ماجد الفطيم
MAJID AL FUTTAIM

GREAT MOMENTS
FOR **EVERYONE,**
EVERYDAY

THE TIME IS **NOW**

A Perspective On **Economic** Integration In **MENAP**

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FOREWORD

It would be hubris at best and foolhardy at worst to assume we have experienced the full impact of COVID and its associated social and economic fallout. All indicators would assume we can expect continued disruption to our pre-pandemic way of life as we collectively adjust to social rebalance and the reharmonisation of local and global economies. As uncomfortable as that uncertainty and challenge may be, the disruptive forces that are driving these changes are also creating fertile ground for a better, stronger future, one that leverages our individual strengths across sectors, industries and communities to close a US$2.5 trillion GDP gap and unlock the true potential of the MENAP region.

Building on the proposition shared in 2020 MENAP Economic Integration Initiative, the following report reviews the initial thinking against today's post-pandemic reality, challenges its assumptions and assesses the strength of its findings where similar region-wide working structures are available.

Furthermore, it suggests next steps in realizing the region's impressive economic potential, setting out an initial framework of ideas and opportunities to act as an informed trigger for dialogue and debate.

As we look ahead, the MENAP region is afforded an invaluable opportunity to not just rebuild, but redesign how we collectively intersect. While a global pandemic and ongoing geopolitical unrest may demand we evolve our ways of thinking, they have also triggered a renewed sense of purpose and social responsibility that permeates our societies today.

With this in mind, we believe there is no better time to harness that energy and drive for meaningful and lasting positive change and revisit the premise of MENAP common standards and the free-flow of capital, goods and services across the region for a better, stronger and more sustainable regional future.

Alain Bejjani

Chief Executive Officer
Majid Al Futtaim - Holding

The Time is Now: A Perspective On Economic Integration In MENAP

In 2020, we shared an aspiration for deeper economic cooperation in order to unlock the potential of the MENAP region, and the critical role that public/private sector collaboration played in seeing this endeavor come to light. Core to these efforts were three levers, which if correctly applied would stimulate inter- and intra-regional trade and lead to the unleashing of significant latent economic growth in the region.Those levers being: **selective deregulation, free movement of goods, services, capital, people & data and a set of common standards.**

In 2020, we estimated that **common standards and free flow of capital, goods and services could help unlock ~USD 230 bn in GDP.** However, the value at stake in MENAP is much higher than that - while 8.5% of the world's population live in the MENAP region, it only accounts for 3.4% of global GDP. **An incremental USD 2.5 tn would need to be generated for the region to produce its fair share of GDP.**

Our initial diagnostic found that most of the impact – about 75% - could be achieved through unilateral moves by individual countries. However, considering relevent progress over the two years since shows the region has advanced at speeds ranging from accelerated to stagnant. **Progress has also been limited in regards to exploring the opportunities cross-country initiatives could create.** For example, Dubai was ranked first globally in attracting FDI in 2021, attracting USD 7 bn, a 5.5% increase from the previous year. Saudi Arabia has also driven efforts to facilitate inter-regional movement, reducing its average visa processing time for MENAP nationals from 24 weeks to 2 weeks in the past 5 years. Remarkable efforts have also been made on data regulations across the region, For example 93% of MENA countries have a data regulation framework in 2021 compared to 60% in 2019. **Ultimately, however, the region continues to be more fragmented than others, with an underdeveloped private sector compared to global benchmarks.**

The 2020 report also highlighted clear opportunity for the private sector to step up its efforts, as it was found to be **punching well below its weight relative to other regions**. Acceleration of efforts to modernize and develop capital markets led to incremental progress in some countries, as evidenced, for example, by the recent inclusion of Saudi equities in MSCI indices. **However, only 1 MENAP company is included in the Forbes Global 500**, and the scale of the largest companies in the region is limited when compared, for example to Europe, in terms of revenues and geographical footprint. **Indeed, total market capitalization is ~10 times lower than that of EU-15 countries** (~USD 1,250 bn vs. ~USD 12,000 bn), despite a ~25% higher population in MENAP than in the EU-15.

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1. SOURCE: FAO

Two years on and **global and regional developments have instigated a paradigm shift towards a new reality** that we believe has **elevated greater economic cooperation in MENAP from a 'nice-to-have' to a fundamental strategic imperative:**

1. The world continues to grapple with the effects of a **global pandemic**, leading to unprecedented supply chain disruption, commodity price volatility, and a heightening of geopolitical tensions. These three consequences then further exacerbated **by conflict in Ukraine**. The **MENAP region has not been immune to these disruptions and continues to be challenged by tightening economic conditions.** While oil exporters could benefit from energy price volatility in the short-term, other countries in the region are left exposed to inflationary pressures. Furthermore, food security came under real pressure during the pandemic, with up to 14% of food lost across the supply chain before it reached consumers[1], security that is expected to worsen as a result of the Ukraine conflict.

