EUROPEAN INTERNATIONAL UNIVERSITY
EIU Journal of Action Research



International Business During War: Economic Disruptions, Legal Challenges, and Strategic Responses in the United Arab Emirates

by:

MUHAMMAD ALMAS

Date: 15-10-2026

Table of Contents

Abstract 3
1. Introduction 4
2. Literature Review and Theoretical Framework 4
2.1 Global value chain theory 4
2.2 Transaction cost economics 4
2.3 Institutional theory 5
2.4 Supply-chain resilience and risk management 6
3. Economic Impacts of War on International Business in the UAE 7
3.1 Supply-chain disruption and higher logistics costs 7
3.2 Energy-price volatility and inflation 8
3.3 Investment uncertainty and financial-market volatility 9
3.4 Uneven sectoral effects and trade diversion 9
4. Application of UAE Laws and International Legal Frameworks 10
4.1 Civil and commercial contract law 10
4.2 Company law and corporate governance 11
4.3 Sanctions, export controls, and compliance 12
4.4 International trade law and dispute resolution 12
5. Business Strategies and Recommendations 13
6. Conclusion 13
References 15

Abstract

International business is faced with numerous problems such as wars, geopolitical uncertainty, disruption of the supply chain, varying energy costs, rising transport and insurance rates, volatility of investments, and international trade dynamics. One example of such a diversified economy is the United Arab Emirates (UAE) where hydrocarbon production, international trade, logistics and aviation, tourism, financial services and foreign investment are all part of the mix. It has a diversified and developed economy and infrastructure that contributes to making it resilient; however, if there was a conflict in its region, businesses could be vulnerable to further economic and operational threats and risks. In this article, the four global value chain theory frameworks (GVC), transaction cost economics, institutional theory and supply-chain resilience are reviewed to gain insights into the impact of these. It also looks at UAE civil and commercial law, international trade laws and regulations, compliance with sanctions and allocation of contractual risk. The International Monetary Fund (IMF) and the United Nations Trade and Development (UNCTAD) have provided evidence on the relevance of economic diversifications, of reliable institutions and of the importance of functioning transport networks. The local companies need to increase their diversification of suppliers, safeguards on contracts, financial contingency planning, and legal compliance in UAE, the firm says. Such measures can minimize the risk of upset during conflict and help the UAE maintain its status as an international business and investment center.

Keywords: United Arab Emirates, international business, war, supply chains, geopolitical risk, UAE law, trade, investment, economic resilience.

1. Introduction

International business is connected in markets, transport systems, finance and legal institutions. These connections can be affected by war, which can lead to damage of infrastructure, curtailment of trade, rising insurance costs, disruption of energy supply and loss of investor confidence. Businesses are thus subjected to increased business costs and increased risk of decision-making regarding supply and production, investment, and market penetration. They can spill over from countries that are at war into others as well, as businesses are linked together via international production and distribution networks (Gereffi, Humphrey and Sturgeon, 2005).

The United Arab Emirates (UAE) is a key environment for exploring such issues. It has an economy based on oil and gas, logistics, aviation, tourism, financial services, manufacturing and international trade. Dubai and Abu Dhabi have emerged as major business and investment hubs, as well as the country's ports, airports, free zones and transportation network have added to the activities of regional and global businesses. While this globalization has benefits, there are also problems such as the disruption of shipping routes, changes in commodity prices, and the demands of countries outside of the country and the international transfer of money.

The UAE's economy remains resilient even as it navigates global uncertainties and geopolitical tensions, but its role as a global trade and financial center also leaves it susceptible to external shocks that may affect the economy and its overall development (International Monetary Fund [IMF], 2025). This article explores the impact of war on international businesses in UAE, explains the theories behind this impact and evaluates the laws accordingly. It sees the basis of resilience in a multi-faceted economy, effective risk management, robust contractual enforcement and compliance with regulations and flexible supply chain.

2. Literature Review and Theoretical Framework

2.1 Global value chain theory

Global value chain theory is a theory that addresses how production and distribution is organised across countries and coordination between firms (Gereffi, Humphrey and Sturgeon, 2005). The companies can import raw materials from one country, manufacture the parts in another, and export finished products to a third country. Companies can get raw materials from one country,

produce components in another country and sell the finished product in another country. Under normal circumstances, this configuration can help save resources and boost efficiency. Geography-dependent suppliers and critical transport routes mean vulnerabilities during war.

