UAE: Infrastructure law revised to boost FDI

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- **With Expo 2020 Dubai set to open 12 months from now, construction in the emirate has been rapid. We draw upon the experiences of previous hosts of such world fairs to identify potential rewards and risks, both tangible and intangible.**
- **Despite slower growth expected this year, the UAE is forging ahead with improving its investment climate. Individual emirates are following through with business-friendly measures, notably Abu Dhabi's Ghadan 21 development accelerator programme.**
- **In our view, the new measures should significantly boost the level of FDI across the UAE, raising its status as a business hub for global investment.**

Table 1 - UAE Macroeconomic Indicators[1]

	2015	2016	2017	2018	2019f
Real GDP Growth (%)	5.1	3.0	0.8	1.7	2.8
Crude Oil Production (M Bpd)	2.8	3.0	2.9	3.0	3.2
Oil GDP Growth (%)	5.2	2.6	-3.0	2.6	3.2
Non-oil GDP Growth (%)	5.0	1.6	2.0	3.1	2.1
CPI Inflation (%)	4.1	1.6	2.0	3.5	1.9
Fiscal Balance (% of GDP)	-3.4	-2.0	-1.6	-1.8	-0.8
C/A Balance (% of GDP)	4.9	3.7	6.9	6.6	5.9
Total Gov't. Gross Debt (% of GDP)	18.7	20.2	19.7	187.0	19.2
Total Gross Extrn'l Debt (% of GDP)	63.3	69.6	72.6	68.6	68.7
Gross Official Reserves (Mos. of Imports)	3.6	3.3	3.7	3.8	4.3
Nominal GDP (USD B)	358.1	357.0	382.6	424.6	427.9
Population (Millions)	9.1	9.2	9.4	9.5	10.7

Expo 2020 around the corner

Since their launch in 1851, World Expositions have forged a legacy of cultural and technological exchange (and sometimes costs). Dubai's Expo 2020 brings the phenomenon to the Middle East for the first time.

- A video touting the rapid rate of development of the 2020 site was posted on social media platforms in early September.
  - A network of main roads leading to the Expo site opened during the same week.
  - The completed projects include two of the six phases of road works due to finish before the fair begins next year
- The World Expo legacy includes inventions that have shaped modern technology, landscape and consumer history such as the telephone (Philadelphia, 1876); the Eiffel Tower (Paris, 1889) and the ice-cream cone (St. Louis, 1904).
- Three recent World Expos -- Hannover 2000, Shanghai 2010 and Milan 2015 -- offer useful, if mixed, lessons for Dubai.
  - Hannover 2000 attracted only about half of the expected 40M visitors, resulting in losses of USD 600M for the organisers. As the infrastructure was already mostly there, investment mostly focused on the Expo itself, with little impact on the city's GDP growth, which averaged 0.3% in 1995-2000.
  - Shanghai 2010's cost of USD 48B to regenerate the Expo site actually outpaced Beijing's outlay for the 2008 Olympics. The investment had a large impact on growth (GDP growth averaged 13% in 2005-10) and was funded mostly through local banks and Expo bond issuances.
    - Post Expo, the investment contributed to 10% pa average GDP growth for Shanghai in 2010-13.
    - To accommodate the tourist influx, Shanghai invested in six new metro lines and 4,000 taxis.
  - The Expo Milan 2015 – which attracted 22 million visitors -- was plagued with escalating budgets, reaching up to EUR 13B and suffered interminable construction delays. The city's economy nonetheless grew by 0.8% in 2015 and 1.1% in 2016, from a 0.3% contraction in 2014.
  - While we do not expect a boost like Shanghai (because Dubai is already well developed), nor the chaos and losses of Milan, Dubai's World Expo 2020 is unlikely to overshoot visitor expectations as Hannover had done.
    - Dubai's metro expansion and Emirates Airline's plans to purchase additional aircrafts were already in the pipeline before the Expo award, and therefore, in our view unlikely to suffer from post-Expo slowdown.

Accelerating FDI inflows

The UAE is continuing to seek a regulatory environment that will build on investors' attraction to the country as a relatively open safe haven in a volatile region.

- Some new rules issued by the UAE to improve the foreign investment climate are already reaping results.
  - In August, Mars Global, the giant privately held international food company, became one of the first firms to acquire full ownership of a UAE-based subsidiary following changes to the country's foreign ownership law.
    - The UAE on 2 July approved 122 business activities in 13 sectors where it would allow 100% foreign ownership. The move was part of the UAE's policy of diversifying its economy and follows passage of an FDI law last year.
    - Sectors where ownership restrictions have been lifted include agriculture, manufacturing, food services, transport, e-commerce, space, renewable energy, and engineering, among others.

[1] Arabia Monitor; IMF.