2. Over the last 40 years, global trade has been growing faster than GDP. In the last few years, however, that pace of growth has reached a plateau, **suggesting a deceleration of globalization, or 'slowbalization'.** In fact, a gradual reversal has been observed across many fundamental indicators. World exports as a % of GDP have declined between 2010 and 2020 from 29% to 26% respectively, and global FDI by 36% in the same period. Despite these factors economic integration has remained prevalent, with more **purposeful efforts towards regionalization seen across the world in the last 5-10 years, and a 6% increase in intra-regional trade since 2015.**

3. In addition, **the acceleration in the global energy transition will affect the region more than most,** given the traditional reliance of many of its countries on energy exports. This transition has upped the stakes for economic diversification away from oil. **Local markets alone will not be a sufficient breeding ground for cultivating at-scale national champions.** It would require free access to a much larger addressable market if these companies are to become true economic engines in a post-fossil fuel world. However, there are upsides to consider for these economies as well: **the current high energy price environment unlocks the potential for a government-level investment capacity that could be deployed towards economic diversification** and spending that ensures oil producers are primed to meet changing future demand.

4. In, 2020, the **Abraham Accords were introduced between Israel, the UAE and Bahrain, in addition to the Israel-Morocco normalization agreement.** That same year, the UAE hosted 250,000 Israeli tourists with an annual contribution of ~USD 380 mn to the country's economy and traded ~USD 770 mn and ~USD 300 mn of exports and imports, respectively. Furthermore, **the two countries signed an agreement to establish a joint task force promoting innovation-based business ties.** This agreement has led to a fintech partnership between the Dubai International Financial Centre and Start-up Nation Central, an innovation non-profit from Israel, as well as an announcement by OurCrowd, an Israeli investment firm, to build a global AI innovation and research center in Abu Dhabi. Such economic agreements on this scale could create an imbalance across the region as unilateral integration between countries could become more prevalent.

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1. SOURCE: FAO

5. A young population with pockets of untapped talent and rapid digitization has fostered an environment of innovation and is turning the region into a hotbed of opportunity. **The start-up ecosystem is increasingly emerging as a driving force of the region's economic and social development**, with MENA start-up VC funding increasing at >3X to reach USD 2.5 bn in 2021 compared to USD 700 mn in 2019. The MENAP region today boasts 4 'unicorns' compared to only one in 2020, with 35+ start-ups completing fundraising rounds at $100mn+ valuations in 2021. Further accelerating this positive trajectory would require enabling free movement of talent and capital to enable scale-up and growth of local and regional start-ups.

In the face of such fundamental challenges and opportunities, now more than ever **it is the time for the region to consider a reboot of efforts to drive greater** economic cooperation between **MENAP** countries. As tariff and non-tariff barriers to global trade increase, supply chain costs remain high and supply lines continue to be disrupted, MENAP countries must hedge exposure to global trade partners by cultivating meaningful opportunities closer to home. With partnership efforts over the last ~50 years driven largely by government, impact to date has been limited. We believe **this could be the right time for a renewed effort led by the private sector.**

Our analyses in 2020 found that **the majority of impact from closer economic ties in the region can be achieved through sector and country-specific initiatives.** Given that barriers remain prevalent across most sectors in the MENAP region, instigating step-changes necessitates prioritization. In this review we offer a perspective lens through which to consider sector prioritization– in particular the food and agriculture sector, as the most common opportunity across the countries selected for review.

The MENAP region currently relies heavily on food imports. Egypt is the world's largest importer of wheat – 10% of global wheat imports – and the UAE imports 80-90% of the food it consumes. Furthermore, the region lags the world average on stock to consumption ratio, 18% vs. a world average of 27%1. This is driven by demand growth, in turn driven by rising populations and consumption per capita, exceeding marginal local supply improvements. The COVID-19 pandemic and conflict in Ukraine – the source of 25% of Egypt's wheat imports – **has brought the systemic risk of such a model into sharp focus, given that only 15% of MENAP's food imports originate from within the region.**

Within this context, **food security represents a meaningful opportunity for the region** to consider whether further strengthening of regional cooperation would help drive a step change on the food landscape.

