

Strategic Planning for Doing Business in the United Arab Emirates

Part I

An Overview:

In recent years, the globalisation of economies is gathering momentum as more and more countries are striving to promote economic efficiency through liberalization, deregulation of the national markets and substantial reduction of all trade tariffs and barriers. As a consequence, the business laws have become and continue to become, increasingly similar in rather dissimilar economic conditions.

This emphasis on economic freedom and liberalization of trade has seen the international body, The World Trade Organization (WTO) being empowered to intervene in trade disputes between economic partners and also has the capability to wield influence in national policies.

However, the impact of WTO and its policies of global liberalization has been minimal in this region with the exception of some benefits accruing to the UAE from increased trade due to its geographical position between Europe and Far East.

While considerable progress has been made under WTO in substantially reducing tariffs and quotas, there are still enormous barriers to trade in the form of discriminatory regulations, and it is these that need to be dismantled. In this context, it may be worth noting that the UAE has one of the lowest tariff rates in the world, and virtually no discriminatory regulations for imports.

One of the earlier developments in the gulf region was the establishment of Arab Gulf Co-operation Council (AGCC) comprising Saudi Arabia, Kuwait, Bahrain, Qatar, Oman, and UAE, which was founded on the set of economic principles including a commitment to an eventual common market. Among its economic objectives are the free movement of goods, services, capital and labour between member states, a common customs code and in the long term, a common currency.

The decision of AGCC countries to unify their customs tariffs is of relevance for free trade agreements with other major trading blocks, the European Union (EU) being the most important amongst them. Earlier, the tariff rates were not uniform and in certain cases were as high as 20% in some AGCC countries which afford protection to domestic manufacturing. However, in a significant recent development, AGCC countries have finally agreed to GCC Unified Customs Law and Single Customs Tariff, which would usher in a new economic era for their countries. The Customs Union will remove all trade barriers, viz. customs tariffs and import quotas amongst member countries and harmonize trade policies towards non-member countries. It will turn the whole area of GCC into a trade free area or a single customs zone.

A further impetus towards common economic policies is the process of economic diversification. The provision of the first class industrial facilities and business support services, the reduction of red tape and streamlining of administrative procedures have been some of the key elements in AGCC Governments' strategy to attract business in the non oil sector.

The UAE's economy has grown considerably since the country was created by seven Gulf Emirates in 1971. The country's massive oil wealth has been used to finance development projects and the Government is continuing its ongoing economic diversification drive to guard the economy against unpredictable oil exports earnings, attain substantial growth and ensure jobs for its citizens.

At the business enterprise level, sound economic policies are being contemplated to regularize and formalize the legislation covering commercial transactions. The UAE is likely to be in the forefront to establish probably the most comprehensive system of legal protection for business in the Gulf region. Intellectual property protection laws covering trademarks, copyright and patents have already been adopted and enforced, and rules governing company ownership and company structure are expected to be liberalized to promote investments in the fast growing private sector. Overall business opportunities are also expected to expand significantly, particularly in view of the political stability and the economic progress in the region.

Tourism is undoubtedly the most promising avenue for diversification since it is totally independent of fortunes of the oil market and the opening up of this sector in a traditional location shows the seriousness of the Government in diversifying the economy for the overall benefit of the country.

The UAE Government's increasing emphasis on diversification and provision of the basic components such as capital and energy has seen the manufacturing sector making significant progress. The developments in the financial services sector have also fostered a properly regulated business environment in which economic development with diversification has continued unabated. The requirement by the Central Bank to prepare financial results in accordance with the International Accounting Standards will have far-reaching implications for the financial markets in the country on account of the increased financial transparency and consistency and integration with the global financial institutions.

With the intention of channeling the savings of investors in a way beneficial to the national economy and to ensure financial and economic stability, the UAE Government has established fully regulated stock exchanges in the country. The first stock exchange that commenced operations in the Emirate of Dubai in 2000 has been followed by second stock exchange in the Emirate of Abu Dhabi. These stock exchanges have made the local capital market more transparent, increased confidence and security, and has also improved the information available to banks lending to listed companies.

A strategic plan to build a fully diversified and prosperous economy in the Emirate of Dubai has been drawn up by the Department of Economic Development, which is now well known for its "open to business" concept. The general aim of this department is to "improve the environment" for doing business in Dubai with a strong emphasis on "Quality". Its more specific tasks are to carry out long-range planning and to help frame commercial legislation. This department aims to assist in the build up of Dubai's high technology, manufacturing and financial sectors to complement the already sophisticated transportation sector.

