods exports. The largest country source of imports into the U.A.E. is China (22 percent) with the United States' exports represented about 15 percent.

The U.A.E. has also begun negotiations with some countries on establishing bilateral trade agreements. The WTO Trade Policy Review reports that the GCC has undertaken at least some negotiations with China, the European Union, Turkey, Australia and the United States (see below). None of these negotiations have yielded a final agreement to date.

An important aspect of U.A.E. trade and economic policy are so-called "free zones." These special economic zones play a critical role in the drive to diversify U.A.E. exports. For example, many of the investments in light manufacturing take place in these zones. One particularly important aspect is that certain U.A.E. economic regulations and laws such as rules

about licensing, agency requirements, and emirate majority ownership, are not applicable to activities in the free zones. These factors are especially important in attracting foreign investment to the U.A.E.

## U.S. Goods Exports to U.A.E.

U.S. exports to the U.A.E. have grown dramatically in recent years. Figure 2 shows that sales of U.S. goods have increased from \$3.6 billion in 2002 to over \$15.7 billion in 2008, which represents an increase of 337 percent over a very short period. Some of this increase comes from civilian aircraft sales that tend to be recorded in large amounts that vary from substantially from year to year. However, even if one excludes the aircraft sales, one still sees a robust increase of sales from \$2.6 billion to \$11.9 billion. U.S. exports are likely to fall in the current economic difficulties but will nonetheless remain robust.

This increase in U.S. exports to the U.A.E. is impressive by almost any measure, especially when one compares it to other countries. For example, U.S. exports for the world as whole rose only 50 percent during this same period. U.S. exports to all GCC countries, excluding the U.A.E., rose by 199 percent. For the entire Middle East, excluding the U.A.E., U.S. exports rose from \$15.3 billion in 2002 to \$41 billion in 2008, which represents a percentage change of only about one-half of the growth rate to the U.A.E. These comparisons show that U.S. export opportunities were especially strong in the U.A.E., especially relative to both world performance and to other regional economies in the Middle East. One caveat for U.S. exports is that some of these goods may be transshipped to other countries so that all of the goods are not consumed inside of the U.A.E.

In 2008, the United Arab Emirates bought more U.S. goods than any other country in the Middle East. Table 1 shows that U.S. exports to the U.A.E. exceeded those to Saudi Arabia by over 25 percent and by over 150 percent to Egypt, the Arab world's most populous country. U.S. FTA partners in the Middle East, including Morocco, Oman, Bahrain, and Jordan, all had far smaller purchases of U.S. products than the U.A.E. Among U.S. Middle East FTA partners, only U.S. exports to Israel came close to the value of U.S. exports to the United Arab Emirates.

Figure 3 shows the distribution of products to the U.A.E. from the U.S., with aircraft sales as the single largest sector with 33 percent of total exports. Table 2 shows that goods exports to the U.A.E. are distributed across the top thirteen U.S. states. Exports from Washington and Texas made up 35 percent

of the total in 2008. California and New York also play an important role in U.S. exports to the U.A.E., representing 7 and 11 percent, respectively, of the 2008 totals. Another striking aspect of Table 2 is that it shows the burgeoning export relationship between the U.A.E. and a number of other U.S. states from 2002 to 2008 in terms of percentage change: Illinois (576 percent), Tennessee (303 percent), Ohio (278 percent), Florida (440 percent), South Carolina (595 percent) and Michigan (377 percent).

Table 3 depicts important export sectors for Washington, Texas, and New York for 2001 and 2008. The figures show that U.S. exports to the U.A.E. from these states are concentrated in high value-added sectors that create high paying jobs for those states' workers.

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### **U.A.E. Goods Exports to the U.S.**

Figure 2 shows that U.A.E. goods exports to the U.S. have been very stable in recent years. Total U.A.E. exports rose from \$937 million in 2002 to only \$1.29 billion in 2008, or only a 38 percent increase over the entire period. Excluding petroleum exports, U.A.E. sales to the U.S. increased from \$0.82 billion to \$1.1 billion in 2008, which represents only a 33 percent increase.