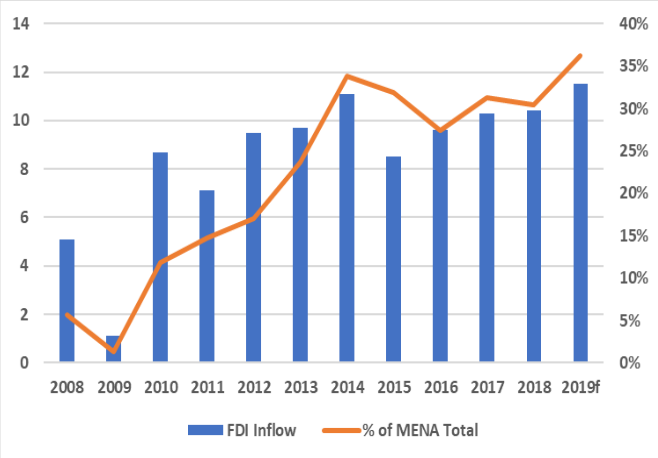
- Prior to 2018, foreign companies establishing a presence in the UAE outside free zones needed to set up a branch or form a company with a UAE national sponsor that would retain ownership of 51%.
- The launch of the UAE's Golden Card permanent residency visa for investors and highly skilled expatriates implemented in June has attracted a reported 6,800 eligible applicants so far.

➢ There is also significant progress in the Ghadan 21 Initiative launched in June.[2]
- In August, the Abu Dhabi authorities ordered the disbursement of USD 435M via 1,000 housing loans.
- A specialised USD 163M Mega Events Fund was launched in the same month as part of Ghadan 21 to support leisure and business events.
- In July, nine initiatives were announced including an "Abu Dhabi Instant Licence", an industrial tariffs initiative and vendor payments, and an SME financing scheme that provides guarantees to Abu Dhabi banks in case of defaults.
- Abu Dhabi's "Tajer" licences have been expanded to benefit all nationalities and cover 1,000 commercial activities, allowing companies to operate without a commercial lease.[3]
- Other changes that have been announced in recent weeks including dual licences allowing firms in the emirate's free zone to operate onshore and a new SME licence for financial free zone Abu Dhabi Global Market.
- Building regulations in the emirate are in the process of being revised, and zoning and regulatory information are expected to be available online by end-October to speed up the process of issuing building permits to 10 days.
- A new building law is also in the final drafting stage to cut the cost of constructing and owning property in Abu Dhabi.

➢ Among other new measures introduced by individual emirates in August to opening up their economies to foreign investment:
- Khalifa Industrial Zone Abu Dhabi, a subsidiary of Abu Dhabi Ports, waived charges for over 75% of its services and reduced other fees.
- Ras Al Khaimah Economic Zone launched a licensing package designed to promote the establishment of female-owned businesses.
- Abu Dhabi issued laws designed to increase the flow of foreign direct investment into the emirate.
  - One establishes the Abu Dhabi Investment Office which will have responsibility for overseeing the implementation and execution strategy for increasing foreign investment in the emirate.
  - The other provides a regulatory framework for Public Private Partnerships in Abu Dhabi.

All these measures are expected to significantly boost the level of FDI across the UAE, raising its status as a business hub for global investment.

Figure 1 – UAE FDI Inflows[4]



➢ Government estimates show that FDI inflows to the UAE increased to USD 10.3B in 2017 from USD 9.5B in 2012, running at an annual average growth rate of 3%.
- The UAE received USD 9.8B in FDI inflows on average during this period, accounting for 26% of total FDI inflows into MENA.
- UNCTAD estimates 2018 FDI in the UAE at 10.4B.
- The government's target for this year is USD 11.5B, which would eclipse the previous peak of USD 11.1B in 2014. A trough of USD 1.1B was recorded in 2009.
- FDI inflows should also be increased by the UAE's partnership with China in the Belt and Road Initiative.

Non-oil growth driver

The latest estimates released by the Central Bank of the UAE nonetheless suggest economic growth this year will fall far short of previous forecasts. They are more pessimistic than those from the IMF, mainly because of oil production estimates.

➢ GDP will expand only 2% in 2019, compared with a previous forecast for 3.5% published in March, according to the central bank.
- By contrast, the IMF forecast, in its April Regional Economic Outlook, a pickup of 2.8% from 1.7% last year.
- The central bank sees lower oil output acting as a drag on growth, with crude output forecast at 3.1 Mb/d this year versus an average of 3.3 Mb/d in the fourth quarter of 2018. It is expected to push oil-GDP growth down to 2.7%, lower than the 3.7% estimated in March.
- The non-oil economy will expand by an estimated 1.8% versus an earlier forecast of 3.4%.

➢ Following a big jump in 2018 after the implementation of VAT, inflation is expected to be lower this year, pulled down by weak housing and fuel prices, as well an oversupply in the retail and hospitality sectors.

[2] An economic stimulus package for the next three years announced by Abu Dhabi on 6 June to boost its flagging economy.

[3] "Tajer" is the Arabic word for "Trader".
[4] Arabia Monitor; UNCTAD.

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