GULF IN CLASS

As part of our series profiling countries outside the EU where UK firms can do business and invest post-Brexit, Grant Thornton's **Hisham Farouk** and **Samer Hijazi** explore the Middle East

As the UK looks to diversify its global trade relations beyond the EU, the Gulf region - known as the Gulf Cooperation Council (GCC) - is a favourable market.

The GCC is represented by a union of countries, which includes Bahrain, Kuwait, Oman, Qatar, Kingdom of Saudi Arabia (KSA) and the United Arab Emirates (UAE). Collectively the region has an estimated trade value of $33bn with the UK - considerably higher than the UK's with India and China.

The region has led the Arab world for several years in relation to attracting foreign direct investment (FDI), which increased by 25% in 2016 to reach $30.8bn. The rapidly expanding, tech-savvy environment combined with economic diversification and global best-practice regulations helps this.

Over 103 reforms have been implemented in the last 15 years. An important one made recently was an announcement to relax rules for foreign investment by Saudi Arabia's Capital Market Authority (CMA). For example, requirements for a management activity licence were reduced in a bid to boost the number of asset managers while increasing private equity and venture capital investment.

Additionally, the country has enhanced its investor governance through introducing ownership levels of qualified foreign institutional investors, new categories of trading options and settlement processes. Of particular interest is the minimum net asset requirement to be considered an investment company, which has been reduced from $13m to $3m.

KSA is also home to state oil giant Saudi Aramco, which recently announced an initial public offering of 5% of the company. This is expected to be the largest in history, as Saudi officials believe Aramco could attract a valuation of $2trn. Investment banks tapped to handle the transaction stand to reap a huge windfall.

The share sale is critical to the economic future of Saudi Arabia, with the kingdom aiming to raise $100bn to underwrite its economy through a plan titled Vision 2030.

These reforms will inevitably contribute to the rise of the asset management market. A recent report from the Dubai International Financial Centre (DIFC) forecasts the GCC to rise to $110.9bn in 2020 from $45.8bn in 2016. It also predicts the total assets managed by fund managers in Saudi Arabia alone to reach over $50bn in 2020 from $22.39bn in 2016.

The UAE is also now home to advanced free zones catering for financial services, namely Abu Dhabi Global Market (ADGM) and the DIFC, where financial institutions wishing to do offshore business are subject to fewer restrictions. Abu Dhabi recently announced dual licensing agreements for entities registered in the ADGM, enabling these entities to service businesses throughout Abu Dhabi without having a physical presence on the mainland.

Almost every major international bank, insurer and asset manager has made the Middle East its home, having been in the region for decades. Dubai consistently ranks as a top financial hub, with the DIFC being home to an independent regulator, an independent judicial system with an English common-law framework, and a global financial exchange.

The region, particularly the GCC, has been quick to recognise the benefits and importance of having strong local and international financial services providers to facilitate trade and investment. As such, these firms have faced few barriers.

The availability of sufficient human capital with the right financial services experience presents a challenge.

Additionally, the economies of the GCC countries have had to weather some tough times since global oil prices collapsed back in 2016.

However, market fundamentals are expected to recover in 2018/19 as global oil prices stabilise and regions continue to reap the benefits from investments in economic diversification. But the powers that be in the region aren't waiting around. There are several initiatives in the pipeline that will attract even more financial services trade. The UAE has ambitious plans to become a regional and global hub across a number of areas, including fintech and blockchain. It also has plans to become the centre of the global Islamic finance economy in the near future.

Regulators in the region are also helping drive sustainable growth with the quick adoption of international best practice, such as Basel III and Solvency II.

Additionally, the GCC region has mega projects in the pipeline worth $2trn, including Expo 2020 in Dubai; the 2020 FIFA World Cup in Qatar; and Saudi 2030 vision projects - such as the King Abdullah Financial District. Comprised of over 60 residential, office and retail towers, the intent is for the district to lure in financial firms, banks, the kingdom's stock exchange and CMA upon its completion.

So, there is plenty of reason for optimism related to sustained recovery in the region. We have already seen a strong appetite for regional sovereign bonds in the international capital markets. A recent $10bn bond sale in Abu Dhabi was three times oversubscribed, with more than 75% of the orders from developed markets.

Financial institutions and foreign investors stand to make further gains as several regional governments seek to implement public-private-partnerships (PPPs) to address the new infrastructure and energy demands. For example, in the run up to Expo 2020 the UAE has formally enacted PPP legislation. Given the UK's extensive PPP experience, the country stands to gain from forming long-term partnerships in the region's infrastructure plans, as sectors such as water, power, transport, education, telecommunications and healthcare present a sizeable investment gap.

Furthermore, the demand for a digital-first approach is increasing investment opportunities. Government initiatives to support incubators and regulate crowdfunding platforms have created new interest in private equity, a rise in venture capital, and have allowed for the emergence of fintech hubs across the region.

Similarly, the Middle East is home to many significant and high-net-worth retail, corporate and sovereign investors, who are relatively mature and sophisticated; hence, opportunity abounds to innovate and diversify products and solutions.

Consumers and investors are increasingly demanding higher levels of quality and complexity of financial investment opportunities, while the regulators are seeking to replicate global best practice, stimulating a fair, open and transparent environment. ●

$33bn

The Gulf region's estimated trade value with the UK

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WHERE DO THE OPPORTUNITIES LIE?

Melissa Hancock, experienced journalist covering the MENA region, provides her insights

As UK investors start to look further afield for new business opportunities post-Brexit, they would be wise to focus their vision on the six Gulf Cooperation Council countries. Indeed, talks are already under way to sign a Free Trade Agreement once the UK formally leaves the EU. The UK government has pledged $5.6bn to help UK businesses exporting to Qatar through credit agency UK Export Finance, while the UAE and UK signed a trade agreement in April 2016 to avoid double taxation.

More than 5,000 British companies operate in the UAE today, and it has just topped the regional list of Middle Eastern countries in the *World Bank's Doing Business 2018* report, ranking 21st out of 190. This bodes well for UK investors eyeing opportunities surrounding Dubai's hosting of the Expo 2020, the world's largest exhibition, which should act as a springboard for new business partnerships.

Saudi Arabia should also be on the radar of UK investors. Its Vision 2030 strategy is targeting a radical economic transformation program – the central part of this is a privatisation of state assets, which is expected to raise $200bn over the next few years. Given the kingdom's youthful demographic – more than 60% of its population is aged under 30 – health and education offer potentially lucrative investments.

Furthermore, the Saudi Crown Prince Mohammed bin Salman's approach to fighting corruption bodes well for the country's economy and business.

$5.6bn

UK government's pledge to help UK businesses exporting to Qatar

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