



The UAE's CEPA Strategy and Its Impact on GCC Economic Dynamics

Trade Agreements, Regional Competition,
and the Future of Gulf Economies

A Whitepaper by  investopia



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INTRODUCTION

Since 2021, the UAE has launched a series of bilateral trade, investment, and cooperation agreements, known as Comprehensive Economic Partnership Agreements (CEPAs), aimed at reducing its reliance on fossil fuels and strengthening long-term economic growth. The UAE has signed CEPAs with major economies, including India, Indonesia, Turkey, Israel, and Australia.

The CEPAs are designed to provide duty-free benefits on imported goods traded between the UAE and its CEPA partner countries, with select key products qualifying under the agreement. This initiative aims to strengthen the UAE's bilateral trade relationships with “like-minded nations,” enhancing global competitiveness, attracting foreign direct investment, drawing top international talent, and solidifying the country's position as a global hub for business, investment, and innovation.

By fostering bilateral agreements with key global markets, not only is the UAE's competitiveness bolstered, but the initiative also introduces new opportunities and challenges within the broader GCC economic landscape. The UAE's proactive approach has made it the first GCC nation to aggressively pursue such bilateral trade deals, setting a precedent for other Gulf economies. This has helped the country secure early advantages in global trade, making the UAE an attractive hub for logistics, manufacturing, and business innovation.

The implementation of CEPAs has sparked shifts in regional economic dynamics, intensifying competition among Gulf economies while also encouraging greater cooperation through interconnected trade networks. By focusing on eliminating trade barriers, enhancing foreign investment, and attracting world-class human capital, the UAE is positioning itself to lead the economic transformation of the region.

However, this ambitious strategy raises important questions about its broader impact on the region. The GCC was founded on the principle of economic integration, aiming to foster a single market with unified policies on trade, customs, and investments. The UAE's bilateral CEPAs may create competitive pressures among other GCC members, particularly those that rely on similar export industries. Differences in trade policies and market access could potentially complicate efforts to harmonize regional economic policies and affect intra-GCC trade relations.

While these developments could lead to short-term tensions, they may also incentivize GCC countries to collaborate more strategically by pooling resources, aligning their trade and investment policies, and negotiating collectively with global trade partners to maintain regional competitiveness.



THE UAE'S CEPA DRIVE: EXPANDING ECONOMIC INFLUENCE

The UAE Ministry of Economy has highlighted the CEPA model as a cornerstone of the country's strategy to drive long-term, sustainable economic growth and establish itself as a global business hub. The ministry estimates that CEPA agreements could increase bilateral trade with each partner nation by up to USD 100 billion within the next five years.

The CEPA signed between the UAE and India on February 18, 2022, was the first bilateral agreement under the UAE's CEPA program. It resulted in non-oil trade between the two countries increasing by 3.94%, rising from \$51.4 billion in 2022 to \$53.4 billion in 2023. It has played a pivotal role in enhancing trade relations, with overall bilateral trade rising from \$73 billion (April 2021 to March 2022) to \$84 billion (April 2022 to March 2023), reflecting a 16% year-on-year increase.

The UAE-Indonesia CEPA, signed on July 1, 2022, officially came into effect on September 1, 2023. The agreement aimed to boost annual bilateral trade to \$10 billion within five years by eliminating trade barriers across various goods and services, creating new opportunities for UAE exporters. It also has the potential to raise the total value of trade in services between the two countries to \$630 million by 2030.

The UAE-Turkey CEPA, which came into force in September 2023, is projected to increase non-oil bilateral trade to \$40 billion within five years of its implementation, with customs duties eliminated or reduced on 82% of goods.





One of the most recent agreements is the CEPA with Australia, signed in November 2024. This deal removes tariffs on over 99% of Australian exports to the UAE, including important agricultural products. It will promote collaboration between the two countries in areas such as sustainable agriculture, indigenous trade, climate change, labor rights, transparency, and anti-corruption efforts.

