International Journal of New Political Economy 7(2): 163-191, 2026

Review Article

Economic Diplomacy as an Instrument of Transition: A Comparative Analysis of the United Arab Emirates and Saudi Arabia's Strategic Approaches

Alireza Rahmati*[1], Mohsen Shariati-Nia[2]

ARTICLE INFO

Article history:

Date of submission: 26 December 2025

Date of revise: 06 July 2026

Date of acceptance: 21 July 2026

JEL Classification:

F50; F59; O53; P48; R58.

Keywords:

Economic diplomacy; foreign direct investment; rentier state; United Arab Emirates; Saudi Arabia.

ABSTRACT

This study examines how economic diplomacy supports the transition of rentier economies toward sustainable development, emphasizing its importance for policymakers and scholars interested in the future trajectories of Gulf States. The objective is to explain how two Gulf rentier states with similar diversification goals have adopted different patterns of state behavior as they move beyond rentier dependency. The study adopts a comparative-exploratory design based on document analysis, a review of political economy literature, and descriptive analysis of FDI data. The findings show that the UAE has developed a facilitative, market-oriented model characterized by regulatory flexibility, free zones, legal predictability, global connectivity, and public-private risk sharing. Saudi Arabia, by contrast, follows a centralized, state-engineered, project-centered model led by sovereign institutions such as the Public Investment Fund (PIF) and large-scale initiatives such as Vision 2030 and NEOM. The article argues that successful post-rentier transition depends less on the scale of megaprojects than on the accumulation of institutional capital, including transparency, the rule of law, regulatory credibility, adaptive governance, and private-sector empowerment. The study concludes that sustainable development in the Gulf requires a gradual shift toward institutional equilibrium, in which state capacity, market participation, and credible regulatory frameworks jointly support long-term diversification and resilience.

1. M.A. Student in International Political Economy, Shahid Beheshti University, Tehran, Iran.
2. Assistant Professor, Department of Global Politics, Shahid Beheshti University, Tehran, Iran.
*** Corresponding Author Email Address**: alir.rahmati@mail.sbu.ac.ir

DOI: https://doi.org/10.48308/jep.2026.243041.1259

1. Introduction

In contemporary political economy, the conversion of subterranean capital into institutional capital has become one of the principal developmental challenges confronting rentier states. Recognizing the importance of effective responses, economic diplomacy has emerged as a strategic instrument whose role extends beyond trade facilitation, serving as a key pillar for enhancing national power and geopolitical positioning (Samiei-Nasab, 2014: 3). Among these rentier states, the United Arab Emirates (UAE) and Saudi Arabia have capitalized on their exceptional geostrategic positions to convert economic diplomacy into a lever that connects political interests with economic strength (Blanchard & Ripsman, 2008: 372). Transformative initiatives, such as Vision 2030 and the development of free economic zones, reflect deliberate efforts to overcome hydrocarbon dependency and move toward knowledge-based, diversified economies. By strengthening linkages with global markets through foreign direct investment (Young, 2021: 2; Blanchard & Ripsman, 2008: 385), these initiatives have reinforced the regional geo-economic influence of both states and positioned them as pivotal actors in the emerging Gulf order.

This study adopts a comparative-exploratory approach and employs mixed qualitative and quantitative methods to analyze the strategies and governance models through which the UAE and Saudi Arabia have sought to reconfigure their economic architectures in the post-rentier era. By comparing the approaches of these two Gulf States, the paper offers valuable strategic insights for policymakers. The argument advanced here is that the long-term sustainability of economic transformation depends less on the scale of development projects than on the quality, efficiency, and adaptability of the institutional capital that supports them.

Rather than being driven by a formal hypothesis, this research is guided by an overarching question: how is economic diplomacy institutionally formulated and executed within the broader context of Gulf rentier states' transition toward sustainable development? It also asks which institutional logics explain the meaningful divergences between the UAE and Saudi Arabia, two seemingly similar cases operating under distinct governance paradigms. Specifically, the UAE embodies a facilitative-state model characterized by regulatory flexibility, institutional adaptability, and legally predictable frameworks. In contrast, Saudi Arabia operates through a state-engineering model that emphasizes centralized, project-driven interventions under sovereign authority. By comparing these institutional configurations, the study evaluates the extent to which each model has succeeded in attracting foreign investment, enhancing competitiveness, fostering institutional learning, and strengthening resilience to external shocks, as well as the limitations each model has encountered in these areas.

The novelty of this study lies in its comparative examination of the UAE and Saudi Arabia from an economic-diplomacy perspective. Rather than treating diversification strategies merely as domestic economic reforms or isolated development plans, the article compares two distinct patterns of state behavior in moving beyond rentier dependency: a facilitative, market-oriented model in the UAE and a centralized, project-centered, state-engineering model in Saudi Arabia. In doing so, it contributes to the literature on post-rentier transformation by showing how different institutional logics shape Gulf States' capacity to convert financial resources into institutional capital, regulatory credibility, and long-term developmental resilience.

2. Literature Review

2.1. Economic Diplomacy and Post-Rentier Transition

In an era of accelerated globalization, traditional foreign policy frameworks have become increasingly inadequate for addressing complex economic transformations. In this context, economic diplomacy has emerged as a central pillar of contemporary statecraft. Within the literature on international political economy, this concept, although still emergent and contested, refers to purposeful state actions aimed at advancing economic interests beyond national borders through negotiation, persuasion, and policy coordination. Its underlying logic rests on the integration of political and economic objectives and on the use of economic capabilities to enhance soft power and redefine the state's position within an increasingly market-driven global order (Mousavi Shafaee, 2009, p. 80; Bayne & Woolcock, 2021: 94). From a political economy perspective, economic diplomacy may also be understood as a process of restructuring state–market relations and transnational linkages through which states seek to reposition themselves within the evolving architecture of the global economy.

This duality raises a fundamental normative question: should economic diplomacy prioritize welfare maximization through liberalization and institutionalization, or should it focus on strengthening bargaining power, even at the expense of selective interventionism? This tension is also reflected in the distinction between commercial diplomacy and economic statecraft. While the former emphasizes export facilitation and investment promotion, the latter employs both coercive and incentive-based instruments, ranging from sanctions and development loans to resource-based agreements, to pursue strategic objectives. In practice, most governments adopt hybrid approaches that balance these competing logics within the constraints of their institutional and bureaucratic capacities (Bayne & Woolcock, 2021: 23).

