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## United Arab Emirates: An Overview

The United Arab Emirates (UAE) has been steadily gaining prominence not only in the Middle East, but throughout the world. With a growing role in finance and banking and as an investment destination, it is increasingly becoming known as the “[Switzerland of the Middle East](#).” Our recent [report on the stock markets of the Middle East](#) revealed the growth of the UAE’s markets this century as well as encouraging factors that indicate the potential sustainability of the trend. This discovery prompted us to take a closer look at the UAE to better understand today’s investment possibilities and those that might emerge in the future.

This report begins with a brief panorama of the country — its geography, its history, and its people. It continues with a synopsis of its political structure and economy, using this as a context to better understand how its investment markets have developed along promising lines. As always, we finish with investment implications.

### Background

The UAE possesses historical and demographic traits that give this unassuming stretch of real estate the underpinnings of its distinctive character.

**Geography.** Lying on the southern coast of the Persian Gulf near its eastern end at the Strait of Hormuz, [the UAE’s land area is roughly the size of South Carolina](#) (see Figure 1).

Figure 1



(Source: Google Maps)

Other than a small strip of mountains at its eastern end, the country consists of barren, sandy desert plain that opens on its landward side to Saudi Arabia’s “[Empty Quarter](#),” an area roughly the size of France, so called for its almost complete lack of water or life. Almost none of the UAE’s land area is suitable for agriculture.

**Population.** The International Monetary Fund estimates that the UAE’s population in 2024 stood at roughly 11 million; however, only about 12% of the population is Emirati. Fully 88% of the population consists of migrant workers (who fill service jobs and provide the bulk of the labor force, enabling the rapid development of the country’s infrastructure) and expatriate businesspeople (who take advantage of the country’s favorable regulations and tax structure). Although the expatriate population is quite diverse, the majority comes from South Asia. Similarly, roughly 75% of the UAE’s total population is Muslim, along with 13% Christian and notable Hindu and Buddhist minorities (see Table 1).

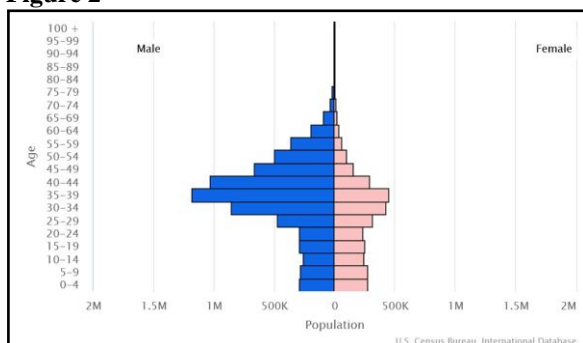
Table 1

UAE Population Ethnicities	
Source: CIA World Factbook	
Ethnicity	%
Indian	38.2%
Emirati	11.6%
Egyptian	10.2%
Bangladeshi	9.5%
Pakistani	9.4%
Filipino	6.1%
Other	15.1%

Because of its many expatriate workers, the UAE's population also has several distinctive characteristics. For example, 68% of the UAE's population is male.

Additionally, the population has a strangely shaped age profile, with a large bulge in the working age range (25-54) and relatively few young people (see Figure 2).

Figure 2



(Source: CIA World Factbook)

**History.** The area of the present-day UAE has a long history of relative independence from other larger powers. Its entry onto the global stage occurred in the 16<sup>th</sup> century, when [Portugal established fortresses and ports in the area to support its burgeoning trade network](#). After spending three centuries under the influence of various European powers and suffering from chronic

piracy, the principal sheikhs of the area collectively signed a [series of agreements with the British Empire in 1820](#), by which they ceded control of their foreign relations to the British in exchange for security guarantees from the empire. Subsequent treaties and truces during the 19<sup>th</sup> century earned the group of sheikhdoms the moniker “Trucial States” and the area the “Trucial Coast.” The area remained essentially a British protectorate until 1968, when, as a part of its retreat from empire, Britain announced that it would completely withdraw from the region by 1971.

