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The U.S.-U.A.E.
Trade and Investment Relationship

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Executive Summary

The United States and the United Arab Emirates (U.A.E.) enjoy a continuing and robust trade and investment relationship despite last year's extensive economic challenges in both countries. The volume of U.S. exports to the U.A.E., which had grown dramatically in recent years, decreased during the financial crisis and its aftermath. But the U.A.E. still imported U.S. products at a much higher rate than other countries in the Middle East and beyond; the rate of decline of U.S. sales to the U.A.E. was also below that of overall U.S. exports.

The continued excellent bilateral trade and investment relationship reflects the increasingly diversified U.A.E. economy and its leading role as a modernizing influence in the Arab world. The depth of the commercial cooperation is evident in the path-breaking nuclear energy agreement between the U.S. and the U.A.E., which allows commerce in civilian nuclear energy between the two countries and is a testament to the U.A.E.'s commitment to peaceful nuclear power development within a strict non-proliferation regime.

The U.S.-U.A.E. economic relationship has been tested, like all others in the world economy, by the global financial crisis. Petroleum price volatility undercut U.A.E. economic forecasts. Overleveraging and real estate corrections hit Dubai particularly hard, slowing overall economic growth and reducing demand for imported goods and services, including those from the U.S. Dubai's economic problems and lack of transparency over its debt obligations created new uncertainties for U.S. investors and suppliers.

Even so, the U.A.E. economy continues to grow, powered largely by Abu Dhabi's increased infrastructure spending and real estate development, investments to expand oil production and by the growth of government-linked companies in such areas as basic industries, technology and alternative energy. Most analysts also see Dubai's economic problems as temporary, as its fundamental advantages in human capital, logistics, and quality of life remain intact. Among the other emirates, Ras Al Khaimah is emerging as a key destination for business and leisure travelers. U.S. ceramics and glass manufacturers have operations in Ras Al Khaimah, and the Ras Al Khaimah Investment Authority is targeting the U.S. as a market for greater cooperation and investment. Sharjah also continues to grow as an important hub for trade and as a center for education.

U.A.E. companies continued to make significant investments in the U.S. Notably, these are no longer exclusively passive investments. U.A.E. investments increasingly involve active involvement in corporate governance and leadership as well as capital for "green field" and new business initiatives with significant U.S. job creation.

Looking ahead to 2010, continued Iranian provocations create new uncertainties. The U.A.E. has been supportive of expanded UN sanctions against Iran, has significantly strengthened the enforcement of its export control laws, and is much more closely regulating and monitoring the financial sector. These efforts, as well as the potential of unilateral U.S. sanctions against Iran, could impact bilateral commercial activities. The Iranian threat likely will continue to drive U.A.E. purchases of sophisticated defense equipment, much of it from the U.S.

As the U.A.E. economy continues to outperform much of the rest of the world in the years ahead, U.S. business should continue to benefit across many sectors. Some of these sectors include energy extraction, defense sales, nuclear and alternative energy, professional and financial services, construction supplies and support, high-technology and infrastructure , education and medical services. Direct U.A.E. investments in U.S. companies will also continue to grow as will direct U.S. investment in the U.A.E. Close, stable security and commercial ties will also continue to sustain a robust trade and investment relationship.

Highlights:

- U.S. goods exports to the U.A.E. have increased from $3.6 billion in 2002 to $12.1 billion in 2009. This represents a 237 percent increase compared to a 52 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. did fall 16 percent from 2008 to 2009, which is less than the 18 percent drop for all U.S. exports.

- The U.S. goods trade surplus with the U.A.E. reached $10.6 billion in 2009, which is the fourth largest bilateral American surplus with any country. The U.S. has run a surplus with the U.A.E. every year since at least 1990, when the surplus was only $109 million.

- U.S. goods exports to the U.A.E. originate from a wide variety of U.S. states. In 2009, the five largest sources were: Washington (23 percent); Texas (14 percent); California (10 percent); New York (9 percent); and Florida (4 percent).

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- Official statistics show that U.S. foreign direct investment in the U.A.E. more than tripled from at least $1.1 billion in 2002 to at least $3.4 billion in 2008 on a historical cost basis. This far exceeds a worldwide increase of U.S. outward foreign direct investment of 96 percent in the same period and an increase of only 9 percent in Saudi Arabia. The pace of investment likely has fallen during 2009 as a result of the crisis, though no official data are available yet.

