

UAE's dollar swap threats show how brittle these US alliances can be



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Columnist

OPINION

The most striking moment in recent talks between United Arab Emirates officials and US Treasury officials in Washington wasn't the Emiratis' suggestion of a currency swap line, but the warning they attached to it.

If the UAE runs out of dollars, Emirati officials reportedly told their American counterparts, it might be forced to use Chinese yuan instead of US dollars for its oil sales and other transactions.

The US dollar's dominance rests, in part, on its near monopoly over oil transactions. And because the vast majority of global oil transactions are settled in dollars, almost every country must hold greenback reserves to buy fuel.

A Persian Gulf ally openly floating the idea of yuan-denominated oil trade is therefore sure to get Washington's attention, and serve as a reminder to the US that alternatives exist.

The specific vehicle the UAE raised was a currency swap line — an arrangement where two central banks agree to exchange currencies at a fixed rate, giving each party access to the other's currency during moments of crises. On Tuesday, President Donald Trump confirmed that this was indeed under consideration.

The UAE pegs its dirham to the US dollar, and to preserve that peg it must maintain stable access to dollars. That access is now coming under pressure due to the economic conditions created by the US-Israeli war on Iran. The closure of the Strait of Hormuz is depriving the UAE of oil revenue, while missiles in Emirati skies have damaged its aviation and tourism industries.

But the numbers, as they stand today, do not support the image of a country in financial distress. The UAE held \$285 billion in foreign reserves at the end of 2025, and its total dollar assets exceed its dollar liabilities by roughly \$1 trillion — one of the strongest net international investment positions in the world.

Moreover, the S&P Global affirmed the country's highest possible short-term credit rating and near perfect long-term rating last month, citing the UAE's "substantial fiscal, economic, external, and policy flexibility". The dirham peg



President of the United Arab Emirates (UAE) Sheikh Mohamed bin Zayed Al Nahyan (front) visits the Ministry of Defence in Abu Dhabi, the UAE, on March 3, 2026.

REUTERS



Indeed, the grievance at its root is not economic, but political. UAE officials regularly stress that their country did not ask to be put in this position. A Persian Gulf ally openly floating the idea of yuan-denominated oil trade is therefore sure to get Washington's attention, and serve as a reminder to the US that alternatives exist.

to the dollar has comfortably held, and Abu Dhabi's sovereign wealth funds have continued deal making through the war, including a \$2.3 billion dollar transaction in Jordan recently.

In short, this isn't a country that needs to borrow money from Washington. Treasury Secretary Scott Bessent noted on Wednesday that swap lines are designed to prevent countries with large dollar holdings from engaging in "disorderly" sales of US assets, a possibility the UAE implicitly raised in making the request.

Indeed, the grievance at its root is not economic, but political. UAE officials regularly stress that their country did not ask to be put in this position. Before American and Israeli bombs started falling on Iran on February 28, Emirati officials were reportedly shuffling between Tehran and Washington, urging restraint. They made explicit assurances that their territory would not be used as a launchpad for attacks on Iran (though there were reports the Emirates were preparing to get into the fight with the US and Israel to help open the Hormuz Strait in early April. They also stood out in that they were the first Persian Gulf state — followed by Bahrain — to have normalized relations with Israel under the 2020 Abraham Accords).

Since Operation Epic Fury began, the UAE has absorbed more Iranian missiles and drones than any other country. Jebel Ali port

has been struck, as has Dubai International Airport. Oil and gas infrastructure has been damaged, and the Strait of Hormuz, through which the UAE ships oil, its primary revenue generator, has been effectively closed, severing its financial lifelines.

The Emiratis are acutely aware that their pledge to invest \$1.4 trillion in the US economy, reaffirmed by its ambassador in Washington at the height of bombardment, is becoming harder to sustain as it simultaneously rebuilds expensive missile defense systems as well as energy and other infrastructure at home.

Given all of this economic pain and the currently remote hope of a resolution between the US and Iran, the UAE is invoking the China card: the threat that it might be forced to use the yuan or other currencies for oil sales.

This threat has a precedent. In 2023, Saudi Arabia began accepting yuan as payment for Chinese oil purchases, a move at the time widely interpreted as being aimed at Washington. The Biden administration responded by increasing diplomatic contact with Saudi Arabia and initiated high-level negotiations on a comprehensive security agreement, including advanced weapons sales and a stronger US defense commitment. Abu Dhabi has watched and learned. But the current maneuver is more about posturing than about the Persian Gulf state undertaking a fundamental, long-term pivot away from the US.

