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**Article (Accepted version)
(Refereed)**

Original citation:

Bartlett, Will and Ker-Lindsay, James and Alexander, Kristian and Prelec, Tena (2017) *The United Arab Emirates as an emerging actor in the Western Balkans: the case of strategic investment in Serbia*. *Journal of Arabian Studies*, 7 (1). pp. 94-112. ISSN 2153-4764

DOI: [10.1080/21534764.2017.1322753](https://doi.org/10.1080/21534764.2017.1322753)

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This version available at: <http://eprints.lse.ac.uk/69204/>

Available in LSE Research Online: June 2017

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The United Arab Emirates as an Emerging Actor in the Western Balkans: The Case of Strategic Investment in Serbia

Will Bartlett, James Ker-Lindsay, Kristian Alexander & Tena Prelec

Abstract: In recent years, the United Arab Emirates has increased its engagement on the international stage. One area where it has been increasingly active is the Western Balkans. While its aid programmes were initially directed towards Albania, it has also started to invest in Bosnia and Herzegovina, Kosovo, Montenegro and Serbia. This paper focuses mainly on the last of these: UAE commercial investment in Serbia. As is shown, this activity has been focused on four key sectors: aviation, urban construction, military technology and agriculture, chosen to reflect different strategic imperatives. Whereas investments in agriculture and military technologies are part of a strategy of risk mitigation in respect of food security and military security, the investments in aviation and construction form part of a wider strategic policy of economic diversification in anticipation of the post-oil economy. Meanwhile, viewed from the Serbian perspective, these investments have not been without controversy because of their lack of transparency, allegations of corruption, and lack of public debate over plans to transform downtown Belgrade with a substantial new investment in urban regeneration. Serbia's willingness to host strategic investment from the UAE is also surprising because of UAE support for Kosovo and claims that it has come with questionable political demands. Nevertheless, there is little doubt that UAE investments are a welcome boost to an ailing and crisis ridden economy.

Keywords: United Arab Emirates, Foreign Direct Investment, Serbia, Kosovo

1 Introduction

In recent years, considerable attention has been paid to the fundamental transformation that is taking place in the foreign policy of the United Arab Emirates (UAE). Once regionally focused, the country has become increasingly global in its outlook. A key part of this radical change in its international engagement has been the

growing use of foreign direct investment to achieve key foreign policy and security goals.

One country where UAE investments have had a profound effect is Serbia. Following its purchase by Etihad, the Air Serbia airline has become a leading regional carrier, cementing Belgrade's position as a regional transport hub. Meanwhile, a UAE-funded project to transform Belgrade's dilapidated riverfront has the potential to radically transform the city. The UAE has also invested heavily in both agriculture and the defence industry. These projects have raised many questions and concerns. Observers have been surprised, if not rather confused, by the extent to which the UAE has shown an interest in Serbia. At the same time, there are questions as to why Serbia should have sought to build a strong relationship with a country that has taken such a firm stance in favour of the recognition of Kosovo, which unilaterally seceded from Serbia in February 2008. Additionally, reports have emerged that there are further politically sensitive aspects to the relationship.

The article explores the underlying rationale behind the relationship that has developed between the UAE and Serbia. In doing so, it not only contributes to a better understanding of the foreign policy aims and activities of the UAE in Serbia, but also explains why Serbia has been willing to engage with the UAE. To start with, the article explores the UAEs foreign policy motives in relation to aid and investment around the world and investigates the political, economic and geo-strategic motivations for the growing involvement of UAE in the Western Balkans. It maps the flows of UAE aid and commercial investment in the Balkans and sets this against an exploration of the nature, aims and effects of development aid and commercial investment from the Gulf Cooperation Council (GCC) countries, which provides the wider context for the paper. Following on from this, the article investigates the commercial investment of UAE in Serbia, focusing on the sectors of aviation, urban construction, military technology, and agriculture. The next section examines the political differences between the two countries over Kosovo and the reasons why Serbia changed its position and became willing to receive inflows of commercial investment from the UAE. Finally, the article concludes with an analysis how far these investment flows have met the aims expressed by the two sides and draws together some conclusions for the future development of UAE foreign policy and involvement in the Balkans as a whole.

2 United Arab Emirates' foreign policy motives

During the time of the late founding father and first president, Shaikh Zayed Bin Sultan Al Nahyan, the foreign policy of the UAE was predominantly “idealistic” in its orientation and centred on the Arab-world.¹ Essentially, the focus was on preserving the country’s sovereignty and newly won independence.² Since 2004, with the passing of Sheikh Zayed, and the emergence of Sheikh Khalifa Bin Zayed Al Nahyan, the UAE has gradually pursued a more global foreign policy. This has partly been the result of the emergence of new foreign policy elites in the UAE, while strategic and economic considerations have also had a role to play as elaborated further below.³ Indeed, the younger cohort is mainly tied to a realist school of foreign policy that emphasises economics and the balance of power as the main tenets of contemporary foreign policy. Benefitting from a modern and international education, the focus of

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Authors’ note: The research for this article was carried out within a project on “Foreign Policies of the United Arab Emirates in the Western Balkans” within a research programme on “Mapping Foreign Policy in the GCC: Resource, Recipients and Regional Effects” funded by the Middle East Centre at the LSE led by Dr. Karen Young. We are grateful to the Middle East Centre for funding the research. Previous versions of the article were presented a project workshop of the Middle East Centre on 7-8 October 2015 July 2015 and at a panel on “GCC Economic Statecraft” at the Arab Gulf States Institute in Washington DC on 14 October 2015. We are grateful for comments received at these events. Any errors or omissions are entirely our own responsibility.

¹ Rugh, “The Foreign Policy of the United Arab Emirates”, *Middle East Journal*, 50 (1996), pp. 57-70.

² Hellyer, “The Evolution of UAE Foreign Policy”, in *The United Arab Emirates: A New Perspective* eds Al-Ahed and Hellyer (2001), pp.161-178.

³ Heard-Bey, “The United Arab Emirates: Statehood and Nation-Building in a Traditional Society”, *Middle East Journal*, 59 (2009), pp. 357-375.

this next generation is to defend the country's vast global investments. This has in turn led to a more confident and assertive foreign policy orientation,⁴ but one based on pragmatism that avoids, "rushed and impulsive decisions".⁵

A central figure in this process has been Sheikh Mohammed Bin Zayed Al-Nahyan, the Crown Prince of Abu Dhabi and younger brother of Khalifa.⁶ Mohammed wields considerable power as special advisor to the President of the UAE and in his roles as the deputy supreme commander of the UAE Armed Forces and the head of Mubadala, the main investment vehicle of the government of Abu Dhabi. His role is particularly important inasmuch as while there are a range of actors and decision makers who help to shape the foreign policy process, the Office of the President of the UAE is the formal decision-making centre. It is believed to implement and reflect a common understanding of broader networks and concerns, such as the Supreme Council of the Federation, a governmental body made up of the leaders of all seven Emirates, but is said to be strongly influenced by the rulers of Dubai and Abu Dhabi, the two biggest Emirates.⁷ The Ministry of Foreign Affairs has some latitude in routine affairs. However, its influence, through the office of the Foreign Minister, is relatively minor. The Foreign Minister cannot make decisions on his own. Rather, he beholden to the President.⁸

⁴ Almezaini, *The UAE and Foreign Policy: Foreign Aid, Identities, and Interests* (2012)

⁵ Hellyer, "The Evolution of UAE Foreign Policy", p.164.