- Westinghouse will take part in a South Korean-led consortium that has won a reported $20.4 billion contract to build four nuclear reactors for peaceful energy production in the U.A.E. This was announced subsequent to the U.S.-U.A.E. nuclear agreement that came into force in December 2009.

- The U.A.E. government has intervened to help stabilize an economy buffeted by weak oil prices, a worldwide credit crunch, and rapid deterioration in the Dubai financial and real estate sectors. These efforts included $10 billion of support by Abu Dhabi for Dubai World, which suspended its debt service payments in a surprise move in November 2009. This action was in addition to a February 2009 $10 billion purchase by the U.A.E. Central Bank of Dubai-issued bonds to help ensure stability.

- With shared concerns about Iranian aggression, the U.S. and the U.A.E. have extended their close security cooperation. The U.A.E. agreed to buy Maverick air-to-surface missiles from Raytheon worth $170 million in February 2010. The U.A.E. also signed a $3 billion contract in December 2008 with Raytheon and Lockheed Martin for the delivery of Patriot anti-missile systems to the U.A.E., the first-ever release of the THAAD system.

- The U.A.E. has dramatically increased its exports of oil to China, which could lessen Chinese reliance on Iranian petroleum supplies and make China more amenable to tougher economic sanctions on Iran.

  The U.A.E. has indicated its willingness to support and enforce new UN economic sanctions against Iran. Already, the U.A.E. government has taken significant steps to increase scrutiny of Iranian companies doing business in the U.A.E., to tighten enforcement of export control laws to prevent the transshipment of sensitive cargos into Iran, and to restrict Iranian financial activities in and through the U.A.E.

Introduction

The United States and the United Arab Emirates continue to build upon already-strong economic ties, with the growth of trade and investment among the highest of any major U.S. partner. This relationship, which spans not only commercial but foreign policy cooperation, stands out as one of the United States' most important in the Middle East. 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 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 in December 2009. This agreement provides the legal framework for U.S. firms to operate in the U.A.E. in order to support the country's peaceful nuclear power program, which has been initiated to meet burgeoning U.A.E. electricity demand. In addition, the U.A.E.'s decision to officially renounce any domestic uranium enrichment or spent fuel 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 U.S. national security concerns.

The global financial and economic crises have put enormous pressures on the U.S. and U.A.E. economies but are unlikely to alter this fundamentally sound relationship. In fact, the economic crisis, as expected,

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has resulted 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. However, the drop in U.S.-U.A.E. trade has been less than that for the U.S. overall.

The U.S. will be running unprecedented budget deficits in the coming years, which will require substantial amounts of foreign capital for funds. The U.A.E. will continue to play an important role by recycling petroleum earnings into U.S. investments.

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. Indeed, the U.A.E. typically sends relatively 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.

There are a host of prominent examples of the depth of the U.S.-U.A.E. commercial relationship:

- Westinghouse will take part in a South Korean-led consortium that has won a reported $20.4 billion contract to build four nuclear reactors for commercial energy production in the U.A.E.

- In February 2010, Abu Dhabi’s Aabar Investments agreed to invest $20 million in XOJET, a U.S. airline company.

- The Abu Dhabi Investment Authority acquired an 11 percent share in the Hyatt Hotels Group in December 2009.

- In June 2009, the Mubadala Development Company and General Electric signed an agreement to establish a center for training future business leaders in the U.A.E. This is cooperation arising out of the July 2008 Mubadala and General Electric agreement for an $8 billion joint venture in high technology activities, including in the Masdar City complex in the U.A.E.

- In August 2008, the Mubadala Development Company announced a 50 percent acquisition of the Kor Hotel Group and a 25 percent share in the John Buck Company.

- Hilton Hotels operates 10 properties in the U.A.E., including four high-end hotels and resorts (two of which are currently under construction) in the emirate of Ras Al-Khaimah.

- GlobalFoundries, a joint venture between AMD and Abu Dhabi-based Advanced Technology Investment Company, announced plans in early March 2009 for a $4.2 billion manufacturing facility in Saratoga County, New York, which is expected to result in 1500 new jobs.

