MAJID AL FUTTAIM
ماجد الفطيم

GREAT MOMENTS
FOR EVERYONE,
EVERYDAY

PICKING UP THE PACE OF CHANGE

OPPORTUNITIES TO ACCELERATE ECONOMIC INTEGRATION ACROSS **MENA**

JANUARY 2024

KNOWLEDGE PARTNER

McKinsey & Company

Table of Contents

Foreword

Ahmed Galal Ismail

Chief Executive Officer
Majid Al Futtaim Holding

For the first time since the onset of the Industrial Revolution, MENA stands on the cusp of a new Golden Age, driven by an economic transformation that will see it forge a new path of long-term prosperity for its people.

Of the region's economies, the Big Three, namely Saudi Arabia, the United Arab Emirates and Egypt[1] have set out - and are delivering against - ambitious national agendas that will see them successfully diversify their economies. Today, they represent the fastest growing economic block in the world, with Saudi Arabia becoming the first trillion-dollar economy in MENA[2], the UAE delivering record non-oil growth[3], and Egypt achieving a positive trajectory[4] despite recent compounding and challenging headwinds.

In doing so, these 'key players' not only act as a lighthouse for those outside the region, but also create a wider ripple effect, uplifting MENA as a whole, expanding intra-regional trade and crossborder foreign direct investment to support its five key transitions of energy, trade, finance, tech and talent.

Many of the elements needed to tap the region's significant potential are already in play, with early and bold steps to enhance integration serving to highlight a growing momentum towards achieving long-term economic growth. And although these advances are significantly contributing to the attraction of global investors and talent to the region, there is much work yet to be done if MENA is to fully access its tremendous latent, resource-rich potential.

To truly unlock its wealth, and almost USD1 trillion in additional regional GDP, MENA must embrace the strength that comes of enhanced economic integration across both countries and sectors.

The role of the private sector in driving regional growth is critical to our collective success, providing the innovation, investment, and entrepreneurship that are essential for the region's economic transformation. Together, working in partnership to uplift our individual and collective contribution, we will usher in a new era of sustainable growth and prosperity.

Previous editions of this Report considered the inclusion of Pakistan leading to a potential GDP unlock of USD2.5 trillion.

Introduction

Despite both global headwinds and regional challenges, MENA has continued to experience accelerated growth and an improved economic environment in the three years since publishing our inaugural Economic Integration Report.

Notwithstanding these welcome advances, MENA's[5] share of world GDP (3.3%) remains below its share of the global population (4.2%), hampered by strong intra-regional variances in the ability, opportunity and appeal for investors, innovators and talent to do 'good business'.

Addressing the latency in that gap could serve to unlock almost USD1 trillion in additional GDP. However, there are a number of hurdles to clear before the region is able to truly unleash its significant potential.

In earlier reports we have talked to the three levers of selective deregulation, common standards and the free movement of goods & services, capital, people and data. Leveraging case studies from the region and beyond, and with the aim to accelerate private sector action and meaningfully contribute to public sector efforts, this year's Report is an in-depth assessment of the dimensions of free movement in MENA most able to influence improved economic integration.

In-lieu of any formal region-wide set of metrics, the degree and level of integration of these dimensions (both current and potential) has been evaluated through benchmarking vs. regional organisations (e.g., ASEAN), assessing regulatory frameworks, trade and market structures as well as initiatives designed to stimulate investments and trade.

Economic Integration as a Driver for Sustainable Growth

When considering the opportunities improved economic integration would afford the MENA countries, regional blocs such as the EU, ASEAN and MERCOSUR provide ample proof of the positive impact on GDP growth, intra-regional trade and employment that comes from implementing collaboration frameworks and cross territory trade agreements.

For instance, following the introduction of a customs union in MERCOSUR, its real GDP grew at ca. 3% p.a. in the 15 years post integration, compared to a growth rate of 2% p.a. in the same period prior to integration. Similarly, in ASEAN, following the completion[6] of integration in 1999, real GDP per capita grew at 4% p.a. over 15 years versus at 3% p.a. in the same period before the integration.[7]

Taking steps to reduce trade barriers across integrated regional blocs has also proven to contribute to growth in intra-regional trade. For example, following the implementation of integration measures in ASEAN, intra-regional trade (as a share of total international trade) increased by 2 pp over a 10-year-period, translating to a threefold increase in intra-regional trade value.[8]

Economic integration has been particularly transformative for the less affluent nations within regional blocs, encouraging more balanced and inclusive growth. Following the integration of the last member state into ASEAN in 1999, the three least prosperous nations within the organisation reported a fourfold increase in GDP per capita by 2022, while the wealthiest three countries saw a twofold increase during the same period.[9]

Aside from catalysing growth, integration is an important factor in triggering greater employment opportunities for local and global talent. Following the accession of 10 countries to the EU in 2004, unemployment within the bloc reduced from 9.9% in 2004 to 7.2% in 2008.[10] In the case of ASEAN, the unemployment rate declined from 4.1% in 1999 to 2.7% in 2014.[11]

Although exogenous factors impact GDP in the short-to-medium term, these figures support the idea that disintermediation consistently benefits economic development over the long-term.

Learning from the success of regional blocs and in consideration of MENA's existing level of economic integration, what becomes immediately and abundantly clear is the need to broaden accountability to encompass all contributors to sustained economic prosperity. It is clear that success hinges on collaborative working with both public and private sectors embracing the tenets of stakeholder capitalism, and moving away from the notion that lasting regional prosperity is the sole ambit of the public sector.

Economic Development In MENA

In totality, MENA's growth post-pandemic has continued to accelerate, growing 6% year-on-year in 2022 and outperforming OECD, ASEAN, MERCOSUR and BRICS (exhibit 2) despite both economic headwinds and impact of geopolitical unrest in the region. When considering the 'Big Three', the average performance of UAE, KSA and Egypt has been even stronger.

With ambitious economic visions and supporting social development plans in place to see them delivered, MENA's nations continue to make progress in transitioning away from dependency on hydrocarbon generated wealth. The GCC has led the charge, setting out diversification strategies that ensure national prosperity beyond hydrocarbons.

Exhibit 1

MENA at a glance

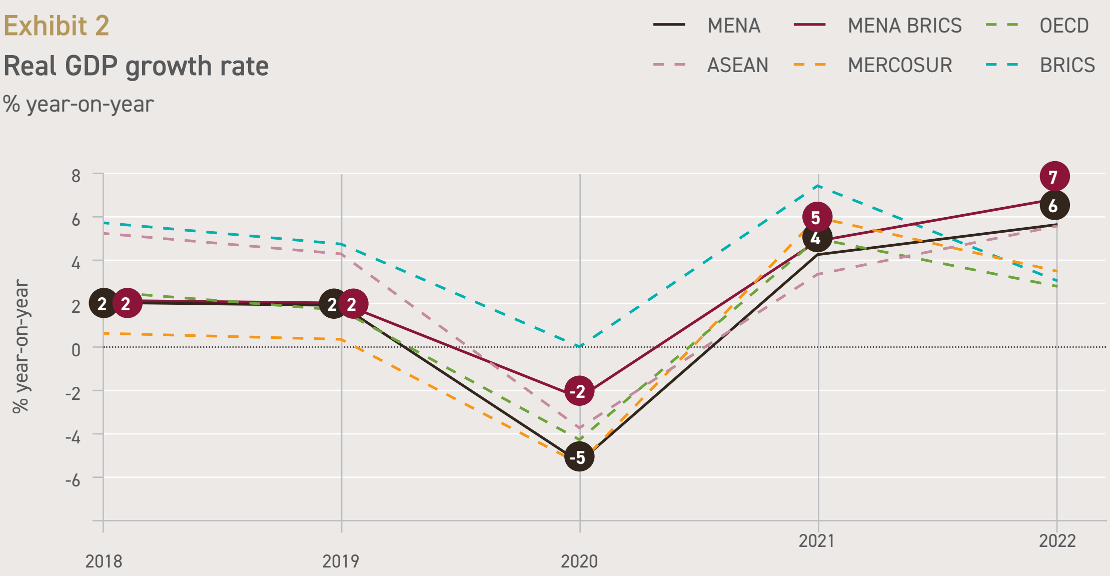
As a share of the world

Source: UNCTAD, World Bank

Exhibit 2

Real GDP growth rate

% year-on-year



Source: UNCTAD.
MENA BRICS: The 3 MENA countries that joined BRICS in 2024 (Egypt, Saudi Arabia, UAE).
BRICS: The 5 BRICS countries prior to the 2024 expansion (Brazil, Russia, India, China, South Africa).

