U.S.-U.A.E. Business Council
usuaebusiness.org

Council Report:

Changes to Foreign Ownership in the United Arab Emirates

June 2018

In May 2018, the U.A.E. Cabinet moved closer toward allowing 100% foreign ownership of certain businesses in the country, in a departure from the prevailing system whereby businesses outside of designated free zones are generally 51% owned by Emiratis. The U.A.E. Minister of Economy is now heading a committee that will provide recommendations to the Cabinet on the scope of these changes, which are expected to be decided by the end of the year. Although the impact of these changes will depend in large part on what the Cabinet ultimately decides, they will likely encourage FDI into the U.A.E. and support the country's burgeoning startup and VC community, They will also – along with other economic reforms – help stimulate the U.A.E. economy and maintain the U.A.E.'s status as the place to conduct business in the wider Near East and South Asia region.

Cabinet Approval of 100% Foreign Ownership by Year End

On 20 May 2018, the U.A.E.'s official state news agency, Emirates News Agency (WAM), announced that the U.A.E. Cabinet – chaired by His Highness Sheikh Mohammed bin Rashid Al Maktoum, Vice President and Prime Minister of the U.A.E. and Ruler of Dubai – approved "100% investors' ownership by year end." The report, which was a larger review of cabinet decisions focusing primarily on changes to the U.A.E.'s visa system, reported nothing further except that "The global investors' ownership is expected to reach 100% by the end of the year."[i] His Highness Sheikh Mohammed bin Rashid also announced these measures on Twitter.[ii]

This announcement was long anticipated, as the U.A.E. Ministry of Economy had been telegraphing moves in this direction. In April 2018, for instance, His Excellency Sultan Bin Saeed Al Mansouri, the U.A.E. Minister of Economy, told The National on the sidelines of the Annual Investment Meeting that the U.A.E. would issue an investment law by the fourth quarter of 2018 that would pave the way for 100% foreign ownership in specific sectors approved by the government. His Excellency said, "It will be this year, I can assure you. The latest will be Q4."[iii]

While key details are yet to be determined, these changes potentially augur a radical departure from the traditional *modus operandi* for doing business in the U.A.E. As highlighted in the U.S.-U.A.E. Business Council's recently updated guide to "Doing Business in the United Arab Emirates," 100% foreign ownership has long been limited primarily to companies in free zones, which are designated geographic areas of the country where tenants are restricted to carrying on business activities either within the free zone itself or outside the U.A.E. Foreign entities seeking to establish a permanent presence on the U.A.E. mainland are generally required to have 51% of the entity's shares within the U.A.E. belong to one or more Emirati partners.

Creation of Committee to Define Parameters of Foreign Ownership

Following WAM's announcement of the Cabinet's move, His Excellency Abdulla Al Saleh, Undersecretary for Foreign Trade & Industry at the Ministry of Economy, told Bloomberg in a phone interview that the U.A.E. will form a committee to decide on the industries to be opened to foreign ownership. This committee, according to His Excellency Al Saleh, will be headed by the Minister of Economy and include representatives from the U.A.E.'s seven emirates. The committee will refer recommendations to the Cabinet about both industries and companies that could be added to an authorized list.[iv]

His Excellency Al Saleh further told Bloomberg that the foreign ownership law will be limited to specific industries essential to the U.A.E., and decisions will be based on factors such as the ability to create jobs and transfer technology.[v] Previously, in April 2018, His Excellency Al Mansouri, the U.A.E. Minister of Economy, had told The National that the law will liberalize sectors ranging from "the manufacturing industry, including pharmaceuticals, to the services sector."[vi]

Prominent analysts and commentators have added their own informed speculation about what sectors will be included or excluded from 100% foreign ownership. Notably, Simeon Kerr, a veteran Gulf correspondent for The Financial Times, wrote that the law is "expected to encompass areas such as retail, services, manufacturing industry and hospitality, but exclude the country's oil, gas and defense sectors."[vii] Meanwhile, Dr. Habib Al Mulla, Chairman of Dubai law firm Baker & McKenzie, told Arabian Business that he believes the law will be implemented in stages, with it initially limited to certain global companies but eventually expanded to include all industries.[viii]

