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NEW SILK ROADS:

The U.A.E.'s Careful Balance of its Business, Trade, and Investment Relationship with China

OCTOBER 2020

BUSINESS COUNCIL REPORT

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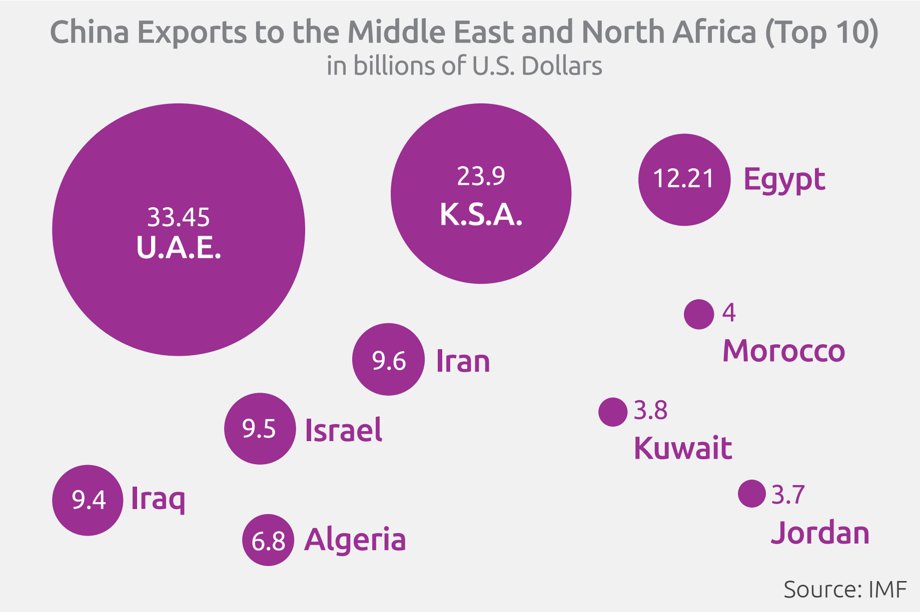
The U.S-U.A.E Business Council is grateful to Afshin Molavi for offering this paper exclusively for our readership ahead of our 4 October webinar titled, "Between East and West: The U.A.E.'s Growing Ties to China and Implications for the U.S." The views and ideas expressed in the paper are the author's own and do not necessarily reflect the views of the Council or its members.

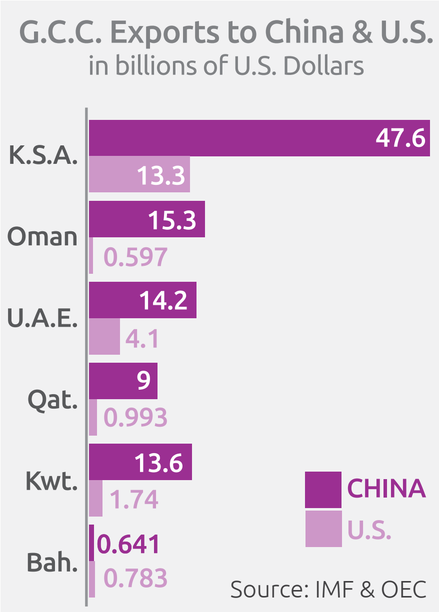
New Silk Roads: The U.A.E.'s Careful Balance of its Business, Trade, and Investment Relationship with China

Amid rising bipartisan concerns in Washington about China's growing economic and geopolitical footprint worldwide, headlines about the latest billion-dollar deal between China and the United Arab Emirates are often viewed within the prism of this emerging great power competition. U.S. Secretary of State Mike Pompeo recently raised the alarm bells about China's intentions to bring U.S. partners like Saudi Arabia into its geopolitical orbit through the provision of missile systems and support for a nuclear program. China's web of investments in Israel from infrastructure to technology start-ups has also rankled many in Washington. And, Huawei's deep ties across the region have raised alarm bells. In this environment, countries that get "too close" to China will likely fall under intense scrutiny.

For its part, the U.A.E. is studiously trying to navigate the shoals of the great power competition between the U.S. and China. This paper attempts to draw out the key highlights of the history of the U.A.E. trade and investment relationship with China, while also demonstrating that the U.A.E. still sees the U.S. as its most important strategic partner even as the economic relationship with China broadens. The U.A.E. sits strategically between East and West, as well as between North and South, and has developed into a major trade hub and global investor. As such, it will inevitably cross currents with the world's second largest economy, China, much as the United States does (China was the U.S.' third largest trade partner in 2019). Still, while the U.A.E.-China relationship continues to grow commercially, it has moved slower in strategic and security arenas. The U.A.E. has demonstrated careful moves to manage its relationship with China in order not to endanger its traditional close ties with Washington and key capitals in the West.

The China-U.A.E. economic relationship has an economic logic to it, untethered to geopolitical issues, owing mostly to the U.A.E.'s role as a trade hub. The U.A.E. is the number one destination for China's exports to the Middle East and North Africa region, but China is not alone. The U.A.E. is also the number one destination for both U.S. and EU exports to the Middle East and North Africa region[1], and the number two destination worldwide for Indian exports.[2] In fact, both the U.S. and the EU run large trade surpluses with the U.A.E. The U.A.E. has also emerged as a major Africa trade hub, ranking as a top 5 export destination for up to a dozen African countries.[3] It's a simple rule of globalization: global trade hubs tend to attract a lot of trade.





A Chinese state-owned shipping company sees the same opportunities in the U.A.E. as a Western consumer multinational firm, an African commodities trader, a South Asian bank, or a South American agribusiness. In that sense, the recent investment by COSCO Shipping Ports Limited (CSP), the subsidiary of the state-owned global shipping conglomerate China COSCO Shipping, in Khalifa Port makes commercial sense. It's also a classic win-win whereby the Abu Dhabi Port received foreign direct investment and a guaranteed flow of ships from one of the largest global shipping companies, and CSP received direct access to a rising logistics hub linked to a growing industrial zone - Khalifa Industrial Zone Abu Dhabi (KIZAD).

