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The UAE as a Nexus State

CHRISTIAN HENDERSON

Abstract: This article examines the UAE's state-owned enterprises (SOEs) in the transport and logistics sector and their relationship with the state. It argues that investment in this sector has transformed the UAE into a "nexus state", in the process diversifying the economy and enhancing the country's relevance in the international system. As a result, this sector provides an insight into the development of unified federal foreign policy that has a reciprocal relationship with these commercial interests. This development has provided a spatial, political and commercial rationale for greater coordination at the federal level and this is expressed in the country's foreign policy. Research for this article was partly conducted through ten interviews with government officials, company managers and diplomats in the UAE in May 2015.

Keywords: UAE, United Arab Emirates, State-Owned Enterprises, political economy, foreign policy

1 Introduction

Since 2000 the UAE's economy has become relatively diversified. One industry that has developed rapidly is the logistics and transport sector, and the UAE has become a global intersection for air and cargo traffic. Although this sector is of increasing importance to the UAE and has a corollary on external affairs, it has been omitted from much of the literature on the foreign relations of the UAE. The contemporary UAE's foreign relations are often portrayed as reactive, considers the UAE as a vulnerable "microstate", and an emphasis is placed on regime survival.¹ Oil reserves are considered to be the UAE's main strategic asset, as this wealth has allowed Abu Dhabi to transfer considerable amounts of aid. Commercial interests are represented in the country's international relations but often not as a primary concern.

In response to this lacuna, this article examines the UAE's state-owned enterprises (SOEs) in the transport and logistics sector and their relationship with the country's foreign policy. It argues, firstly, that these SOEs have transformed the UAE into a "nexus state" which plays a substantial role in the economy and also generates international influence as a result of its strategic significance. Because of this importance, the nexus state has provided an impetus for an increased level

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¹ Mashat, "Politics of Constructive Engagement: The Foreign Policy of the United Arab Emirates", *The Foreign Policies of the Arab States*, ed Korany and Dessouki (2008); Almezaini, *The UAE and Foreign Policy: Foreign Aid, Identities and Interests* (2012); Hellyer, "The Evolution of UAE Foreign Policy", in *The United Arab Emirates: A New Perspective*, ed. Hellyer and Al Abed (2001), pp. 161–79.

of coordination at the federal level, and the UAE has become more active in managing the transport and logistics sector across the national scale. The article then examines the link between the external activities of these SOEs and the federal foreign policy and illustrate the reciprocity in this relation.

2 Framing the nexus state

The term nexus state was first used in relation to the UAE by Afshin Molavi who argued that the country is “a nexus state on the Southern Silk Road, it also has emerged as a global nexus state of trade. It has become a node of connectivity linking Europe and the Americas to Asia and Africa, and vice-versa”.² This article intends to expand the concept of the nexus state and illustrate how it provides an insight into the tightening links between the UAE’s emirates and the manifestations of this process in the country’s external affairs.

In order to emphasise the importance of federal coordination in the UAE’s foreign policy, this article will depart from the “city state” account of the country’s development. This is partly based on a historical portrayal of the individual emirates, which considers them as separate and rival entities. In this account Dubai is sometimes illustrated as the commercial entrepot and Abu Dhabi as the oil-rich political capital.³ This characteristic is often cited as being a main factor in the development of the UAE’s transport and logistics sector. According to Derudder, Bassens and Frank: “the rationale of being competitive amongst peers further normalizes speculative infrastructure developments at the level of individual city-states”.⁴

While competition between the emirates is ongoing, the transport and logistics sector provides insight into the cooperation that has created the nexus state. This coordination is partly being driven by the need to sustain the nexus state and the external SOEs upon which it relies. The trend of growing mutual interests has been noted by other scholars who have remarked on the complementary economic role of the different emirates, which ensures the state is “resilient and prosperous even in times of low oil prices”.⁵ On a more general level, the increasing sophistication of the UAE’s infrastructure projects can only be mediated by the federal state, as they take place at the national scale. This concept was noted by Harvey who pointed out that investment in fixed capital often requires the state’s management. According to him “the territorial organization of the state becomes the geographical configuration within which the dynamics of the investment is worked out”.⁶

Another oft-cited factor in the development trajectory of these emirates is the rentier system. According to standard rentier state theory,⁷ the government’s redistribution of oil revenue in society has resulted in duplication of infrastructure and industrial projects. This was a result of

² Molavi, “The United Arab Emirates and Africa: A Pivotal Partnership Amid a ‘South-South’ Commercial Revolution”, *John Hopkins School of Advanced International Studies* (2014).