⁶ He has been described as an energetic and charismatic figure who had even at one point been tipped to succeed his father, see: Davidson, "After Sheikh Zayed: The Politics of Succession in Abu Dhabi and the UAE", *Middle East Policy*, 13 (2006), pp. 42-59.

⁷ The federal system plays a vital role in various decision-making processes, although each emirate has its own autonomy.

⁸ Al-Mashat, "Politics of Constructive Engagement: The Foreign Policy of the United Arab Emirates", in *The Foreign Policies of Arab States: The Challenge of Globalization*, eds Korany and Dessouki. (2008), p. 462.

Generally speaking, small states have been considered fairly irrelevant in terms of influence and the ability to project power in the international arena.⁹ However, the UAE, along with another Gulf state, Qatar, has demonstrated that small states have acquired a significant soft power capability that allows them to challenge the mainstream understanding of power in an interconnected world.¹⁰ This has been facilitated by several factors. For a start, oil and gas have consolidated the position of the UAE as the second biggest economy in the Arab world. The income generated by energy – predominantly from the largest and most resource-abundant Emirate, Abu Dhabi – has been crucial. Secondly, the UAE has also benefited from the decline of traditional Middle Eastern powers, such as Egypt, Syria, Iraq and Iran, which has seen a resulting rise in both the affluence and influence of the countries of the GCC.¹¹ This has enabled the UAE to step into the ensuing vacuum and make its own presence felt. Thirdly, the UAE has benefited from an advantageous geographic position between West and East. It enjoys proximity to many of the world’s expanding markets, has established a reputation as a politically stable and investor-friendly country in an otherwise volatile region and is a vital transit point for the world’s crude oil via the Strait of Hormuz.¹²

At the same time, the UAE has benefited from political, economic and military stability. While the country is situated in a volatile region, it has succeeded in fending off various internal and external security threats.¹³ Given that the UAE’s defence capabilities are insufficient to counter regional threats, it has relied primarily on a Western security umbrella for protection. Port Jebel Ali is the US Navy’s most

⁹ Cooper and Shaw (eds) *The Diplomacies of Small States: Between Vulnerabilities and Resilience* (2007)

¹⁰ Ulrichsen, “*Small States with a Big Role: Qatar and the United Arab Emirates in the Wake of the Arab Spring*”, Discussion Paper, (Durham University: HH Sheikh Nasser Al-Sabah Programme, 2012), pp.8-10.

¹¹ Kamrava, *Qatar: Small State, Big Politics* (2013), p. 2.

¹² Al-Mashat, “Politics of Constructive Engagement”, p. 459.

¹³ Forstenlechner, Rutledge and Alnualmi, “The UAE, the “Arab Spring” and Different Types of Dissent”, *Middle East Policy*, XIX (2012), pp. 54-67 and Davidson “Dubai and the United Arab Emirates: Security Threats”, *British Journal of Middle Eastern Studies*, 36 (2009), pp. 431-447

active liberty port and serves (along with Port Rashid) as a major transit hub for US military goods. The airbase in Al-Dhafra houses about 100 US military personnel working for the US Air Force and the CIA.¹⁴ The UAE has also emerged as major customer for US and European arms suppliers. Although the UAE has begun manufacturing some of its own military equipment, it is still strongly committed to buying custom made military equipment from western arms companies.¹⁵ In addition to this, the UAE has sought to maintain its territorial integrity and sovereignty through a deep involvement in the international system with active membership and participation in international agencies and organisations. The UAE has joined most UN organisations and affiliates, as well as regional Arab and Islamic organisations such as the Organization of the Islamic Conference and the GCC. More recently, the UAE has also taken part in international peacekeeping and humanitarian interventions in order to maintain regional security, but also to signal the country's sense of international responsibility. In doing so, "the UAE is thus presenting itself as an ethical actor, a reliable ally which (unlike other Arab countries) is playing its part in the fight against terrorism and in ensuring regional stability."¹⁶

The UAE has, however, faced international criticism from human rights organizations concerning the human rights situation of laborers working in the construction industry. Several private companies hired to complete government projects have been accused, and in several cases found guilty, of contractual deception and ill treatment of workers. In addition, the UAE government has shut down various think tanks, such as the Konrad Adenauer Foundation and the Gulf Research Center, accusing them of meddling in its internal affairs and revoking their licenses to operate in the country. According to Human Rights Watch, the government has imposed several restrictions on the freedom of speech and assembly. For example, Article 28 of the law stipulates the punishment of imprisonment and large fines for anyone who uses information technology to incite actions that

¹⁴ Davidson, *Dubai: The Vulnerability of Success* (2009), p. 270.

¹⁵ Koch, "Close Allies, Ambivalent Partners: The Role of the UAE in US Gulf Policy", in *Handbook of US-Middle East Relations: Formative Factors and Regional Perspectives*, ed Looney (2009) pp. 377-390.

¹⁶ Carvalho Pinto, "From 'Follower' to 'Role Model': The Transformation to the UAE's International Self-Image", *Journal of Arabian Studies*, 4 (2014), p.240.

endangers state security or infringes on the public order. Despite these criticisms, the UAE has successfully promoted itself as model of an economically prosperous and politically stable society.

Yet, the UAE faces a string of emerging economic and social difficulties including falling oil prices and high youth unemployment. The federal government has been concerned about the impact these problems will have on the government budget and on public sector spending. It has reacted by imposing spending cuts, taxation, and cancelling some current government projects. Led by the emirates of Abu Dhabi and Dubai, the UAE has also sought to forge a diversified economy. Laws have been enacted to protect and expand foreign direct investment and relax sponsorship rules, especially through the creation of so-called economic free zones in which companies do not have to adhere to federal law. This image is further strengthened by the fact that it has three major airports, two international airlines and two major ports. At the same time, the UAE has also branded itself by emphasising luxury tourism and its supportive infrastructural development. The country's reputation as a tax-free haven, its business-friendly environment, adoption of the latest technology and the pro-investment approach of the government have also helped to boost its economic growth.¹⁷ As a result, the UAE is now seen as a safe destination for foreign investments and a significant proportion of GNP now comes from non-oil sectors.¹⁸

This growing economic strength has also led to greater international engagement. This has been seen in several ways. It is well known that countries often use aid as a foreign policy instrument. The UAE is no exception. Foreign aid has become a hallmark of its foreign policy. Since the inception of its aid programme, in 1971, the UAE has gained good relations with many countries. Through official channels like the Abu Dhabi Fund for Development (ADFD), the UAE Red Crescent Authority, the Zayed Charitable Foundation and numerous other entities, the UAE is a leading foreign aid donor at regional and international levels.¹⁹ More recently, the Office for the Coordination of Foreign Aid was established in 2008 to pursue an

¹⁷ Elsheshtawy, *Dubai: Behind the Urban Spectacle* (2010), pp. 249-256.