1 Based on IMF Direction of Trade Statistics data and European Commission trade data
2 IMF Direction of Trade Statistics data – 2019 - https://data.imf.org/?sk=9D6028D4-F14A-464C-A2F2-59B2CD424B85&sId=1515619375491
3 Author's calculations based on IMF Direction of Trade Statistics data
4 https://www.seatrade-maritime.com/ports-logistics/qingdao-port-buying-33-stake-cosco-shipping-ports-abu-dhabi

Belt and Road Initiative investments are often maligned (sometimes justifiably so) for opaque investments in developing countries that face the prospect of over-exposure to Chinese debt-finance. But Abu Dhabi faces little prospect of falling prey to a China "debt trap," and CSP took equity in the deal. Indeed, the deal looked so promising that Qingdao Port International recently purchased a 33.35% equity interest in COSCO Shipping Ports (Abu Dhabi) for $59 Million.[4]

When CSP made the investment in Khalifa Port, they were clearly following the money. All told, China exported some $33.5 billion worth of goods to the U.A.E. in 2019, according to an examination of IMF trade figures. To put that into perspective, China exports more to the U.A.E. than it does to Italy, Spain, or France.[5] Or put another way, China exports more to the U.A.E. – a country of 10 million – than it does to the 200 million-plus population of Egypt, Iran, and Iraq combined.[6]

U.A.E. oil plays a modest but growing role in the trade relationship, but it is not the dominant player. What's more, unlike some of China's other relationships across emerging markets and in the MENA region where the balance is tilted clearly in China's favor or tilted toward a basic bargain of commodities for manufactured goods, the Goldilocks Principle seems to prevail in the U.A.E.-China relationship: both sides gain in ties that are "neither too hot, nor too cold." U.A.E. exports to China, for example, account for about 5% of their total exports worldwide, a much lower percentage than most of its Gulf Arab state peers.[7]

Despite the massive difference in size and scale, the relationship has attained a sense of balance, of two countries that speak a similar language of trade and connectivity. A relationship that was originally heavily tilted toward Dubai as a trade hub for Chinese goods has now evolved into a broader, multi-faceted one, though trade remains central to its future.

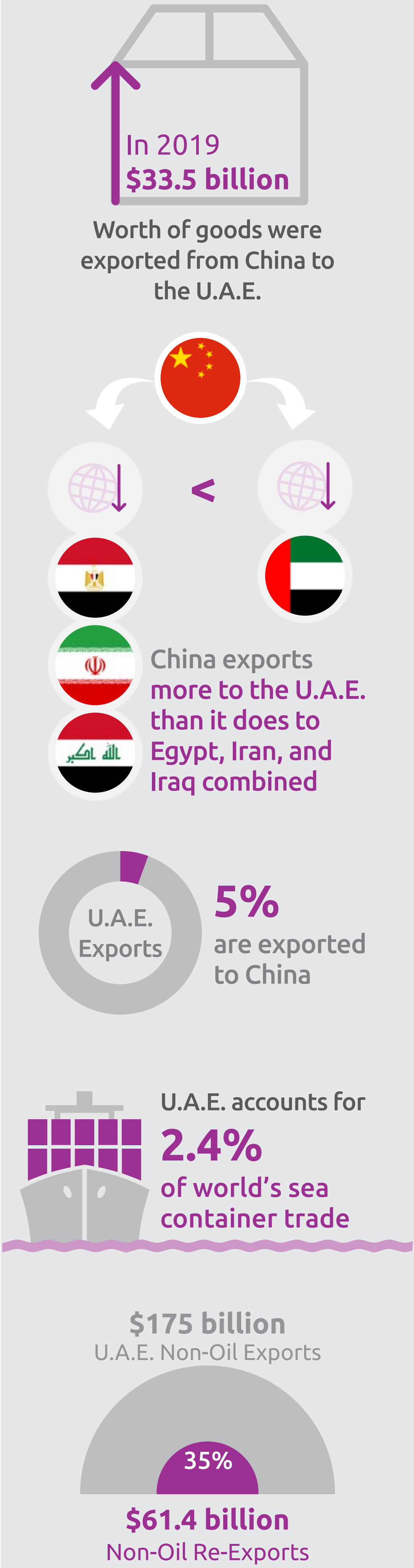
The U.A.E. - A Trading Hub on the Global Stage

The U.A.E. is not simply a leading Middle East hub. It has become a major global one, a fact not lost on China's shippers, traders, or government. Consider this: the U.A.E., with a population of less than 10 million, conducts more foreign trade than Brazil or Indonesia, with populations exceeding 200 million.[8] More specifically, with less than 0.13% of the world's population, the U.A.E. accounts for about 1.5% of total world trade and 2.4% of world sea container trade.[9] The U.A.E.'s $632 billion global trade flows rank them among mid-sized European industrial and financial powers, somewhere between Switzerland and Spain and just behind Singapore.[10]

To be sure, a good chunk of the U.A.E.'s trade flows owe to its considerable re-exporting prowess as a major trade hub. In the year 2018, the U.A.E. exported some $61.4 billion in non-oil products from its free trade zones in the form of re-exports.[11] Total non-oil exports for that year amounted to some $175 billion. Thus, re-exports accounted for approximately 35% of total non-oil exports.

As a small country with a strategic location in the center of East-West trade flows, the U.A.E.'s investments in trade-enabling infrastructure have seemingly paid off. By following the Singapore and Hong Kong model of serving as a transshipment hub as well as a free trade zone light manufacturing center (and more recently, a heavy industrial free trade zone at Khalifa Port), the country leveraged a resource that never depletes – its geography – and

Facts about the U.A.E.



4 https://www.seatrade-maritime.com/ports-logistics/qingdao-port-buying-33-stake-cosco-shipping-ports-abu-dhabi
5 Based on IMF trade data
6 Author's calculations based on IMF Direction of Trade Statistics data - https://data.imf.org/?sk=9D6028D4-F14A-464C-A2F2-59B2CD424B85&sId=1515619375491
7 Based om IMF and World Integrated Trade Solution data
8 Author's conclusion based on World Integrated Trade Solution data - https://wits.worldbank.org
9 https://unctadstat.unctad.org/countryprofile/MaritimeProfile/en-GB/784/index.html
10 Author's conclusion based on World Integrated Trade Solution data - https://wits.worldbank.org
11 https://oxfordbusinessgroup.com/news/dubai's-initiative-boost-export-and-re-export-trade

built a powerful trade platform for global firms. As one senior World Bank official with a Middle East portfolio told this author: "The U.A.E. diversified far ahead of most of its peers. They fixed their roof when the sun was shining, which will help them in the Covid storm we are all experiencing."[12] According to Oxford Business Group, there are currently more than 18,000 companies operating in the U.A.E.'s 37 free trade zones.

