Ethiopia and the United Arab Emirates Economic Diplomacy: Trajectory and Trends

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Abstract

This article examines the trajectory and trends of economic diplomacy between Ethiopia and the United Arab Emirates (UAE) from 2014 to 2023. The study employed concurrent mixed research approach, relying on both qualitative and quantitative data. The findings revealed that Ethiopia's economic diplomacy with the UAE transformed from closed treaty-based to flexible strategic partnership. The study also highlights that there is a steady growth in trade relations between the UAE and Ethiopia though the latter experienced negative trade balance. Although the investment is one sided only from the UAE, it is rapidly growing with annualized growth rate of 29.7% Moreover, Ethiopia is the leading recipient of the UAE aid in the Horn of Africa followed by Sudan and Somalia. Using the theory of state craft, the study concludes that the UAE uses trade incentives, investment and aid as tools of foreign policy influence while Ethiopia leverages the partnership for economic resilience and strategic autonomy

Article History
Received 26 July 2025
Accepted 02 Sept 2026
Published 30 Oct 2026

Keywords
Ethio-UAE, Economic Diplomacy, Trade, Investment and Aid

Introduction

Ethiopia's Prime Minister Abiy Ahmed, in his recent parliamentary speech, expressed the need to reassess Ethiopia's diplomatic engagement with the Gulf Cooperation Council Countries. He unequivocally stated, "Everything Ethiopia has previously pursued regarding the Middle East has been completely misguided" (Ethiopia News Agency, 2024). This signifies a shift in Ethiopian foreign policy as it had historically maintained a kind of guarded foreign policy towards Middle Eastern Arab countries for decades. Enhancing engagement with Middle Eastern states and multilateral organizations might help redress past foreign policy mistakes (Mohammedawel, 2025).

Cognizant of the predicaments in Ethiopian foreign policy, the new government has advocated since 2018 for a shift from formal treaty-based alliances to strategic partnerships with countries of the Middle East. This approach is perceived to enhance greater flexible arrangements for Ethiopia's diplomatic maneuver in the Horn and Middle East as well as with the likes of China, Europe and the US. Developing partnership with key actors in the region and beyond might help Ethiopia to manage its strategic risks and maintain its autonomy. Beyond this, strategic partnership serves to

prevent conflict, coordinate security matters, attract financial support, promote capacity building, knowledge exchange, and enhance Ethiopia's international profile and reputation. Aligning with this strategic orientation, the government has embraced a policy of multi-alignment in the Middle East, guided by his philosophy of *Medemer* (literally means synergy) which advocates for cooperation and soft power tactics over aggressive diplomatic measures, promoting peaceful coexistence, mutual partnerships, and fair distribution of advantages and responsibilities, as opposed to forceful diplomacy and coercion (Awol, 2019; Abiy, 2019).

Although Ethiopia's economic ties with countries of the Middle East dates back to time immemorial, the relationship between Ethiopia and wealthy oil states in the Gulf has been developed very recently especially with countries such as the United Arab Emirates (UAE), Kingdom of Saudi Arabia(KSA), and Qatar. The economic partnership with these countries was helpful in times of macroeconomic instability (especially since 2018) which was mostly defined by balance of payment crisis. Ethiopia's strategic partnership with countries of the Middle East could also help mitigate confrontations with historical adversaries such as Egypt (Uhans, 2022; Mohammed, 2024).

As part of fulfilling Vision 2021[1] and the 2071[2] Centennial Plan, the UAE has also operationalized a more nuanced economic diplomacy which is defined by attracting foreign investment, encouraging outbound investments, promoting trade, and strengthening bilateral and multilateral economic relationships (UAE MoFA, 2021). Since the onset of the Arab Spring in 2011, the UAE has pursued a more assertive foreign policy in the Horn of Africa. Among others, Iran's growing influence, piracy in the Red Sea area, the war in Yemen, the 2017 Gulf crisis and the Ethio-Eritrean rapprochement were important drivers for this policy change (Crisis Group, 2018).

