

The Study of Propitious Business Environment of UAE

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Abstract

The United Arab Emirates (UAE) is amongst the top U.S. export market in the North Africa region of the Middle East area since 10 years. It is acting as a regional hub to more than 1,500 American companies who are involved for doing business in this area. It is playing an important role for trade, logistics, and tourism hub. The availability of vast oil reserves and helps UAE to handle the volatility of the oil economy. The economy of UAE is vibrant and is generating good revenue from exports of oil and gas. The efforts are done to avoid the dependence on hydrocarbons. The emergence of free zones is an important feature of this diversification. The legal and the regulatory framework in the UAE is favourable for investors. Mortgages are permitted easily and each Emirate has its own centralized system and is extremely reliable. UAE has the advantage of the geographic location because of easy access to Asia, Africa and Europe markets.

Keywords:- Aerospace, Oil and Gas, Healthcare, Construction, PESTEL, FDI,

Introduction

The UAE as a federation was established in December 1971. It enjoys stable political stability and is having sound economic policies as well as social structure for investing in the business. The multinational companies are the long-time investors as they get the benefit of skilled human resource skills, good telecommunications network, proper roads as government has made huge investments in infrastructure development. Moreover, Intellectual property like patents and trademarks, are also legally protected in the UAE because of stringent laws related to it. UAE is the member of certain international bodies, and has signed various treaties including the WIPO Performances and Phonograms Treaty (WPPT), World Intellectual Property Organization (WIPO), Patent Cooperation Treaty (PCT), World Trade Organization (WTO), Paris Convention and WIPO Copyright Treaty etc. Special economic zones and free zones offer 100 per cent ownership, repatriation of profit and capital as well as exemptions from taxes. Attractive incentives ensuring transparency are offered. The investors are also given 100% exemption from corporate and personal taxes which attracts Foreign Direct Investment (FDI) In UAE.

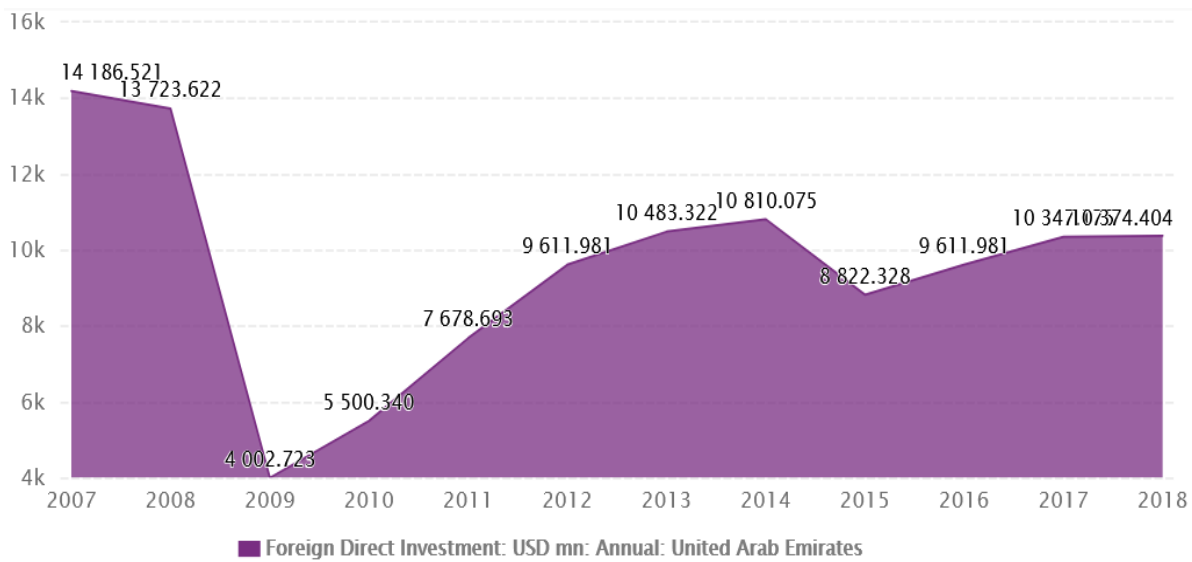
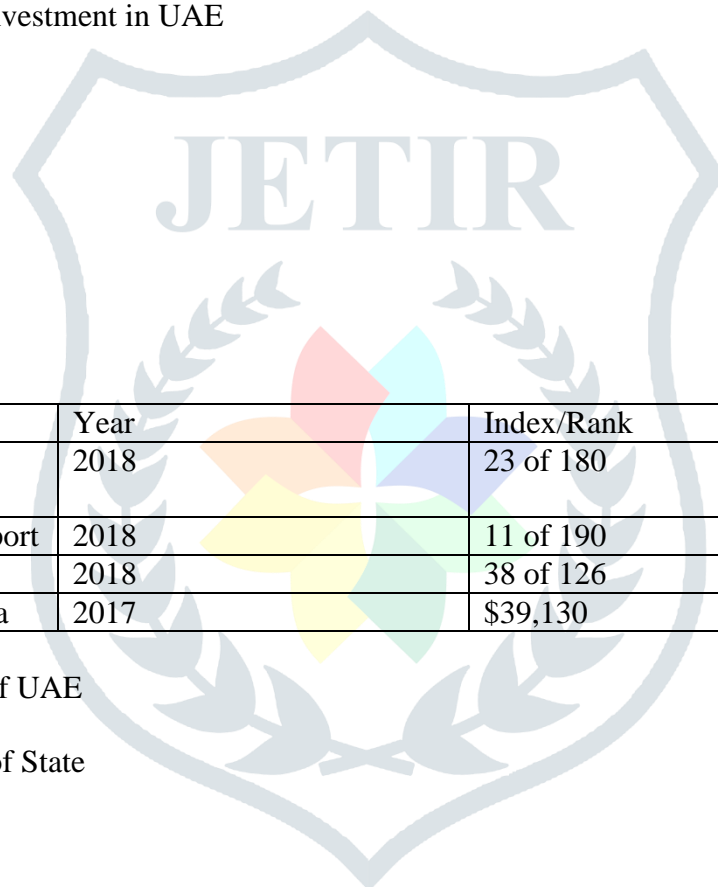