It's important to keep that in mind in any exploration of the rapidly growing U.A.E. relationship with China. The character of the China-U.A.E. relationship owes much to the character of the U.A.E. economy itself: increasingly diversified, globally connected, and a well-established global trade and logistics hub. Indeed, in a startling statistic, according to *The Economist* magazine, "almost two-thirds of Chinese exports to Europe, the Middle East and Africa move through Emirati ports."[13] Clearly, the U.A.E. is not simply an "oil play" for China.

Much of the media analysis around China's growing footprint in the MENA region lumps all six Gulf Cooperation Council (GCC) countries into a "Gulf Arab states" category, but that categorization has long lost its political value and is increasingly losing its economic value, particularly when analyzing the U.A.E., a diversifying economy punching far above its weight in terms of global trade. Among the "Gulf Arab states," the U.A.E. conducts more foreign trade than Bahrain, Kuwait, Oman, and Qatar combined. In fact, the U.A.E.'s total trade with the world is double the amount of those four states collectively.[14] Add in the total trade worldwide of Iraq, Egypt, and Morocco plus those four Gulf Arab states and you roughly approximate the U.A.E.'s total trade worldwide.[15]

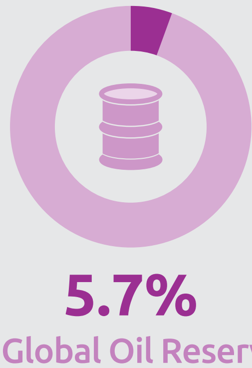
The U.A.E. also conducts more total foreign trade than Saudi Arabia, despite the latter's distinct advantage in oil exports and population size.[16] While the U.A.E. holds 5.7% of global oil reserves and accounts for some 4% of global production, it is not highly dependent on oil in its global export mix. Whereas energy exports among fellow OPEC members Saudi Arabia and Kuwait account for some 77% and 72% of total exports respectively[17], for the U.A.E. that number is 12% - the lowest hydrocarbons to total exports ratio among all OPEC producers.[18]

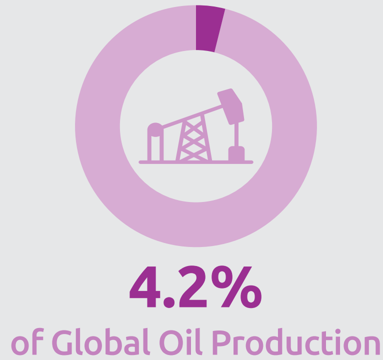
It was inevitable, therefore, that the world's largest trading nation, China, would find ways to connect with one of the world's largest trading hubs, specifically Dubai. In the year 2014, China surpassed India as Dubai's leading trade partner. A significant chunk of those Chinese exports find their way to Jebel Ali before re-export elsewhere. In many ways, the China-Dubai relationship dominated U.A.E.-China Relations 1.0 over the past two decades as both sides rose in importance on the global trade scene. In the newest phase – perhaps call it U.A.E.-China 2.0 – beginning in the last few years and ramping up more recently, Abu Dhabi has become a more prominent player and relations have entered a more mature, strategic, and arguably more consequential phase alongside the commercially opportunistic one. As Zayed University Professor Jonathan Fulton, an astute observer of China-U.A.E. ties, wrote recently: "Until the recent interest in KIZAD, much of China's U.A.E. energy was focused on Dubai. Abu Dhabi is quietly catching up, and the manner in which it is doing so is a sign of a top-down initiative coming from both sides rather than a loose set of investment opportunities by Chinese multinationals."[19]

Kizad كيزاد

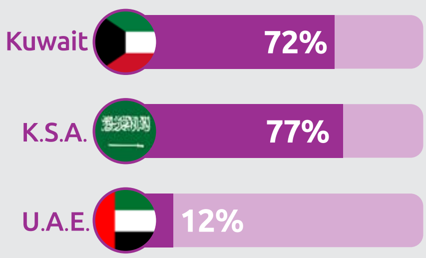
[12] Interview with the author, September 2020
[13] https://www.economist.com/middle-east-and-africa/2019/04/20/chinese-money-is-behind-some-of-the-arab-worlds-biggest-projects
[14] Author's conclusion based on World Integrated Trade Solution data - https://wits.worldbank.org
[15] Ibid
[16] Ibid
[17] Author's calculations based on OPEC data - https://www.opec.org/opec_web/en/
[18] Ibid
[19] https://www.al-monitor.com/pulse/originals/2019/07/china-investment-uae-kizad-industrial-zone.html

Facts about the U.A.E.



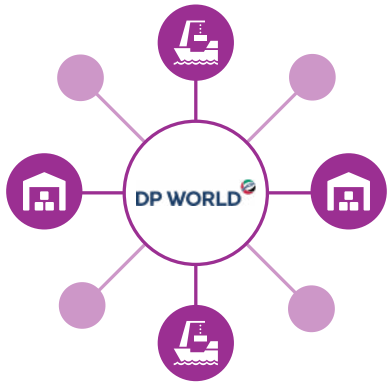


% of Energy Exports from Total Exports



History and Evolution of the Emirates as a Chinese Trading Hub – U.A.E.-China 1.0

The orange sun burned low and hot across the Jebel Ali Port in Dubai, the sprawling container terminal hub that anchors Dubai's outsized role as a global trade hub. Branded containers from the world's leading shippers – Hapag Lloyd, CMA CGM, Maersk, Evergreen, Hanjin -- were stacked for miles in a dizzying display of globalization on this author's recent visit. For officials at DP World, the Dubai-based global terminal operator that operates Jebel Ali Port as well as some 150 ports and logistics hubs worldwide, the rise of China as global trade behemoth has been a boon for business.