Since 2018, Ethiopia's diplomatic relations with Middle Eastern countries have seen a notable uptick in the number of high-level exchanges and collaborative efforts, particularly with the UAE. This surge in diplomatic activity highlights the robust and evolving nature of the relationship between the UAE and Ethiopia, as noted by Hazem(2023). The economic partnership between the two nations has been strengthened by numerous important agreements that bolster cooperation in diverse sectors. The signing of 17 agreements in August, 2023 on spanning trade, investment, agriculture, and finance signifies the strengthening economic bond between Ethiopia and the UAE (Ecofin

[1] https://u.ae/en/about-the-uae/strategies-initiatives-and-awards/strategies-plans-and-visions/strategies-plans-and-visions-untill-2021/vision-2021

[2] https://u.ae/en/about-the-uae/strategies-initiatives-and-awards/strategies-plans-and-visions/innovation-and-future-shaping/uae-centennial-2071

Agency, 2023). These accords not only mirror the shared drive for advancement but also establish a blueprint for enduring economic diplomacy, potentially setting a precedent for Ethiopia's interactions with other nations in the region. A commitment to mutual development objectives and respect is at the heart of this flourishing partnership. Despite these glimmering diplomatic engagements, the absence of rigorous policy research on the trajectory and long-term sustainability raises concern about the potential for unintended consequences or suboptimal outcomes. This study, therefore, intends to analyze the trajectory and trends of the Ethio-UAE diplomatic relations from 2014 to 2023.

Sources and Methods

The study employed a convergent mixed research approach, collecting both quantitative and qualitative data simultaneously. Primary data was collected from experts of Ministry of Foreign Affairs (MoFA) and Ministry of Trade and Regional Integration (MoTRI),while secondary data was gathered from books, journals, newspapers, and digital sources. After data collection using the selected instruments, the qualitative data underwent thematic analysis based on key points identified in the research questions. The quantitative data was presented in terms of graphs, and analyzed using Compound Annual Growth Rate (CAGR) and Balance of Trade (BT) statistical equations. This analysis involved categorizing and integrating the data to identify patterns and insights. As part of the ethical considerations, participants were briefed on the study's purpose, informed consent was obtained from all participants prior to the interview, and measures were taken to ensure the anonymity of their names, as they were unwilling to be identified in the research.

Theoretical Framework: Economic Statecraft Theory

The Theory of Economic Statecraft, rooted in structural power theory, posits that states utilize economic tools to achieve significant political goals. This involves the use of economic sanctions and incentives to influence target state actors by altering the economic considerations of influential domestic interests within the target state (Donna and Hocking, 2010). In doing so, states might use investment, trade, aid and sanctions (economic tools) as a leverage to influence the behaviors and actions of targeted states thereby enhancing the international posture of a country. Some countries might offer investments with the motive to forge alliance or political reforms in recipient states. Others might use trade relations to foster economic interdependence which could potentially lead to political alliance. Still, others impose restrictions on trade or financial transactions to change unwanted behavior of recipient states (Aggarwal and Reddie, 2020).

In the context of Ethiopia and UAE economic diplomacy, economic statecraft theory can help explain how the two nations are using economic ties to achieve their strategic goals. However, it should be noted that economic statecraft can also face challenges, such as backlash from local populations, unintended economic consequences, and the complexities of global interdependence that may limit a state's ability to exert control (Public, 2023; Shega, 2024).

Finding and Discussions

This section analyzes primary and secondary data to examine the trajectory and trends in economic diplomacy between Ethiopia and the UAE from 2014 to 2023. Specifically, it explores the evolution of these relations, and evaluates the key patterns that emerged over the decade.

Trajectory of Ethiopia and United Arab Emirates Relations

Pre-2018: Period of Initiation and institutional Consolidation

Although Ethiopia has a long history of relations with the Arab world, its relationship with the UAE is a more recent phenomenon. This might be related to the UAE's history, as the country's independence from British colonialism in 1971 is relatively recent. Since the UAE is a federation of eight emirates (Abu Dhabi, Dubai, Sharjah, Ajman, Umm Al Quwain and Fujairah and later joined by Ras Al Khaimah), it seems to have taken time to embark on meaningful diplomatic relations with the rest of the world. This is due to the fact that the absence of capable foreign policy institution and strong economy might have hindered diplomatic outreach with the rest of the world. In comparison, Ethio-Saudi formal diplomatic relations started seven years after the independence of the UAE. During the 1990s, there had been little Gulf appetite for investment the Horn of Africa as the region was plagued with instability. The abundant extraction of oil and gas, and the surge in oil price since 2000 has revolutionized the economic and political power of the UAE. By 2010, UAE oil production reached 2.3 million barrels of oil per day, making it the sixth-largest oil reserve in the world (Emirates Agency, 2023). This signifies the importance of a strong economy and political power as a foundation for running overseas diplomatic missions. On the Horn side, the relative peace and stability in the region paved the way for more Gulf investment in Ethiopia. In comparison, for example, the number of Gulf investments in Ethiopia increased from 35 in 1990s to 356 projects since 2000 (Meester et.al, 2018).