With a reputation as a progressive first-mover, the UAE's efforts can be considered as a lighthouse for the broader region, having centred on structural reforms that encourage investors, entrepreneurship and the development of international connectivity coupled with a robust logistics network.

The impact of this shift has been a positive step in closing the gap in MENA's GDP per capita, reducing from 32% in 2018 to 28% in 2022 and has surpassed the average GDP per capita of ASEAN, BRICS and MERCOSUR. The data suggests momentum is building.

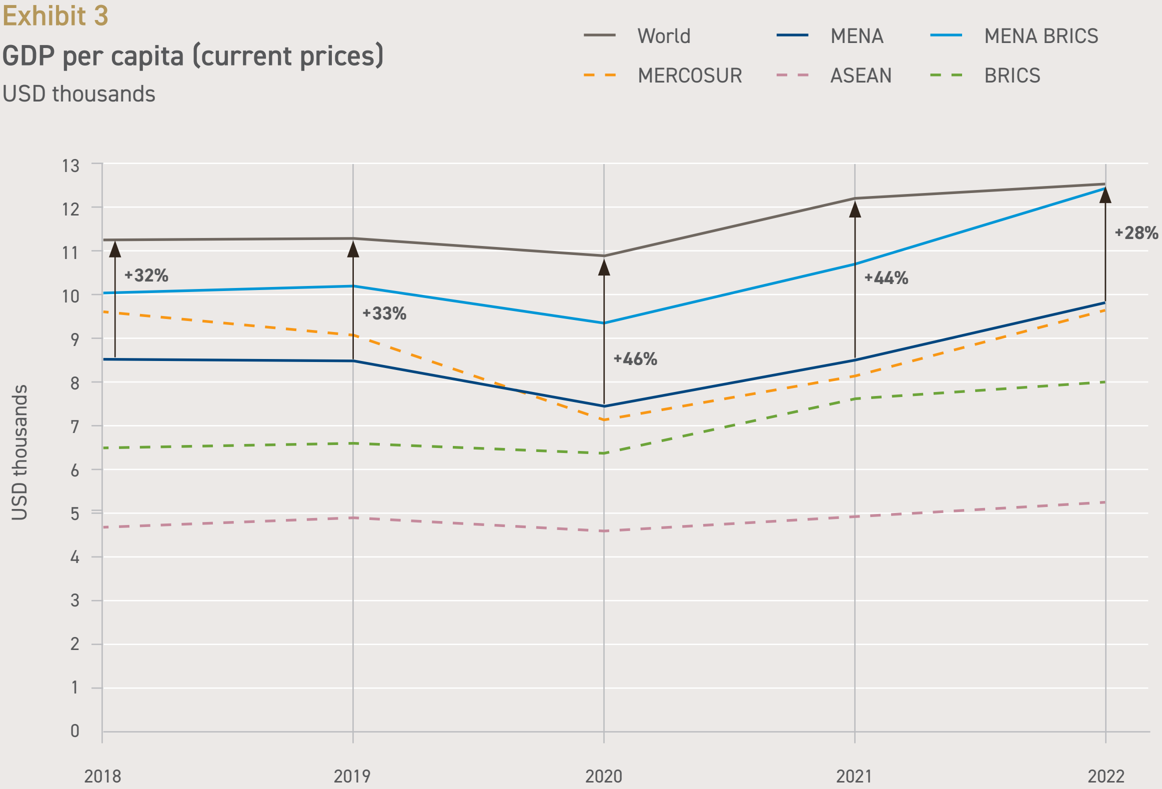
Beyond pure economic indicators, when comparing more qualitative aspects of economic environment (i.e. quality of institutions, infrastructure, market sophistication) vs that in BRICS and OECD, MENA is somewhat lagging (exhibit 4).

However, in its indomitable way, the region has made major progress in the ranking relative to the rest of the world, jumping 12 ranks between 2021-2023 driven mainly by improvements to the business environment where MENA went up 54 ranks.[12] The largest improvements were made by Saudi Arabia (up by 114 ranks), Qatar (up by 92 ranks) and the UAE (up by 59 ranks).

Exhibit 3

GDP per capita (current prices)

USD thousands

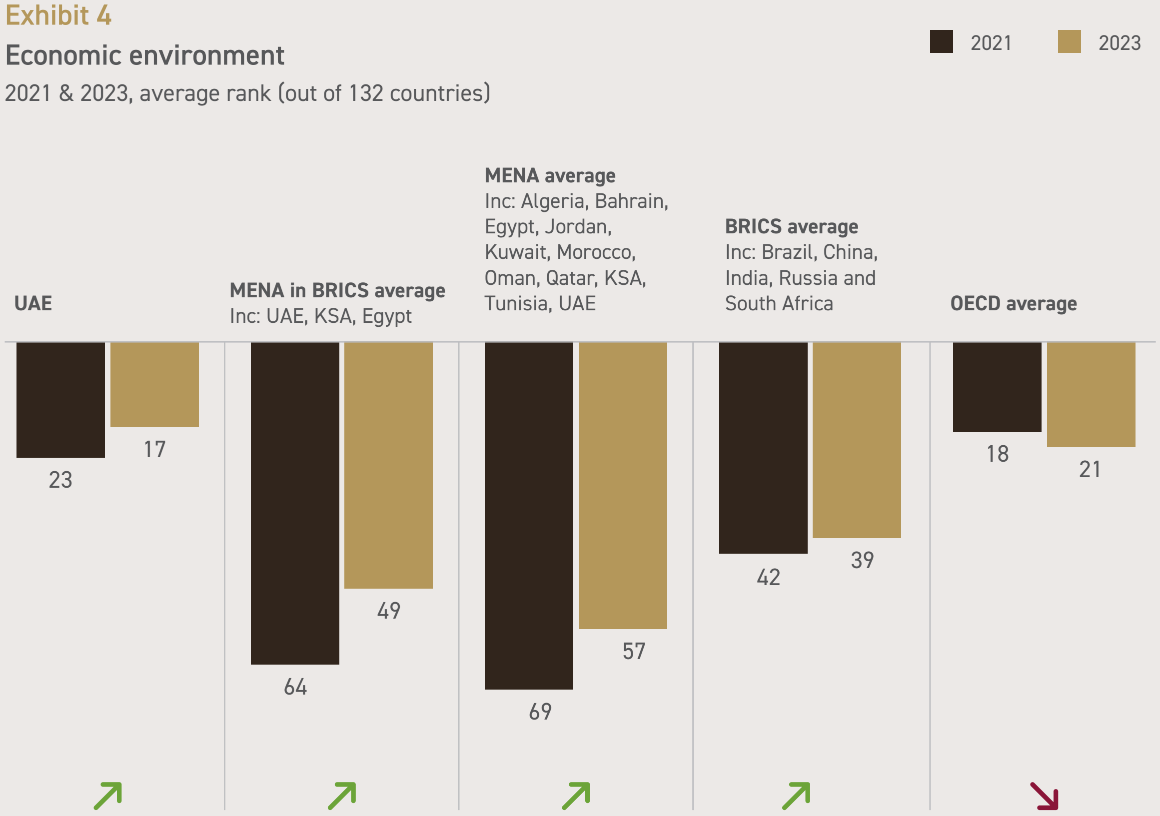


Source: UNCTAD.
MENA BRICS: The 3 MENA countries that joined BRICS in 2024 (Egypt, Saudi Arabia, UAE).
BRICS: The 5 BRICS countries prior to the 2024 expansion (Brazil, Russia, India, China, South Africa).