This disruption at the critical choke point could lead to delays in the shipment and increased inventory and freight costs for the UAE importers, distributors, manufacturers, and re-exporters. Therefore, if there is any disruption in the activities of a company, then there will be no damage to its own property. This is a good illustration of the fact that being exposed to international business isn't only a function of geographical proximity to the war, but also a function of being in interconnected supply chains.

2.2 Transaction cost economics

The transaction cost approach focuses on the costs of economic action coordination, contract negotiation, partner monitoring and contract enforcement (Williamson, 1981). During times of conflict, costs can escalate, as suppliers may become unreliable, transportation schedules may be altered and the financial and/or legal restrictions on counterparties may be in place. For instance, a UAE trading company that typically has one supplier overseas would have to look for other suppliers, negotiate delivery conditions, arrange for other inspections, and obtain higher insurance premiums. These activities raise the transaction costs even if the other supplier ends up providing the product. The argument is that companies should assess the efficiency of existing arrangements to the cost of lessening reliance on precarious commercial contacts.

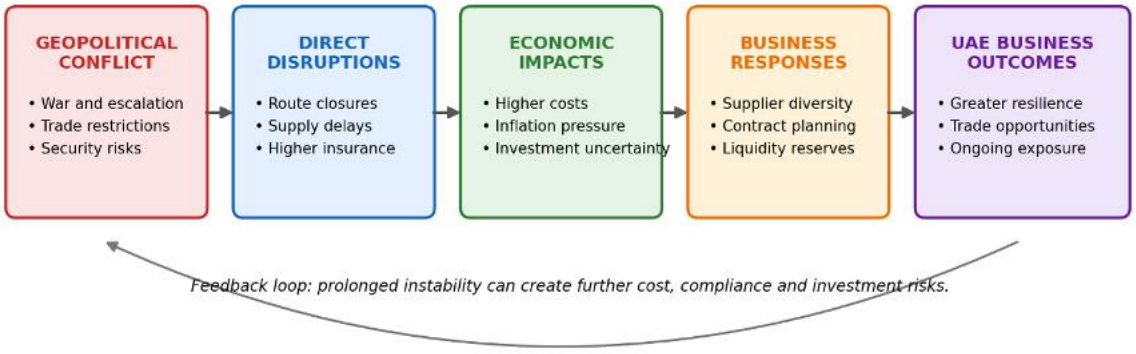
2.3 Institutional theory

The formal and informal rules are set by institutions which regulate economic activity. North (1990) claims that the way institutions affect economic performance is through shaping incentives, uncertainty and transaction costs. Stable laws, fair and effective dispute resolution mechanisms and regulations can foster investment through greater predictability of commercial relationships. A well-defined legal system and established commercial infrastructure can help build trust among investors in the UAE and mitigate investor concerns during periods of instability. However, external shocks can't be avoided entirely by institutions. They are useful, in

part, for businesses to be aware of their legal requirements, enforce their contractual rights, ensure their financial security and adapt to varying situations.

2.4 Supply-chain resilience and risk management

Supply-chain resilience is defined by a business network's ability to plan for disruption, sustain critical functions and recover in a way that addresses the challenges. Christopher and Peck (2004) point out the need for supply-chain risk management and co-ordination. Similarly, Sheffi (2013) gives an account of how companies can be more resilient by preparing themselves, being



Source: Author's own illustration, informed by Gereffi, Humphrey and Sturgeon (2005); Christopher and Peck (2004); Sheffi (2005); UNCTAD (2024).

flexible and recovering. These strategies go against the belief that "the cheapest is the best" is the best route to a supply chain. Having alternative suppliers, emergency stocks, and standby logistics arrangements may cost more than regular operating costs, but could lead to lower losses in a disruption. Resilience for UAE businesses relying on international trade should, therefore, be seen as an investment in the business, not as an extra expense.