DP World operates around **78 marine and inland terminals worldwide, with a total of 150 operations**

When the late Ruler of Dubai Sheikh Rashid bin Saeed Al Maktoum announced his intention to launch a massive port in Jebel Ali shortly after inaugurating a new port in Dubai in 1972, many in the outside world and even in his inner circle scoffed at the idea. They asked: why would Dubai need another port? Launched in 1979, Jebel Ali Port is today the ninth busiest container terminal port in the world, and the largest between Rotterdam and Singapore. The Jebel Ali Port and its associated Jebel Ali Free Zone Authority (JAFZA) represent a core aspect of the Dubai hub model: an all-in-one logistics cluster of multi-modal connectivity.[20] Global companies ranging from Pepsico to Nestle to Mitsubishi Motors have flocked to Jebel Ali Free Zone, setting up offices to leverage the port's access to the world and the economies of scale available in logistics clusters.

So, when a Chinese firm announced a $2.4 billion investment in Jebel Ali Free Zone to develop a "Traders Market" on 800,000 square meters of land exclusively for Chinese goods[21], they were simply following the lead of many already established firms, including the some 244 Chinese firms already operating in U.A.E. Free Zones, mostly in JAFZA.[22]

The investment captured headlines because of the timing of its announcement during the 2019 Beijing visit of U.A.E. Prime Minister and Ruler of Dubai His Highness Sheikh Mohammed bin Rashid Al Maktoum, who was attending the

20 For academic studies of Dubai's port city model, see Akhavan, Mina and Sundarakani, Balan

21 https://logisticsgulf.com/2019/04/traders-market-launched-in-dubai-as-part-of-chinas-belt-and-road-initiative/

22 https://www.constructionweekonline.com/business/260517-dubai-china-trade-grows-81-to-3784bn-over-10-year-period

Belt and Road Forum. By investing in the U.A.E., Chinese companies are doing what other companies worldwide, including those in the U.S, are doing. According to FDI magazine, the U.A.E. attracted nearly a quarter of all FDI to the Middle East and Africa in 2018.[23] In 2019, the U.A.E. attracted roughly half of all investment to the Middle East, according to UNCTAD.[24] A large chunk of that FDI came from the United States.

For China, when they look at Dubai, they see a place almost purpose-built for the Belt and Road vision. Dubai and its associated entities had been building a Belt and Road-like infrastructure long before Chinese President Xi Jinping announced his landmark initiative in two speeches in Indonesia and Kazakhstan in 2013. Dubai's ports operator, DP World, operates container terminals and ports in some 40 countries worldwide. Meanwhile, Dubai International Airport (DXB) surpassed London Heathrow in 2014 as the world's busiest international air hub, further distancing itself every year, and is likely to return to that status in a post-Covid world. Dubai property developer Emaar, the company that built the world's tallest tower, Burj Khalifa, is developing properties across Asia and the Middle East. Dubai International Financial Center has attracted some of the world's leading financial services firms to its shores – including the four largest Chinese banks. And finally, Dubai has become one of the most oft-visited cities in the world, ranking fourth in the Mastercard Global Destination Cities Index.[25] In the year 2019, Dubai attracted more international visitors than New York, Rome, Istanbul, or Singapore.[26]

China engages broadly across the three T's of the Dubai model: trade, transport, and tourism. Chinese tourists have been the fastest growing segment of visitors to the emirate over the past decade, and they have emerged as among the largest spenders in Dubai International Airport's Duty-Free shops.[27] As noted earlier, the U.A.E. has also become a major China trade hub.

Of the estimated 200,000 Chinese nationals living in the U.A.E. – the largest Chinese diaspora in the region – the vast majority reside in Dubai. There are some 4,000 Chinese companies registered in Dubai.[28] Chinese nationals have also become the fastest growing buyers of Dubai property. Leading Dubai-based property developers actively market to Chinese consumers.[29]

The most obvious physical manifestation of the Dubai-China relationship is Dragon Mart, the massive wholesale shopping mall developed by state-owned developer Nakheel and launched in 2004 that routinely saw some 65,000 visitors a day to its stores in the pre-Covid era. Dragon Mart is the largest Chinese wholesale market outside of China. While the vast majority of shoppers are U.A.E. residents and tourists, traders from across Africa and the Middle East region flock to Dragon Mart in Dubai to place their "China purchases" for the year. As one East African trader told this author: "With Dragon Mart, I no longer go to China. China has come to my neighborhood in Dubai."[30]

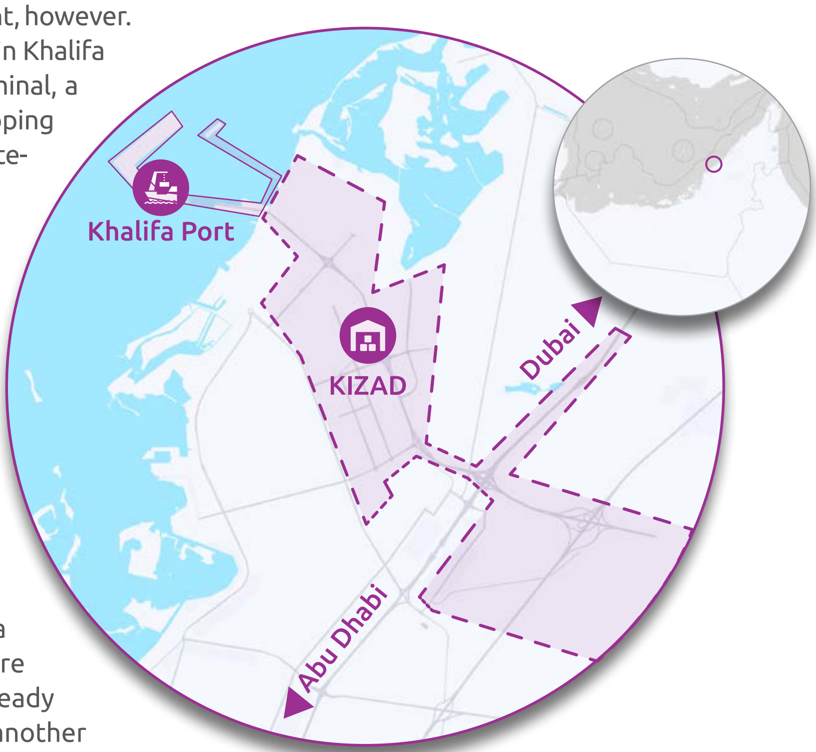
NAKHEEL

DRAGONMART

Meanwhile, in Abu Dhabi, when two mega-ships owned by China COSCO Shipping floated into a port in Abu Dhabi in May of last year, it may have simply looked like business as usual in our increasingly globalized world. After all, Chinese-owned container ships routinely call on U.A.E. ports, particularly the port of Jebel Ali in Dubai, one of the busiest container