Ethiopia and UAE began formal diplomatic relations during the time of the late Sheikh Zayed bin Sultan Al Nahyan and the late Ethiopian Prime Minister, Meles Zenawi. The first Ethiopian consulate in the UAE was opened in 2004, followed by the UAE Embassy in Addis Ababa in 2010. The UAE's bold move to open an embassy in Addis Ababa seems to have motivated Ethiopia to elevate the status of its foreign service to the level of an embassy in 2014. Ever since, these developments seem to have boosted cooperation between the two countries in various fields, including economic, political, investment, and cultural spheres (London Stock Exchange Group, 2024; Morton, 2011). This might be informed by the mutual understanding of the two states' strategic importance in bilateral relations. Ethiopia, as the diplomatic center of Africa and a gateway to the continent, seems to have leveraged these relations. Similarly, the UAE, as the economic hub of the Middle East and one of Ethiopia's trade destinations, appears to be a preferable partner for bilateral relations.

Since 2010, the UAE has pursued economic diplomacy as a key foreign policy tool to achieve its national objectives outlined in the two significant documents: UAE Vision 2021 and the 2071 Centennial Plan. Both documents aim to position the UAE among the world's leading countries by building a competitive economy. The Ministry of Foreign Affairs and International Cooperation (MoFAIC) has been entrusted with executing this mission. The primary goal of the UAE's economic diplomacy is to reduce the country's dependency on oil and gas through economic diversification. This can be achieved by enhancing the UAE's benefits from the global economy through assertive geopolitical and geo-economic involvement. Trans-boundary investment is a notable aspect of economic diplomacy, making the UAE a key global economic actor in many regions. Returns from international business are reinvested into national development projects in industry, energy, communication, information technology, healthcare, and infrastructure. To fulfill the UAE's economic aspirations, MoFAIC has implemented economic diplomacy through inter-agency collaboration, involving sovereign wealth funds, business councils, the private sector, and Ministry of Investment. Ethiopia and other Horn of Africa countries are attractive areas for UAE trade and investment due to their abundant natural resources, larger regional market for investment, and geopolitical goals, such as challenging the presence of rival states in the Horn region (MoFAIC, 2021; Long, 2024).

The Ethiopian People's Revolutionary Democratic Force (EPRDF) government adopted the Foreign Affairs and National Security Policy in 2002, aiming to address economic and geopolitical objectives. The government believed that poverty and underdevelopment are inextricably linked with the absence of peace and security in the Horn of Africa. To fulfill the country's economic objectives, the Ministry of Foreign Affairs (MoFA)

introduced a five-year strategic plan that positioned economic diplomacy as the core mission. Accordingly, attracting foreign investment, promoting export markets, luring foreign tourists, and securing development assistance became the focus of foreign diplomatic missions. Geopolitically, the proliferation of military bases and the threat of external powers in the Horn region were other driving factors for adopting economic diplomacy and regional integration strategy (Cheru, 2019; Daba, 2022).

There appear to be converging economic and geopolitical interests between the UAE and Ethiopia. Ethiopia's goals of attracting foreign investment, expanding export markets, and seeking development assistance align well with the UAE's policy of foreign investment through its sovereign wealth funds. Additionally, Ethiopia's policy of promoting peace and security in the Horn of Africa through Intergovernmental Authority on Development (IGAD)'s regional integration program has attracted UAE petro-dollar funding. For instance, the UAE's involvement in infrastructural development initiatives in Somaliland through DP World is a notable example of collaboration.

Although economic and political relations between Ethiopia and countries of the GCC improved during the EPRDF regime (1991-2018), it was not free from mutual distrust and suspicion. Countries of the GCC, including the UAE, did not benefit from these misguided diplomatic overtures, which squandered the chance of establishing strong political and economic ties between the two nations. This suggests that pre-2018 Ethiopian foreign policy might be blamed for the absence of strong diplomatic relations between Ethiopia and the UAE (Jenber, 2021). In this regard, the recent parliamentary speech of Prime Minister Abiy Ahmed on Ethiopian diplomacy might be taken as a testimony, in which he underscored the need to re-evaluate Ethiopia's engagement with the Middle East (Mohammedawel, 2025). This was due to the fact that pre-2018 Ethiopian foreign policy reportedly followed a guarded foreign policy towards Middle Eastern Arab countries for centuries. Therefore, it is plausible to argue that the short political history and the then weak economic power before the discovery of oil on the side of the UAE, along with the misguided Ethiopian foreign policy towards the Middle East, might have delayed the diplomatic relations between the two nations.