Figure 1: Conceptual framework: How war affects international business in the UAE

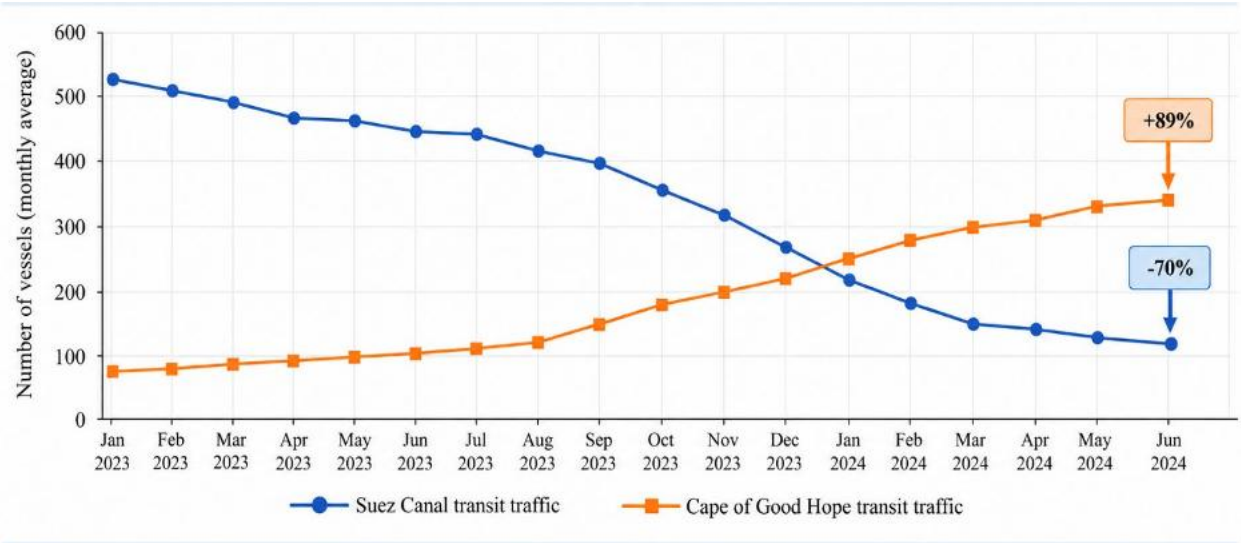
3. Economic Impacts of War on International Business in the UAE

3.1 Supply-chain disruption and higher logistics costs

In times of war, shipping channels are cut off by attacks on shipping vessels, ports are closed, access to shipping corridors is restricted, or security procedures are tightened. UNCTAD (2024) reported that the shipping experience of the Red Sea and Suez Canal suffered from significant disruptions in 2023-2024. The new routes around the Cape of Good Hope made travel routes longer, fuel consumption higher and shipping demand greater. UNCTAD also noted that container freight rates surged during the disruption, highlighting its impact on the broader trading system.

The implications for the UAE are far-reaching, as effective goods transportation between the Asian, European, African and Middle Eastern markets forms an important part of its international business model. Retailers, construction firms, manufacturers, food distributors and re-export firms can all be impacted by delayed consignment. In addition, longer trips could require more working capital as firms have to finance goods for more time before they are paid by customers.

Figure 2: Monthly maritime transit traffic through the Suez Canal and around the Cape of Good Hope (January 2023 – June 2024)



Source: UNCTAD (2024), *Review of Maritime Transport 2024: Navigating Maritime Chokepoints*, p. 14.

An example is a UAE based distributor importing machinery from Asia, where, for instance, if a shipping company routes its ships through a region where there is a security risk, then the shipments could be delayed and the freight costs would increase. The extra cost can be a disadvantage as far as the profit margin is concerned, if the distributor has already agreed on a fixed price with its customer. The company might also have disputes about performance or compensation if it isn't delivered on time as per the contract. Businesses can react by having multiple suppliers, looking for other ports and routes, keeping safety stocks, and negotiating flexible delivery terms. The drawback of having too much stock, however, is the cost of storing and carrying inventory. The right action in turn will depend on the criticality of the product, uncertainty of demand, availability of suppliers, and the financial capability of the firm.

