



KCS Country Risk & Threat Advisory

KCS Group Europe
Risk & Threat Advisory Paper

Political Risk Advisory Briefing: UAE
January 2021

Political Risk Advisory Briefing: United Arab Emirates



Country: UAE
GDP: \$414bn USD
Corruption: 21/180 (Transparency.org CPI)

The United Arab Emirates have a Risk Rating of 4.5 (Very Possible, tending High)

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| 6 Very High | The assorted threats described in the report are almost certain to have a derogatory effect. |
| 5 High | The threats are extremely likely to negatively affect the business. |
| 4 Very Possible | There is a strong likelihood of problems arising in this country. |
| 3 Possible | There is a fair chance of problems arising in this country. |
| 2 Low | There is a low likelihood of any threats impacting business. |
| 1 Very Low | There are virtually no impediments to successful business in this country. |



It has been fifty years since the territories formerly collectively known as the Trucial Sheikhdoms gained independence, and seven of them formed the United Arab Emirates as a new sovereign, federated state. Half a century later, the UAE has reached economic and corporate heights undreamt of when it was a British outpost – but these are set against economic uncertainty, political and regional tensions, and long-standing concerns over human rights. The course of the Emirates is thus beset by difficulties from both within and without. However, it still represents an excellent opportunity for business and investment in a variety of sectors from industrial to legal, and tourism to infrastructural: provided that client companies are careful and cautious about not only what they do, but who they do it with.

Politics

Each of the seven emirates of the UAE is ruled by its own Sheikh and nominally has a large degree of autonomy; however, there is considerable question over the degree to which this holds. The seven Sheikhs collectively form the Federal Supreme Council which selects the President, who himself selects half of the Federal National Council (with the other half being voted for by Emiratis). All are underpinned by a Constitution. But in reality, the ruling families of Abu Dhabi (the Al Nahyans) and Dubai (the Maktoums) are by far the most significant and it is through their auspices that the UAE fundamentally moves in one direction or another. Khalifa Al Nahyan currently serves as President, and Mohammed Al Maktoum as Prime Minister. Together, this is a solidification of the established relationship between the families and the ultimate expression of their power. While the assorted Councils and Constitution are certainly not to be sniffed at, especially when compared to neighbouring Gulf states, what this means in practice is that Abu Dhabi and Dubai exercise political control over the whole of the Emirates to the extent that, in large part, ‘what they say goes’ and this is certainly something which must be borne in mind when doing business in the UAE. Gain the approval of the Al Nahyans and the Maktoums, and you are likely to have a relatively smooth path. Go against their interests, and you might find that the entire UAE is closed for business.

Key to understanding UAE politics is also to understand that the seven Emirates themselves are founded on tribal lines, with each being run by its own Royal family (albeit that Sharjah and Ras-Al-Khaimah are run by the same). This means that although of course loyalty is due, and given, to the major emirates, they are also fiercely protective of their own tribal and familial qualities and as such, political interests will inevitably play at the local level as much as the national. Even, it must be said, between one Emirate and another or within a single Emirate itself.

Economy & Business Environment

Each of the seven Emirates retains a degree of autonomy over their economy and financial policy (on the proviso that such autonomy does nothing to destroy the political weighting given to Abu Dhabi and Dubai). As one would expect of a Gulf state, oil & gas revenues account for the vast majority of the UAE's economic outlook with over 75% of the economy being based around petroleum in some manner, and with every emirate except Dubai leaning predominantly on oil reserves. OPEC currently estimates that the UAE has just under 100,000 billion barrels of oil, and it is clear that petroleum will remain for some years, the foundation of the Emirati economy.

But this is not to say that the Emirates has been coy about looking for other measures of economic benefit. Dubai has taken the lead in diversification, in part because it had (relatively) little oil to begin with: the city is now world-renowned for its port facilities both by air and sea, being the unquestioned economic hub of the Middle East with soaring skyscrapers and international businesses to match, and a thriving industrial hub for manufacture of all kinds predicated on the Free Zone. The opportunities for Dubai alone are thus immense without ever needing to touch petroleum and foreign investment in particular has found a welcoming home in the Free Zone, in addition to changes in the legal and regulatory requirements as found in the Commercial Companies Law which now allows for 100% foreign ownership of companies and is estimated to prompt a 35% increase in foreign investment – not least in the crucial SME industrial/manufacturing sector.