Persian Gulf and UAE sovereign wealth funds remain overwhelmingly oriented towards US and European assets. The UAE hosts a network of US military bases that it has no immediate interests in



A popular beach resort in Dubai, the UAE, is empty of tourists in March 2026 since Iran started retaliating against the launch of American missile from the Persian Gulf country.

AFP

closing. As the Emirati ambassador to the US, Yousef al-Otaiba, put it in his Wall Street Journal op-ed, "We need a conclusive outcome that addresses Iran's full range of threats." This is hardly the tone of a country shopping for a new security patron.

What helps the UAE's posturing is the fact that Abu Dhabi is taking clear steps to boost its investment exposure to China. Crown Prince Khaled's visit to Beijing two weeks ago resulted in dozens of agreements to boost economic and trade ties, including increasing commercial travel between the two countries. The UAE can use this rapprochement to demand better terms in its alliance with Washington. Its manner of doing so doesn't entail dramatic policy reversals or ultimatums, but rather, a steady stream of signals — the currency swap line enquiry, the Beijing visit, an influential Emirati commentator's suggestion that it may be time to close US bases because they are "a burden and not a strategic asset". Beneath the financial asks and diplomatic theater, the UAE's requests are fairly concrete. It wants Washington to acknowledge (and be prepared to help with) the economic damage its war has inflicted on a country that was not party to its decision to go to war on its much larger neighbor. It also wants to be consulted on and have a say in the terms of any deal with Iran, particularly as it relates to the Strait of Hormuz.

As al-Hashimi, the senior Emirati official, explained on ABC News, any deal with Iran "has to be a good deal" that brings lasting peace. This means addressing Iran's "weaponization" of the Strait and its backed regional groups as well as its nuclear, missile and drone programs, she said.

In other words, a deal where the Trump administration simply cuts loose and walks away from the Iran quagmire — leaving behind a battered but more hardline Islamic Republic with its military infrastructure intact — is no deal at all from Abu Dhabi's perspective.

The UAE understands it possesses immense leverage to renegotiate the terms of its alliance with its senior partner. The swap line conversation is therefore not a plea for help, but a reminder that the UAE has options — and the means to use them.

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Iran war a stress test for Persian Gulf states

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OPINION

The US-Israeli war on Iran has had dire security and economic consequences for the Arab states of the Persian Gulf Cooperation Council (GCC). Iranian missiles and drones struck airports, hotels, and energy infrastructure across the region, triggering the largest oil supply shock in the history of global

energy markets and a near-total collapse of aviation and tourism. Threats directed at desalination plants have raised fears of a humanitarian emergency. Threats to shipping through the Strait of Hormuz have disrupted over 70 percent of the region's food imports. Externally, the war has prompted questions about the risks and costs of the region's reliance on American security guarantees and bases.

Beyond these effects, the Iran war is a stress test for domestic governance and social cohesion inside Persian Gulf states, surfacing and sharpening pre-

existing fissures and vulnerabilities while introducing new pressures. Among the more prominent of these dynamics are a worsening crackdown on freedom of expression and increased securitization more broadly; a rise in sectarian tensions and internal scapegoating; and the imperilment of the Persian Gulf's migrant labor communities, upon which much of the region's prosperity relies. None of these shocks pose a serious challenge to stability or the survival of the region's monarchies — Persian Gulf regimes are hardly brittle and have

weathered such shocks in the past. But they are still important in revealing shortcomings of the reigning model of strict authoritarianism paired with economic growth, and the gap between those who have benefited from its success and those on its peripheries and margins.

Securitization

Among these aftershocks, none is more revealing than the wave of arrests for filming and sharing footage of missile strikes and bomb damage, often prosecuted under charges such as "spreading false news and

harming the country's national interest". Regardless of the pretext, the crackdowns should be seen less as a show of strength than as a symptom of weakness: Rulers who have spent decades cultivating an image of stable modernity are now criminalizing the act of shattering that image. More broadly, the arrests expose the fragility of what passes for a social contract in the Persian Gulf — a bargain of acquiescence in exchange for prosperity and security. And as with autocrats everywhere, the danger is that this suppression, occasioned by the pressures of

an active war, could outlast the conflict itself, worsening already dismal track records on freedom of expression.

Across the Persian Gulf, the varying intensity of repression reflects a mix of factors, including the distinct political cultures of each state, the degree of damage they have suffered, and the nature of their relations with the United States and Israel. Those most supportive of the war have had the strongest incentives to suppress its blowback at home. Less tangibly, public opinion plays a part in the perceived depth of pro-Iranian sympathy