3.2 Energy-price volatility and inflation

Wars can lead to uncertainty regarding oil and gas production, export facilities, pipelines and shipping by sea. If the markets expect a shortage, energy prices could fluctuate. Increased fuel costs can increase costs in the aviation, road transport, shipping, electricity generation and manufacturing sectors. These increases could then be passed on to consumer prices. The UAE is in a unique position as it is both an energy producer and importer of various goods and services. Rise in oil prices will boost revenues of some hydrocarbon-related enterprises and increase government revenue. However, for non-oil business, increased energy and transport costs can negatively affect them, especially for those with limited pricing power.

The overall economic impact is thus not even. Airlines, logistics companies and companies that rely on energy to manufacture their products are likely to see higher costs, whereas energy producers could see higher prices. Increased prices can also cause a decrease in consumers' purchasing power and dampen demand in industries like travel, tourism, and hospitality. UNCTAD (2024) states that if maritime transport costs continue to rise, they can aid in the escalation of consumer price inflation, while also having a negative impact on real economic activity. This has especially dire repercussions for a nation that relies heavily on imports. UAE businesses should therefore be wary of freight and energy costs as a single risk, instead of viewing them as two distinct risks.

3.3 Investment uncertainty and financial-market volatility

Investment is based on the potential returns of the investments, the interest rates charged for them, the political climate, and confidence in future market conditions. Uncertainty about demand, asset values, operating costs and enforceability of commercial arrangements is heightened during war. Multinational firms might delay expansion or reallocate investments or demand greater returns on their investment.

The UAE's financial and investment center role gives it an advantage, but external financial developments and sentiment in the region can impact on the economy. In the IMF (2025), potential spillovers from regional conflicts and global trade policy changes are covered by trade, investment, tourism and financial flows. A foreign investor interested in a UAE warehouse or manufacturing plant, for instance, might postpone a project if the volumes of goods that are anticipated to be shipped and/or insurance costs cannot be anticipated based on regional instability. This delay may impact construction firms, service providers, workers and related suppliers.

Financial institutions might also re-evaluate borrowers relying on conflict sensitive trade lines. Companies should therefore ensure they have sufficient liquidity, scrutinize debt commitments, conduct stress testing of financial projections, and ensure that they are not overly reliant on short-term borrowing if their cash flows are unpredictable. Further defensive asset shifts could be a reaction to geopolitical risk. Some investors expand their holdings in cash, government bonds, gold or other perceived “safe” assets. Not all defensive investments, however, will have a positive return, and they may not be appropriate for investors with high interest rates or high currency exposure or for investors who require high liquidity or high returns. The notion that investment markets in the UAE do not suffer from conflict is not true.

3.4 Uneven sectoral effects and trade diversion

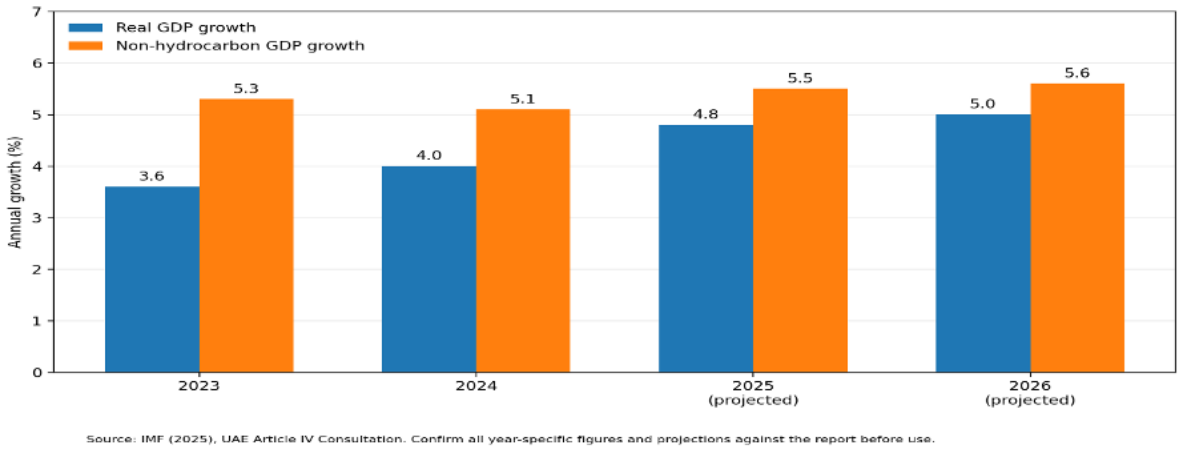
The impacts of war are not the same for every sector. Governments might benefit if they spend more on defence, and energy producers might benefit from higher commodity prices if operations are not disrupted. Some logistics companies might also be expected to gain extra orders as firms look for alternative routes or distribution centers. However, other sectors such as tourism, aviation, hospitality, and some retail sectors could see a reduction in demand, if

