Where Business and Geopolitics Meet

Navigating Geopolitical Realities

Global tolls resulting from barriers to trade and economic woes in several jurisdictions are having profound impacts on the strategy and long-term sustainability of businesses. Those with operating interests in jurisdictions susceptible to geopolitical risks are having to change strategy to adapt in order to ensure safe and sustainable growth.

The common restructuring theme we are seeing considered by executive suites and in boardrooms to navigate geopolitical realities is a rethink of the role of their entity structures and the part they play in the prevalent challenges, the objectives being to: safeguard business assets, their ownership and succession; enable access to new opportunities, diversification and sustainable growth; enable value creation for the stakeholders; be in close proximity to the operating business and customer base; provide a safe working and living environment for all stakeholders; have access to a robust and effective legal system with well-defined laws to resolve commercial disputes.

Reassessing Structures

Reassessing the roles and structures of existing legal entities and the creation of new ones to mitigate geopolitical challenges requires strategic foresight and courage. Weighing risk versus reward of a structural change requires careful consideration of costs, actual and projected revenues, and ensuring adequate governance and risk controls for the restructured business. There is the overarching question as to how far should the restructuring go. Depending on the business, the circumstances of the prevailing landscape and time constraints, these broadly may contemplate: (i) a complete movement of the whole operating business to a new jurisdiction; (ii) movement of certain business segments of the operations to a different jurisdiction; (iii) replicating the operating model of the business in several jurisdictions to service customers in different market regions; (iv) adopting a joint venture approach in the current and new jurisdictions of the business. Any approach to a systemic change will have its own set of advantages and disadvantages based on the peculiarities of the business.

Multiple factors are involved for a business in revisiting their entity structures, with the considerations depending on the product or service offering. Common matters requiring thought and which pose challenges to existing growth strategies in a jurisdictional relocation of a business include:

- government policy and legal and regulatory frameworks;
- protection of foreign investment;
- types of new legal entities to be created;
- ownership succession;
- conditions for the repatriation of capital, dividends/profits and royalties;
- taxation;
- increased market risk;
- competition;
- intellectual property protection;
- employee roles and re-location;
- reshaping of supply chains;
- existing contractual obligations and changes required;
- continuity of existing or new financing requirements;
- collateral requirements to secure new or continued financing;
- data protection requirements; and
- changes to existing business processes and policies.

Businesses providing technology and AI related services or businesses significantly reliant on those services, may find it easier to restructure as contrasted with businesses having significant physical assets to consider as part of the restructure.

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Which Jurisdiction?

The choice as to which jurisdiction(s) to set up in and move whole or part of a business and/or its operations will depend on the outcome of the factors considered in reassessing the roles and structures of the existing entities.

The United Arab Emirates (UAE) leads as a jurisdiction of choice for global and regional businesses, covering a wide spectrum of business sectors, including trading, financial services, construction, real-estate, retail, hospitality, and arts and culture.

This has resulted from several factors. Foremost are the UAE's forward-thinking policies, plans and strategies, such as the "UAE Centennial Plan 2071", the "Principles of the 50", and the "We the UAE 2031" vision which give the country a leading edge globally for stability, security, certainty, well-being and transparency from business and personal lifestyle standpoints. These are effectively implemented and continue to be ramped up as is evident in the unveiling in 2024 of the "National Investment Strategy 2031".

With the "We the UAE 2031" envisioning a forward society, forward economy, forward diplomacy and forward ecosystem, the National Investment Strategy 2031 aligns with "We the UAE 2031", aiming to establish the UAE as a global investment hub by leading in emerging sectors, attract top talent and fostering Emirati leadership, innovation and entrepreneurship.

The UAE's ecosystem has multiple sophisticated options for business structures which cater to individual business requirements offered on shore and in the many UAE free zones, including the two financial free zones – the Abu Dhabi Global Market and the Dubai International Financial Centre. No less to mention are the balanced Corporate Tax and VAT frameworks, robust laws and regulations, and multiple dispute resolution courts and arbitration forums available in the country.

Way Forward

Whilst a restructure can take time to be implemented, impacted businesses across the world are giving increasing weightage to an era of volatility in decision-making processes: whether involving expansion plans, capital deployment or customer related risks.

With the prevalence of geopolitical risks, it is also not uncommon to see the upgrading of board capabilities and/or the creation of a new role of geopolitical risk officer towards ensuring geopolitical resilience for the organisation.

There is no one size fits all solution as to which approach a business leader should take. Adaptability to change and ability to course correct is key.

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January 2025

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