Exhibit 4

Economic environment

2021 & 2023, average rank (out of 132 countries)



Source: Global Innovation Index by WIPO (World Intellectual Property Organization)
Selected dimensions of Global Innovation Index; Dimensions shown: Institutions, Infrastructure, Market sophistication

While this is extremely encouraging, the overall economic environment remains uneven across the region – a dimension that must achieve a degree of equilibrium if all are to benefit – with the UAE, for example, outranking the OECD average (exhibit 4) while North African countries trail some way behind.

> “Beyond pure economic indicators, when comparing more qualitative aspects of economic environment (i.e. quality of institutions, infrastructure, market sophistication) vs that in BRICS and OECD, MENA is somewhat lagging.

Current State of Economic Integration in MENA

Economic integration takes various forms, but typically falls within five distinct models (exhibit 5).

At one end of the spectrum are preferential trade agreements. They offer the signing parties advantages of reduced tariffs but represent the least integrated model.

At the other end of the spectrum is the most integrated model – an economic and monetary union – such as the Eurozone whose member countries share a common market facilitating the free movement of goods, services, people, and capital, coupled with a unified monetary policy and single currency.

Exhibit 5

Overview of economic integration models

Selected models

Increased economic integration ↓

Economic integration models	Description	Example: Global	Example: MENA
Preferential trading area	Preferential access to certain products by reducing tariffs but not entirely abolishing them for participating countries	More than 2,000 PTAs in the world	
Free trade area	Elimination of custom tariffs on intra border movement of goods with certain exemptions for protected goods and markets	ASEAN	GAFTA
Customs union	Elimination of tariffs/duties on goods traded between member countries and the adoption of a common external tariff against non member countries	Mercosur	GCC
Common market	Elimination of non tariff trade barriers to allow for free movement of goods and services, combined with free movement of capital, people between member countries	European Union (27 countries)	
Economic monetary union	Combination of an economic union with a unified monetary policy (i.e., countries that share the same currency, and tools to control interest rates, money supply and price stability)	Eurozone (19 countries)	

Source: Bela Balassa, "The Theory of Economic Integration".
In addition to having a common market, EU also coordinates economic policies.

The majority of regional blocs – such as ASEAN, MERCOSUR, The Greater Arab Free Trade Area (GAFTA) and the Gulf Cooperation Council (GCC), are situated in the space between the two ends of the spectrum.

Free trade areas, such as ASEAN, have eliminated customs tariffs within member borders, with certain exemptions for safeguarded goods and markets. Similarly, customs unions abolish tariffs on intra-member trade and establish a unified external tariff against non-member nations.

In the MENA region, there are two main integration models currently in place. The first one, GAFTA, established by 14 countries in 1997 and later extended to 18,[13] focuses on reducing tariff and non-tariff barriers among member states.

The second, the Gulf Cooperation Council (GCC), consists of six member countries and has considered additional initiatives, such as introducing a customs union (full implementation still in progress) and a common external tariff on goods imported from outside the bloc.[14]

In assessing the potential for improved and broader integration for MENA, four dimensions have been identified as offering the strongest opportunities. These dimensions serve as cornerstones, reflecting the openness and fluidity of sector-wide economic activities within the region.

Flow of goods & services

The share of intra-regional trade within the region's global trade was used to assess the ease of flow of goods within MENA.

Although the level of intra-regional trade has grown since 2016, it represents just 14% of MENA's global trade. This share is at 19% in ASEAN. As the world's supply chain configurations are evolving, relevant stakeholders in MENA could consider opportunities to strengthen MENA's position as an international trading hub and boost intra-regional commerce through an array of trade-facilitating actions.

Flow of capital

To understand flow of capital among the countries in MENA, this report has evaluated the intra-regional FDI stock as a proportion of the total FDI stock in the region.

Even though the level of intra-regional FDI stock nearly doubled between 2018-2021, MENA's intra-regional FDI, estimated at 16%, has potential to further increase. For instance, reaching the level of ASEAN's 18% would imply incremental intra-regional FDI of ca. USD 9 bn, assuming constant FDI stock originating from other regions. There are examples of countries in MENA implementing initiatives to establish a more investment-friendly environment, which could help further attract regional investors.

Flow of people

Intra-regional migrants are a minority, accounting for an estimated 12% of the total expatriate population. With many nationals in the region currently opting to build careers in Europe or North America, a sustained drive to regional talent development and job creation for MENA's growing young workforce would not only go some ways to stem the 'brain drain' but is integral to the successful diversification into new sectors such as AI or clean energy.

Flow of data

MENA currently lacks harmonised data regulation frameworks. However, initiatives that help enable the flow of data between countries can be an important contributor to economic growth and innovation, for instance, facilitating development of the technology sector.

Flow of Goods and Services

Free movement of goods and services is defined as absence of tariff and non-tariff barriers to trade within a defined customs area.[5]

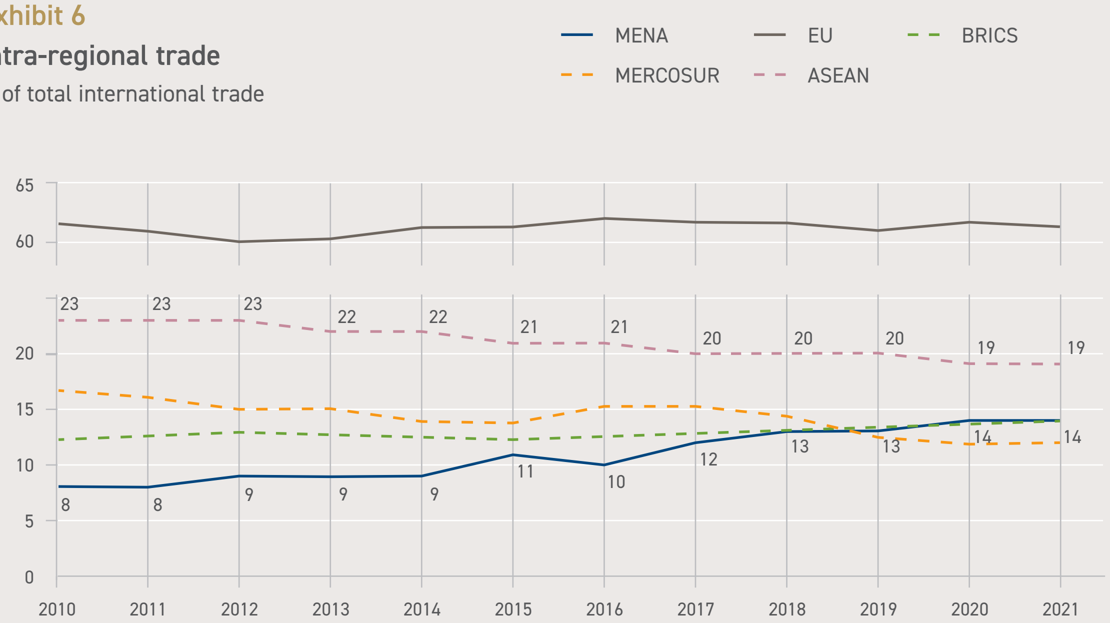
The share of intra-regional trade within the region's global trade can be used to assess the ease of intra-regional flow of goods. Within MENA, the intra-regional trade level has accelerated since 2016 and the region reported a 3% increase in the share of internal trade between 2016 and 2021. A similar trend was observed in the share of intra-regional non-oil trade, which grew by 5% in the same period.[6]

This evolution has enabled MENA to reach a share of intra-regional trade comparable to that of MERCOSUR and BRICS, although when benchmarked versus ASEAN, it is clear MENA has some way to go (exhibit 6).

Exhibit 6

Intra-regional trade

% of total international trade



Source: UNCTAD.
The EU is included only as point of reference given its unique integration model.
BRICS defined as Brazil, Russia, India, China, South Africa.