travelers cancel plans or consumers become cautious. Also, an increase in security and insurance expenses could reduce extra income for companies located along routes.

Figure 3: UAE Economic growth and diversification (2023-2026)

The trade diversion can be an opportunity for UAE companies. Businesses can explore other distribution centers, warehouses, and vendors to minimize the impact of compromised routes. Companies can potentially restructure their networks through the UAE's ports, airports, and free zones, or existing commercial services. But diverted trade need not be seen as an overarching economic gain, because the gain will depend on whether new activity is sustained, economic and consistent with existing laws. According to IMF (2025), the UAE's diversified non-oil economy continued to grow in spite of the uncertainty in the world and region. It confirms the thesis that diversification can increase resilience, albeit to differing extents for sectors and companies.

4. Application of UAE Laws and International Legal Frameworks



Source: IMF (2025), UAE Article IV Consultation. Confirm all year-specific figures and projections against the report before use.

4.1 Civil and commercial contract law

When there is conflict in the performance of a commercial contract, the rights and duties of the parties are governed by the terms of the contract. Questions that arise in this context are whether a supplier is obliged to deliver goods, even if the costs have risen; whether a buyer may withdraw from an order that has been delayed; whether a party can ask for relief if it is no longer possible to perform. The UAE's laws have to be viewed within the context of the laws governing the transaction itself. The UAE Ministry of Justice published a new Civil Transactions Law via

Federal Decree-Law No. 25 of 2025 on 1 June 2026. Before implementing its provisions in a specific conflict, the provisions should be compared with the provisions of the contract's governing law, commencement provisions and relevant transitional provisions (UAE Ministry of Justice, 2026).

The Federal Decree-Law No. 50 of 2022 on Commercial Transactions may also apply to commercial obligations, depending on the type of transaction and the applicable law of the contract. Companies are advised to get guidance on the co-existence of civil and commercial law, not to presume that one law applies to all disputes. For a UAE importer with a supplier who has been prevented from shipping machinery due to a closed port during an armed conflict, the impact is clear. For the UAE importer mentioned above, who is unable to receive machinery from their supplier due to a closed port amidst an armed conflict, the impact is evident. The importer should discuss the delivery terms, force majeure, notice provisions, alternative performance clauses, and dispute-resolution clause in the contract. The reason for the closure, contact with supplier, mitigation measures taken and the actual impact on the delivery might be relevant.

There must be no automatic exemption for a force majeure if there is a war. Availability of relief, if any, is dependent on the governing law, contractual terms, causation, character of the barrier and available legal provisions. Just an increase in cost does not mean there is a legal excuse for poor performance.

4.2 Company law and corporate governance

Federal Decree-Law No. 32 of 2021 on Commercial Companies provides an important component of the UAE's corporate legal framework, of which the scope, amendments and applicable free-zone rules are still to be determined. This is especially crucial during conflict when managers are required to make decisions on cash reserves, suppliers, employee protection, debt, and contractual exposure. Record key decisions, review company approval process, evaluate conflicts of interest and keep good financial logs. Before making any restructuring move, suspending payments, or initiating emergency contracts, Directors and managers should consult with the relevant professionals for appropriate guidance. Some of the things that should be evaluated are the obligations that the company has towards its lenders and its customers in case of a disruption in the supply chain. Good communication and adequate records can

minimize disagreements and prove that decisions have been taken not through irresponsible action.

