

INSIGHTS

Foreign Direct Investment in the United Arab Emirates: Trends and Predictions for 2024

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The United Arab Emirates (UAE) has been making significant in-roads across the last few years to position itself as an attractive destination for foreign direct investment (FDI). Whilst 2022 saw a global decline in FDI, mainly attributed to overlapping geopolitical and socio-economic crises, the fact that the UAE has become – and remains – one of the world's most stable investment destinations cannot be overlooked.

According to the [World Investment Report 2023](#) (WIR) issued by the United Nations Conference on Trade and Development, in 2022, the UAE recorded its highest FDI inflow at US\$22.7 billion, being a 10% increase from the previous year, and surpassing all other countries in the Gulf Cooperation Council (GCC).

In this piece, Bracewell delves into the current and anticipated FDI trends in the UAE, shedding light on the factors that have propelled it to the forefront of global investment opportunities, while also sharing their predictions for 2024.

Who are the Major Investors?

The UAE's allure as an investment haven demonstrates its resilience amid global uncertainties, actively seeking to strengthen its financial inflow, and embarking on a strategic pursuit of trade agreements with major global players.

A significant milestone unfolded in 2022 with the establishment of the [UAE-India Comprehensive Economic Partnership Agreement](#) (CEPA), aimed at facilitating trade and creating stronger economic ties. CEPA has provided many initiatives, including 0% customs duties on the majority of tariff lines and preferential market access benefitting the two nations. In one year after signing CEPA, bilateral trade between the two countries grew by 27.5%.

The UAE has also seen increased involvement from China, most notably in the UAE energy sector, and in May 2023, the UAE signed three agreements with Chinese nuclear energy organizations signifying commitment to growth in this sector between the countries. Whilst foreign investment in the energy space will always maintain a strong foothold in the UAE, with renewable energy deals being more important than ever not only on the UAE stage, but globally, the landscape of investors in the UAE is becoming more diverse as time goes on.

The UAE has also become a hub for international tech entrepreneurs, who are using tools such as the Abu Dhabi Global Market (ADGM) tech startup license to quickly set up innovative businesses in the region, allowing founders access to a progressive tech ecosystem and pool of investors that help to cultivate rapid scale up through early stage to exit. Clearly, the Gulf serves as an appealing new home for significant startups, particularly the UAE, which has three of the six unicorns located in the Middle East.

What are the Key Sectors?

Greenfield Projects: The UAE received the fourth largest number of greenfield projects (997 in total), according to the WIR, marking an 84% increase from previous years, and which has been a popular investment sector for foreign investors. As an example, the Republic of Korea, via Korea Electric Power, invested into the UAE's greenfield project sector with the establishment of a \$1 billion green hydrogen plant at Khalifa Industrial Zone in Abu Dhabi.

Healthcare: The healthcare sector in the UAE is continuing to grow demonstrating significant potential in both medical services offerings as well as scientific breakthroughs. According to the [2023 Prosperity Index Report by the Legatum Institute](#), the UAE claims the leading position in three global competitiveness indices within the healthcare sector, namely detection programs, medical coverage scope, and antenatal care coverage. The UAE's spending growth rate in the healthcare sector is the highest in the GCC with spending projected to reach \$30.7 billion by 2027, and a compound annual growth rate of 7.4% (Alpen Capital Report 2023). As mentioned in more detail below, the UAE has seen a boom in initial public offerings (IPOs) in recent years, and the UAE healthcare sector is no stranger to successful IPOs. PureHealth Holding PJSC, the largest healthcare platform in the Middle East, launched its IPO in December of 2023, which was fully subscribed on the first day. Consequently, PureHealth's listing on the Abu Dhabi Securities Exchange (ADX) last month finished the year strong for the UAE IPO market, having been oversubscribed 483 times, making it the UAE's second biggest IPO of 2023.

Stock Markets: The ADX and the Dubai Financial Market (DFM) are emerging as compelling investment opportunities, especially given the positive responsiveness to the global geopolitical and socio-economic unrest over the last few years. In 2022, the ADX was the best-performing market in the GCC for a second consecutive year, with an increase of 61.4% in market cap led by an IPO boom, sitting in stark contrast with global indices that suffered the worst performance since 2008. A seismic shift in the appeal of listing on the ADX stems from the successful IPO of Fertiglode PLC, which was the first free zone company (registered in the ADGM) to list and trade on a UAE onshore stock exchange. Consequently, a number of similar ADX free zone company listings followed, notably ADNOC Gas (the UAE's biggest IPO of 2023) and ADNOC Logistics and Services, further highlighting the appeal of FDI through institutional investor opportunities. The UAE has also adopted a regulatory framework to govern the marketing of investment funds established outside of the UAE to domestic investors and the establishment of funds domiciled in the UAE (such as the GSB Japan Equity Long Short Master Fund and Orus Aircraft Leasing Fund) in response to the increasing demand for investments, as well as the country changing its working week to align with the rest of the West.