Encouragement of FDI

The primary purpose of this foreign ownership law, according to the U.A.E. Ministry of Economy, is to attract foreign direct investment. His Excellency Al Saleh said the law aims to "give investment in the U.A.E. a strong push."[ix] More concretely, in April 2018, His Excellency Al Mansouri told The National that he expects the investment law to boost foreign investment by up to 15%, with most inflows coming from Asia and Europe.[x]

The introduction of this law comes at a time when the growth of FDI into the U.A.E. has tapered off. The U.A.E. is still the primary destination for FDI into the region. In 2017, according to the Institute of International Finance, the U.A.E. received an estimated $11 billion in foreign investments, which accounted for 22% of total FDI into the MENA region.[xi] However, according to a Bloomberg analysis of World Bank data, FDI as a percentage of GDP in the U.A.E. has been stagnant for several years.[xii]

Promotion of Entrepreneurship

At the same time this law is meant to encourage FDI, it could support the U.A.E.'s nascent startup and venture capital ecosystem. As highlighted in a 2017 report titled "Entrepreneurial Emirates" by the U.S.-U.A.E. Business Council and the Trade and Commercial Office of the U.A.E. Embassy in Washington, D.C., the U.A.E. has long served as a magnet for regional entrepreneurs who are seeking to start or scale up businesses. After all, it provides startups with a business-friendly environment with low taxes and relatively favorable regulations; strong government backing of SMEs; and numerous co-working spaces, incubators, accelerators, training programs, and networking opportunities. Meanwhile, the U.A.E. offers avenues to raise capital from a large and growing number of venture capital firms, private equity firms, and angel investors.

This foreign ownership law could further incentivize foreign entrepreneurs to set up in the U.A.E. by offering them full ownership of their businesses. At the same time, it could make it easier for them to raise capital and, eventually, exit their businesses. As Aramex Founder and Wamda Capital Managing Partner Fadi Ghandour ebulliently told Arabian Business, "I think the new law for 100% ownership is huge and extremely encouraging. It will make life much easier for entrepreneurs and businesses in general, it will attract new investments, new talent, new capital, certainly startups."[xiii]

Complimentary Legislation on Visas

On the same day as the U.A.E. cabinet moved closer toward 100% foreign ownership of businesses, the cabinet also adopted a new system of entry visas for investors and "professional talents" that will likely further encourage FDI and entrepreneurship. This new system will grant up to 10-year residence visas for specialists in medical, scientific, research, and technical fields, as well as for scientists and innovators. It will also grant five-year residence visas for students studying in the U.A.E. and 10-year visas for exceptional students.[xiv]

These landmark moves mark an important change in the current residence visa system. At present, employers sponsor the residence visas of their employees. Employees, in turn, sponsor the residence visas of their family members, relatives, and domestic help. Once their terms of employment end, most employees and their families leave the country.

By delinking residence visas from employment, the U.A.E. will support the country's property sector, boost consumer spending, and increase the pool of talented students, graduates, and professionals in the country on which businesses can readily draw. It will also create an environment in which investors, entrepreneurs, researchers, and freelancers can operate freely in the U.A.E. without being bound to an employment contract. All of this will encourage entrepreneurship, innovation, and the creation of a knowledge economy.

Subsequent Economic Reforms

Three weeks later, on June 13th, the U.A.E. Cabinet adopted further economic reforms. Most notably, it introduced a new insurance scheme whereby private-sector companies pay 60 AED [$16.33] per worker per year to insure their workers' entitlements to end-of-service benefits, vacation, overtime, unpaid wages, return flights, and compensation for workplace injuries up to 20,000 AED [$5,445]. This scheme will replace the current system of bank guarantees whereby companies are mandated to deposit 3,000 AED [$816.72] per worker. As such, it will release 14 billion AED [$3.81 billion] back to private-sector companies and reduce the costs to firms of hiring workers in future.[xv]