23 https://www.fdiintelligence.com/article/74816
24 https://www.khaleejtimes.com/business/economy/uae-becomes-largest-fdi-recipient-in-the-middle-east
25 https://newsroom.mastercard.com/wp-content/uploads/2019/09/GDCI-Global-Report-FINAL-1.pdf
26 Ibid
27 https://www.trbusiness.com/regional-news/middle-east/chinese-traffic-positive-and-important-for-ddf/163555
28 https://www.khaleejtimes.com/chinese-appetite-for-dubai-realty-is-rising
29 Ibid
30 Author's notes from DragonMart visit – June 2019. See also author's Foreign Policy magazine piece – "How DragonMart Explains the World" - https://foreignpolicy.com/2016/01/18/how-dragon-mart-explains-the-world/

terminals in the world. This port visit was different, however. The two ships, the Solar and Pisces, that landed in Khalifa Port on that day docked at CSP Abu Dhabi Terminal, a state-of-the art facility operated by COSCO Shipping Ports Limited (CSP), a subsidiary of the state-owned global shipping conglomerate.



Two years earlier, CSP signed a 35-year concession with Abu Dhabi Ports Company, the owner and operator of Khalifa Port to launch a major new terminal – marking CSP's first international green-field project. The Chairman of CSP described the project as a "pivot for us to develop a global maritime hub."[31] With a $300 million capital investment, CSP put their own skin in the game for what they saw would be a steady flow of ships. Chinese firms, they thought, would be attracted by the associated Khalifa Industrial Zone Abu Dhabi (KIZAD), and they were right: some $1.7 billion in investment has already poured in from at least 20 Chinese firms and another $10 billion mega-investment is in the works by a major Shanghai-based manufacturer.[32]

In many ways, the deal represented a long-term bet on the future of the U.A.E.-China trade relationship – a bet that has already been paying off for both countries. After all, the U.A.E. accounts for 28% of China's non-oil trade with the Arab world[33], hosts the largest Chinese diaspora in the region, and has emerged as the top regional foreign direct investment destination for Chinese firms.

Abu Dhabi and Dubai are not the only Emirates with major ports. Sharjah, Ras Al Khaimah, and Fujairah also operate key regional trading port facilities. They also act as leading gateways for the U.A.E.'s handling of raw materials and energy supplies. These ports have also received significant development over the last 5 years, and they are expected to grow in the near future.

From Trade Flows to "Heads of State Flows" to Strategic Investments – U.A.E.-China 2.0

In the summer of 2019, Abu Dhabi Crown Prince and Deputy Commander of the U.A.E. Armed Forces His Highness Sheikh Mohammed bin Zayed Al Nahyan landed in Beijing to a 21 gun salute, an honor guard, a red carpet welcome, and a formal greeting ceremony at the Great Hall of the People. The Crown Prince's visit followed the summer 2018 visit of China President Xi Jinping to the U.A.E. in which he announced the formation of a Comprehensive Strategic Partnership (CSP) between the two countries - Beijing's highest level of bilateral relations. During that visit, Sheikh Mohammed bin Zayed bestowed on President Xi the U.A.E.'s highest civilian honor – the Order of Zayed. The honor is named after Sheikh Zayed bin Sultan Al Nahyan, one of the founding fathers of the United Arab Emirates in 1971 and the first President of the Union until his death in 2004. Sheikh Zayed made a rare visit to Beijing in 1990, a first for a Gulf Arab leader, six years after the two countries first established diplomatic relations in 1984.

Trade flows centered on Dubai characterized the first stage of U.A.E.-China ties, but "heads of state flows" and "senior official flows" tell a story of a more multi-dimensional economic relationship now involving oil, investment, and technology cooperation. While both state visits were long on ceremony, they were not short on substance. During the 2019 visit, the two sides signed 16 strategic agreements in the fields of economy, oil, and environment. Oil cooperation, in particular, has elevated the relationship to new heights. The U.A.E. is a modest supplier of oil to China, accounting for some 5% of its imports in the January-June 2020 period, according to a calculation of

31 https://www.maritime-executive.com/article/abu-dhabi-terminals-and-cosco-increase-cooperation

32 https://www.reuters.com/article/us-china-emirates-industry/chinas-east-hope-group-considers-10-billion-investment-in-uae-idUSKCN1SW0HO

33 https://www.thenational.ae/business/economy/uae-china-trade-to-surge-on-the-back-of-strong-ties-between-the-two-nations-1.1050999

data provided by Petroleum Intelligence Weekly. From the U.A.E. side, its oil exports to China account for less than 5% of its total global exports of all goods in 2019, and some 10% of its total oil exports.

To be sure, China is a growing destination for U.A.E. oil, but Japan remains, by far, the top buyer, accounting for nearly 30% of all U.A.E. oil exports. Once again, Goldilocks prevails: neither too hot nor too cold.

But as the state relationship grows, so too does the oil relationship in strategic rather than tactical buyer-seller ways. China National Petroleum Company (CNPC) has invested robustly in the U.A.E.'s upstream oil sector. In a rare opening in Abu Dhabi's onshore oil sector, CNPC won a bid that granted them 8% of Abu Dhabi Company for Onshore Petroleum Operations for $1.77 billion. They later followed that with two more bidding round wins, paying nearly $1.2 billion for two 10% stakes in two offshore concessions in Abu Dhabi. In that same year, a subsidiary of CNPC won a $1.7 billion seismic survey contract awarded by ADNOC. And in July of this year, ADNOC announced that a new Chinese company, China National Offshore Oil Company (CNOOC), had bought a 4% stake of both of CNPC's shares, splitting the Chinese share in the offshore concessions between two of the country's leading players. By late 2018, at least five Chinese energy players were engaged with Abu Dhabi National Oil Company in projects totaling some $4 billion.