¹⁸ Hvidt, "The Dubai Model: An Outline of Key Development-Process Elements in Dubai", *International Journal of Middle East Studies*, 41 (2009), p.398.

¹⁹ Davidson, *Abu Dhabi: Oil and Beyond* (2011).

integrated sustainable approach to provision of aid. It was subsequently merged with the Ministry of International Cooperation and Development, which was officially mandated to propose foreign aid policies, raise the profile of the UAE as a major donor, and support the foreign aid decision-making process. The stated philosophy behind the provision of aid is two-fold: first, it is dictated by an Islamic belief that helping those in need is a primary duty; and second, that part of the country's wealth from oil and gas should be devoted to assisting less fortunate countries and individuals.²⁰ However, while religion is an important motive for providing assistance to countries with predominantly Muslim populations, it is not the sole driving force. Other factors such as rewarding allies in military conflicts or building strategic alliances also play a role. More to the point, foreign aid also supports commercial interests by encouraging recipients to open their doors to investments.²¹

It is this last factor that is now gaining greater significance. Like other GCC states, the UAE has steadily increased its foreign direct investments (FDI) around the globe. The aim has been to channel surplus oil revenues into long-term foreign investments through a small number of state owned entities or state-backed private companies.²² The growth of outward FDI began in 2000 and has continued at a rapid pace, averaging US\$3 billion per annum in recent years. By 2015 the total stock of UAE investments abroad reached US\$63 billion. These investments reflect a desire to minimise the effects of oil price fluctuations. International investments through sovereign wealth funds are aimed at seeking higher returns, while creating a financial reservoir of wealth for future generations in addition to helping the growth of domestic industries.²³

Importantly, however, the investments that have been made have been aligned to the specificities of the UAE economy as a “rentier state”, in which economic

²⁰ United Arab Emirates Yearbook, (2009), p.46.

²¹ Almezaini, *The UAE and Foreign Policy: Foreign Aid, Identities, and Interests* (2012), pp.102-113.

²² Davidson, “The United Arab Emirates”, in *Power and Politics in the Persian Gulf Monarchies*, ed. Davidson (2011), pp. 7-30.

²³ Koch, “Economics Trumps Politics in the United Arab Emirates”, in *Political Change in the Arab Gulf States: Stuck in Transition*, ed. Tetreault et al., (2011), p.168.

diversification supports the political, economic and social structures that have developed during the transition from a pre-industrial economy to an oil and service economy, by-passing the intermediary stage of industrialisation.²⁴ Thus, the sectors into which the economic diversification strategy has been directed have been in services such as transport and construction and in key import sectors such as food and armaments. The striking absence in this strategy has been a diversification into industrial activity, especially that related to small and medium scale industries, which would potentially form the basis of a new middle class that might be capable of challenging the entrenched power of the tribal elites. Even where the UAE economy has ventured into some elements of an industrial economy, such as the arms industry, this has been on the basis of state sponsored production under the close control of the Ministry of Defence. As a result, close relationships have been developed with state controlled armaments industries in other countries.

3 The United Arab Emirates in the Balkans

One geographic area that has seen an increase in UAE assistance and outward FDI has been the Western Balkans. The initial steps could be seen over twenty years ago when the UAE provided significant financial contributions to facilitate post-conflict reconstruction in Bosnia.²⁵ Thereafter, at the time of the 1999 Kosovo crisis, the UAE provided large amounts of aid to the Kosovo Albanian community. Since then, the UAE's interest has expanded significantly in the region. The flow of official development assistance in the form of grants and concessional loans from the UAE to

²⁴ The concept of the “rentier state” has been applied to the Gulf States by Althani, *The Arab Spring & the Gulf States: Time to Embrace Change* (2012). This follows the development of the concept by following the concept developed by Beblawi, “The Rentier State in the Arab World”, in *The Rentier State*, eds Beblawi and Luciani (1987).

²⁵ Rugh, *Diplomacy and Defense Policy of the United Arab Emirates* (2002). Sheikh Zayed bin Sultan Al-Nahyan had been vocal in defending the cause of the Bosnian Muslims at international fora, including the UN, since the beginning of the Yugoslav conflict.

the Balkans amounted to US\$61 million from 2009 to 2013.²⁶ Interestingly, most of this has been focused on Albania, and to a lesser extent Montenegro, mostly in the form of grants.²⁷ The Abu Dhabi Fund for Development (ADFD) provided a €36.7m concessionary loan to Albania for the construction of the Tirana-Elbasan road project, of which €13.9m was disbursed in 2012. The UAE has also funded the €16m Sheik Zayed airport in Kukes. The UAE is also the second largest non-EU donor to The Former Yugoslav Republic of Macedonia, just behind the USA in the size of donations of official aid.²⁸

Meanwhile, the Gulf States including the UAE have also been increasing their development aid to Serbia, the largest country in the Western Balkans. In December 2012, the Kuwait Fund for Arab Economic Development provided a €25 million loan to the government of Serbia to continue reconstruction of the Prokop train station to take international traffic, replacing the central Belgrade railway station and freeing up

²⁶ Although this is rather trivial in comparison to the US\$3 billion annual outward private investment made by UAE companies and wealth funds around the world, its significance should be seen in its effectiveness in building diplomatic and business alliances and paving the way for larger commercial investments.

²⁷ MICAD, *United Arab Emirates Foreign Aid 2012*, (2012). UAE officials have described Montenegro as their “gateway to the Balkans” [interview with Hafsa Al-Ulama (UAE Ambassador in Montenegro), Podgorica, September 2015]. Podgorica was the site of the first Emirati embassy in the Western Balkans in 2012. The factors that have attracted UAE capital to Montenegro are its land resources and the beauty of its coastline. In June 2015, Mohammed Al Suwaidi, director general of the Abu Dhabi Fund for Development, and Petar Ivanović, Montenegro’s Minister of Agriculture and Rural Development, signed a \$50 million loan agreement on favourable terms (repayment over 17 years with a grace period of four years at an interest rate of 2.5 per cent). Emirati actors claim that a long-term perspective drives their investments, in expectation of Montenegro’s future EU membership [interview with Ambassador Hafsa Al-Ulama, Podgorica, September 2015].