³ Bassens, Derudder, and Witlox, “The Making and Breaking of Dubai: The End of a City-State?”, *Political Geography* 29.6 (2010), pp. 299–301; Bloch, “Dubai’s Long Goodbye”, *International Journal of Urban and Regional Research* 34.4 (2010), pp. 943–51; Derudder, Bassens, and Witlox, “Political-Geographic Interpretations of Massive Air Transport Developments in Gulf Cities”, *Political Geography* 36 (2013), pp. A4–7; Shaw and Sidaway, “Making Links: On (Re)Engaging with Transport and Transport Geography”, *Progress in Human Geography* 35.4 (2010), pp. 502–20.

⁴ Derudder, Bassens, and Witlox, “Political-Geographic Interpretations”, *Political Geography* 36 (2013), p. 5.

⁵ Davidson, “The Emirates of Abu Dhabi And Dubai: Contrasting Roles in the International System”, *Asian Affairs* 38.1 (2007), pp. 33–48.

⁶ Harvey, *The Limits To Capital* (1982), p. 404.

⁷ See the essays in Beblawi and Luciani (eds), *The Rentier State* (1987).

development strategies determined by the role of rent-seeking in the state's allocation of resources, as opposed to a strategy determined by the market. Although the consequences of the rentier system continue to be pertinent, this article will argue that this duplication has played a role in creating the nexus state, as it has created a depth and flexibility in the country's infrastructure.

As will be illustrated, there is a close relationship between SOEs and federal foreign policy, and the state is active in defending these interests. In order to understand and explain this relationship it is important to note that in the UAE (as well as many other countries) class and state are closely intertwined. With this in mind the country's SOEs are not autonomous entities whose governance is subject to high levels of public accountability and transparency. In the case of the transport and logistics SOEs, the ultimate owners of these companies are often the same individuals who control foreign policy, or at least are close relatives of the officials that do.⁸ This requires an understanding of the UAE state that departs from one rooted in the rentier state paradigm, in which the state is understood as having some autonomy from class interests. According to Hanieh the GCC's "'capitalist class' should be understood as inclusive of state personnel and individuals from the ruling family. From this perspective, notions of relative autonomy as they are typically employed by rentier-state theories are misplaced".⁹

3 From city-states to nexus state

The genesis of the UAE's nexus state was in Dubai, which invested heavily in infrastructure from the 1960s onwards and its new ports and airports led to the development of a services economy which led the region. Over time other emirates started in investing in logistics and travel, and in the 2000s Abu Dhabi established the emirate's national carrier Etihad, as well as other facilities. Sharjah's airport was the first in the UAE but more recently this airport has become an important passenger facility and Air Arabia, which was launched in 2003, is based at the facility.

The inherently international nature of the nexus state is a result of the size of the UAE's airline and logistics SOEs. Two state-owned Emirati carriers, Emirates and Etihad are considered to be "super-connectors", due to their intercontinental routes that connect in the UAE.¹⁰ In addition to Emirates and Etihad, Air Arabia and Fly Dubai also operate routes across the region, pulling in passenger traffic and providing connectivity. In the logistics sector DP World also plays a role in routing cargo traffic through Dubai. The company is the operator of Jebel Ali and it is one of Dubai's largest SOEs with a portfolio of sixty-five ports around the world.

As a result of its airlines, the UAE has become a global intersection for passenger and freight transport. In 2014 it was reported that Dubai International Airport had overtaken Heathrow Airport as the world's busiest airport with 68.9 million passengers.¹¹ In addition to Dubai International, twenty million passengers used Abu Dhabi airport¹² and Sharjah Airport recorded 9.5 million passengers in the same year.¹³ The main seaport in the country, Jebel Ali is ranked as the ninth busiest in the world and it is the biggest port in the world outside of Asia.¹⁴ Adjacent to Jebel Ali is al-Maktoum International, an airport that is mostly dedicated to freight and it is

⁸ Hanieh, *Capitalism and Class in the Gulf Arab States* (2011), p. 14.

⁹ Ibid.

¹⁰ Anon., "Super-Connecting the World", *The Economist*, 23 Apr. 2015.

¹¹ Macalister, "Heathrow Airport Overtaken by Dubai as World's Busiest", *The Guardian*, 31 Dec. 2014.