British withdrawal sparked a scramble throughout the Persian Gulf, resulting in the establishment of the independent states of Bahrain, Qatar, and the UAE. [Six of the Trucial Coast emirates organized themselves into a combined state, declaring their independence as the UAE in December, 1971; the seventh joined in early 1972](#). The United States immediately recognized the UAE and established diplomatic relations, [opening its embassy in Abu Dhabi in 1974](#).

In the half-century since independence, the UAE has adopted an increasingly assertive foreign policy in the region; however, it has prioritized regional order, stability, and constructive relations with the West. For example, it cofounded the Gulf Cooperation Council with five other Persian Gulf states in 1981 to counter the revolutionary agenda of the new regime in Iran. It provided bases for coalition forces in Operation Desert Storm in 1991. In 2014, it contributed forces to the US-led air campaign against ISIS. In 2018, it facilitated negotiations between the US and the Taliban. In 2020, as part of the Abraham Accords, the UAE became the first Gulf Arab country to normalize relations with Israel.

**Politics**

This quick historical review of UAE policy reveals a governing structure and nimble policy approach that distinguish the UAE from other countries in the region.

**Government Structure.** [The UAE is a constitutional federation](#), consisting of the seven emirates, united under one central government. The emirates are:

- Abu Dhabi
- Dubai
- Sharjah
- Ras Al Khaimah
- Ajman
- Umm Al Quwain
- Fujairah

[In some ways, the political structure of the UAE resembles that of the US.](#) Each emirate has its own government for local affairs, like a US state, but remains subordinate to the UAE federal government, which consists of executive, legislative, and judicial branches. From here, stark differences emerge. The UAE has a president, but that president is elected by the Federal Supreme Council (FSC), which consists of the absolute monarchs who rule each of the seven emirates, and the president comes from their ranks. The FSC is the highest body in the country, with broad review and approval powers over policy and legislation. The president has no term limits and is generally expected to serve for life. The current president, Sheikh Mohamed bin Zayed, was elected in 2022, and the previous presidential election was held in 2009.

The legislature, called the Federal National Council (FNC), has 40 members, half of which are appointed by the FSC and half of which are popularly elected to four-year terms. [The FNC can debate laws and review government policies, but it cannot independently legislate.](#) The judiciary

consists of a supreme court and the “Courts of First Instance,” which resemble US federal district courts; however, all judges are appointed by the president.

**Domestic Policy.** The UAE government’s domestic policy seeks to balance the maintenance of tight, unquestioned central control with a gradual increase in citizen participation. As our review of the government structure shows, all real power continues to reside with the seven hereditary rulers and the closely controlled federal structure. Additionally, the UAE is broadly considered to have a repressive regime and a [system of strict restrictions on personal expression](#). Perhaps the clearest example came in 2011, when the so-called “[Arab Spring](#)” revolts occurred throughout much of the Middle East and North Africa. The UAE cracked down immediately and especially hard on all expressions of protest, with the result that the Arab Spring essentially passed by the country.

The UAE has taken a series of steps to incrementally liberalize and increase participation in the political process. As examples, prior to 2006, all 40 FNC members were appointed by the FSC; it has been only since a decree during that year that half of the body is popularly elected. A presidential decree in 2018 mandated that half of the FNC be comprised of women. [The 2019 election produced 13 men and 7 women](#), and [the 2023 election saw voter turnout increase from 35% to 44%](#). In 2021, the federal government loosened several social restrictions, such as the removal of a license to purchase or consume alcohol.