- The Cleveland Clinic Abu Dhabi hospital, scheduled to open in 2012, will be a 360-bed facility dedicated to high-quality health care, using physicians who will receive training in Cleveland, Ohio. This facility is intended to bring state-of-the-art medical care to U.A.E. residents as well as others in the Gulf region.

- Connecticut-based LATICRETE, through a joint venture with RAK Ceramics, opened a $45 million factory to manufacture ceramic adhesives in Ras Al-Khaimah. The factory is currently LATICRETE’s largest in the world.

- In December 2009, New York University, in partnership with the Abu Dhabi government, officially opened a comprehensive liberal arts university in Abu Dhabi, the first of its kind by a major U.S. research university. The associated NYU Abu Dhabi Institute is intended to become major regional research center. These efforts will expand the influence of U.S. educational traditions, including adherence to principles of academic freedom and tolerance.

Official statistics show a vibrant trade and investment partnership.

In 2009, the U.A.E. was the 19th leading export destination for U.S. goods. 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 2009 exceeded those sent to all other Middle East countries including those with much larger populations. For example, U.S. exports to the U.A.E. were over 1.5 times larger than those sent to Turkey, over 2.3 times larger than those destined for Egypt, and exceeded those to Israel by over 25 percent. U.S. exports to the U.A.E. in 2009 alone equaled 41 percent of the combined total sent to the high-income countries of the Gulf Cooperation Council countries (which includes the U.A.E., Bahrain, Kuwait, Oman, Qatar, and Saudi Arabia).

Another commonly used measure of the current state of this relationship is the bilateral trade balance. The U.S. has experienced a consistent and large bilateral goods trade 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 from $2.7 billion in 2002 to over $10.6 billion in 2009. This compares to an average overall trade deficit of $21 billion with the other Gulf Cooperation Council countries for the 2002 to 2009 period.

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 $7.3 billion in 2009. 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. The only drop in this surplus occurred in 2009, which reflects the recent economic crisis. Available data from the U.S. Department of Commerce does not include separate 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. This 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 $3.4 billion in 2008, 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 59 percent from $3.4 billion in 1999 to $5.4 billion in 2008.

The relationship clearly has been characterized by rapidly expanding trade and investment flows. The near total absence of serious bilateral trade and investment 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 suggest 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 very problematic.

The Bush administration tried to further formalize the cooperative 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) 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 is taking a very different approach to trade policy generally and to free trade agreements in particular.

Nonetheless, the economies of these two nations continue to be 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 have undercut the red-hot economic growth throughout the region though there has been a firming of petroleum prices in recent months as the world economic situation stabilizes. 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 U.A.E. is a federation of seven emirates situated on the Arabian 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. One concrete manifestation of the dynamic and forward-looking U.A.E. economy was the opening of the Burj Khalifa, the world's tallest man-made structure and the centerpiece of the ambitious Downtown Dubai development. The construction of the tower entailed collaboration among 30 companies and 12,000 workers representing more than 100 nationalities. The inaugural Formula 1 Etihad Airways Abu Dhabi Grand Prix took place in November 2009, at the state-of-the art Yas Marina Circuit, which can host 50,000 spectators. The racetrack is powered by solar energy, consistent with Abu Dhabi's public commitment to clean energy. Construction began in 2009 on the Saadiyat cultural island, soon to be home of a new Guggenheim Museum. Moreover, the U.A.E.'s Masdar development of the first carbon-neutral city also continues.

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, which helps maintain internal stability. The expansion of oil income in recent years resulted in a substantial increase in U.A.E. government revenue, with a subsequent budget surplus, although the official fiscal balance was negative in 2009 as a result of increased expenditures dealing with the crisis and reduced revenues, especially from petroleum sales. A substantial part of these surplus 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 $225 billion in 2009, according to the Economist Intelligence Unit. This translates into GDP per capita of at least $24,000 in 2004 and an estimated $34,000 in 2008, calculated on a purchasing power parity basis. Economic growth had been very strong in recent years, reaching almost 15 percent in 2006 but slowing to a still robust 7.4 percent in 2008. This was accompanied by an inflation rate that reached 15.8 percent in 2008. Real interest rates (i.e., the nominal interest rate minus the inflation rate) had been negative in the middle part of the last decade, which encouraged widespread borrowing.