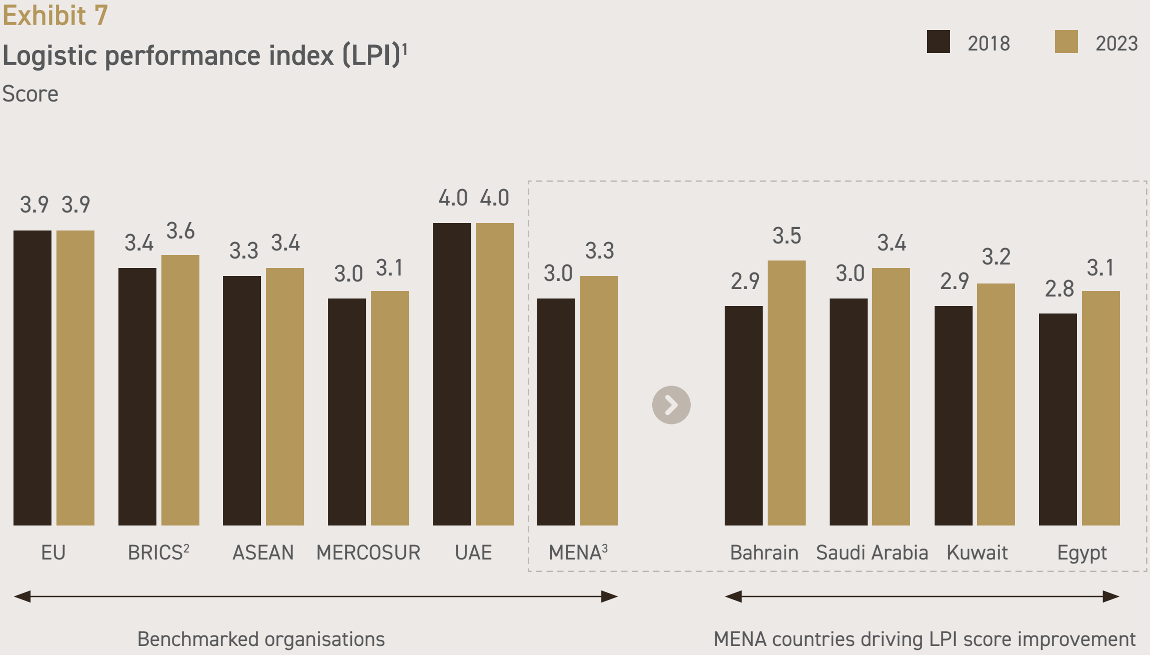
Cognisant that trade can be influenced by factors independent of economic integration, such as macroeconomic and financial policy or natural resources, the evolution of intra-regional trade over time may serve as a better indicator of economic integration than its absolute value. Analysing the growth in MENA's intra-regional trade (as percentage of total international trade) between 2016-2021, we observed two key dimensions had a positive effect: improvements in logistics efficiency and reduction of non-tariff trade barriers. It is to be noted that over the same period, tariffs across the region have been kept largely stable.

This logistics efficiency across organisations and countries was assessed using the World Bank's Logistics Performance Indicator (exhibit 7), which evaluates the ease and reliability of supply chain connections, including quality of logistics services, trade- related infrastructure, and efficiency of border controls. Based on this indicator, MENA's logistics efficiency improved since 2018, largely thanks to progress in Bahrain, Saudi Arabia, Kuwait, and Egypt. It is now at a level comparable with ASEAN and BRICS, and slightly above MERCOSUR.

Exhibit 7

Logistic performance index (LPI)[1]

Score



Source: World Bank Logistics Performance Index.
LPI measures logistical efficiency across 5 dimensions: customs, infrastructure, international shipments, logistics competence, tracking and timeliness. Score was weighted with GDP size of countries within regions or regional organisations.
BRICS defined as Brazil, Russia, India, China, South Africa.
Excludes Jordan, Lebanon, Morocco and Tunisia due to data unavailability.

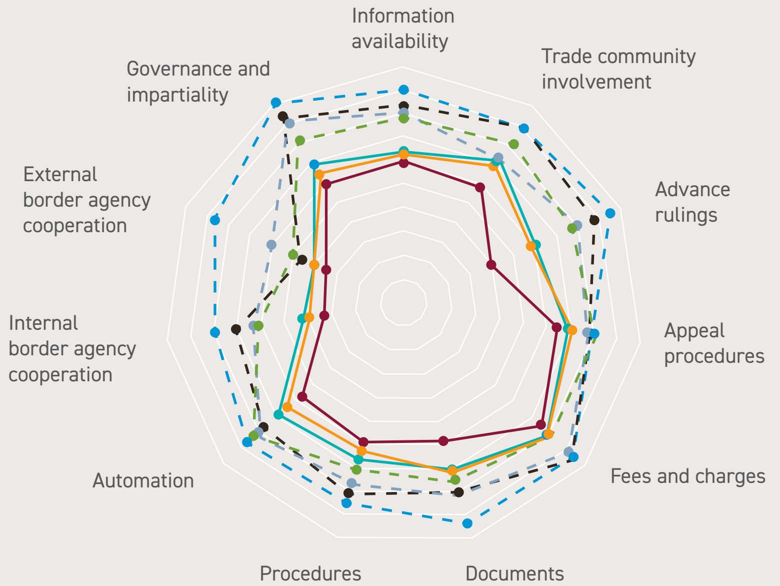
The progress in removal of non-tariff trade barriers was assessed using the OECD's Trade Facilitation Indicator (exhibit 8), which evaluates countries on 11 dimensions such as availability of trade information, engagement of trade community, automation of payments, and border procedures.

Based on this indicator, MENA continues to trail behind other regions. While it showcased substantial improvements between 2017 and 2019, it then plateaued from 2019 to 2022. The Trade Facilitation Indicator implies an opportunity for further advancements in trade facilitation across the region.

Exhibit 8

Trade Facilitation Indicator (TFI)

#



Region/ Organisation	MENA 2017	MENA 2019	MENA 2022	ASEAN 2022	MERCOSUR 2022	BRICS 2022	EU 2022
Average TFI	1.10	1.25	1.28	1.49	1.56	1.60	1.78

Source: OECD TFI indicator worldwide ranking.
TFI ranges from 0 to 2, where 2 (outward circle) represents the best achievable performance.

Flow of Capital

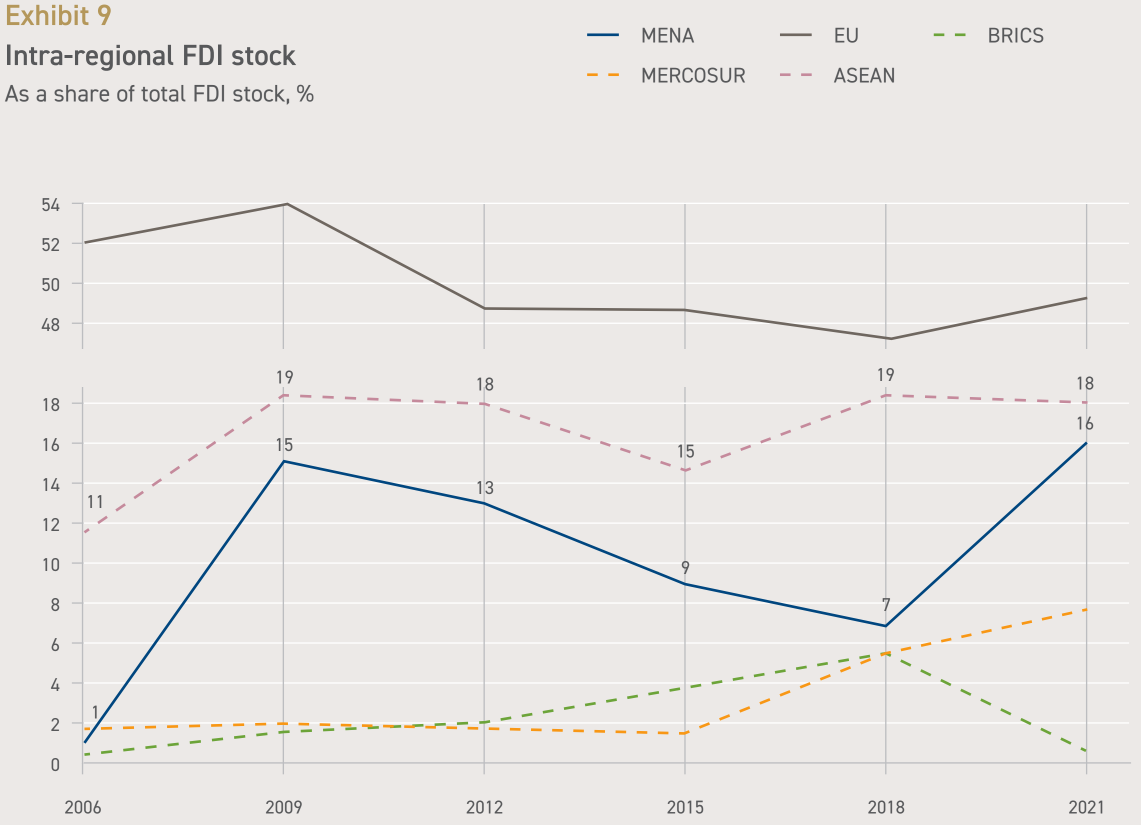
The free flow of capital can be defined as unrestricted cross-border deployment of capital.[17] To assess the ease of flow of capital within a region, this report used the share of intra-regional Foreign Direct Investment (FDI) stock within the total FDI stock in that region.