Figure 1- Foreign direct investment in UAE

Source-CEIC data



Measure	Year	Index/Rank
TI Corruption Perception Index	2018	23 of 180
Ease of doing business report	2018	11 of 190
Global innovation index	2018	38 of 126
Word Bank GNI per capita	2017	\$39,130

Table 1- Different index of UAE

Source- U.S. department of State

Ease of business

UAE has the advantage of the geographic location because of easy access to Asia, Africa and Europe markets. From the above table it can be seen that UAE has ranked 11 out of 190 in ease of doing business index

The attractive incentive and favourable international treaties and 100% foreign ownership in different sectors attracts foreign direct investment (FDI) in this region. Different alternatives are available for the investors like Fly in and out, setting local onshore or offshore entity, mergers, JV etc. From May 2018, the cabinet has made the announcement for foreign investors in technical, research and medical field that they can have residency permit up to 10 yrs with 100 % ownership of the business with affordable price of the land and low taxes. In the year 2017, “Instant License” was introduced for the duration of one year where license was released within minutes.

The legal and the regulatory framework in the UAE is favourable for investors. The Commercial Companies Law requires all firms (local or international) should apply international Financial Reporting Standards

(IFRS). Mortgages are permitted easily and each Emirate has its own centralized system and is extremely reliable. In the 2018, Global Competitiveness Report on IPR by the World Economic Forum was 26th. Even during economic slowdown of 2018, the rate of unemployment was low.

Leading Sectors for Investments

1) Aerospace

The aviation sector of UAE has contributed to the growth of the country by making a remarkable progress in last some years both w.r.t total flights landing or taking off at UAE airports. This sector has a contribution of 15 percent to the GDP of UAE. Due to presence of global connectivity and heavy investments for upgradation of airports, this sector is growing and attracting investments. Local airport authorities have are always interested for partnering with companies for bringing technological innovations. The current aviation business is looking to partner with companies for improving catering facilities for ground handling. Although Emirates and Etihad already have in-house MRO (Maintenance, Repair & Overhaul) capabilities but still they require to grow in line with increasing fleet size.