From the perspective of institutional architecture, economic diplomacy increasingly functions as a network-based enterprise. Ministries responsible for policy and planning, specialized embassy units, sovereign wealth funds, state-owned and private enterprises, chambers of commerce, and even municipal institutions engaged in paradiplomacy collectively form an interconnected ecosystem of economic governance (Mogielnicki, 2021: 45). This transformation requires institutional coherence and accountability mechanisms capable of reducing inter-agency frictions, lowering transaction costs, and strengthening policy coordination.

This network-based structure operates across three interrelated analytical levels (Chatterjee, 2020, p. 16). At the institutional level, embassies and economic missions monitor international developments and engage with global organizations. At the operational level, states pursue objectives associated with commercial activity, including export promotion and the attraction of foreign direct investment. At the strategic level, governments employ instruments of economic statecraft, including cross-border infrastructure initiatives, targeted sanctions, and strategic trade agreements, to influence regional and global power relations.

In the contemporary geo-economic environment, a country's position in global value chains (GVCs) is the principal link between diplomacy and development. The nature of value-chain governance, ranging from buyer-driven to producer-driven systems, together with the quality of national integration, determines how economic diplomacy facilitates technology transfer, strengthens production networks, and enhances competitiveness. Nevertheless, these networked dependencies may themselves become sources of vulnerability. The same connections that provide access to markets and technology may also serve as channels of coercion when institutional robustness and infrastructural resilience are insufficient. Consequently, the development of institutional capital, grounded in transparency, the rule of law, and regulatory predictability, becomes essential for maximizing the opportunities and managing the risks associated with economic interdependence.

Effective economic diplomacy requires a coherent policy cycle encompassing goal formulation, negotiation, coordinated implementation, and continuous evaluation (Coolsaet, 2020: 15). However, its effectiveness cannot be measured solely through quantitative indicators such as FDI inflows or non-oil trade balances. Additional indicators (including the depth of GVC integration, investor diversification, the technological content of capital inflows, the quality of economic governance, and evidence of institutional learning) must also be systematically evaluated. Empirical evidence indicates that alignment between diplomatic institutions and industrial policy, combined with active participation in regional economic frameworks, generates significant gains in trade and investment. Nevertheless, the sustainability of these gains remains dependent upon regulatory stability and credible policy implementation (Cavalcanti Muniz, 2023).

For post-rentier Gulf States, these debates have materialized into two distinct strategic models. The first is the regulatory facilitative-state model, exemplified by the UAE, which promotes a low-friction environment for capital and technology inflows through smart free zones and transparent legal frameworks. The second is the project-driven state-engineering model, represented by Saudi Arabia, which emphasizes sovereign-led megaprojects and rapid implementation, often prioritizing scale over institutional adaptability. Together, these models demonstrate that successful economic diplomacy must be multilayered and transformative, functioning as an instrument that combines soft power with economic rationality to shape emerging frameworks of regional and global governance. For transitional economies, such diplomacy provides a platform through which domestic developmental objectives may be aligned with international engagement, thereby strengthening their strategic position within the geo-economic order of the twenty-first century (Notteboom & Yap, 2022, p. 72).

2.2. Literature Review and Research Gap

In recent decades, economic diplomacy has become a central component of foreign policy, serving as a strategic instrument by which states expand their economic influence and geopolitical presence. Joseph Nye (2004), in *Soft Power: The Means to Success in World Politics*, emphasizes the role of economic, cultural, and normative attraction as sources of non-coercive influence. His analysis provides an important conceptual foundation for understanding mechanisms such as nation branding and exhibition diplomacy, which the UAE and Saudi Arabia have widely employed to project national identity and enhance soft power. However, Nye’s emphasis on cultural dimensions offers limited insight into the institutional and policy mechanisms underlying contemporary economic diplomacy, including investment regulation and governance structures.

Blanchard and Ripsman (2008), in “A Political Theory of Economic Statecraft,” conceptualize economic diplomacy as an instrument of power projection through economic means. They argue that states manipulate trade, financial flows, and investment patterns to influence other actors. Although their realist framework clarifies the logic of coercion and incentives in economic statecraft, it pays limited attention to the institutional constraints that shape state behavior, particularly in rentier economies such as those of the Gulf region.

Chatterjee (2020), in *Economic Diplomacies and Foreign Policymaking*, proposes a multilevel analytical framework that links diplomacy, governance, and national policy coherence. He argues that the effectiveness of economic diplomacy depends upon alignment among policy design, institutional authority, and national branding strategies. Importantly, Chatterjee conceptualizes free economic zones not merely as mechanisms of trade facilitation but as geo-economic governance laboratories through which states experiment with regulatory flexibility and global market integration.

From a more technocratic perspective, Rasouli Ghahroodi (2018), in *Foreign Direct Investment in Theory and Practice*, examines the operational dimensions of FDI, including country risk, transfer pricing, and investor decision-making processes. However, his analysis remains largely confined to managerial and financial aspects and does not explicitly address the political and institutional logic underlying FDI in rentier states.

Institutional arrangements and the concentration of power are equally important for understanding the limitations of economic diplomacy. Hertog (2010), in "The Sociology of the Gulf Rentier Systems," demonstrates that the concentration of power within non-accountable institutions and personalized networks constrains sustainable reform in Gulf monarchies. His findings illuminate the enduring tension between economic diversification objectives and entrenched authoritarian governance structures. Similarly, Young (2021), in "Economic Diversification in the Gulf," argues that despite ambitious initiatives such as Vision 2030, both Saudi Arabia and the UAE continue to maintain centralized control over their economies. He contends that economic diplomacy frequently reinforces existing power hierarchies rather than promoting participatory institutional transformation.

Complementing the academic literature, policy documents such as the "UAE Economic Diplomacy Report" (2023) and "Saudi Vision 2030" provide strategic frameworks encompassing trade agreements, free zones, and innovation partnerships. These documents emphasize coordination between economic and foreign policy institutions; however, they rarely address institutional risks or long-term sustainability concerns. Likewise, the World Bank's "Gulf Economic Update" (2023) presents an optimistic assessment of diversification while giving limited attention to the structural vulnerabilities and continuing oil dependence that characterize Gulf economies.

Persian-language scholarship has also contributed to the conceptual development of economic diplomacy. Mousavi Shafaee and Imani (2017), in "Economic Diplomacy: An Approach to Enhancing Iran's National Power," argue that foreign policy should function as a platform for economic empowerment by connecting soft power, technological development, and international engagement. Earlier, Mousavi Shafaee (2009) identified economic diplomacy as a modern mechanism for integrating economic rationality into foreign policy under the pressures of globalization.

