



EU - Gulf Cooperation Council (GCC) Dialogue on Economic Diversification

EU – GCC Dialogue on Economic Diversification Gulf Cooperation Council (GCC) countries

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EU-GCC Dialogue on Economic Diversification
Gulf Cooperation Council (GCC) countries

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Policy Paper: Study of product standardisation policies, procedures and institutions in the GCC and the provision of recommendations to enhance adoption and/or recognition of common standards to enhance trade with and within GCC countries.

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Disclaimer

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Introduction

This report provides the analysis on UAE inward and outward foreign direct investment (FDI) flows and stocks with the world partners, with EU27 as a region and with individual Member States for 2015-2019. The analysis of EU27 outward FDI flows and stocks with the region is included, based on data from Eurostat and UNCTAD and author's calculations.

FDI refers to the flow of capital between countries. According to the United Nations Conference for Trade and Development (UNCTAD), FDI is 'investment made to acquire lasting interest in enterprises operating outside of the economy of the investor.' FDI statistics measure two different concepts – flows and stocks: Flows measure annual levels of investment on a net basis. Stocks record the total book value of all existing FDI, inward or outward. The outward FDI stock is the value of the resident investors' equity in and net loans to enterprises in foreign economies. The inward FDI stock is the value of foreign investors' equity in and net loans to enterprises resident in the reporting economy. FDI flows are transactions recorded during the reference period (typically year or quarter). FDI stocks are the accumulated value held at the end of the reference period (typically year or quarter).

The latest figures available (2019) show UAE inward FDI flows from all world partners reached 12.3 billion Euros, while outward FDI flows were close to 14.2 billion Euros. In 2019, FDI stocks in UAE from all world partners reached 137 billion Euros and UAE outward FDI stocks to all partners were close to 139 billion Euros.

In 2019, the EU27 FDI flows to world partners reached 145.6 billion Euros and FDI flows from EU27 partners were close to 184 billion Euros. EU27 FDI stocks to world partners were 16,068 billion Euros and world partners' FDI stocks into EU27 reached 13,567 billion Euros.

EU27 FDI flows to UAE in 2019 registered a sharp increase to 154.8 billion Euros from 3.3 billion EUR in 2018, while EU27 inward FDI flows from UAE increased significantly in 2019 to 18 billion Euros compared to -1.26 billion Euros in 2018.

FDI stocks from UAE into the EU27 increased to 55 billion Euros in 2019 from 34 billion Euros in 2018, while the FDI stocks from the EU27 into UAE increased from 42 billion Euros in 2018 to 270 billion Euros in 2019.

UAE allows foreign investors to own up to 100% of the business. In addition, incentives include investment protection guarantees, financial transfer facilities, the possibility of modifying the partnership, merger, acquisition and transfer of ownership in accordance with the investor's interest.

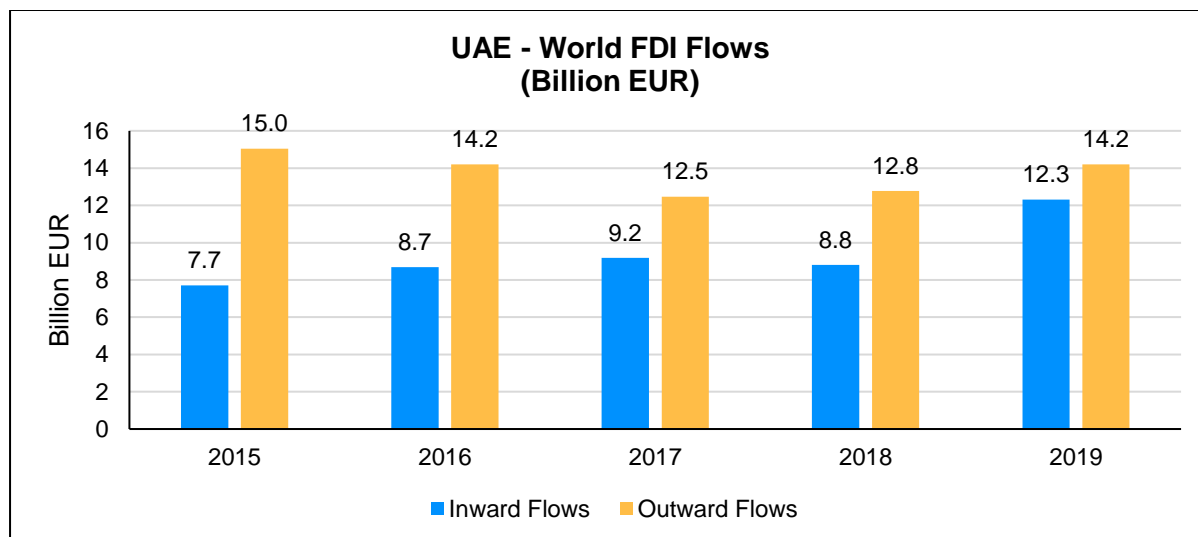
The report is structured as follows. Section 1 provides the FDI between UAE and the world partners. Section 2 presents FDI between the EU27 and GCC region for 2015-2019 and details for 2019, the most current year for which data are available. Section 3 provides the details of EU27 and UAE FDI for 2015-2019, while section 4 includes details of FDI between UAE and individual EU27 Member States for the same period. Section 5 presents an overview of UAE economic competitiveness as assessed by international organizations and a brief overview of incentives offered by the country's investment authorities. The EU-GCC Dialogue on Economic Diversification project has produced a number of policy papers and reports that assess UAE current business and regulatory environments and provide recommendations on areas where the EU expertise and knowledge can assist UAE in increasing economic competitiveness.¹

¹ A number of policy papers and reports have been published on the websites of the EU delegations to GCC, on the EU-GCC Dialogue on Economic Diversification Project page. In addition, reports that are not for public disclosure are available to the project stakeholders by contacting the authors.

1 UAE – World FDI Flows and Stocks

Figure 1 provides UAE inward FDI flows from all UAE partners (inward flows) and outward FDI flows to all partners (outward flows) in billions of Euros.

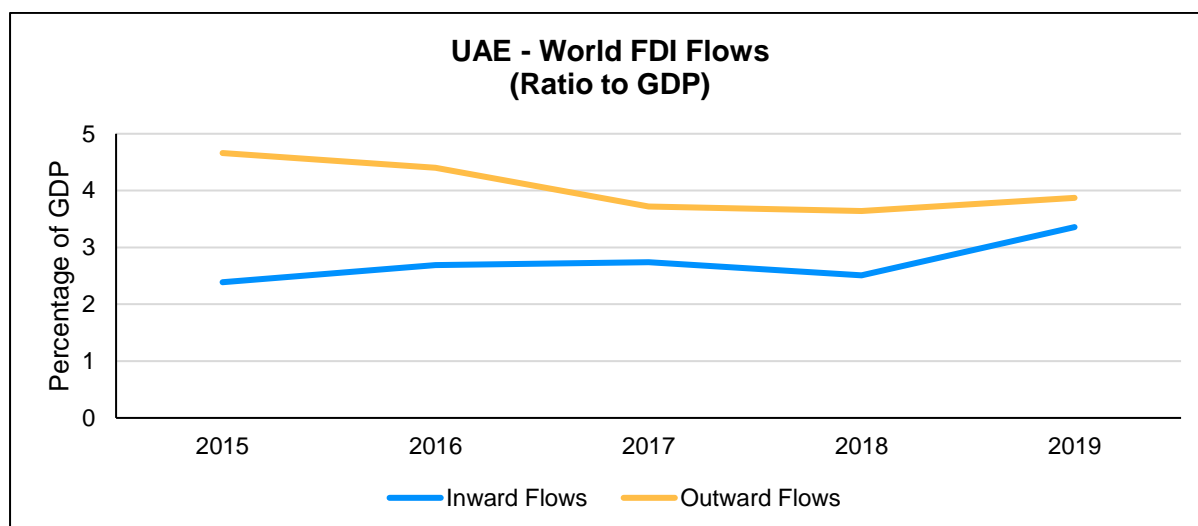
Figure 1 UAE Inward and Outward FDI Flows, 2015-2019



Source: UNCTAD data and author's calculations

Figure 2 provides UAE inward FDI flows from all UAE partners (inward flows) and outward FDI flows to all partners (outward flows) as percentage of UAE GDP.

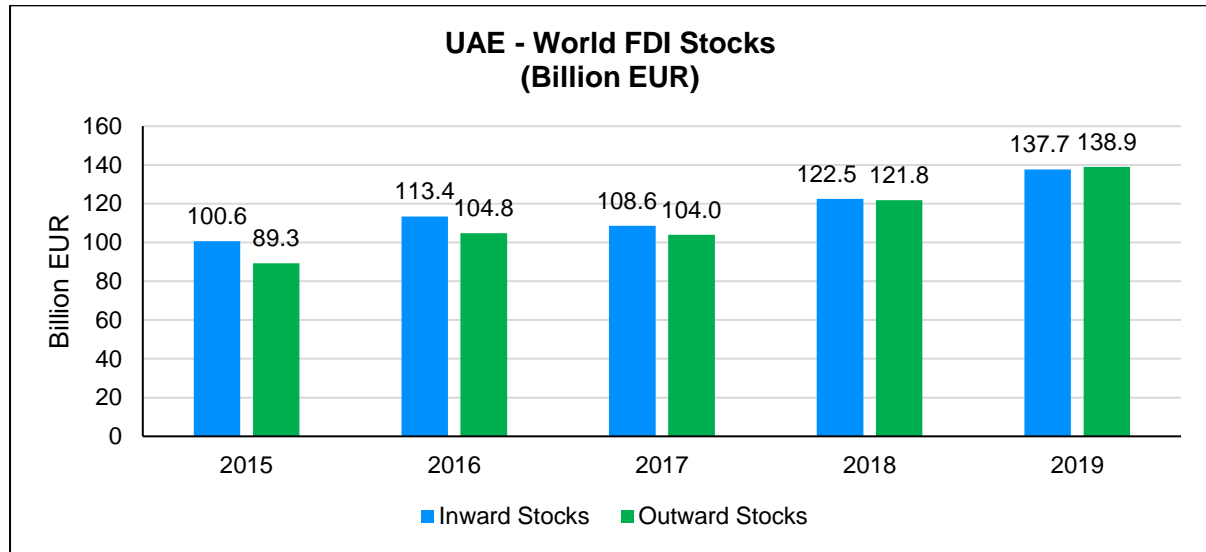
Figure 2 UAE Inward and Outward FDI Flows, 2015-2019



Source: UNCTAD data

Figure 3 provides UAE inward FDI stocks from all UAE partners (inward stocks) and outward FDI stocks in all partners' economies (outward stocks) in billions of Euros.

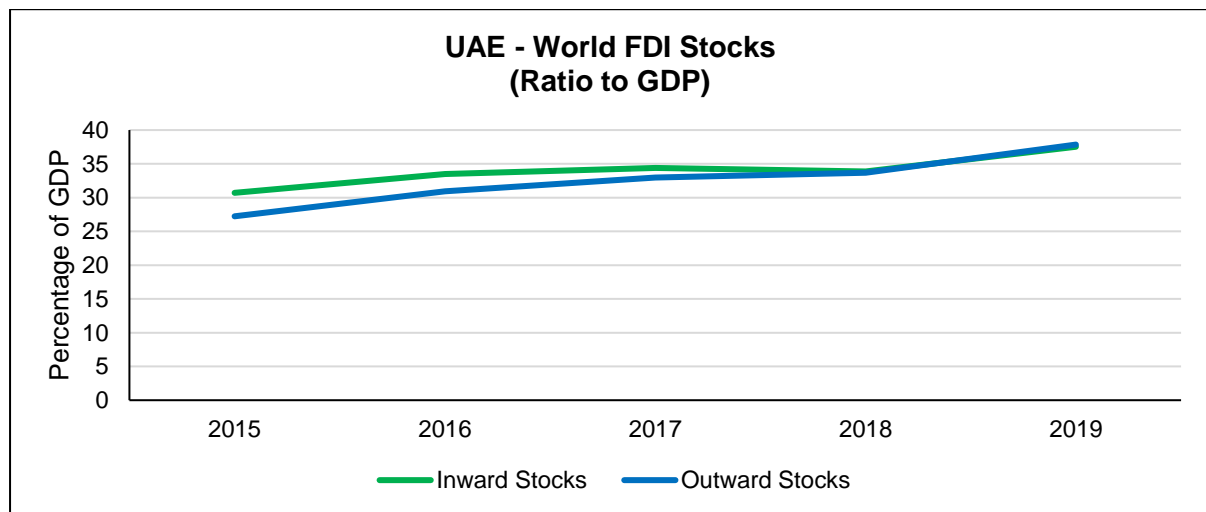
Figure 3 UAE Inward and Outward FDI Stocks (Billion Euros), 2015-2019



Source: UNCTAD data and author's calculations

Figure 4 provides UAE inward FDI stocks from all UAE partners (inward stocks) and outward FDI stocks in all partners' economies (outward stocks) as percentage of UAE GDP.