4.3 Sanctions, export controls, and compliance

Governments and international bodies might be forced to introduce or strengthen sanctions, financial transaction and financial assistance restrictions, export controls, and limitations on dealing with designated entities in the event of war. International companies with operations in the UAE should identify the measures that will be applicable to their activities, counterparties, goods and payment path. The obligations of the United Nations Security Council may be binding for member states of the United Nations, and there may be other restrictions under the national legislation. It should not be assumed by a business that all foreign sanctions measures are applicable uniformly in the UAE – the relevant legal obligations applicable for any particular transaction would need to be identified by jurisdiction and relevant regulatory requirements.

Companies should conduct due diligence on counterparties, beneficial owners, vessels, banks and intermediaries, if applicable. They should also classify controlled goods appropriately, keep transaction records and consult legal counsel on transactions that involve sanctions or export control issues. Not doing the necessary checks can lead to frozen payments, delivery delays, regulatory measures, contractual problems, or bad reputation issues. Compliance is thus not an ad hoc task, but an integral part of international business risk management.

4.4 International trade law and dispute resolution

The rules for international trade, such as those on tariffs, non-discrimination, and some trade restrictions, are laid down in the rules of the World Trade Organization (WTO). But application of these rules will depend on the nature of the agreement, measures taken, and whether there are any exceptions. WTO law should not be used to preemptively declare that all wartime restrictions on trade are illegal. Dispute resolution in international commercial contracts may also be via arbitration or court litigation. While arbitration can offer a neutral forum for cross-border dispute resolution, its utility will depend on the arbitration agreement, applicable rules and arbitration enforcement arrangements and the nature of the dispute. Therefore, UAE businesses should include governing law, jurisdiction or arbitration, delivery terms, payment

terms, insurance terms and terms for force majeure in the contracts. It is not possible to eliminate geopolitical risk, but these provisions can help to diminish uncertainty about the treatment of commercial disputes.

5. Business Strategies and Recommendations

The first step UAE businesses will have to take is to create plans for the diversification of supplies. This can include qualifying other suppliers, finding alternatives to materials and reducing reliance on a single transport corridor depending on the product. Reliability, delivery time, financial stability and geopolitical risk exposure are all considerations for assessing suppliers, in addition to purchase price.

Secondly, companies must implement structured risk assessment. A scenario analysis could estimate the impact of a temporary shipping closure, increased fuel costs, late customer payments and/or lower demand. These scenarios can be used by managers to determine minimum cash needs, inventory levels and other financing options. This is in accordance to the principles of resilience discussed by Christopher and Peck (2004), and Sheffi (2013).

Thirdly, the allocation of contractual risk needs to be enhanced. A new contract should be drafted to address the issues of force majeure, notice period, alternate route, price adjustment, insurance, delivery dates, and dispute resolution. It is important to review existing agreements prior to disruption. In the case of multiple contracts, or even competing obligations stemming from sanctions, legal guidance becomes especially critical when international contracts are entered into using more than one contract law.

Fourth, companies need to build financial resilience. These include holding liquidity reserves, checking the creditworthiness of customers, negotiating flexible financing and reviewing insurance. Firms should note that not all war-related losses are insured and exclusions, deductibles and territorial limits and the policy wording should be carefully considered.

Fifth, governments and businesses can work together to promote resilience by building effective, reliable supply chains, providing regulatory clarity, implementing efficient customs processes and providing timely information on trade disruptions. The UAE's global relations and infrastructure provide a solid foundation for living in a changing world and an increased level of flexibility and clarity is required at the operational and regulatory levels.

Last but not least, companies need to differentiate between temporary disruption and structural change. Short-term closures may require some short-term adjustments in sourcing, production and market strategy, whereas the longer-term geopolitical fragmentation could require more adjustments to inventory. Judges should be sensible – they should review decisions regularly, not panicked, or predict decisions that have not been backed up with evidence.