Taken together, the existing literature reveals a substantial analytical gap. Despite the abundance of case studies and policy analyses, relatively few studies employ a comparative and institutionally grounded framework to examine economic diplomacy among post-rentier Gulf states. Most existing research addresses individual policy instruments in isolation, without linking them to broader governance structures or strategic logics. This study addresses this gap by developing a comparative dual-framework analysis that moves beyond descriptive accounts and examines the institutional architectures and models of state intervention underlying the economic diplomacy strategies of the United Arab Emirates and Saudi Arabia.

3. Economic Diplomacy of the United Arab Emirates

3.1. Free Zones and the Institutionalization of the Post-Oil Transition

The United Arab Emirates (UAE) exemplifies the gradual transition of a rentier state from subterranean capital to institutional capital. This transformation has unfolded through several deliberate phases, reflecting strategic foresight, regulatory experimentation, and institutional adaptability. The foundation of this model was the establishment of the Jebel Ali Free Zone (JAFZA) in 1985, conceived not merely as an infrastructural initiative but as a structural mechanism linking domestic economic policymaking to broader geo-economic ambitions. Today, JAFZA, the largest free zone in the Middle East and a platform that manages more than 20 percent of the region's maritime trade, has become an engine of investment attraction, national branding, and the transition toward a knowledge-based economy. By offering a flexible regulatory framework distinct from that of the mainland, JAFZA has served as a laboratory for institutional reform and alignment with global economic standards (Abu Dhabi Global Academy, 2023: 71).

In the second phase, the UAE expanded its institutional capital globally by transforming domestic instruments into international actors. The establishment of DP World in 2005 extended the country's logistical reach across global trade routes, while Mubadala Investment Company, tasked with developing technology clusters, and evolved into a key sovereign investment vehicle for cross-border collaboration. The third phase, emerging in the 2010s, marked the consolidation of institutional capital. Through the Foreign Direct Investment Law of 2018 and the amendments to the Commercial Companies Law in 2020, competitive advantages once confined to "regulatory islands" were gradually extended across the domestic market. This strategic shift reoriented investment policy from reliance on free zones toward a broader redesign of the internal market, thereby reducing perceived investor risk.

In the current phase, the UAE leverages its consolidated institutional capital and international reach to reshape the regional geo-economic order. Central to this effort are Comprehensive Economic Partnership Agreements (CEPAs) with emerging economies such as India. Alongside the expansion of large-scale logistics infrastructure, these agreements mark the UAE's transition from a "rule taker" to a "rule maker" within global value chains. Political stability, relative transparency, streamlined administrative procedures, and a predictable institutional environment have made the UAE a major destination for global investors (World Bank, 2023: 7). These features have strengthened national resilience to oil price volatility and reinforced the UAE's position as a pivotal actor in the economic diplomacy of the Global South. Accordingly, the free-zone strategy functions not merely as a mechanism for attracting investment but as a cornerstone of the UAE's long-term roadmap for post-oil transformation. By integrating domestic institutional reforms with external geo-economic engagement, the UAE advances its transition toward a diversified, knowledge-based, and globally integrated economy (Abu Dhabi Global Academy, 2023; World Bank, 2023).

3.2. International Exhibitions, Technological Diplomacy, and National Branding

Over the past two decades, international exhibitions and mega-events have become vital pillars of the UAE's economic diplomacy. Beyond their promotional function, these events operate as instruments of technological diplomacy, national branding, and FDI attraction, reinforcing the UAE's global image as an innovation-driven hub. Expo 2020 Dubai represented a milestone in this strategy, bringing together representatives from more than 190 countries and showcasing the UAE's logistical capacity, institutional efficiency, and technological advancement. By integrating artificial intelligence and smart infrastructure, the Expo became a platform for connecting economic policy, innovation, and international cooperation, thereby constituting a model of transnational exhibition diplomacy.

Following Expo 2020, the UAE has continued to host global-scale events such as GITEX Technology Week, focused on AI, cybersecurity, and big data; the Global Economic Zones Leaders Summit, with participation from more than 50 countries; and Fashion Futures Dubai, emphasizing cultural branding and sustainable innovation. These events strengthen the UAE's transition toward a knowledge-based economy while promoting its role as a regional hub for technology and creativity (The Voice of Africa, 2025; Vogue

Business, 2024). Recurring specialized trade fairs, including Arab Health, Gulfood, Intersec, Dubai Airshow, and CABSAT, have further institutionalized Dubai's status as a leading exhibition hub in the Middle East. Beyond trade promotion, these platforms enable regulatory dialogue, technological standard-setting, and the deepening of global production linkages (CABSAT, 2025). Strategically, this focus on global exhibitions reflects the UAE's bottom-up model of economic transformation, which fosters innovation ecosystems and embeds forward-looking development narratives within its foreign economic policy.

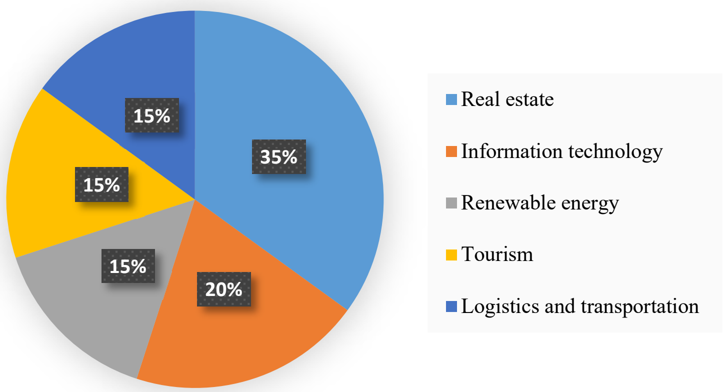

Fig 1. Sectoral Distribution of Foreign Direct Investment in the United Arab Emirates until 2024 (UNCTAD, 2024; UAE Ministry of Economy, 2024; FDI Markets, 2024)[1]

3.3. Economic Relations with Major Powers: Geo-Economic Balancing

Over the past decade, the UAE's economic diplomacy has centered on diversification and strategic balancing among major global powers. Positioned at the crossroads of East and West, the UAE has combined financial, logistical, and technological capabilities to enhance its global connectivity

1. Source: Prepared by the author based on data from UNCTAD's World Investment Report (2024), FDI Markets, the UAE Ministry of Economy, Trading Economics forecasts, and official reports issued by JAFZA, Jebel Ali Port, and Abu Dhabi Ports.