Post 2018: Period of Strategic Calibration

The transition in Ethiopia in 2018 under the leadership of Prime Minister Abiy Ahmed marked a milestone in the relationship between Ethiopia and the Gulf countries. The growing influence of the Gulf countries in the Horn of Africa, Red Sea Region, and Gulf of Aden seems to have shifted Ethiopia's treaty-based cooperation into a strategic

partnership. In this regard, the Ethio-UAE strategic partnership is a case in point. This was exemplified by the UAE's attempt to broker the Ethio-Eritrean rapprochement. Beyond this, the UAE's $3 billion concessional loan and investment support to the new reformist government were instrumental in tackling the foreign currency shortage in the Ethiopian National Bank. Furthermore, the UAE contributed to the renovation of the Prime Minister's Office, the construction of Unity Park, and many other national projects in Ethiopia.[3]

This diplomatic relation, which has been started with economic cooperation, is currently becoming multi-sectorial. The signing of 17 agreements on August 18, 2023, further enhanced the bilateral relationship between the two countries (Ethiopian News Agency, 2023). Many of the agreements focus on investment, finance, technology transfer, infrastructure, exchange of expertise, and agriculture. Companies like DP World, Oumolat Security Printing, and Abu Dhabi Ports on the UAE side, and Ethiopian public enterprises like Ethiopian Investment Holdings, the National Bank of Ethiopia, and the Ethiopian Investment Commission on the Ethiopian side were the main signatories of these agreements (Ecofin Agency, 2023).

Very recently, in line with the agreement signed, Ethiopia and the UAE entered into a currency swap arrangement amounting to 3 billion dirhams. This agreement allows the central banks of both countries to use local currencies to facilitate transactions and payments. Additionally, the UAE launched an initiative for young Ethiopians called "5 Million Ethiopian Coders," encouraging the youth to register for acquiring digital skills and international certification. This initiative holds great significance in promoting digital literacy and potentially creating digital job opportunities for young Ethiopians (Empower Africa, 2024). Last but not least, the humanitarian assistance provided by the UAE during times of need underscores the depth of the partnership, demonstrating a commitment to solidarity beyond economic ties. These initiatives are part of a broader spectrum of agreements aimed at enhancing cooperation across various sectors, including industry, agriculture, and logistics, further solidifying a strategic partnership between the two nations (Public, 2023; Shega, 2024).

In a nutshell, the Ethio-UAE relations have evolved over time. The pre-2018 relations laid a foundation characterized by the commencement of formal diplomatic relations. The UAE's Vision 21and the 2071 Centennial plan aligned with Ethiopia's focus on economic integration and regional stability was an impetus for enhanced cooperation. Post 2018, under Prime Minister Abiy Ahmed, the relationship evolved into a strategic alliance

[3] Interview result from MoFA, dated: 12 January 2025.

characterized by several bilateral agreements, a $3 billion investment package, and initiatives spearheaded by the UAE, most notably its facilitation of the rapprochement between Ethiopia and Eritrea. Recent developments, including a currency swap, digital literacy programs, and humanitarian aid, highlight the deepening multi-sectorial collaboration, solidifying Ethiopia-UAE relations as a cornerstone of their mutual economic and geopolitical objectives.

Trends of Economic Diplomacy between Ethiopia and the UAE

Since economic diplomacy is the internationalization of national business, Ethio-UAE relations have made considerable progress in economic diplomacy. In this regard, the embassies of the two countries and the existing relations provide the infrastructure and guiding principles for economic interactions in the fields of trade, investment, infrastructure, development, human resources, and labor dynamic. Studies on the Gulf–Horn relations revealed that economic cooperation between Horn and Gulf countries often is characterized by transactional politics. This is to mean that the economic cooperation is not purely commercial-driven for mutual benefits. Rather it has been driven by non-economic variables like geopolitics and security interests. Therefore, the converging interests for economic prosperity and regional stability between Ethiopia and the UAE seem to have been the driving factors for enhanced bilateral economic cooperation. The following discussion presents the trends of economic diplomacy between the two countries in the field of trade, investment and aid.

Trade

Promoting trade as a key aspect of economic diplomacy has been a core function of both states' embassies. As actors of economic diplomacy are playing crucial role, they are expected to exert maximum effort to explore and expand export markets through cross-sectional engagements. This has been carried out through inter-agency collaborations between the two states. The two nations have a Joint Ministerial Commission to manage their economic diplomacy. The respective ministries of foreign affairs preside on both sides. There are many sub-committees under the leadership of the two ministries, with additional representation from the Ministry of trade and Investment Commission.[4] One outcome of this effective economic diplomacy has been a dramatic increase in the volume of trade between the two nations, both qualitatively and quantitatively.

