

All are Welcome!

UAE Beckons Foreign Investors to Facilitate Transformation

Despite the difficulties brought on by the Covid-19 pandemic, November 2020 has been a transformational period for the UAE. In what appears to be an attempt to reshape the status quo and directly address obstacles and issues that have been debated to great lengths, the federal government has in the span of three weeks exhibited its commitment to change through several legislative reforms.

Viewed at a macrolevel, the UAE clearly recognises that current market conditions necessitate a pivot in policy in order to maintain its relevance as well as prepare for a post-pandemic economy that all emerging countries will need to quickly acclimate to. Furthermore, the legal changes are also a welcome assurance to the expatriate population.

The most important announcement is undoubtedly the changes to the ownership laws. After nearly two decades of back and forth discussions as well as the occasional rumour of drastic changes, we now have in place an assurance by the UAE government to drastically reduce the reliance on local sponsors by allowing 100 percent foreign ownership for onshore businesses. While there is the caveat that this is not applicable to all industries, it is a welcome change that has been heralded by legal analysts and business leaders alike as a potential catalyst for foreign direct investment as well as increasing the competitiveness of the UAE. Indeed, the UAE, it could be argued, has faced increasing competition from within

the region to adapt and adjust as Bahrain, Oman and Saudi Arabia, in particular, have drastically reformed their foreign ownership rules.

Prior to March 2020, the UAE was able to hold off any meaningful transformation of ownership laws; cue an unprecedented global pandemic, a contraction of the local economy and challenging forecasts for the oil and gas sector. Recognising the difficulties that will likely be present in 2021, we now have in place legislation that will open up the UAE economy to a wide range of potential contributors ranging from entrepreneurs and established businesspersons to larger organisations and multinationals who will opt to set up an onshore presence unhindered by sponsorship regulations. What this will mean for free zones is yet to be seen though it could be argued that they will become increasingly more competitive and adapt their business models and approaches in dealing with their current partners and tenants. This is not an issue for now but will likely have to be addressed as we move through the decade.

Earlier reforms to the legal code this month will likely be eclipsed by the more recent announcement. Even so, they are as important in addressing longstanding laws which impacted foreign visitors and expatriates. Touted as a more liberal shift, the UAE has decriminalised alcohol consumption and cohabitation. The reforms announced also included changes to legislation governing inheritance and divorce which will, going forward, allow for the application of laws of a person's home country rather than limiting it to provisions under Shariah law. Again, while these changes do not directly deal with the commercial environment, they are indicative of the UAE government's willingness to adapt and address the needs not only of its citizens but also its expatriate population.

It remains to be seen whether the changes outlined above will have any immediate impact in offsetting the hardships that have been brought on by the Covid-19 virus. Moreover, how the change in legislation will actually categorise 100 percent foreign owned onshore businesses

is yet to be expanded upon; will these entities have any restrictions such as being explicitly classed as foreign owned or will they have the full rights of locally owned business. Other potential issues will likely be a shift away from free zones, which are, by their very nature, reliant on rents they can attract from their registered tenants. A potentially positive outcome is that firms registered onshore will be able to reduce costs by relocating to commercial space outside of free zones. Alternatively, businesses will possibly use the mechanism to relocate to lower rent jurisdictions in the Northern Emirates which would reduce costs and overheads.

Regardless of the circumstances, the UAE's transformation remains an ongoing process albeit one that has picked up pace and has a more visibly delineated objective of engaging and attracting a wider range of foreign direct investment and shoring up its position as a regional hub in spite of emerging challenges.

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