(Krzymowski, 2024, pp. 42-43). Its relations with the United States have evolved from a traditional security alliance into multidimensional cooperation in digital infrastructure, renewable energy, cybersecurity, and defense supply chains (U.S. Department of Commerce, 2024; Sim & Fulton, 2020: 561). This dual approach enables the UAE to preserve its security ties with the United States while expanding its technological base.

China represents the UAE's second key partner. As one of the most active Gulf participants in the Belt and Road Initiative (BRI), the UAE has deepened cooperation with China in port infrastructure, including Jebel Ali and Khalifa Port, as well as in 5G networks, artificial intelligence, and green energy (Sim & Fulton, 2020, pp. 557-558). Unlike some regional states, Abu Dhabi views this partnership not as a challenge to its Western relations but as part of its broader geo-economic balancing strategy. The European Union constitutes the third pillar of this diversified strategy. Through sovereign wealth funds, including ADIA, Mubadala, and ADQ, the UAE has invested extensively in Europe's high-technology, health, and infrastructure sectors. These funds generate not only financial returns but also institutional interdependence, reinforcing the UAE's position as a reliable partner in Europe's green transition agenda (Krzymowski, 2024, pp. 44-47). Through innovation-oriented projects in renewable energy, smart cities, and digital infrastructure, the UAE has become an important non-Western contributor to Europe's sustainability ambitions.

In sum, the UAE's multi-vector economic diplomacy transcends conventional trade relations. By combining financial, technological, and institutional instruments, the UAE has evolved into a multidimensional actor capable of shaping transregional geo-economic dynamics (Sim & Fulton, 2020: 567; Krzymowski, 2024: 47).

3.4. Achievements and Challenges of the UAE's Economic Diplomacy

The UAE's economic diplomacy has produced notable achievements, particularly in diversifying geo-economic partnerships and reducing reliance on traditional trade partners. Engagement in the Belt and Road Initiative has strengthened logistics networks and increased UAE-China trade to more than USD 50 billion in 2023 (Noroozi & Akbari, 2024, p. 123). At the same time, expanding relations with African economies in energy and logistics has elevated the UAE’s influence within the emerging South-South economic architecture (Young, 2021, p. 5). Another major achievement lies in the integration of advanced technologies into economic policy. The UAE has established itself as the region’s leader in AI governance by linking innovation, data security, and productivity. National programs such as UAE Centennial 2071 and Operation 300bn promote technological exports and strengthen private-sector participation. This synergy among technology, governance, and diplomacy has positioned the UAE as a frontrunner in the regional digital economy (Albous et al., 2025, pp. 2399-2405).

Despite these achievements, several structural challenges persist. The most significant is continued dependence on oil rents. Although oil’s contribution to GDP has declined, hydrocarbons still account for a major share of fiscal revenues (Shadab, 2023, p. 416). Moreover, this decline reflects the expansion of consumer-oriented services more than the rise of competitive, technology-driven industries (Shadab, 2023: 417). Initiatives such as Operation 300bn have faced obstacles arising from excessive state intervention, weak domestic industrial linkages, and limited integration into global value chains (Shadab, 2023: 420, 424). A second challenge is the concentration of decision-making power. Economic policymaking remains centralized within entities linked to ruling families, limiting private-sector autonomy and weakening incentives for innovation (Hanieh, 2018, pp. 163-165).

Regionally, intensifying competition, particularly from Saudi Arabia and Qatar, has challenged the UAE’s traditional dominance in investment, trade, and tourism. Projects such as Saudi Arabia’s NEOM and Qatar’s multimodal transport strategies have eroded Dubai’s monopoly as the Gulf’s commercial hub (Shadab, 2023, p. 425). Persistent regional instability, including conflicts in Yemen and tensions around the Strait of Hormuz, continues to increase geopolitical risk for investors. Finally, dependence on foreign labor remains a long-term structural vulnerability. Despite localization programs, citizens continue to represent only a small share of private-sector employment, constraining human capital development and long-term sustainability (GLMM, 2024: 1-2).

4. Economic Diplomacy of Saudi Arabia

4.1. Vision 2030, the PIF, and Project-Centered State Engineering

Saudi Arabia's economic diplomacy reflects a strategic attempt to shift from a rentier-state model based on oil revenues and distributive welfare toward a project-centered governance paradigm focused on competitiveness, diversification, and a post-rentier transition. Before 2016, this diplomacy relied primarily on two instruments: oil power and development assistance provided through the Saudi Development Fund. The launch of Vision 2030 reorganized this model around the Public Investment Fund (PIF), which became the central institutional vehicle for preparing the Kingdom for the post-rentier era. Vision 2030 prioritizes regulatory improvement, the privatization of major state-owned enterprises such as Aramco, and the development of new non-oil sectors, including technology, tourism, and cultural industries (Hertog, 2010: 258; MISA, 2024: 7).

The PIF functions as the operational core of this transformation. By managing large-scale giga-projects, it links domestic restructuring to external economic diplomacy and the attraction of international investment. NEOM, a USD 500 billion smart city on the Red Sea, represents the most visible expression of this model and is designed as a hub for innovation, logistics, and trade (Hussain, 2017: 5). Other projects, including the Red Sea Project and AlUla, combine sustainable tourism, cultural heritage, and national rebranding, while Jazan Industrial City and port expansions support the Kingdom's logistical capacity (MISA, 2024: 18; Hussain, 2017: 6). Through these initiatives and its international investments, the PIF seeks to reposition Saudi Arabia from an "oil seller" to a "capital and market partner." This shift indicates a move from distributive bureaucracy toward project-centered state engineering, in which sovereign investment, infrastructure, and global branding are used as instruments of economic diplomacy.

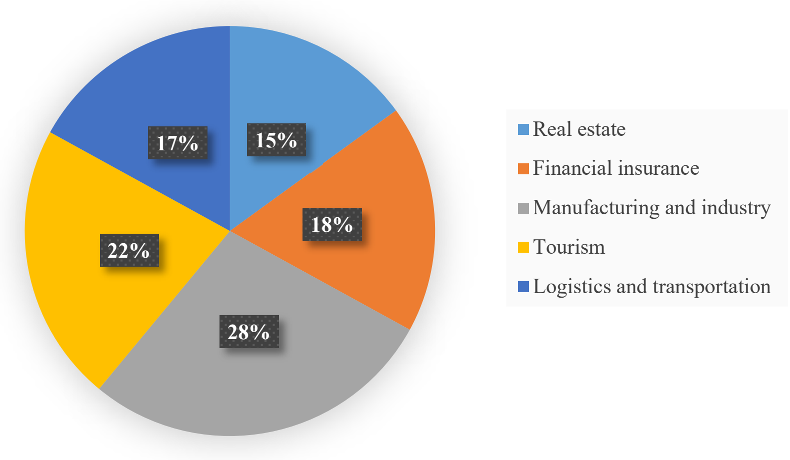

Fig 2. Sectoral Composition of FDI in Saudi Arabia until 2024 (UNCTAD, 2024; GASTAT, 2024; Trading Economics, 2024)[1]