Between 2018 and 2021, MENA reported an increase in the level of intra-regional FDI stock. During this period, the share of intra-regional FDI in total FDI stock more than doubled, increasing from 7% in 2018 to 16% in 2021, surpassing the figures observed in BRICS and MERCOSUR. Although when benchmarking versus ASEAN, MENA still has potential to boost its share of intra-regional FDI (exhibit 9).

Exhibit 9

Intra-regional FDI stock

As a share of total FDI stock, %



Source: UNCTAD.

Historically, MENA countries received lower amounts of FDI inflows from within and outside the region, impacted by factors such as limitations on capital repatriation, land ownership constraints, foreign equity restrictions and employment limitations for foreigners.

However, recent efforts across MENA have focused on easing these restrictions and incentivising FDI, contributing to an increase in investment inflows from within and outside the region.

For instance, the UAE has announced a number of reforms to deliver on its comprehensive ten-year industrial strategy. Egypt enacted corporate tax refunds and expanded free zone activities. Saudi Arabia introduced special economic zones offering incentives such as 100% foreign ownership and tax exemptions on profit repatriation and Kuwait simplified its investment process by eliminating the requirement of a local agent for foreign companies.[18]

Countries in MENA aim to further boost intra-regional funding through initiatives such as KSA's Public Investment Fund's (PIF) plan to establish regional investment firms across six countries in the region,[19] focusing on sectors such as infrastructure, real estate, healthcare, and technology, with a total investment of SAR 90 bn (USD 24 bn).[20]

These advancements suggest growing efforts in MENA countries toward creating a more investment-friendly environment, further contributing to advancing economic integration and fostering regional economic growth.

> Between 2018 and 2021, MENA reported an increase in the level of intra-regional FDI stock. During this period, the share of intra-regional FDI in total FDI stock more than doubled.

Flow of People

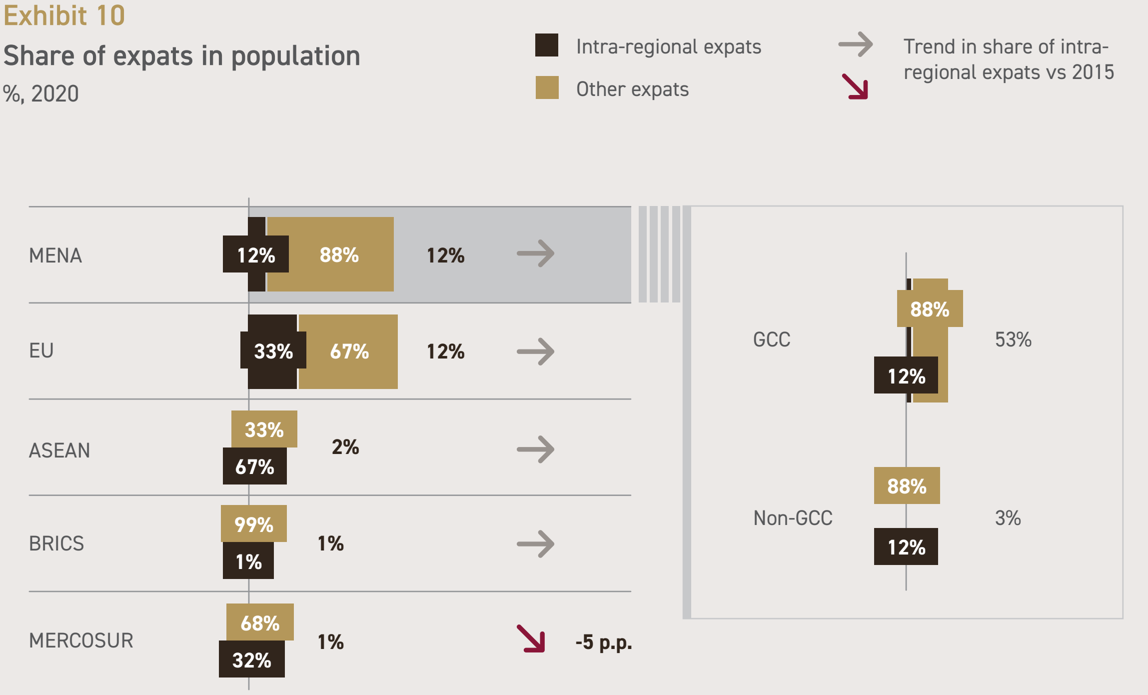
The free flow of people within integrated regions typically refers to citizens being able to reside, work, and travel freely across member states.

The share of intra-regional expatriates within the total expat population can be used to gauge the ease of movement of regional citizens within that region. MENA boasts a high share of expatriates – ca. 12% of total population. However, the movement of regional citizens within MENA remains relatively limited – intra-regional expats account for only ca. 12% of all expatriates in MENA, contrasting with over 30% in benchmarked organisations such as the EU and ASEAN (exhibit 10).