More recently, The Dubai Development and Investment Authority (DDIA) has been entrusted with catalyzing the growth and development of Dubai's economy by attracting corporate and private investors to the UAE and by facilitating the growth of leading local businesses and encouraging local entrepreneurs. To meet these goals DDIA is tasked with developing strategies to attract inward private sector investment into Dubai, mobilizing domestic capital resources for growth and innovation, marketing the business benefits of Dubai to leading global companies and helping leading local companies to develop additional added-value services for their businesses.

To supplement the investment in the business sector, the Dubai Government has also fully supported the projects undertaken by several public limited companies to construct state of the art residential, office and tourism related facilities which are not only made available to the

UAE Nationals and AGCC citizens but also to foreign citizens. In a landmark development, the Government of Dubai has made a marked departure, from its strict land ownership policy followed by it upto now, by allowing freehold ownership of residential properties, with a facility of availing residence visa renewable after every three years.

New dimension of high technology and liberal benefits such as complete freedom of capital movements, no imposition of taxes on profits and income led to a surge in foreign investments in the region. Encouraged by the success in managing the Free Trade Zones, the Government of Dubai launched a pioneering initiative – Dubai Technology, Electronic Commerce and Media Free Zone – TECOM, comprising the Dubai Internet City, Dubai Ideas Oasis and Dubai Media City. Dubai Internet City provides a Knowledge Economy Ecosystem that is designed to support the business development of Information and Communications Technology companies. It is the Middle East's biggest IT infrastructure, built inside a free trade zone, and has the largest commercial Internet Protocol Telephony system in the world. Dubai Internet City has placed Dubai on the global map in the IT industry. Dubai Idea Oasis is a collaborative community for entrepreneurs, incubators, venture capitalists and other enabling organizations with a mission to create an environment in which new economy focused business ideas can be rapidly and successfully executed. Dubai Media City is the media community for the region offering world-class infrastructure, talent, services and technology and supportive environment for media-related businesses to operate globally out of Dubai. Dubai Media City is also rapidly emerging as a global media hub. All these ventures have proved immediate successes for the Free Zones.

Dubai Technology and Media Free Zone is also setting up "Knowledge Village", an ambitious initiative aimed at building a vibrant connected learning community that will develop the region's knowledge workforce and catalyze new economy growth. The Knowledge Village, a facility covering an area of a million square feet, will provide a complete environment and infrastructure for a variety of organizations to create and disseminate knowledge. Construction of the physical infrastructure will be completed soon. The Knowledge Village will house a diverse community of knowledge-focused organizations which include a Media Academy, an Innovation Centre, e-Learning institutions, institutions that provide graduate and post-graduate education, research and development organizations, a multimedia library, corporate training institutions, scientific and technology institutes, certification and testing organizations and incubators. Knowledge Village will also work with Dubai Internet City and Dubai Media City companies to develop the skills and expertise of industry professionals. An entire zone dedicated to corporate schools will promote the concept of 'learning for life' and will provide opportunities for professionals and students in the region to gain training in various disciplines. Productive interactions and linkages

between various elements of Knowledge Village will have many positive spin-offs for the region's new economy. Synergies harnessed in the learning community will help bridge the gap between potential and achievement in the region and enhance the climate for talent, innovation and entrepreneurship.

Another milestone in the field of business and industry is the establishment of the 'Dubai Investment Park', a state-of-the-art, centrally managed, mixed-use, high-tech, environmentally clean, master-planned development, offering both pre-serviced sites and facilities for a wide variety of usage or purposes such as manufacturing, office, housing, academic, research, distribution and logistics. The Park is a multi-phased development project and marketing for the park is being conducted on an international basis with the intent of attracting multinational companies who wish to become active in the gulf region.

A unique development reflecting Arab Heritage and creating new focus for gold and diamond industry in Dubai is the Gold and Diamond Park which is an extension of the Jebel Ali Free Zone. The park is a world class development and it is expected to give a major impetus to the Gold and Diamond industry in Dubai and help to enhance the City's reputation as a leading international jewelry manufacturing base. The park is also designed to become a new tourist attraction for Dubai. To supplement this development, "Dubai Metals and Commodities Centre" (DMCC), has been established. The DMCC will be a free zone offering 100% ownership and a 50 year tax holiday to resident companies and will provide a full range of facilities for trading in gold, diamonds and key commodities. The DMCC will have an Advisory Board whose responsibilities will be to draw up the strategic priorities for the centre and who will also be tasked with evolving plans for its development.