**Foreign Policy.** The UAE pursues what we call a “balancing” strategy in its foreign relations, meaning that the country strives to have productive relations across the spectrum of countries without overly

depending on any single other country for its security or prosperity. While the UAE maintains strong relations with the US, to include hosting US military forces on its soil, it also actively cultivates growing economic ties with China. Similarly, the UAE prioritizes strong relations with the Gulf Cooperation Council, of which it is a member but whose dominant member is Saudi Arabia. In recent years, the UAE has also fostered improved relations with Iran. As an example of its efforts to diversify its foreign relations, the UAE is the fourth largest investor in the African continent, behind only the US, China, and the European Union. In our own bloc analysis, by which we use objective criteria to gauge the degree to which a country aligns more with the US or China (or manages to “straddle the fence”), [we grade the UAE as neutral](#). One quote from a senior advisor to the UAE’s president aptly encapsulates this policy. [“The UAE has no interest in choosing sides between great powers. Trade relations look increasingly to the East, while our primary security and investment relations are in the West.”](#)

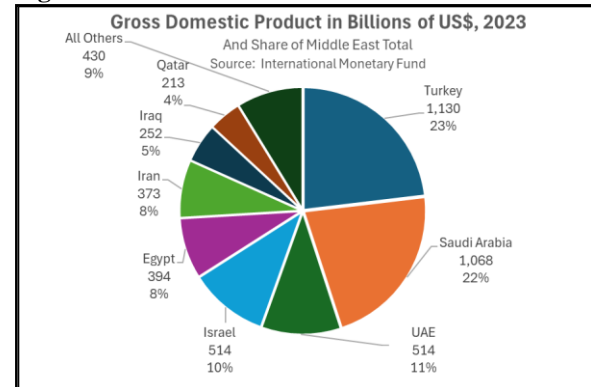
### Economy

With one of the four largest and most consistently growing economies in the Middle East, the UAE’s improving prosperity provides a foundation for potential future investment opportunities.

**Size & Rank.** The UAE has the third largest economy in the region, trailing only the giants of Turkey and Saudi Arabia. This is notable, especially considering that it had the sixth largest regional economy at the turn of the century. From 2013 until 2023, it posted a relatively consistent and stable growth rate of 2.5%, while the economy of the Middle East as a whole grew 2.0% annually. This gives us a sense of the

increasing prominence of the UAE among its peers.

**Figure 3**



We also pay close attention to per capita GDP (GDP divided by population) as this indicates the level of prosperity and purchasing power of its citizens. Of the 15 countries in the region, the UAE ranks second, behind only Qatar, which reflects the fact that Qatar has roughly a third of the UAE’s population. To further illustrate the UAE’s prosperity level by this measure, its per capita GDP is roughly twice that of the largest Middle Eastern economy, Turkey.

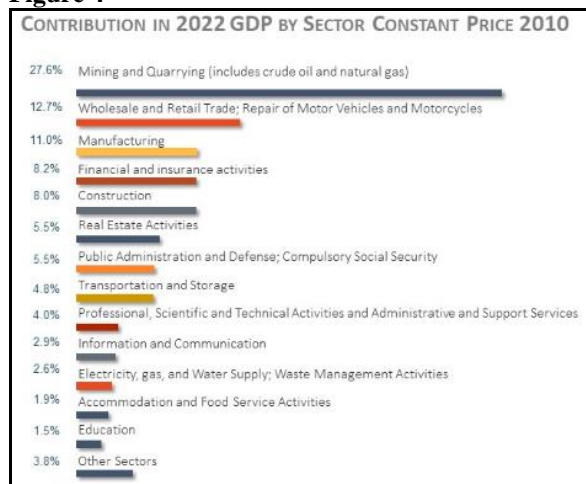
**Table 2**

GDP Per Capita, 2023 Middle East		
Source: International Monetary Fund		
Country	GDP/Cap.	10-Yr. CAGR
Qatar	\$111,789	0.5%
UAE	\$74,714	2.6%
Bahrain	\$63,498	2.6%
Saudi Arabia	\$61,933	2.4%
Israel	\$53,810	4.4%
Kuwait	\$50,933	-0.1%
Oman	\$41,559	2.2%
Turkey	\$38,391	5.4%
Egypt	\$20,181	6.2%
Iran	\$18,658	3.2%
Iraq	\$14,767	4.2%
Lebanon	\$12,454	-4.8%
Jordan	\$10,456	-0.1%
Palestine	\$5,562	0.7%
Yemen	\$2,013	-5.3%



