

DMCC



Free Zones: Brexit security for British SMEs

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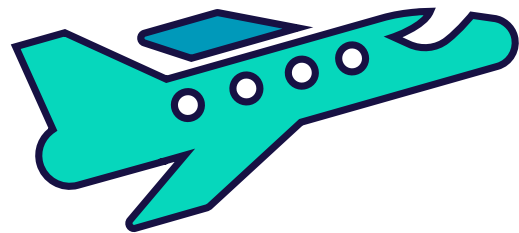
Britain's decision to leave the European Union was the beginning of the end of an era of unified political and economic purpose among European nations that began after the Second World War. Today, almost a year on from that decision, the actual end of that era is not much closer, political chaos and economic turmoil prevail, and the only certainty surrounding Brexit at this point seems to be uncertainty.

Markets, and the companies that operate in them, abhor uncertainty. As such, it is only natural that in an environment where currency valuation, customs and excise rules and regulations and even access to your customer base could change from one day to the next, companies – particularly small and medium size enterprises (SMEs) – are beginning to seek other options to a UK base.

Tim Sarson, tax partner at KPMG, has spent a great deal of time and energy analysing the possible impact of Brexit on his clients, and concludes that many of them are indeed getting itchy feet in the UK.

“Brexit impacts different industries in different ways. It does look as if the UK will end up with customs or border tariffs and that makes the UK less attractive as a hub for companies who consider their UK businesses to be a European base,” he says.

“Where companies think they may now have a supply chain problem, one response might be to



42%

of British businesses in a post Brexit era have more of an appetite to expand their business overseas*

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ensure they have a fallback option within the EU, so that could lead to locating an office in Ireland or Holland, for example.”

Free zones present an attractive option for companies looking to relocate outside their primary jurisdiction, as they tend to offer advantageous tax regimes, helpful business set-up programmes, and a ready-made community of like-minded entrepreneurs on hand to advise and to trade with.

“Companies tend to use free zones in places like the UAE or Singapore or those in Latin America, when they want logistics hubs for a particular region,” Sarson says.

“One of the things that Brexit has done is to force companies to really think more widely about their location. Brexit has been the trigger for discussions about where companies should locate shared services, where their headquarters should be, and what their international supply chain looks like.”

The uncertainty of Brexit is perhaps counter-intuitively leading SMEs to take greater risks than they ordinarily would, and to take the leap into geographical diversification. As the old adage goes, in adversity lies opportunity.

“Businesses are realising that it could be less risky to diversify and not be entirely dependent on one country or region,” Sarson says.

“For instance, in the university sector this has been one of the responses to Brexit. A university we are advising is considering setting up a new campus in either the UAE or Singapore because they want to tap into new sources of income, attract new students and have identified the Middle East and Asia as places where they want to have a presence.”

Indeed, Dubai, with more than 30 free zones including DMCC, named Global Free Zone of the Year for the past two years, is enjoying a particularly strong flow of British SMEs seeking to broaden their global reach as the uncertainty of Brexit persists.

“There has always been a steady flow of companies looking to set up in Dubai because of the region itself and the access it gives to the Gulf Cooperation Council,” Sarson says.

“These days it is not just about the tax advantages, because there are other zero tax locations. But also that lots of companies are setting up there as a hub location for the Middle East or the Subcontinent, particularly in oilfield

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services or commodities. If a company decides on a restructuring or pivot away from say North America and Europe, then Dubai, because of its great flight connections, may well benefit.”

Of all sectors of the economy companies operating in the commodities sector and those that rely heavily on human capital are perhaps the most likely to look to free zones in the UAE as an option for expansion in the face of Brexit, Sarson says.

“Commodity traders and companies that are mobile because their assets are people will continue to explore Dubai as an option,” he adds.

Trends emerging among the business community in Britain today are difficult to pinpoint as Brexit hasn’t actually happened.

But many companies, among them some of the biggest in the world, have given warning that worst-case scenario Brexit outcomes would lead them to relocate to mainland Europe or further afield.

In the banking sector HSBC, UBS, and Goldman Sachs have all said they would consider relocating thousands of jobs between them while key figures at Microsoft’s UK headquarters have said that any increase on import tariffs could force the company to relocate outside Britain.

British SMEs are also facing tough decisions.

Smiffys, an international costume supply company that employs more than 250 people in Lincolnshire, has moved its headquarters to the Netherlands after 122 years of trading in the UK.

Simon Hudson, the British CEO of Brndstr, a digital branding company based at DMCC, believes the opportunities in Dubai, for any UK company looking to move overseas, are enormous.



47%

of British businesses say there is a need to increasingly demonstrate global presence*

“Dubai really is the centre of the world for entrepreneurs. Setting up at DMCC was a great move for us. I would say to anyone seeking to leave Britain because of Brexit, it is much better to be a leader rather than a follower. Make the first move.”

Dyson, the British hi-tech engineering company famous for its revolutionary vacuum cleaners, also has a growing presence in the DMCC Free Zone.

