DevelopmentAid Dialogues

Season 3. Episode 17: Beyond Bottomless Wallets: The Strategic Reality of Gulf Economic Diplomacy. A Conversation with Damyana Bakardzhieva

Hisham Allam: Hello everyone. Welcome to DevelopmentAid Dialogues. I'm your host, Hisham Allam. Over the past few years, a quiet but important shift has been taking place in the global development landscape. The United States, and several Western donors scaled back or reassessed their aid budgets. A new question has started to take place. Who fills the gap?

Increasingly, attention has turned to the Gulf. These countries have expanded their role in development finance, humanitarian aid, and international partnerships, positioning themselves not just as regional actors, but as reliable global donors. But now with tensions and conflict unfolding in the Gulf region, that trajectory faces a new layer of uncertainty.

Does the stability at home affect commitment abroad, or if this aid flows structured in a way that makes them more resilient than we assume? My guest today is Dr. Damyana Bakardzhieva, a senior research fellow leading the economic diplomacy program at the Anwar Gargash Diplomatic Academy, with extensive experience across academia and policy in Europe, the US and the Middle East.

Dr. Damyana , thank you for being with us today.

Damyana Bakardzhieva: Thank you for having me, Hisham.

Hisham Allam: Let me start from the broader shift we have been observing. There is a growing narrative that as wizard donors pull back, the Gulf is stepping in to fill that gap. From your perspective, how accurate is that framing and whether it oversimplifies what is actually happening?

Damyana Bakardzhieva: I think that although I've seen that narrative appear in the media here and there, I think there are wo fundamental flaws with it. The first is to consider that the Gulf approach to foreign aid is purely opportunistic, that the Gulf countries are waiting for someone to step out, for them to be able to step in that space.

I think that their approach is way more strategic and structured than this kind of reasoning would assume. The UAE, for example, has had a foreign aid policy since its founding in 1971 and has made it at its core. It's economic diplomacy more recently. I think that this is not an accurate depiction of what is happening in the Gulf.

The second flow in this reasoning is to consider the Gulf countries as bottomless wallets on standby. This is also inaccurate. Yes, the countries in the region have significant funds. But if you look at the data that the OECD published last week, I think it was on April 9th that the latest report came out on aid. Even if they were to double their 2025 foreign aid contributions, put together the UAE, Qatar and Kuwait will only be adding four and a half to $5 billion to the international pool of official development assistance. When you compare this to the fact that the countries of the Development Assistance Committee have withdrawn over $40 billions of their contributions last year, you can see that things are not commeasured.

This is not what's standing against the fact that the UAE, for example, is already contributing 0.63% of its gross national income to development assistance, which is close to the target of 0.7%. And it's more than all but four countries of the development assistance committee. So, no matter how much the Gulf countries contribute extra, they cannot compensate for the major gaps that have been left by countries like the US, Germany, or France, for example.

Hisham Allam: So, once we move beyond that airline's narrative, it raises a more structural question about how this role is being shaped. When we talk about Gulf countries as development donors today, are we looking at something comparable to traditional western aid models or a fundamentally different approach in terms of priorities and delivery?

Damyana Bakardzhieva: I believe that the models are quite different by design. A lot of Western aid has traditionally been tied, especially aid coming from the United States, which is often conditional on purchasing American products or using American technologies. This has been understood to be necessary to an extent for avoiding that aid gets misplaced, avoid mismanagement and poor governance issues, but at the same time it prevents recipient countries from using aid where and how it would be the most useful. The case of Gulf aid is different. Gulf aid is not tied to aid in general. And in addition, we should note that Gulf countries would always be particularly responsive to the needs of Muslim and Arab countries, which is also an important difference. So, there would be certain preferences in our part of the world that do not correspond to the general perspectives of donor countries from other parts of the world. We've seen this recently with Gaza where the UAE is the major donor and virtually the only one who has been able to sustain a lifeline towards the Gaza Strip, even at the time when the conflict was still very active over there. So, these clear preferences are distinguishing the Western model of aid from the Gulf model of aid.