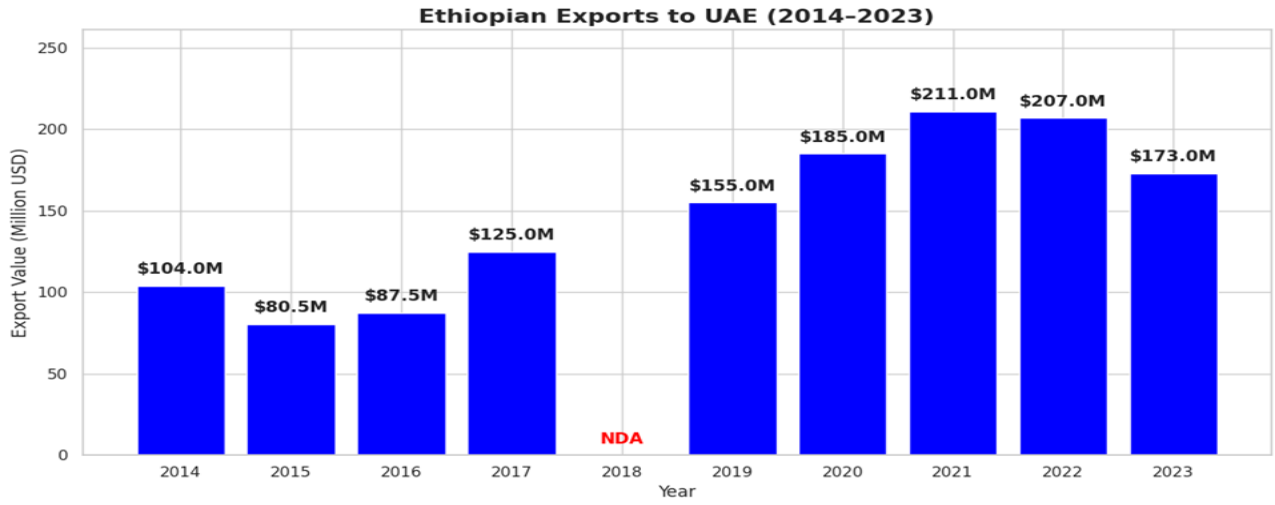
[4] Interview with an expert from MoFA, 3 January 2025

According to data compiled from Observatory Economic Complexity[5] (OEC) and Trend Economics[6] (TE), Ethiopian nine year (2014-2023, excluding 2018) aggregate exports to the UAE were about $1.3 billion while the UAE aggregate exports to Ethiopia for the last ten year amounted $ 6.7 billion. Although there was a sharp decline from $104 to $80.5 million in 2014 and 2015, Ethiopia's exports have shown a 47 % increase from the year before. This was reported that higher commodity demand in the UAE market was responsible for the growth. The years between 2019 and 2021 witnessed another period of growth though it was a period of COVID and armed conflict in Northern Ethiopia. Ethiopian export was reported to have been incentivized by the UAE in a way to export more commodities possibly to support Ethiopian economy resilience in the war.[7] The last two years witnessed a sharp decline from $ 207 M to $173 M in 2023. This was due to shortage of foreign currency in the Ethiopian post-war economy. The UAE export to Ethiopia has shown a stable and constant growth except in the years 2017 and 2022. The widespread nationwide uprising in Ethiopia reported to have discouraged UAE export while the post-war economy seems to have discouraged import in Ethiopia. Furthermore, Ethiopian export for the last ten years showed negative trade balance[8] with $5.43 billion (-411% of the total trade) trade deficit, while the UAE export to Ethiopia maintained a positive trade balance.

The main Ethiopian export items were coffee, cut flowers and flower buds, sesame seeds and sheep and goat meats. The UAE exported a variety of industrial products including cars, petroleum, palm oil, edible oil, blood, vaccines, toxins, antisera, and cultures, and fertilizers and nitrogenous products. The value of export of the UAE to Ethiopia is almost six times greater than the import. Beyond this, the UAE export items were industrial products and by far diversified, while Ethiopian products lack diversity and were unprocessed agricultural and mining products. The aggregate ten-year value of export is given in the graphs below.