The industry pattern of U.A.E. exports to the U.S. for 2008 is depicted in Figure 4. Petroleum and petroleum products sector exports represents only 17 percent of exports. This might be surprising given the U.A.E.'s importance in world petroleum markets. But this low number reflects both the fact that the U.A.E. petroleum sales go to other markets such as Japan, and that the U.A.E. has diversified its exports. Aluminum products, for example, represents the largest single largest

U.A.E. goods export category (20 percent) to the U.S., an outcome that reflects the U.A.E.'s desire to expand beyond crude oil as an export commodity. In this case, the U.A.E. can easily use its abundant fossil fuels as an input into energy-intensive aluminum production. Apparel sector exports (Harmonized System (HS) categories 61 and 62, combined) reached 6 percent of U.A.E. exports to the U.S and down from 13 percent in 2006.

The overall strong relationship between the two countries is reflected in the near absence of disputes within the U.S. trade remedy system. Prior to 2007, there were no countervailing or antidumping duty cases involving U.A.E. exports. In 2008, two antidumping cases were filed against the U.A.E., both involving very modest levels of trade. A final indication of the robust relationship is that the United States and the U.A.E. have never been involved in any WTO dispute with each other. One source of U.S. concern especially in Congress has been continuing allegations of transshipment of dual-use goods and technologies through U.A.E. that might end up in Iran.

### **U.S.-U.A.E. Investment Relationship**

The U.S. Bureau of Economic Analysis (BEA) reports that the stock of U.S. foreign direct investment (FDI) in the U.A.E. rose (on a historical-cost basis) from \$540 million in 1999 to \$3.8 billion in 2007, the latest year for which data is available. U.S. investment in the U.A.E. remains a relatively small percentage of the worldwide total at less than one percent but the increase has been dramatic. These figures, however, do not contain statistics that would reveal the activities of individual U.S. firms, so these numbers are the lower bound for investment activities.

This dramatic increase translates into an increase of 605 percent in only eight years that far exceeds the growth in overall U.S. outward investment of only 130 percent for all countries. The percentage increase in U.S. investment in the U.A.E. is also greater than the increase in China (201 percent), Mexico (147 percent), India (447 percent), Israel (112 percent), Egypt (240 percent), and Saudi Arabia (60 percent). This impressive growth is one more indication of the increasingly intertwined nature of U.S.-U.A.E. economic relations.

Data on U.A.E. investments into the U.S. is hard to obtain. On the one hand, information from the BEA is often unavailable to the public because of issues of proprietary information. In addition, investments from the U.A.E. typically are undertaken by sovereign wealth funds, the activities of which are extremely opaque to the public.

Nonetheless, recent investment activity is indicative of a stronger U.A.E. presence in the U.S. though there are strong indications of a slowdown given the credit and financial crises of recent months. Notable examples in 2008 include the U.A.E.-based Mubadala Development Company and General Electric \$8 billion joint venture in high technology in 2008 and the Abu Dhabi Investment Council \$800 million purchase of a 90 percent share of the Chrysler Building in July 2008. Bourse Dubai's purchased a 20 percent stake in NASDAQ, which means the U.A.E.-based firm will be the single largest foreign investor in this important U.S. stock exchange. The Mubadala Development Company acquired a 7.5 percent share in the Carlyle Group, a high-profile U.S. private equity firm. Abu Dhabi entities have also infused \$1.4 billion into a joint venture with Advanced Micro Devices, a U.S. semiconductor firm as well as paid \$700 million to the American company. Dubai Ports, which had been at the center of a major controversy about its attempt to purchase a firm that operated U.S. port facilities, has invested almost \$2 billion in the real estate and retail sectors since that dispute arose in 2006.

## Challenges

As with any two countries, there are naturally some challenges facing the U.S. and U.A.E. economic relationship.

One of the most notable is a concern in some quarters about U.A.E. direct investments in the U.S., especially those involving government-controlled funds in so-called sovereign wealth funds. This was at the heart of the Dubai Ports controversy in 2006. However, the vast majority of U.A.E. investments have been completed with minimal public outcry in the U.S. In fact, the U.A.E. has been an important source of investment funds into the U.S. since the oil price boom of the 1970s.