Exhibit 10

Share of expats in population

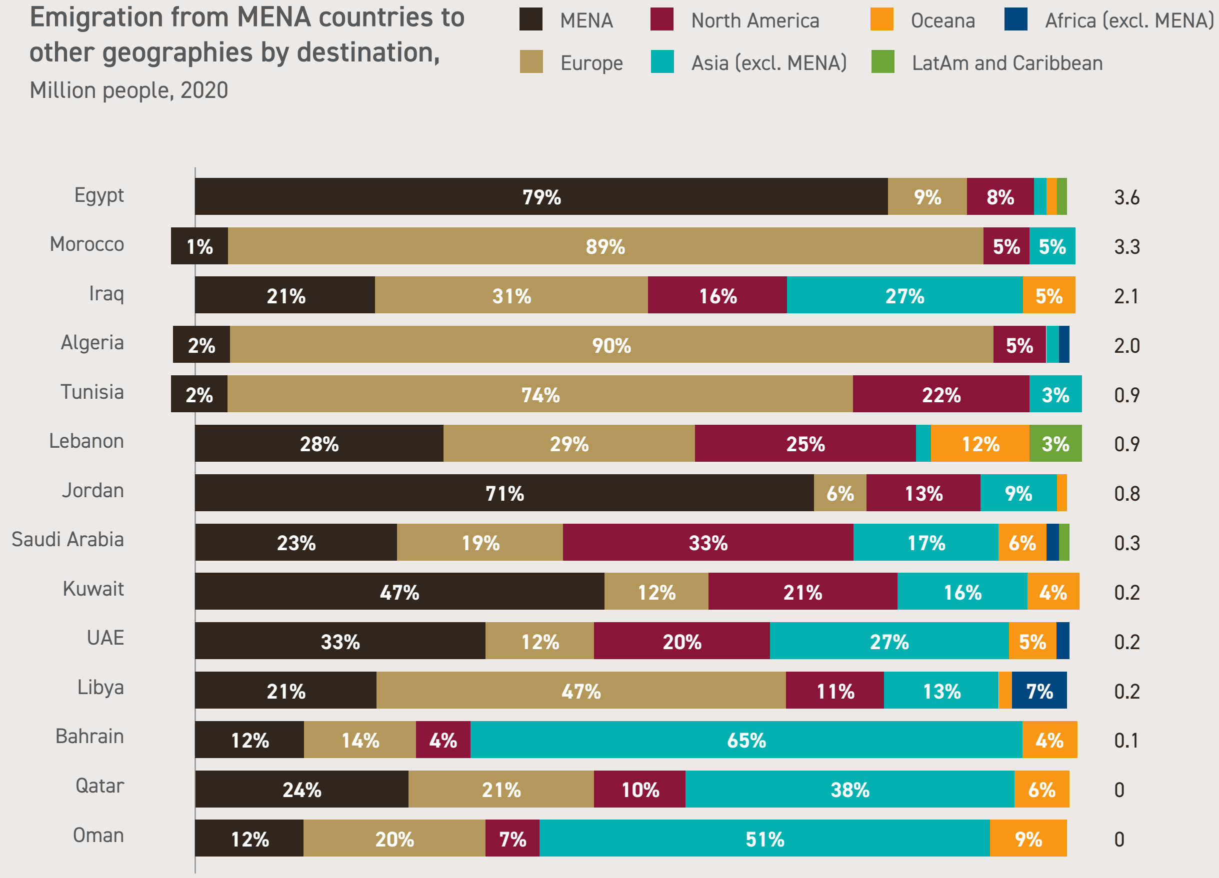
%, 2020



Source: United Nations, Population Division.
Includes the total number of international migrants present in a given country and includes all foreign-born residents in a country regardless of when they entered the country.
BRICS is defined as Brazil, Russia, India, China and South Africa.

Exhibit 11

Emigration from MENA countries to other geographies by destination,
Million people, 2020



Source: Migration Data Portal – UN Department of Economics and Social Affairs.

Within MENA, the share of expats in the population, including the intra-regional expats, is particularly high in the GCC. Countries such as KSA, UAE, Kuwait and Qatar exhibit high demand for skilled labour (e.g., in infrastructure projects) and offer relatively open immigration policies.

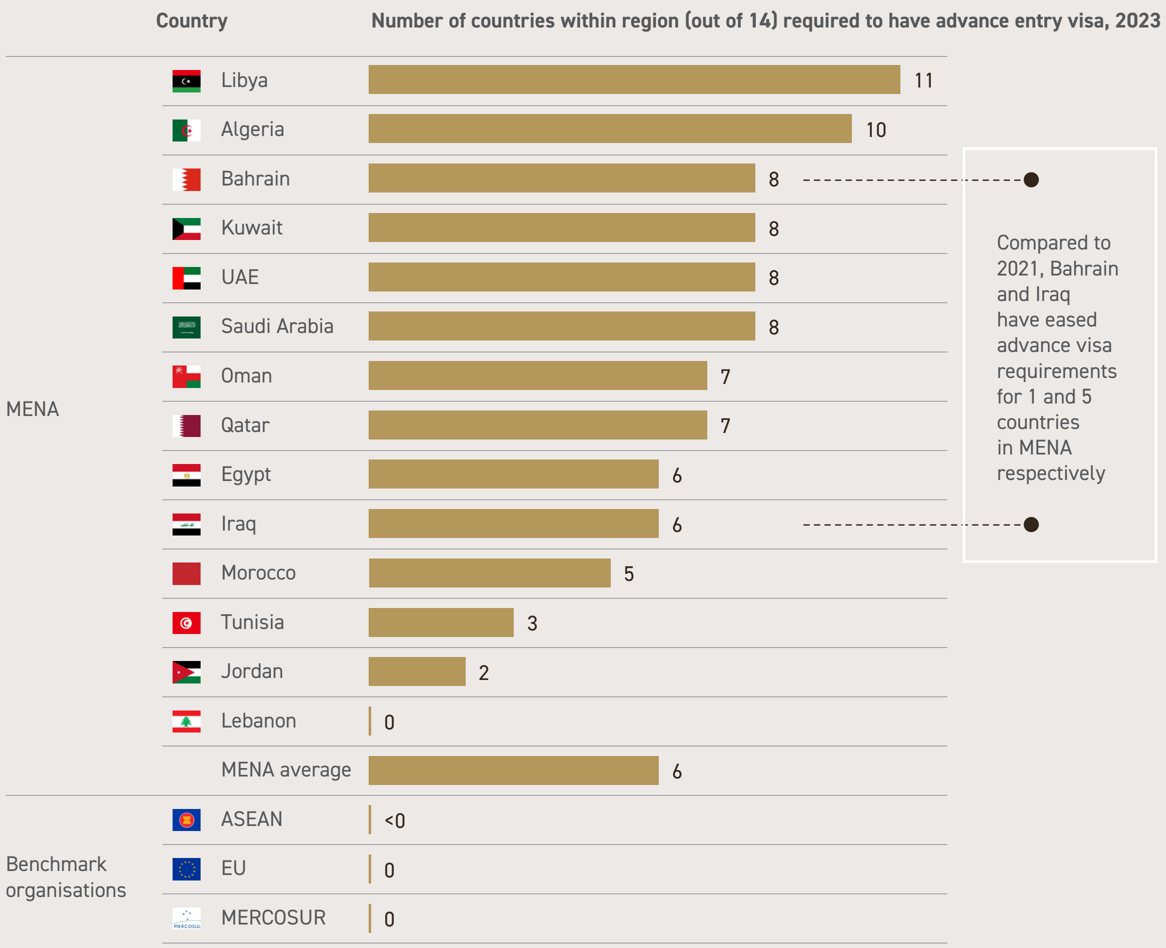
Nearly half of MENA countries require advance visas for intra-MENA travel (exhibit 12). While some recent cases of easing movement within the region can be observed (e.g., Iraq and Bahrain allowed travel without advance visas for more MENA citizens), the region falls behind the visa-free movement allowed in other regional blocs such as MERCOSUR.

A major development could be the planned introduction of a regional GCC tourist visa between 2024-2025, which would resemble the EU's Schengen visa and facilitate the movement of residents and tourists between the six GCC countries.[21]

> MENA boasts a high share of expatriates – ca. 12% of total population.

Exhibit 12

Advance visa requirement for travel



Source: Passport Index.

Looking ahead, approximately 127 million young people are projected to join MENA's workforce over the coming two decades.[22] Cognisent of the seismic shift towards technology development and the adaptation of digital solutions across all aspects of our daily lives, MENA is presented with a significant opportunity to provide for its next-gen talent as they seek education, upskilling and opportunities to integrate into the digital economy.

Investment in developing regional talent and fostering innovative sectors such as technology or clean energy to create attractive job opportunities can be key contributors in retaining expertise within the region. Such initiatives are already emerging. For instance, the UAE's National AI Strategy 2031 aims to"attract and train talent for future jobs enabled by AI", outlining robust training and upskilling opportunities.[23] Similarly, the Kingdom of Saudi Arabia's National Strategy for Data & AI states it is to train and host more than 20,000 data and AI specialists and experts by 2030.[24]

Flow of Data

In today's global economy, seamless movement of data is integral to economic growth and innovation, acting as a catalyst for technological progress, digital trade, and enhanced business efficiency and as such are rightly subject to stringent policy and security frameworks.

The ease of cross-border data exchange can be compared across countries using the Cross-Border Data Policy Index. This index ranks countries from 1 (open to cross-border sharing of information) to 4 (restricting cross-border sharing of information).

MENA countries rank 1-3 on the Cross-Border Data Policy Index, reflecting a regulated yet in most cases supportive environment, for cross-border data sharing, one of key components of digital transformation, scientific exchange, and an important factor in unlocking economic growth opportunities (exhibit 13).

Exhibit 13

Cross-Border Data Policy Index 2023

Ranking		MENA	EU	ASEAN	BRICS & MERCOSUR
Level 1	Economies with cultivated policy environments allowing for cross border sharing of information	Algeria, Morocco, Tunisia		Malaysia, Philippines, Thailand, Singapore	Argentina, Paraguay, Brazil, Uruguay
Level 2	Economies characterised by across border policy environment that is increasingly restrictive and decreasingly likely to benefit from cross border digital transformation & cross border economic opportunity	UAE	EU		South Africa
Level 3		Saudi Arabia		Indonesia, Vietnam	India
Level 4					Russia, China

Source: Global Data Alliance, Cross-Border Data Policy Index.
MENA ranking includes Algeria, Morocco, Saudi Arabia, Tunisia, UAE.