Since the program's launch over three years ago, the UAE has signed 24 CEPAs, affecting around 2.5 billion people globally. This initiative aims to increase the UAE's non-oil trade to \$1 trillion by 2031 and to double the nation's economy, surpassing \$800 billion by 2030.

In the first half of 2024, the UAE's foreign trade exceeded AED 1.395 trillion, marking an 11.2% rise compared to the same period in 2023. Over the longer term, trade growth reached 28.8%, 54.7%, and 66% compared to the corresponding periods in 2022, 2021, and 2019, respectively. These impressive figures highlight the pivotal role of CEPAs in advancing the UAE's trade objectives and economic transformation.

The CEPAs signed by the UAE extend beyond basic tariff reductions to include investment protection agreements to safeguard foreign capital, thus helping to attract international investors and global partners as well as protecting Emirati investments from global risks. The UAE, through its Ministry of Finance, has signed 105 bilateral agreements aimed at protecting and promoting investment with various countries worldwide.



The CEPAs also include e-commerce and digital trade provisions to foster fintech and online services. These provisions aim to create a more seamless, secure, and efficient digital trading environment by reducing barriers to cross-border digital transactions.

Through these agreements, the UAE seeks to enhance its global competitiveness by promoting digital infrastructure, encouraging investments in fintech innovation, and supporting the growth of digital payment solutions. Furthermore, the inclusion of e-commerce clauses facilitates greater access for UAE businesses to international markets, enabling small and medium enterprises (SMEs) to participate more actively in global trade through online platforms.

The CEPAs include rules-of-origin flexibility designed to support UAE-based manufacturers and exporters, making it easier for them to compete in global markets. Rules of origin are criteria used to determine the country of manufacture of a product, which in turn affects whether that product qualifies for preferential tariffs under a trade agreement. Flexible rules-of-origin provisions allow UAE-based businesses to benefit from lenient origin requirements that allow products to qualify for tariff reductions even if a portion of their components are imported. This flexibility reduces costs and improves market access for goods produced in the UAE.



GCC ECONOMIC INTEGRATION VS. TRADE FRAGMENTATION

For the UAE and other GCC countries, trade has been crucial not only in driving overall economic growth but also as a strategic instrument to diversify their economies away from reliance on hydrocarbons. To promote sustainable non-hydrocarbon growth and diversify financing sources, GCC countries have prioritized enhancing trade and financial integration. Central to these efforts are the establishment of the GCC Common Market and the integration of financial markets, which have become key policy objectives. Due to the limited size of domestic markets, an export-oriented approach is a crucial component of economic diversification strategies.

Several factors, including the impact of COVID-19, the conclusion of the Trump presidency, and a growing recognition of the limited gains from hawkish foreign policies, have prompted GCC countries to shift toward greater diplomacy and cooperation. Regional states are now prioritizing economic integration, investment agreements, and trade partnerships over confrontation. This shift is particularly evident in the post-2011 Arab Spring era, as nations increasingly focus on fostering stability and growth through interconnected economies and mutual development initiatives.

The UAE's bilateral CEPAs represent a shift from the GCC's traditional approach of negotiating trade deals collectively though. This has raised concerns about economic fragmentation within the region. The UAE's pursuit of individual CEPAs with major global economies, rather than negotiating as part of a unified GCC bloc, may create disparities in trade policies. These differences could lead to competitive tensions as other GCC countries might feel compelled to secure their own bilateral agreements to avoid being left behind. For instance, India and Oman have agreed to fast-track negotiations for the early signing of a bilateral economic partnership agreement. While this development strengthens bilateral trade ties, it also highlights the broader challenge faced by GCC countries: balancing economic integration within the bloc against the growing trend of individual trade agreements. Such agreements, if not aligned with regional goals, risk fragmenting trade policies and potentially undermining the GCC's efforts toward cohesive economic integration. Maintaining unity in trade strategies is crucial to enhancing the collective bargaining power and competitiveness of the GCC on the global stage.