One contributing factor to the relative lack of controversy over the last year is that in at least two instances, U.A.E. investments have been non-controlling. For example, the Abu Dhabi Investment Authority agreed that its 4.9 percent equity share in Citigroup did not result in any management role or involvement on Citigroup's governing board. Similarly, the U.A.E. stake in NASDAQ involved a 5 percent voting share despite the 20 percent ownership. Nonetheless, the increased involvement of sovereign wealth funds (both from the U.A.E. and other countries) in purchases of U.S. assets can generate controversies. This has resulted in calls for increased transparency about how such sovereign wealth funds are operated, pressure that might resisted by many foreign governments, including that of the U.A.E..

The economic pressures surrounding the global financial crisis could change dramatically the dynamic of fears about "too much" investment from the U.A.E. Exploding U.S. budget deficits in the next few years will require extraordinary amounts of foreign capital to finance these shortfalls. At the same time, economic distress within the U.A.E. and increased risk aversion could make U.A.E. investors more nervous about funneling funds into the U.S. This could translate into a situation where the U.S. increasingly might woo U.A.E. funds rather than trying to limit their involvement.

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Over 80 percent of Fortune  
500 companies have a  
presence in the U.A.E.

*Source: CNBC*

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Another challenge, especially if the economic relationship develops further, involves labor market tensions within the U.A.E.. There have been recent controversies about the treatment of foreign workers, such as housekeepers, nurses, and janitors in the U.A.E.. This led to the establishment in 2007 of a U.A.E. task force to draft new legislation that would guarantee new protections in this area. The failure to complete this would result in intensified criticism by labor and human rights activists and complicate the relationship, not the least of which might be increased congressional skepticism about a possible free-trade-agreement.

The status of labor market conditions could change dramatically this year as the economic crisis brings pressure to the U.A.E. domestic economy. Foreign workers already face significant layoffs that will result in many returning to their home country. Stalled construction projects will affect many blue-collar workers while the financial sector turmoil will result in many recent expatriates leaving the country. The extent to which this continues of course depends on the overall global economic picture in general and Dubai in particular, which has faced some of the most significant pressures.

Last year, the depreciation of the U.S. dollar vis-à-vis important currencies such as the euro was a cause of increasing concern in the U.A.E. In fact, there had been some discussion about delinking the U.A.E. currency to the dollar in order to increase the ability of U.A.E.

residents to purchase imports from many countries across the world. Expatriate workers, especially those from South Asia, also complained that funds sent back to their home countries were worth much less because of the falling dollar. This also contributed to labor tensions in the U.A.E. The dollar's relative strength in recent months has muted these concerns for now but would return quickly if the U.S. currency falls in value as a consequence of economic conditions. In the longer term, overextension of the dollar in international markets with continued record high deficits with subsequent reliance on foreign capital could sour international investors on purchasing U.S. dollar denominated assets. If the dollar were to fall precipitously in the future as a consequence, there will be intense pressure to de-link with the U.S. currency in favor of a basket of international currencies.

A final source of potential controversy comes from U.A.E.'s role as commercial center in the Gulf, a region of complex security concerns. In August 2007, the U.A.E. introduced a new export control law that includes stiff penalties for sending excluded items to unauthorized destinations and a total ban on the re-export of strategic military goods without explicit export licenses. This is especially sensitive with respect to trade with Iran, a traditional economic partner given the U.A.E.'s geographic proximity to that country. U.A.E. firms have undertaken important efforts to deal with this issue but the U.S. government will likely remain very concerned about this, especially if tensions with Iran increase. Container security has also been a U.S. concern but the U.A.E. has been very cooperative in this area. Dubai Ports has been a regional leader in cooperation with the U.S. Container Security Initiative, which is designed to increase security on U.S. bound container ships. The U.A.E. also signed on to the International Convention on the Suppression of the Financing of Terrorism in 2005. Despite these efforts, acts of terrorism or security problems in the region could complicate the relationship in unforeseeable ways.