Beyond hydrocarbons, the U.A.E. and China have also drawn closer on renewable energy projects. Consider Mohammed bin Rashid Al Maktoum Solar Park that aims to produce 5 gigawatts of electricity and attract some $13 billion in investments. A consortium led by ACWA Power – 49% owned by China's state-owned Silk Road Fund – is developing the fourth phase of the project. As scholar Robert Mogielnicki notes, ACWA Power "functions as a key conduit for Chinese influence in Gulf energy and critical infrastructure projects."[34] He also notes that five of the eight international banks financing the ambitious solar project are Chinese.[35] Chinese companies are also involved in a solar project in Abu Dhabi and an equity partnership with Abu Dhabi-based Masdar on an offshore wind farm in the United Kingdom. As the U.A.E. seeks to meet its ambitious 2050 clean energy targets, closer ties with Chinese companies are likely.

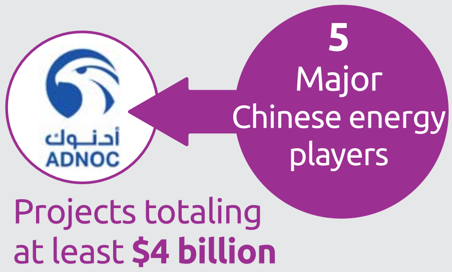
Another area of cooperation that has an air of commercial inevitability has been 5G telecommunications networks. As Gulf Arab states seek to elevate to 5G networks, several are well on the way toward working with market leader Huawei, much to the chagrin of Washington (for more on that, see below on U.A.E.-China Relations and U.S. Policy). Saudi Arabia, the U.A.E., and Qatar lead the pack in the regional race for 5G, and all have included Huawei in their projects. Abu Dhabi and Dubai each are reportedly both close to signing separate important agreements with Huawei. As U.S. pressure on allies to cut ties with Huawei mounts, all three Gulf Arab states will likely face a geopolitical calculation in their ongoing choice of 5G providers.

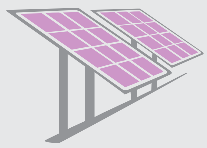
Beyond oil, the U.A.E.'s top sovereign wealth funds are also actively seeking to invest in the China growth story. Over the past year, Abu Dhabi Investment Authority has invested significantly in logistics, real estate, and

34 https://agsiw.org/china-strengthens-its-presence-in-gulf-renewable-energy/

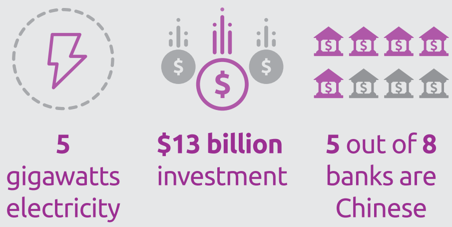
35 Ibid

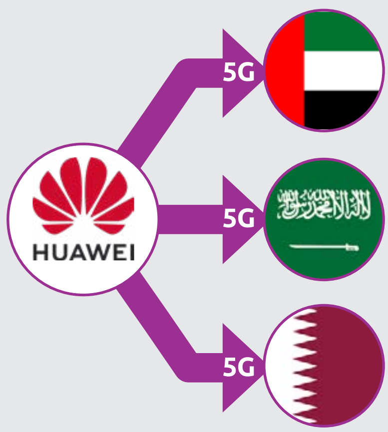
Facts about the U.A.E.





Mohammed bin Rashid Al Maktoum **Solar Park**





Saudi Arabia, the U.A.E., and Qatar lead the pack in the regional race for 5G, and **all have included Huawei in their projects** data centers in China, in addition to its portfolio allocations to China equities. Likewise, Abu Dhabi-based Mubadala Investment Company has invested some $2 billion across China and is actively seeking new opportunities.[36]

Relatively late to the China investing game, the Group Chief Executive Officer and Managing Director of Mubadala Investment Company, Khaldoon Al Mubarak, recently noted that a "better-late-than-never mindset" prevailed and the company is actively seeking opportunities.[37] In 2017, the fund partnered with China Development Bank Capital and China's State Administration of Foreign Exchange to establish the U.A.E.-China Joint Investment Fund. Additionally, Mubadala is an anchor investor with SoftBank's Asia Vision Fund, a platform that invests across Asian tech companies, including China. Like other global investors, Mubadala sees opportunities in China's growing middle class in an economy where consumer and services has overtaken manufacturing and construction as a share of GDP, as Asia-focused investment firm Matthews Asia points out.[38]

As another close sign of how important the U.A.E. sees the very careful management of its economic relationship with China, Khaldoon Al Mubarak has also been named the U.A.E.'s Presidential Envoy for China affairs, the first such post created. Khaldoon Al Mubarak is one of the key architects of the U.A.E's. close ties with the U.S. As such, this step is as much about carefully coordinating and ensuring that the U.A.E. makes no inadvertent missteps from a U.S. perspective as it is about broadening its economic relationship with Beijing.

The Covid-19 Punch and U.A.E.-China 3.0

The great American boxer Mike Tyson once famously said: "everyone has a plan, that is, until you get punched in the face." The Covid-19 pandemic has represented a massive punch to the global economy, with no countries or areas of the world unaffected. Facing the worst recession since the Great Depression, countries have faced stress tests of their systems, policies, societies, and governance unlike anything they have likely ever faced short of war. They have also witnessed the value of effective allies.

In the early stages of the pandemic in China, the U.A.E. sent millions of masks and gloves to their struggling ally. By March, still early in the global pandemic, an Abu Dhabi-based Artificial Intelligence Company, G42, had partnered with a Chinese genomics company, BGI, to open a Covid-19 testing facility in Abu Dhabi. Rapid partnerships like that contributed to the U.A.E.'s highly touted coronavirus screening drive that has delivered one of the largest per capita testing rates in the world.[39]

That same U.A.E. company, G42, has also partnered with a Chinese pharmaceutical firm, Sinopharm, to develop a vaccine for Covid-19 that was approved by the U.A.E. government in September for frontline workers after successful Phase III trials were completed.[40] Indonesia has expressed an interest in using the joint Sinopharm vaccine on its own 240 million population,[41] reflecting the emerging world's anxiety that breakthrough vaccines in the West will not be distributed equally.

G42 also announced in September that it would be opening an office in Israel to partner with top Israeli technology firms.[42] In that, G42 has something in common with Chinese companies that have poured investments into the Israeli tech sector.