6. Conclusion

The war presents difficult trade-related issues for the global economy, including disrupted supply chains, increased logistics expenses and energy costs, inflationary pressures, and investment uncertainty. The UAE is a good example of the economic resilience of an integrated economy with international links and which is exposed to external shocks. An economy, logistics and international investment network that is diverse, but also provides opportunities to adapt, without diminishing its vulnerabilities to regional instability. The global value chain theory helps to understand how disruption is spread between countries; transaction cost economics helps understand the link between uncertainty and coordination costs and contracting costs; finally, institutional theory introduces the concept of predictable rules. Flexibility in working practices, contingency planning and diversification in the supply chain are practical ways to respond for resilience.

The legal analysis sheds light on all civil and commercial laws and contracts, international dispute-resolution provisions, sanctions and export-control requirements, and how UAE companies must take them into account. The presence of the concept of "force majeure," at least, has to be evaluated according to the law and circumstances and cannot be considered as a given. Finally, a holistic approach is essential for sustainable international business in UAE, including aspects such as economic diversification, legal compliance, financial management, and operational resilience. Businesses that take steps to be prepared and make decisions based on facts, are more likely to safeguard commercial relationships and remain competitive when geopolitical turmoil strikes.

References

- Christopher, M. and Peck, H. (2004). Building the Resilient Supply Chain. *The International Journal of Logistics Management*, 15(2), pp.1–14. doi:https://doi.org/10.1108/09574090410700275.
- Gereffi, G., Humphrey, J. and Sturgeon, T. (2005). The Governance of Global Value Chains. *Review of International Political Economy*, 12(1), pp.78–104. doi:10.1080/09692290500049805.
- International Monetary Fund (IMF) (2025). *United Arab Emirates: 2025 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for United Arab Emirates*. [online] Available at: https://www.imf.org/en/publications/cr/issues/2025/12/08/united-arab-emirates-2025-article-iv-consultation-press-release-staff-report-and-statement-572397 [Accessed 12 Oct. 2026].
- North, D.C. (1990). Institutions, Institutional Change and Economic Performance. *Institutions, Institutional Change and Economic Performance*. [online] doi:10.1017/cbo9780511808678.
- Sheffi, Y. (2013). *The Resilient Enterprise: Overcoming Vulnerability for Competitive Advantage | Request PDF*. [online] ResearchGate. Available at: https://www.researchgate.net/publication/23573710_The_Resilient_Enterprise_Overcoming_Vulnerability_for_Competitive_Advantage [Accessed 12 Oct. 2026].
- United Arab Emirates (2021) Federal Decree-Law No. 32 of 2021 on Commercial Companies. Abu Dhabi: UAE Government. Available at: https://uaelegislation.gov.ae/en (Accessed 12 Oct. 2026).
- United Arab Emirates (2022) Federal Decree-Law No. 50 of 2022 Promulgating the Commercial Transactions Law. Abu Dhabi: UAE Government. Available at: https://uaelegislation.gov.ae/en (Accessed 12 Oct. 2026).
- United Arab Emirates (2025) Federal Decree-Law No. 25 of 2025 Promulgating the Civil Transactions Law. Abu Dhabi: UAE Government. Available at: https://uaelegislation.gov.ae/en (Accessed 12 Oct. 2026).

- United Nations Conference on Trade and Development (UNCTAD) (2024) Review of Maritime Transport 2024: Navigating Maritime Chokepoints. Geneva: United Nations. Available at: https://unctad.org/publication/review-maritime-transport-2024 (Accessed 12 Oct. 2026).
- United Nations Conference on Trade and Development (UNCTAD) (2024) 'Red Sea crisis and implications for trade facilitation in Africa', 17 April. Available at: https://unctad.org/news/red-sea-crisis-and-implications-trade-facilitation-africa (Accessed 12 Oct. 2026).
- United Nations Security Council (n.d.) United Nations Security Council Consolidated List. Available at: https://main.un.org/securitycouncil/en/content/un-sc-consolidated-list (Accessed 12 Oct. 2026).
- Williamson, O.E. (1981) 'The economics of organization: The transaction cost approach', American Journal of Sociology, 87(3), pp. 548–577. Available at: https://doi.org/10.1086/227496.
- World Trade Organization (WTO) (n.d.) The WTO Agreements. Available at: https://www.wto.org/english/docs_e/legal_e/legal_e.htm (Accessed 12 Oct. 2026).