## Conclusion

The United States and the United Arab Emirates enjoy a robust economic relationship. For example, CNBC reports that over 80 percent of Fortune 500 companies have a presence in the U.A.E., a fact that reflects the dynamic state of that economy as well as U.S. multinational interest in maintaining an important presence there.

U.S. exporting firms have a rapidly growing presence in the U.A.E. economy in a wide range of products and services from a number of U.S. states. The recent increase in U.S. exports to the U.A.E. far exceeds the

overall increase in U.S. sales abroad, i.e., the U.A.E. is becoming a far more important market for American firms and workers. Moreover, the U.A.E. imports many more American products on a per capita basis than other important U.S. trading partners. U.A.E. exports to the U.S., on the other hand, have increased much less dramatically over the last few years. These patterns are especially striking when compared to other high-income countries in the Gulf; U.S. exports to the U.A.E. have grown far more than to other GCC member countries.

The bilateral investment picture also reflects an increasingly important relationship. U.S. investors have turned to the U.A.E. as a target country for foreign direct investment in far greater numbers in recent years. Once again, U.S. presence in the U.A.E. economy has increased much more rapidly than the world as a whole. U.A.E. investors have also committed substantial funds in the U.S. economy.

This developing relationship is all the more striking given the small number of trade and investment disputes between the two countries. Neither has taken the other to the World Trade Organization over a trade problem. There have been only two, very recent, U.S. antidumping cases involving U.A.E. exports and none involving U.S. exports to the U.A.E. The only high-profile controversy between the two involved the political furor over the U.A.E.'s proposed purchase of U.S. port facilities.

The U.S. and the U.A.E. also share important economic and security interests. For example, the U.A.E. signed a \$3 billion contract in December 2008 with Raytheon and Lockheed Martin for the deliver of anti-missile systems. The U.A.E. also signed a landmark agreement for peaceful nuclear energy cooperation with the United States. This agreement, which was signed in the context of the U.A.E. officially renouncing any desire to enrich or reprocess uranium on its soil, would not only represent enormous commercial opportunities for the U.S. nuclear energy industry but would also solidify the U.A.E. as an important example of peaceful atomic energy use in the Gulf region.

Despite the extremely positive trade and investment ties, the recent global financial crisis will not leave this relationship untouched, especially since the interconnectedness has grown so much in recent years. The U.S. will continue to provide high quality goods and services to U.A.E. consumers and firms though the growth in exports will certainly slow. Total exports to the U.A.E. will likely drop in the near term. Similarly, the volume of U.A.E. investment in the U.S. could fall as the global economy readjusts to increased perceptions of risk and economic pressures at home. U.A.E. losses in investments made in the U.S. over the last year,

especially in the financial services sector, may also make investors wary of all types of riskier assets and may cause them to turn to safe investments like U.S. treasuries. Although the economic slowdown in the short-run for both countries could reduce the volume of trade between the two countries, perhaps importantly, the composition of goods and services trade will not change appreciably in the short run.

The longer-term outlook remains bright however. The price of petroleum will rise as global economic growth rebounds, which bodes well for renewed robust U.A.E. economic performance. This translates into an on-going ability of the U.A.E. to purchase U.S. products for which its consumers clearly have a strong demand. Exports of U.S. services, ranging from health care, financial management, construction, education, and entertainment, will remain robust in coming years as well. Large inflows of petrodollars once again would encourage U.A.E. investment into U.S. assets, as its citizens and government seek new profitable opportunities in the world's largest economy. Continued U.A.E. efforts to promote economic reform, an open investment climate, and its expanded role as a Gulf business hub also will encourage U.S. multinationals to invest funds in the United Arab Emirates.

### **About the U.S.-U.A.E. Business Council**

The U.S.-U.A.E. Business Council is the premier business organization dedicated to advancing bilateral commercial relations. By leveraging its extensive networks in the U.S. and in the region, the U.S.-U.A.E. Business Council provides unparalleled access to senior decision makers in business and government with an aim to deepen bilateral trade and investment.

