

## > GCC Market View: The Role of the UAE

As economies look to diversify their global trade relations, the Gulf region, more commonly referred to as the Gulf Cooperation Council (GCC), advances as a favourable market to consider. The GCC is represented by a union of countries which include Bahrain, Kuwait, Oman, Qatar, Kingdom of Saudi Arabia (KSA) and the United Arab Emirates (UAE).

Strategically positioned, the region offers access to six key trade corridors, and actively supports China's silk-road initiative. This will inevitably benefit businesses looking to capitalise on the global opportunities which the GCC offers, particularly given the positioning of the UAE, which may be described as the hub of the Middle East.

Furthermore, the region has led the Arab World for several years in relation to attracting foreign direct investment (FDI), which has reportedly increased by 25% in 2016 to reach \$30.8bn with this increasing by 8% between 2016-17 as a result of M&A activity. A rapidly expanding and tech-savvy environment, combined with economic diversification and global best practice regulations provide a robust platform which continues to attract FDI from around the world.

The intensity and commitment towards diversification are further evident through the volume of reforms which the region has implemented in a bid to build a sustainable and resilient economy. In the past 15 years, over 103 reforms have been implemented, which represent over a third of reforms across the wider Middle East and North Africa region. Such initiatives further fortify the region's global position, which is projected to increase as displayed in the outlook below.

One of the most significant regulatory reforms include the recent announcement by The Ministry of Economy in the UAE, to liberalise the investment landscape. The new investment law paves the way for 100 per cent foreign ownership in specific sectors approved by the government, (up from the current 49 per cent). Furthermore, 10-year residency visas will be made available for specialists in the field of technology and academia. The investment law is part of a raft of reforms aimed at lowering the dependence of the economy on oil revenue and boosting the contribution of the non-oil sector from the current 70 per cent to 80 per cent by 2021.

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Such reforms will inevitably contribute to the ongoing rise of the financial services sector, with the asset management market in the GCC forecasted to rise to \$110.9 bn in 2020 from \$45.8bn in 2016, according to a recent report released by the Dubai International Financial Centre (DIFC). The report also predicted total assets managed by fund managers in Saudi Arabia alone to soar to more than \$50 bn in 2020 from \$22.39 bn in 2016.

Regional financial services firms are investing in almost every major sector such as automotive, real estate, energy and chemicals to name but a few. Whilst the UAE and KSA have relaxed their investment rules, the same cannot be said for the wider region, where the statutory requirement for a local investor remains. We project that such rules will be relaxed soon, in order to remain competitive and attractive.

The UAE is now home to the most advanced free zones catering to financial services, namely Abu Dhabi Global Market (ADGM) and the DIFC, where financial institutions wishing to do offshore business are not subject to such restrictions. Abu Dhabi recently announced dual licensing agreement for entities registered in the ADGM enabling these entities to service businesses throughout Abu Dhabi without having a physical presence on the mainland. This move further strengthens ADGM's position in the region and the role it plays in providing strategic access to the key trade corridors of India, Asia and Africa.

The Middle East is home to almost every major international bank, insurer and asset manager, many of whom have been in the region for decades. Notably, Beirut was the very first

regional financial services hub, until the GCC oil producing countries started to emerge from obscurity in the 1950s. Bahrain followed in the late 1970s and early 1980s until the UAE became the established hub for financial services from the late 1990s onwards. Dubai consistently ranks as a top financial hub, with DIFC 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 and, as such, these firms have faced relatively few barriers. Obviously, challenges do exist in the shape of availability of sufficient human capital with the right financial services experience, and the region, like anywhere else, will never be immune from shocks to the global financial system such as the credit crunch in 2007/8 and onwards. However, overall, the GCC and the UAE, in particular, is a popular investment destination, as demonstrated by the strong appetite for regional sovereign bonds in the international capital markets. A recent \$10bn bond sale in Abu Dhabi was oversubscribed three times where more than 75 per cent of the orders originated from developed markets.

Furthermore, financial institutions and foreign investors stand to gain further as several regional governments seek to implement public-private-partnerships (PPP), in a bid to address the new infrastructure and energy demands. Of note is the UAE, which in the run up to Expo 2020 has formally enacted a PPP legislation.

Overall, the opportunities within the financial services industry and the wider region are boundless. The prime geographical location, increased international trade flow and digital disruption fuelled by rapid urbanisation position the region as an attractive trade location.

Demand for a digital-first approach and enabling technologies within financial services and wider



UAE: Dubai

industries are contributing to the development of a region ripe with investment opportunities. Government initiatives to support incubators and to 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 leading to a vibrant entrepreneurial scene.

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

Given the rapid development of the wider region, particularly the sophistication and evolution of the financial services industry, the region is fast becoming the location of choice for trade. Consumers and investors are increasingly demanding higher levels of quality and complexity of financial investment opportunities, whilst the regulators are seeking to replicate global best practice which stimulates a fair, open and transparent environment. ❁

*References available in the online version.*

#### ABOUT THE AUTHOR

With over 15 years of experience across the UAE, Kuwait and UK markets, Darren Yule has worked with a diverse portfolio of clients in various industries. He has experience with financial service institutions in the Kuwait and UAE markets, and was involved with the audits of leading conventional banks, and an Islamic bank, during his time in Kuwait. Yule has been involved in providing assurance-related services to a UAE bank. In addition to banking clients, he has been involved with listed investment and insurance companies, providing audit and other assurance services, and leads audits of insurance brokerage and currency exchange businesses. Yule currently leads the audits of all the firm's financial services regulated clients registered at the Dubai International Financial Centre. He has experience of serving small owner-managed businesses as well as complex global groups. During his career, he has been involved in several financial due-diligence assignments in relation to MBOs, and the raising of debt facilities. Yule has led a variety of special assignments, with a wealth of sector experience in the oil and gas, financial services, and manufacturing sectors.



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