²⁸ Bartlett, Kollias, Mijačić and Ahmetbasić, *The Political Economy of Donor Interventions in the Western Balkans and Turkey: Mapping and the Potential for Stronger Synergies*, Final Report on a Study for DG Enlargement, Brussels: European Commission (2015).

land in the city centre for urban redevelopment.²⁹ The loan was provided at a concessionary interest rate of 3% per annum to be repaid over a period of 18 years with a grace period of 4 years. Tender documentation was ready in 2013, and the invitation to tender was published in January 2014.³⁰ The Serbian company Energoprojekt won the tender for the construction of 10 platforms with a capacity of 40,000 passengers per day. The European Bank for Reconstruction and Development provided a further loan for this project. Meanwhile, in March 2014, the Department of Finance of Abu Dhabi signed a loan agreement with Serbia for US\$1 billion (€750m) to support the Serbian economy and underpin new investment opportunities for the two countries.³¹

While aid has been an important feature of Gulf States' involvement in the Western Balkans, there has also been a growth in commercial investments. In some cases, these have followed directly on the back of foreign aid. For example, in Montenegro, the Abu Dhabi Financial Group (ADFG) has developed the 1 million square foot Capital Plaza in the centre of Podgorica, the capital city, comprising a retail, business, hospitality and residential space.³² Meanwhile, ADFG has accumulated a land bank of 600,000 square metres in Serbia, Bulgaria and Montenegro and plans to carry out further projects worth €500 million over the next five years in these South East European countries, including housing projects on the Montenegro coastal area.³³ At the same time, Buroj Property Development of Dubai has announced plans to invest €4.3 billion over the next eight years to build a luxury

²⁹ Anon., "Kuwait invests €25 million in Prokop", Serbian Railways JSC, 10 December 2012.

³⁰ Anon., "Director General Dragoljub Simonović: Invitation to tender for construction of Prokop was sent today, financing from Kuwait loan", Serbian Railways JSC, 15 January 2014

³¹ Barnard, "Abu Dhabi signs \$1bn loan agreement with Serbia", *The National*, 6 Mar. 2014

³² Barnard, "Abu Dhabi investors expand in Montenegro as Capital Plaza opens", *The National*, 27 September 2015

³³ ADFG operates has various operating units including Abu Dhabi Capital Management, Spadille, Integrated Capital, and Qannas Investment.

tourist resort near Sarajevo, in Bosnia and Herzegovina³⁴. The development will cover 1.3 million square metres of land and will comprise thousands of housing units, hotels and the largest shopping centre in the country, creating 10,000 jobs and contributing to the development of the Bosnian tourism industry.

4 United Arab Emirates' commercial investments in Serbia

Nowhere has this expansion in commercial investments in the Western Balkans been seen more obviously than in Serbia. While Serbia may not have been at the forefront of aid, UAE investments have developed rapidly in the country. Thus far, this has been focused on four specific areas, namely aviation, urban construction, military technology and agriculture.

4.1 Air Serbia

The UAE's state-owned national carrier Etihad has been busy investing in failing foreign airlines to expand its strategic partners and network of destinations. By 2014, the Etihad Group had acquired minority equity stakes in Air Seychelles, Air Berlin, Virgin Australia, Aer Lingus, Jet Airways, Alitalia and Darwin Airline. The strategy has been to create a global network of connecting flights, with Abu Dhabi International Airport as the hub. The airline has now become one of a small group of "superconnector" airlines that are making significant competitive inroads into the traditional national carriers.³⁵ In 2014, the partner airlines delivered more than 3.5 million passengers to Etihad flights.³⁶

In August 2013, Etihad acquired a 49% stake in the Serbian national carrier *JAT*, adding the airline to its group of equity partners. Etihad has restructured the airline under a five-year management contract with the new name of *Air Serbia*. The investment has proved to be a great success. In 2014, the first full year of operation,

³⁴ Reuters, "Dubai Developer to Build Dh17bn Tourist Resort in Bosnia", *The National*, 11 Oct. 2015.

³⁵ Anon., "Super-connecting the world", *The Economist*, 25 Apr. 2015. Other super-connector airlines are Emirates and Qatar Airways. Together with Turkish Airlines, they have combined fleet of 700 aircraft with 900 more on order.

³⁶ El Gazzar, "Etihad Expects Passenger Volume to be 20% Higher This Year", *The National*, 5 Feb. 2015.

Air Serbia recorded a net profit of €2.7 million with revenues of €262 million, (an increase of 87% year-on-year) and carried 2.3 million passengers (an increase of 68%).³⁷ This success has reversed a €73 million loss made by JAT in 2013, and has turned the state-owned Belgrade Airport into one of the fastest growing airports in Europe with passenger numbers growing by 34% in 2014.³⁸ The success of *Air Serbia* has continued into 2015 with revenues in both passenger and cargo divisions increasing rapidly. The company now employs 2,300 people. However, working conditions for employees might have deteriorated over issues such as working time and other aspects of industrial relations in comparison with the conditions enjoyed by staff employed by *JAT*.

4.2 Investments in the arms industry

The second major area of investment has been in the Serbian arms industry. Within former Yugoslavia, Serbia developed a significant and sophisticated arms industry that supplied the large Yugoslav armed forces and exported its products, including tanks and jet fighters, around the world. Yugoslavia developed significant trade links with the Gulf States under the umbrella of the Non-Aligned Movement of developing countries that Yugoslavia helped to found. In 1991, for example, the industry exported 149 M-84 tanks to Kuwait. However, the industry was badly damaged during the NATO bombing that took place in 1999. Since then, it has recovered and is now a surprisingly important part of the Serbian economy. Sales have been growing at a rate of 30% since 2002. By 2008, military exports were worth US\$200 million, but between 2009 and 2011 exports of arms and military equipment were valued at

³⁷ Anon., “Belgrade Airport, with resurgent *Air Serbia*, challenges the hub order in Central/Southeast Europe”, CAPA Centre for Aviation, 18 March 2015. Following the opening of a new passenger terminal, in 2015, the airport is expected to have a capacity to handle 30 million passengers annually. In 2014 Etihad added 11 aircraft to its fleet, and 10 new destinations including Medina, Los Angeles, Zurich, Rome and Perth. In 2015 the airline expects to carry 18 million passengers across its network.