Launched in May 2007, the U.S.-U.A.E. Business Council was created to represent American and U.A.E.-based companies that have been at the forefront of driving business ties between the two countries and to support the ongoing commitment and partnerships as the U.A.E. continues to experience unprecedented growth.

The Council was founded through the contributions of over 25 U.S. and U.A.E.-based corporations across a number of sectors and industries. The Council has grown since its inception and the evolving list of "Founding Members" comprise the Council's Board and shape the Council's agenda and policy priorities.

Companies may choose to join the Council at a number of different membership levels.

### **About the Author: Michael Moore**

Michael Moore is the founding Director of the Institute for International Economic Policy at the George Washington University's Elliott School of International Affairs. Professor Moore received his M.S. and Ph.D. in Economics from the University of Wisconsin-Madison and obtained a B.A. in Liberal Arts from the University of Texas at Austin.

He has had a joint appointment with the Elliott School of International Affairs and the Department of Economics at the George Washington University since receiving his doctorate in 1988. He served as associate dean of the Elliott School from 1995 through 1997 and was founding director of the International Trade and Investment Policy Program at the Elliott School. He also has taught international economics to U.S. diplomats at the Department of State's Foreign Service Institute.

Professor Moore served as Senior Economist for International Trade at the White House Council of Economic Advisers from July 2002 through July 2003.

He teaches courses at the undergraduate, masters and PhD courses on international economics.

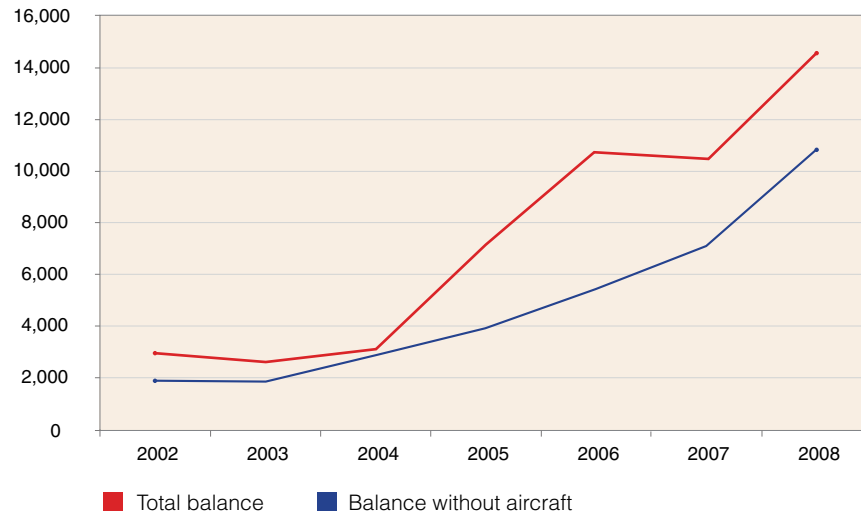
Professor Moore's main area of research within trade is antidumping policy. His most recent research focuses on antidumping procedures in the United States and among new users in the developing world. Professor Moore has also done work on the economics of the U.S. and European steel industries, especially their adjustment to international competition and the growth of minimills.

Professor Moore spent 1984-1985 as a graduate student at the Christian-Albrechts-Universität in Kiel, Germany. During 1994-1995, he was a Fulbright Scholar in Brussels at the Center for European Policy Studies and a German-Marshall Fellow at the Fondation Nationale des Sciences Politiques ("Sciences-Po") in Paris. In summer 1998, he was a visiting professor at the National University of Singapore. Professor Moore frequently has taught a course on U.S. Trade Policy to graduate students at Sciences-Po.

Professor Moore speaks German fluently and is proficient in French and Spanish.