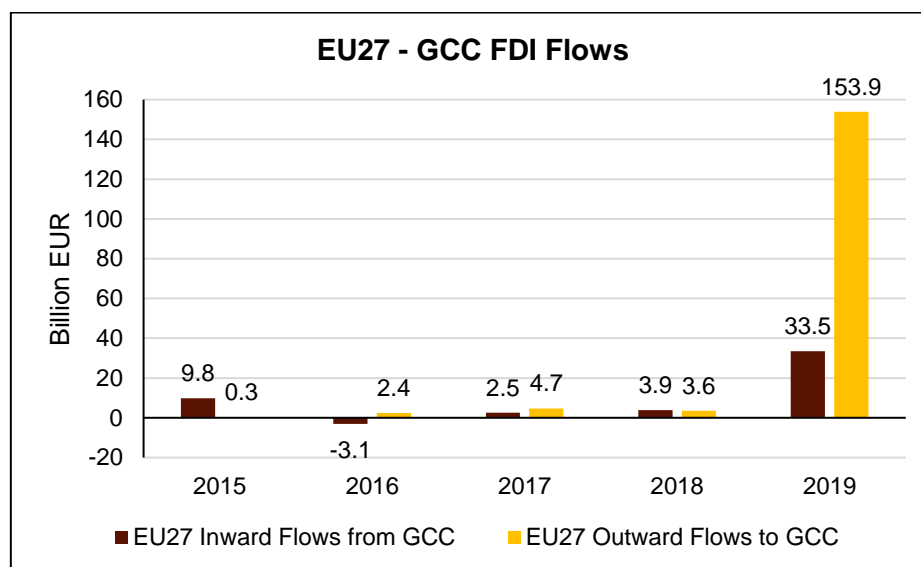
Figure 4 UAE Inward and Outward FDI Stocks (ratio to GDP), 2015-2019



Source: UNCTAD data

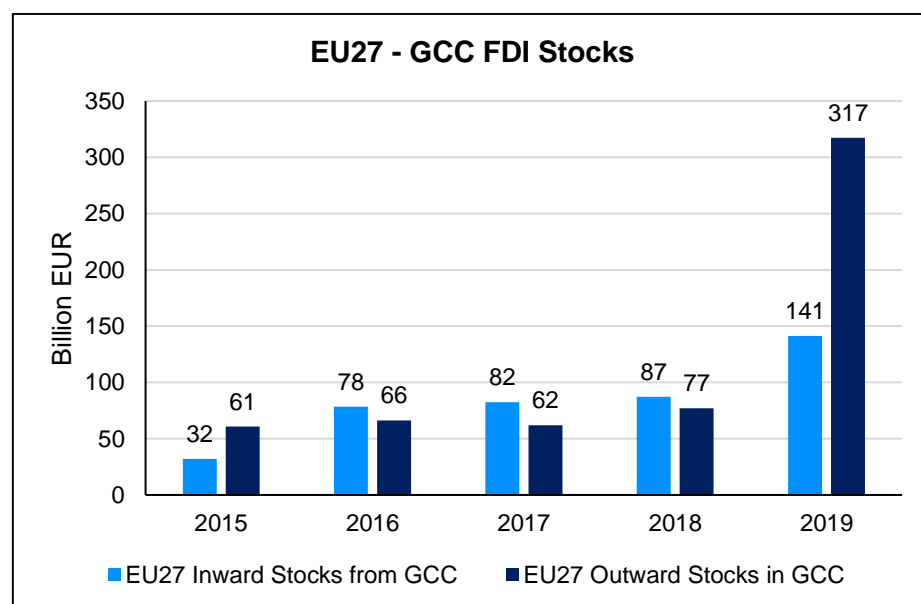
2 EU27 – GCC Foreign Direct investment

Figure 5 EU27 – GCC FDI Flows, 2015-2019



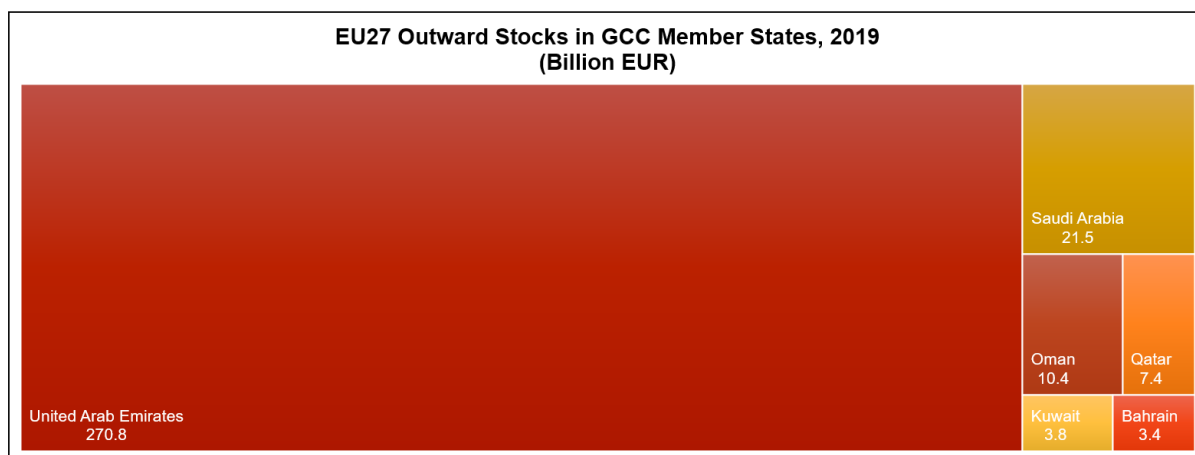
Source: Eurostat data and author's calculations

Figure 6 EU27 – GCC FDI Stocks, 2015-2019



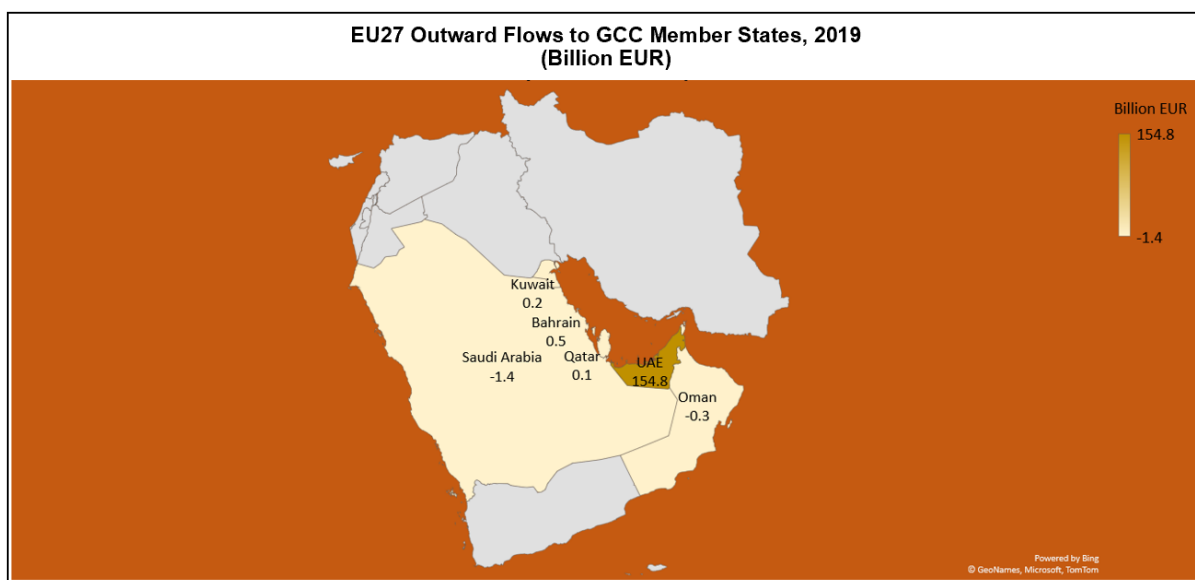
Source: Eurostat data and author's calculations

Figure 7 EU27 Outward FDI Stocks in GCC Member States, 2019



Source: Eurostat data and author's calculations

Figure 8 EU27 Outward FDI Flows to GCC Member States, 2019

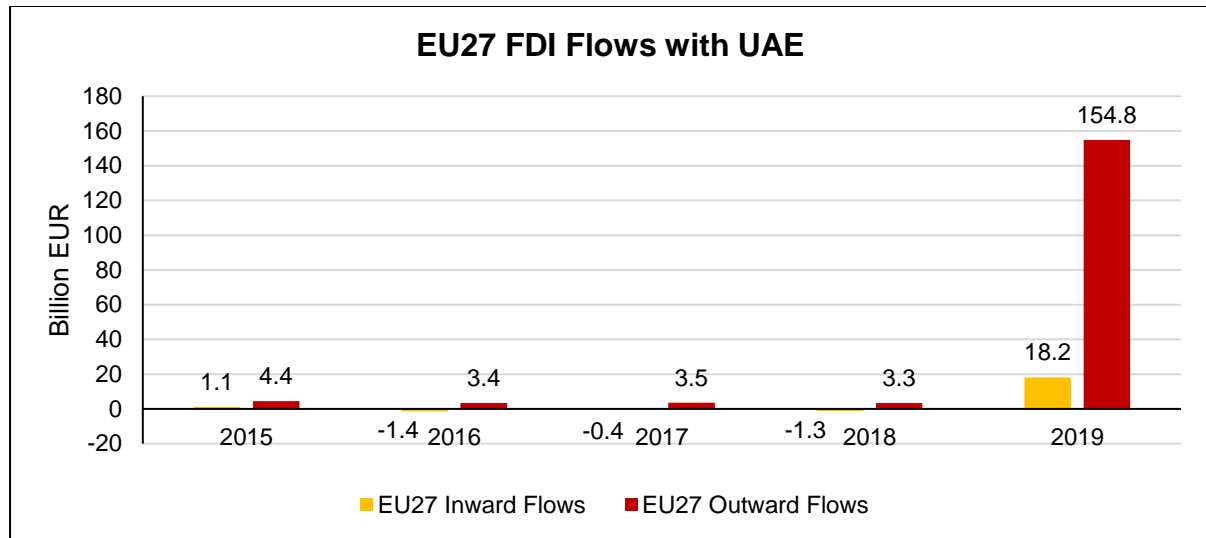


Source: Eurostat data and author's calculations

3 EU27 – UAE Foreign Direct Investment

Figure 9 provides EU27 inward FDI flows from UAE (inward flows) and outward FDI flows to UAE (outward flows) in billions of Euros.

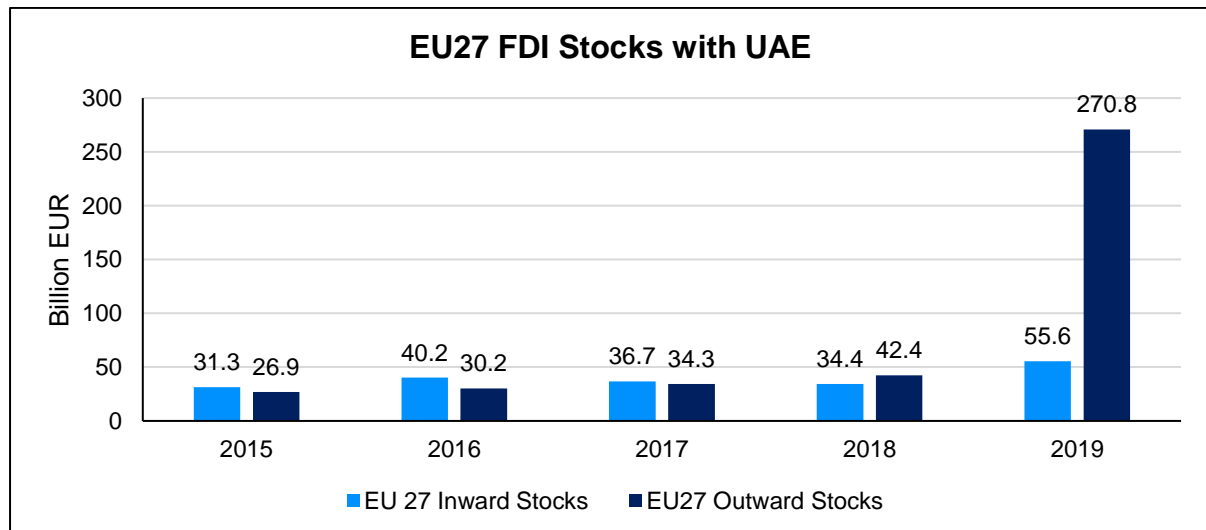
Figure 9 EU27 – UAE Inward and Outward FDI Flows, 2016-2019



Source: Eurostat data

Figure 10 provides EU27 inward FDI stocks from UAE (inward stocks) and outward FDI stocks in UAE (outward stocks) in billions of Euros.

Figure 10 EU27 – UAE Inward and Outward FDI Stocks, 2015-2019



Source: Eurostat data

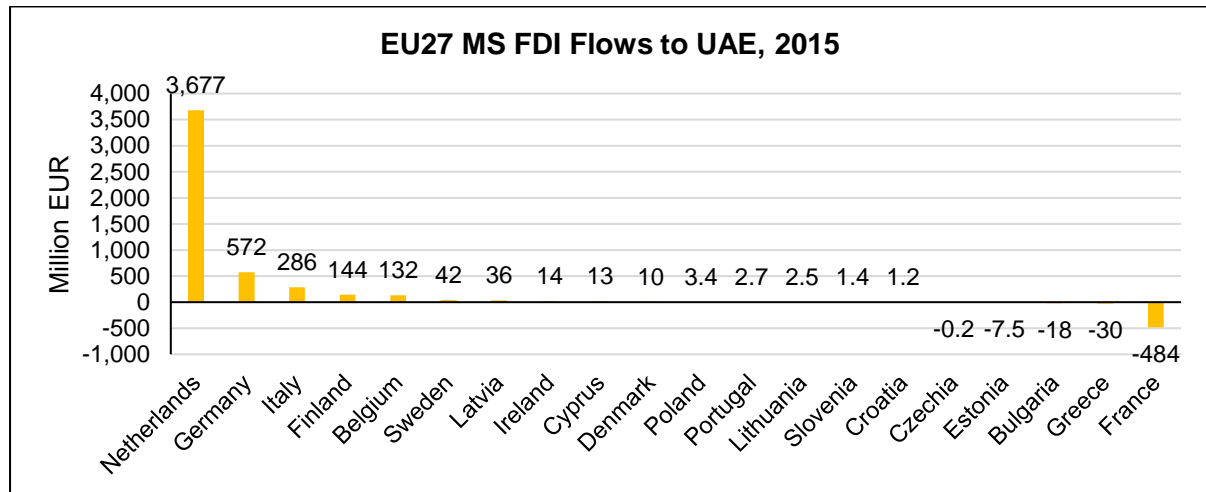
4 EU27 Member States – UAE Foreign Direct investment 2015-2019

This section presents FDI Flows and Stocks for 2015-2019 for EU Member States to UAE and from UAE to EU Member States. The figures include all EU Member States for which Eurostat data is available and for the Member States who invested in UAE the respective year. For each figure, it is specified which Member States did not report data.