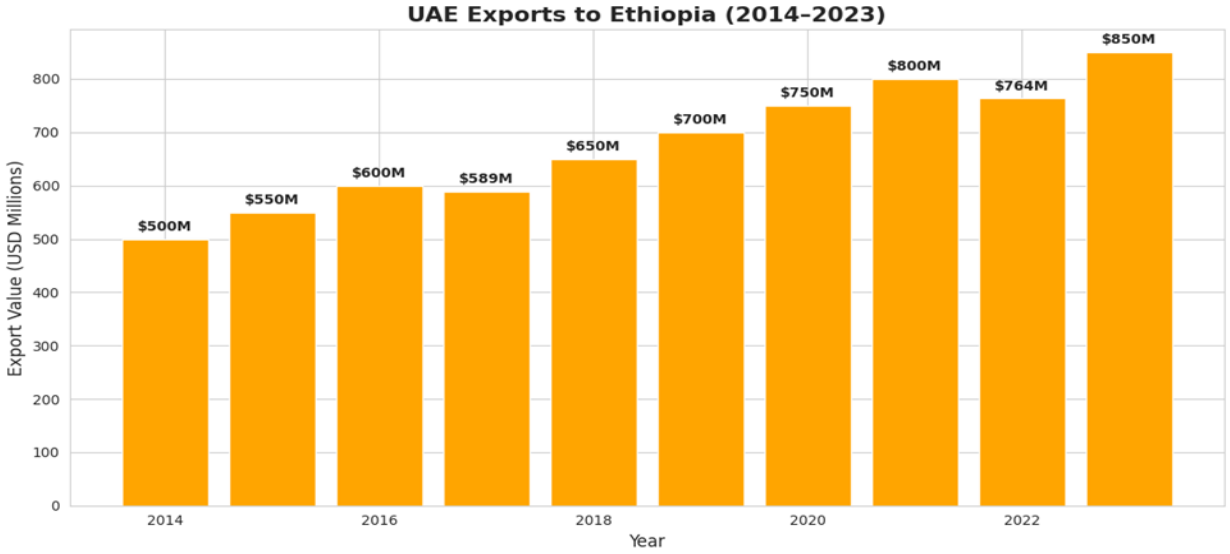
Figure-1: Ethiopian exports to the UAE (2014 –2023)

[5] https://oec.world/en/profile/country/eth ;
[6] https://tradingeconomics.com/ethiopia/exports/united-arab-emirates
[7] Interview with an expert from MoFA on 8 January 2025.
[8] Balance of Trade is calculated using a formula: Balance of Trade=Exports of Goods and Services−Imports of Goods and Services



Sources: TE; OEC; MoTRI : compiled by the author

Figure-2: UAE exports to Ethiopia (2014 –2023)



Sources: TE; OEC ; MoTRI : compiled by the author

Ethiopian aggregate ten-year annual increase[9] is approximately 5.7 % which indicates a steady growth in Ethiopian exports to the UAE. While the UAE aggregate ten-year annual increase was approximately 5.9 % which showed a slightly higher growth rate compared to Ethiopia. This might be caused by lack of diversity and low volume Ethiopian export

[9] Compound Annual Growth Rate (CAGR) is calculated using a formula: Annualized Increase (CAGR)=(Ending Value/ Beginning Value)^{n1}−1

commodity resulting partly from less competitive export price. Although many of Ethiopia's agricultural products met the standards of the UAE markets, they were relatively expensive compared to those of other competitors. One of the notorious reasons explained by experts is higher expense in our exports to the UAE. This can be explained in terms of higher transit and logistics expenses through the port of Djibouti.[10]

Although Ethiopia suffers negative trade balance compared to the UAE, the data suggests a healthy trade relationship between Ethiopia and the UAE, with both countries experiencing growth in their exports to each other. The increase in the volume of trade between Ethiopia and the UAE can be attributed to two key factors. First, the political transition in Ethiopia in 2018 and the subsequent boom in diplomatic cooperation between the two nations. This transition shifted Ethiopia's engagement from formal treaty-based alliances to strategic partnerships with the UAE. Second, the economic diplomacy, which has been used as a tool of foreign policy engagement since 2002, became more effective following the transition in Ethiopia.[11]

The *Theory of Economic Statecraft* can help explain the increase in Ethiopia's exports to the UAE after the 2018 transition. This theory argues that states might use economic incentives or sanctions to influence target state actors by altering the economic considerations of influential domestic interests within the target state (Baldwin, 1985; Riesman, 2008). The steady increase in Ethiopia's exports to the UAE indicates a positive response to incentivize the new friendly government of Ethiopia. This might be motivated by the growing geopolitical and economic interests of the UAE in the Horn of Africa. In this regard, the UAE seems to have aspired to secure a strong and reliable ally in the region, with Ethiopia being the first choice. The UAE's economic diversification policy might also be a factor in unleashing trade incentives to Ethiopia. As the most populous nation and the gateway to Africa, Ethiopia has great market potential for UAE companies. The UAE is enjoying a positive trade balance and acquiring robust market in Ethiopia. This is evidenced by the higher annualized growth of export trade (6.7 %) to Ethiopia. To support this mutual strategic interest, the UAE deposited $1 billion in the Ethiopian Central Bank to tackle the shortage of foreign currency (Reuters, 2018). Although the financial incentive contributes little to Ethiopian export, the availability of foreign currency has significantly enhanced Ethiopian import from the UAE in the five consecutive years after the political change in 2018.

