UAE – unique proposition continues to attract entrepreneurs from across the world

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In 2013 the United Arab Emirates (UAE) – and Dubai in particular – went into full speed recovery mode. The DFM (Dubai Financial Market) General Index was up 126.8% over the past year, making it the best performing stock market in the world, while the Abu Dhabi Securities Exchange Index rose 69.7%. Many real estate projects that were stalled after the 2009 downturn were restarted and many new ones were launched. Property prices rose by up to 30%. Dubai's confidence was further boosted in December 2013 when it won the bid to host the World Expo in 2020, beating off competition from Izmir, Yekaterinburg and Sao Paulo.

In 2013 it was announced that, effective May 2014, the UAE was to be upgraded to "emerging market" status by Morgan Stanley Capital International (MSCI). The MSCI Emerging Markets Index, which tracks US$7.3 trillion of equities around the world, is considered the A-list of growth markets and includes countries such as China, Brazil and India. The move is a major sign of approval from institutional investors for the countries' stock markets, and is expected to attract more stable sources of capital to local equities.

Freezones

Dubai has 22 freezones, which allow for 100% foreign ownerships and guarantees against any future taxation. The Jebel Ali Free Zone (JAFZ), in which Jebel Ali Port is located, registered the highest growth in the number of new joiners in the last six years (28% growth) in 2013. Dubai Multi Commodities Centre (DMCC) is now the largest and the fastest growing free zone in the UAE with over 7,330 active registrations, with an average of 200 companies choosing to locate there each month. DMCC announced plans to build the world's tallest commercial tower. The tower and a 107,000 sqm business park will add further commercial space to DMCC's existing 2.9 million sqm of built-up area. DMCC was also the first UAE free zone authority to offer freehold business premises premises (i.e. anyone can own the property).

The Dubai International Financial Centre (DIFC) courts have emerged in 2013 as an increasingly important venue for settling commercial disputes. They are staffed with recognised judges from several international common law jurisdictions as well as from the UAE,

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a civil law jurisdiction. Since October 2011 (Dubai Law No. 16 of 2011) any party can choose to have its dispute settled by DIFC courts instead of Dubai courts provided that DIFC is agreed on as the jurisdiction of choice in the contract (or agreed on by the parties after the dispute has arisen). If assets are located in Dubai (outside the DIFC) an enforcement protocol between the Dubai courts and the DIFC courts leads to near-automatic enforcement in Dubai of a DIFC court's judgment, which would be "converted" into a judgment of the Dubai courts.

In April 2013, Abu Dhabi announced the creation of a new financial freezone to add to its existing six. To be located on Al Maryah Island and will be called the Abu Dhabi World Financial Market. Like DIFC it will have its own laws, regulations and court system. The nest step for implementation is an Abu Dhabi emirate level decree to establish the regulatory and administrative bodies to oversee it.

The freezones in the emirates Fujairah, Ajman and Ras al Khaimah also saw strong growth in the numbers of companies established there in 2013.

Draft Commercial Companies Law (CCL)

On 28 May 2013, the UAE Federal National Council announced its approval of the draft Law. A reform of the 1984 Commercial Companies Law has been in the pipeline since 2006 although the draft does not include many of the changes originally envisioned. The Limited Liability Company is the main vehicle the UAE for doing business locally (outside the freezones). The framework relating to LLCs remains largely unchanged. For instance the local (or GCC-national) ownership requirements remain in tact under the new law (requiring 51% local ownership). Proposed amendments include: minimum number of shareholders reduced from two to one and the maximum increased from 50 to 75; the share capital requirement is abolished; share pledges will be recognised; and the restriction on the number of managers is abolished.

The concept of a holding company is not specifically provided for at present – each company must choose one or several lines of business for licensing purposes. The new CCL willl introduce a holding company regime where a company will be restricted to holding shares, providing loans and guarantees to its subsidiaries and acquiring IP rights for use by its subsidiaries. Common Investment Companies are also proposed, which can be used as vehicles for issuing shares in investment funds.

The new CCL also prepares the groundwork for the creation and maintenance of a public companies' register, subject to Ministerial resolution. Notably no statutory assumptions as to powers of company managers are introduced. Currently outsiders cannot assume that a general manager of a company has the power to enter into transactions and sign official documents for and on behalf of the company without viewing notarial powers of attorney given by shareholders.

Freezone companies will remain outside the scope of the law provided that they do not have branches outside the freezone.

Emirates Securities and Commodities Authority (ESCA)

Since August 2012 foreign funds being marketed or sold to UAE investors require prior ESCA approval; restrictions also limited the marketing and selling of ESCA-approved foreign funds to locally-registered promoters or, in some circumstances, UAE-domiciled representative offices.

In response to industry feedback, in April 2013 ESCA introduced a private placement exemption to its regulations on the distribution of foreign funds in the Emirates provide to include only certain types of customer – UAE sovereign wealth funds, companies, institutions and other entities whose primary activity is, or whose activities include, the investment of securities.

Increase in property transfer tax

The Dubai government considered it necessary to cool the booming property market. Consequently it doubled the property transfer tax from 2% to 4%. The UAE Central Bank also limited loan to value ratios for mortgage providers to 75% on the first purchase and 60% for subsequent purchases for expatriates.

Further developments

A new law will make employers in Dubai responsible for providing health insurance to employees. To be phased in from 2014-2016, this is unprecedented because it imposes the first mandatory payroll charge in Dubai. The five northern emirates however do not have plans for mandatory health insurance.

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The UAE continues to offer a model that is not to be found anywhere else: no corporate and personal income taxation, no VAT, no social security charges, free trade with low import duties across the board, free immigration for anyone willing to work, a stable currency, no currency controls and limited government intervention in the economy. Services typically provided by the state such as education and health care are mostly provided privately on a for-profit basis and the government sees its role mostly as attracting investors to the country and investing in infrastructure. That is why entrepreneurs from across the world continue to flock to its shores.