Sir James Dyson, the company founder, is also famously pro Brexit and believes severing ties with the EU will do British business good.

In fact, he recently told the Financial Times that the “really exciting world is outside Europe”, suggesting that other British companies should follow Dyson’s lead and build a presence in

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foreign markets like Dubai and Malaysia to better reach the increasingly prosperous consumers of Asia and Africa.

While opinion is deeply divided on the economic outcome of leaving the European Union, British Prime Minister Theresa May has signalled that bilateral trade deals with countries all over the world including the UAE and other Gulf States will ensure British business continues to prosper on the globally.

In a landmark speech outlining plans for Brexit, the Prime Minister promised that the UK after Brexit would take on a “leadership role as the strongest and most forceful advocate for free markets and free trade anywhere in the world”.

She said: “I am pleased that we have already started discussions on future trade ties with countries like Australia, New Zealand, and India - while countries including China, Brazil and the Gulf States have already expressed their interest in striking trade deals with us.”

Any such trade deals would be expected to increase the likelihood that any company seeking to expand overseas from Britain would naturally look towards those countries with favourable trade treaties with the UK.

On the ground in Dubai, there is growing evidence that British companies, particularly SMEs, are already looking overseas for new

domiciling solutions with Dubai becoming an increasingly favoured spot.

Emma Kirkman of the British Centres for Business in Dubai says: “We are definitely seeing more interest in exporting and opening in Dubai. The UAE is the fourth-largest export market for the UK outside of Europe, so it is a natural next step for many companies looking to expand internationally. Given the strong existing ties between the UAE and the UK, and the fact that many people are aware of Dubai as a tourism destination, it is often at the forefront of people’s minds when looking at new markets. We have seen interest in our services pick up since June, with August being our busiest ever month.”

The economic uncertainty surrounding Brexit and its impact on currency markets is perhaps one of the biggest factors inspiring British SMEs to seek a base in Dubai.

“Brexit is definitely one factor pushing them into looking at exporting more,” Kirkman says. “The weaker pound also helps to generate interest in UK products and services, as well as a larger drive by the UK government to increase the number of companies exporting, and the value of what they export, around the world.”

Kirkman says there is evidence to support the argument that the political and economic situation surrounding Brexit is acting as an impetus to push companies towards operating overseas.

Sir James Dyson, recently told the Financial Times that the “really exciting world is outside Europe”, suggesting that other British companies should follow Dyson’s lead and build a presence in foreign markets like Dubai.

“Whilst we aren’t expecting companies to move complete operations to the UAE, we are definitely seeing companies looking at an increased presence in Dubai, and at a higher level than they might have previously considered,” Kirkman says. “We are hearing from a number of companies who may have had limited dealings in the UAE previously, now wanting to explore the market further and in more detail.”

SMEs aside, many of Britain’s large corporates and global companies are re-examining their locations around the world to determine where they should focus investment once the Brexit dust settles.

The majority seem to agree that whatever happens, China and India will continue to be vital centres of new opportunity, meaning that accessible markets that are close to those countries and Britain are likely to become more important.

John Nelson, chairman of Lloyd’s of London, the global insurance market, says: “Lloyd’s has a very successful office in Dubai. In terms of global market access, we have now succeeded in opening up most of the world’s growth economies to Lloyd’s, including China where we now have half our syndicates physically present on our platform and where our business is growing significantly. Lloyd’s is the most global British organisation. We are not simply Lloyd’s of London; we are Lloyd’s – we are local to the territories and cities we now operate in.”

Brexit is also presenting the prospect that free zones as a concept will begin to take on a much broader appeal all over the world than they have today, and that perhaps even Britain itself could become a hub for economic free zones such as Dubai.

Andrew Lilico, principal at London-based



75%

of British businesses consider Dubai as a location to expand*

Europe Economics, believes that free zones all over the world could become beneficiaries of Britain’s changing political and economic landscape.

“The big danger for London is that once there is some sort of break-up of the cluster, then the City’s appeal to many firms is decreased. If there were enough firms that chose to move to Frankfurt or to New York, then reasons for staying in the UK would decline and firms could consider locations around the world, including free zones.”

“Indeed, if things don’t go well after Brexit, if the UK does not get a preferential deal, it will probably start to emulate free zones in places like Dubai. It will want to appeal to those global, mobile companies that can move around. If anything, I think that the UK is going to have to make itself more like free zones such as those in

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Dubai to retain what it has here and also keep attracting new business.”

KPMG's Sarson agrees.

“One change we could see in post-Brexit Britain is the introduction of free trade zones in the UK. The UK is almost certainly going to provide some sort of customs release for companies who are established here, so that they can trade with overseas companies without penalty.”

If such a move comes to pass, as many analysts see as an increasingly likely prospect, successful free zones in places like Dubai are likely to become useful advisers or operators of these new economic zones.

Krysta Fox, DMCC Free Zone Executive Director, is enjoying a stronger than expected influx of new British member companies, particularly SMEs, as the uncertainty surrounding Brexit continues.

“The United Kingdom is and always has been an extremely important market to us here at DMCC, Fox says.