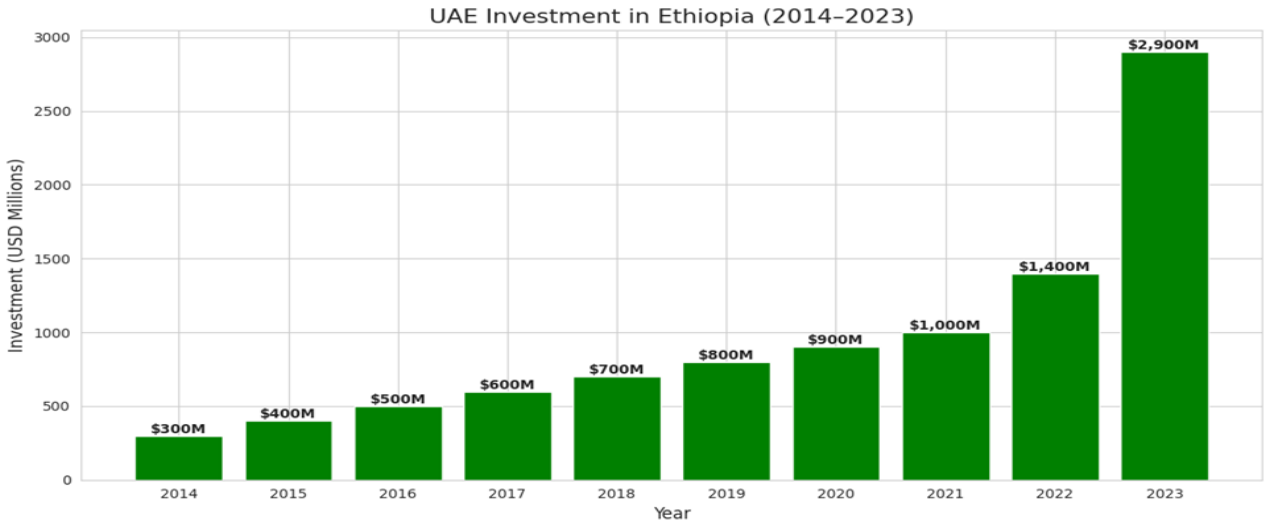
[10] Interview result from MoTRI, 6 January 2025.
[11] Interview with an expert from MoFA, 3 January 2025

Investment

Although UAE's investment in Ethiopia is significantly visible since 2014, a remarkable progress has been witnessed after the political change in 2018. Ethiopia is home to a US$2.9 billion investment asset owned by the UAE. A total of 113 UAE investments are operating in Ethiopia, which is largely focused on a number of industries, including chemicals, food and beverage, medicines, and aluminum. This makes the UAE the second top investor from Gulf Cooperation Council countries in Ethiopia (Africa Center for Strategic Studies, 2025). The distribution of the UAE investment in Ethiopia is dominantly restricted in the capital Addis Ababa and Oromia region. Many of the investments in Ethiopia have been carried out through joint ventures (nearly two-thirds of the investment) in which Ethiopians and Indians are predominantly partners (Meester et al, 2018).

As shown in the graph below, there has been strong and consistent UAE investment in Ethiopia over the past 10 years. This is evidenced by a Compound Annual Growth Rate (CAGR) of approximately 29.7%. The UAE's investment in Ethiopia has surged from $300 million to $2.9 billion. However, the most significant increases have been seen in the last two years (i.e 2022 &2023). This high growth rate indicates a strong and growing interest from the UAE in the Ethiopian economic landscape, suggesting a consistent and reliable partnership.

Figure -1 UAE investment in Ethiopia (2014-2023)



Sources: AGBI; ABC; compiled by the author

The increasing investment appears to be the result of economic diplomacy. This can be explained by strong bilateral relations, favorable investment policies, and inter-agency cooperation. However, the economic diplomacy in the field of investment seems one-sided, with investment primarily coming from the UAE. This highlights the relevance of statecraft economic theory in explaining the dramatic increase in UAE investment in Ethiopia. The surge in UAE investment in Ethiopia seems to have been the upshot of UAE's economic diversification policy, as the UAE has enjoyed robust investment and market opportunities in Ethiopia. Therefore, the steadily increasing investment in Ethiopia can be considered as the UAE reward to strengthen the growing partnership with Ethiopia.