Exhibit 14

Data regulation frameworks

Availability of data framework aligned with GDPR

	Full alignment	Partial alignment	No framework	Introduced in 2022-2023
Bahrain	✓			
Egypt	✓			
Jordan	✓			✓
Kuwait		✓		
Lebanon		✓		
Oman	✓			✓
Qatar	✓			
Saudi Arabia		✓		
Morocco		✓		
UAE	✓			
Algeria		✓		
Tunisia		✓		
Libya			✓	
Iraq			✓	

Source: Country government websites.

Although MENA currently lacks a harmonised data regulation, 12 out of the 14 countries in the region have data regulation frameworks. Six countries – including Jordan, Oman, and the UAE have aligned their data regulation frameworks fully with the EU's General Data Protection Regulation (GDPR). Simultaneously, six others are actively working to achieve this alignment, demonstrating a concerted effort toward data regulation and protection (exhibit 14).

Greater harmonisation of data regulation frameworks across the region could help promote an environment conducive to adoption of AI by companies and individuals as well as the development of the technology sector.

> In today's global economy, seamless movement of data is integral to economic growth and innovation.

Opportunities to Accelerate Economic Integration

This report has analysed all major sectors of economic activity in MENA to help relevant decision makers pinpoint immediate opportunities for further economic integration.

The assessment considered factors such as sectors' contribution to regional GDP, dependence on imports, level of geographic supply chain concentration as well as sectors' potential to enable growth and economic integration of other sectors.

Considering all GDP contributing factors (excluding oil & gas), two sectors offering the greatest immediate opportunity to drive progress are infrastructure and food & retail.

Broadening that consideration to existing efforts to enhance economic integration, more sectors appear relevant, including technology, industry & manufacturing and banking & financial services.

In this section, we focus on key examples of private sector-led initiatives from around the world that have meaningfully shaped or significantly contributed to fostering economic integration. The research conducted for the purpose of this report identified opportunities for such initiatives that could be relevant to creating a positive flywheel for the economy of the MENA region.

“

Considering all GDP contributing factors (excluding oil & gas), two sectors offering the greatest immediate opportunity to drive progress are infrastructure and food & retail.

Exhibit 15

Assessment of sector importance for economic integration, MENA countries[A]

Low Medium High

Sectors of economic activity	**Contribution to GDP,** share of GDP excl. oil	**Dependence on imports,** import share of sector GDP	**Geographic supply chain concentration**[F]	**Enabler for integration,** across sectors other than its own
Infrastructure	22%[C]	10-50%		Integrated cross border infrastructure
Food & Retail	20%[B]	10-50%[B]		
Security (domestic and cross border)	17%[G]	<10%		
Industrials and Manufacturing	15%	10-50%		Partnerships and development of standards for production base
Banking and financial services	8%[E]	*Not applicable*		Regional hub for foreign investment
Technology	5%[D]	>50%		Sharing of technology; talent sourcing and integrated innovation
Energy	3%	>50%		
Education & talent development	3%	<10%		
Healthcare	3%	10-50%		
Other (e.g., professional services, raw materials)	5%	Not applicable		
Ranking methodology	Thresholds (<10%, 10-20%, >20%)	Thresholds (<10%, 10-50%, >50%)	Analysis of global supply chain dependence on few countries	Assessment of impact of UAE strategic priorities on MENA integration

Source: IHS Markit, United Arab Emirates Ministry of Industry & Advanced Technology, United Arab Emirates Ministry of Economy, Emirates Development Bank (EDB), McKinsey Global Institute (MGI), International Trade Administration, International Trade Centre UNCTAD.

A. Excluding Algeria, Iraq, Lebanon and Libya due to data availability
B. Includes Agriculture, Forestry and Fishing; Wholesale and Retail Trade, Repair of Motor Vehicles and Motorcycles; Accommodation and Food Service Activities
C. Includes Construction; Transportation and Storage; Real Estate Activities
D. Information and Communication
E. Includes Financial and insurance activities
F. Key products and sectors sourced from relatively few nations
G. Public admin & defence, other services

Economic Integration Opportunities in Food & Retail

The food & retail sector contributes ca. 20% of MENA GDP. As a region with a strong dependency on imports (prior to COVID, the GCC imported ca. 85% of its food demand)[25] establishing robust local supply chains with the subsequent investment and support for local producers has been at the forefront of the region's economic development plans.

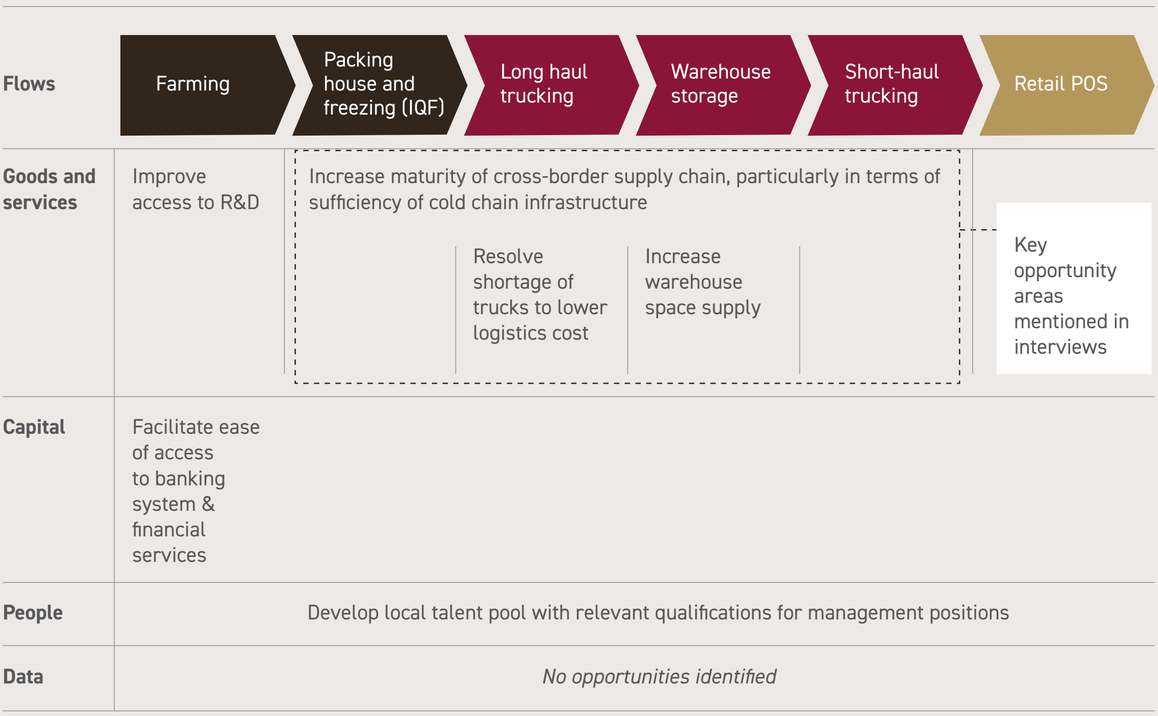
The impact of the recent conflict in Ukraine has served to reinforce the need for MENA to establish the ways and means to wean itself off such heavy dependencies. The severed supply chains heavily impacted the grain imported from the beleaguered country, grain that provides half the flour of a subsidised bread programme feeding 72 million Egyptians on a daily basis.[26]

At the same time, FAO estimates that around a third of food is wasted in the Near East and North Africa.[27] While the Global Food Security Index places GCC ahead of the global average, most MENA countries outside the GCC are trailing behind.[28]

All these factors create a sizeable opportunity for the private sector to drive change in the region.

The research conducted for the purpose of this report included interviews with executives and industry experts in food, retail and food logistics to identify the largest areas of opportunity in the food supply chain that could be addressed through initiatives, which also support economic integration in the region.