The impetus is now on other emirates to follow Dubai's lead. Sharjah has cleaved closely to what worked elsewhere, establishing a network of Free Zones and industrial centres, while Abu Dhabi is pitching to attract tech entrepreneurs (not least in agricultural and residential sectors) who can improve the 'liveability' of the Emirate in addition to making profit, and Fujairah and Ras Al Khaimah are heavily involved in constructing the federation's first national rail network to improve cross-emirate trade and capability. These attempts to diversify are to be welcomed and are not before time, as the IMF expects the UAE economy to contract by 3.5% - down in large part to the impact of coronavirus on the expat community and the economy in general. Inasmuch as predictions can be made with certainty, the UAE must increase its diversification, in terms of investment sources as industry, in order to succeed.

However there remain problems with the UAE business environment, not least corruption in all its forms (to which we will come in a later section), but a legal system which is at times biased against non-Emiratis and with breaches identified by the United Nations as far back as 2014, and (more so for 'Western' firms) a culture that can be baffling and totally incomprehensible. A UAE deal will run upon very different lines to an American one (not least in the application of the Shari'ah), and the entire culture must be approached differently in order to have any success: to not do so is to invite failure.

Central is the concept of *wasta*: variously defined as power, influence or authority, it is best summarised as ‘smoothing the way’ and is an integral part of UAE business. To benefit from *wasta* might be to have a political/economic door opened that might otherwise have remained shut, or to iron out a corporate problem, or simply to know that you have protection when the time comes for it to be needed. *Wasta* stems primarily from the Emirati royal families (every royal will have their own level), and having such a figure on-side ensures that a business will find its time in the UAE much smoother than it otherwise would. The concept of “It’s who you know” is not unique to the Emirates of course, and there must always be a wider benefit for the enaction of *wasta* than simply the personal benefit of the individual in question (else it would be plain corruption) but compared to other states where bureaucracy and paralysis can damage the chances of business, *wasta* offers a viable and pro-active alternative to keep things moving, as well as gain support of respected and powerful figures who will be able to use their significant influence in your favour.

This in itself highlights another key factor in the Emirati business environment: it is intensely family-driven with already-present familial connections throughout corporate, political and social circles and it is through these that business sometimes move, over and above traditional channels. Gaining the favour of such a family is a crucial factor in Emirati success; however conversely, a competitor having the ears and favour of influential individuals can mean an extra barrier when a Client firm is attempting to do business: influence may flow too far the other way – unless it can be brought in check by influence of your own. Thus, it is ultimately impossible to separate Emirati business from politics: to succeed in the former is dependant upon influence in the latter, as well as the understanding that political gameplaying can have adverse effects as well.

Corruption

There is an argument to be made, however briefly, that the above discursion on *wasta* might be read as ‘nepotism’ or a vague form of corruption in general. This is not correct. There is of course a very clear distinction between accepted practices such as *wasta* and actual corruption: *wasta* is a recognised and welcomed way of doing business while making use of already-present connections and lines of influence. It is available to everyone, is expected, and (most importantly for our concerns) is entirely within the law.

What is emphatically not is corruption of the financial kind, deliberately designed to confer unfair advantage or economic benefit through the direct (or indirect) damage done to a company or individual. First, the official line: bribery and corruption of any kind are illegal in the UAE and companies should on no account engage in either. That said, in practice both are rampant and are as much fuelled by a system that embraces it, as nominally quelled by it.