4.1 EU27 Member States FDI to UAE

4.1.1 EU27 Member States FDI Flows to UAE

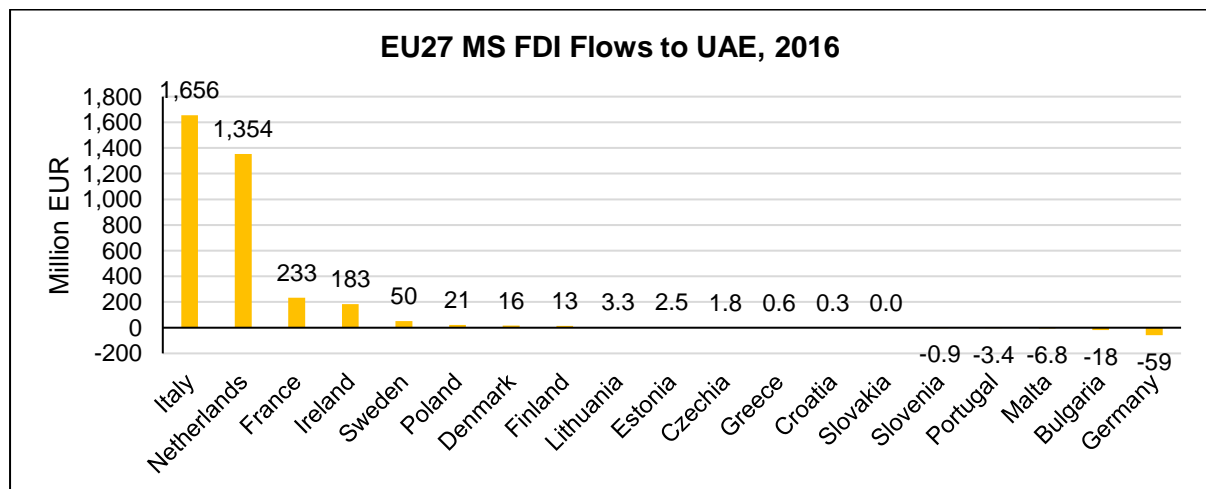
Figure 11 EU27 Member States FDI Flows to UAE, 2015



Source: Eurostat data

Note: Data not available for Austria, Hungary, Luxembourg, Romania, Spain.

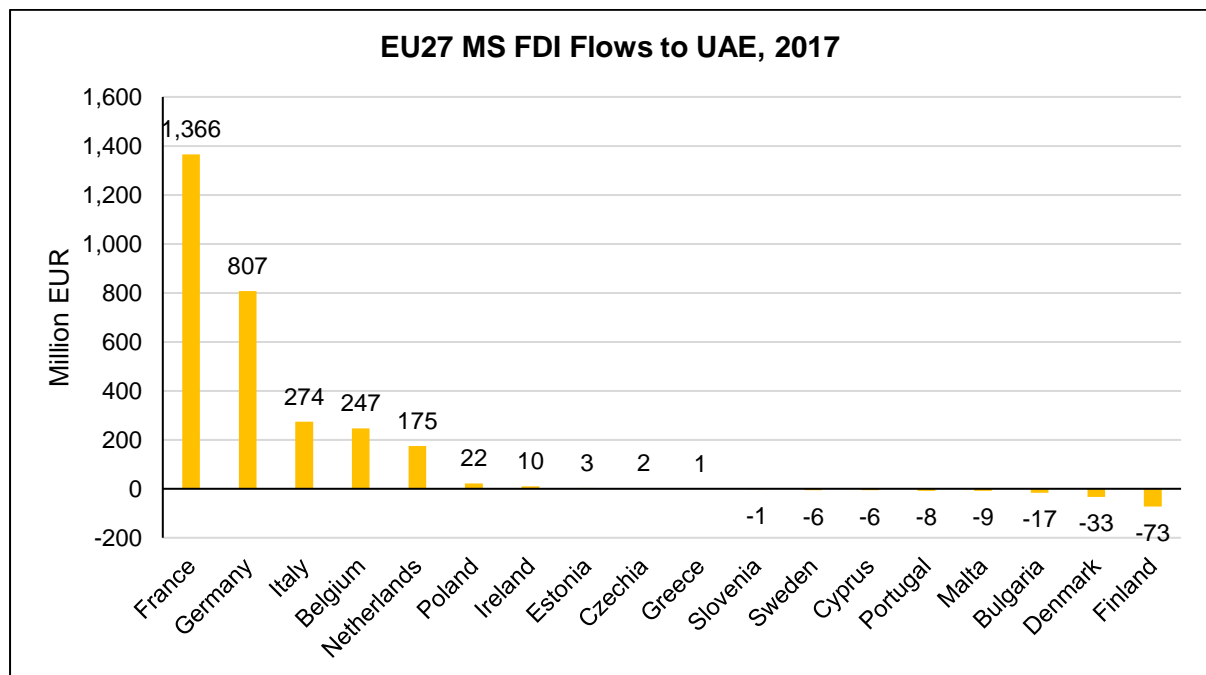
Figure 12 EU27 Member States FDI Flows to UAE, 2016



Source: Eurostat data

Note: Data not available for Austria, Belgium, Cyprus, Hungary, Latvia, Luxembourg, Romania, Spain.

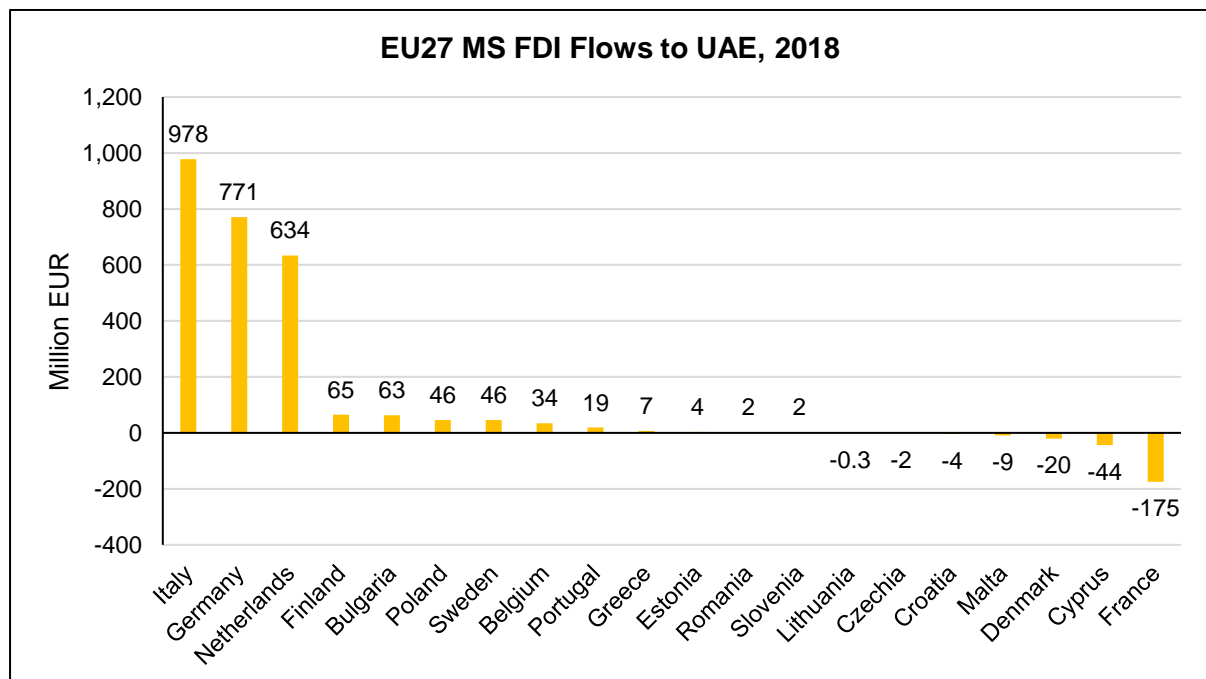
Figure 13 EU27 Member States FDI Flows to UAE, 2017



Source: Eurostat data

Note: Data not available for Austria, Hungary, Latvia, Lithuania, Luxembourg, Spain.

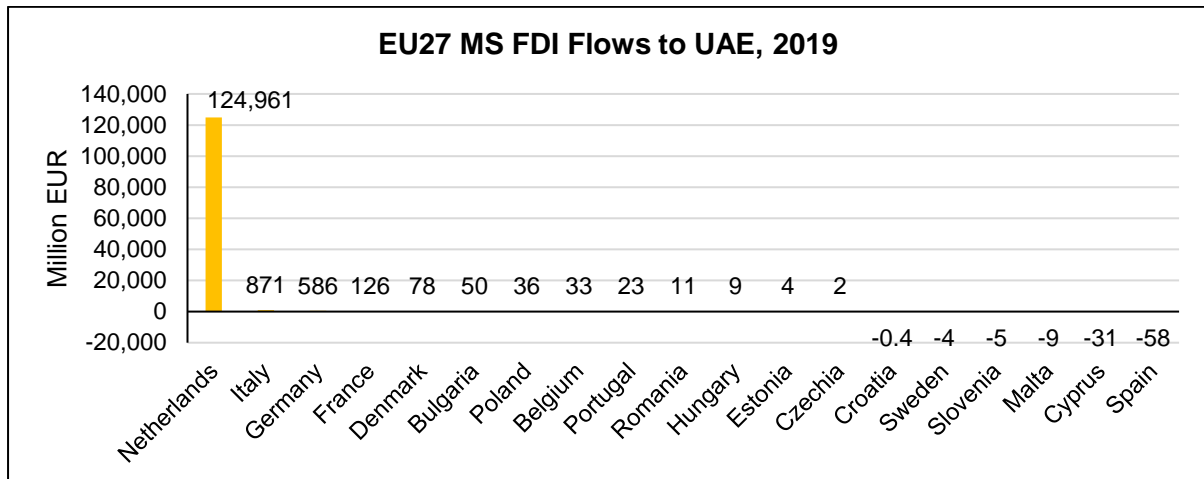
Figure 14 EU27 Member States FDI Flows to UAE, 2018



Source: Eurostat data

Note: Data not available for Austria, Hungary, Ireland, Latvia, Luxembourg, Spain.

Figure 15 EU27 Member States FDI Flows to UAE, 2019

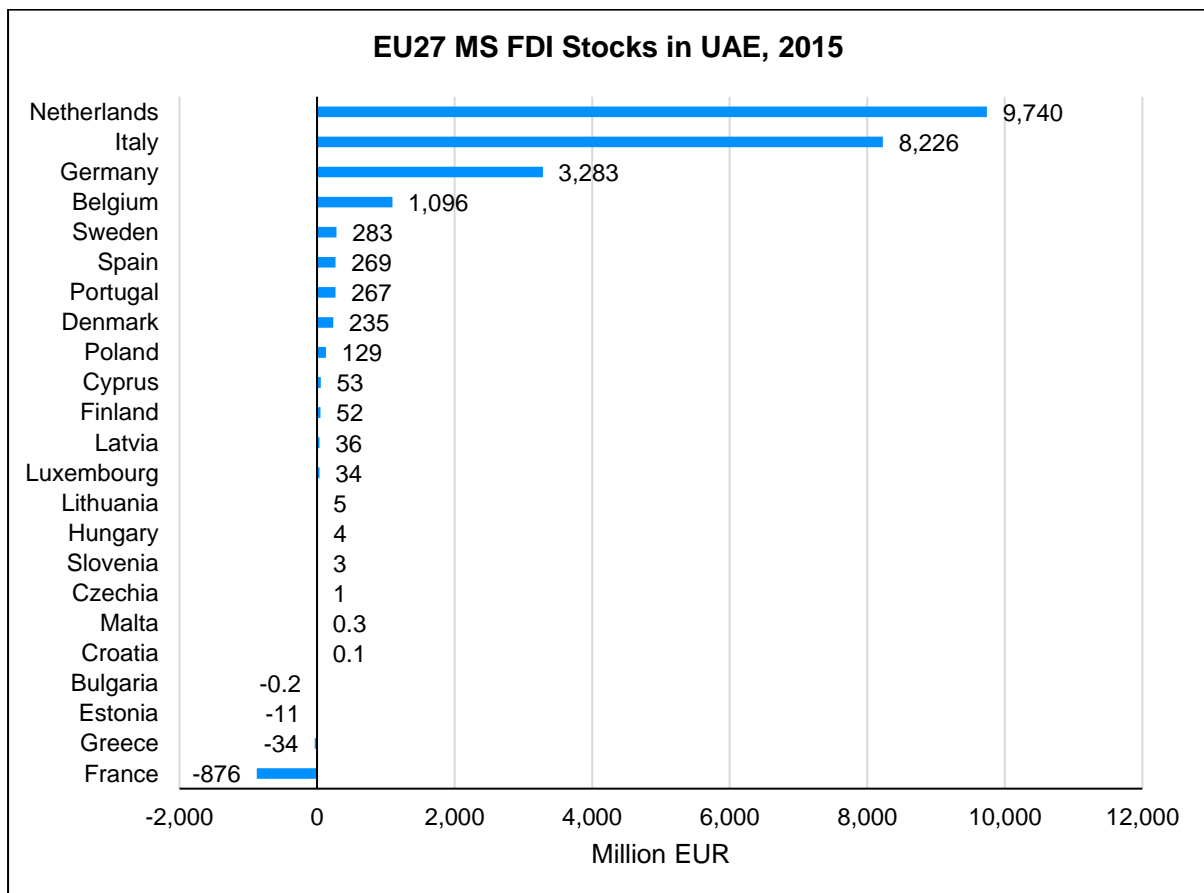


Source: Eurostat data

Note: Data not available for Austria, Finland, Greece, Ireland, Latvia, Lithuania, Luxembourg.