¹² Anon., "Abu Dhabi International Airport Marks Highest Passenger Traffic Increase in Airport's History", *Abu Dhabi Airport Website*, 25 Jan. 2015.

¹³ Anon., "Sharjah International Passengers up 11.76% in 2014", *Gulf News*, 14 Jan. 2015.

¹⁴ Rapoza, "The World's 10 Busiest Ports", *Forbes*, 11 Nov. 2014.

estimated to be the sixth largest cargo airport in the world.¹⁵ Elsewhere in the UAE, Abu Dhabi has constructed Khalifa Port and the emirate of Fujairah on the Gulf of Oman coast is considered to be the second largest ship refuelling (known in the shipping industry as bunkering) centre in the world after Singapore.

The logistics infrastructure in the UAE is strategic to military and corporate power. There are no permanent foreign military bases in the UAE but its ports and airstrips are regularly used by Western forces. Jebel Ali is one of the US Navy's most frequented foreign ports.¹⁶ Abu Dhabi's Mina Zayed is the second most visited port in the Persian Gulf by the US Navy and Fujairah Port is also used regularly.¹⁷ The al-Minhad Air Base in Dubai has been used by the US, Canadian, British, Australian, New Zealand militaries and it played a role in ISAF's logistics in Afghanistan.¹⁸ The UAE's importance to corporate power is exemplified by the number of multinational corporations with headquarters in Dubai as well as importance of its role in global trade and business.¹⁹ In this context the facilities described above are at the core of the UAE's position in the global economy and allow the country to maintain a multitude of international links.

Initially, the strategies that created the nexus state were undertaken by rulers of the country's emirates and there was little coordination at the federal level. However over the last decade there are signs that the federal state is becoming more active in managing this sector and there is an increasing level of cooperation.²⁰ One example is Abu Dhabi's "gift" of 100,000 barrels of oil a day to Dubai, an important exchange given the importance of cheap fuel for Dubai's airline industry.²¹

Another sign of growing institutional coordination is the development of the aerospace industry. In 2015 it was announced that Abu Dhabi's Mubadala fund had launched Strata, an aerospace manufacturer that has contracts with Airbus and Boeing.²² These contracts illustrate the development of an institution which caters to UAE airlines. Dubai government officials have previously expressed their support for this project and in 2016 the chairman of Emirates, Shaikh Ahmed al-Maktoum was quoted as saying:

The UAE is already a world-class aviation hub, so the sensible progression is to grow its capabilities and maximize synergies across the aerospace value chain. Mubadala is a good example of how innovation in the aerospace industry is contributing to the economy and helping to create a diversified aerospace industry across both manufacturing and services.²³

Another example of institutional development at the federal level is the reform of aviation regulation. In 2015 the General Civil Aviation Authority, the sole aviation regulator in the country, announced that it was reviewing the management of the country's airspace in light of the increasing traffic. One employee of the authority was quoted as saying that reform would aim to make sure that

¹⁵ Anon., "Largest Cargo Airports of the World", *Geohive* (2013).

¹⁶ Davidson, *Dubai: The Vulnerability of Success* (2008).

¹⁷ Davidson, "Gulf Security Today: A UAE Perspective", *Eurasia Review*, 17 Feb. 2011.

¹⁸ Anon., "United Arab Emirates Facilities", *Global Security* (2017).

¹⁹ The importance of Dubai as a business centre is exemplified by the amount of office space available in the city, almost seven times that of Bahrain and Cairo.

²⁰ At a general level, the most obvious example of this coordination was Abu Dhabi's US \$10 billion bailout of Dubai in 2009, after it failed to make repayments on a bond of state-owned real estate company Nakheel. At the time there was a great deal of speculation over the conditions of this rescue package, although both emirates claim that the funds were unconditional. One rumor was that Abu Dhabi was seeking a share in Emirates Airline but there has been no evidence to substantiate this.

²¹ Davidson, "The Emirates of Abu Dhabi And Dubai", *Asian Affairs* 38.1 (2007), p. 43.

²² These contracts are essentially an offset programme based on the huge orders UAE airlines place with these manufacturers.