³⁸ Concerns have been raised that the profitability of the airline is underpinned by subsidies from the Serbian government, and that the lack of transparency over the financial arrangements of the joint venture obscures the extent of the subsidies involved (Brkić, “The Etihad case”, Pešćanik, 26/8/2014)

US\$1.2 billion. The sector employs 10,000 people and accounts for 4% of the Serbian economy.³⁹ The industry is managed under the umbrella of the Ministry Defence, with exports made exclusively through the state owned company *Yugoimport-SDPR*. Sixteen companies export military equipment and products through Yugoimport, forming a high technology segment of the Serbian economy. Since the industry is mostly state owned, the profits are ploughed back into the development of technological capacity. The industry has begun to produce increasingly sophisticated products including modernised versions of older designs for mobile howitzers, training planes, and fire control and anti-tank rocket systems. The arms industry is expected to become, “a driving force in the development of industrial production and the entire Serbian economy.”⁴⁰

In October 2013, the UAE strategic state investment company Mubadala Development signed an agreement with the Serbian government to identify areas for investment in aerospace manufacturing, telecoms, renewable energy and semiconductors.⁴¹ Numerous meetings have since taken place to develop defence cooperation between the two countries. In March 2014, Sheikh Abdullah bin Zayed Al Nahyan, Minister of Foreign Affairs of the UAE held a meeting with Nebojša Rodić, the Serbian Minister of Defence. The two agreed to intensify cooperation between the security and defence agencies.⁴² A defence cooperation agreement was signed in April 2014 to exchange information and technologies in the defence industry. The agreement encompassed training of UAE personnel including military police and Special Forces in the military academy in Serbia, and developing mid-

³⁹ Anon., “Serbia’s Arms Industry: Bombs Away”, *The Economist*, 6 Jan. 2011.

⁴⁰ Speech by then-Minister of Defense Aleksander Vučić at the opening of the “Partner 2013” International Fair of arms and military equipment in Belgrade, Republic of Serbia Ministry of Defence, 25 June 2013. In the same report, Jugoslav Petković, General Director of Yugoimport-SPDR stated, “we have made new partners, especially in the UAE, where we signed a very important contract for our country.”

⁴¹ Barnard, “Abu Dhabi signs \$1bn loan agreement with Serbia”, *The National*, 6 Mar. 2014.

⁴² Press release, “Intensified military cooperation with Emirates”, Ministry of Defence of the Republic of Serbia, 14 Mar. 2013.

range mortar systems.⁴³ A joint statement to establish a strategic partnership and an agreement on joint development and acquisition were signed between Yugoimport SDPR and Emirates Advanced Research & Technology Holding LLC - EARTH. The first product of this collaboration has been the joint development of the Advanced Light Attack System (ALAS), a land-based anti-ship cruise missile, under a €200 million contract that will pave the way for further cooperation between the two national industries. The UAE Navy first tested the missiles in late 2015. Although the ALAS export contract is tiny compared to the overall UAE defence budget, it is significant for the development of the Serbian military industrial complex. In a sign of the continuing nature of the collaboration between UAE and Serbia in the field of defence, Serbia has also signed MoUs with a number of UAE-based companies foreseeing the production of semiconductors and aircraft components.

4.3 Agriculture

A third area of significant investment has been agriculture. Due to its own limited food production capabilities, the UAE is highly dependent on food imports. Indeed, approximately 85% of its food supplies comes from abroad. Food security has therefore become a major foreign policy concern for the UAE. Domestic farming is limited due to the limits of available fresh water usage and the hot climate. Moreover, the Gulf States are also vulnerable to price fluctuations and a growing population. As a result, the UAE has sought to diversify its import sources and move away from previously monopolistic trade relationships. In common with other Gulf States, the UAE has been buying land in other countries with a more favourable climate such as Pakistan, Namibia, and Morocco in order to guarantee the supply of food under its own control. However, after having invested in countries that have weak governance structures and a poor rural infrastructure, the UAE is increasingly focused on countries with existing farming operations, such as New Zealand and Serbia, which

⁴³ Press release, “UAE partners with Serbia for military training”, Ministry of Defence of the Republic of Serbia, 26 Apr. 2014. The issue of military training capacity has become more important for UAE since the introduction of compulsory military service.

are seen as being more politically stable than African and Asian countries where UAE has made similar investments in the past.⁴⁴

The UAE owned Al Dahra Agricultural Company had already purchased cultivable land in Spain when, in 2012, it established a joint venture investment with the Serbian government to develop 9,000 hectares of farmland in the northern province of Vojvodina, to produce a range of crops, meat and dairy products.⁴⁵ The US\$400 million deal – which was signed by the Crown Prince of Abu Dhabi, Sheikh Mohammed bin Zayed, and the Serbian Prime Minister Aleksandar Vučić – came to fruition in March 2013 when Al Dahra purchased eight state owned agricultural companies and invested in a number of other agricultural ventures. Meanwhile, the UAE Development Fund simultaneously made a matching loan of US\$400 million to the Serbian government for agricultural development.⁴⁶ Looking ahead, the Abu Dhabi Development Fund plans to invest in food production in Serbia, and has signed an agreement with the Government of Serbia for long term agricultural development based on joint investment in state-owned farms with an aim to develop irrigation systems, machinery and agricultural infrastructure. In exchange, the Serbian Government guarantees food exports to the UAE to ensure her food security in the future.

4.4 Belgrade Waterfront

The fourth, and most recent, area of investment has been in construction. In January 2013, Arabtec Holding, a construction company that is partly owned by Abu Dhabi investment fund Aabar, announced it would open a regional headquarters in Belgrade,

⁴⁴ Algethami, “GCC nations target farmland in stable countries”, Gulf News, 9th November 2014. One report noted that, “this approach minimizes, the risk of conflict with local communities and reduces start-up times, problems encountered with earlier land-based investments”, Bailey and Willoughby, *Edible Oil: Food Security in the Gulf* (2013), p.15.

⁴⁵ Arnold, “Al Dahra to Develop Farmland in Serbia”, *The National*, 23 Oct. 2012.

⁴⁶ Anon., “Al Dahra to Invest \$400m in Serbian Agriculture”, *Reuters*, 28 Mar. 2013.

the capital of Serbia, to drive its expansion into the Balkans.⁴⁷ Aabar is a sovereign wealth fund established as a private joint stock company. It is wholly owned by the International Petroleum Investment Company, which is in turn wholly owned by the Government of UAE. Aabar's mandate is to invest in sectors with significant growth potential that fulfil the investment strategy of the government of Abu Dhabi.

However, the most important development was the decision by the UAE development company *Eagle Hills* to invest up to €3 billion in Serbia to build a business, residential and commercial area along the rundown riverfront of Belgrade. Eagle Hills is led by a team of executives from Emaar Properties PJSC, Dubai's largest real estate firm. Mohamed Alabbar, Emaar's chairman and board member of Eagle Hills,⁴⁸ signed the contract with the Serbian government to redevelop the 1.8 million square metres site on 26 April 2015.⁴⁹ The project includes a 140,000 square metre shopping mall that will be the largest in the Balkans; 5,700 homes to accommodate 14,000 people, eight hotels comprising a total of 2,200 rooms and a 200-metre high tower. A contract has been signed with Starwood Hotels and Resorts

⁴⁷ According to the Arabtec CEO Hasan Abdulla Ismaik: "We see great potential for Arabtec in the Balkan region. The opening of our regional headquarters in Belgrade provides us with a base from which to pursue available opportunities and achieve another milestone in our growth strategy. Commercial ties between the Balkan region, in particular with Serbia, and the United Arab Emirates, have been growing steadily in recent years. We are very pleased to extend national links into a new economic sector", Construction Week Online, 22 Jan. 2014

⁴⁸ In 2014, Eagle Hills acquired Al Malabar, a joint venture founded under the direction of the UAE Government by Abu Dhabi's largest developers (Aldar Properties, Al Qudra Real Estate, Sorouh Real Estate, Mubadala Development, Reem International and Al Reem Investments) with the aim to develop real estate projects in Europe and North Africa. The aim of Al Malabar had been to act as a vehicle for the Abu Dhabi government to develop big real estate schemes in parts of the world where it faces less competition from other developers.