DMCC was originally set up in 2002 as a hub for commodities firms but has expanded enormously in scale and scope to include companies from a broad spectrum of sectors including technology, consumer goods, and consultancies alongside its commodities base.

DMCC has been named Global Free Zone of the Year by the Financial Times Group for the past two years, largely thanks to its broad appeal and because it represents the best of Dubai's thriving free zone community.

“Dubai is at the crossroads of the world,” Fox says. “With two of the world's busiest airports, Dubai is less than 8 hours flight time away from 70% of the world's population. People

and businesses from all over the world come to Dubai and DMCC to take advantage of our attractive business environment with regulation and logistics designed for trade, enterprise and innovation. And once you understand our unique offering at DMCC, you'll understand why they choose us.”

The global trading hub occupies 200 hectares in Dubai's fast-evolving southern gateway with 66 towers, 540-plus retailers and over 87,500 people living and working within its boundaries. The DMCC Free Zone, with more than 13,100 companies from 170 nations, adds about 150 new companies a month.

For all the uncertainty surrounding Britain's future relationship with the member nations of the European Union, the stability of Dubai as a centre for the best free zones in the world is certain.

Given the historically close ties between Britain and the UAE, and the fact that there are more than 4,000 UK companies based in Dubai today with more than 1,000 choosing DMCC as a base, it is also certain that Dubai and DMCC will remain a valuable choice for British business seeking a location in an overseas market at the centre of the world of trade.

Top Five Strategic Elements to Consider When Choosing an Overseas Locale for your Business

01

Access to markets

For most businesses the decision to move jurisdictions is a decision to move closer to your principal clients or closer to new markets. Dubai is at the centre of the world of trade, and DMCC at its core. The Emirate is home to two of the busiest airports in the world, and less than 8 hours flight time away from 4.9 billion people in Europe, Central Asia, and Russia, India, Africa, China and the Far East. Those 4.9 billion people represent \$50 trillion – or 65% – of global GDP.

02

Infrastructure

Seeking more robust infrastructure can be reason enough to relocate your business. State of the art infrastructure can make the difference between success and failure, particularly if your company relies on imports and exports. Dubai has a world-class road network, one of the busiest and most up-to-date deep-water ports in the world, the world's best and busiest airports, and some of the finest specialty real estate on earth. DMCC and Dubai are also 100% connected, having undergone a complete digital transformation, which means you can set up a company at DMCC from anywhere on earth at any time, on any device.

03

Security, Stability and Rule of Law

Knowing that your business has appropriate redress through the courts is crucial when choosing a new jurisdiction for trade, as is political and social stability. Dubai and the UAE are among the safest countries on earth. The country has a robust legal system while free zones such as DIFC have their own specialty courts. DMCC has specialty dispute resolution and arbitration services provided through offerings such as the Food Trade Group. Tax policy is also favourable with a zero rate on all income, both corporate and private.

04

Growth Opportunities

Expansion, whether organic or by acquisition, is crucial for every business. Knowing that such growth opportunities exist in the market you choose, is therefore of paramount importance. Dubai, and DMCC, continue to expand on an almost daily basis, opening new opportunities for growth to all. DMCC is perfectly positioned at Dubai's Southern Gateway, the latest area of expansion in the Emirate that will become the focal point of Expo 2020 celebrations in just three years' time.

05

Lifestyle

It can be hard to settle in a new market, especially if you have family to consider. Housing, schooling, security, and the ability to save and repatriate funds are all vital considerations. Dubai's free-and-easy lifestyle, with miles of beaches, some of the finest hotels, shopping destinations and leisure facilities on earth, all make the transition to a new market easy. The Emirate also has some of the best private schools in the world and English is spoken in virtually all professional and social settings.

Emerging markets are becoming increasingly attractive to 63% of UK businesses, with 75% eyeing Dubai as an overseas business location to expand into

- New research by DMCC (Dubai Multi Commodities Centre) reveals that just under half (42%) of UK businesses have more appetite for overseas expansion in the post-Brexit and Trump administration era
- Amongst the top reasons for eyeing overseas expansion, include: emerging markets becoming increasingly attractive (63%), business need for global presence (47%), availability and wealth of overseas talent (44%), too much uncertainty in the markets and the UK no longer being an attractive option (36%)
- Out of the UK businesses open to expanding into overseas markets, 40% would consider the Middle East and 75% would consider Dubai as a location to expand into
- One of the reasons is the rapid expansion of the number of Free Trade Zones – now over 1,000 worldwide – offering tax exempt status, duty-free import of capital and goods as well as investment and support from local governments
- DMCC's Free Zone has in 13 years has grown from 28 member companies to over 13,100 , with an average of 7 companies per working day setting up a business. UK firms in the DMCC include G4s, Dyson and NATS (National Air Traffic Services)

DMCC

About DMCC

Dubai is perfectly positioned at the centre of the world of trade, connecting East with West and North to South. DMCC is at the heart of Dubai with a mandate to develop a world class hub for trade and enterprise. DMCC is Made for Trade.

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