Hisham Allam: That becomes especially relevant when we bring the current regional context into the picture. Given the ongoing tensions in the Gulf, it exposed its development aid to geopolitical instability at a structural level.

Damyana Bakardzhieva: Even outside of the Gulf, I think it very much depends on how close the conflict is to the donor countries. To a certain extent, geopolitical conflicts in a region lead to increased aid within that region. Though this is more likely to take the form of humanitarian aid at that time rather than broadly speaking, development aid. We saw this with the European countries directing most of their aid pending in the last couple of years towards Ukraine after the war with Russia started, or with the Gulf countries

supporting Gaza as I just mentioned. So, there would be a certain amount of redirection of aid if conflict arises nearby.

However, that same geopolitical instability could also have very detrimental effects on the availability of aid if it leads to an inflationary macroeconomic environment because in general to combat high inflation, governments have to increase spending on supporting the household's purchasing power.

And central banks have to increase interest rates. This makes investments and debt services or debt refinancing very expensive and makes it very hard for the government to keep spending. In those cases, with growth declining and with fiscal spaces becoming very constrained, it is likely for countries to redirect spending internally.

But again, that is the case of all countries in general, not necessarily the case of the Gulf economies specifically. Now, the current macroeconomic environment is tending towards what I just described, given that we have the closure of the Strait of Hormuz we have energy prices skyrocketing around the world.

And the longer this lasts, the more it's going to trickle into macroeconomic instabilities that would make it harder for countries around the world to spend aid. On top of it, it would make also aid less efficient because with the same amount of cash, you can basically purchase much less real goods.

When we're talking about humanitarian aid food becomes more expensive and so even if countries donate the same amount of cash, they would be able to purchase less food and make for less food available for the populations that are concerned.

Hisham Allam: Speaking about spending and directing it, because the natural assumption in moments like this is straightforward. There is often an expectation that conflict shifts focus inward on defense and security and domestic stability. In the Gulf context, does that assumption actually hold?

Damyana Bakardzhieva: I wouldn't reckon that it is less applicable to the Gulf countries for several reasons. First of all, the current regional conflict has not affected domestic stability beyond the immediate economic impacts of lost tourism, transportation, or all revenues.

But the Gulf countries, can compensate for them, with the exception of Bahrain, maybe because they have very strong fiscal fundamentals. The Gulf countries have very disciplined government spending and well stocked sovereign wealth funds. So, they have both current surpluses in the fiscal space and also accumulated surpluses in their sovereign wealth funds.

So, they're very well equipped to face the macroeconomic pressures that most countries will experience. Now. It is all natural that they might increase defense spending in the near future. If for nothing else, then at least to replenish the stocks of the air defenses, but they do not need, contrary to other economies to redirect aid spending into defense spending.

They have other places to tap in for the additional defense spending that does not have to come at the expense of lower aid spending.

Hisham Allam: And if we follow that line of thinking a bit further, it naturally leads to the question of tradeoffs. When governments are forced to shift priorities under pressure. With that development atypically set in that hierarchy, is it one of the more flexible areas or something that tends to be protected?

Damyana Bakardzhieva: Typically, development aid for many countries will be a very low priority mostly because voters don't usually prioritize this type of spending and generally overestimate how much it is anyways.

So oftentimes the narratives of even the extreme right-wing parties become palatable to the electorate from all spectrums when it comes to spending on foreign needs. So, it is an easy choice for most governments to redirect aid budgets to domestic needs at times of trouble because there isn't anybody within the country to usually object voice fully to that kind of redirection.

If we are to look at the Gulf countries, such electoral games are not being played here. So, there are only clear strategies that have been motivated by decades of structured vision. So, I would argue that aid spending would be more protected in the context of the Gulf countries and more prioritized than it would normally be in many other economies.

It is also important for those of your listeners who come and live outside of the MENA region to understand that charitable giving is not just part of the culture of our region. It is a religious obligation for many of us, and it's therefore very deeply ingrained in the private and public lives of our countries.

So cross border private philanthropy is very prominent from our region and within our region. So, the priority is higher for us than it might be for other countries.