At the same meeting, the Cabinet adopted a series of changes to visas for visitors, residents, families, and individuals who have overstayed their visa. For instance, dependents of residents who are studying at university will now be able to extend their residency visas for two years after finishing their studies, giving them a chance to find jobs. Moreover, in a boost to tourism, individuals transiting the U.A.E. will be exempt from entry visa fees for the first 48 hours of their stay, and they can extend these visas for up to 96 hours for just 50 AED [$13.61]. Finally, individuals who overstay their visa will be given a six-month temporary visa without fees if they are searching for employment.[xvi]

Emirate-Level Reforms and Stimulus Spending Packages

At the same time that the U.A.E. Federal Government has instituted sweeping economic reforms, so, too, have individual Emirates. On June 5th, His Highness Sheikh Mohammed bin Zayed Al Nahyan, Crown Prince of Abu Dhabi and Deputy Supreme Commander of the U.A.E. Armed Forces, approved a three-year 50 billion AED [$13.6 billion] economic stimulus package to "support Abu Dhabi's economic development." This ten-step program, which will be fleshed out by the Abu Dhabi Executive Council by early September, will:

- Abolish the need for a physical office or workplace license for two years and allow individuals to permanently work from home.
- Enable companies based in free zones to operate on the mainland and compete for lucrative government tenders.
- Facilitate the processing of most commercial licenses, expedite public-sector payments, and ease building regulations.
- Develop eco-tourism, promote public-private partnerships, encourage local industrial production, support SMEs, and create at least 10,000 jobs for Emiratis in the public and private sectors over the next five years.
- Establish the "Abu Dhabi Accelerators and Advanced Industries Council" ("Ghadan") to identify new technologies and investments that will boost the economy.

Since then, the Abu Dhabi Executive Council has begun implementing concrete measures in support of this program. For instance, on June 13th, the Council, in a bid to encourage tourism, approved a proposal to reduce the 6% tourism fee currently applied to hotel rooms and outlets to 3.5%. It also reduced the municipality fee from 4% to 2%, and it decreased the per night hotel fee from 10 AED [$2.72] to 5 AED [$1.36].[xvii]

Meanwhile, on June 6th, the day after His Highness Sheikh Mohammed bin Zayed announced Abu Dhabi's stimulus package, the Dubai Economic Council, under the chairmanship of Dubai Crown Prince Sheikh Hamdan bin Mohammed bin Rashid, approved its own measures intended to stimulate the local economy. As part of these measures, Dubai Municipality will reduce its "market fee" on commercial establishments by 50%, from 5% to 2.5% of annual rent.[xviii] In addition, Dubai will cancel 19 fees related to the aviation industry, waive property registration late fees for 60 days, and freeze tuition fees at all private schools for the 2018-19 academic year.[xix] These measures build on a raft of new economic initiatives, such as the establishment of a consultative council including international companies, that Dubai announced in mid-April to help stimulate the economy.[xx]

Maintaining Competitive Edge

Taken together, the myriad changes introduced over the past month at both the federal and Emirate levels will help reify the U.A.E.'s position as a leading regional and global destination for doing business. In the World Bank's 2018 "Ease of Doing Business" report, the U.A.E. moved from 26th place globally to 21st, ahead of all Arab countries for the fifth-straight year.[xxi] The report ranks the U.A.E. particularly highly for ease of paying taxes, procuring electricity, dealing with construction permits, and registering property.[xxii]

The U.A.E. takes these metrics seriously and works hard to improve its global standing through meaningful reforms. For example, the World Bank's Doing Business 2016 report identified the U.A.E.'s lack of a modern restructuring law as one of the biggest barriers to effective business in the country.[xxiii] Later that year, the U.A.E. finalized an overhaul of its bankruptcy laws that created a framework more conductive to the risk taking that is important for business and particularly entrepreneurship.[xxiv]

Moreover, the U.A.E. is aware that it is not alone in its efforts to climb the global rankings. Other Gulf states had previously taken steps toward allowing foreigners to own up to 100% of businesses or liberalizing their residence visa regimes.[xxv] Moreover, the U.A.E.'s announcement appears to have encouraged these Gulf states to accelerate those plans.[xxvi]

Not content to rest on its laurels, and aware of rising global competition, the U.A.E.'s recent actions will ensure it continues to ascend the ease of doing business rankings. At a time of muted economic growth and rising interest rates, they will thereby help the country maintain its competitive edge over its global peers and remain the destination of choice for foreign businesses and entrepreneurs looking to access business opportunities in the Near East and South Asia region. This, in turn, will buttress the over $20 billion in U.S. exports to the U.A.E. in 2017, continuing a trend that has made the U.A.E. the largest export destination for the U.S. in the Middle East for the past nine years.