Surging domestic demand came from both the public and private sectors' increased incomes and enormous infrastructure projects. The fixed exchange rate regime limited the range of possible actions however, though money supply growth did fall from 51 percent in 2007 to 15 percent in 2008. The U.S. dollar's weakness in early 2008 increased the costs of imported goods, especially from Europe, which 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. The U.A.E. government indicated that there could be major reform in this area in the future.

This dizzying growth slowed significantly with falling petroleum prices and the concurrent financial crisis.

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The financial crisis and ensuing real estate and construction collapse sent shock waves through the U.A.E., but especially in Dubai, which had positioned itself as a regional financial, tourism, and transportation hub and which had experienced an extravagant construction boom. There were significant changes in the labor market as foreign workers, laid off as a result of delayed and cancelled construction projects, left the U.A.E. even as the economy digests the consequences of the crisis.

Economic statistics for 2009 and projections for coming years reflect these challenges. Real U.A.E. GDP contracted by an estimated 3.5 percent in 2009 with the industrial sector falling by 6.1 percent. Inflation, which had exceeded 10 percent for a number of years in succession, fell from an estimated 15.8 percent in 2008 to only 1.5 percent in 2009.

The fundamentally different economic environment meant that the U.A.E. government policy has shifted rapidly from an anti-inflationary mode within an overheated economy to concerns about an economic downturn.

The most prominent recent example of these efforts came in the wake of the suspension of debt service payments by Dubai World, a prominent conglomerate with widespread economic relationships across the world. This November 2009 announcement sent shock waves across the financial world as investors worried about the possibility of default and an ensuing additional shock to the already shaky economic recovery. The Abu Dhabi government, with substantial financial resources arising from its hydrocarbon reserves, transferred $10 billion of support to Dubai World to shore up the conglomerate.

This support came in addition to the September 2008 decision by the Central Bank of the U.A.E. to make available over $13 billion to shore up the troubled financial system in the midst of the financial meltdown that began in the U.S. The reduced credit and uncertainty about intermediate term global economic growth lead to the delay of large-scale construction projects, most notably in Dubai. In addition, the Central Bank of the U.A.E. purchased almost half of a $10 billion bond issue from the Dubai government in February 2009 after private subscription was insufficient.

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. Economic forecasters are now predicting growth rates in the 2.5 to 4 percent range for the next two years. These forecasts are far below the frantic pace of the middle part of the last decade but are more likely to be based on reasonable growth of credit and more modest construction projects.

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 approach 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 approximately 15 percent compared to a 3 percent average applied tariff (i.e., the tariff imposed by the U.A.E. in practice). 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.

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The average applied tariff rate for the Middle East and North African group, as defined by the World Bank, is almost 12 percent. The average applied tariff rate for India is 16 percent. Thus, U.S. exporters face average tariff barriers many times higher in India and the Middle East generally 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 an antidumping or countervailing duty against any trading partner, including the U.S. In addition, the World Bank reports 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 diversity 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 2008 reflect its position as a major oil exporter. Japan, a major destination for oil exports, is the single largest purchaser with 25 percent, followed by South Korea (9 percent). The U.S. 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 (13 percent) while the U.S. exports represented about 9 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 EU, Turkey, Australia and the U.S. (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. For example, the Ras Al Khaimah Free Zone, one of the fastest growing of these economic areas and which hosts a reported 4,000 active companies, has posted an 11 percent increase in revenue despite the global economic downturn. The zone has a host of economically dynamic and transparent policies including foreign ownership of enterprises that can reach 100 percent, no restrictions on capital and profit repatriation and state-of-the art communication facilities.

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 $12.1 billion in 2009, which represents an increase of 237 percent. Some of this increase comes from civilian aircraft sales that tend to be recorded in large amounts that vary 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 $8.8 billion over this same period. Overall, U.S. exports to the U.A.E. fell during the 2009 economic crisis from the 2008 historical high of $14.4 billion, which is only the second time U.S. sales in the U.A.E. have fallen in the last ten years. An important component of this drop was a decrease in construction equipment as building activity slowed dramatically.