²³ Anon., "Maintaining an Edge", *The Business Year* (2016).

all of the emirates would be consulted and represented. According to the manager: “Looking at the size of the airspace, its complexity and high density it’s going to be difficult to satisfy everyone The beauty of it though is that everyone is part of it and all interests are represented”.²⁴

Mutual interest is also created by joint shareholdings in these SOEs.²⁵ Some UAE transport and logistics companies have become embedded into financial markets and as a result shareholders and other stakeholders have expanded beyond the emirate level. For example, the largest shareholder in Air Arabia is the Sharjah government but other shareholders include Abraaj Capital, a Dubai-based private equity company whose shareholders include Khaled bin Zayed Al Nahyan, a member of the ruling family of Abu Dhabi and a director of Etihad Airways. This is especially significant given that this sector has seen substantial growth in its value. In 2000, the transport, storage and communication industries were worth USD \$6.9 billion to the UAE economy and by 2014 this had increased to USD \$34.5 billion.²⁶ Other related sectors such as tourism have also experienced similar growth.

On a less conscious level, the nexus state has been made possible by the federal system and this sustains rationale for continued coordination. The federation offers Dubai and the other emirates security in the form of spatial depth. This demands less of a compromise on sovereignty, unlike smaller states such as Qatar and Kuwait which host permanent foreign military bases in order to counter their vulnerability. As a result the UAE can leverage access to its facilities in order to obtain its foreign policy goals, and the case of denying access to the al-Minhad air base to the Canadian military in 2010 is a good example, as will be discussed in greater depth in the next section.

4 The foreign policy of the nexus state

Given that the transport and logistics sector is an economic and political asset to the UAE and this is articulated at the federal level, what is the relationship between this sector and the UAE’s foreign policy?

This relationship depends on the type of market that the logistics or transport SOE is operating in. Generally, these companies have learned from experience that in more developing countries SOEs can operate with less support from the state and in some cases this commercial power is an effective form of diplomacy. In more developed markets SOE investment is considered to rely on the groundwork of the foreign ministry in order to be successful. According to one Dubai government official: “In the developing world it is the case of the commercial interest going first. In the Western world we have learned that if there is nothing political on the ground there is the risk of a backlash, as happened with DP World. In these markets the state needs to be there in order to undertake due diligence and lobbying”.²⁷

4.1 Developed countries

As a sign of the reciprocal nature between the UAE state and its SOEs, the global presence of these SOEs has raised the profile of the UAE in the West. The reputation of its airlines as

²⁴ Anon., “Collaboration the Key to UAE Airspace Restructure, Says GCAA’s Al Jallaf”, *Arabian Aerospace*, 7 July 2015.

²⁵ Aside from the commercial cooperation there are also personal relationships between the leaders of the UAE’s emirates. The Maktoums and the Nahyans belong to the Bani Yas tribal confederation and there is intermarriage between them. For example Shaikh Mansour Al Nahyan, the deputy prime minister of the UAE and a powerful figure in Abu Dhabi is married to a daughter of Shaikh Mohammed al-Maktoum.

²⁶ Anon., “National Accounts Main Aggregates Database”, *United Nations Statistics Division*, 20 Dec. 2015.

²⁷ Interview, Dubai, May 2015.

high-quality carriers have played a role in building consumer confidence in the UAE. Sponsorship agreements such as the Emirates Stadium in London and the Etihad Stadium in Manchester has developed the brand of the UAE internationally. According to a Dubai government employee: "There is an element of this which has been about building trust in the UAE. Emirates and Etihad were partly a strategic development. The rulers wanted to build confidence so they built best-in-class airlines".²⁸

However, this trust is not taken for granted and DP World's experience in the US in 2006 was seminal.²⁹ The furore that was created by DP World's acquisition of management contracts in US ports came as a shock to the UAE and it responded by intensifying its lobbying and it now has one of the biggest lobbying budgets of any embassy in Washington.³⁰ Abu Dhabi's embassy in Washington is also proactive in its attempts to promote the UAE and defend the activities of its SOEs.

As much as Emirati SOEs require diplomatic support in developed markets their commercial power also creates influence that can protect their operations. Emirates and Etihad have significant authority in the US and other industrialised Western states as a result of their huge purchases of aircraft.³¹ In 2013 Emirates placed an order for Boeing's 777X that is worth \$76 billion and in the same year Etihad also placed an order with the company worth \$25.2 billion.³²

Emirati airlines have said they will use this influence to counter accusations from US airlines that their state backing and non-unionised workforce violates the Open Skies Agreement, which gives Emirati airlines access to US airspace. Aircraft manufacturers such as Boeing are likely to use their considerable lobbying powers with the US government to try and protect their Emirati clients as well as other Gulf airlines who placed considerable orders with the company.