There are a number of key considerations. Firstly, something that gets to the essence of the UAE as a business destination: that it is to a large degree, literally built on corruption. In key economic areas such as real estate and trade, money laundering is a common practice to enrich the elite involved, and there is often little scrutiny of the persons or the deals involved – to say nothing of the fact that many of the elite confirmed such positions by engaging in illicit activity. Laundered money flows under legitimate financial streams, and genuine projects in real estate, industry and manufacturing can be ‘cons’ in themselves, or smokescreens for something else. Moreover, Free Zones themselves – so long a foundation of boosting the Emirati economy – run their own commercial and labour laws and (as indeed the name might suggest) operate independent regulatory and oversight authorities that are very susceptible to compromise. The UAE itself (particularly Abu Dhabi and Dubai in this regard) may thus be seen as something of a self-perpetuating machine: even if only in a small percentage is fuelled by corruption, those perpetrators will need to sustain and deepen the corruption to further enrich and secure their positions. And so the cycle goes on.

All of this indicates that the Emirates has fundamental issues of corruption that are inextricable from the business environment. But problems go deeper. Dubai in particular is a node for international organised criminal gangs making use of the city’s financial powerhouse status, the ability to reach most of the world in short order with the UAE as the hub, and taking advantage of the FZ/real estate rules to act unethically even up to the point of avoiding sanctions. Hence, the UAE is now facing a significant threat from ‘the enemy within’, OCGs (and indeed Politically Exposed Persons) having inserted themselves over many years and being just as big a threat in key industry/trade sectors as general, opportunistic corruption and, crucially, a system that is geared towards permissiveness or, covertly, active appreciation.

This latter point is central to understanding the scope of corruption within the UAE and why it is so largely untrammelled. The Nahyan/Maktoum axis will not take punitive action all the while the benefits to the UAE outweigh the perceived costs, the legal system is heavily compromised and the corporate body of law contains multiple loopholes, and the regulators/elites know corruption is going on but do not have the desire or motivation to stop it.

Foreign Affairs

The UAE has historically cleaved to the 'Arab alliance' led by Saudi Arabia, and has typically taken the standard approach on this basis on all the major issues from Israel to Iran. However, change is in the air. In September 2020, a historic deal was signed between the UAE and Israel to 'normalise' relations and accompany a host of bilateral deals on issues such as investment and security. Good news for both, and a sensible choice, given that 'Israel v anyone' has long been the prevailing wind of potential conflict in the Middle East (arguably since its very creation) and these measures – Bahrain and others have since signed similar agreements – will serve to reduce regional tension.

Yet there is always a fly in the ointment and on this occasion, it is Iran, which has looked upon the deepening of relations between Israel and other major powers in the Middle East as a direct threat to its own position. In this, Iran is entirely correct: long entrenched in political enmity with Saudi Arabia and having called for the very destruction of Israel as a state, the Middle East as a region is now unequivocally pivoting towards Iran as the most prominent enemy, which will create a whole different set of tensions and difficulties. In part this is expressed through proxies, such as Iran's support for Qatar (something of a pariah state) and the Hezbollah paramilitary group, but with every chance that a 'hot conflict' could arise in the region. In such an eventuality, the UAE would inevitably be on the 'winning side' (if we accept that the US would support Israel and Saudi Arabia, and would bring its crushing military superiority to bear) but this could not be argued as a good thing if the region is plunged into conflict and investor confidence is destroyed, as it undoubtedly would be.

For now, an uneasy détente reigns and there is no immediate reason for businesses to hold off on their plans.

Conclusion: Looking to the future

These are challenging times, but the corporate world has long proven a resilience to deal with whatever is thrown at it, and there is no reason to suggest that will not remain an appetising and vital market in years to come. For 2021, aside from the 'business as normal' that has seen the UAE establish itself as the preeminent economic and legal hub in the Middle East, it is considered that further efforts to diversify, expand and improve upon the infrastructural and manufacturing/facilities will meet with success. The UAE can thus be seen as a region where business opportunities are plentiful and will likely only increase in number and nature, although offset against the proven corruption coming from all sides, to which the only solution is to adopt a full-spectrum approach to countering it via extensive due diligence, proactive monitoring of issues of concern, and an attitude of healthy scepticism at every turn.