

Current Trends and Outlook for 2020: UAE to Sustain its Position as the Middle East's Best Place to do Business

1. Macro-economic Trends and Outlook for the UAE

The United Arab Emirates (UAE) continues its steady growth of around 2% for 2019 as forecasted by the UAE Central Bank. The International Monetary Fund (IMF) supports this outlook with its real GDP growth forecast of 2.8% in 2019 and 3.3 in 2020. Further, Dubai Economic Development (DED) reported that business permits issued in UAE grew by 35% during the first four months of 2019 comparing to the same period last year. Key trends and recent developments in the UAE business and legal landscape suggest continued growth in commercial opportunities for investors and corporates looking to enter and expand in the UAE.

In 2018, the UAE Cabinet passed a landmark decision allowing 100% foreign ownership of companies onshore. This marks a major change from the current regime where foreigners must seek a local partner to set up and serve the onshore market and where the only alternative for 100% foreign ownership is with one of the UAE's many free zones. With the recently passed Foreign Direct Investment (FDI) Law of 2018, 100% foreign ownership shall be allowed across 13 sectors and 122 economic activities with them. The 13 sectors where full foreign ownership shall be allowed are:

- Renewable energy
- Agriculture
- Information and communications
- Food services
- Hospitality
- Logistics
- Manufacturing
- Space
- Transport
- Professional, scientific and technical activities
- Educational activities
- Healthcare
- Art and entertainment
- Construction

Along with the FDI Law's publication in the UAE Official Gazette, a negative list has also been released where 100% foreign ownership shall remain restricted. The restricted sectors are:

- Oil and gas
- Banking

- Utilities
- Road and air transport
- Telecoms
- Medical retail (including pharmacies)

We expect international investors to start preparations to identify relevant opportunities across the 13 sectors opened to 100% foreign ownership. As the UAE continues to make the cost of doing business more accessible with recent reductions in licenses and other business-related fees, the forecast GDP growth looks very attainable.

No UAE outlook will be complete without touching upon the real estate and construction sector. While real estate prices and rents have decreased significantly from their peaks, it is worth mentioning that the construction sector in UAE showed growth in 2019 and projected to continue in 2020. The growth rate of Dubai's construction continued to trend upward in 2019 at a rate of 54% as revealed by the Emirates NDB's research with Expo 2020 driving the growth. According to the latest reports of BNC Network, construction projects value hits AED 3 trillion in June 2019 with further growth and activity to continue beyond 2030. The UAE government's continued hosting of international events help achieve real estate and construction growth targets. Recently, Abu Dhabi has just hosted the Special Olympics, and this alone has generated AED 21 billion in economic activity.

The UAE's push on the international front as well is driving further economic growth as the UAE seeks to play a vital role in China's One Belt, One Road initiative. Recent visits by President Xi Jinping to the UAE last year and His Highness Sheikh Mohammed bin Zayed, Crown Prince of Abu Dhabi and Deputy Supreme Commander of the UAE Armed Forces to China resulted in a series of agreements that will surely propel the UAE further ahead in its economic agenda.

The UAE signed 13 agreements and memorandum of understanding (MoUs) with China to enhance UAE economy and business that are witnessed by the highest leadership of both countries. Such agreements and MoUs aims specifically to advance the cooperation between UAE and China in energy, petroleum, financial services, e-commerce, agriculture, trade and customs, and innovation within the framework of the Belt and Road initiatives.

The UAE's efforts to facilitate business, trade and make starting and operating from the country easier on investors are gaining recognition globally. The World Bank, in its 2019 Ease of Doing Business Report, has elevated the UAE by 10 notches to 11th best in the world for doing business and #1 in the Middle East and North Africa (MENA) region. This ranking puts the UAE as the leader in the Arab world and the broader MENA region for the sixth consecutive year. The UAE's focus on nurturing entrepreneurs and turning the UAE as the region's start-up hub, has significantly pushed its ranking into the top 20 of the global rankings.

The UAE's notable measures to promote the ease of doing business are as follows:

- Reducing the cost of operating business in UAE
- Improving online registration
- Reducing electricity costs for commercial and industrial connections
- Easing the property registration
- Improving the judicial sector by training judges and arbitrators and establishing specialist commercial courts
- Implementing insolvency regime since 2017
- Giving the priority to secure creditors
- Issuance of instant license available which enables businessmen and investors to issue a business license in one step within 5 minutes.

The instant license initiative does not require company's Memorandum of Association, nor the usual office premises and company lease location and company lease for the first year. The Instant License shall be applicable for all legal types of entities and for all activities licensed by DED. The instant license initiative aims to reduce the time required for business registration procedures and license issuance by 90%.

