

# Doing business in the UAE

There are a number of factors that make the UAE a high growth market. Among these are its business-friendly environment, strategic location as a global trading hub, world-class infrastructure, and favourable government policies in promoting trade and investment. Having maintained resilience during the Covid-19 pandemic, the country is well positioned to capture a return to pre-pandemic growth levels across sectors, thereby opening up new opportunities for companies doing business.



## Trade and economic overview

Despite being one of the Middle East's most diversified economies, the United Arab Emirates (UAE) suffered from the effects of the Covid-19 crisis, both in terms of low oil prices and reduced global demand, and the impact of global lockdown measures on vital non-oil economic sectors such as tourism. According to Central Bank estimates for 2020, total GDP contracted by 5.8%, with non-hydrocarbon GDP declining by 5.7%.

Nevertheless, the latest data suggests that the economy is on the path to revival. In early April 2021, the International Monetary Fund (IMF) revised the Gulf state's overall economic growth forecast for the year to 3.1%, from 1.3% in October 2020, citing as reasons for the adjustment the recent improvements in the oil sector, Expo 2020 – which kicks off in October – and the UAE's positive and proactive handling of the coronavirus as one of the "league of early inoculators worldwide".

"We have started to see a stabilisation and an uptick in trade flows over the last few months," says Yusuf Ali Khan, Trade Head for Middle East, North Africa and Pakistan, Treasury and Trade Solutions at Citi. "According to the Dubai Chamber of Commerce and Industry, the UAE's non-oil trade is expected to post almost 13% growth in 2021. We're likely to see a pick-up in the hospitality, tourism and leisure industry, especially as we head into Expo 2020, which was delayed from last year due to the pandemic. This event will act as a catalyst in terms of promoting trade and investment opportunities for companies across sectors."

A number of pandemic support measures have been introduced by the UAE government, both at the Federal and Emirate level. In early 2020, it was announced that financial stimulus worth some US\$70bn would be rolled out by the government to reduce the cost of doing business in the country, supporting small businesses, and accelerating the implementation of major government infrastructure projects.

At the same time, the UAE Central Bank introduced the 'Targeted Economic Support Scheme' – since extended until June this year – which provides temporary relief from the payments of principal and/or interest on outstanding loans for all affected private sector

corporates, SMEs and individuals. The scheme aims to relieve existing capital buffers to facilitate the lending capacity of banks operating in the country.

More recently, and an important contributing factor to its future growth, the UAE has been widely praised for its response to the virus, which initially saw the implementation of strict lockdown measures, before a gradual reopening and the roll out of one of the world's fastest vaccination programmes.

"All of these influences – the government policies and stimulus packages, the expectations around Expo 2020, the rising oil prices and the vaccine success – combined with the opening up of global trade and travel, are acting as enablers to create stability, re-establish demand and drive growth," says Khan.

## Geopolitical relations

The historic peace agreement signed between the UAE and Israel in August last year is also expected to unlock trade and investment opportunities.

"This is another key enabler, which is going to be a game-changer for both countries, as opportunities that have been missed for so many decades can now finally be captured," says Khan. "International banks that have a significant presence in both countries, such as Citi, have a key role to play, but this does not preclude local banks from both countries who have sought licenses to start operations."

As reported by credit insurance provider Atradius in recent economic research, according to various sources, including officials from both countries, the agreement could drive annual bilateral trade between the two nations in the medium term to anywhere between US\$4bn and US\$6.5bn, equivalent to about 1% to 1.5% of each nation's GDP.

"UAE companies can satisfy Israeli demand for aluminium, ceramics and other construction materials, while Israeli companies can help the UAE advance in the high-tech field," the report notes.

There are also synergies in terms of market access, says Khan. "As an historical trading hub, the UAE can be Israel's gateway to trade corridors from the East, and even Africa."

## Vision 2021

The UAE has set 11 key performance indicators to track its progress in building a competitive knowledge economy, which is one of the six pillars of the National Agenda in line with Vision 2021. They include:



## Snapshot

Currency in UAE



United Arab Emirates dirham

Ease of doing business

**16<sup>\*</sup>**  
(ranked out of 190 countries)

\*World Bank Group: Doing Business 2020 \*\*IMF forecast for 2021

Economic growth

**3.1%<sup>\*\*</sup>**



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Yusuf Ali Khan, Citi

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## A conducive business environment

Already considered a centre of business opportunity, there are ongoing efforts within the UAE to improve its ease of doing business ranking. According to the World Bank's *Doing Business 2020* report, the country is now in 16<sup>th</sup> place – the strongest performer overall in the region.

The UAE government is taking measures to develop legislation, procedures, as well as cost and time of doing business to further boost operating conditions for the private sector, and has rolled out a number of reforms to attract foreign investment and companies.

As of 2019, the country allows 100% foreign ownership of companies in 13 sectors, including manufacturing, agriculture and renewable energy.

More recently, in March this year, the government announced a new “remote work visa” initiative to enable people from all over the world who are employed at companies based in other countries to live and work in the UAE for a period of one year.

The same month, the UAE launched a new industrial strategy called ‘Operation 300bn’ to boost growth in the industrial sector. The government has said that the strategy will seek to improve and promote local products on a global level and build “an attractive business environment for local and international investors to boost productivity”.

As part of the new strategy, the Ministry of Industry and Advanced Technology is expected to introduce programmes and initiatives to support 13,500 industrial SMEs.

“The government has created an enabling, business-friendly environment that has at its core seamlessness in terms of companies being able to move into the UAE and establish operations either onshore or offshore in Dubai International Finance Corporation (DIFC) or Abu Dhabi Global Markets (ADGM) with strong dispute resolution mechanisms,” says Khan.

Nevertheless, he advises that companies wanting to set up in the UAE should have a “clear game plan” in terms of whether they will operate as a free zone, onshore or offshore business, and should access the resources available to them to understand the correlated regulations. Companies should also take note of increased efforts

by the UAE government towards, for example, greater UAE national inclusion in the workforce.

Establishing relevant partnerships is key, says Khan. “Companies would do well to partner with a bank that can act as a ‘one-stop shop’ in terms of providing both liquidity management and trade finance support. At the same time, complementary to that, companies will need an independent consultant to equip them with advice on important matters such as taxation,” he adds.

## Digitisation efforts

Over the years, the UAE government has taken a number of steps towards establishing a strong digital economy, which contributes 4.3% to the nation's GDP. The country is widely considered one of the most advanced in the world in the field of technology and the adoption of modern technologies.

Progress made in terms of digital transformation has not only helped companies to adapt to new realities in the current environment, but has also given rise to new innovation.

This has been particularly advantageous given Covid-19 lockdown measures and the need for digital solutions to carry out trade transactions and keep goods moving, such as Citi's CitiDirect BE electronic banking platform, where documents can be completed, processed and tracked digitally.

The bank has recently introduced a solution for clients in the UAE to automate cross-currency payments into key trade corridors, integrating FX into the payment process and providing end-to-end visibility and full automation.

“We've achieved just over 80% automation in our trade business in the UAE, from about 54% a year ago,” says Khan. “I'm proud to say that it is by far the market with our highest level of automation in trade. It is very significant given the large volumes. That is the power that digitisation has, and a lot of that has been spurred on by Covid-19.”

Citi's “Doing business in...” series, exclusive to GTR, takes a look at the practicalities of doing business in, and engaging in cross-border trade with, high-growth, complex markets. This second instalment focuses on the UAE, and showcases the views of **Yusuf Ali Khan**, Trade Head for Middle East, North Africa and Pakistan, Treasury and Trade Solutions at Citi.