36 https://www.reuters.com/article/us-emirates-investment-mubadala/mubadala-has-invested-100-billion-in-u-s-eyes-china-deputy-ceo-idUSKBN1YE0GN
37 https://www.chinadailyhk.com/articles/114/96/140/1553780640392.html
38 https://us.matthewsasia.com/china-investing/default.fs
39 https://www.arabianbusiness.com/healthcare/450468-U.A.E.-bahrain-among-worlds-first-countries-to-hit-50-covid-testing-rate
40 https://www.cnbc.com/2020/09/15/the-U.A.E.-approves-a-chinese-made-coronavirus-vaccine-for-emergency-use-.html
41 https://www.arabnews.com/node/1728596/world
42 https://www.reuters.com/article/us-emirates-investment-mubadala/mubadala-has-invested-100-billion-in-u-s-eyes-china-deputy-ceo-idUSKBN1YE0GN

The U.A.E.'s push to scale up businesses in Fourth Industrial Revolution technologies ranging from artificial intelligence to robotics will likely further entwine the country with China. In October of last year, the U.A.E. launched the Mohammed bin Zayed University of Artificial Intelligence, the first such institution to focus on research-level AI education for Master of Science (MSc) and Ph.D programs. Two prominent China-based AI leaders, Dr. Kai-Fu Lee, founder of Chinese venture firm Sinovation Ventures, and Dr. Andrew Chi-Chih Yao of Tsinghua University were appointed to the Board of Trustees.

MOHAMED BIN ZAYED UNIVERSITY OF ARTIFICIAL INTELLIGENCE

SINOVATION VENTURES

TSINGHUA UNIVERSITY 1911

As Yasar Jarrar, a Dubai-based strategist with long experience advising governments across emerging markets, put it: "watch out for the Fourth 'T' in the U.A.E. We know that the three 'T's' of trade, tourism, and transport have driven growth in the past, but the government is actively engaged in pushing an enabling environment for the fourth 'T' – technology – and they have put together a dream team of young ministers to push this forward." As the U.A.E. pushes faster toward making technology a core component of its economic model, it will continue to look for partners from China to the United States to support this goal.

"the government is actively engaged in pushing an enabling environment for the fourth 'T' – technology – and they have put together a dream team of young ministers to push this forward"

Yasar Jarrar

U.A.E.-China Ties and U.S. Policy

An increasingly bi-partisan consensus in Washington that China has emerged as the United States' most potent and dangerous adversary has added an element of friction in U.S. relationships across the world. China's trade practices, industrial subsidies, and allegations of technology theft have become national headlines. Its mass internment of the minority Muslim Uighur population in "re-education camps" and its dystopian surveillance of that region have unsettled the many voices that saw China evolving as a "responsible stakeholder." While a possible administration of Joe Biden would likely employ less publicly confrontational tactics, the Great Reset in China-U.S. ties will likely continue.

As a result, in ways blunt and subtle, U.S. officials are increasingly asking their allies and partners a simple question: "are you with us or with China?" It's an uncomfortable question for an actor like the United Arab Emirates, a diversified global economy with broad ranging ties worldwide, including with the two most powerful economies, and deep security ties with the United States. But it's a question they will increasingly face.

"The US previously gave the U.A.E. a bye, but now the Americans are coming at them over this relationship," one Western official told Simeon Kerr of the Financial Times, "there is a sense of you are with us or against us in this cold war, throwing into sharp relief tensions that have been building for some time." Even staunch U.S. ally Israel has felt the heat. Under pressure from the administration of U.S. President Donald Trump, Israel has pledged not to use Chinese technology for its 5G networks, and U.S. Secretary of State Pompeo has suggested that Washington could curb intelligence and security cooperation with Israel unless it slows its burgeoning ties with China.[43]

Commercial considerations have largely driven U.A.E.-China and GCC-China ties to date. As American Enterprise Institute scholar Karen Young notes of GCC-China ties: "This is a bilateral interdependence, driven as much from the GCC as it is from China—a diversification strategy and a bid for market-share. Proclamations of great strategic alliances are, as yet, unfounded."

Still, prominent scholars like Michael Doran and Peter Rough of the Hudson Institute – which has the ear of the Trump administration – see things differently. They argue that "China is actively working to oust the United States from the Middle East—a reality that the American strategic community would overwhelmingly prefer not to recognize, but one that is nonetheless becoming glaringly obvious."

[43] https://www.timesofisrael.com/pompeo-warns-us-could-curb-security-ties-with-israel-over-china-relations/

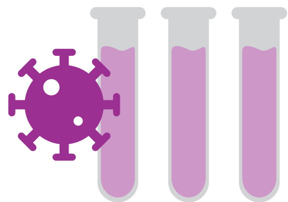
An area of mounting concern includes China's arms sales to the region. While the U.S remains the preferred partner of the U.A.E., Abu Dhabi and Riyadh have been willing to purchase equipment from China that Washington has refused to sell, including drones. That may be changing, however, for Abu Dhabi partly as a result of the historic U.A.E.-Israel peace agreement.[44] There are no signs that Gulf Arab leaders are ready, willing, or eager to trade away the U.S. for China as the principal security partner, despite tensions, notably between Riyadh and Washington.

China has also demonstrated little appetite for involvement in regional security. As a free-rider on the American security umbrella protecting shipping lanes from the region, China has been able to benefit from the free flow of oil without much expenditure of treasure. It has also demonstrated a sensitivity to concerns from Washington and Gulf Arab state capitals regarding its ties with Iran – which are often overblown in the media.[45] As Gulf-China specialist Nasser Tamimi writes, "All economic indicators show that China has not invested heavily in Iran – despite Tehran's claims to the contrary – and that most Chinese military manufacturers are unwilling to provide technology transfers to Iranian companies."[46]

The United States remains the world's largest exporter of arms, and the GCC states are likely to remain among the top customers. From 2014-18, Saudi Arabia accounted for some 22% of all U.S arms sales,[47] and the U.A.E. remains a robust purchaser of U.S. defense equipment and hosts a strategic U.S airbase at al Dhafra. In security ties, the U.S. far exceeds China.