4.2. Strategic Balancing and the Diversification of External Partnerships

Saudi Arabia's external economic diplomacy after 2016 has been characterized by strategic balancing. While Riyadh continues to rely on its traditional partnerships with Western powers, it has simultaneously expanded cooperation with China and Russia to enhance geopolitical flexibility. The United States remains the kingdom's principal security and technology partner. In 2025, the two countries signed a USD 142 billion defense and technology agreement covering advanced defense systems, cybersecurity, and AI-based solutions, reinforcing Saudi Arabia's continuing structural dependence on Washington in the security domain (The White House, 2025: 12).

1. Source: Prepared by the author based on data from UNCTAD's World Investment Report (2024), GASTAT statistics, Trading Economics forecasts, Mawani infrastructure reports, and official data from the NEOM project.

At the same time, this dependence now operates within a more diversified diplomatic framework, enabling Riyadh to preserve cooperation with Western partners while broadening its strategic options (Shabbir, Khan, & Bhattarai, 2022: 190).

Western economies also remain central to Saudi Arabia's investment-led transformation. By 2023, more than 85 percent of Saudi foreign investment originated from Western countries and was concentrated in sectors such as technology, renewable energy, healthcare, and tourism (Ministry of Investment Saudi Arabia, 2024: 9). Major corporations, including Oracle, Google, Cisco, and Siemens, continue to support Vision 2030 projects related to digital transformation, smart mobility, health infrastructure, and smart-city development (Ministry of Investment Saudi Arabia, 2024: 13-14). DataVolt's USD 20 billion investment in U.S. data centers further illustrates the technology-oriented character of Saudi-Western economic relations (The White House, 2025: 10). Therefore, despite diversification efforts, Western partnerships remain essential to Saudi Arabia's strategy of economic modernization and institutional stabilization.

Alongside this Western orientation, Saudi Arabia has significantly deepened its partnership with China. Saudi-Chinese relations have moved beyond traditional trade and energy cooperation toward a multidimensional strategic partnership. The Comprehensive Strategic Partnership Agreement of 2016 expanded cooperation in renewable energy, digital technology, infrastructure development, and the Belt and Road Initiative (BRI) (Fulton, 2019: 3). Owing to Saudi Arabia's geostrategic location between Asia, Europe, and Africa, China has integrated the kingdom into its broader connectivity strategy (Fulton, 2019: 4). Riyadh's approach reflects a flexible diplomatic strategy in which opportunities created by an increasingly multipolar international order are utilized without fundamentally undermining relations with Western partners (Shabbir, Khan, & Bhattarai, 2022: 186, 190). China, meanwhile, pursues a cautious form of economic diplomacy by prioritizing infrastructure and technological cooperation while avoiding deeper political commitments (Zhao, 2023: 17). Consequently, the relationship remains complementary rather than substitutive: China secures reliable energy access, while Saudi Arabia diversifies its external partnerships and strengthens its geo-economic resilience (Zhao, 2023: 18).

Saudi-Russian relations represent a more selective and opportunity-driven partnership. Their primary foundations lie in energy coordination, defense cooperation, and strategic balancing rather than broad economic integration. The OPEC+ production-cut agreement of 2016 constituted a turning point by creating a new level of coordination between two former competitors and strengthening their collective bargaining power in global oil markets (Bradshaw et al., 2019: 5-8). Nevertheless, cooperation beyond the energy sector remains limited. Bilateral trade volumes are modest, and the institutional frameworks supporting economic cooperation remain underdeveloped (Council of Saudi Chambers, 2018: 5, 9-10). Defense cooperation has also remained constrained. King Salman's visit to Moscow in 2017 resulted in agreements on advanced weapons systems, including the S-400, yet implementation stalled due to Western pressure and policy divergences over Syria. Overall, relations with Russia illustrate Riyadh's pragmatic multilateralism: Saudi Arabia diversifies its alliances to increase strategic autonomy. At the same time, energy cooperation under OPEC+ continues to serve as the central pillar of the relationship (Suchkov, 2016, pp. 237-251).

4.3. Achievements and Structural Constraints

Saudi economic diplomacy under Vision 2030 has achieved visible progress in investment promotion, regulatory reform, international branding, and technology-driven partnerships. The Saudi-U.S. Investment Forum in 2025 brought together major technology companies, including Google, Amazon, Oracle, and NVIDIA, to expand cooperation in artificial intelligence, mineral supply chains, and digital infrastructure (Saudi-U.S. Investment Forum, 2025: 3, 5). The forum also highlighted DataVolt's USD 20 billion investment in U.S. cloud services, indicating the growing role of data-centered diplomacy in Saudi Arabia’s external economic strategy (Saudi-U.S. Investment Forum, 2025: 9-10). Alongside these developments, reforms related to foreign ownership, simplified licensing procedures, and the digitalization of government services have improved the kingdom's investment climate and international competitiveness (The White House, 2025: 12).

Despite these achievements, persistent institutional limitations continue to constrain transformation. As Hertog argues, the Saudi economy still operates through semi-formal networks of royal foundations and quasi-state enterprises functioning beyond transparent accountability mechanisms (Hertog, 2010, pp. 215-216). This institutional structure limits private-sector independence, weakens policy consistency, and makes economic transformation heavily dependent on centralized authority.

Several challenges emerge from this configuration. First, many mega-projects are initiated without sufficiently rigorous economic evaluation, reflecting political and symbolic priorities more than market logic. Second, the concentration of investment in flagship projects and zones, such as NEOM and Jazan, risks deepening regional inequalities and limiting inclusive development. Third, the persistent skills gap continues to reduce labor productivity. Despite major investments in advanced technology sectors, Saudization remains incomplete, while industries such as artificial intelligence and biotechnology continue to depend heavily on foreign expertise and labor (Saudi-U.S. Investment Forum, 2025: 13).

The central paradox of Saudi economic diplomacy is therefore that it projects modernization externally while remaining constrained by domestic institutional rigidity. Without deeper reforms to enhance transparency, regulatory decentralization, private-sector autonomy, and independent institutional oversight, economic diplomacy may strengthen international visibility and reinforce regime legitimacy, yet remain insufficient to ensure a sustainable post-rentier transition.