Exhibit 16
Economic integration opportunities identified across the food supply chain



Four areas were mentioned the most frequently by interview participants as opportunities for improvement and economic integration in MENA:

- Increasing maturity of cross-border supply chain, particularly the sufficiency of cold-chains infrastructure
- Improving access to R&D in farming (e.g., seeds with genetics adapted to yield high crops in MENA climates)
- Facilitating access to banking systems and financial services (e.g., loans for purchase of seeds, particularly for small farmers)
- Developing more local talent with management qualifications

Cross-country movement of goods in MENA surfaced as a major challenge, particularly in relation to fresh, chilled and frozen food products. Operating efficient and effective cold-chain logistics in a world where consumers are looking to grocers to provide high-quality, healthy and price-competitive assortments, and considering the transportation of temperature-sensitive food products in high outside temperatures, requires an elevated degree of sophistication. In addition to the availability of adequate cold-chain infrastructure, there are further considerations and challenges such as border controls needing to accommodate an ever-increasing volume of transported goods. Historically, companies have relied on global supply chains, importing food into MENA from Latin America, Europe or Asia. However, regionalisation of supply chains and increasing importance of sustainability as the world is attempting to meet key climate goals set out in the Paris Agreement, encourage prioritisation of initiatives that could help foster intra-regional food trade in MENA.

The research conducted for the purpose of this report aimed to identify the root causes of insufficient cold-chain infrastructure and propose potential solutions, which private sector stakeholders could support, and are congruent with making food & retail operations more sustainable and generating positive impact for the region.

Three areas were identified:
Firstly, the presence of international third-party logistics providers (3PLs) in the region seems to be limited. Historically, the limited GDP, combined with the capex intensive nature of the business, and the uncertainty around regulatory frameworks in several countries of the region, have made it risky for foreign players to invest in the warehouses and truck fleet required to start operations.

Secondly, the current logistics market is fragmented among local players who often lack scale, funds and expertise to establish sufficient cross-border, cold-chain infrastructure.

Thirdly, cooperatives and partnerships between local food manufacturing and processing companies remain low. The scarcity of frameworks helping companies cooperate was highlighted as a limiting factor. These factors have led to a few large integrated players investing in cold-chain infrastructure for their sole use, resulting in high costs for these players and insufficient cold chain access for smaller companies.

The analysis conducted for the purpose of this report offered two key potential unlocks to improve cold-chain logistics in MENA:

- Continued investment in expanding cold-chain logistics infrastructure, including trucking capacity and warehousing, to facilitate intra-regional land transport of perishable and frozen food.
- Embedding international best practices in logistics (e.g., efficient use of multi-temperature trucks and bulkheads), in accordance with local laws, to enable energy-efficient operations.

The benefits of these investments are expected to materialise through higher volume and efficiency of intra-regional food trade. In MENA, 7-8% of food is estimated to be lost in transportation and storage, compared to estimated 4-6% in North America and Europe.[29] Reducing the level of loss by 1-4% to reach the benchmark of developed countries could lead to significant savings and improved access to, and affordability of, food.

“

In MENA, 7-8% of food is estimated to be lost in transportation and storage, compared to estimated 4-6% in North America and Europe.

The following models could be considered to improve cross-border cold-chain infrastructure, which build on learnings from other regions:

1. Partnership between food manufacturing or processing company and global third party logistics player (3PL)

Case study: Unilever / Maersk[30]

In 2021, Maersk entered a strategic partnership with Unilever on international freight supply chain management. The four-year agreement included developing and managing Unilever's International Control Tower solution. The goal was to enhance visibility and increase efficiency across supply chain operations. Maersk provided operational management of international ocean and air transport through its digital supply chain platform.

In MENA, partnering with a global 3PL could allow local food manufacturing and processing companies to improve their supply chain logistics, providing enhanced visibility of the supply chain and reducing food loss during transportation and storage.

2. Collaboration between local and global third party logistics companies

Case study: Americold and RSA cold chain[31]

In 2023, Americold purchased a minority share of Dubai-based RSA Cold Chain as a means of entering the market and expanding in the Middle East and India. The partnership provides a scalable operating platform for Americold, while connecting RSA to its global network. As a result, the capacity expansion of RSA cold storage facility is under way and another new cold storage facility is planned for 2025 in partnership with DP World.

MENA might benefit from further partnerships between local and global logistics players. Local partners could de-risk operations for the foreign partners by providing market access and physical infrastructure, while global partners could contribute their expertise and additional investments.

3. Co-investment in shared cold chain infrastructure by food manufacturing or processing companies

Case study: Walmart and JD.com[32]

In 2016, Walmart and JD.com announced an alliance to combine e-commerce and a physical distribution business in China. The agreement included leveraging their supply chains for cross-border e-commerce and online-to-offline e-commerce services for consumers across China.

Fostering similar co-investments in MENA may require support from the authorities or sourcing best practices of such arrangements from outside the region.

Next Steps and a Call to Action

In carrying out the research for this report, it has become clear the region does not suffer from a lack of support for improved ways of working. There are numerous global examples of private sector players joining forces to engage in initiatives that contributed to accelerating cross-border economic integration within their industries. However, they are disparate instances borne of a business need.

It is our hope that we are able to bring together like-minded organisations, from across all sectors and industries to explore ways in which we can individually and collectively create an environment of common good, where what serves our organisations also better serves the communities in which we operate.

Our efforts underpin our broader roadmap of collaboration aimed at boosting both sustainability of operations and regional integration.

We are excited to continue our role as one of the private sector leaders driving the economic integration agenda in the region and welcome the opportunity to partner with organisations looking to further their contributions to furthering MENA's long-term prosperity.

Endnotes

1. UNCTAD
2. https://www.arabnews.com/node/2379581/business-economy
3. https://www.mofa.gov.ae/en/mediahub/news/2023/8/31/31-8-2023-uae-mohamed-bin-rashed
4. https://www.reuters.com/world/africa/egypt-growth-seen-slowing-currency-slipping-further-2023-10-19/#:~:text=Median%20forecasts%20in%20the%20Reuters,%25%2C%20the%20latest%20poll%20showed
5. This report defines MENA as 14 countries: Algeria, Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Qatar, Saudi Arabia, Tunisia, and the United Arab Emirates
6. In 1994, MERCOSUR signed the Protocol of Ouro Preto, formalising its status as a customs union
7. UNCTAD
8. UN COMTRADE
9. UNCTAD
10. EUROSTAT
11. International Labour Organisation
12. Selected dimensions of Global Innovation Index: Institutions, Infrastructure, market sophistication
13. Algeria, Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Palestine, Qatar, Saudi Arabia, Sudan, Syria, Tunisia, the UAE and Yemen
14. Secretariat General of the Gulf Cooperation Council, The Customs Union
15. Oxford Public International Law
16. UNCTAD
17. European Commission
18. UNCTAD Foreign Investment Policy Hub
19. Includes Egypt, Jordan, Bahrain, Iraq, Oman and Sudan
20. Saudi Press Agency
21. 40th meeting of the GCC interior ministers, Secretary General of the Gulf Cooperation Council
22. Based on International Labor Organization (ILO) estimates of labor force aged 15–64 for all countries in the region between 2020 and 2040 –McKinsey report “Opportunity youth”
23. UAE National Strategy for Artificial Intelligence 2031
24. Saudi Data and AI Authority, National Strategy for Data & AI
25. FAO Subregional Office for the Gulf Cooperation Council states and Yemen, About FAO in the region
26. https://merip.org/2023/02/the-ukraine-war-grain-trade-and-bread-in-egypt/#:~:text=For%20Egypt%2C%20this%20conflict%20has,Egyptians%20on%20a%20daily%20basis
27. FAO, Guidelines for action on food loss and waste reduction in the Near East and North Africa
28. Economist Impact, Global Food Security Index 2023
29. The World Bank, Food loss & waste – Bonds for sustainable development
30. https://www.maersk.com/news/articles/2021/12/16/maersk-enters-strategic-partnership-with-unilever-on-international-logistics
31. https://ir.americold.com/press-releases/news-details/2023/Americold-Announces-Strategic-Investment-in-Dubai-Cold-Storage-Company-RSA-Cold-Chain/default.aspx
32. https://ir.jd.com/news-releases/news-release-details/walmart-and-jdcom-expand-strategic-cooperation

ماجد الفطيم
MAJID AL FUTTAIM

majidalfuttaim.com
January 2024