So, the partnership and investments by outside companies will be required to enhance MRO services and components segment is for providing repair facilities. The MRO market is set to grow to a value of \$8.8 billion by 2023 with an average growth of 7.5 percent. Also there will be demand for investments to improve airport hangar services and airport infrastructural. Another segment which will fetch good margin is by recycling the airframes and parts. UAE is undertaking many initiatives to control the emissions of the aviation sector and reduce its environmental impact. The aviation regulatory authorities of the UAE have promulgated policies pertaining to engine emissions thereby imposing challenge for the airline companies operating in the country. So there is a good opportunity for foreign companies to invest in areas of airspace management, 3D printing, infrastructure planning, certification services. The "Global Investment in Aviation Summit" was launched for exploring investment opportunities within the aviation sector with around 750 investors from the world. Different initiatives are taken for attracting investment in aerospace sector of UAE like -Strategic tenant ownership, Equity Participation in Aerospace MNC, Land Lease Subsidization, JV Facilitation and Global MRO Championing. Abu Dhabi Airport Business City (Business City) is a Free Zones, which is for supporting the 2030 Economic Vision Abu Dhabi. It provides 100% exemption in corporate tax, personal income tax, import and export exemption, repatriation of capital and profits and foreign company ownership

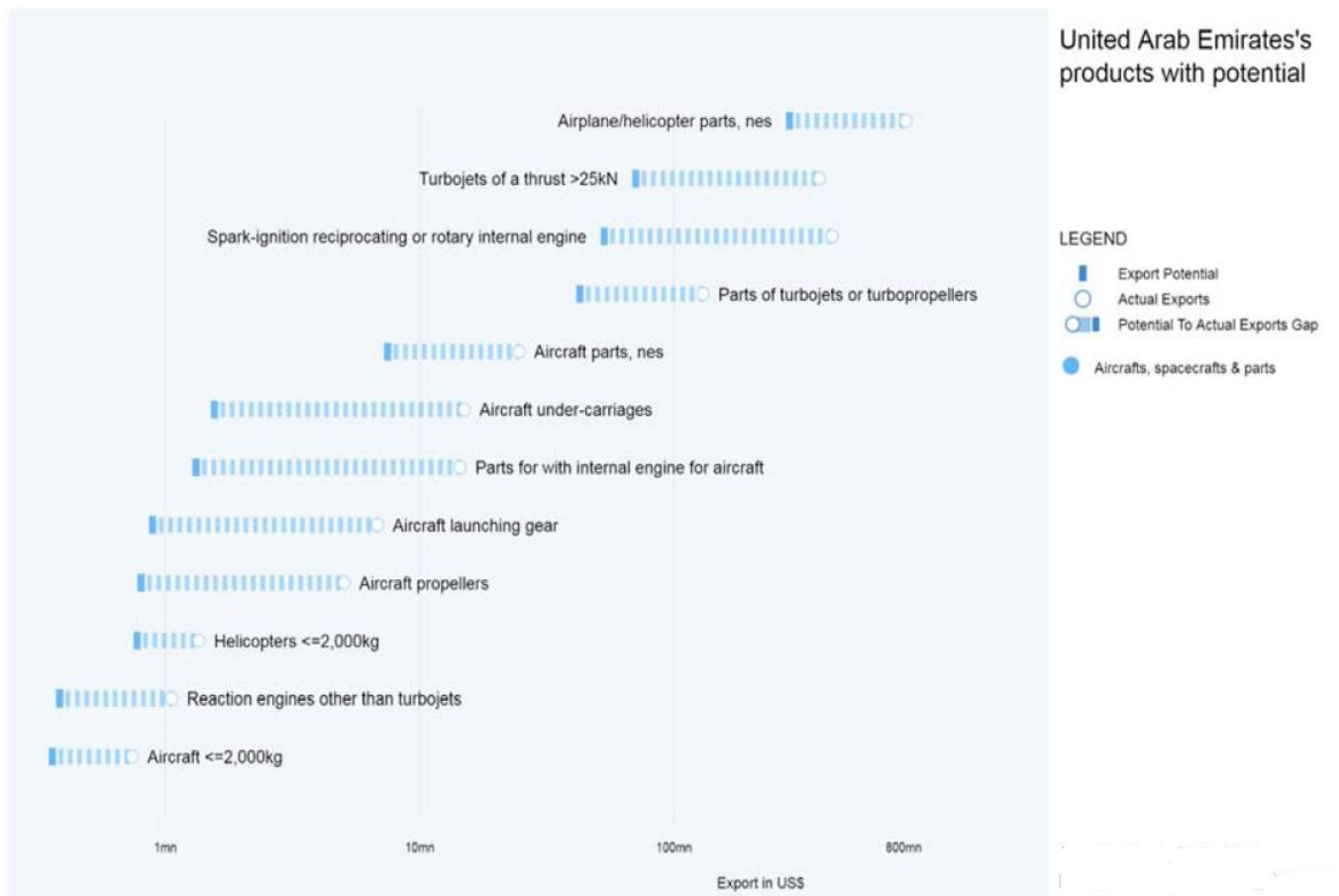


Figure 2- ITC export potential map
Source -<http://exportpotential.intracen.org>

2) Oil and Gas Field Machinery and Services

Each emirate has control on their resource development as well as the oil and gas production. Abu Dhabi has 94 percent of the oil reserves in UAE. It has well-developed infrastructure as well as a domestic pipeline network which helps in linking oil fields with export terminals and processing plants. The oil and gas sector is known to have low-risk and it give good return on the investment. The first concession agreement was signed in 1939 and since then UAE has always invited investments in its hydrocarbons industry. The UAE oil industry is best governed and has centralised decision-making, clarity of vision, political insulation and political stability. The presence of these factors make the investment decision-making process clear and favourable. ADNOC (Abu Dhabi National Oil Company (ADNOC)) is interested to increase its recovery rates to 70 percent at its fields. So there exist opportunity for those companies who can support Natural gas processing facilities, lowering of operational expenditure, providing advanced technology for maintaining the oil well pressure, providing technologies for drilling equipment. In general, companies consider Abu Dhabi as a favourable region to invest.