In a move to strengthen regional supply chains and foster economic integration, Bahrain, the UAE, Egypt, and Jordan have agreed to collaborate on joint electric vehicle (EV) production, with a focus on serving local markets. However, initiatives like the UAE's accession to BRICS and its commitment to the development of the India-Middle East-Europe Economic Corridor highlight potential trade fragmentation within the GCC. These developments underscore the challenge of maintaining unified regional economic policies as individual member states pursue diverse global trade partnerships and economic alliances, which could either enhance or complicate the broader goal of GCC economic integration.



With the UAE gaining preferential access to markets under its CEPAs, GCC-based businesses outside the UAE may face unequal terms of trade. This could disrupt the balance of regional trade, particularly for countries reliant on similar export sectors like petrochemicals, metals, and agriculture.

Meanwhile, Saudi Arabia is actively pursuing its own trade and investment model, focused on localization and supply chain independence under Vision 2030. Mandating regional headquarters in Riyadh for international companies has created competition with Dubai as the leading regional business hub. Unlike the UAE, Saudi Arabia has focused on megaproject-driven economic transformation rather than aggressive external trade deals. While Saudi Arabia has launched major initiatives such as the futuristic smart city of Neom and the Red Sea project, the UAE continues to lead the region in business, tourism, and investment. According to the United Nations Conference on Trade and Development's (UNCTAD) World Investment Report 2024, the UAE attracted \$30.688 billion in foreign direct investment (FDI) in 2023, up from \$22.737 billion in 2022, positioning it as the second-largest FDI destination globally. However, Saudi Arabia is pursuing a counter-strategy to the UAE's CEPAs by enhancing its own investment climate, recording \$25.6 billion in FDI inflows in 2023—16% above official targets. This reflects Riyadh's efforts to compete with the UAE by diversifying its economy and positioning itself as a global business and trade hub.





INVESTMENT AND TRADE IMPLICATIONS FOR THE GCC

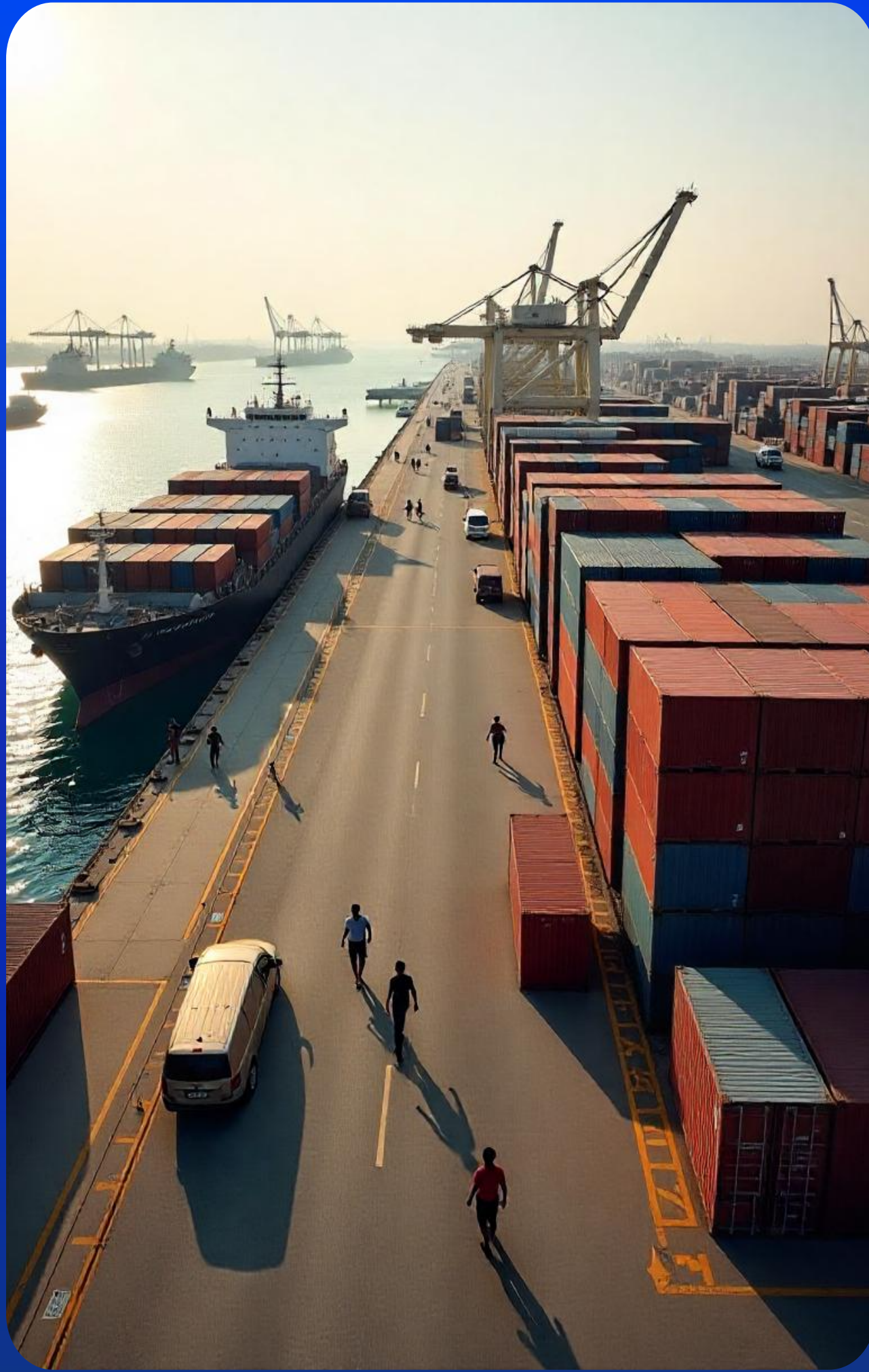
The UAE's CEPAs are reshaping the economic landscape of the GCC, with both opportunities and challenges for the region's trade and investment dynamics. CEPAs make the UAE more attractive to foreign investors by providing streamlined access to large markets under favorable terms. This could create opportunities for GCC businesses to form joint ventures or collaborate on large-scale projects that benefit from this expanded market access.