The 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 53 percent during this period. U.S. exports to all GCC countries, excluding the U.A.E., rose by 150 percent. For the entire Middle East, excluding the U.A.E., U.S. exports rose from $15.3 billion in 2002 to $32 billion in 2009, which is less than one-half that with the U.A.E. These comparisons show that U.S. export opportunities were especially strong in the U.A.E., 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 the U.A.E.

In 2009, the U.A.E. 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 12 percent and by over 130 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. Moreover, U.S. exports fell 16 percent to the U.A.E. from 2008 to 2009 compared to much greater reductions in major U.S. Middle Eastern export markets such as Israel and Turkey.

Table 2 shows how goods exports to the U.A.E. are distributed across the top twelve U.S. states. Exports from Washington and Texas made up 37 percent of the total in 2009. California and New York also play an important role in U.S. exports to the U.A.E., representing 10 and 9 percent, respectively, of the 2009 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 2009 in terms of percentage change: South Carolina (798 percent), New Jersey (348 percent), Georgia (257 percent), Pennsylvania (355 percent) and Ohio (122 percent). The reduction in exports as a result of the recent crisis had important differential effects across states. Washington exports continued to rise in 2009, which reflects the delivery of aircraft under long-term contracts. Falling exports in other markets reflected reduction in sales of motor vehicles and construction equipment.

U.S. export expansion will be highly dependent upon domestic growth rates in the U.A.E. The more modest forecasted U.A.E. GDP growth rates of 2 to 4 percent will likely mean correspondingly modest increases in U.S. export opportunities in the short-term. Historical patterns nonetheless, point to significant U.S. export opportunities as long-term U.A.E. growth returns to its robust levels, even if the economic expansion is likely to be lower than the torrid pace of the last decade.

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 $1.5 billion in 2009, or only a 62 percent increase over the entire period. Excluding petroleum exports, U.A.E. sales to the U.S. decreased from $806 million in 2002 to $793 million in 2009.

Petroleum and petroleum products sector exports represented 47 percent of exports in 2009. This is an unusually large percentage for the U.A.E. and reflects a major realignment of export shares in 2009. For example, oil exports were an average of 17 percent of U.A.E. exports for 2002-2008. (This low average 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 been attempting to diversify its exports.) U.S. companies like Occidental, ExxonMobil, and ConocoPhillips continue to expand their cooperation and work with the U.A.E. Aluminum products, meanwhile, increased from 10 percent of U.S. imports from the U.A.E. in 2002 to almost 20 percent in 2008 but fell to only 6 percent of U.S. imports in 2009.

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, only one of which resulted in antidumping duties being placed on U.A.E. exports. A final indication of the robust relationship is that the U.S. and the U.A.E. have never been involved in any WTO dispute with each other.

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 $3.4 billion in 2008, 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 534 percent in only ten years, which far exceeds the growth in overall U.S. outward investment of only 160 percent for all countries. The percentage increase in U.S. investment in the U.A.E. is also greater than the increase in China (387 percent), Mexico (157 percent), Israel (113 percent), Egypt (297 percent), and Saudi Arabia (61 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.

Investment activity over the last few years is indicative of a stronger U.A.E. presence in the U.S. Notable examples 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's $800 million purchase of a 90 percent share of the Chrysler Building in July 2008. Bourse Dubai 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. MGM Mirage and Dubai World joined forces in developing CityCenter in Las Vegas, Nevada a mixed-use complex of hotels, residences, and casinos. CityCenter, one of the largest privately funded construction projects in the history of the United States, formally opened in December 2009 after a reported $11 billion in construction costs. It reportedly has created more than 12,000 jobs in Las Vegas.

The financial and economic shock waves of late 2008 and 2009 have reduced the scope and size of individual cross-border transactions though important activity continues.

- In March 2010, Abu Dhabi's Mubadala Development Company bought a nine percent equity stake in U.S. merchant bank, The Raine Group. Raine focuses on media, entertainment and sports; the investment is in-line with Abu Dhabi's goal to develop a robust entertainment industry.

- In February 2010, Abu Dhabi's Aabar Investments agreed to invest $20 million in XOJET, a U.S. airline company. The resulting joint venture is intended to provide high-end private airline service in the Middle East.