We see the UAE making continued progress in making it even easier to do business in the country and for investors, regional and international corporations to call the UAE their home. While similar initiatives are being undertaken by neighbors in the Gulf Cooperation Council (GCC), we see a significant gap between the UAE and its next placed neighbor Bahrain, currently ranked 62nd in the World Bank list. Thus, expect the UAE to sustain its position as the MENA region's hub for doing business in the years to come.

2. Spotlight on Recent Development: Long-term Residence Visas

Along with the announcement of 100% foreign ownership in selected sectors, the UAE has also launched long-term residence visa programs that aim to attract international talent into the UAE, such as entrepreneurs, investors, scientists and special talents. Availing these long-term residence visas can be described below:

A. 10-year UAE residency visa

According to the General Directorate of Residency and Foreigners Affairs, foreign investors may obtain 10-year UAE residency visa provided the following:

- (1) Establishing an entity with minimum total share capital of AED 10 million with at least 60% shareholding of the total company share capital of such investor, make a deposit of at least AED 10 million in an investment fund in the UAE;
- (2) The invested amount shall not be a loan from any financial/non-financial institutions; and
- (3) The investment ought to be for 3 years.

Further, specific category also is entitled to apply for 10 years UAE residency visa (i.e. doctors, scientists, creative individual in field of culture and art, etc.), however, applicants must have an employment contract in a field which shall be a priority to UAE, in addition of specific conditions vary according to each field.

B. 5-year UAE residency visa

In addition to the above-mentioned 10-year UAE residence visa, investors who invest in a property in UAE can apply for a 5-year UAE residency visa. Granting visa to such investors shall be allowed provided that (i) the property gross value the subject of the investment shall not be less than AED 5 million; (ii) the invested amount shall not be a loan from any financial/non-financial institutions; and (iii) the property must be taken for minimum 3 years.

Apart from the property investment as mentioned in the previous paragraph, entrepreneurs can also apply for a 5-year UAE residence visa, provided they secured a project within UAE of a value not less than AED 500,000 with obtaining an approval from an accredited business incubator in UAE.

Outstanding students shall be entitled to apply for 5-year UAE residence visa as long as their score in their secondary school is at least 95% with a distinction of 3.75 GPA upon graduation from any university. Such students may obtain the visa for themselves as well as for their family.

3. Setting up Shop in the UAE: Corporate Establishment Options

Investors committed to set up and operate in the UAE must decide on the most effective and appropriate legal form for their business. The corporate forms described below highlight the legacy onshore/free-zone/offshore entity options whose regulations may be updated once implementing rules and regulations for the FDI Law are released and enacted. For the purposes of providing information to investors and businessmen who would like to understand the current regime, we lay out the onshore, free-zone and offshore options as follows:

A. Mainland/onshore entity

It is possible to establish a mainland entity in UAE to operate your business. The Commercial Companies Law No. 2 of 2015 (the Law) organizes and states the different types of legal entities as follows, however, in all cases the foreign participation in a UAE mainland entity cannot exceed 49% in the total share capital of such entity, as it is a requirement to have a UAE national(s) shareholder(s) to hold at least 51% of the total share capital of the entity. Although, without prejudice that a GCC can hold 100% of a UAE mainland entity provided owning the whole 100%.

The benefits for establishing your business in UAE mainland is that you can practice business all around UAE, there is no limit for numbers of visas for employees, practicing more activities, no business or personal taxes.

i. Sole Establishment / Sole Proprietorship

Key features:

- a. a business 100% owned by an individual, not a company. This individual will control all of its operations, keep 100% of any profits. He or she will also be 100% responsible for business debts and any other financial obligations
- b. can be owned by an individual of any nationality. If the owner is a National of a country other than the UAE or GCC, they require a Local Service Agent (LSA)
- c. no minimum share capital required
- d. owner of a sole proprietorship engaged in consultancy activities must have obtained a scientific qualification for the same activity selected
- e. certain activities that go with this legal form can be practiced only by UAE or GCC nationals

ii. One-Person Limited Liability Company

Key features:

- a. a local/GCC person or corporate body can establish and own a one-person company (LLC):
 - 1) a natural person (UAE national, or a decree holder as per the procedures, or GCC national)
 - 2) a corporate body (UAE or GCC establishment and 100 % owned by UAE or GCC nationals)
- b. similar to the sole-proprietorship but they differ in some provisions, the most important of which is that its liability is limited to the single partner's share whereas in the sole-proprietorship the liability is unlimited
- c. share capital of the company is determined in the Memorandum of Association
- d. trade name should be identical to its owner's name followed by one person and ending with LLC

iii. Limited Liability Company

Key features:

- a. at least 51% of LLCs must be owned by UAE Nationals, and can be owned by GCC nationals by up to 100% whereby the share capital can be distributed in a different ratio as per the Memorandum of Association
- b. is a flexible form of enterprise that blends elements of partnership and corporate structures
- c. must have between 2-50 shareholders, each of whom is liable only to the extent of his or her share in the capital of the company unless otherwise stipulated in the Memorandum of Association or as may be determined by applicable UAE rules, regulations and law.
- d. can practice any industrial, commercial and some professional activities.
- e. no minimum share capital required
- f. the term "with limited liability" shall be annexed to the company's name

- g. can have more than one branch and each branch may undertake one or all of the activities included in the main business license

iv. Civil Company

Key features:

- a. can be owned by professional partners of any nationality. If the owner is a National of a country other than the UAE or GCC, they require a Local Service Agent (LSA)
- b. a company cannot be a partner in a Civil Company.
- c. for engineering activities, it must have one partner who is a UAE national who will own no less than 51% of the business and must be an engineer of the same type as the business's activity
- d. can practice consultancy activities but must be 100% owned by professional partners of the same type as the business's activity
- e. can appoint one manager only
- f. no minimum share capital required
- g. can have more than one branch and each branch may undertake one or all of the activities included in the main business license

v. Private Joint Stock Company

Key features:

- a. Its capital divided into shares of equal value; its shares are not offered to the public in public subscription
- b. AED 5 million minimum issues capital required should be paid in full
- c. approval from the Ministry of Economy must be obtained for its establishment
- d. can be owned by partners of any nationality whereby at least 51% of the total share capital to be owned by UAE national, if foreign partners will participate; or can be owned by 100% UAE or GCC national(s)
- e. the term "private shareholding company" shall be annexed to the company's name
- f. can have more than one branch and each branch may undertake one or all of the activities included in the main business license

vi. Public Joint Stock Company

Key features:

- a. its capital divided into shares of equal value which its shareholders participate in a portion of it, and the remaining shares are offered to the public in public subscription
- b. must have at least 5 founding members who are UAE Nationals, owning between 30% and 70% of the capital shares
- c. AED 30 million minimum issues share capital required

- d. the phrase “Public Shareholding Company” must be included in the business name
- e. can have more than one branch and each branch may undertake one or all of the activities included in the main business license

vii. Simple Limited Partnership

Key features:

- a. is formed between a minimum of two partners – one general partner and one limited partner
 - 1) general partners are liable for the company's liabilities to the extent of all their personal and business assets
 - 2) limited partners are liable for a share of company liabilities equal to their share of the company capital
- b. no minimum or maximum ownership level for any partner
- c. limited partner may not intervene in management or administrative issues related to the other partners; otherwise, that limited partner shall be responsible for all the business's obligations
- d. can have more than one branch and each branch may undertake one or all of the activities included in the main business license

viii. Partnership Company

Key features:

- a. owners of the partnership company are jointly and severally responsible for the company's liabilities that is if the business is unable to pay its debts with the proceeds of its operations, the personal and business assets of one or all of the partners can be used to pay creditors; no agreement to the contrary can be made against third parties
- b. name of the business must contain the name of one or more of the partners
- c. can have more than one branch and each branch may undertake one or all of the activities included in the main business license

B. UAE Free Zone

The major benefit and difference between setting up an entity in UAE mainland and setting up an entity in UAE free zone is that while foreigners cannot hold more than 49% of the total capital shares in the mainland company, foreigners can own the whole 100% of the total capital of a free zone company in UAE.

According to DMCC (<http://www.dmcc.ae/open-a-business-faq>), free zone is a designated geographical area where certain taxes or restrictions on business, employment or trade do not apply in the same manner that they apply to the country in which the zone is located. An area within which goods might land, be handled,

manufactured or reconfigured, and re-exported without the intervention of the customs authorities.

Whilst the Law organizes the establishment, operation and termination of companies in UAE, the Law does not apply on free zone companies in UAE except or the provisions not organized by the relevant free zone. As, each free zone has its own jurisdiction and regulations separate than the other free zones in UAE.

C. Offshore Establishment

Offshore establishment can be established only in UAE free zones. As, when any company/person intends to have a presence in UAE however not engaging in any business in UAE, it can set up an entity under offshore regulatory system. Under some free zones within UAE, the offshore companies are aimed to own property onshore UAE.