Hisham Allam: Thank you for explaining this point. At the same time, Gulf countries have been quite intentional in how they position themselves internationally. The question is, how important is reputation as reliable and visible development partners in shaping whether aid commitments are maintained, reduced, or redirected in moments of uncertainty?

Damyana Bakardzhieva: Positive reputation is something that everybody wants, right? You, me, the governments of all countries in the world.

An unsurprisingly positive reputation would be clearly something that the Gulf countries would want to maintain in general. But again, I would think that their aid strategies and policies go beyond the need for positive media coverage. I quote if you don't mind, the late Sheikh Zayed, the founding president of the UAE who said: “We believe that the benefit of the fortune granted to us by God should spread to cover our brothers and friends.”

That's not propaganda. And if you've visited or lived in the UAE, you would know that it's actually a lived reality for all Emiratis and probably for many other of the people living in the Gulf more broadly. It's beyond religious content. It's a matter of fundamental values. It's ingrained in the way people perceive the world, and so there's much more at stake here. It's values that are at stake way beyond an image being at stake.

Hisham Allam: That question of consistency is particularly important for actors on the receiving side, for international NGOs and development organizations that have increasingly turned toward the goal of funding. How should they interpret the current moment? It is a signal of continuing the stability or a moment to reassess assumptions.

Damyana Bakardzhieva: If I were an NGO or head of an NGO, I would treat this as a signal of stability when dealing with most Gulf economies. Again, Bahrain might be an exception because it had fiscal issues before the conflict and has even more fiscal issues now after the conflict and during the conflict because it relies almost exclusively on straight formal for all of its exports and therefore has lacking fiscal revenues and, that makes their positioning slightly more complicated. But for the other five gold economies, the stability on the fiscal front is still there to ensure that aid can continue. Just as an example, last month despite the war, the UAE still delivered aid to Gaza and to Lebanon. Obviously, Dubai Humanitarian City activities were constrained because the airspace were closed for a certain amount of time, and then obviously part of the flights could not take off, and the price of kerosene has gone up, and the price of actual humanitarian aid has increased. So there have been numerous constraints that aid leaving the region had to consider. Nonetheless, whenever flights were not available, the aid was taken by tracks by convoys on the road to the countries that were the most in need in the region. The NGOs that will be relying on that aid are not to be worried about that particular element.

I'm not saying that NGOs should not diversify their financing. For me, diversification should be the norm in all spheres of economic life and economic considerations. But I wouldn't worry too much about the availability of Gulf aid per se. I would be very worried, however, by the fact that global aid has heavily declined.

Again, it's unlikely for the Gulf countries to be able to alone fill that gap that has been left vacant by the developed world. And at the same time, that high inflation environment that I spoke about is making debt aid less valuable. In a sense for every dollar of aid, you can now purchase much less in any country in the world, including in the recipient countries.

So that will be something I will be very worried about rather than whether the Gulf would continue providing aid, even if the Gulf continues providing aid, even if the Gulf increases the aid it provides, the gaps to be filled are unfortunately very significant.

Hisham Allam: I'd like to stress the diversifying funding point. For many of these organizations, this is not just theoretical; it directly affects planning cycles. In practical terms, what is the more realistic approach right now? Doubling down on Gulf partnerships or actively diversifying funding sources.

Damyana Bakardzhieva: I would reckon that a reasonable NGO would need to do both. It would need to look at all possible alternatives of financing for their recipients while still maintaining strong relations with the Gulf. They can look into cross border private philanthropy; they can look into diaspora financing, whatever that's available. They can engage with other donor countries as well that were previously on the recipient list, but that now have formed their own funds that they help finance other countries needs with thinking of countries like India, Brazil, or Turkey for that matter. So, there is room to both diversify the

funding sources and still maintain a very strong relationship with the Gulf countries to be able to bridge part of the gaps that have been left out there.

Hisham Allam: Dr. Damyana, if we zoom out slightly, this also connects to a broader strategic lens. From an economic diplomacy perspective, where does development aid sit within the Gulf's wider external strategy? Is it central to fellows or one tool among several?