- In January 2010, Flash Entertainment, a live-events company based in Abu Dhabi, bought a 10 percent stake in Zuffa, the owners of Ultimate Fighting Championship, one of the most important players in the fastest-growing sport of mixed martial arts.

- The Abu Dhabi Investment Authority invested a reported $140 million in the Hyatt Hotels Group in December 2009, which translates into about an 11 percent share of the group.

The drop-off in major U.A.E. investment is likely to be only temporary as uncertainties surrounding economic conditions in the U.S. and the U.A.E. recede. The economic, political, and strategic interconnections will continue to provide strong incentives for long-term investment, with important benefits for both countries.

Challenges

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

Sovereign Wealth Funds.

Notable concerns in some quarters surround 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 in the recent past 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

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>
> *~ Dr. Michael Moore*

controversies. This has resulted in calls for increased transparency about how such sovereign wealth funds are operated, pressure that might be resisted by many foreign governments, including that of the U.A.E. However, there may be decidedly less interest in such major investments in the U.S. financial sector given the turmoil of the last few years.

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. In addition, U.A.E. sovereign wealth funds have publically committed to the "Santiago Principles," which will increase transparency for outward investment from the U.A.E., especially in areas with potential national security implications. For example, the Abu Dhabi Investment Authority released its first Annual Review, which represents an important step in increasing transparency.

U.A.E. Labor Markets.

Another challenge, especially if the economic relationship develops further, involves labor market tensions within the U.A.E. There have been controversies about the treatment of foreign workers, such as housekeepers, nurses, and janitors in the U.A.E., some of which resulted in prominent press reports. The U.A.E. cabinet subsequently passed a number of reforms to address these concerns, including the right of workers to transfer employer sponsorship, prohibiting employers from withholding worker passports, and denying new licenses to recruiters who have not complied with U.A.E. labor laws.

The status of labor market conditions has changed dramatically as the economic crisis brought intense pressure to the U.A.E. domestic economy. Foreign workers have faced significant layoffs that will result in many returning to their home country. Stalled construction projects have affected many blue-collar workers while the financial sector turmoil has resulted in many recent white-collar expatriates leaving the country. The emerging signs of economic stability and renewed, if modest, growth in the near term will likely ameliorate some of these pressures. The overhang of major projects in Dubai and the increased skepticism about its return to its high-octane economic trajectory will dampen some of the renewed impetus for growth.

Role of the Dollar.

The depreciation of the U.S. dollar vis-à-vis important currencies such as the euro in 2008 caused increased unease in the U.A.E. about the fixed exchange rate. There had even been some discussion about de-linking 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 recent relative strength 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 combined with continued record high budget deficits and consequent 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. In addition, there is increased uncertainty about the future U.A.E. role in the GCC proposed monetary union, with recent indications that it will not join the project.

> "Over 80 percent of Fortune 500 companies have a presence in the U.A.E."
>
> *~ CNBC*

Transparency.

Concerns about transparency and rule of law in the U.A.E. are a further source of tension. The opaque nature of sovereign wealth fund investments is one example though there has been important progress in this area as noted above. Dubai World's suspension of its debt service payments surprised most analysts and certainly has made investors more nervous about investing in the U.A.E. One positive step in reestablishing credibility was the establishment of a special tribunal to deal with claims by those making claims on Dubai World debts as the conglomerate restructures. A fair and transparent process would help reinforce the U.A.E.'s reputation as an attractive site for foreigners to conduct business in the region. A far more troubling case was the acquittal of a member of the U.A.E. royal family in the assault of an Afghan. Such controversies in the Middle East and the developing world are not uncommon though the U.A.E.'s judicial system's decision to try a well-connected individual is unusual. Nonetheless, some critics have argued that this case undercuts the U.A.E.'s desire to be seen as a nation with a strong rule of law. Ongoing reform of various laws dealing with business ownership in the U.A.E. will also continue to improve the overall business climate

Relationship with Iran.

A final source of potential controversy comes from the U.A.E.'s role as commercial center in the Gulf, a region of complex security concerns. 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. This likely would become even higher profile if the on-going dispute with Iran over its nuclear program becomes more acute.