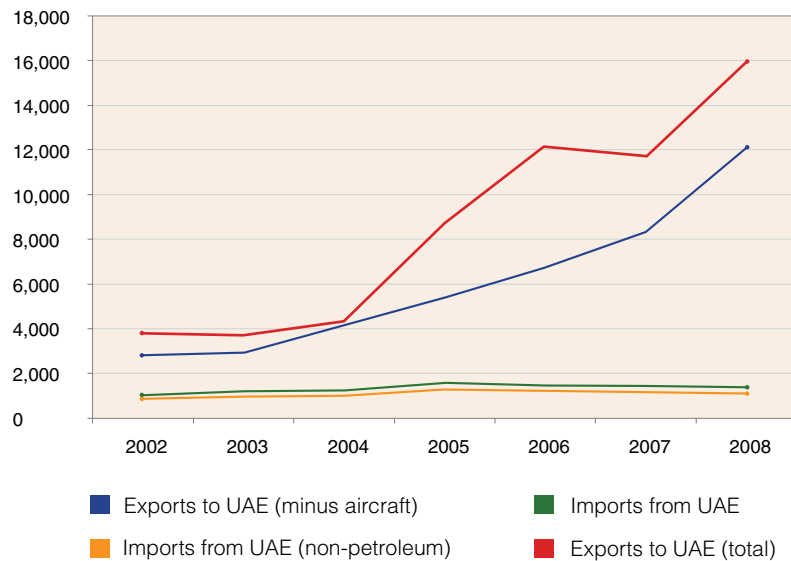
## Tables and Charts

**Figure 1: U.S. Goods Trade Balance with U.A.E.**  
(millions of U.S. dollars)



Source: U.S. Department of Commerce

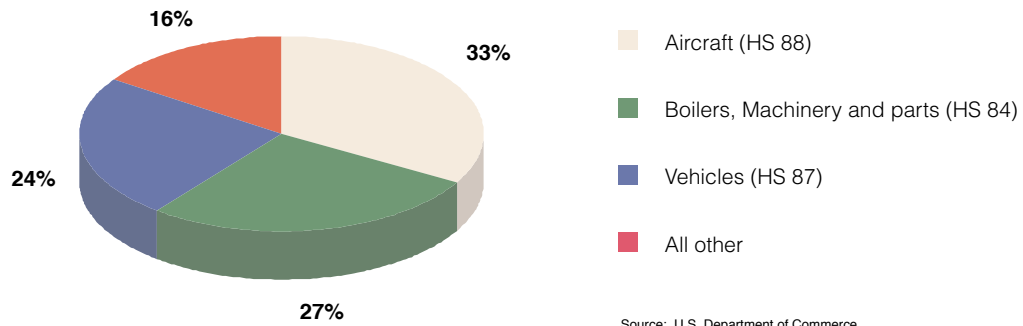
**Figure 2: U.S.-U.A.E. Goods Trade**  
(millions of U.S. dollars)



Source: U.S. Department of Commerce

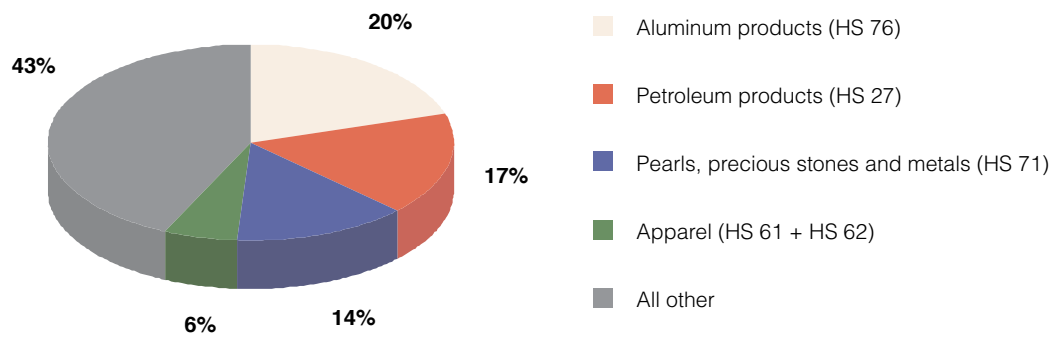
## Tables and Charts

**Figure 3: U.S. Exports to U.A.E. (2008)**



Source: U.S. Department of Commerce

**Figure 4: U.A.E. Exports to U.S. (2008)**



Source: U.S. Department of Commerce

## U.S.-U.A.E. Business Council

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