As a sign of the importance of SOEs such as Emirates and Etihad, UAE diplomacy has been proven to adopt a tough stance with Western governments when these commercial interests have been threatened. One example is the UAE's relationship with Canada, in which air politics was the cause of a major spat. In 2007, Emirates requested additional flights to various Canadian cities. After several years of failed negotiations, the UAE increased pressure on Canada by not renewing an agreement that allowed the Canadian military to use al-Minhad base for its operations in Afghanistan. The importance of the base to Canada was exemplified by a report in late 2010 that a plane carrying the Canadian chief of staff and government minister was refused the right to land at the base and had to reroute to Europe.³³ This is an example of the strategic significance of the UAE as a logistical space which offers intercontinental access for military power, and the

²⁸ Interview, Dubai, May 2015.

²⁹ DP World acquired British shipping company P&O and its worldwide assets, including contracts to manage more than twenty US ports. The deal created a controversy in the US due to fears that DP World's management of ports represented a security risk and the issue was fuelled by accusations in the media that UAE was a country that supported terrorism and the destruction of Israel. Although US President George Bush announced that he would veto any attempt by Congress to block the deal, in the end DP World backed down by selling the US operations of DP World to a US company.

³⁰ Itkowitz, "Which Foreign Countries Spent the Most to Influence U.S. Politics?", *The Washington Post*, 14 May 2014.

³¹ Tim Clark, the chief executive of Emirates, is explicit about the economic importance of his airline in the US and he has been quoted as saying that his airline's \$76 billion order will support 400,000 jobs in the US [Anon., "CI VIEW: Westinghouse Risks Losing 50,000 Jobs if Congress Fails to Reauthorize EX-IM Bank, CEO Says", *Capitol Intel Group* (2015)].

³² Jones, "Dubai's Emirates Air Orders 150 Boeing 777X Planes Worth \$76 Billion", *The Wall Street Journal*, 18 Nov. 2013.

³³ Leblanc, "UAE Banishes Canada from Base, Blocks MacKay from Its Airspace", *The Globe and Mail*, 11 Oct. 2010.

manner in which the UAE can leverage this importance. The UAE raised the ante further when it imposed a visa regime on Canadian passports, raising the charge for a thirty-day visa to \$250 and a six-month visa to \$1,000.³⁴ The dispute eventually ended following an agreement between the two countries and Etihad now has a codeshare agreement with Air Canada that allows it access new traffic for its routes.

The reciprocal relationship between SOEs and UAE foreign policy has led Etihad's to take minority stakes in European airlines. According to one European consul in Dubai this has enhanced the UAE's influence in Europe both in the airline industry and on a political level: "They are keeping certain airlines alive and there is a certain soft power in that. Abu Dhabi is trying to pluralise their relationships so they are always looking for new opportunities".³⁵

In some cases these minority stakes appear to be based on a commercial strategy and Etihad's investments in Air Italia and Air Berlin have led to codeshare agreements which allows the airline to access new markets. The benefits of these stakes can also be observed in the ongoing dispute with US airlines. In 2015 Air Berlin and Alitalia withdrew from the Association of European Airlines due to their rejection of what they considered as the organisation's opposition to Gulf carriers.³⁶

In other cases these investments also have a political dimension and are an indicator of the personalised nature of policy in the UAE. Etihad's investment in Air Serbia in 2013 was partly the result of the relationship between Shaikh Mohammed Al Nahyan, the crown prince of Abu Dhabi and the Serbian Prime Minister Aleksandar Vucic. In reference to the deal, Vucic said in a media interview: "Shaikh Mohammed is my friend and I asked him to help".³⁷ The deal coincided with an upsurge in investment from UAE SOEs and funds. The Abu Dhabi state-owned fund Mubadala has signed agreements with the Serbian government for investments in the country. Other private companies that manage the investments of the Al Nahyan ruling family such as Abu Dhabi Capital Management have also invested in the country. Some analyses suggests that this investment is part of a political strategy to develop the UAE's influence in the Balkans and access Serbia's arms industry.³⁸

4.2 Developing countries

In contrast to investments in the West, in the developing world investment by the UAE's transport SOEs have led the state's foreign policy. UAE SOEs in developing countries are considered as a form of diplomatic representation. According to a manager of DP World, representatives of the company have access to officials at the highest level and the UAE foreign ministry considers this as an asset to the federal state. She said: "DP World's assets are considered to be UAE embassies where the country does not have representation".³⁹

An example of DP World's diplomatic weight is the role of the company in formulating policy on piracy in the Indian Ocean, a major concern for the shipping industry. Since 2011 DP World has convened an annual conference in conjunction with the UAE Ministry of Foreign Affairs that is aimed at tackling the problem of piracy. In 2014 speakers at the conference included the UAE foreign minister Abdullah bin Zayed Al Nahyan, the Somali foreign minister Abdirahman Duale Beyle and the head of the operations section of NATO Michel Soula.