⁴⁹ Barnard, "Mega-project for Abu Dhabi's Eagle Hills in Belgrade", *The National*, 26 Apr. 2015.

to run one of the hotels, the first W Hotel in South East Europe⁵⁰. Construction is planned over a period of 30 years, with at least half to be completed within 20 years. Eagle Hills owns 68% of the project, and the Serbian government owns the remaining 32%. Under the terms of the contract, the Serbian government granted Eagle Hills a 99-year lease on land for the regeneration scheme and in return, the investor has agreed to provide €150 million of cash investment and €150 million as a shareholder loan. The company will also lend the Serbian government another €130 million to buy packages of land in the development area which it does not already own and to clean up the area. Construction work is expected to create 20,000 jobs. The project has come under intense criticism from a local social movement known as “Ne davimo Beograd” (“Let’s not drown Belgrade”) on the grounds of architectural incompatibility with the surroundings, the non-transparent nature of the contract,⁵¹ the cost to the local government of site preparation, and the illegal demolition of buildings to make way for the development.⁵² Many observers have expressed concern about a project that they believe is aimed at the country’s wealthiest and will exclude the poor. As the organisers of a protest held on the day the construction project was inaugurated, 29 September 2015, stated, “the festive gathering of government officials and a false investor have laid down not the cornerstone of our economic development, but the coffin of public interest.”⁵³

⁵⁰ The W Hotel chain is a global brand with dozens of luxury business hotels in many countries, including USA and UAE. It plans to open the Belgrade hotel in Sept. 2019.

⁵¹ The Belgrade Waterfront contract was made public only on 20 Sept. 2015, nine days before the official start of the building works. The contract sets out that the Republic of Serbia “pledges to carry out all the changes in its laws and regulations... that are necessary or desirable to ensure the full legal execution of the stipulations in this contract”.

⁵² MacDowell “Belgrade Waterfront plan raises Serbian ire”, *Financial Times*, 12 Apr. 2016

⁵³ Reported on www.nedavimobeograd.wordpress.com [accessed 19 Oct. 2015]. Some scholars have lamented the trend of “investor urbanism”, where, “the interests of the investors become the main criteria in defining urban growth policies, disregarding any consequences this may have for quality of life and for the public

5 Serbia's motives for accepting United Arab Emirates' investments

What has made the developing relationship between the UAE and Serbia particularly interesting to outside observers has been the political context within which it has taken place. Most notably, the ties between the two countries have emerged despite the strong support that the UAE has given to Kosovo.

Without doubt, the single most important foreign policy issue for Serbia over the past decade and a half has been the Kosovo issue. Following the disintegration of Yugoslavia, in the mid-1990s, Serbia was left in control of a southern province that was predominantly inhabited by ethnic Albanians that sought full independence. Having been denied the right to statehood by the international community, an armed insurgency was launched. By late 1998, this had brought Kosovo to the brink of full-scale civil war and in early 1999, following a failed attempt to broker a peace deal, NATO conducted a 78-day bombing campaign against Serbia. At the end of this, Kosovo, according to the terms of UN Security Council Resolution 1244, was placed under UN administration. At the same time, a NATO led peacekeeping force (KFOR) was put on the ground to maintain peace and security. During this period, the UAE took an active role in Kosovo. Not only did contribute over 1,000 troops to KFOR,⁵⁴ it also played a significant role in humanitarian relief efforts by building an airport in the country and providing significant medical support to refugees. Indeed, Kosovo amounted to the UAE's largest ever humanitarian mission.⁵⁵

interest" [Cukic, Sekulic, Slavkovic, and Vilenica, "Report from Belgrade Waterfront", Eurozine, 6 May 2015, p.3]. For a full preliminary reading of the Belgrade Waterfront contract, see the opinions of lawyer Vladimir Gajić and law professor Momcilo Grubac:

<https://nedavimobeograd.files.wordpress.com/2015/09/analizaugovorazaprojekatbeogradnavodi.pdf>

⁵⁴ It appears the UAE saw this as an excellent training and learning opportunity, working with NATO in conditions very different from those in the UAE [Anon., "UAE to Keep Troops in Kosovo", *Reuters*, 14 Mar. 2000].

⁵⁵ Anon., "It's not enough for the UAE just to recognise Kosovo", *The National*, 26 Oct. 2008.

More controversially, the UAE has also become an important supporter of Kosovo's quest for statehood. By way of brief background, in 2005 the United Nations Security Council authorised a process to determine the final status of Kosovo. While Serbia was willing to accept far-reaching autonomy for the province, the Kosovo Albanian community insisted that it would accept nothing less than full independence. Despite two and a half years of talks, the sides were unable to reach an agreement.⁵⁶ Therefore, in February 2008, and acting with the support of the United States and many EU members, Kosovo unilaterally declared independence. Serbia strongly opposed this and immediately launched a major international campaign to stop it from being recognised.⁵⁷ At the same time, Belgrade announced its intention to seek an advisory opinion from the International Court of Justice on the legality of Kosovo's declaration of independence. In order to do so, it needed to secure a resolution in the UN General Assembly. In the end, 77 countries voted in favour of the resolution and six opposed. The UAE was one of 74 that countries that chose to abstain.⁵⁸

Serbia hoped that the decision to seek a legal opinion on Kosovo's independence would deter countries from recognising Kosovo until after the ICJ had produced its opinion. In this regard, it was actually broadly successful.⁵⁹ However, some countries went ahead and recognised anyway. The UAE was one of them. On 14 October 2008, less than a week after the General Assembly resolution, it became the 51st UN member state to recognise Kosovo. In announcing the decision, the UAE Foreign Ministry stated that the country had taken its decision on the basis of,

⁵⁶ For an account this process see, Ker-Lindsay, *Kosovo: The Path to Contested Statehood in the Balkans* (2009).

⁵⁷ Kulish, "Recasting Serbia's Image, Starting with a Fresh Face", *New York Times*, 15 Jan. 2010.

⁵⁸ Press Release, "Backing Request by Serbia, General Assembly Decides to Seek International Court of Justice Ruling on Legality of Kosovo's Independence", UN General Assembly, 8 Oct. 2008. All the other members of the GCC (Bahrain, Oman, Qatar, Saudi Arabia, Yemen) did so as well.