The UAE aims to finalize 26 CEPAs, having already secured agreements with India, Turkey, Indonesia, Cambodia, Georgia, South Korea, Chile, and Mauritius. Negotiations are ongoing with other nations, including the Philippines. These agreements are projected to boost the UAE's economy by approximately 2.6% by 2030.

The focus on CEPAs is reshaping the supply chains in the Gulf, with competition among ports in the GCC region intensifying, particularly in their efforts to establish themselves as key transshipment hubs and cargo processing/logistics centers. This rivalry is shaping the region's logistics landscape, as member states vie to attract greater trade volumes and investment through enhanced infrastructure, services, and strategic partnerships.

While Dubai's Jebel Ali Port remains a dominant transshipment hub, Saudi Arabia's Jeddah and Dammam ports are expanding to compete for Gulf trade routes.





The Jebel Ali Port plays a pivotal role in Dubai's transport and logistics sector, which accounted for 11.5% of the emirate's GDP in 2023, making it the second-largest economic contributor. In Q1 2024, the transport and storage sector grew by 5.6% year-on-year, following a 9.2% expansion in 2023. This rapid growth has made transport and storage a key driver of Dubai's overall GDP performance.

As part of the Dubai Economic Agenda (D33), the government aims to position the emirate among the world's top five global logistics hubs, with Jebel Ali Port serving as a cornerstone of this vision. The port not only directly supports the economy but also stimulates growth in non-oil trade and key sectors such as wholesale and retail trade (25.3% of GDP in 2023) and manufacturing (8.5%).

Within the GCC, this port's rising competitiveness highlights the reshaping of regional supply chains. As GCC ports compete to become dominant transshipment and logistics hubs, Dubai's investment in infrastructure and strategic positioning is intensifying the rivalry for trade volumes, logistics services, and regional influence over global supply chains.



LONG-TERM IMPLICATIONS FOR GULF TRADE AND ECONOMIC POLICY

The UAE's trade-first approach has intensified the competition with Saudi Arabia, particularly as both countries pursue distinct but overlapping strategies to diversify their economies away from oil.

