Intelligent foreign direct investments to boost economic development – UAE case study

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Abstract
Nowadays, the UAE represents the country of intelligent business opportunities. In the present, the UAE is the leader in direct investment, with 14.3%, world-wide. This work paper aims to show how adequate financial and fiscal legislation together with innovative and performing management can lead to rapid economic growth and spectacular social development. The research analyzed on the current situation of direct investment in the UAE, its unicity, and proposes solutions for their development in order to ensure sustainable economic growth, as the redirection of investments, from the oil and gas sector to the services sector, and research / development.

Introduction

The word is changing every day, economic development of almost everything around the world, taking different meanings and techniques. We are hearing about investments every day. Investment in a simple definition is the act of lending and distribution of money for an expected return or profit. Investments through financial capital infusion, lead to increase of production, increase of consumption, increase of income at private, and public sector (increasing production, sales, it leads to increasing the volume of taxes and other taxes payable to the state's budget) (Mosteanu, N.R.., 2017a).The research is focused on evolution of foreign direct investments in GCC, giving a special attention to UAE. During the last decade, UAE sowed a fast and incredible economic development. It succeeds to become one of the most attractive and developed countries, despites the geographical and natural environment. Higher investment and public spending are likely to drive growth higher this year and the next. Particularly, infrastructure investment related to the country's preparation to host the Expo 2020 Dubai will support the outlook, buttressing the construction sector. Furthermore, recent business-friendly reforms and a new investment law to be introduced in Q4 are poised to boost investor confidence and support higher FDI inflows, Focus Economics analyst said in their latest note (Focus Economics, 2018).

Investments has been there for many years, when the international trade starts to develop. However, in our modern world the term investment especially financial investment has taken variable meanings ad forms. From financial and macroeconomic decisions impact, economists divide investments in two mains: direct and indirect investments. Both of this form may be foreign or domestic (local) one. One of the most types of capital flows is foreign direct investment (FDI). Companies commonly attempt to engage in FDI so they can reach additional consumers, and profit (Madura, J., 2018).

Stability of the financial system, the existence of a small number of taxes, and the existence of a fixed exchange rate between the AED and the US dollar (Mosteanu, N.R.., 2017a, b) have made it possible to increase the confidentiality of foreign investors.

Figure no.1: Dubai's transformation: 1990 versus 2018, (retrieved fromhttps://i.redd.it/pf7vkqeddfr11.jpg)

Nowadays, UAE is one of the best places to invest and leave, it offers an enticing business environment with a liberal lifestyle and ample business opportunities apart from the hydrocarbon sector. Foreign businesses have opportunities in various sectors including financial and trade services, tourism, entertainment, construction, manufacturing, education, and health services (Akoum, I. F., 2008). This research paper will show further how foreign direct investment have seen rapid growth in recent years.

Research Methodology

The present work paper is an exploratory research, based on investigative techniques. It is a fundamental and qualitative research which aims to present what is the situation of foreign direct investments in UAE, and what can be amendment in order to increase the volume of these specific types of investments.

Evolution of Foreign Direct Investments Approach in UAE – Literature Review

The UAE and GCC countries after the discovery of oil and the industrial evolution became strategic areas for investment, companies and countries around the globe has paid and given their attention to the importance of this area, establishing businesses and launching the very first investment in the area. The history of land in the GCC area is long and rich, but in the 1950's, a new chapter and a different chapter was opened to this region in business. In 1946, the first bank came to operate in the UAE it was HSBC Middle East Bank. The start of its operation came to life after it opened several branches in the GCC areas between 1942 and 1946 (BBC News, 2018). Investment in the GCC and the UAE has started with the same time the first bank become operative in the region. Banks starts to facilitate the financial flow of funds, involved themselves directly to financial investment, acting like a medium between investors and investment providers. Banks are the lenders and the financial providers, in the same time, banks are the keeper for the population's assets. Investment in the oil and gas sector since its appearance in the United Arab Emirates was huge, especially after the union in 1972. That is when all seven emirates have decided to put their hands together to develop UAE.

The investment in oil and gas has changed the desert into an industrial area, which acquired large number of expats to immigrate to it, in all sectors: engineering, education, medical and even labors. Before the discovery of oil and gas, the gulf region including the UAE land had an active trading profile, with its strategic location as it was one of the ports for the Ancient Silk road (trade line), the line which connected the trade between the east and the west. UAE pearls were used for jewelry and traded as its exports and importing rice and textile from the east.