4.1.2 EU27 Member States FDI Stocks in UAE

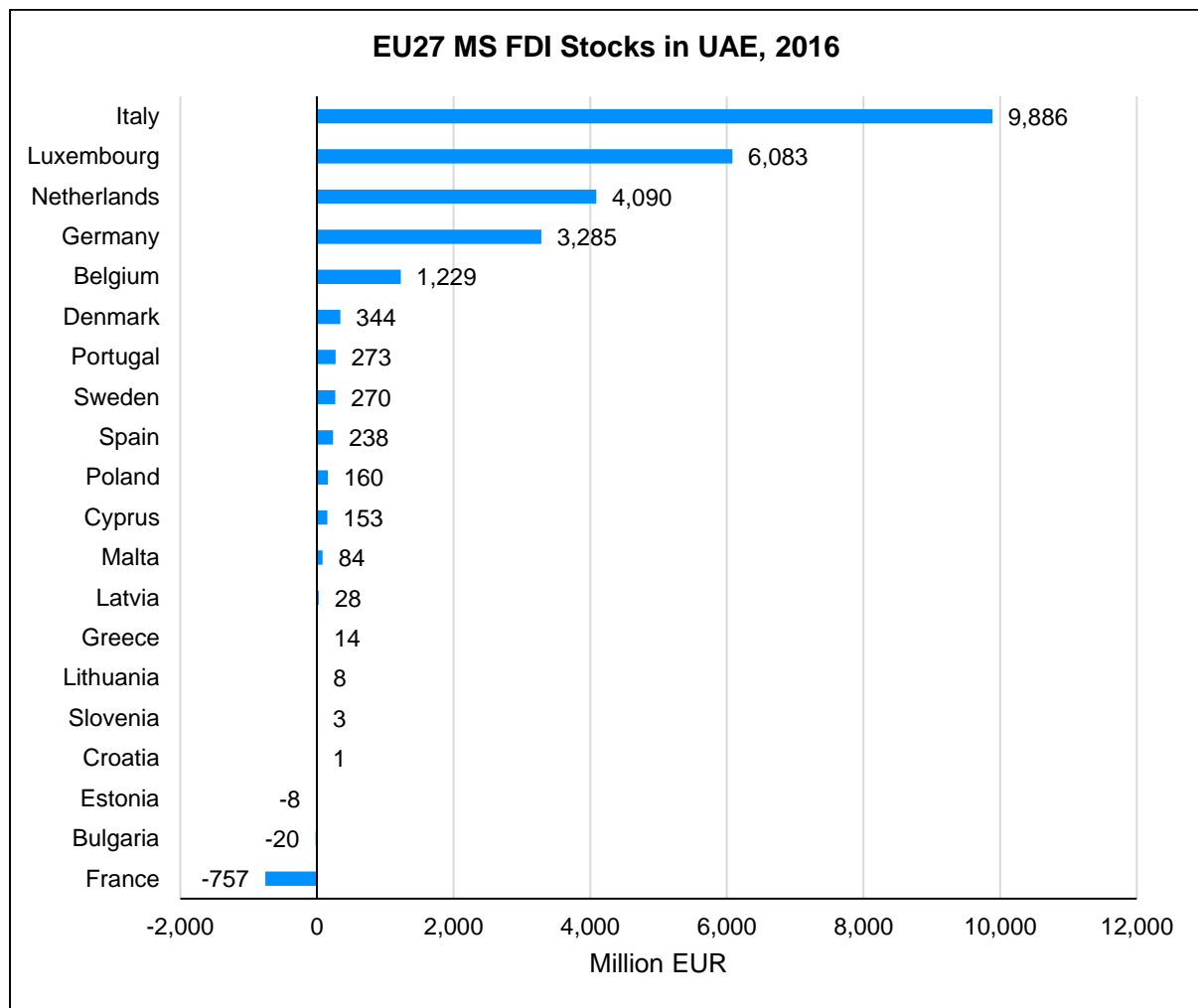
Figure 16 EU27 Member States FDI Stocks in UAE, 2015



Source: Eurostat data

Note: Data not available for Austria, Ireland, Romania.

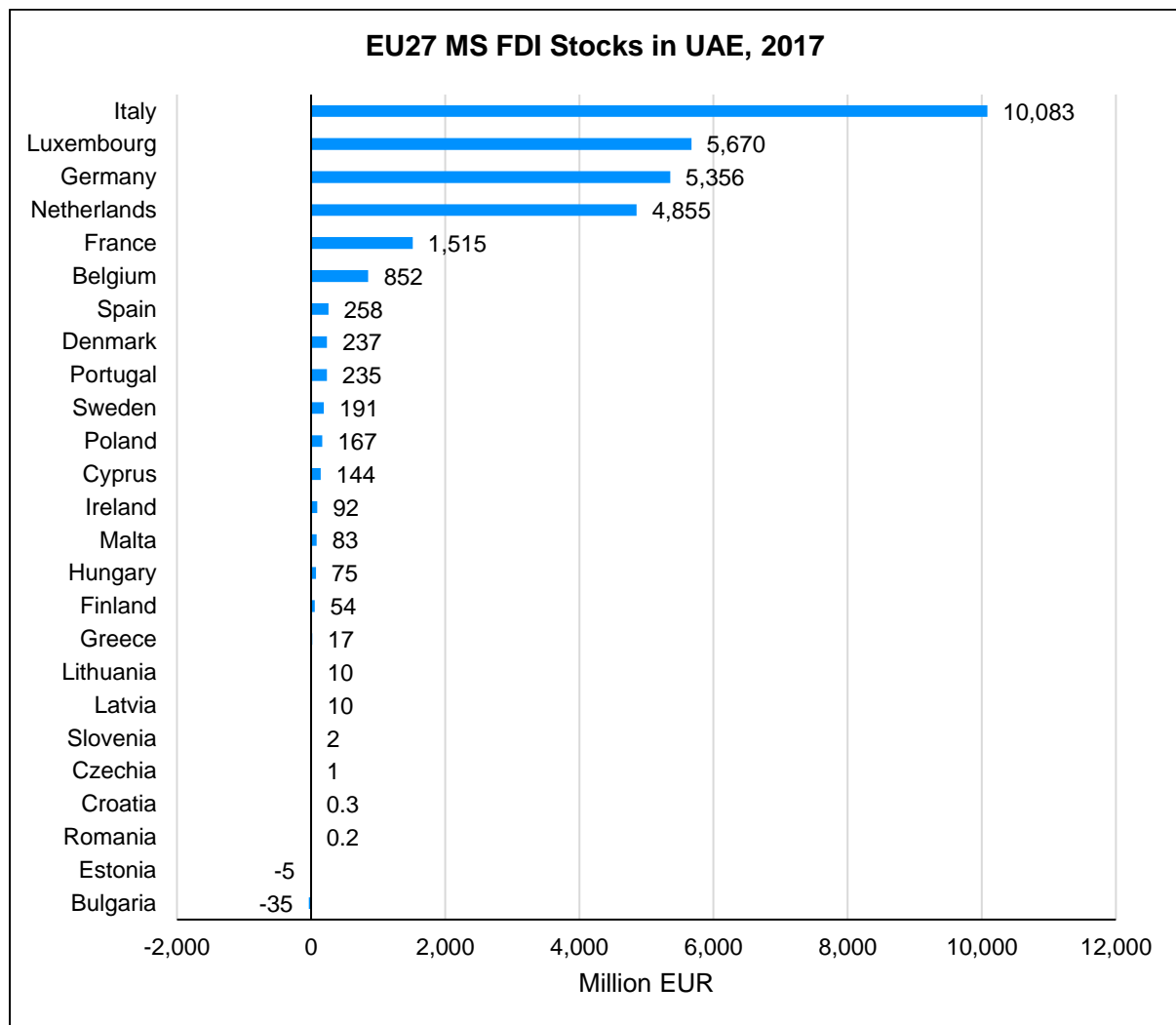
Figure 17 EU27 Member States FDI Stocks in UAE, 2016



Source: Eurostat data

Note: Data not available for Austria, Czechia, Finland, Hungary, Ireland, Romania.

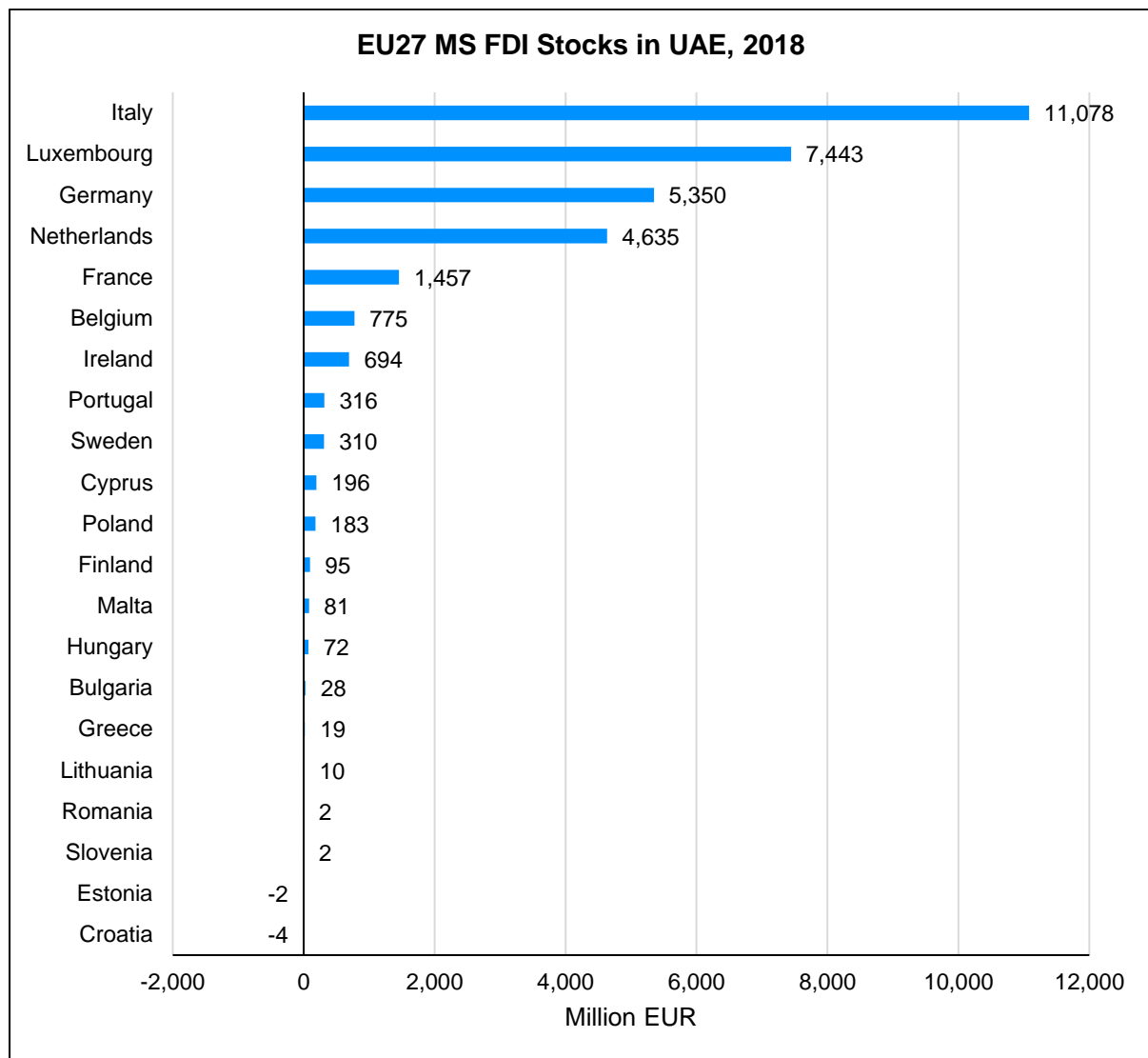
Figure 18 EU27 Member States FDI Stocks in UAE, 2017