D. Branch Office

A company (whether UAE mainland or free zone) may open a branch in UAE. The branch office should practice the same activities of the mother company.

Further, a mainland entity may open a branch in free zone and vis versa. However, in case of a free zone entity which is wholly owned 100% by foreigners, needing to open a branch in mainland, it is a requirement to have a UAE national agent or an agent company wholly owned by UAE national.

4. Digital initiatives: Spotlight on the Dubai Land Department

As the UAE positions itself at the forefront of innovation and adoption of leading-edge technologies globally, it is worth highlighting specific initiatives and regulatory developments made by the UAE government to promote the transition of the UAE economy into one that is more digitally enabled and ready to adapt to the future.

The Dubai Land Department (DLD) is one UAE government agency that is leading in the push for innovation and rollout of seamless and efficient customer experiences through digital solutions. The DLD has rolled out blockchain technology to automate and optimize real estate business processes end-to-end. The DLD is employing blockchain across three initiatives: Ownership Verification, Property Sale by the Developer and Smart Leasing. Through the blockchain platform, DLD aims to improve the provision of services, effectiveness of collaboration among all parties involved in the real estate market and an enhanced security for real estate properties conducted digitally.

The DLD has also launched several digital applications to facilitate real estate transactions and processes across multiple stakeholders. These applications are as follows:

- **Rental Dispute Center Application:** is an application that makes registration and follow up of rental disputes easy and accessible to owners and tenants of various

categories. This application provides information on disputes cases in addition to online registration, mediation cases, rental cases, appeal cases, special request, enforcement requests and payments

- Dubai Brokers Application: is an application targeting real estate agents and investors by providing accurate and real time information on DLD-licensed and approved brokers and real estate agents. The application provides information on brokers' performances and efficiency, more importantly highlighting whether such brokers and agents are actually licensed by the DLD
- Ejari Application is an application providing the Ejari certificate along with other services for tenants and owners such as the Rental Index calculator, list of approved management companies and their locations, and the list of licensed typing centers to register tenancy contracts
- Investment Map Application: launched by the Real Estate Investment Management and Promotion Center, the investment arm of DLD to attract major investors for off-plan available projects, the Investment Map carries an integrated set of applications and Dubai real estate best practices in addition to Google's search tool that enable all investors to access investment project opportunities through their smart devices
- Real Estate Self Transaction "REST" Application is a platform for conducting real estate trading and transactions with multiple parties anywhere and anytime. The new platform enables the complete digital management of real estate transactions, eliminating paper documents and reducing brokerage procedures.
- Taqyimee Application is a platform to connect owners and third-party valuers. Owners/owner representatives can view and select DLD approved third-party valuers from Taqyimee mobile application and request for valuation of their properties. Third-party valuers will accept, reject and assign valuation requests and coordinate with requestors to conduct valuation process offline. Once valuation is completed, valuers can issue a valuation certificate.

5. Expo 2020 Dubai

Construction and preparations are progressing on schedule for the organizers and exhibitors for Expo 2020 in Dubai that starts in October of next year. The Expo is expected to bring in tourists, businesses and investors to the UAE that will have a cross-sectoral impact for the UAE economy. With the theme of "Connecting Minds, Creating the Future", the Expo is expected to generate increased interest into the UAE and further promote its position as the place to do business in to address opportunities in the GCC, MENA and beyond. Officials in the UAE have estimated that Dubai could attract 11 million foreign visitors to the Expo thereby boosting tourism immediately and generating opportunities for business and investment in the years to come. With the Expo to run for

6 months, it is expected to add \$33.4 billion to the UAE economy through 2031 as estimated by Ernst and Young (EY). 192 countries are participating with 81 building their own pavilions. This international event is one that is years in the making and should serve to benefit multiple sectors from tourism, real estate, services, transportation among others. Expo organizers have taken special attention to use the event to benefit the UAE economy as it has created an online portal for tenders and procurement of services and ensuring that local businesses and SMEs get their fair share of opportunities. The event's multiplier effect is expected to generate significant activity as well for legal and corporate services as investors and businessmen anticipate the Expo's windfall.

6. Conclusion

Continued, steady growth by the UAE economy coupled with forward-looking legal and regulatory changes made by the UAE government ensure that the UAE remains as the MENA region's leader for doing business. The opportunities on offer either through the acceleration of technology and digital initiatives or landmark international events all add up and position the UAE as an attractive destination for investors and businesses. Interested investors, businessmen and highly skilled individuals have several options to be establish themselves in the UAE and benefit from the opportunities on offer aided by first class infrastructure and an environment most conducive for doing business in the region, with professional legal support available in case necessary.

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