



 KCS Country Risk & Threat Advisory

KCS Group Europe  
Risk & Threat Advisory Paper

Risk Advisory Briefing: Abu Dhabi  
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Grey Area Dynamics Risk Rating of **54.98% - Very Possible.**

Score	Colour	Rating	Description
< 100%		Very High	The assorted threats described are certain to have a derogatory effect.
< 83%		High	The threats are extremely likely to negatively affect the business.
< 66%		Very Possible	There is a strong likelihood of problems arising in this country.
< 49%		Possible	There is a fair chance of problems arising in this country.
< 33%		Low	There is a low likelihood of any threats impacting business.
< 16%		Very Low	There are virtually no impediments to successful business in this country.

*Grey Area Dynamics (GADs) are all the risks, weaknesses and threats that have direct and measurable impact on businesses. They are a collective description of behaviours and factors that can at best, disrupt a firm, and at worst, close it down. Relevant to this market, the key division of Grey Area Dynamics is as follows:*

	Legal	Illegal
<b>Active</b>	<ul style="list-style-type: none"> <li>Bureaucracy &amp; local government</li> <li>Absence or effectiveness of legal safeguards</li> <li>Government policy and nationalism</li> </ul>	<ul style="list-style-type: none"> <li>Unfair market competition</li> <li>Corporate espionage</li> <li>Cyber-crime</li> </ul>
<b>Passive</b>	<ul style="list-style-type: none"> <li>Covid-19 pandemic</li> <li>Local customs &amp; traditions</li> <li>Tribalism</li> </ul>	<ul style="list-style-type: none"> <li>Bribery &amp; corruption</li> <li>Vested interests and cronyism</li> <li>Hidden barriers to entry</li> </ul>

*The GADs methodology makes the invisible risks, visible, and serve to differentiate between alternative variables in each climate.*

*For each Grey Area Dynamic, we calculate separate IMPACT, FREQUENCY and LIKELIHOOD grades from 1 – 100%. These scores are based on a combination of over forty years of expert analysis and opinion on the severity of a GAD and its direct/indirect effect on personnel and business operating in a given country. These impacts are reviewed and updated quarterly so as to maintain their relevance.*

*The formula of  $RISK = IMPACT + FREQUENCY \times LIKELIHOOD$  is then applied, and Standard Deviation employed across all 35 variants, to calculate the mean average GAD risk score (expressed as a percentage).*

*Not only does this allow decision-makers to get an immediate idea of the threat level, but also a deeper breakdown of which specific Grey Area Dynamics are in play, their severity and frequency, and how the divisions of legal/illegal, passive/active are weighted. This kind of information offers a substantial degree of clarity over how the GADs can independently affect a client, and how they may intersect with each other to create the threat profile in a given business environment – thereby allowing a client to better refine or prepare their business plan to take account of where the threats are understood to lie.*

## Introduction

When thinking of the Emirates, Dubai is probably the first thing that comes to mind: whether it be the beaches and luxury lifestyle of the tourist trade, or the financial and corporate hub for firms of all kinds that have made the UAE the most attractive business destination in the Middle East. However, this is to do a disservice to everything that is not Dubai – not least Abu Dhabi, its largest, proximal, and undoubtedly, most powerful neighbour. Abu Dhabi is the true heart of the Emirates in the political and economic vectors, which are of course always the most crucial in any market, and while it cannot be said to be *'passing under the radar'*, there is certainly room for more focus to be given to the advantages of, and opportunities in, the emirate – so long as equal attention is given to the dangers and pitfalls.

## Politics

The ruling family of Abu Dhabi, the Al-Nahyans, have held that position since the founding of the emirate and through the virtues of history and geography, are considered the *de facto* rulers of the Emirates as a whole. Although, as expected, political infighting between the seven territories remains healthy, if somewhat suppressed. Thus, as go the Al-Nahyans, as goes Abu Dhabi, and the UAE.

The immediate benefits of this are clear. A business embedded in the Abu Dhabi environment will, with the right connections and actions, often find itself with advanced warning of future policy developments and sit at the table with the real decision-makers. The obverse is equally true. If the powers-that-be are set on playing their own political game, or have already lent their ears to competitors, then Abu Dhabi may quickly become frozen ground. Still, this is an occupational hazard of any region, and it is surely advisable to be inside the Abu Dhabi tent, rather than anywhere else.