Source: Eurostat data

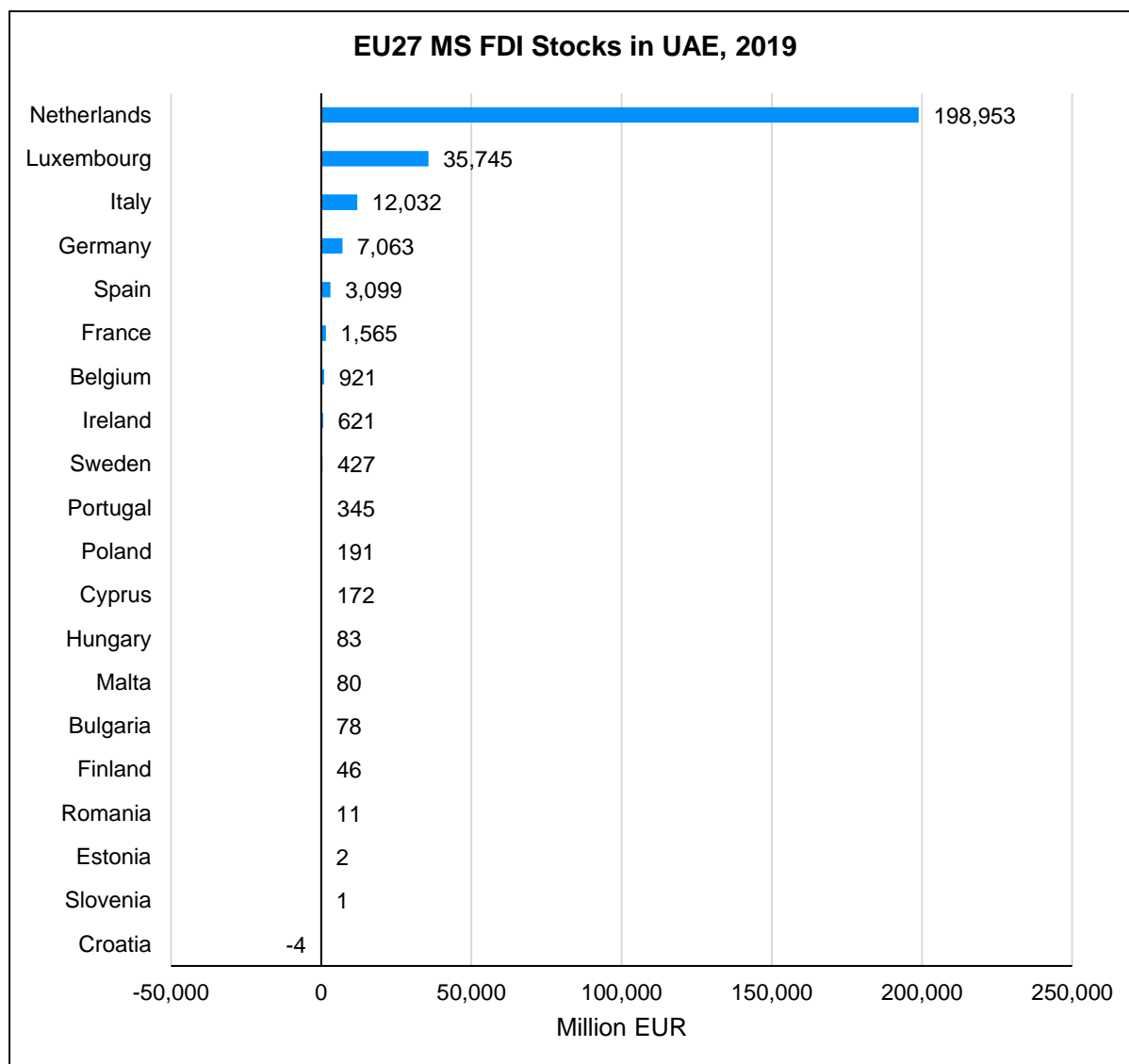
Note: Data not available for Austria.

Figure 19 EU27 Member States FDI Stocks in UAE, 2018



Source: Eurostat data

Note: Data not available for Austria, Czechia, Denmark, Latvia, Slovakia, Spain.

Figure 20 EU27 Member States FDI Stocks in UAE, 2019

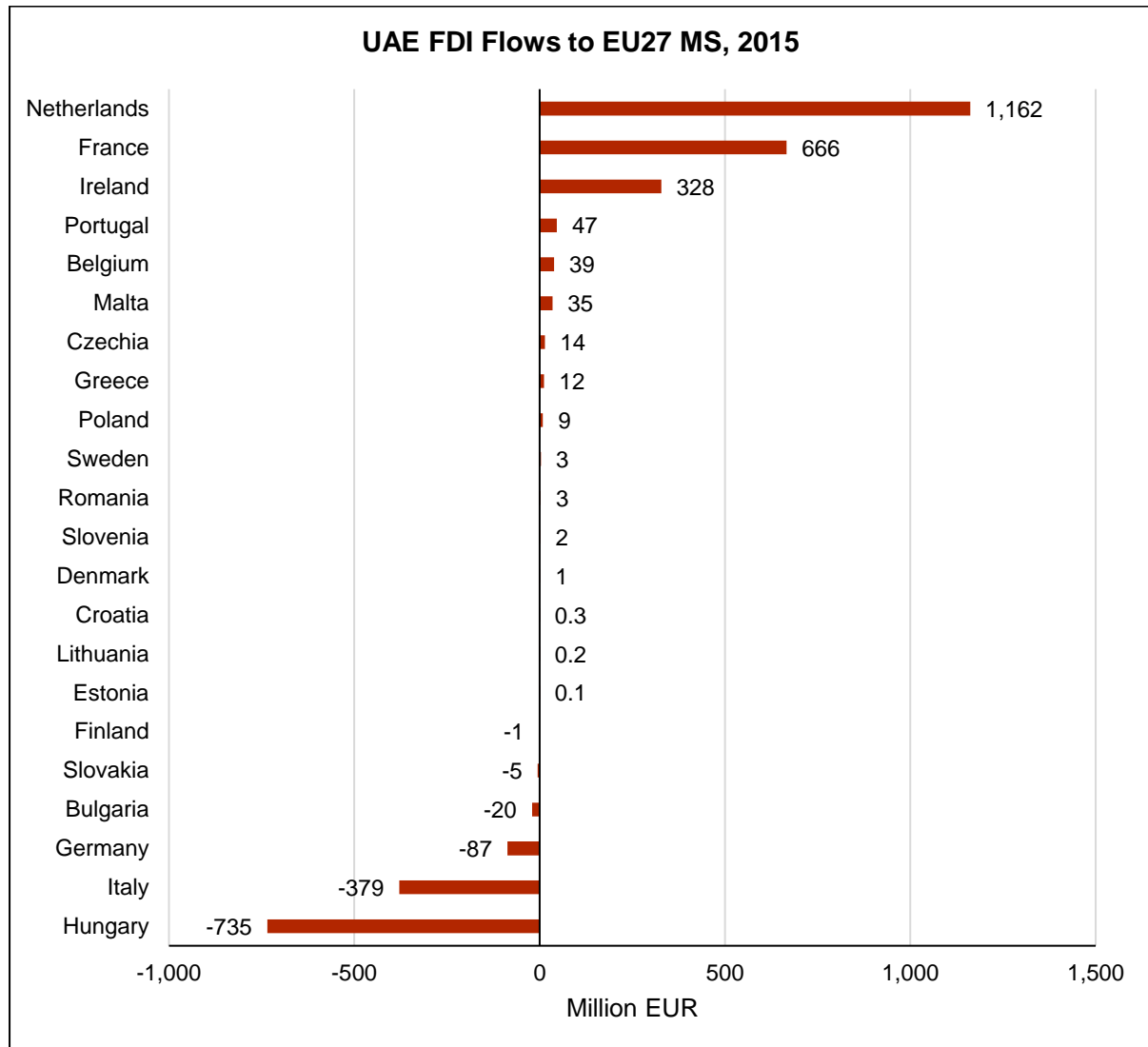
Source: Eurostat data

Note: Data not available for Austria, Czechia, Denmark, Greece, Lithuania.

4.2 UAE FDI to EU Member States

4.2.1 UAE FDI Flows to EU Member States

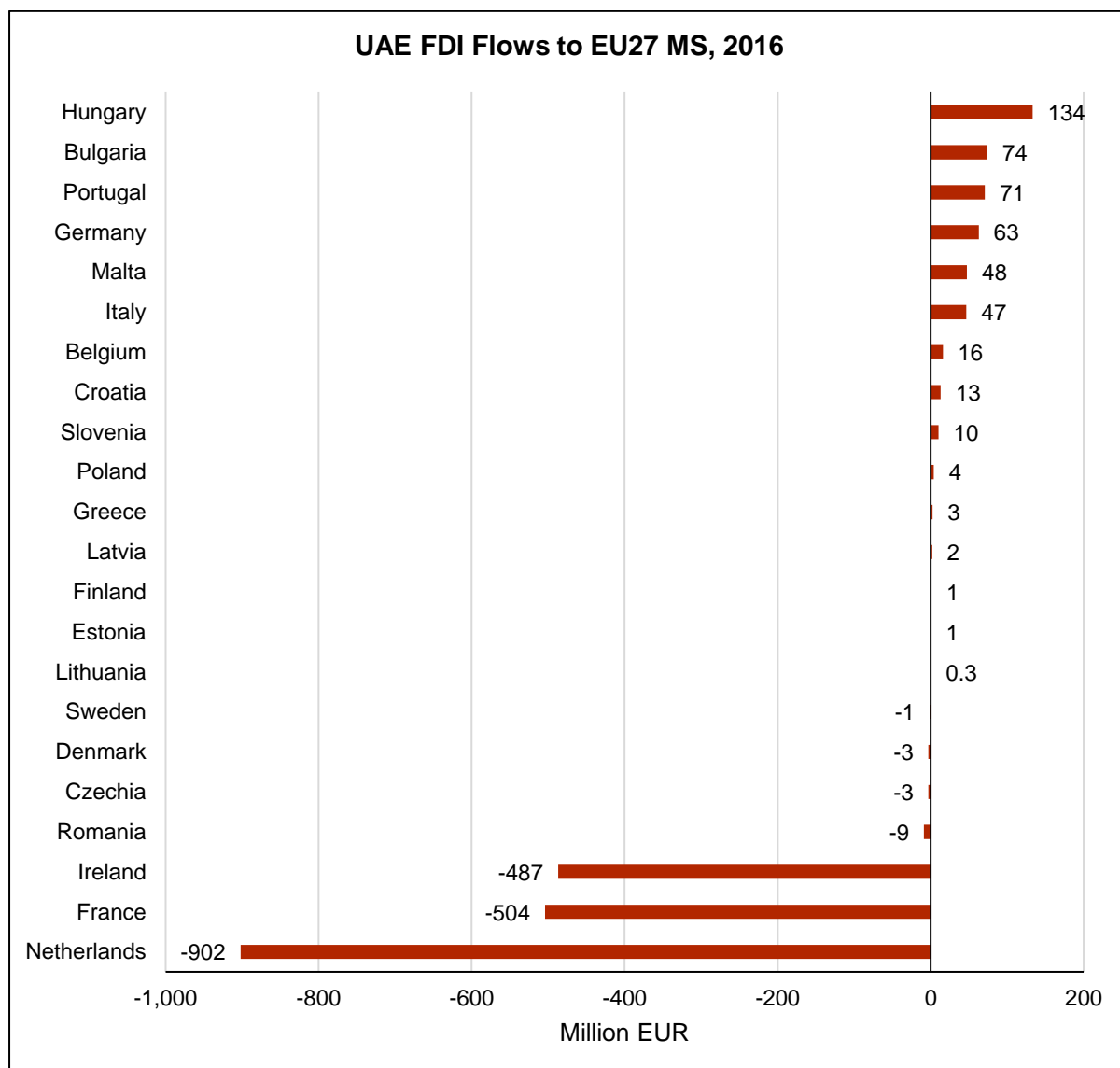
Figure 21 UAE FDI Flows to EU27 Member States, 2015



Source: Eurostat data

Note: Data not available for Austria, Cyprus, Luxembourg, Spain.

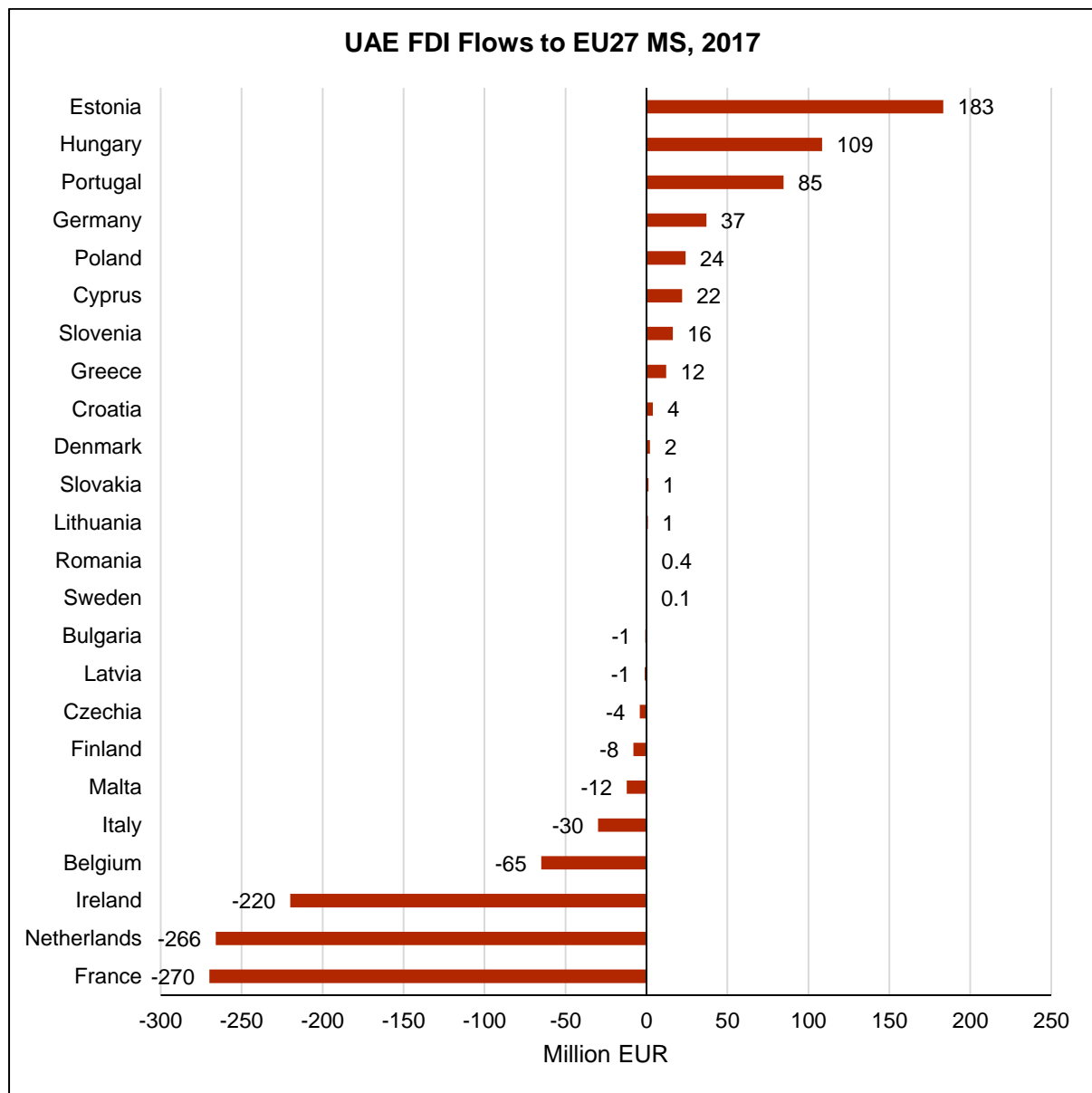
Figure 22 UAE FDI Flows to EU27 Member States, 2016



Source: Eurostat data

Note: Data not available for Austria, Cyprus, Luxembourg, Slovakia, Spain.