Going furtherly to 1950’s when the oil was discovered in the land of UAE, in 1962 the first oil export started and the transformation of the society and the country trading and investment profile started, in early 2000, when computers and telecommunication industries had their evolution, the UAE has invested largely in the development of its telecommunication and which through years has given a great revenue to its GDP, Etisalat the main telecommunication service provider in the UAE has invested in the infrastructure of UAE as well developing it to fit the needs of development in telecommunication sector.

Real Estate, one of the biggest investment field and sector in the UAE, it has performed greatly in the total country’s investment. Although, in 2008 the financial crisis that affected the UAE economy was sourced by the real estate sector, other years has performed greatly and attracted a lot of foreign investment to the UAE.

With all the investment sectors mentioned above and the expansion of economy, the leadership of UAE has brought the attention about the importance for regulation in this area. Therefore, in 2007 Emirates Investment Authority was founded (Federal Law no.4/2007). One year later, the Investment Authority’s core team was on duty, and it has gained the financial well-being for the assets of UAE.

UAE economy is known to be young, rapid in growth and dynamic, and due to the strategic location of the UAE between the east and the west, it gained the trust for domestic and international investment. Here came the main role of Investment authority to deliver three main goals, first to maintain financial growth of the UAE wealth for the well-being of its people. Then, be a custodian for UAE investments. In the end, advise the government’s policies in economic and industrial matters. Among the Gulf countries, the UAE have become the first host country for migrants around the world. Until the end of the 90's, the migration was based on the principle of a temporary expatriation for an expected wealthy return. Dubai is asserting itself as a global city where a post-oil economy is arising. Moreover, the development of industrial and business activities in the Emirate prompts the closest ones, namely Sharjah and Ajman, to offer some attractive advantages for business investments (Venier, P., 2011).

The UAE is an important producer of natural gas and oil, ranking the world's number seven in the total of proven reserves of both. Much of the UAE's improved economic performance in recent years is the result of positive measures taken to diversify its economy. The prosperity of the country and its rapid transformation into a booming economy were made possible by the revenues from oil exports. The wealth of its resources has contributed to its overall growth; in particular, an increase in oil export prices has led to improvements in the determinants of the growth rate of trade. However, oil wealth is not the only factor; macroeconomic stability and the financial development of the UAE’ economy cannot be ignored (Haouas, I., and Almas H., 2013).

Investment is one of the components of the country’s macroeconomic pillars and it is reflected in its GDP. According to the Global Competitiveness Index (GCI), which measures countries according in health, education, economy and financial strength. The UAE has ranked 23 in its first year entering the top 30 countries in 2009, reaching to its highest rank in 2014 being number 12 the highest rank achieved by a Country from the Arab League (World Economic Forum, 2018).

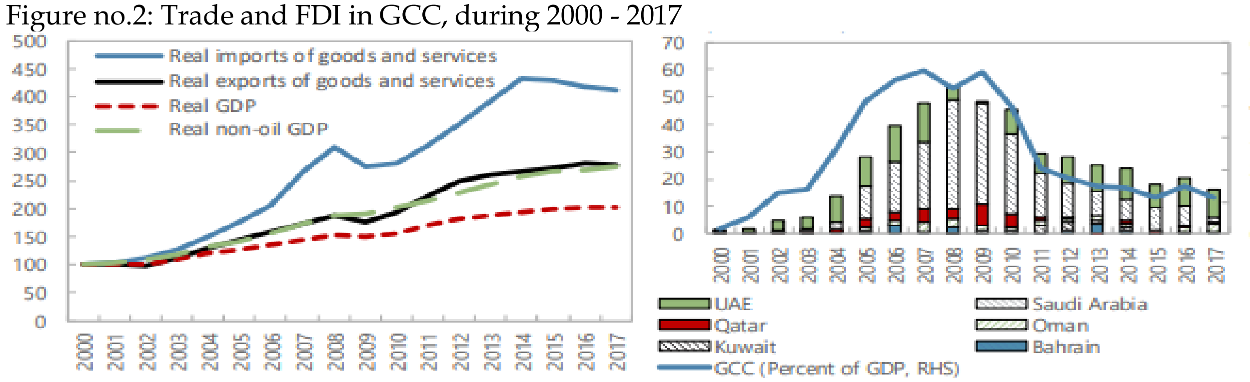
The GDP of the UAE in 1980 has scored negatively 1.8, and GDP is always changing for countries, but in an overview of the GDP it has scored the lowest in 1986 with -19.3, and the highest with 23.6 in 1990, for the past 18 years only one negative figure have arisen in 2009 when the world financial crisis happened, but since then the GDP is constant growth, giving the indicator that UAE has gained stable strong trading and investment strategies to support its financial health (IMF, 2018).