Renewable Energy: In line with hosting the [COP28 International Climate Summit](#) (COP28) last November, earlier in 2023, the UAE government approved an update to the National Energy Strategy (NES), which aims to triple renewable power-generation capacity, and increase clean energy's contribution to energy generation to 30% by 2030. The NES seeks to increase

renewables capacity in the UAE from 3.7 gigawatts to 14.2 gigawatts by 2030, and there has been a marked increase in solar panel projects in line with these ambitions. Emirates Water and Electricity Company received bids from foreign investors including French utilities company, ENGIE, and Japanese trading company, Marubeni, amongst others, at the beginning of 2023 to develop its 1.5 gigawatt third solar photovoltaic plant. During COP28, a number of initiatives and deals were announced. The first ever transport-energy ministerial was organized at COP28 with the sustainable land transport community, led by the SLOCAT Partnership, agreeing to mark the first ever World Sustainable Transport Day on 26 November 2023, issuing a call to action to double the share of energy efficient and fossil-free forms of land transport by 2030. A number of memoranda of understanding were also entered into during COP28, and a nuclear reactor business, founded by Bill Gates, signed a deal with the UAE to collaborate on developing nuclear power plants to tackle climate change.

Real Estate: Real estate transactions across the GCC during January to October 2022 amounted to \$143.1 billion, a substantial increase compared to the \$136.9 billion made across the entirety of 2021. Notably, the UAE played a prominent role, contributing over 48% of the aggregate value transacted. The robust performance of the UAE's real estate sector can be attributed, in part, to a heightened demand for luxury residential properties, influenced by an influx of expatriates choosing the UAE as their place of residence.

What are the Opportunities for FDI?

The UAE's strategies to boost FDI include refraining from imposing taxes or making restrictions on the repatriation of capital, allowing free movement of labor into the country with low barriers to entry and offering FDI incentives. The opportunities for FDI significantly increased since the 2021 Commercial Companies Law (CCL) reforms enabling 100% foreign ownership of onshore UAE entities in certain sectors, increasing the previous limit of 49%.

Given these changes, depending on the type of activity a foreign investor intends to participate in, there are generally three main avenues for investment in the UAE: (i) positive list activities enabling 100% foreign ownership of onshore entities (noting that there are certain strategic impact activities where 100% foreign ownership is prohibited); (ii) 100% foreign ownership through UAE free zone entities; and (iii) 49% foreign-owned and 51% Emirati-owned onshore entities.

The UAE's Ministry of Economy launched a national initiative, NextGenFDI, in 2022 to attract digitally enabled businesses from across the globe, and provide them with market entry needs to enable them to launch and scale from within the UAE. NextGenFDI enables quick company incorporation, facilitates bulk visa issuance, accelerates banking services, and provides lease incentives for technology companies relocating to the UAE.

Meanwhile, Abu Dhabi has established a unique global tech ecosystem through Hub71, which aims to bring investors together with founders to grow and scale tech companies from the UAE. The Dubai International Financial Centre also introduced a new license for startups, entrepreneurs, and technology companies at a lower rate of \$1,500 per year. Further, the UAE launched the Invest in Dubai platform, a service enabling investors to procure trade licenses and launch their businesses quickly.

What are the Threats for Investment?

With great ambition and growth comes a regulatory regime that rapidly changes to suit the current global and national circumstances of the time. With new laws and regulations being regularly introduced in the UAE, understanding such changes can be a time-consuming and expensive process, often alienating SME businesses, especially from outside the UAE. In contrast with more long-established economies, such as in Europe, the UAE's regulatory uncertainty tests its attractiveness to foreign investors.

Whilst increased investment in the UAE is welcomed, increased flow of incoming capital brings with it heightened risk of illegal activities such as money laundering and terrorist financing. The UAE has been on the Financial Action Task Force's "grey list" since early 2022. Inclusion on the grey list undoubtedly acts as a threat for foreign investment in the UAE. Whilst the UAE has committed to a robust action plan, and has been said to have made significant changes, until the UAE has been removed from the grey list, its inclusion will continue to challenge its FDI growth.

It remains to be seen whether the introduction of corporation tax in the UAE starting from 1 June 2023, imposing a standard rate of 9% on taxable profits exceeding \$102,000, will have a negative effect on FDI, given the UAE's previously appealing 0% policy. We expect the new tax regime to further add to challenges foreign investors face when navigating through the UAE's various regulatory regimes.

2024 Predictions

1. Projects and mergers and acquisitions (M&A) activity driven by the greenfield and renewables sectors, with large corporate restructurings and consolidations of asset portfolios in order to dispose of non-sustainable fossil fuel assets.
2. M&A activity driven by healthcare and education sectors as the UAE's population grows.
3. Startups establishing themselves in the UAE with a focus on technological and digital innovations.
4. Large established corporates focusing on environmental, social, and governance ratings given the UAE's involvement in COP28.
5. Foreign investors taking advantage of the legal reforms and accessible business platforms, most notably the development of frameworks around data privacy, investment, regulation, and protection of industrial property, copyright, trademarks, and residency with the UAE's first federal data protection law introduced.

The last couple of years have shown incredible growth in FDI in the UAE, and the country will always be seen as a key trade hub, due to not only its ideal location between the East and the West, but its political and economic stability and developed capital markets regimes compared to its neighbors. However, there are some predictions indicating that this will slow down in 2024, and arguments that the exponential growth of the Saudi Arabian market may overshadow the UAE. Nevertheless, the UAE still continues to be one of the most sophisticated countries in the Middle East with its neighbors always playing catch up.

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