UAE Aid

Since 2013, the UAE has emerged as one of the leading donors in the world, following the USA, Germany, Japan, and France (Logan, 2021). Some suggest that the UAE has increased its aid to curb the spread of unrest caused by the Arab Spring. The Horn of Africa has remained the focus of the UAE's aid, with many countries in the region benefiting from UAE subsidies. Similar to other donors, the UAE has used aid as a foreign policy instrument to achieve its strategic, political, economic, and military objectives (Ibid). The UAE has two strategic interests in the Horn of Africa: economic diversification and combating terrorism. Consequently, the type of UAE aid flow depends on the nature of the problems prevailing in recipient nations. Ethiopia has predominantly received developmental aid. The UAE has been providing aid to Ethiopia since the establishment of formal diplomatic relations in 2014. The Abu Dhabi Fund for Development (ADFD) and Khalifa Fund for Enterprise Development (KFED) are the major developmental and humanitarian aid providers for Ethiopia.[12] Although the amount and allocation of aid in the Horn of Africa depends on the strategic interests of the UAE, Ethiopia has received a total of $5.05 billion in aid, of which 89% was developmental aid (Emirates, 2023). Furthermore, the UAE has provided $ 85 million to support humanitarian relief operations in Ethiopia.[13] This makes Ethiopia the leading recipient of UAE aid in the Horn of Africa, followed by Sudan, which has received $3.5 billion) and Somalia (194.6 Million)(Ethiopian Monitor, 2023). This signifies that the UAE's allocation of aid in the Horn of Africa is primarily influenced by its national strategic interests rather than shared

[12] Interview result from MoFA, 5 January 2025.
[13] Interview result from MoFA, 5 January 2025.

socio-cultural variables with recipient nations. Two factors might explain the dramatic increase in aid from the UAE. First, there is Ethiopia's strategic importance to the UAE as a regional stabilizing actor and its role in combating terrorism in the region. This is evidenced by the recent Memorandum of Understanding (MoU) signed between the UAE and Ethiopia in combating terrorism with the attendance of President Sheikh Mohamed bin Zayed Al Nahyan and Prime Minister Abiy Ahmed in August 2023 (United Arab Emirates Ministry of Foreign Affairs, 2024). Beyond this, the positive role of Ethiopia in supporting peace and security in Somalia, Sudan and South Sudan are cases in point. To this effect, Ethiopia deployed 4,395 peacekeeping forces in Somalia under African Union Mission in Somalia(AMISOM) in 2006 and 4,452 in the Abyei area between South Sudan and Sudan under United Nations Interim Security Force for Abyei(UNISFA) in 2011(United Arab Emirates Permanent Mission to the United Nations, 2023). Secondly, the pragmatic political leadership in Ethiopia since 2018 has aligned with the UAE's strategic objectives in the Horn of Africa. Consequently, the converging interests of both countries at the strategic level, along with new developments in Ethiopia, appear to have encouraged the UAE to increase its aid.

In a nutshell, considering aid diplomacy as a key instrument of foreign policy, the UAE has effectively utilized it to achieve its political, diplomatic, and economic objectives abroad (Logan,2021). The significant increase in UAE aid to Ethiopia can be seen as part of its strategy to fulfill national interests. Drawing on the theory of Economic Statecraft, Ethiopia's growing status as the leading recipient of UAE aid in the Horn of Africa can be explained in terms of reward for its economic and geostrategic importance to the UAE.

Conclusion

The Ethiopia–UAE relationship has evolved from limited engagement into a robust strategic partnership characterized by shared economic and geopolitical objectives, particularly after 2018 political transition under Prime Minister Abiy Ahmed. This shift has been marked by high-level diplomatic exchanges and the signing of 17 comprehensive agreements in areas such as trade, investment, finance, agriculture, and technology, reinforcing multi-sectoral cooperation. UAE investments in Ethiopia have grown remarkably from $300 million in 2014 to $2.9 billion in 2023, complemented by a $1 billion deposit to stabilize Ethiopia's foreign currency reserves and over $5 billion in developmental and humanitarian aid. Rooted in the principles of Economic Statecraft, this partnership reflects the strategic use of economic tools—trade incentives, investments, and aid—as instruments for influence and stability: Ethiopia aims to secure financial resilience, attract FDI, and enhance regional integration, while the UAE seeks to

diversify its economy beyond oil dependence, consolidate its geopolitical foothold in the Horn of Africa, and expand market access. However, structural imbalances persist, including Ethiopia's chronic trade deficit, overreliance on Emirati capital, limited export diversification, and asymmetrical investment flows, which could challenge long-term sustainability. Addressing these gaps requires Ethiopia to adopt policies that enhance value-added production, strengthen institutional frameworks, leverage digital transformation initiatives such as the UAE-backed "5 Million Coders" program, and negotiate agreements that foster reciprocal benefits. If effectively managed, the Ethio-UAE partnership could serve as a model for Ethiopia's broader Middle East diplomacy, driving economic resilience, regional stability, and a mutually beneficial future for both nations.

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