Some critics have alleged that there has been transshipment of dual-use goods and technologies through U.A.E. that ended up in Iran. 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. The U.A.E. reportedly has shut down dozens of international and local companies involved in money laundering and proliferation of dual-use and dangerous materials. The U.A.E. is working closely with U.S. government agencies to further improve enforcement and licensing capabilities aimed at curbing the transshipment of elicit materials. Despite these important efforts, the U.S. government will likely remain very concerned about commercial ties with Iran, especially as tensions over the Iranian nuclear program increase.

The U.A.E. also is taking steps that help support U.S. policies vis-à-vis Iran. In particular, the U.A.E. has dramatically increased oil exports to China over the last year. *The Washington Post* reports that shipments more than doubled from about 50,000 barrels per day last year to a current level of about 120,000 and could reach 200,000 barrels per day by the end of 2010. Such an increase would lessen China's reliance on Iranian petroleum exports and could play an important role in any strengthening of the sanctions regime in response to continued Iranian nuclear activities.

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 U.S. and the U.A.E. 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 FDI in far greater numbers in recent years. Once again, U.S. presence in the U.A.E. economy has increased much more rapidly than in 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 WTO 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 security interests with special concerns about maintaining stability in the Gulf region. For example, the U.A.E. agreed to buy Maverick air-to-surface missiles from Raytheon worth $170 million in February 2010. This is in addition to a $3 billion contract in December 2008 with Raytheon and Lockheed Martin for the delivery of anti-missile systems. The U.A.E. also signed the aforementioned 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 domestic enrichment and reprocessing of nuclear fuel on its soil, continues to represent important commercial opportunities for the U.S. nuclear energy industry, especially suppliers. This agreement also solidifies 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 has not left 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. dropped last year from their 2008 historical highs. Similarly, the volume of U.A.E. investment in the U.S. may 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 has reduced the volume of trade between the two countries, the composition of goods and services trade will not change appreciably in the short run and the drop-off for U.S. exports to the U.A.E. has been slower than U.S. exports overall.

The longer-term outlook remains bright. The price of petroleum will rise as global economic growth rebounds, which bodes well for a renewed, robust U.A.E. economic performance. Dubai, after a period of retrenchment from the burst real estate bubble, will resume growth albeit at a more sustainable rate. These improvements will translate 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. The most serious uncertainty about the relationship arises out of possible collateral commercial damage if the dispute about the Iranian nuclear program reaches a critical state. The U.A.E. continues to be an important partner for the U.S. in the Gulf, especially with its exemplary approach to peaceful nuclear power development, defense cooperation, and increased oil exports to China to lessen its reliance on Iranian petroleum supplies.

Continued U.A.E. efforts to promote economic reform, an open investment climate, and its expanded role as a Gulf business hub will also encourage U.S. multinationals to invest funds in the U.A.E. and increase the overall economic ties between the two countries.

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

Launched in May 2007, the U.S.-U.A.E. Business Council was inaugurated by His Highness, Crown Prince, Sheikh Mohammed bin Zayed Al Nahyan and His Highness, Foreign Minister, Sheikh Abudullah bin Zayed Al Nahyan and is comprised of nearly 100 members from a broad range of U.S. and U.A.E. commercial sectors.

The U.S.-U.A.E. Business Council is a progressive business advocacy organization solely committed to the advancement of the trade and commerical relationship between the United States and the United Arab Emirates. The U.S.-U.A.E. Business Council provides its diverse membership unparalleled access to senior decision makers in business and government in the U.A.E. and in the United States. The Business Council actively works to ensure that the U.S. and U.A.E. remain an attractive destination for foreign direct investment by conducting effective policy advocacy, undertaking various trade promotion initiatives, providing ongoing updates on the business climate in both countries, and helping develop strategic relationships between U.S. and U.A.E. business and government officials.

For more information regarding the U.S.-U.A.E. Business Council or Membership opportunities please contact info@usuaebusiness.org or +1.202.863.7285.

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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 undergraduate, master's and Ph.D. 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.

TABLE 1

U.S. Goods Exports: Select Middle East Nations

	2009	Change from 2008
UAE	12,107	-16%
Saudia Arabia	10,804	-13%
Israel	9,568	-34%
Turkey	7,089	-29%
Egypt	5,258	-12%
Morocco*	1,606	12%
Jordan*	1,193	27%
Oman*	1,087	-21%
Bahrain*	669	-19%

Notes: *Millions of US Dollars, *Existing free trade agreement with US*
Source: *Department of Commerce (tse.exports.gov)*

TABLE 2

U.S. State Exports to U.A.E.