This also holds true in other areas, notably global investment. As noted earlier, the Abu Dhabi-based Mubadala Investment Company has invested some $2 billion into China in a variety of ventures and is actively seeking fresh opportunities. While this may capture headlines as another case of a "Gulf Arab state" entwining more deeply with China and possibly leaving the U.S in the cold, it should also be noted that Mubadala has invested an order of magnitude more in the U.S than it has in China - $98 billion more, to be exact.[48] In terms of foreign direct investment – the kind that create jobs on the ground – the U.A.E. has invested some $26.7 billion in the United States as of 2018, according to SelectU.S.A., supporting roughly 11,800 jobs.

The U.A.E. has also emerged as an important Covid-19 partner to the U.S. That same company that has been working with Sinopharm on a Covid-19 vaccine, G42, also played a role in supporting the state of Nevada ramp up its testing capabilities. When the Chairman of the Nevada task force handling coronavirus, Jim Murren, was looking for ways to increase testing capabilities, he turned to an unlikely source: a U.A.E. company. G42 had been leading the U.A.E.'s massive testing program – one of the most comprehensive in the world – and Murren, a former MGM Executive, reached out to some of his contacts in the U.A.E.. What ensued was a $20 million equivalent donation in testing kits that dramatically ramped up Nevada's capabilities, allowing for a quicker re-opening of the economy.



U.A.E. donated to Nevada the equivalent of **$20 million in testing kits**

44 https://nationalinterest.org/blog/buzz/will-donald-trump-sell-f-35s-and-drones-U.A.E.-167188
45 For more on China-Iran ties, see https://www.wilsoncenter.org/publication/last-among-equals-china-iran-partnership-regional-context
46 https://www.ecfr.eu/publications/summary/china_great_game_middle_east
47 https://www.sipri.org/sites/default/files/2019-03/fs_1903_at_2018.pdf
48 https://www.reuters.com/article/us-emirates-investment-mubadala/mubadala-has-invested-100-billion-in-u-s-eyes-china-deputy-ceo-idUSKBN1YE0GN

As the Los Angeles Times reported at the time, the U.A.E. donation was a game changer. "Nevada has received money and supplies from the Federal Emergency Management Agency but nothing that approaches the scale or the speed of the United Arab Emirates' donation."[49] An infectious disease doctor at the University of Southern Nevada, Dr. Luis Garcia Medina noted: "I think we wouldn't be where we are if we didn't have those partners helping everybody out."[50]

The Covid-19 partnership was a good example of a small state punching above its weight. The author, commentator and investment advisor Michael O'Sullivan refers to such small states as "Micro-Powers," and he puts the U.A.E. in the camp alongside Switzerland, Singapore, Ireland, and Israel. These small powers punch above their weight economically, but also geopolitically.[51]

The U.A.E. certainly punches above its weight as a major buyer of U.S. goods from defense equipment and aircraft to technology and consumer goods. The $15.7 billion trade surplus the U.S enjoys with the U.A.E. is its third largest worldwide, according to U.A.E.-US United, an advocacy group supported by the U.A.E. Embassy in Washington. The U.A.E. is also a major donor to philanthropic causes across the United States, including hospitals, sports fields, and hurricane disaster relief.

There also remains a strong U.S. private sector presence in the U.A.E., with some 1,500 companies operating across the emirates. While Chinese companies may be the "hot new item" on the scene, many U.S companies had long been using Dubai as a trade hub and building business ties across the emirates. Those companies, too, will find themselves navigating the U.S.-China Cold War.

"Nevada has received money and supplies from the Federal Emergency Management Agency but nothing that approaches the scale or the speed of the United Arab Emirates' donation"

Los Angeles Times

U.S. trade surplus
$15.7 billion

$4.35 billion
U.A.E. Exports to the U.S.

$20.03 billion
U.S. Exports to the U.A.E.

Conclusion and Implications

All of this suggests that, as U.A.E.-China economic ties broaden, this should not necessarily mean a diminution in U.S.-U.A.E. ties. U.A.E.-based students (both nationals and expatriates) still flock to U.S. universities in large numbers and American and Western brands retain a certain cachet in business circles.

While China trade and investment figures broadly in many countries across the emerging world, few of those countries have developed such a wide-ranging strategic partnership with the United States as the U.A.E. If China and the U.A.E are somewhere in its 2.0 phase, the U.S and the U.A.E are considerably further along down a multi-dimensional path. As Zayed University scholar Jonathan Fulton notes of the U.A.E, "the United States remains their most important extra-regional partner and will continue to be so for the foreseeable future." In fact, a new Strategic Alignment Dialogue between the U.S. and the U.A.E. is scheduled to be announced on October 20 this month. This dialogue will codify and elevate U.S.-U.A.E. cooperation in a broad range of topics including security, space, defense, cyber, financial and investment, health care, and trade. The new dialogue represents a recognition of a relationship that has developed organically and robustly over the last twenty years into a strategic partnership.

Finally, given the U.A.E.'s role as South Asia's most important trade hub and increasingly one of the African continent's most important, U.S policy-makers should view the U.A.E. beyond the Middle East lens, and begin to look at it in much the same way China does: a global logistics hub and a vital international investor. In that respect, when crafting India economic statecraft policy, there are tremendous opportunities for the U.A.E. – India's second largest

1,500
US companies operating across the emirates

U.A.E.-based students **still flock to US universities** in large numbers

49 https://www.latimes.com/politics/story/2020-05-21/coronavirus-test-kits-las-vegas-abu-dhabi
50 Ibid
51 https://www.forbes.com/sites/mikeosullivan/2020/09/26/micro-powersthe-rise-of-small-states/#694b41562545
52 https://www.devex.com/news/opinion-the-U.A.E.-s-philanthropy-boom-94642

trade partner – to play a partnership role with the U.S. The same goes for much of the African continent. The U.A.E. is also the world's largest international aid donor relative to national income.[52] Mutual opportunities for the U.S. and the U.A.E. to work together on development aid and many other worthy global endeavors should play a prominent role in the ongoing relationship.

All of this requires a paradigm shift away from the notion of the U.A.E. as "a moderate Arab ally" in a turbulent region, and a move towards a sense of its economic reality as a micro-power with an outsized commercial and economic effect on its "neighborhood," a region that goes far beyond the Arab world to encompass large swathes of Africa and Asia.

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