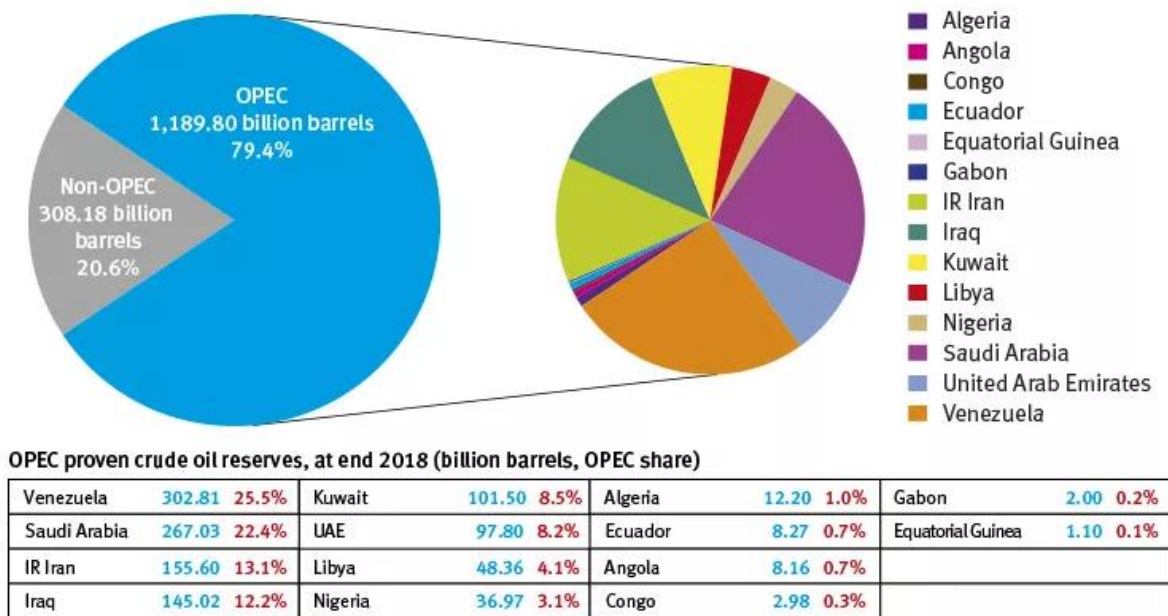


Figure 3 – OPEC share of world crude oil reserves, 2018

Source- OPEC annual statistics Bulletin

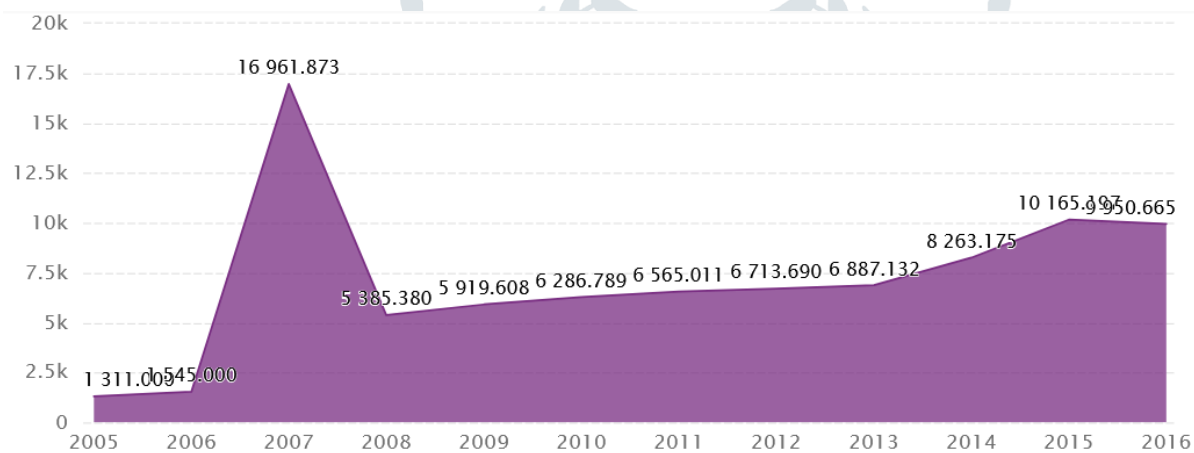


Figure 4–Foreign direct investment in electricity, gas, steam and air conditioning supply from 2007-2016

Source- CEIC data, 2018

3) Healthcare Services

The UAE Government has attractive policies for attracting foreign investments to improve the healthcare industry. In a forecast which is up to 2028 the health expenditure is expected to rise to \$26 billion. The healthcare spending are expected to reach 3.6 percent of the country's GDP by 2028, in accordance with Business Monitor International (BMI). The government of UAE is willing increase the number of medical tourists for establishing Dubai as a centre of healthcare. UAE has good transportation, good geographic location and proper logistics infrastructure that links the economies of India and China to Europe and the United States. The law of 100 percent foreign ownership of companies in the UAE attracts the investors.

There are constructions of different hospital which paves the way for both public as well as the private investment. Also, the medical tourism sector is doing well because of the presence of good facilities with the latest medical equipment. In UAE, the demand of medical home care is growing because of which there is a provision of quality of patients which is attracting more medical tourist for investments. The growth of this sector is supported by rise in population and their spending on healthcare. Dubai Healthcare City is providing the facilitating to the individuals as well as the corporations for engaging with the community of the central healthcare districts. This free zone is governed by the Dubai Healthcare City Authority (DHCA). There are certain advantages for investing in these zones like Low operating costs, 100% foreign ownership 50-year exemption from corporate, personal and income taxes, no restrictions on trade and full repatriation of capital and profits.