There are two key figures. The first, undoubtedly from a political view, is Mohamed bin Zayed al-Nahyan ('MBZ'), the crown prince, *de facto* ruler of all the Emirates and a man whose control and will in all areas of life and policy-making are absolute. In some circles, he is considered even more powerful than his near-namesake Mohammed bin Salman – MBS – of Saudi Arabia. This makes sense – while Saudi Arabia claims religious authority over the whole Muslim community, the UAE is clearly superior in terms of economic attractiveness, scope of business and opportunity. And as the man at the centre, MBZ is in prime position to not only *'stump'* for the Emirates in general, but very much his emirate in particular.

And while he retains a standard autocratic regard to matters of opposition groups, political discourse and democracy – to which we will come – there is no denying that having a single-minded, single-point-of-control, serves to give businesses a very clear idea of where they stand. And MBZ's two-decade policy of streamlining government and entwining of top-level political governance with the business community, whilst ensuring primacy among the Emirates for his own, means that for better or worse, the state is business – and MBZ is the state.

The second, from a corporate perspective, is Sheikh Tanoon, MBZ's brother, who officially is the National Security Advisor for the UAE as a whole but who in practical concerns, is the 'point man' for exploring the gap between state and private enterprise. He is chairman of state investment firm ADQ, chair of First Abu Dhabi bank, and chair of \$4bn-asset firm International Holding Company – in addition to his security-specific roles. Atop all these, he sits on the Supreme Council for Financial and Economic Affairs. Undoubtedly, nepotism put Sheikh Tanoon where he is but that aside, such a ramping up of state involvement in private business, has upsides and downsides. While name recognition and trust/respect may be enough to open doors, a state-dominated economy by definition leaves less room for private enterprise, with that which does slip through the gaps being that which is already looked upon favourably by a powerful figure such as Tanoon. The dividing line between royal interest, and private business, has never been as weak as they are now. The Damoclean sword that this represents cannot be ignored – particularly as regional leaders look to shore up their absolute domestic control in the face of strategic threats from terror groups and other perceived 'bad actors'. Crucially, both are part of the Bani Fatima – the blood brothers from the 'mother of the nation', Fatima – whose power has long been unchallenged.

This is the enshrinement of tribalism in every aspect of Abu Dhabi life. Not only in the traditional family-led tribal divisions, strengthened by inter-emirate marriages and extended families who share the same bloodline, but in the 'modern tribes' that are created when one particular member stakes a claim to a sector or practice, and then builds their own fiefdom (some might say monopoly) around it, with all the consequences that naturally follow as others either serve their needs or look to fill a gap. Tribalism and patronage, like so much in Abu Dhabi, start at the top and trickles downwards.

Witness the proud statements from voters in elections past of admitting to voting for candidates based on their family name rather than their policies, or the authorities' permitting just 12% of the population to elect a full 50% of the Federal National Council – either passively disenfranchising large swathes, or actively encouraging the tribalism that will inevitably emerge. As goes politics, so goes business.

The situation then is one where the corporate world remains largely in thrall to the political one. Where nationalisation, the lack of effective safeguards (if the ruling elite so choose), and overt control (if not outright ownership) of firms, can never be divorced from corporate activity.

### **Economy & Evolution**

As stated above, it is still Dubai that is the shorthand for Middle Eastern finance and economic development. However, this is not an entirely fair representation. For a start, the Abu Dhabi-centric nature of political decision-making, from which everything else stems, means that the emirate cannot be ignored in a general sense. But the specifics are there too. Abu Dhabi is the wealthiest individual Emirate with a \$421tn USD GDP in 2020, drawn in large part from oil revenues (of which it holds 90%). Also, there are multiple organisations established specifically for its benefit. For instance, the Abu Dhabi Investment Authority is the sovereign wealth fund specific to the emirate, the Abu Dhabi Ports Group is in charge of the highly lucrative area of ports, Free Zones and industrial cities, and the Abu Dhabi Global Market facility hosts thousands of international firms in a dedicated hub.