5. Comparative Analysis: Institutional Logics of Economic Diplomacy

The United Arab Emirates (UAE) and Saudi Arabia share the structural challenge of transforming oil-based wealth into sustainable post-rentier development. Both states have employed economic diplomacy to attract foreign direct investment, diversify external partnerships, expand technology-oriented sectors, and strengthen their position within an increasingly multipolar geo-economic order. Nevertheless, their developmental trajectories differ in the institutional logic through which the state organizes markets, manages capital, and governs transformation processes.

The UAE has developed a facilitative and market-oriented model based on regulatory experimentation, free zones, legal predictability, and global connectivity. Saudi Arabia, by contrast, has adopted a state-engineered, project-centered model led by sovereign institutions, particularly the Public Investment Fund (PIF), and supported by large-scale transformation projects.

The first point of convergence between the two states is the strategic use of oil wealth to finance post-oil diversification. Saudi Vision 2030 and the UAE's long-term transformation strategies both aim to convert hydrocarbon rents into platforms for investment attraction, technology transfer, and knowledge-based development (Saudi Vision 2030; Young, 2021). Projects such as NEOM in Saudi Arabia and JAFZA in the UAE, therefore, function not merely as development initiatives but also as institutional arenas for testing new forms of investment governance and regulatory adaptation. In both cases, long-term resilience depends upon the ability to recalibrate the relationship between state authority and market autonomy (Ramady & Saee, 2007, p. 39; Abu Dhabi Global Academy, 2023: 104).

A second similarity lies in the shift toward multipolar economic diplomacy. Both countries have moved beyond the traditional oil-for-security framework by employing trade, investment, infrastructure, and technology partnerships as instruments of geopolitical flexibility. The UAE combines its security partnership with the United States with active participation in China's

Belt and Road Initiative, positioning itself as a logistics and technology hub (Garlick, 2023, p. 240). Saudi Arabia similarly utilizes cooperation with China in infrastructure and renewable energy, as well as coordination with Russia through OPEC+, to reduce dependence on any single external actor (Bradshaw et al., 2019: 9). This reflects the integration of economic efficiency and strategic bargaining power within contemporary economic diplomacy (Mousavi Shafaee, 2009, p. 80; Bayne & Woolcock, 2021: 94).

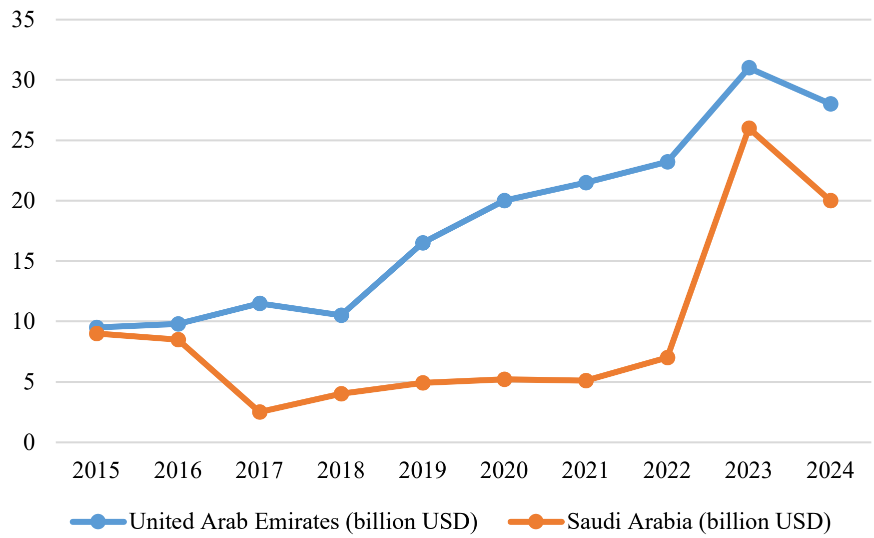

Fig 3. Comparative Trends in Foreign Direct Investment (FDI) in the United Arab Emirates and Saudi Arabia, 2015-2024[1]

The principal difference lies in how each state institutionalizes post-rentier transition. The UAE model relies on regulatory flexibility, market-oriented institutions, and global integration. JAFZA, which provides extensive foreign ownership rights and tax incentives, has evolved into a major logistics hub

1. Source: Prepared by the author based on data from UNCTAD's World Investment Report (2024).

and a regulatory laboratory for investment attraction (Abu Dhabi Global Academy, 2023). Expo 2020 Dubai further transformed symbolic visibility into investment flows, technology partnerships, and national branding. Participation in the Belt and Road Initiative and the international activities of sovereign wealth funds such as ADIA and Mubadala have further strengthened the UAE's position within global capital and technology networks (Noroozi & Akbari, 2024, p. 123). Overall, the UAE functions as a facilitative state by enabling, regulating, and coordinating markets rather than directly substituting for them.

Saudi Arabia's model is more centralized and project-oriented. Vision 2030, the PIF, MISA, NEOM, Special Economic Zones, and the partial privatization of Aramco demonstrate a strategy in which sovereign authority mobilizes capital, infrastructure, and national branding to accelerate transformation. This model may facilitate rapid implementation and generate substantial international visibility; however, it also concentrates strategic authority within state-linked institutions. Consequently, Saudi economic diplomacy remains vulnerable to limited competition, dependence on public capital, and weaker institutional learning if private firms continue to function merely as contractors rather than autonomous market actors (MISA, 2024).

Thus, the contrast is not between an active state and a passive state, since both models remain state-led. Rather, the distinction lies between state facilitation and state engineering. The UAE has advanced further toward institutional balance by combining public coordination with private-sector participation, regulatory credibility, and risk-sharing mechanisms. Saudi Arabia has prioritized sovereign-led mobilization, which provides speed and scale but requires deeper reforms in transparency, regulatory delegation, and competitive neutrality to become a sustainable post-rentier model. Without such reforms, giga-projects may remain symbols of modernization rather than durable engines of structural transformation.