Damyana Bakardzhieva: Development aid is one of the pillars of Gulf economic diplomacy. And because it's one of the pillars, it is a tool among many. The other tools of economic diplomacy of this part of the world include trade openness with the conclusion of numerous free trade agreements. Probably some of your, audience have heard about the CEPAs, the Comprehensive Economic Partnership Agreements that the UAE but now as of late other Gulf countries and the GCC as a block are also signing with numerous other economies. There's also investment promotion as another tool of economic diplomacy. The Gulf countries are promoting their business environments as favorable to creating new businesses and developing new activities. They welcome many companies from around the world who come and set up headquarters here in the region or start greenfield investments.

There are also the activities of the sovereign wealth funds that are also part of the economic diplomacy of the Gulf and then the development aid, and particularly the humanitarian aid is another element of this economic diplomacy, which is basically using economic tools to achieve foreign policy objectives. It is a crucial element, but it's one among several.

Hisham Allam: So that brings us to the question of durability. How resilient is this model under pressure? Are we looking at something that is sufficiently institutionalized to absorb shocks or still responsive to shorter term political dynamics?

Damyana Bakardzhieva: I wouldn't think that there is an issue with political dynamics. I would think that for some countries there would be issues with economic dynamics. And again, sorry to pinpoint Bahrain, but it so happens that their current fiscal position is not allowing them to continue providing aid as efficiently as they might have done in the past. So, their model might be cracking a little under the pressure of what's happening right now.

However, for the majority of the other Gulf countries with the significant sovereign wars, and again with the fiscal discipline that has been maintained over the years and the lessons learned from COVID-19, their model isn't under pressure. And they have institutionalized enough about the policies and the roads for distributing aid that have made them able to absorb shocks to a greater extent.

Hisham Allam: Even if overall funding levels remain steady, the forms that aid takes could still evolve. Could we see shifts in priorities either geographically or across sectors as a result of the current context? And what would be the main drivers behind those changes?

Damyana Bakardzhieva: I would think that geographic priorities are not very likely to change. There's always been a focus on the nearby neighborhood, on Muslim and Arab countries. So, I don't think that would change as far as the Gulf countries are concerned. But they also do provide humanitarian aid to all countries in need, especially in cases of major earthquakes, landslides, torrential rains et cetera. So, when natural catastrophes arise, the Gulf countries would respond to those needs immediately. Again, with changes in Syria, for example, the countries have stepped in very quickly to respond to the local needs by repaying the world Bank debt, for example, of Syria. UAE and Saudi Arabia stepped in to do that. So, the geographical priorities would probably remain the same. And as far as humanitarian aid, I don't expect any major shifts. As far as broader development aid, I would reckon that the priorities of the Gulf countries would coincide with the priorities they have in their own domestic economic development.

We've seen recently the UAE announcing a major development program for AI in Africa, which corresponds to the country's ambition to be a leader in AI technologies in AI development. We have here the first ministry of AI and the first minister of AI in the world with also a dedicated university for AI, the MBZUAI University.

There is a clear alignment here with the domestic objectives of economic development and the sectoral distribution of development aid abroad.

Hisham Allam: Dr. Damyana, are we overestimating the scale of the Gulf contributions to development aid?

Damyana Bakardzhieva: I think I already mentioned this in the beginning. I think it's not visible for the Gulf countries to replace the US, Germany, France, and the UK at the same time, it's slightly too much to expect from the region. So that scale might need to be perceived in a more realistic way.

Hisham Allam: That's a grounded look at the question that is becoming increasingly central across the development space, whether the Gulf is simply stepping into an existing system or gradually reshaping it under a different set of assumptions and constraints.

Dr. Damyana, thank you for helping us to understand not just the headlines, but the structure behind them, and to our listeners if you are working across development policy or funding strategy, this is a space worth watching closely. The signals may not always be loud, but they are shaping how partnerships evolve in very real ways.

If you find this conversation useful, share it. Follow the podcast on your preferred platform and stay with us for more conversations on DevelopmentAid Dialogues. I'm your host, Hisham Allam. Thank you for listening and goodbye.