Indeed, these three organisations encapsulate Abu Dhabi's economic drive. The ADIA invests the considerable past bedrock of oil revenues *outward* for domestic benefit, the ADPG ensures that the lifeblood of *transitory* trade continues, and the ADGM looks to the future for companies to come *inward* to Abu Dhabi.

And more is to come. Already this year, the Ports Group has posted a 21% upturn in growth compared to last year, fuelled by continuing expansion and diversification. Mark Cutis, the head of the ADGM, has been bullish about proposed Saudi Arabian plans to disbar any company that does not put its regional headquarters in Riyadh (and in light of the economic benefits, who can blame him?). And there is a continuing conversation about merging the Abu Dhabi Exchange with Nasdaq Dubai and Dubai Financial Market to create a single, powerful UAE exchange to rival the Saudi's Tadawul – which like most else, would recentre the power with Abu Dhabi.

Oil & gas remains crucial to the UAE, accounting for 85% of exports from the UAE as a whole, and as already stated, of particular necessity for Abu Dhabi. The emirate is taking a two-tack approach to this: point one is doubling-down on whatever they have left.

In May 2021, a \$744m USD contract was awarded to a joint Abu Dhabi National Oil Company (ADNOC) and China National Petroleum Corporation (at a 60%-40% split stake), to develop the Belbazem offshore block, adding a further 45,000 bpd to output from 2023 onward. Only last year, 24 billion barrels of both conventional and unconventional oil were discovered. ADNOC is intending to expand its production capabilities even further and is currently working through an investment tranche of \$45bn USD dedicated to enhancing downstream activities. The crucial vector here is, that once again, an Abu Dhabi vehicle is taking the lead. Indeed, back in 2018, ADNOC announced a new downstream strategy: not only would it work more closely with foreign firms to expand operations within the UAE, but also look for ways whereby ADNOC can collaborate further with these firms in their own countries. Thus offering an entirely new vector for companies to see mutual benefit from an investment in the UAE right now.

The other is in diversification. Perhaps accepting that it cannot take Dubai's crown for dripping consumerism, Abu Dhabi is pivoting instead towards future-tech. In both practicality, such as its extensive adoption of blockchain across government transactions, and in its choice of investments, such as ADIA's stated objective to invest heavily in the renewable energy technology, food security, and medical tech sectors ('Hub71', backed by the Mubadala fund, has accepted 100 startup firms in the Covid-afflicted period alone). As if this was not enough, the UAE's diversification strategy extends to building on what it knows best, with resource technical know-how being leveraged into the renewables market – with the nation planning to become a world leader in green hydrogen by 2030. This is an area where there is plentiful opportunity. Clearly, it would be too much to suggest that Abu Dhabi is going to 'go green', but a clear intent towards pursuing renewables, indicates that the breadth and depth of opportunities will increase further in years to come.

Abu Dhabi's economy did not avoid the pandemic but, in a deep-rooted analytic exercise carried out by Deep Knowledge Analytics in September 2021, was named the No. 1 city in the world for dealing with the crisis through the frame of governance, economic resilience and vaccination take-up – an encouraging response.

What one makes of the recent announcement that Sheikh Mohammed's government intends to 'renounce bureaucracy' may set that ranking back somewhat – after all, lose the red tape and you lose the adhesive qualities of bureaucracy that sticks everything together.

That said, there is certainly an argument that the bloated, inefficient, and non-uniform service currently found across Abu Dhabi (and to be fair, the UAE in general) needs realignment given that, at its worst, it can be glacially slow and ineffective without the exchange of brown envelopes. This of course, refers back to the twin issues of nepotism and corruption that, whether actively encouraged or passively accepted, cannot be avoided in Abu Dhabi.

### **The business environment & approach**

The UAE remains in the 'Top Ten' of reviews of general competitive nations worldwide (and is invariably the only Middle Eastern country in such lists). Moreover, even while the pandemic sent investments and business opportunities plummeting all over the world, the UAE bucked a trend by seeing foreign direct investment increase to \$20bn USD, at least half of which was into the natural resources sector. Given the recent rule changes to permit total foreign ownership and remove the need for Emirate chairs and agents, it is clear that the UAE is still finding new ways to be competitive, even in an extant market. 'Who you know' has impacts and echoes way beyond 'wasta'.

