The United Arab Emirates’ economic freedom score is 70.2, making its economy the 33rd freest in the 2022 Index. The United Arab Emirates is ranked 1st among 14 countries in the Middle East and North Africa region, and its overall score is above the regional and world averages.

The economy of the United Arab Emirates has grown slowly over the past decade, and most progress was wiped out by a contraction in 2020. Economic freedom has declined over the same period. Dragged down by lower scores for judicial effectiveness and labor freedom, the United Arab Emirates has recorded a 6.7-point overall loss of economic freedom since 2017 and is now nearly at the bottom of the “Mostly Free” category. Fiscal health is robust, but judicial effectiveness is weak.

IMPACT OF COVID-19: As of December 1, 2021, 2,148 deaths had been attributed to the pandemic in the United Arab Emirates, and the government’s response to the crisis ranked 55th among the countries included in this Index in terms of its stringency. The economy contracted by 5.9 percent in 2020.

BACKGROUND: The United Arab Emirates is a federation of seven monarchies: Abu Dhabi, Ajman, Dubai, Fujairah, Ras Al-Khaimah, Sharjah, and Umm al-Qaiwain. The Federal Supreme Council selects the president and vice president for five-year terms, and there are no term limits. Abu Dhabi’s Sheikh Khalifa bin Zayed al-Nahyan has been president since 2004. The UAE has an open economy with a high per capita income and a sizable annual trade surplus. Oil and gas account for approximately 30 percent of GDP. A peace agreement signed with Israel in September 2020 cleared the way for increased bilateral trade, investment, technological cooperation, tourism, and strategic cooperation against Iran, which both the UAE and Israel regard as the chief threat to regional stability.
The federal government allows individual emirates to decide the mechanisms through which ownership of land may be transferred. Enforcement of property rights is predictable and fair. The judiciary is not independent, but the rule of law is generally well maintained. The UAE is among the least corrupt countries in the region. Nevertheless, nepotism and corruption persist, and the government generally lacks transparency.

The UAE has no income tax and no federal-level corporate tax. Different corporate tax rates exist in some emirates, and a value-added tax has been in force since 2018. The overall tax burden equals 1.0 percent of total domestic income. Government spending has amounted to 30.8 percent of total output (GDP) over the past three years, and budget deficits have averaged 1.6 percent of GDP. Public debt is equivalent to 38.3 percent of GDP.

Several laws passed since 2020 have been designed to make foreign ownership of businesses and long-term citizenship by foreigners a reality. The UAE also has approved a resolution to combat commercial fraud. Labor force participation among citizens is low. Subsidized state-owned enterprises are a key component of the UAE economic model, and the government monitors prices of goods and services to ensure that they are not raised.

The United Arab Emirates has four preferential trade agreements in force. The trade-weighted average tariff rate is 3.4 percent, and 73 nontariff measures are in effect. Efforts to attract increased foreign investment continue, and more sectors are open to greater foreign ownership. The modern financial sector is competitive and offers diversified services. State-owned banks have maintained a strong presence, but foreign banks have over 100 branches.