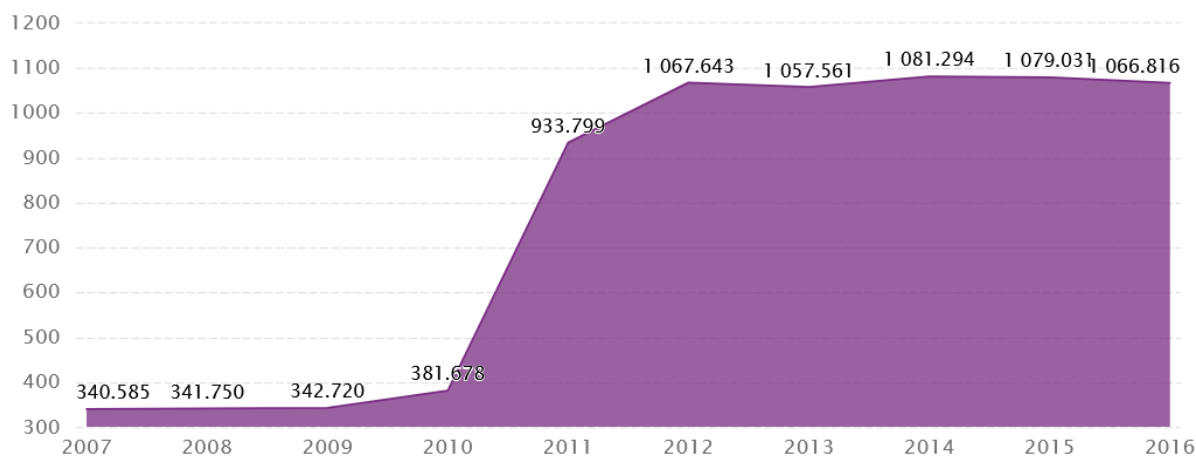


Figure 5-FDI in human health and social work activities from 2007-2016

Source- CEIC data, 2018

4) Construction

Although very tough competition exists amongst the local investors still many opportunities are there for construction projects for foreign investors. The foreign investors should qualify certain criteria with of government agencies for taking tenders. The construction is mainly contributing to the economy of UAE. This sector is optimistic as UAE has huge localized drivers and well developed financial markets. The international contractors enjoy the facilities for even for complex projects. The government is looking forward to invest AED 25 billion for the development of railways and transport infrastructure. In addition to this the contribution will be made by the share of projects on renewable energy infrastructure. The World Expo is expected to be the key driver for investments in this sector. It can be noticed from figure 6 and figure 7 that the average construction cost of UAE is comparatively lesser than other countries like USA, China and Australia.

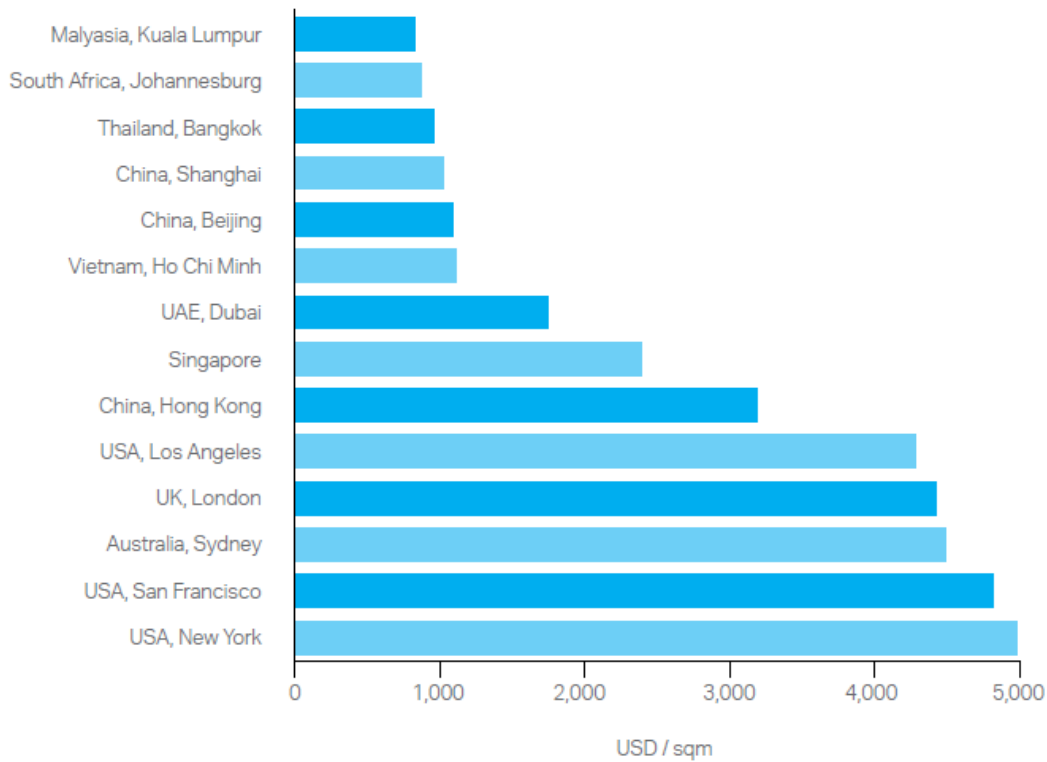


Figure 6- Commercial building cost comparison (USD/sqm)