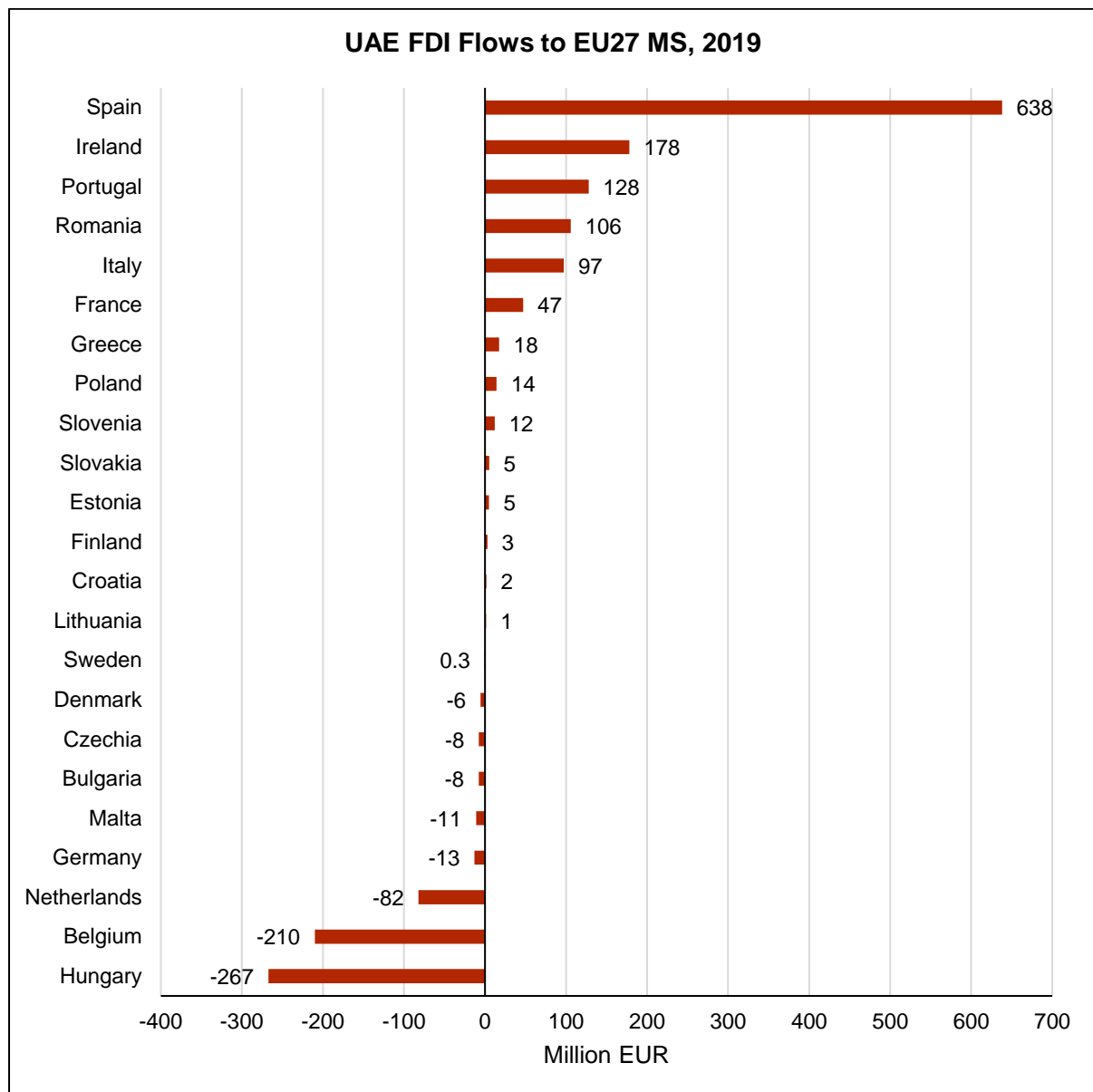
Figure 23 UAE FDI Flows to EU27 Member States, 2017



Source: Eurostat data

Note: Data not available for Austria, Luxembourg, Spain.

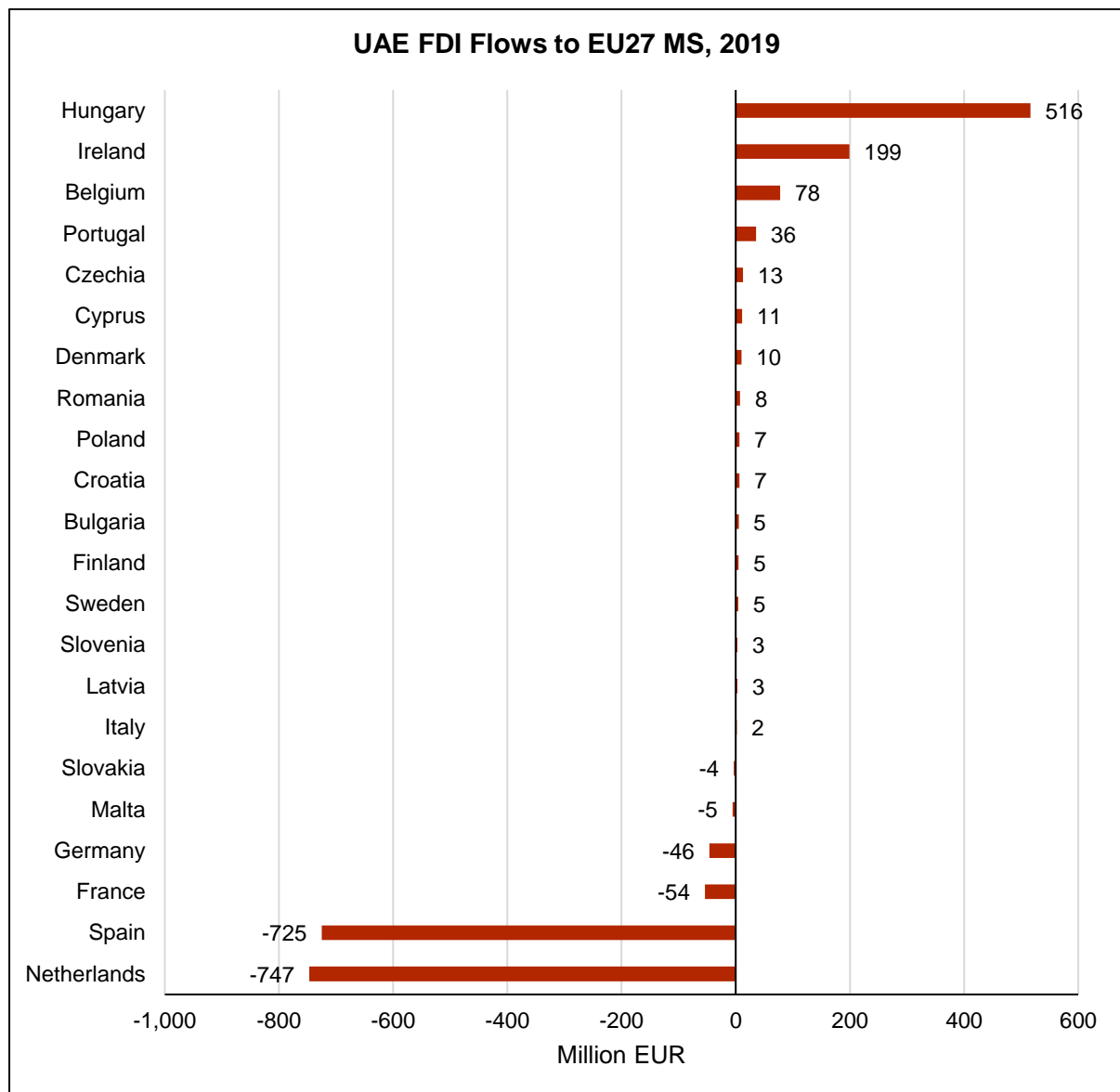
Figure 24 UAE FDI Flows to EU27 Member States, 2018



Source: Eurostat data

Note: Data not available for Austria, Cyprus, Latvia, Luxembourg.

Figure 25 UAE FDI Flows to EU27 Member States, 2019

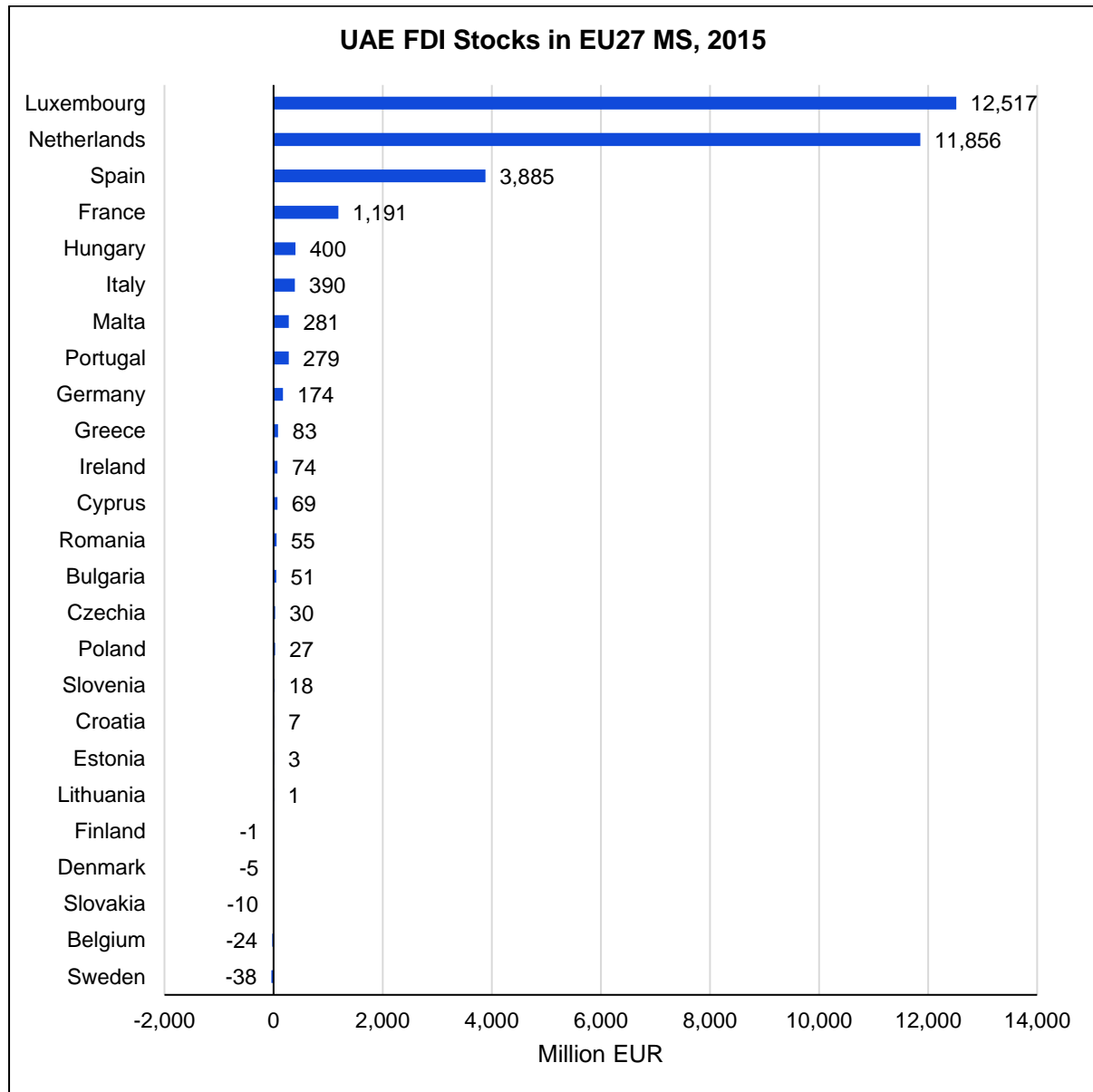


Source: Eurostat data

Note: Data not available for Austria, Estonia, Greece, Lithuania, Luxembourg.