³⁴ Freeze, "UAE Embassy to Charge Canadians Steep Visa Fees", *The Globe and Mail*, 28 Dec. 2010.

³⁵ Interview, Dubai, May 2015.

³⁶ Anon., "Etihad-Backed Air Berlin Quits European Airlines Group Over Gulf Row", *Arabian Business*, 21 Apr. 2015.

³⁷ Launey, "Why Gulf Airline Etihad Is Investing in the Balkans", *BBC News*, 15 Nov. 2013.

³⁸ Donaghy, "The UAE's Shadowy Dealings in Serbia", *Middle East Eye*, 15 Aug. 2014.

³⁹ Interview, Dubai, May 2015.

Another example of Emirati SOEs taking the lead in so-called emerging markets are their activities in the Kurdish Regional Government (KRG) area of Iraq, a semi-autonomous state. The UAE's airline SOEs have played a clear role in providing air connectivity to the statelet. The UAE's four airlines operate routes to the KRG's capital Erbil as well as and two Emirati cargo operators. The Emirates subsidiary Dnata, has the contract to manage the ground handling and cargo at the airport. Economically air travel is central to the KRG's development strategy and the image of stability and security associated with air connections is politically important. The importance of this airlink for the KRG could be observed in March 2015 when all Emirati carriers temporarily suspended their flights to Erbil due to security fears, undermining confidence in the region.⁴⁰

The opening of these routes has coincided with investments by other Emirati SOEs. Concomitant with the launch of routes by Emirati carriers to Erbil, there was a surge in UAE investment in the KRG and in 2014 it was estimated that the UAE was a substantial foreign investor in the region, with total investment of \$2.5 billion.⁴¹ In October 2013, Dubai government-owned Emaar announced that it would be investing \$3 billion in a large real estate project in Erbil.⁴² Other examples include the announcement in 2014 that Abu Dhabi's TAQA would invest \$1.2 billion into one of the KRG's oil blocks.⁴³ This investment has taken place amid a tightening of political ties between Erbil and Abu Dhabi. According to some reports, a condition of the UAE's planned sale of Mirage fighters to Iraq is that they be located in the KRG, possibly to protect the UAE's investments in the KRG.⁴⁴

Another example of the Emirates' logistics and transport SOEs advancing foreign policy is Dubai's investments in Djibouti. Starting in the early 2000s DP World's contract to manage the port of the Red Sea state acted as a bridgehead for the investments of other Dubai SOEs such as Emirates National Oil Company (ENOC) and Jebel Ali Free Zone Authority (JAFZA). Other investments included the construction of a \$400 million resort by Dubai-owned Nakheel in 2006 and the purchase of Djibouti's national carrier by Dubai investment fund Istithmar in 2007.⁴⁵ Interestingly, a factor that may have helped Dubai's SOEs obtain these contracts was the history of Abu Dhabi's aid transfers to the state and in the 1970s the Abu Dhabi Fund for Development gave Djibouti soft loans for investments in the port and airport.⁴⁶

The investments made by Dubai since 2000 created considerable leverage with the Djibouti government. As a result of Dubai's investments it is estimated that between 2004–8 Dubai entities created 2000 jobs, a substantial figure in a country where the estimated size of the workforce in 2002 was 282,000 people.⁴⁷ This influence allowed Dubai to push for the implementation of legal reforms that would allow free zones of a similar nature to those in Dubai.

⁴⁰ McAuley, "Businesses Hit as Emirates, Etihad and Flydubai Suspend Flights to Erbil", *The National*, 9 Mar. 2015.

⁴¹ Pironti, "Foreign Investment in Kurdistan at \$5.5 Billion; UAE Among Top Investors", *Rudaw*, 22 Jan. 2014.

⁴² Anon., "Kurdistan Prime Minister Unveils 'Downtown Erbil': A Luxurious Lifestyle Development by Emaar", *Emaar*, 27 Oct. 2013.