Trend of Foreign Direct Investments in UAE after Global Financial Crisis

UAE showed a continuous growing economy and a fast recovery after past financial crisis (as can be seen in figure no.2). According to the International Monetary Fund, trade and investments are in a continuous growing process in all GCC countries. After Saudi Arabia, UAE register a continuous trade and foreign direct investment developments (IMF, GCC, 2018).

Since 2000, the GCC goods and services trade has grown by a real average rate of 7.5% almost double to real GDP growth, compared with the global averages of 4.8% and 3.8%, respectively. The rise in the price of oil during the period 2003-2008 led to a sharp rise in oil export earnings, which in turn led to a significant increase in imports of goods and services during that period. The financial crisis has halted this growth for only a year, largely as a result of the romance and implementation of a dual-Islamic and conventional finance system. The Islamic financial system promoted in the GCC countries based on backed investments with real assets (Moşteanu, N.R., 2017c; Moşteanu, N.R., 2019a). Since 2009, GCC countries have been experiencing continued economic growth, driven largely by strong domestic demand and improving global conditions. On the other hand, after increasing in the early 2000s, FDI inflows into the GCC countries have steadily evolved, on average below 2% of regional GDP (IMF, GCC, 2018).

Figure no.2: Trade and FDI in GCC, during 2000 - 2017



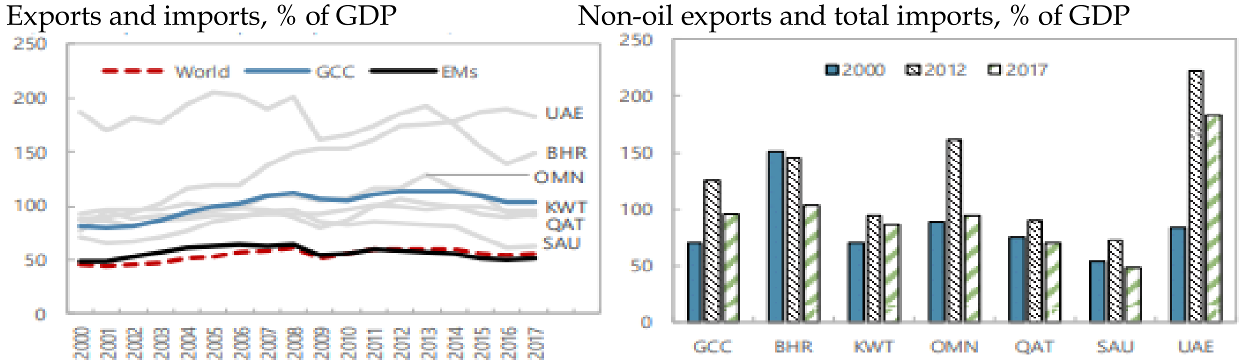
Source: (IMF, GCC, 2018)

The ratio between exports and imports of goods and goods and services to GDP exceeded 100% in 2017, well above the average of 50% for emerging economies (Figure no.3). This is largely due to the large hydrocarbons in the region, the most exported, and the lack of diversification of domestic production, which requires imports (IMF, GCC, 2018).

Figure no.3: GCC Trade openness, during 2000 - 2017

Exports and imports, % of GDP

Non-oil exports and total imports, % of GDP



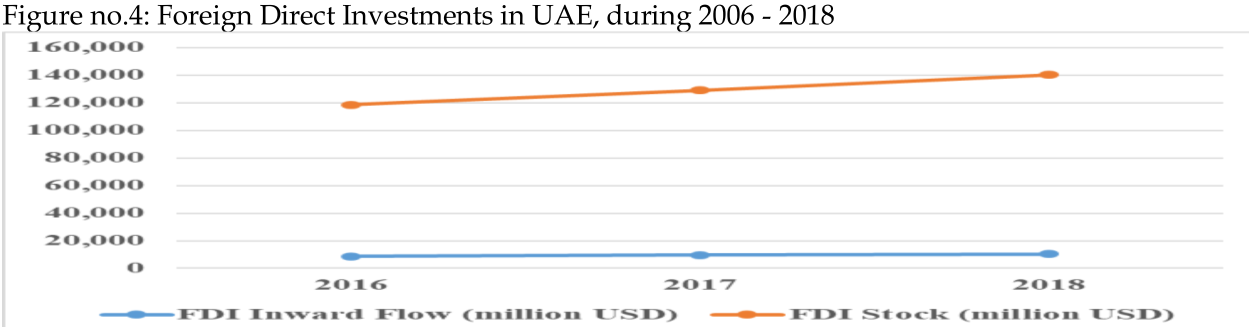
Source: (IMF, GCC, 2018)