References

[i] http://wam.ae/en/details/1395302690251
[ii] https://twitter.com/HHShkMohd/status/998266424417189888
[iii] https://www.thenational.ae/business/economy/economy-minister-uae-s-new-investment-law-to-be-ready-by-fourth-quarter-1.720014
[iv] https://www.bloomberg.com/news/articles/2018-05-23/u-a-e-foreign-ownership-law-may-be-more-limited-than-you-think
[v] https://www.bloomberg.com/news/articles/2018-05-23/u-a-e-foreign-ownership-law-may-be-more-limited-than-you-think
[vi] https://www.thenational.ae/business/economy/economy-minister-uae-s-new-investment-law-to-be-ready-by-fourth-quarter-1.720014
[vii] https://www.ft.com/content/2d3559d8-5cd4-11e8-9334-2218e7146b04
[viii] http://www.arabianbusiness.com/politics-economics/397427-limited-introduction-expected-for-new-uae-ownership-law-says-al-mulla
[ix] https://www.bloomberg.com/news/articles/2018-05-23/u-a-e-foreign-ownership-law-may-be-more-limited-than-you-think
[x] https://www.thenational.ae/business/economy/economy-minister-uae-s-new-investment-law-to-be-ready-by-fourth-quarter-1.720014
[xi] https://www.khaleejtimes.com/business/economy/100-foreign-ownership-new-uae-investment-law-to-spur-fdi-gdp-growth
[xii] https://www.bloomberg.com/news/articles/2018-05-22/u-a-e-raises-the-stakes-to-stop-foreigners-from-leaving-dubai
[xiii] http://www.arabianbusiness.com/startup/397075-new-uae-ownership-law-will-make-life-easier-for-entrepreneurs-says-fadi-ghandour
[xiv] http://wam.ae/en/details/1395302690251
[xv] https://www.khaleejtimes.com/nation/dubai/sheikh-mohammed-announces-new-job-visa-rules-in-uae--
[xvi] https://www.khaleejtimes.com/nation/dubai/sheikh-mohammed-announces-new-job-visa-rules-in-uae--
[xvii] https://www.thenational.ae/uae/abu-dhabi-to-cut-tourism-and-municipality-fees-at-hotels-and-restaurants-1.739533
[xviii] https://gulfnews.com/news/uae/property/dubai-municipality-cuts-market-fee-for-firms-by-50-1.2233315
[xix] https://www.thenational.ae/business/economy/dubai-approves-stimulus-plan-slashing-aviation-fees-1.737919
[xx] https://gulfnews.com/business/economy/mohammad-announces-new-economic-stimulus-plans-1.2205501
[xxi] https://gulfnews.com/business/sectors/banking/uae-leads-arab-region-in-world-bank-s-ease-of-doing-business-ranking-1.2116541
[xxii] https://gulfnews.com/business/sectors/banking/uae-leads-arab-region-in-world-bank-s-ease-of-doing-business-ranking-1.2116541
[xxiii] http://www.arabianbusiness.com/a-bird-s-eye-view-of-uae-start-up-ecosystem-637769.html#.V7Hao_krLIU
[xxiv] https://www.khaleejtimes.com/business/economy/uae-bankruptcy-law-boom-bust-bonanza
[xxv] https://www.bloomberg.com/news/articles/2018-05-23/u-a-e-foreign-ownership-law-may-be-more-limited-than-you-think; https://www.bloomberg.com/news/articles/2018-05-21/u-a-e-not-alone-in-gcc-in-allowing-100-foreign-firm-ownership
[xxvi] https://www.bloomberg.com/news/articles/2018-05-24/qatar-to-allow-100-foreign-ownership-of-firms-in-all-sectors