**Industries.** While the UAE has programmatically diversified its economy away from dependence on petroleum, it certainly remains a major presence in the petroleum industry. It has [OPEC's fifth largest proven crude oil reserves](#), and, at 4.16 million barrels per day, it is the [world's eighth largest producer of petroleum liquids](#). Still, whereas 15 years ago roughly 85% of the country's economy depended on oil and gas exports, now [the petroleum industry accounts for only 27% of the UAE's economy](#). Among the fruits of the country's diversification program, it has become a leading financial and banking center. It has also developed into a key regional transportation hub, and its manufacturing industry continues to grow in areas such as aluminum production. To foster the continued diversification of the economy, the [government is addressing governance regulatory gaps, reforming business regulations, and making it easier for foreign nationals to work in the UAE by liberalizing the visa system and improving the living environment](#).

Figure 4

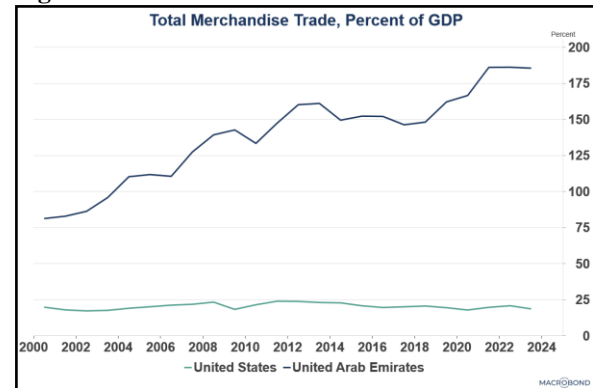


(Source: UAE Embassy, Washington, DC)

**International Trade.** Trade is a major part of the UAE's economy. [The 21<sup>st</sup> century has witnessed the value of the UAE's total](#)

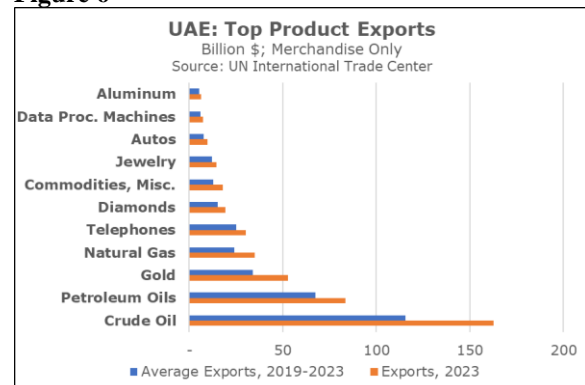
[merchandise trade rise from roughly 80% of its GDP at the beginning of the century to 185% of GDP in 2023](#). For comparison, this value for the United States is typically about 20%. As such, knowledge of the UAE's exports and imports is helpful to understanding its overall economy.

Figure 5



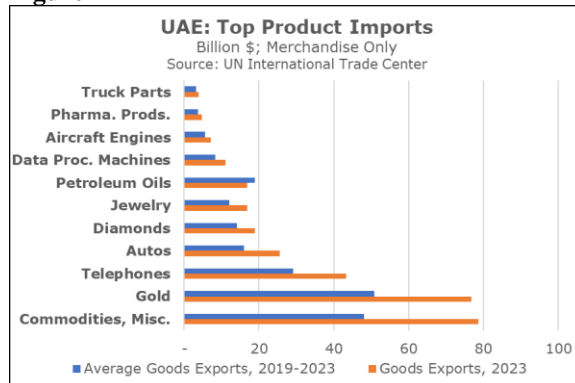
Petroleum may have diminished in relative importance to the total economy, but it remains the key driver of exports. Crude oil, petroleum products, and natural gas collectively compose roughly 50% of the value of UAE exports. Intriguingly and possibly as a sign of the country's role in the region's luxury goods market, gold, diamonds, and jewelry account for another 15%. Otherwise, we are seeing a gradual rise in other basic and value-added industrial goods.