UAE recorded, compare with other GCC countries, the highest international trade volume (figure no.3) and higher foreign direct investments (figure no.4). The rapid development of innovative infrastructure and the promotion of smart city principles has made the UAE, especially the emirate of Dubai, also become a strong tourist. Certain financial legislation and friendly taxation (few taxes and many free zones), as well as living conditions at risky standards, have led to increased business opportunities, increased investor inflows and international trade.

According to the reference (Trading Economics, 2018) the UAE foreign direct investment recovered very fast after financial crisis, and since 2009 the total investment has increased gradually in 2010 raising to AED 20,200 million, until it got its stability to average AED 36,100 million the past 6 years (figure no.4).

To summarize the history and the trend of investment in the UAE according to the economic activity, as mentioned before the UAE since the discovery of oil has depended on trading oil trading for many years, but the leadership in the UAE has got the consideration that oil will be gone one day and it is important to invest in other sectors to maintain a strong economy.

Figure no.4: Foreign Direct Investments in UAE, during 2006 - 2018

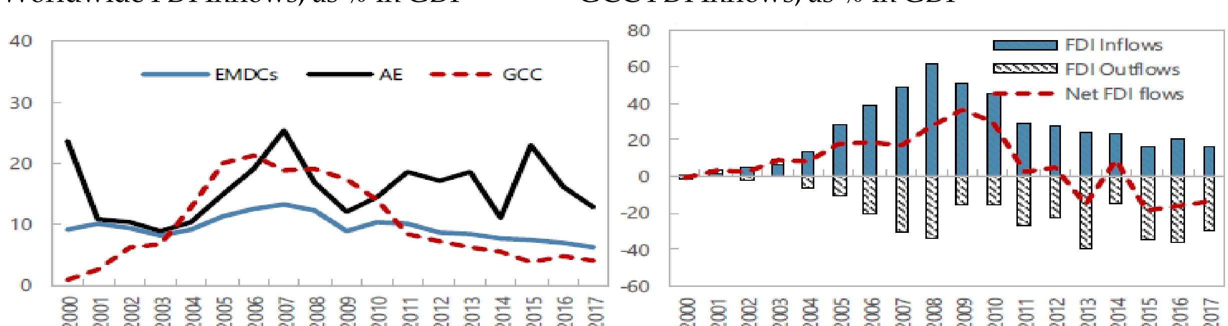


Source: (TradingeEonomics, 2018)

Year after year, foreign investment laws have been improved to attract as many foreign investments as possible. The UAE has in particular created multiple free zones with substantial financial and fiscal facilities which, alongside geopolitical uncertainties and tensions in the EU as a result of the economic and financial crisis, have favored increased investment in the Middle East region (Figure no.5). The UAE has embraced a policy of open market, opening up labor gates and capital markets.

Figure no.5: FDI Flows in GCC, during 2000 – 2017

Worldwide FDI Inflows, as % in GDP GCC FDI Inflows, as % in GDP



Source: (IMF, GCC, 2018)

Note: AE = Advanced Economies; EMDC = Emerging Market and Developing Countries; GCC = Gulf Cooperation Council (GCC), political and economic alliance of six Middle Eastern countries—Saudi Arabia, Kuwait, the United Arab Emirates, Qatar, Bahrain, and Oman.

Across the world, UAE become a leader in foreign direct investments, with more than 14% (figure no.6). Dubai, especially, become a trend attraction for investors around the world, every day new business opportunities appear.