Source- AECOM report, 2018

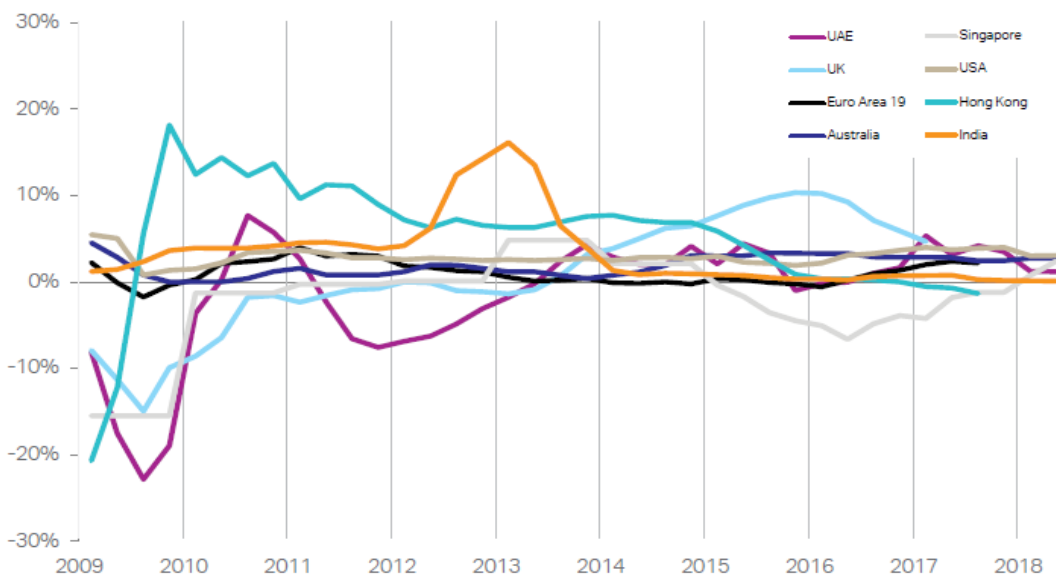


Figure 7 – International construction cost inflation 2009-2018

Source –Based on AECOM indices of construction cost index, 2018

PESTEL OF UAE

Political Environment

Being a constitutional federation UAE was established in December 1971. UAE is consisting of seven Emirates namely, Abu Dhabi, Fujairah, Dubai, Sharjah, Ras Al Khaimah, Ajman, Umm Al Quwain. Among

these Emirates Abu Dhabi is the capital of UAE. UAE also have a Federal Supreme Court which is the highest constitutional authority of Emirates. A ruler is responsible for governance in every Emirates. There is no political party in UAE. But federal advisory board holds elections in which independent candidates can contest elections but the matter of fact is most of the power is with seven hereditary rulers. These all factors make the overall political condition of UAE quite stable.

UAE is a major political influencer in the world and its believed that UAE holds a strong position in Middle East among all oil producing nations but also have some ongoing disputes over land and oil reserves among neighbouring countries. It also has a very deep diplomatic relations with many emerging economies of the world like India and China etc. Recently some steps have been initiated by UAE in order to de escalate the critical situation in middle east specially with IRAN.

Economic Environment

UAE is a major player in world economics. UAE is the member of various economic forums like:- United Nations, International Monetary Funds, World Bank, Gulf Cooperation Council, Organisation of Islamic Cooperation, Organization of the Petroleum Exporting Countries, Arab League etc.

UAE is one of the richest countries in terms of per capita income. UAE is blessed with a lot of natural resources and through innovation and a lot of FDI inflow have make this economic progress possible. According to Institute of International Finance, the total inflow of FDI in UAE is approximately \$11 billion in 2018 which constitutes 2.9% of UAE GDP. Interestingly there is no tax liability on residents of UAE but the Oil and Gas companies and foreign bank subsidiaries are liable to pay up to 55% of tax in the name of Corporation tax.

The UAE was a pioneer in bridling the estimation of SEZs to draw in outside speculation, driving development in a progressively various scope of monetary movement with the dispatch of free zones in 1985. These free zones exploited for the most part money related and non-monetary motivating forces – which were special in the locale at that point.

Notwithstanding, as the underlying development and financial specialist fascination levels out, the spotlight is progressively honing on more profound worth chain joining, where the a lot of GVA (net worth added) growth exists. Jebel Ali is a ground-breaking model, with the advancement of Dubai South, coordinating Jebel Ali Sea Port with the new Al Maktoum International Airport, and the arrangement of creation/preparing foundation to catch a far more noteworthy portion of GVA than straightforward coordinations alone offers.