4.2.2 UAE FDI Stocks in EU Member States

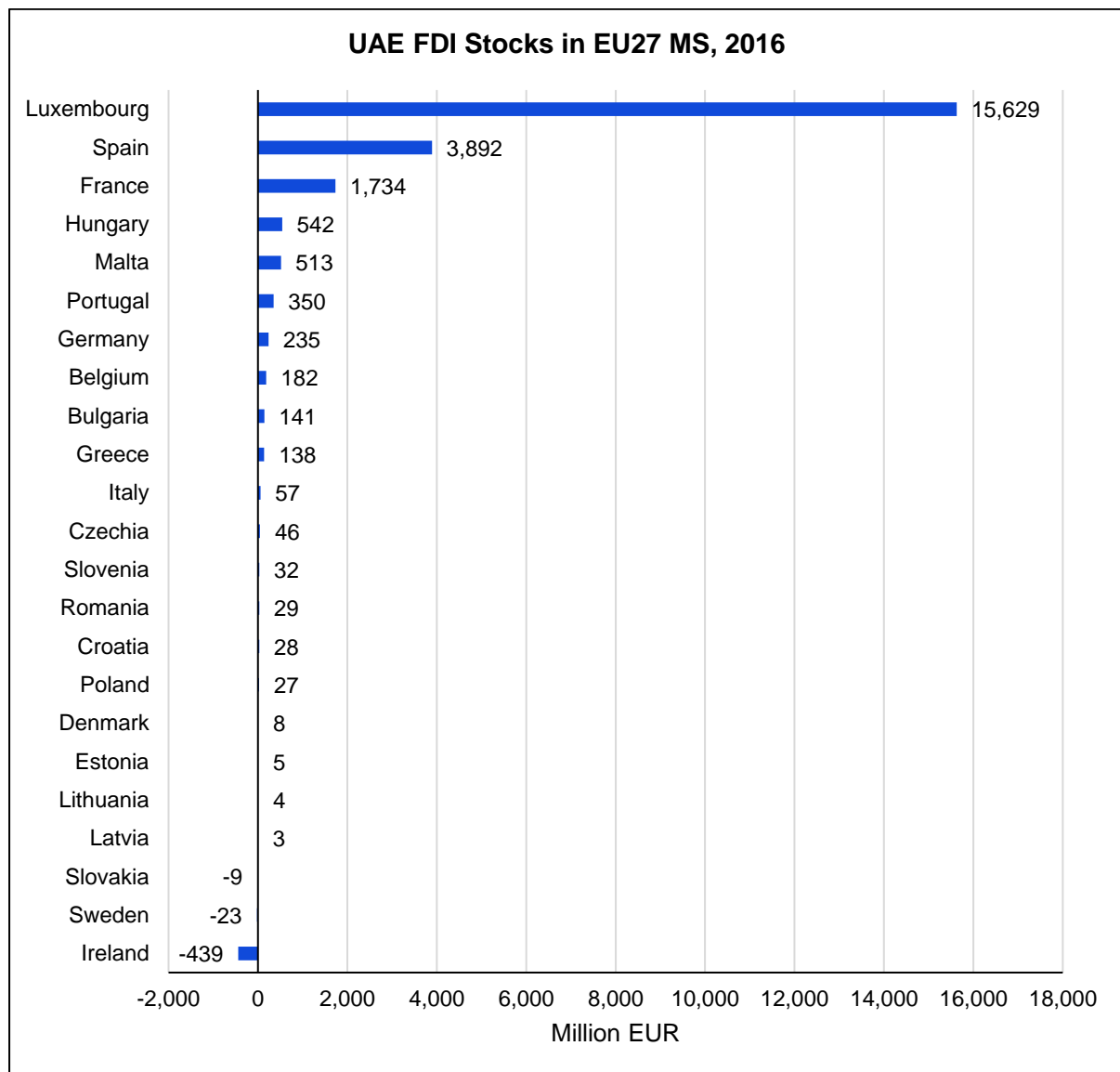
Figure 26 UAE FDI Stocks in EU27 Member States, 2015



Source: Eurostat data

Note: Data not available for Austria.

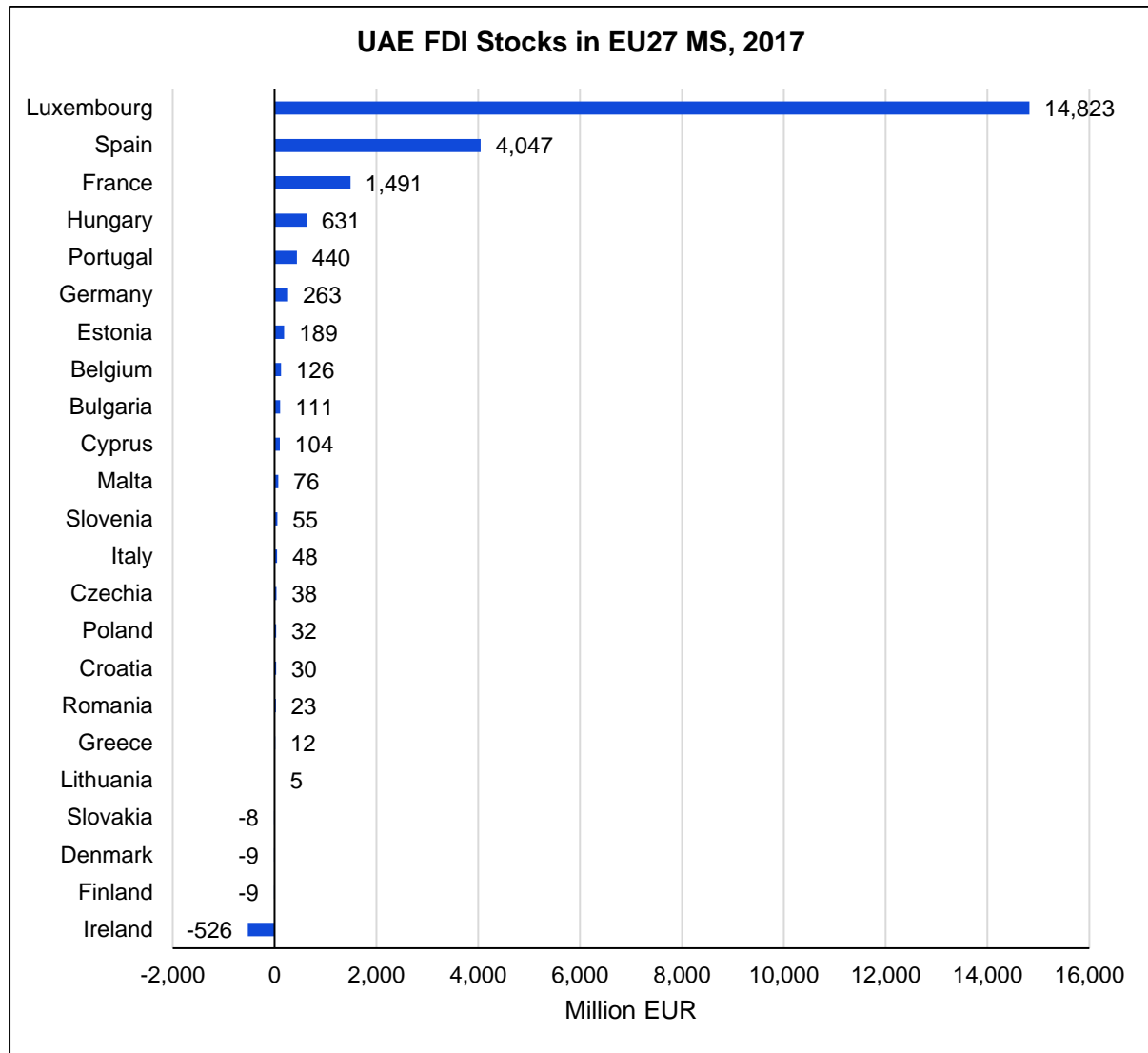
Figure 27 UAE FDI Stocks in EU27 Member States, 2016



Source: Eurostat data

Note: Data not available for Austria, Cyprus, Netherlands.

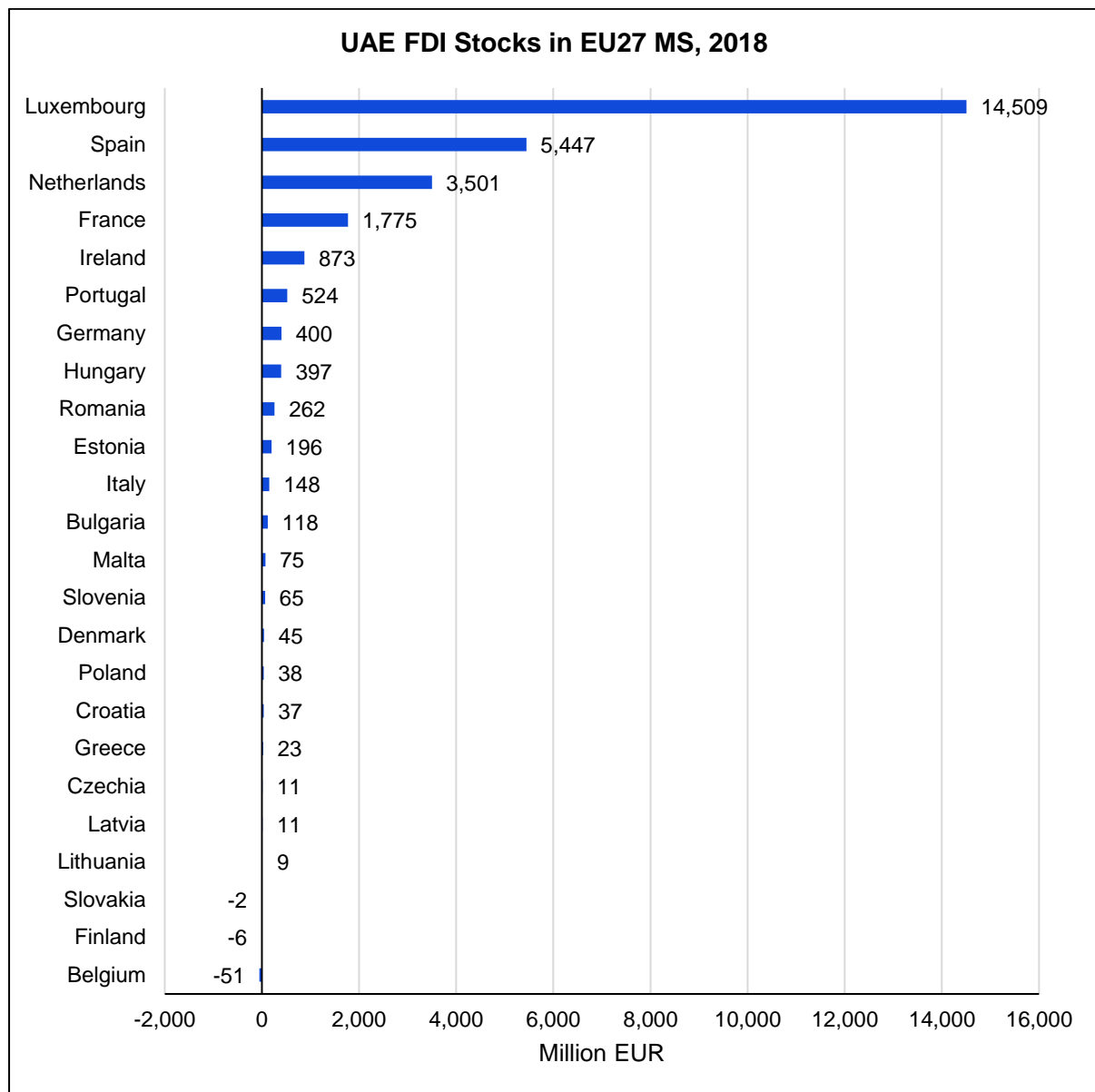
Figure 28 UAE FDI Stocks in EU27 Member States, 2017



Source: Eurostat data

Note: Data not available for Austria, Latvia, Netherlands, Sweden.