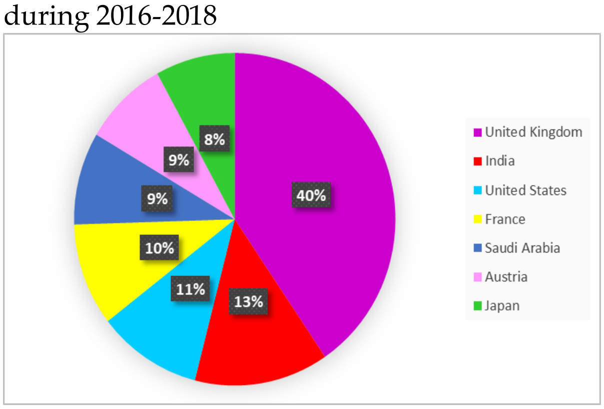
Insurance and financial activities have taken the major part of the UAE investment and focus, reaching in 2014 to be 50% of the total invested amount by the country, and mainly by Dubai and Abu Dhabi. After the financial and insurance activities, the wholesale and retail of motors ranked the

2nd the most foreign direct investment of the UAE, and in the 3rd place comes the real-estate activities. The major investment in the UAE are related to the main city of the country, Abu Dhabi, managed by Abu Dhabi Investment Authority as the official investment governmental authority, and Abu Dhabi Investment Council, the largest council for investment in the UAE. In Dubai, the most popular and key truism attraction in UAE, investments are monitored by Dubai International Financial Centre, Dubai Investment Corporations are the largest institutes for investment and advisory of investment for national and foreign investment. All investments are regulated by Emirates Investment Authority.

2020 and New Attitude of Foreign Direct Investments in UAE

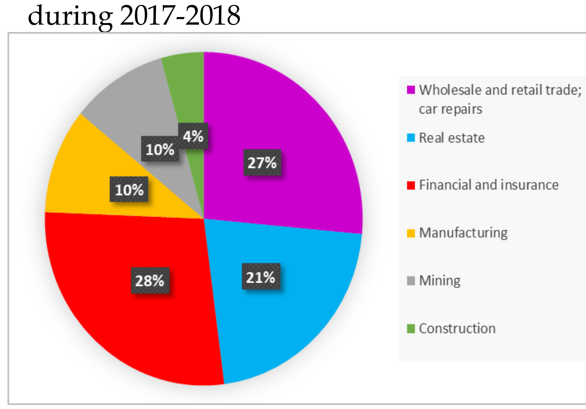
The main type of investment in UAE used to be in oil and gas sector. Then, since the 2000's the types of investments have been diversified as the leadership of UAE has realized that in future the country cannot depend on the oil and gas only for its economy. The country has developed rapidly and since then we can see that the market expanded to be a targeted market for all types of investments worldwide (Bayanat.ae, 2018). The highest foreign direct investments are located in financial and insurance activities (figure no.7).

Figure no.6: FDI inflows by countries during 2016-2018



Source: (IMF, GCC, 2018; Trading Economics, 2018)

Figure no.7: Main Invested Sector in UAE, during 2017-2018



Source: (Santandeer TradePortal, 2018)

The country has gained international confidence and started to attract all types of investments. Just like any other international market the investment market in the UAE have various types of investments: stocks; bonds; mutual funds; ETF's; and, alternative investments (commodities, private equities, fund hedging, real-estate). According to the Central Bank, in the UAE there are 381 licensed banks and financial institution that are authorized to conduct financial, investment brokerage and money exchange in the UAE. The number is increasing as seen in the previous part that the investment in financial and insurance services is growing year by year (Central Bank of UAE, (2018).

The main financial securities exchanges operating in the UAE are Abdu Dhabi Security Exchange – ADX, and Dubai financial Market – DFM. As Abu Dhabi and Dubai are the biggest and the cities that makes 50% of the total UAE market out of 7 Emirates. Both of them are member of World Federation of Exchange. DFM operates under the Sharia compliance for Islamic trading, and in 2010 it has integrated its operation to NASDAQ getting the international regulation to one of the best international exchange entities in the world giving the national investors international securities access through a single investor number but with more diversity. UAE financial market doesn't end here, as much as it's big that the UAE has these two investment exchange houses registered with WFE, there is another institution in Dubai that has a fellowship with WFE which is: Dubai Gold and Commodities Exchange – DGCX, started its trading in 2005, DGCX now a days has 267 members from all around the world ad it has its online portal for trading in dealing with Metals, currencies, equities and hydrocarbons.

According to the Global Competitiveness Index of the World Economic Forum of 2017, UAE is among the least restrictive countries in terms of non-tariff barriers. Also, the OECD Trade Facilitation Indicator (UCITS) database classifies the UAE as a first-rate facilitator in trade facilitation. The Global Trade Fair Report, which includes 136 countries on market access, border management, infrastructure and the operating environment, points to a wide heterogeneity among GCC countries in creating a trade-friendly environment, with UAE first place (IMF, GCC, 2018).