Abu Dhabi has recently unveiled a '*virtual licence*' to allow non-resident foreign investors to conduct business in thirteen 'strategic sectors' including agriculture, infrastructure and manufacturing prior to their residency permit being approved, and allows for foreigners to own 100% of such businesses. Moreover, the Abu Dhabi Investment Office and the Emirates Development Bank, have instituted a strategy to specifically grow the private sector in Abu Dhabi as a notable alternative to Dubai, and 'empower' the relationship between private and public enterprise.

However, while on the surface this is an encouraging outward trend, as always there are hidden barriers to entry and long-lasting problems with business in-country. Firstly, Al-Nahyan control over the emirate remains absolute. Going against the ruling family in any regard will leave a company in bad odour – even when it is not entirely clear just how they have done this. Moreover, members of the favoured elite will still form their own cliques and have their 'business favourites', and this may invariably confer unfair advantages on competitors.

And it is impossible to escape the shadow of corruption: not *wasta*, which is a recognised and welcomed way of doing business while making use of already-present connections and lines of influence, but outright corruption and illegality intentionally designed at exploiting the market and deliberately damaging competitors. Although bribery and corruption are proscribed in Abu Dhabi, this does not, in any way, prevent them.

Sometimes, these problems may manifest as the quiet acceptance that unfair market competition exists; and that someone, somewhere, will be willing to passively go along with these as a natural consequence of vested interests & cronyism. At other times, however, it takes a more active expression. While organised crime is not a problem at the forefront of Abu Dhabi, cybercrime very much is, with \$746m USD per year being lost to various forms of the practice (and likely higher if all unreported incidents are taken into account). Not all of these are from traditional, opportunistic bad actors either. The political, and economic, power-struggles have readily embraced hacking and cyber-blackmail as legitimate tools and corporate espionage is far more likely from a cyber-perspective than it is from a physical one. Additionally, UAE parties have both carried out espionage directly for government agencies (further blurring the delineation between the state and corporates), for competing corporates, and as personal jobs for high-profile and powerful figures. Cyber-crime is not a threat that can be taken lightly, particularly when it both informs, and is informed by, the issues of espionage, fraud and competition.

## **Conclusion**

Away from strict business matters, the social environment in Abu Dhabi, in which corporates must naturally immerse themselves, is acceptable, if not entirely accommodating. Although Interpol's Middle Eastern headquarters are in the city, the emirate has proven itself in the past unwilling to cooperate internationally on matters of money laundering and financial fraud - except where these involve terrorism. The domestic legal system is an oft-confusing conflation of civil law, Sharia law, and on occasions, English common law. While the judiciary's independence is ostensibly guaranteed, one needs only look at cases where strong intimations have been made regarding the failure to follow due process, or an inherent bias on the part of the judges in thrall to some higher political command, to question this.

Moreover, Abu Dhabi's press freedom is categorised as 'severely repressed'. With heavy monitoring of all applicable news, radio and online outlets and broad interpretation of a directive to suppress 'provocative material', means that no favour or support will be found from these quarters for entities that express opposition to a government directive, or run into problems with an elite-backed partner or competitor. Abu Dhabi protects its own – for good and ill alike.

On top of all this, the Abu Dhabi business environment is characterised by a myriad of local sensitivities and whirlpools to navigate. Knowing the extended family tree of the individual to whom you are talking – and adjusting your pattern accordingly – is just as important as what you are saying and cognisance of the unspoken undercurrent of political/economic sentiment that could be very different in reality to what is being expressed. (To an extent, once again, we revert to the issues of nepotism and need for patronage that have already been established). This is not just about understanding etiquette and following cultural norms – it is about understanding Abu Dhabi as a complex, interlinked set of factors that, for the greatest chance of success, cannot be viewed in isolation. Knowing exactly the nature, extent and purpose of your rivals' connections with the elite is necessary to keep up, and to help you prepare a counter-plan. As always, there is no substitute for knowledge.