Table 1. Comparative Features of UAE and Saudi Economic Diplomacy

Dimension	United Arab Emirates	Saudi Arabia
Core model	Facilitative and market-oriented	State-engineered and project-centered
Main instruments	Free zones, logistics hubs, CEPAs, exhibitions	Vision 2030, PIF, NEOM, SEZs
State role	Regulator and market enabler	Planner, financier, and executor
Institutional logic	Regulatory flexibility and legal predictability	Centralized mobilization and sovereign control
Main strength	Investor confidence and global connectivity	Rapid implementation and international visibility
Main constraint	Continued fiscal exposure and elite-centered governance	Limited competition and dependence on public capital
Post-rentier path	Gradual institutional adaptation	Top-down sovereign-led transformation

Source: Research findings

6. Conclusion

The comparison between the United Arab Emirates (UAE) and Saudi Arabia demonstrates that moving beyond the rentier model is not merely a matter of replacing oil revenues with alternative sources of income. More fundamentally, it requires the gradual restructuring of the institutions through which the state governs markets, attracts investment, and engages with the global economy. Both countries have employed economic diplomacy as part of this transition; however, they have followed different trajectories. The UAE has relied primarily on a facilitative model built around free zones, regulatory flexibility, legal predictability, and close interaction with global markets. Saudi Arabia, by contrast, has adopted a more state-engineered and project-centered approach shaped by Vision 2030, the Public Investment Fund, and large-scale projects such as NEOM.

In response to the research question, the study shows that economic diplomacy in Gulf rentier states is not formulated or implemented through a single institutional pathway. Rather, it is shaped by distinct governance logics.

In the UAE, economic diplomacy is institutionalized through a facilitative and market-oriented framework that enables regulatory experimentation, private-sector participation, and global connectivity. In Saudi Arabia, it is organized through a centralized, sovereign-led model that mobilizes state capacity around strategic projects and large-scale investment platforms. The divergence between the two cases, therefore, lies less in their diversification objectives than in the institutional arrangements through which those objectives are pursued.

The findings suggest that economic diplomacy can support sustainable development only when backed by credible and adaptive institutions. Free zones, investment agreements, strategic partnerships, and giga-projects may attract capital and international attention, but their long-term value depends on the quality of governance that sustains them. Transparent rules, reliable enforcement, independent oversight, and meaningful private-sector participation are therefore essential. Without these conditions, diversification policies may improve international visibility and short-term investment performance, but they are less likely to generate deep structural transformation.

This argument refines conventional rentier-state theory. In the contemporary Gulf, political and economic resilience no longer depends solely on the distribution of oil rents. Rather, it increasingly depends on states' capacity to build institutional capital. This includes regulatory credibility, legal predictability, administrative capacity, adaptive governance, and the creation of space for private initiative. The central question, therefore, is not whether the state should play an active role in development. Both the UAE and Saudi Arabia demonstrate that the state remains central. The more important question is how state intervention can be organized to support competition, innovation, and market autonomy rather than constrain them.

The findings also carry important policy implications for both countries. For the UAE, the main policy challenge is to deepen the institutional advantages it has already developed. Its free zones, logistics networks, global partnerships, and regulatory experimentation have helped position it as a regional hub for investment and connectivity. However, long-term resilience will require stronger productive capacity, deeper technology-based industrial linkages, broader human-capital development, and greater private-sector autonomy. Reducing excessive dependence on elite-centered decision-making would also help strengthen institutional credibility and broaden the domestic base of economic transformation.

For Saudi Arabia, the main policy priority is to ensure that the momentum generated by Vision 2030 and PIF-led projects is translated into broader institutional learning. Large-scale projects such as NEOM can create visibility and accelerate implementation. However, they will become sustainable engines of transformation only if they are connected to domestic capability-building, labor-market upgrading, transparent resource allocation, and more competitive participation by private firms. This requires stronger regulatory delegation, independent oversight, and procurement mechanisms that encourage competition rather than dependence on state-led contracting.

For both countries, the broader lesson is that economic diplomacy should not be viewed only as an external tool for attracting investment, building partnerships, or improving national branding. It should also be understood as part of domestic institutional reform. Sustainable post-rentier development requires a gradual movement toward institutional equilibrium: a condition in which state capacity, private-sector participation, transparent regulation, and credible enforcement reinforce one another. Future research should examine not only the volume of foreign investment but also its quality, technological content, and contribution to domestic value creation.

Funding

This study received no financial support from any organization.

Authors' contributions

All authors contributed to preparing this paper.

Conflicts of interest

The authors declare no conflict of interest.

References

Abu Dhabi Global Academy. (2023). UAE economic diplomacy report 2023. https://www.agda.ac.ae/docs/default-source/2023/uae-economic-diplomacy-report-2023/-uae-economic-diplomacy-report-2023.pdf

Albous, M., Al-Jayyousi, O., & Stephens, M. (2025). AI governance in the GCC states: A comparative analysis of national AI strategies. *Journal of Artificial Intelligence Research*, 82, 2389–2422. https://doi.org/10.1613/jair.1.17619

Bayne, N., & Woolcock, S. (2021). The new economic diplomacy: Decision-making and negotiation in international economic relations (4th ed.). Routledge. https://doi.org/10.4324/9781003088868

Blanchard, J. M. F., & Ripsman, N. M. (2008). A political theory of economic statecraft. *Foreign Policy Analysis*, 4(4), 371–398. https://doi.org/10.1111/j.1743-8594.2008.00076.x

Bradshaw, M., Van de Graaf, T., & Connolly, R. (2019). Preparing for the new oil order? Saudi Arabia and Russia. *Energy Strategy Reviews*, 26, Article 100374. https://doi.org/10.1016/j.esr.2019.100374

CABSAT. (2025, January 8). Dubai World Trade Center events in H1 2025: Intersec, Arab Health, Gulfood, ATM, CABSAT, and more." https://cabsat.com/dubai-world-trade-centre-events-in-h1-2025-intersec-arab-health-gulfood-atm-cabsat-and-more

Cavalcanti Muniz, R. (2023). "Economic diplomacy as a tool for development: A critical analysis of Dutch port development investments in Brazil [Doctoral thesis, Erasmus University Rotterdam]. https://pure.eur.nl/ws/portalfiles/portal/93107452/591251_1_bw_cavalcanti_6479ea434256b.pdf

Chatterjee, C. (2020). Economic diplomacy and foreign policymaking (P. Parham & P. Pour-Ramezan, Trans.). Andishkadeh-ye Sanaye-ye Narm. (in Persian)

Coolsaet, R. (2020). Economic diplomacy in a globalized world. Edward Elgar. https://doi.org/10.4337/9781788970549

Council of Saudi Chambers. (2018). Annual Report 2018. Federation of Saudi Chambers. https://fsc.org.sa/2018/?lang=en

Fulton, J. (2019). China's changing role in the Middle East. Atlantic Council. https://www.atlanticcouncil.org/wp-content/uploads/2019/06/ Chinas_Changing_Role_in_the_Middle_East.pdf