⁴³ Carvalho, "UAE's Taqa Plans \$1.2 Bln Investment in Kurdistan Oilfield", *Al Arabiya English*, 20 Jan. 2014.

⁴⁴ The source who was quoted in the report said that the UAE wanted these fighter located in: "Erbil because many UAE strategic interests are there with regards to oil and gas investments as well as others" [Lee, "UAE Offers Mirage Fighters to Iraq", *Iraq Business News*, 19 Jan. 2015].

⁴⁵ Chorin, *Articulating a "Dubai Model" of Development: The Case of Djibouti* (2010), p. 42.

⁴⁶ *Ibid.*, p. 29.

⁴⁷ *Ibid.*, p. 14.

The case of Dubai's investments in Djibouti also offers an insight into the lengths that the UAE's federal state is willing to go in order to protect the commercial interests of its emirates. In summer 2014, the Djibouti government announced that it was revoking its contract with DP World over allegations that the company had bribed a state official to gain a contract. The UAE state responded emphatically and in April 2015 the UAE closed its Djibouti embassy. Shortly afterwards it was announced that plans for a military base for a pan-GCC force would be located in Eritrea, the regional rival of Djibouti.

This case had far-reaching ramifications. According to one report the President of the UAE Shaikh Khalifa sought an apology from the Djibouti president for revoking the contract of DP World.⁴⁸ The dispute was reported to have even caused friction between the US and Djibouti after US Secretary of State John Kerry refused to intervene in the dispute on behalf of the Djibouti president Ismaïl Omar Guelleh. In response to this perceived snub, the Djiboutian president approved the opening of a Chinese military base in the country, already the location of French and US military bases.⁴⁹

5 Conclusion

This article has aimed to illustrate the UAE's status as a nexus state, of which a core part is the external activities of its transport and logistics SOEs. This status is a source of influence for the federal state and the importance of its facilities to foreign power will allow the UAE to maintain influence. This is important in a time when the paradigm of US military protection and strategic relevance based on oil reserves is under strain. The UAE's proximity to Africa and Asia may ensure its status as an offshore centre for corporate and military capital, labour and cargo, regardless of its origin.⁵⁰ This is indicated by the increasing numbers of Chinese and Indian businesses that are using the UAE in order to access other markets, such as in the Middle East and Africa.

The importance of the nexus state has been concomitant with a transformation in the country's foreign policy. In contrast to the depiction of the foreign policy as reactive, an examination of the travel and logistics SOEs reveals that the state is proactive and has the ability to leverage a number of its assets in order to achieve its aims. In some situations, such as in the case of relations with Djibouti or Canada, this has escalated to serious diplomatic disputes. In other cases investment by SOEs in developing markets have had diplomatic benefits and this process is supported by the federal state.

While competition between the seven emirates continues to be a factor in the country's politics, the commercial and political interests that are embedded in the nexus state mean that the level of coordination and cooperation is increasing. This is evident in the institutional management of the sector at the federal level and also the growing level of cross investment in the sector, which is no longer contained within the scale of individual emirates. Externally the cases that have been outlined here reveal the extent to which federal foreign policy is willing to go in order to protect the interests of emirates such as Dubai.

Research on the policies that define the relationship between SOEs and federal foreign policy is frustrated by the opaque nature of decision making in the UAE. One important issue is the potential for tensions between federal foreign policy and commercial interests of individual emirates and how such friction is resolved. There is little evidence of such tensions, although this is

⁴⁸ Anon., "Djibouti-UAE Diplomatic Crisis Brings Gulf States Closer to Eritrea", *Madote* (2015).

⁴⁹ Anon., "Diplomat Dust-Ups in Djibouti", *Africa Intelligence*, 19 Oct. 2015.

⁵⁰ Scott, "China's 'One Belt, One Road' Strategy Meets the UAE's Look East Policy", *The Jamestown Foundation*, 29 May 2015.

certainly an area that would benefit from further research. However, given that the companies discussed in this article are owned by the same individuals and families who formulate foreign policy, the potential for friction in the future seems minimal.

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 Journalist at international newspaper, Dubai, UAE 14 May 2015
 Employee of international bank, Dubai, UAE 17 May 2015
 Head of Dubai think tank, Dubai, UAE 18 May 2015
 Emirati academic, Dubai, UAE 19 May 2015
 European businessman, Dubai, UAE 20 May 2015

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