Capitalizing on its prime location and state-of-the-art infrastructure, Dubai has become the leading exhibition centre in the Middle East. Dubai makes an ideal location for all types of trade fairs and meetings and attracts visitors and exhibitors year-round from all over the world. The city combines the state-of-the-art facilities and services of one of the world's major international business centers with all the attractions of a top tourist destination and the Government has spared no cost in ensuring that the best infrastructure and facilities are available. Organizers and delegates alike can count on effective and successful business events staged in a luxurious environment offering an outstanding range of recreational possibilities.

To fulfil its vision of continuous growth, prosperity and well-being of the community, the Dubai Government has unveiled plans for a 1.8-billion-dollar "health city" to tap into the lucrative medical and healthcare needs of almost two billion people who live between Europe and eastern Asia. Dubai Healthcare City (DHC) aims at transforming Dubai into a hub of

world-class health care in the region. The project, which will be completed by 2010, will include a campus comprising a 300-bed university hospital, medical college, nursing school, centre for life sciences research, up to 40 clinics and hospitals, and specialised laboratories. The complex, to be built in central Dubai, will also house a health resort and spa, a sports medicine department, a five-star hotel and shopping mall, and a centre integrating eastern medicine and alternative health programmes.

Ports, Customs and Free Zone Corporation has also recently announced yet another ambitious project to setup 'Mohammed Bin Rashid Technology Park' which promises to reinforce Dubai's role as the premier regional technology and science hub. The Technology Park will be designed to serve as a regional platform to launch international, local and regional technology businesses across the Middle East, Central Asia and Africa. This new project will enhance the development of the knowledge-based economy, providing a wide range of opportunities for technology companies and will have all the facilities and incentives of a free zone provided by Dubai Government. It will develop industrially-based knowledge economy clusters in Dubai focusing on 'demand-driven' industrial technologies. The new park will also focus on attracting business accelerators, consultancy firms and venture capital groups in addition to manufacturing and industrial companies.

In another development, the Ports, Customs and Free Zone Corporation has announced a new project - Dubai Maritime City (DMC). The DMC, to be built between Port Rashid and Dubai Dry Docks, will cater to a diverse international maritime clientele and will focus on national, regional and international companies and institutions involved in maritime related business in various areas, including marine services, management, product marketing, research and education, recreation, ship design and manufacturing.

The Government initiative seems to be never ending and we now have the Dubai International Financial Centre (DIFC) which has been established with a vision to position Dubai as a universally recognized hub for institutional finance and as the regional gateway for capital and investment. DIFC will initially focus on Wholesale Institutional Banking including Asset Management, Islamic Finance, (Re)Insurance, Back Office Operations and the establishment of a Regional Financial Exchange to foster a cross border efficient and liquid capital market. In addition, DIFC will also be open to other sectors of institutional finance and will be the best regional location for the international business units of commercial banks, investment banks, wholesale financial institutions and fund management firms. DIFC will also host service providers critical to the development of the regional financial sector such as credit rating agencies, professional service firms, law firms and information service providers.

Dubai's dramatic growth in a span of less than four decades owes much to the exceptional vision and wisdom of its Rulers, who could perceive things much ahead of time and plan accordingly. When Late Ruler His Highness Sheikh Rashid bin Saeed Al Maktoum began his frenzied drive in the early 70s to build world class economic infrastructure, viz. airport, ports, road network, communications, power plants, desalination plants followed by a Free Zone and on top of all a 39 storey World Trade Centre, it did raise some initial doubts and reservations but the ultimate results have convincingly proved the long term benefits of these well-planned investments.

Sheikh Rashid's dream, after him, is being carried forward by his worthy successors with greater zeal and there is no doubt that Dubai, with its strategic location and world class logistics facilities and communication network, is in the most favorable position to ultimately emerge as the region's most important trading, redistribution, manufacturing and technological hub and a world famous tourism and convention centre.

In the final analysis, I am convinced that the UAE economy is on a sound footing and has the capability to adjust to different market situations. The gulf region is a growing and attractive market in the world for investment and business and the UAE would be the prime choice for foreign investors. This is a fact well known to the millions who have made the federation their home or who visit the country. Hundreds of thousands of others make this discovery every year.

In conclusion, I would like to state that the UAE, which has been often projected as the Arab world's most enduring example in unity, is perhaps one of the very few countries in the developing world that has managed to achieve such a unique balance between openness and tolerance in business and social affairs with due respect for traditions and the lasting values of an earlier era.