⁵⁹ Ker-Lindsay, *The Foreign Policy of Counter Secession: Preventing the Recognition of Contested States* (2012), p.159.

“support for peoples’ legitimate right to self-determination.”⁶⁰ Aside from the timing of the decision, what made the announcement a particular harsh blow for Serbia was the fact that the UAE was the first member of either the Arab League or the GCC to recognise Kosovo. As a result, the Kosovo issue placed diplomatic relations between the UAE and Serbia under considerable strain.⁶¹

Against this backdrop, the development of strong ties between Serbia and the UAE would seem unlikely. What changed matters was the election of a new government in Serbia in 2012 that quickly made it clear that it wished to look beyond the Kosovo issue. At the root of this policy reversal were two interrelated factors: Serbia’s dire economic situation and its renewed commitment to join the European Union (EU). The Serbian political leadership came to believe that the only long-term way to address Serbia’s severe economic woes was to secure membership of the EU. If this meant taking a pragmatic position over Kosovo, then so be it.⁶² This also opened the way for Serbia to take a more pragmatic view towards other potential investment partners.

⁶⁰ Anon., “UAE is first Arab state to recognize Kosovo”, *AFP*, 14 Oct. 2008. Since then all five other members of the GCC have recognised Kosovo: Saudi Arabia (20 Apr. 2009), Bahrain (19 May 2009), Qatar (4 Jan. 2011) and Kuwait (11 Oct. 2011). Oman is a curious case. Although some list it as having recognised Kosovo in Feb. 2011, this was not the case. Its letter to Kosovo did not explicitly state recognition. All it said was that, “[i]n acknowledging the decision of the International Court of Justice on the independence of Kosovo, the Government of the Sultanate of Oman will welcome Kosovo’s membership to the United Nations, as well as to other international and regional organizations it wishes to join” [Press Release, “Republic of Kosovo Established Diplomatic Relations with Sultanate of Oman”, Republic of Kosovo, Ministry of Foreign Affairs, 4 Feb. 2011]. In other words, it was a commitment to support its UN membership. This lack of recognition was confirmed by a Kosovo diplomat in Saudi Arabia the following year. However, it is now accepted that Kosovo has now been recognised by Oman.

⁶¹ Carroll, “UAE and Serbs seek to renew accords”, *The National*, 25 Nov. 2014

⁶² Economides and Ker-Lindsay, “‘Pre-Accession Europeanization’: The Case of Serbia and Kosovo”, *Journal of Common Market Studies*, 53, (2015), pp. 1027-1044.

In the case of the UAE, the emergence of the relationship appears to have come about almost entirely by accident. In an interview, Aleksandar Vučić, the current Prime Minister of Serbia, who was at the time the minister of defense and deputy prime minister, explained that he had met Prince Sheikh Mohammed bin Zayed Al Nahyan, the Crown Prince of Abu Dhabi, one day for lunch: “I was invited to a restaurant for a lunch and he was there, totally surprised that I didn’t ask for anything... We talked about history, geography, philosophy. He personally saw me off to my room and after that, our friendship started.”⁶³ Since then, not only has the economic relationship developed, but so has the political friendship. Certainly, the Serbian government is keen to emphasise the close personal ties that exist between the prime minister and the crown prince.⁶⁴ This was seen particularly strongly during the 2014 general elections, when Vučić “played up” his connections to the UAE, which he claimed would deliver billions of euros of investments to Serbia.⁶⁵ President Tomislav Nikolić has also spoken effusively about the UAE. In an interview, he stated how much he enjoyed visiting the UAE. As he explained, “It is a feeling that you are among people who are like you, who are similar to you”. Likewise, he has also underlined the economic benefits of the relationship.⁶⁶ Interestingly, and importantly, the development of close ties between Serbia and the UAE does not seem to have been affected by the fact that the key protagonist in the development of

⁶³ Filipovic and El Baltaji, “Serbia’s Vučić Promises U.A.E.’s Billions in Election Bid”, *Bloomberg*, 13 Mar. 2014

⁶⁴ For example, when Mr Vučić came to speak at the LSE in November 2014, he did so in the Sheikh Zayed Lecture Theatre, the most prestigious on the LSE campus. An official close to the prime minister told the authors about the amusement that this had caused when the Prime Minister had been told, and how much he looked forward to telling the Crown Prince.

⁶⁵ Filipovic and El Baltaji, “Serbia’s Vučić Promises U.A.E.’s Billions in Election Bid”, *Bloomberg*, 13 Mar. 2014 and Anon., “Serbia’s election: Vucic’s victory”, *The Economist*, 17 May 2014.

⁶⁶ Carroll, “UAE and Serbs seek to renew accords”, *The National*, 25 Nov. 2014

ties with Belgrade, Sheikh Mohammed bin Zayed, is also at the forefront of efforts to cement relations with Prishtina.⁶⁷

While it is clear that the relationship is based on economic synergies and mutual benefit and has been driven by good personal relations, many observers also believe that there is more to the burgeoning ties than is immediately apparent.⁶⁸ In some cases, the explanations are rather innocuous and relate to Serbia's wider strategic goals. For instance, some have suggested that it is part of an attempt by Belgrade to strengthen its EU accession hopes.⁶⁹ According to this line of thinking, by showing that it has other economic options, the Serbian Government may hope to persuade the EU to take a more urgent and active approach towards accession talks. Another credible hypothesis is that Belgrade is also trying to counteract growing

⁶⁷ In Apr. 2014, during a trip to Abu Dhabi, President Jahjaga of Kosovo presented the Order of Independence, Kosovo's highest honour to Sheikh Mohamed bin Zayed Al Nahyan. In receiving the award, the prince underlined the commitment the UAE has to Kosovo: "The late founding father Sheikh Zayed bin Sultan Al Nahyan was an originator of initiatives aimed at helping the people of Kosovo. U.A.E.'s assistance was not limited to the participation of its armed forces in the peacekeeping and stabilisation operations as he was keenly interested in launching vital developments and service projects to enable the people of Kosovo to tap their capabilities and launch the process of progress and development. Today, this approach continues under directives of the President His Highness Sheikh Khalifa bin Zayed Al Nahyan for establishing the best friendship and cooperation relations with the Republic of Kosovo." [Anon., "Kosovo's highest order for Mohamed", *Emirates 24/7 News*, 21 April 2014. Since then, interaction between Kosovo and the UAE has continued to grow. A year later, President Jahjaga was back, this time to sign a bilateral agreement enhancing cooperation across a range of fields, such as trade, industry, agriculture, transport, telecommunications, tourism and investments [Anon., "Kosovo, United Arab Emirates sign cooperation agreements", *RTK Live*, 27 April 2015].

⁶⁸ Filipovic and El Baltaji, "Serbia's Vučić Promises U.A.E.'s Billions in Election Bid", *Bloomberg*, 13 Mar. 2014. This has been echoed by others. For example, officials from embassy in Belgrade, when told that this article was being prepared noted that they would be interested to discover what was behind the relationship.