Figure 6



Gold and miscellaneous commodities dominate the import side of the ledger, with telephones, automobiles, and luxury goods also significantly contributing. We see these as signs of the development of the country's increasingly diverse manufacturing sector and its growing upper and middle classes.

Figure 7



In terms of the countries with whom the UAE trades, roughly half of export destination data was unavailable and this was also true for nearly a fifth of its import sources. One of the most common reasons for this data not being available is if a country has a key customer or one especially large company that composes most of the trade, then it will withhold the data for competitive reasons. Among the available data, we do see that the UAE exports significant amounts to its Middle Eastern neighbors and to India. It also imports heavily from China.

### Markets

As we highlighted in our recent report on Middle Eastern stock markets, the UAE's combined stock markets have grown to become the third largest by market capitalization in the region. They have rigorous standards for transparency and corporate governance as well as advanced trading systems and adherence to international best practices.

### Abu Dhabi Securities Exchange (ADX).

[Established in November 2000](#), this is the larger of the country's two stock exchanges, with an average market capitalization of \$777 billion in 2024 that includes 102 listed stocks and 15 listed ETFs. ADX is a market for shares issued by public joint stock companies, bonds issued by governments or corporations, exchange-traded funds, and any other financial instruments approved by the UAE Securities and Commodities Authority (SCA). It is the second largest market in the Arab region, behind only the Saudi Arabian exchange. It lists mostly UAE-based companies.

### Dubai Financial Market (DFM).

Established in March 2000, this is generally viewed as the more rapidly growing of the two exchanges. It has [66 listed companies](#) with an average market capitalization of \$198 billion in 2024. [Its market cap grew 32% in 2024](#). It also added nearly 140,000 new investors, 85% of whom were foreign nationals, and it conducted three Initial Public Offerings. [Through its NASDAQ Dubai subsidiary, it specializes in the listing of foreign companies.](#)

### Investment Implications

In a region fraught with investment and geopolitical risk, we think that the UAE stands out for its relative stability and its potential as a viable destination for Western investment capital. While it remains an emerging market with very little representation on US exchanges in the form of ADRs, its own exchanges are making consistent progress in terms of number of listings, variety of represented economic sectors, trading volume, and regulatory standards. We still caution that this is the Middle East, which comes with its enduring combination of risks.

**Geopolitical Risks.** Conflict and tension remain common themes in the Middle East. The ongoing conflicts on Israel's periphery, the tensions between Israel and Iran, and the recent overthrow of the government in Syria provide recent examples of the potential for further strife. Geopolitical events such as these can have a wide variety of impacts on markets and asset prices. [Our report on the many fault lines crisscrossing the Middle East](#) provides an overview of the region's enduring risks, and our [2025 Geopolitical Outlook](#) gives a sense of which fault lines might cause tremors in the near term.

**The Oil Factor.** Historically, oil has played a dominant role in Middle Eastern economies, and disruptions or threats to the flow of oil have caused economic and financial havoc. The UAE has set a Middle Eastern standard for diversification away from petroleum, but it remains a bulwark of the country's economy and the government's cash flow. Last year was a period of surprising stability in the price of oil, despite numerous destabilizing geopolitical events, and this may have contributed to the performance of UAE stock markets. Only time will tell how long this trend of relative oil market stability will

last. If volatility returns to the oil market, stock prices throughout the region, even in the relatively diversified UAE, could suffer.

**Bloc Formation.** We have often emphasized the theme of global fracturing and bloc formation along the lines of the geopolitical competition between the US and China, and [we expect this theme to play a dominant role in every region of the world in 2025](#).

Virtually every country will likely face a choice at some point to more closely align itself with one bloc or the other. One potential consequence of this could be the relative opening or closing of the capital markets of any given country to Western investors. Just because a country's stock market rises does not necessarily mean it will be a welcome market for all investors as the bloc formation proceeds. A country such as the UAE may well succeed in "straddling the fence" between the two powers, but it also might choose to tailor its policies to favor one bloc or the other, with consequences for investors.

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March 10, 2025

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