Garlick, J. (2023). China's hedged economic diplomacy in Saudi Arabia and Iran: A strategy of risk mitigation." In Y. C. Kim (Ed.), China's engagement with the Islamic nations. Springer. https://doi.org/10.1007/ 978-3-031-31042-3_7

Gulf Labor Markets, Migration, and Population Program. (2024, September 10). GLMM activities report: January 2023-July 2024. Gulf Research Center. https://gulfmigration.grc.net/wp-content/uploads/2024/09/ GLMM-Activities-Report-Jan23-Jul24-Final-2024-09-10.pdf

Hanieh, A. (2018). Money, markets, and monarchies: The Gulf Cooperation Council and the political economy of the contemporary Middle East. Cambridge University Press. https://www.researchgate.net/publication/ 345371751

Hertog, S. (2010). The sociology of the Gulf rentier systems: Societies of intermediaries. Comparative Studies in Society and History, 52(2), 282–318. https://doi.org/10.1017/S0010417510000058

Hussain, Z. (2017). Saudi Arabia's Red Sea Project: Harnessing tourism for diversification. Indian Council of World Affairs. https://www.researchgate.net/ publication/321586459_Saudi_Arabia's_Red_Sea_Project_Harnessing_Tourism_for_Diversification

Krzymowski, A. (2024). Economic diversification of the United Arab Emirates through the space sector and its diplomacy. Virtual Economics, 7(4), 30–47. https://doi.org/10.34021/ve.2024.07.04(2)

Ministry of Investment, Saudi Arabia. (2024). Saudi Arabia foreign direct investment report: January 2024. https://misa.gov.sa/app/uploads/2024/04/ saudi-arabia-foreign-direct-investment-report-january-2024.pdf

Mogielnicki, R. (2021). A political economy of free zones in Gulf Arab states. Palgrave Macmillan. https://doi.org/10.1007/978-3-030-71274-7

Mousavi Shafaee, M. (2009). Economic diplomacy: A new tool of foreign policy in the era of globalization. In Proceedings of the Conference on Economic Diplomacy. Research Center of the Expediency Discernment Council. (in Persian)

Mousavi Shafaee, S. M., & Imani, H. (2017). Economic diplomacy: An approach to enhancing Iran's national power. Rahbord, 26(84), 149-174. (in Persian)

Noroozi, H., & Akbari, Z. (2024). China's network diplomacy and the UAE: Two trade tycoons and new power waves." Journal of Iran and Central Eurasia Studies, 7(1), 111–132. https://jices.ut.ac.ir/article_99085_7878f846bbbab3abb7288bbc2e8a4589.pdf

Notteboom, T., & Yap, W. Y. (2022). Port economics, management, and policy. Routledge. https://doi.org/10.4324/9780429318184

Nye, J. S. (2004). Soft power: the means to success in world politics. PublicAffairs. https://www.academia.edu/28699788

Ramady, M. A., & Saee, J. (2007). Foreign direct investment: A strategic move toward sustainable free enterprise and economic development in Saudi Arabia. Thunderbird International Business Review, 49(1), 37–56. https://doi.org/10.1002/tie.20130

Rasouli Ghahroodi, M. (2018). Foreign direct investment in theory and practice: with a review of foreign investment in Iran. Institute for Management and Planning Studies. (in Persian)

Samiei-Nasab, M. (2014). Economic diplomacy: A strategy for confronting economic sanctions within the framework of the resistance economy. *Afagh-e Amniat*, 7(25), 115-147. (in Persian)

Saudi-U.S. Investment Forum. (2025). Program at a glance. King Abdulaziz International Conference Center. https://saudi-usinvestmentforum.com/program-at-a-glance.pdf

Saudi Vision (2030). (n.d.). Saudi Vision 2030: A blueprint for the future. https://www.vision2030.gov.sa/media/rc0b5oy1/saudi_vision203.pdf

Shabbir, Q., Khan, N. A., & Bhattarai, G. (2022). Implications of U.S.-Saudi arms deals for the Middle East strategic landscape. *Geopolitics Quarterly*, 18(4), 127–138. https://doi.org/10.24833/2071-8160-2017-4-55-127-138

Shadab, S. (2023). The new Arab Gulf: Evaluating the success of economic diversification in the UAE. In Social Change in the Gulf Region (pp. 415–430). Springer. https://doi.org/10.1007/978-981-19-7796-1_25

Sim, L.-C., & Fulton, J. (2020). Implications of a regional order in flux: Chinese and Russian relations with the United Arab Emirates. Cambridge Review of International Affairs, 34(4), 551–569. https://doi.org/10.1080/09557571.2020.1800590

Suchkov, M. (2016). Contemporary Russia-Saudi relations: Building a bridge of cooperation over the abyss of discrepancies. Iran and the Caucasus, 20(2), 237–251. https://doi.org/10.1163/1573384X-20160208

The U.S.-U.A.E. Business Council. (2024). The U.A.E.'s big bet on artificial intelligence. https://usuaebusiness.org/wp-content/uploads/2024/09/AIReport_Sep24_Web.pdf

The Voice of Africa. (2025, May 2). The 2025 Global Economic Zones Leaders Summit concludes with resounding success in Dubai. https://thevoiceofafrica.com/2025/05/02/the-2025-global-economic-zones-leaders-summit-concludes-with-resounding-success-in-dubai/

The White House. (2025, May 13). Fact sheet: President Donald J. Trump secures historic $600 billion investment commitment in Saudi Arabia. https://static.poder360.com.br/2025/05/casa-branca-fact-sheet-arabia-saudita.pdf

U.S. Department of Commerce. (2024). United Arab Emirates: Trade overview. International Trade Administration. https://www.trade.gov/sites/default/files/2024-09/United%20Arab%20Emirates-508.pdf

Vogue Business. (2024, December 17). Vogue Business announces Fashion Futures Dubai at Dubai Design District (d3). https://www.voguebusiness.com/story/fashion/vogue-business-announces-fashion-futures-dubai-at-dubai-design-district-d3

World Bank. (2023). "Gulf economic update: The health and economic burden of non-communicable diseases in the GCC. https://documents1.worldbank.org/curated/en/099540005112341051/pdf/IDU0dfad6e2f0791104fa80824b05cb6e69490c2.pdf

Young, K. E. (2021). Economic diversification in the Gulf: Time to redouble efforts. Brookings Institution. https://www.brookings.edu/wp-content/uploads/2021/01/Economic-diversification-in-the-Gulf.pdf

Zhao, H. (2023). "China's hedged economic diplomacy in Saudi Arabia." International Affairs, 99(1), 15–33.