⁶⁹ *ibid.*

worries within the European Union that Serbia is too close to Russia. By building its relations with the UAE, Belgrade could well be attempting to show the EU that it has other important international partners apart from Moscow.⁷⁰ Neither of these claims would be outlandish, but it would seem that it is more a case that these are useful by-products of the relationship, rather than the underlying rationale for it. However, more conspiratorially, some have even gone as far as to suggest the UAE is in fact acting as a proxy for the US and Israel and that the deals with Serbia have really been about procuring arms for certain groups in the Middle East.⁷¹

Meanwhile, there have been claims that the relationship is being driven by corruption and political intrigue. Perhaps the most high profile allegations made so far centre on Etihad's investment in Air Serbia, which even led to a public spat between the prime minister and a leading regional news organisation; a dispute that even drew in the EU representative in Belgrade.⁷² Given the sums of money involved and the widespread corruption that exists across the region as a whole, such allegations are not entirely surprising. However, as yet, none of these claims has been substantiated. Meanwhile, claims have also surfaced that the relationship is proving beneficial for the UAE. In early 2015, a report emerged that the Serbian Government had fast tracked a passport for Mohammad Dahlan, a close advisor to the crown prince and a "key rival of the Palestinian President, Mahmoud Abbas", who was known to be instrumental in facilitating the links between Serbia and the UAE.⁷³ Perhaps more controversially, the UAE was directly implicated in Belgrade's decision to appoint Tony Blair, the former British Prime Minister, as an advisor – a decision that caused considerable confusion, if not consternation, given his role in leading the NATO

⁷⁰ This motivation was suggested by an official from the OSCE in Belgrade during an interview with the authors, May 2015

⁷¹ Donaghy, "The UAE's shadowy dealings in Serbia", *Middle East Eye*, 15 Aug. 2014.

⁷² BIRN, "Vučić Disputes BIRN Revelations on Etihad Contract", *Balkan Insight*, 15 August 2014 and Anon., "Serbia's Prime Minister Drags Investigative Journalists Through the Mud Over Corruption Article", *Global Voices*, 5 Feb. 2015.

⁷³ Angelovski, Ramusovic and Marzouk, "Serbia Quietly Grants Citizenship to Abbas Rival", *Balkan Insight*, 30 January 2015. It was also noted that he had been given Montenegrin citizenship.

bombing of Serbia in 1999. In this instance, the claim was that the UAE was directly bankrolling the consultancy.⁷⁴ While there is little, if any, hard and fast evidence to support all these claims, there is also more than a little nervousness about delving too deep in any of these stories.⁷⁵ Again, it would seem that, if these claims are true, they are again products of the relationship.

Whatever the underlying reasons for the development of the ties, what can be said for certain is that there is a considerable degree of concern and scepticism in Serbia about the scale and rationale for the investments. There is a sense in some quarters that the government is in fact selling the country to the highest bidder and placing the interests of investors above those of its own people.⁷⁶ As noted above, this has been particularly strongly felt in the case of the Belgrade Waterfront, especially given the concerns about the lack of transparency in the procedures and the willingness of the state to relax laws in order to accommodate investors. Meanwhile, for some the worries about the investments seem to be centred on more visceral fears. There have been concerns expressed about the implications of giving too much economic leverage to a Muslim country.⁷⁷ However, such concerns appear to have limited traction. There is certainly little evidence to suggest that they reflect wider concerns. Indeed, the fact that the relationship was used so obviously as a campaign tactic on the 2014 election suggest that the government is aware that for as long as the relationship between Serbia and the UAE delivers tangible economic benefits, the population at large is likely to accept it.

6 Conclusions

In line with its growing efforts to extend its international reach and diversify its economy, the UAE has become an increasingly significant actor in the Western Balkans. At first centred on aid and assistance to the region, in recent years it has become an increasingly important commercial investor. Nowhere has this been seen

⁷⁴ Angelovski, Ramusovic and Graham-Harrison, “Tony Blair advising Serbian government 16 years after bombing of Belgrade”, *The Guardian*, 18 Feb. 2015.

⁷⁵ Interview with a former Serbian diplomat, Mar. 2015.

⁷⁶ Robinson and Sekularac, “Serbia gives go-ahead to UAE development plan for Belgrade”, *Reuters*, 10 Apr. 2015.

⁷⁷ Interview with a Serbian official, Oct.r 2014.

more clearly than in Serbia, where the UAE is now a major strategic partner. This has been centred on four particular sectors: (i) transport (the airline industry) (ii) the construction sector (urban design and build), (iii) agriculture (land ownership and food processing) and (iv) the arms industry and military cooperation. Each of the sectors has its own own specific role in the strategic aims of the UAE to diversify its economy in preparation for the post-oil era. Interestingly, these investment areas have matched the general trend of the UAE to focus on productive services and on key export sectors. As for the reasons for the interest in Serbia, it is clear that notwithstanding the excellent personal relationship that has developed at the highest levels in both countries, the UAE sees Serbia as a far more reliable and secure investment destination than many of the other countries with which it has built commercial relations in recent years. The question is how much further this investment activity can grow. Notwithstanding the self-imposed limitations on sectors where the UAE tends to invest, do falling energy prices mean that the UAE will have less money to invest in future and will Serbia be an early victim of any decision to cut back?

From the Serbian side, UAE investments have come as an important boost at a time when the economy is facing serious difficulties. Despite the fact that the UAE has been a strong supporter of Kosovo's independence and was the first Arab state to recognise it, since 2012 Belgrade has taken a far more pragmatic position on the issue, focusing instead on EU accession and economic development. This opened the door for the UAE to enter the Serbian economy, a process that was clearly based on the close ties that developed between the Serbian Prime Minister, Aleksandar Vučić, and Crown Prince Mohammed. Of course, this has raised some eyebrows. Many feel that there must be more to it than the meeting of minds and strategic synergies. Aside from the wider geostrategic theories that have been mooted, this has led to accusations of corruption and political backscratching. At this stage, it seems unlikely that such claims will gain wider traction. The fact of the matter is that the investments from the UAE are simply too important for Serbia. However, the fact that they are so obviously based on personal relations does raise questions about the future. While there seems to be little likelihood that the government in Serbia will change in the next few years, is the relationship sufficiently robust in practical terms to see it continue in the event of a change in the political situation?

As things stand, the development of commercial relations between the UAE and Serbia has been a fascinating case study into UAE foreign policy. It has offered further proof of the way in which the country is seeking to expand its foreign policy horizons and also how it has tended to focus on specific areas. At the same time, it provides an interesting case study of how the UAE can build ties even with states with which it may have had difficult diplomatic relations in the past. As has been shown, at this stage the investments seem to be built on solid foundations, both economically and politically. However, looking ahead, there are clear questions as to how sustainable this relationship will be in the future.

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