The strengths of the UAE include its easy access to oil resources, low energy costs, a willingness to diversify the economy and a high purchasing power. The absence of direct business taxation (excluding banks, oil companies and telecommunications operators) and direct income taxation, of exchange controls and of any limitations on the repatriation of capital, as well as the existence of a strong and profitable banking sector, plus a large pool of expatriate labor are the country's undeniable assets. Its main weakness is the small size of its domestic market. The UAE ranked 21st out of 190 countries in the 2018 Doing Business ranking published by the World Bank (Santandeer Trade Portal, 2018).

Openness to foreign business/ entry varies widely among the GCC members, with the UAE and Bahrain being the most liberal and Kuwait and Saudi Arabia the most restrictive. An important feature of foreign investment rules in the UAE has been since the emergence of legislation in the field, the participation in the company's capital, differently in free zone or mainland. Free zones represent an area where taxes, employment or trade restrictions on business do not apply in the same way as in other parts of the country. Foreign investments open in the free zones of the UAE can be 100% foreign-owned, without the mandatory participation of a local shareholder. These rules were very well settled, because foreign investments opened in mainland use to have local shareholder, local identity, and in the same time financial transfer restriction, keeping the profit inside the country, participated indirectly to the entire economic development.

In the present time, foreign investment rule, in sense of business openings has changed. Starting with 2019, increased foreign ownership of companies in the UAE is now possible. New rules (Federal Law by Decree No.19/2018) foreseen attraction of foreign direct investment for vital and strategic sectors. These changes in the internal regulations aim to promote and develop the country’s investment environment, senior officials have reported that this will boost FDI by up to 20% across the next two years. The UAE offers lucrative opportunities for foreign investment and the strengths of the UAE include its easy access to oil resources, low energy costs, a willingness to diversify the economy and a high purchasing power. The new legislation provides the framework for the UAE Cabinet to permit foreign shareholders to own increased levels of foreign ownership (more than 49% of shares) in companies operating in certain sectors. A new public authority will be established - Foreign Direct Investment Unit – under the Ministry of Economy responsibility. The FDIU main duties are focused on proposing FDI policies, establishing a comprehensive database of investment’s projects as well as licensing foreign direct investment projects and evaluating their performance.

In the same line, to increase the performance of foreign direct investment and to facilitate the soft infrastructure, the country encourage continues education and immigration of qualified human capital. Human capital is a key determinant of export performance and FDI. UAE still have tight regulation for hiring of foreign nationals in public sector. However, higher educated investors, businessmen and employees will conduct to a higher efficiency and competitiveness. From this respect, starting with 2019, for higher educated expats working visa time limit increased.

Foreign direct investments will continue to grow in UAE, as long there is no direct taxation of corporations (apart from oil, banking and insurance sectors) or of individuals, and new implemented VAT is still 5%. In the same time, good-quality business climate and long-term political stability create a confidence to all possible foreign investors.

Conclusion

All the research above proved that good policy priorities can help inflows of FDI. Investments help the country's economy to boost rapidly, creating new jobs, productivity, consumption, and profit. In order to increase productivity and competitiveness, it is necessary to maintain and continuously improve the business climate and reduce remaining barriers to foreign trade and investment (bureaucracy, time and costs). Ongoing reforms would be better to run in the following areas will be important: human capital development (to raise educational quality to provide knowledge and skills); legal frameworks (ensure predictability for taxation rules); and, clear rules for new entrepreneurs, start-up, SMEs.

In 2019, new foreign investments rules (Federal Decree Law no.19/2018) giving more flexibility in business ownership in certain economic sectors. These changes in the internal regulations aim to promote and develop the country's investment environment; senior officials have reported that this will boost FDI by up to 20% across the next two years. The UAE offers lucrative opportunities for foreign investment and the strengths of the country include its easy access to oil resources, low energy costs, a willingness to diversify the economy and a high purchasing power, no direct taxation and low level of VAT, good-quality business climate; dynamic and diversified economy; stable banking sector; financial and political stability; and, an excellent and modern infrastructure (Moşteanu, N.R., 2019b).

UAE is one of the most opened country for foreign business. Across the world, the country become a leader in foreign direct investments, with more than 14%. Dubai, especially, become a trend attraction for investors around the world, every day new business opportunities appear. In the 2018 Doing Business ranking published by the World Bank, ranked UAE as 21st out of 190 countries.

Promoting a stable business climate, offering an efficient infrastructure (transport, communications), using the newest technologies are some of the greatest conditions to welcome foreign direct investments, and UAE it is an example for it. Foreign direct investments, on the other hand, helped to all the above to exist and to be realized, it led to boost economic development.

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