Uncommon Economic Zones (SEZs) get their incentive from a blend of three key drivers: an empowering administrative condition that gives the vital help the business needs to flourish in another market; a working domain that guarantees both physical foundation (hard) and approaches (delicate) are set up to help

organizations and their representatives; and the more simple component of motivations, monetary and non-money related, that give impulse to interest in an area that may other-wise be less engaging.

Social Factors

A country whose 80% population is of immigrants and Emirati population is just 20%. These immigrants population is make up by people from all over the world but majorly from South Asian country namely India, Pakistan and Bangladesh. But it also have population from other nation too namely UK, USA, Iran, Iraq, Nepal, China, Canada etc. Islam is the official religion in UAE and Arabic is language spoken by majority there. UAE GDP Per Capita reached nearly \$44,500 approx (USD) by Dec 2018 as compared to \$40,500 approx (USD) in Dec 2017 this make this 5th richest country in the world. UAE is now emerging as international business center.

But there are challenges too like obesity, increasing divorce rates, increasing drug abuse, discrimination and increasing cost of living especially in Dubai. The other challenge is a large wealth distribution gap acc to a report 1% rich population of Dubai holds 50% of the country's wealth.

Technological Factors

Dubai's mechanical excursion began in 1999. In last 20 years a lot of computerization have happened which have actually changed the entire city. The day by day life needs of UAE occupants are getting computerized benefits so as to facilitate their lives. This incorporates medicinal services, training, culture, lodging, amusement, network, and chipping in administrations.

The major reason behind focus on technology is because UAE wants to reduce the dependence on “petro – chemical” based earnings. Only in Dubai internet city companies present there have been successful to attract an investment of \$2 Billion so that they could work on Cloud Computing, IOT, Big data and Artificial Intelligence. Souq.com E trailer a Dubai based start up was bought by Amazon worth \$800 Million Dollars. The technology company giant like Cisco, which had also shown interest and recognize importance of Dubai as they have recently opened Innovation and Experience Centre there. Dubai's next target is to have Driverless Cars by 2030 and Block chain Powered Govt by the end of 2020.

UAE is as of now an exceptionally associated and carefully educated society. Their occupants effectively utilize online administrations and internet based life.

Environmental factors

UAE is among those nations which are known for their technological advancements, staggering shopping centres, beautiful sea shores, sky rise buildings, modern architecture, lavish lifestyle of their residents and these all components make UAE a very famous tourist destinations. It is also claimed that it is the most visited nation by foreigners. Actually Tourism is one of the important revenue creator in UAE.UAE never fails to impress one of the major attractions in UAE are Dukes Dubai & Dubai's Jumeirah Emirates Towers

which have only female staff and it is specifically for females, making it safe and reliable for female shoppers.

But in recent years it has also been observed that the Environment of UAE is slowly getting deteriorated the major factors behind this downfall is overfishing, land corruption, desertification, large amount of carbon impressions by increasing population and very constrained water recourses. Even building of Palm Island is also believed to have a huge effect on environment like pattern of sea waves, area wildlife and costal erosions.

Legal factors

Lawful conditions are last component for discussion in PESTEL investigation of United Arab Emirates (UAE). The UAE is a government protected government. UAE is governed under Sharia Law. A very little crime rate is there. One can even find Gold shops selling gold without any extra security. It's law does not care about nationalities of staff and workers working there. In some extreme cases people are found working 48 hours a week (i.e. 8 hours per day). Nonetheless it can be concluded that UAE is one of the best secured country in the whole world. This is also a perfect illustration that how rules and policies are implemented and practiced.

Conclusion

The strengths of UAE include willingness for diversification, easy access to oil resource, strong banking sector and good labour availability. It has stable political environment with no constrains on foreign exchange. It has good transportation and other infrastructural facility available. UAE has signed more than 50 bilateral treaties and many benefits can be availed in t established economic zones. The medical tourism sector is doing well because of the presence of good facilities with the latest medical equipment. In UAE, the demand of medical home care is growing because of which there is a provision of quality of patients which is attracting more medical tourist for investments. UAE is one of the richest countries in terms of per capita income. In 2017, The Abu Dhabi government opened the t investments in the National oil company to the private sector. It is a liberal regime for trading and investment like Ras Al Khaimah infrastructure is having good with 170 shipping lines to provide ease of trading. The government is looking forward to invest AED 25 billion for the development of railways and transport infrastructure. Various sectors like aerospace, healthcare and oil are attractive because of effective privatization policies.

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