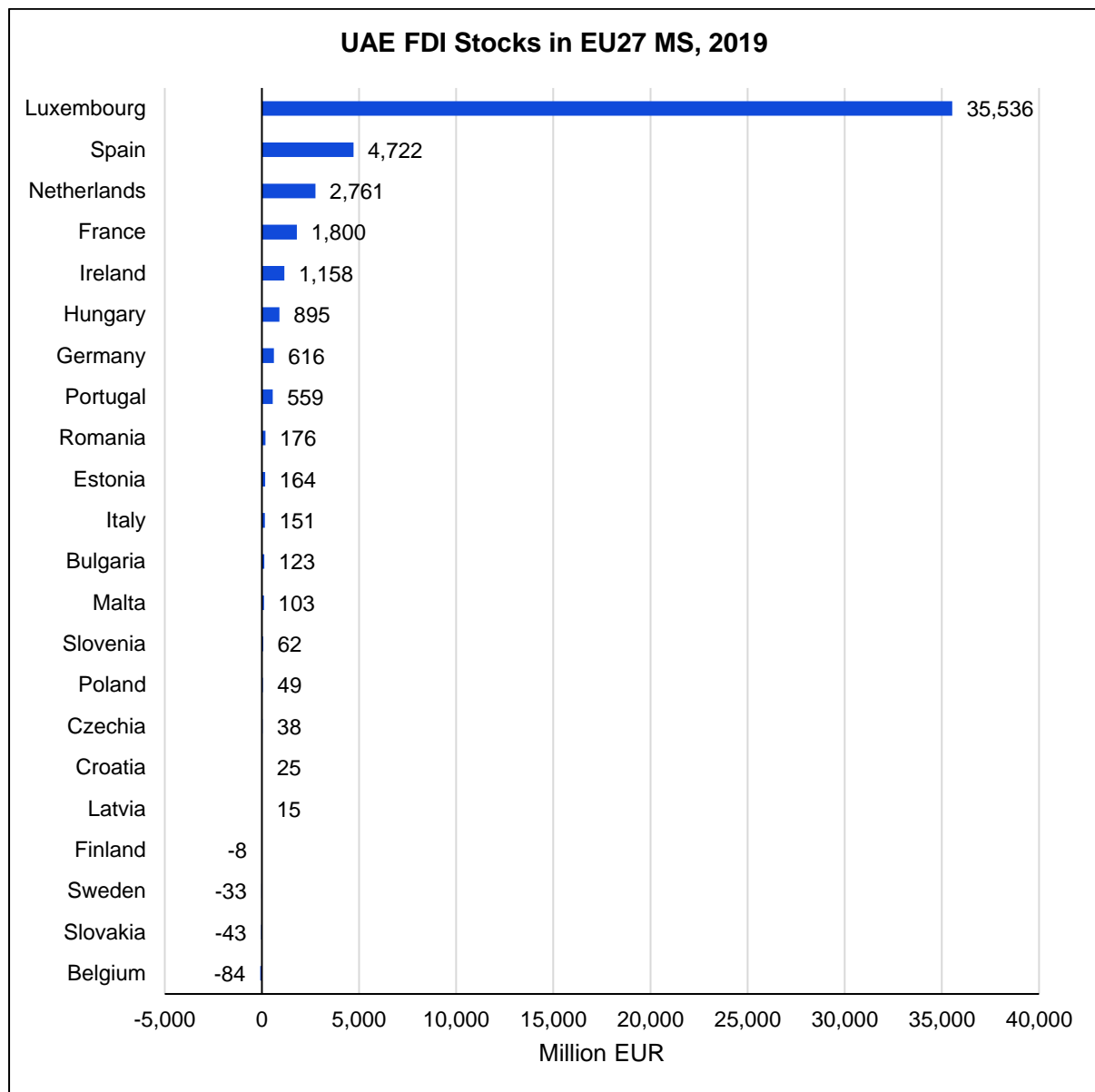
Figure 29 UAE FDI Stocks in EU27 Member States, 2018



Source: Eurostat data

Note: Data not available for Austria, Cyprus, Sweden.

Figure 30 UAE FDI Stocks to EU27 Member States, 2019



Source: Eurostat data

Note: Data not available for Austria, Cyprus, Denmark, Greece, Lithuania.

5 UAE Economic Competitiveness Indicators 2020

Table 1 UAE Economic Competitiveness Indicators, 2020

Indicator	Ranking	Out of # Countries
World Bank Ease of Doing Business	16	190
WEF Global Competitiveness Index 4.0	25	141
Fraser Institute – Economic Freedom	61	162
Global Foreign Direct Investment Attractiveness Index	24	109
United Nations e-Government Survey	21	193
Global Innovation Index	36	129

Figure 31 UAE – World Economic Forum Competitiveness Indicators, 2019



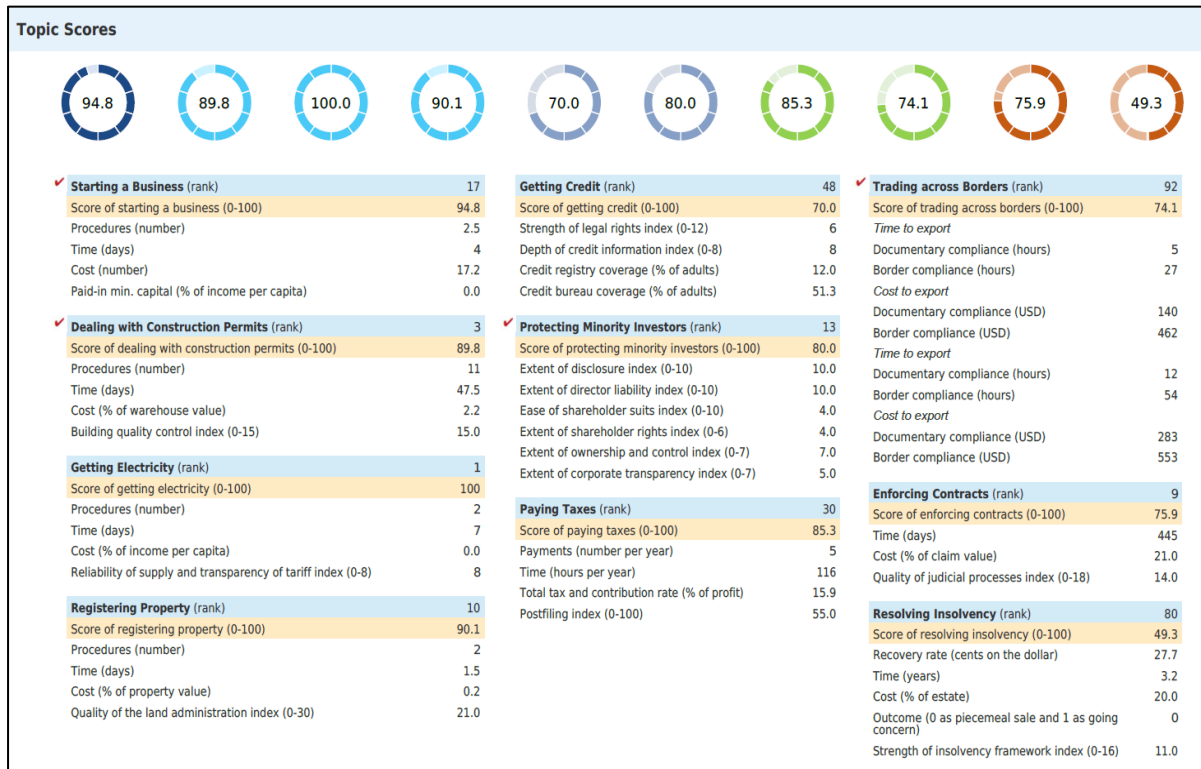
Source World Economic Forum, The Global Competitiveness Report 2019

Figure 32 UAE – Doing Business ranking, World Bank 2020



Source: World Bank

Figure 33 UAE – Doing Business topic scores, World Bank 2020



Source: World Bank

UAE allows foreign investors to own up to 100 per cent of the business. In addition, incentives include investment protection guarantees, financial transfer facilities, the possibility of modifying the partnership, merger, acquisition and transfer of ownership in accordance with the investor's interest.

FDI projects may take any of the following legal forms:

- a limited liability company, including a one-person (single-owner) company
- a private joint stock company, including a one-person (single-owner) company.

In 2020, the UAE Cabinet issued Resolution No. 16 of 2020 Concerning the Determination of the Positive List of Economic Sectors and Activities Eligible for Foreign Direct Investment and Percentage of their Ownership.

The said resolution names 122 economic activities in the Positive list. These activities are permitted for 100 per cent foreign ownership. Under the positive list there are 3 categories in which are open to investors:

- agricultural sector
- manufacturing sector
- services sector.

There are certain sectors and economic activities that are not permitted for FDI. This Negative list includes the following activities:

- exploration and production of petroleum materials
- investigations, security, military sectors, manufacturing of arms, explosives and military equipment, devices and clothing
- banking and financing activities, payment systems and dealing with cash
- insurance services
- Hajj pilgrimage and Umrah services and other activities mentioned in article 7 of the FDI law.

Note: The scope of this report does not include a compendium of laws and regulations that govern the country's foreign investment.

Annex 1 – USD to EUR exchange rates

For the analysis conducted in this study, the Eurostat and UNCTAD data have been used. The currency used to provide analysis is EUR.

Data are reported in the UNCTAD databases in USD. For the analysis in this report, data were converted using the exchange rates provided by the [European Central Bank](#).

FDI flows for each year have been converted using the average exchange rate for the year.

FDI stocks have been converted using the end of year exchange rate.

Table A 1 USD to EUR exchange rates

Year	USD to EUR End of year rate	USD to EUR Year average
2015	0.9152	0.9015
2016	0.9487	0.9039
2017	0.8358	0.8870
2018	0.8731	0.8475
2019	0.8937	0.8933

Source: European Central Bank data

Annex 2 - Eurostat data collection and processing

Direct investment

Direct investment category encompasses all kind of cross-border investment made by an entity resident in one economy (direct investor) to acquire a lasting interest in an enterprise operating in another economy (direct investment enterprise). In practise, the lasting interest is deemed to exist through either immediate or indirect relationships. Once a direct investment relationship is established, most flows and positions between the entities, including loans and trade credit, are classified as direct investment. The only financial flows and positions excluded from FDI statistics are:

- Debt between selected affiliated financial corporations.
- Financial derivatives.

A **direct investor** is an entity or group of related entities that is able to exercise control or a significant degree of influence over another entity that is resident of a different economy. A direct investor can be an individual, a group of related individuals, an enterprise (incorporated or unincorporated, private or public), a group of related enterprises, a government body, an estate, trust or other societal organisations, or any of the combination above.

A **direct investment** enterprise is an entity subject to control or a significant degree of influence by a direct investor. A direct investment enterprise may be an incorporated enterprise (subsidiary or associate) or an unincorporated enterprise (branch).

Direct investment flows and positions data can be presented either according to the asset/liability or directional principle.

Directional principle: Organises the FDI data according to the direction of the direct investment relationship (or according to the status of the resident entity), either abroad or in the reporting economy. FDI data are classified under:

- Direct investment abroad (DIA) when the resident entity is the direct investor, and the non-resident entity is the direct investment enterprise.
 - Direct investment in the reporting economy (DIRE) when the resident entity is the direct investment enterprise, and the non-resident entity is the direct investor.
- Eurostat uses the directional principle for the compilation and dissemination of EU FDI aggregates.

FDI positions - stocks

FDI positions provide information on the total stock of investment (abroad and in the reporting economy) for a given reference date which is generally the end of the year. FDI positions data are useful for structural analysis of investment in the host economy, or investment in the investing (home) country, especially to establish the relative "FDI" importance/presence of an economy in another one. FDI positions data can be broken down by type of instrument, either equity or debt.

Equity positions cover all components of shareholders' funds, proportionate to the percentage of shares held. They include equity, contributed surplus, reinvestment of earnings, revaluations as well as any reserve accounts. Reinvestment of earnings apply only between a direct investor and a direct investment enterprise, therefore fellow enterprises are not concerned by this type of instrument. The recommended principle for the valuation of equity positions is the market valuation. Listed equity provides a good basis for the valuation of equity positions at market prices. For unlisted equity an approximation to market prices will be necessary and the international guidelines (OECD BD4 and IMF BPM6) offer some flexibility for national compilers in the choice of the valuation method, most widespread ones being the "Own fund at book value", "Recent transaction price" or "Net asset value" methods. The latter is recommended especially for the valuation of equity in branches (unincorporated DIE).

Debt positions cover all payables and receivables between enterprises in a direct investment relationship arising from loans, deposits, debt securities, trade credits, financial leases and non-participating preferred shares. As a reminder, It should be pointed out that:

- Financial derivatives are excluded from direct investment statistics.
- All debts between selected types of affiliated financial corporations are excluded from direct investment statistics.

FDI positions between the beginning and the end of a given year (n) may change either due to transactions that occurred during year n, or due to other valuation changes (exchange rate changes or price valuation changes occurring when trying to value at market prices), or due to other volume changes. A common issue impacting the latter is, for a given economic entity, the reclassification of its portfolio positions (ownership < 10%) to direct investment statistics if, during the year, this entity acquires additional shares "pushing" its ownership above the 10% thresholds.

The reconciliation exercise on annual FDI data is not operated (and not asked) by Eurostat, therefore FDI financial transactions and FDI positions are shown separately without the other valuation changes components.

FDI flows - financial transactions components

FDI flows relate to direct investment transaction made during the period in the form of equity capital acquisitions, debt transactions (in most cases loans or trade credits between affiliated enterprises) or reinvestment of earnings.

Equity capital comprises equity in branches, all shares in subsidiaries and associates (except non-participating, preferred shares that are treated as debt securities and are included under other FDI capital).

Reinvestment of earnings consists of the direct investor's share (in proportion to equity participation) of earnings not distributed by the direct investment enterprise. Reinvestment of earnings is an imputed transaction of the financial section of the Balance of Payment recorded simultaneously (same amount) with the reinvested earnings transaction recorded in the primary income section of the Balance of Payment (see below). The logic underlying this simultaneous recording of two fictive transactions is that one describes the allocation of the whole profits in the company's reserves (reinvestment of earnings in the equity capital of the direct investment enterprises), the other one being the remaining part of profits not distributed to shareholders in the form of dividends, and which stays in the accounts of the direct investment enterprise.

Debt transactions cover all transactions between enterprises in a direct investment relationship arising from loans, deposits, debt securities, trade credits, financial leases and non-participating preferred shares. As a reminder, financial derivatives and all debts between selected types of affiliated financial corporations are excluded from direct investment statistics, as are transactions between affiliates in financial assets issued by an unrelated party. The official expression covering all debt transactions between enterprises in a direct investment relationship is "inter-company lending".

Data received from Member States

- FDI flows and income datasets (year n) that are not transmitted to Eurostat in millions of euros are converted using the yearly average exchange rates (year n) between the euro and corresponding national currencies.
- FDI positions datasets at end of year n that are not transmitted to Eurostat in millions of euros are converted using the exchange rates between the euro and corresponding national currencies observed at end of year n.

Time series on FDI flows, income and positions are reported according to the directional principle and under the new methodology from 2013 onwards.

FDI stocks refer to the end of the recording period; flows and income refer to the recording period. All FDI data are annual.

Aggregate data for the European Union are in general obtained as the sum of the respective Member States data. Member States data are in some cases confidential and therefore are not shown in datasets or tables published on Eurostat website.