In 2021, Saudi Arabia introduced restrictions on imports from other GCC member states, aiming to limit tariff-free market access for goods produced in economic free zones. These restrictions targeted products from companies with a workforce composed of more than 75% foreign nationals and industrial goods with less than 40% added value—many of which are manufactured within these free zones. Since the UAE hosts over 40 free zones and Emirati nationals account for just 10% of the country's population, many observers view these restrictions as being specifically targeted at the UAE.

Saudi Arabia may accelerate its own trade agreements to counterbalance the UAE's growing global trade network. Recent developments, such as the kingdom's negotiations with key markets like China and India, signal Riyadh's intention to bolster its role in global trade. This could include pursuing strategic free trade agreements (FTAs) or deepening ties through regional initiatives like BRICS and the Belt and Road Initiative (BRI).





While the UAE focuses on global trade liberalization, Saudi Arabia is doubling down on localizing industries through initiatives like Made in Saudi and its Local Content Enhancement Program. These policies incentivize companies to increase domestic manufacturing, innovation, and employment of Saudi nationals. Saudi Arabia could use these measures to attract businesses that prioritize long-term investments over short-term trade benefits.

As Saudi Arabia competes with the UAE for economic leadership, it may push for greater influence over GCC trade policies. This could involve advocating for regional harmonization of tariffs and trade rules to reduce the competitive advantage that UAE CEPAs provide. Alternatively, Riyadh could pursue policies that favor intra-GCC trade, strengthening supply chains and investment flows within the Gulf.

The UAE's CEPAs emphasize non-oil trade, supporting sectors like manufacturing, logistics, technology, and digital services. As this strategy gains traction, other GCC countries may adopt similar policies to reduce their reliance on hydrocarbon revenues. This could lead to structural changes in national economies, with greater emphasis on export-led growth and supply chain integration in industries such as fintech, renewable energy, and advanced manufacturing.

The UAE's extensive network of over 40 free zones plays a key role in its CEPA strategy, providing a business-friendly environment with tax incentives, streamlined regulations, and access to global markets. As the UAE attracts more investors through its CEPAs, other GCC nations may revise or expand their own free zone policies to remain competitive. They may also seek to create specialized zones for high-growth industries such as logistics, pharmaceuticals, and green technology.

One potential risk of the UAE's CEPAs is the fragmentation of market access within the GCC. With the UAE offering preferential terms to partner countries, businesses in non-CEPA GCC states may face disadvantages in export markets. This could lead to the creation of unequal trade opportunities within the bloc, challenging the cohesion of the GCC Common Market.





As each GCC country competes to attract investment, there may be a move toward sectoral specialization to differentiate their economies. For example, while the UAE focuses on logistics, tourism, and digital trade, Saudi Arabia may prioritize heavy industry and localized production, while Qatar focuses on energy technology and finance. This specialization could strengthen the region's collective economic profile if well-coordinated but could also create competitive overlaps without strategic alignment.

As the UAE accelerates trade liberalization through CEPAs, the GCC may face growing pressure to harmonize policies on tariffs, investment rules, and trade regulations. Without policy alignment, trade and investment fragmentation could increase, weakening the region's collective influence in global markets. Conversely, closer coordination could boost intra-GCC trade and make the region a more attractive unified market for investors.



CONCLUSION

The UAE's CEPAs have become a defining element of its economic transformation, enhancing its role as a global trade hub. These agreements not only diversify the UAE's economy but also position it as a leader in securing preferential access to major international markets. However, this strategy is reshaping economic dynamics within the GCC, presenting both opportunities and challenges.

To maximize the benefits of this shift, GCC countries must strike a balance between healthy competition and strategic cooperation, fostering a more unified and diversified economic bloc that can thrive in the global marketplace. By aligning their economic strategies and strengthening regional supply chains, GCC countries can enhance their collective competitiveness and ensure long-term sustainable growth. Ultimately, the balance between competition and cooperation within the GCC will shape the region's future economic landscape.





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