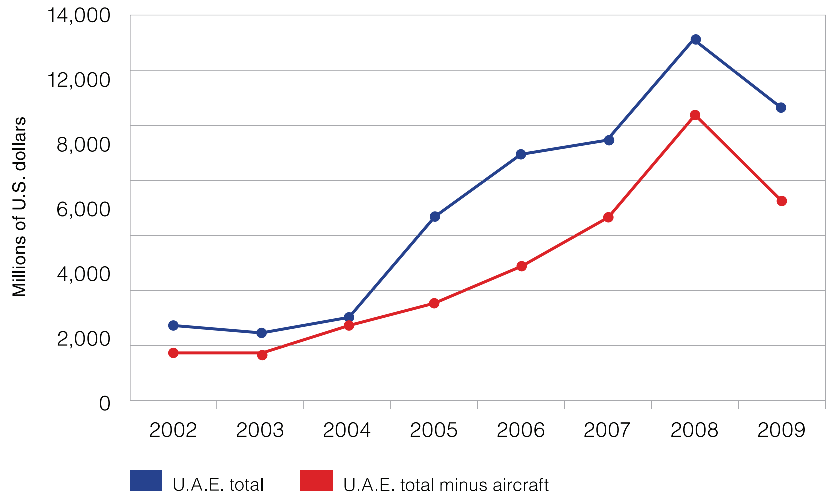
		2002	2008	2009	02-09 change	08-09 change
Rank	U.S. Total	3,593	14,417	12,107	237%	-16%
1	Washington	947	2,155	2,763	192%	28%
2	Texas	600	2,098	1,672	179%	-20%
3	California	263	1,156	1,151	338%	0%
4	New York	286	1,767	1,076	276%	-39%
5	Florida	102	553	438	328%	-21%
6	South Carolina	42	432	378	798%	-12%
7	New Jersey	82	327	366	348%	12%
8	Georgia	92	426	329	257%	-23%
9	Illinois	113	538	254	124%	-53%
10	Louisiana	111	165	248	122%	50%
11	Ohio	80	427	215	170%	-50%
12	Pennsylvania	45	317	205	355%	-35%

Notes: *Millions of US$*
Source: *Department of Commerce (tse.exports.gov)*

Tables and Charts

FIGURE 1

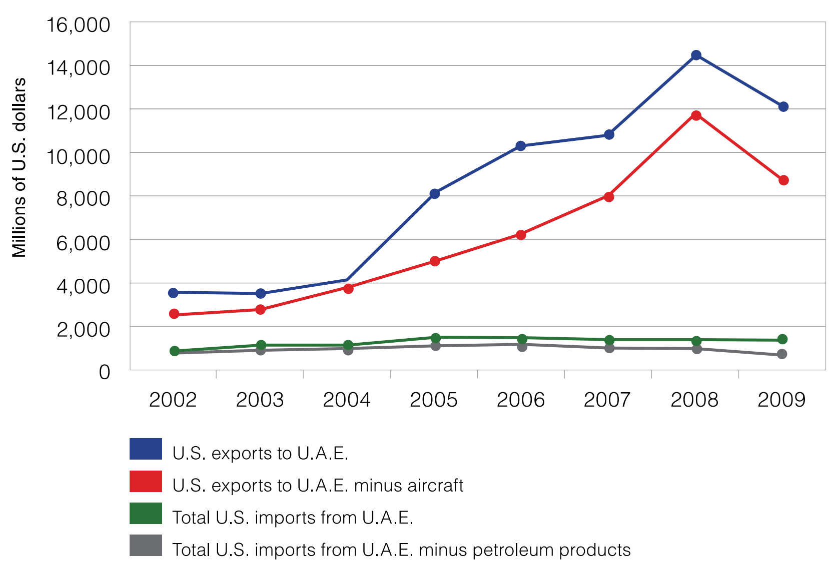
U.S.-U.A.E. Goods Trade Balance



Source: Department of Commerce (tse.exports.gov)

FIGURE 2

U.S. Goods Trade with U.A.E.



Source: Department of Commerce (tse.exports.gov)

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