With just 5% of the region's land deemed arable, and freshwater supplies depleting rapidly, **achieving self-sufficiency would be practically an insurmountable goal at the country level**, and distinctly challenging even at a regional level. For example, GCC food sufficiency is at 31% vs. a country average of 25% in 2019. Such an undertaking would require a zero-based approach to sector planning with unprecedented focus and investments. However, with unity of resolve, real progress can be made through a combination of bold policy moves, meaningful dialogue and purposeful private sector involvement that culminate into **a food security master plan for MENAP, as well as a mechanism to track implementation and measure progress.**

The Majid Al Futtaim ecosystem, with our leading grocery retail presence in 17 countries, affords us a front-row seat to the food security challenge both in the region and beyond. We firmly believe that **addressing this pressing issue represents a priority opportunity to come together and push towards meaningful progress.**

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1. SOURCE: Start-up Nation Central

The first step – defining the **collective aspiration for food security in the region.** This aspiration could be related to trade and supply management, or to local promotion. Also to be considered is the potential to become **a lighthouse of knowledge, technology and innovation sharing, for retailers to facilitate the collective development of the sector across MENAP.** Such an aspiration would require the cooperation of both the public and private sectors. An example of successful food-security efforts through innovation sharing is Israel, where the Government promotes exports of agricultural technology through incentives for innovation. In doing so, improving agricultural methods and techniques are improved and interdependence with trade partners in the food space is strengthened.. As a result, Israel is now seen as the global leader in agricultural technology, with over 400 AgTech start-ups that collectively raised $300 million in 2019. **Replicating such a model in MENAP could provide the incentive, scale and specialisation-potential necessary for the private sector to drive impact in the food space.**

Global examples highlight the tangible impact that could be driven by four concrete actions:

- **Engaging in policy dialogue:** the EBRD organised a set of roundtable discussions to boost the development of the Ukrainian grain sector, which ultimately led to the removal of export quotas that deterred investment in the sector, in favor of export duties, which were subsequently also repealed in another set of roundtable discussions a year later, enabling Ukraine to become the world's leading grain exporter.

- **'Democratizing' the potential of innovation and technology:** The European Union has collaborated to create a centralized office for granting European patents covering contracting states. The European Patent Office (EPO) aims to unify patent obtained procedures, fostering innovation through smoother processes.

- **Unleashing the power of PPP:** Kraft foods approached the Coffee Chamber in Peru to develop and execute a project aimed at improving the quality of Peruvian raw coffee beans, along with promoting better working conditions for farmers and environmental practices. Kraft benefited by securing the supply of high-quality coffee, while the Peruvian economy experienced a doubling of coffee exports in two years.

- **Turbocharging institutional development & capability-building:** Israel and India signed a bilateral agreement in 2006, the Indo-Israel Agricultural Project (IIAP), to establish Centers of Excellence (CoE), in which Israeli Ag-Technologies and knowledge would be disseminated and tailored to local Indian conditions. As of 2021, 29 COEs have been established, which produce close to 30 million high quality seedlings annually and have upskilled close to 200,000 farmers.

Turning to the People opportunity, an overarching priority to unlock the economic potential of MENAP is **the development and retention of homegrown talent.** A number of countries in the region have made great progress on talent attraction from abroad, such as the UAE, which increased its population from 3.5mn in 2000 to almost 10mn today, targeting in particular highly-skilled talent. While this talent may have been perceived as transient in the past, alongside these efforts the UAE has introduced complementary initiatives, such as golden visas, to ensure that talent that comes to the UAE remains there for the long term. At the same time, it is **nurturing and upskilling homegrown talent and future leaders that will be key to unlocking a prosperous economic future for the region.** It is worth noting that while ~8% of total world university students herald from the region, MENAP is home to only 1.5% of the top 500 universities, leading to many of those able to do so leaving to study abroad, and in many cases, not returning home.

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1. SOURCE: Start-up Nation Central

With this in mind, there is a pressing need for job creation in MENAP that considers a growing youth population, high unemployment rate, and evolving job market requirements. In 2020, ~60% of the MENAP region's population was of working age, of which 50% were in the labor force. At the current labour participation rate, **~120 million young people are set to enter the region's labor market by 2040[1].** Job creation in the region is critical. Additionally, **the region's unemployment rate exceeds the global average** by ~ 4 p.p., reaching ~9.2% in 2020. **Prioritizing talent development and upskilling becomes even more important in the context of the region's employment imperative.**

Given global developments, economic cooperation in MENAP, has become a **strategic imperative for prosperity and socioeconomic success.** The private sector is as yet to fulfil its contribution capacity, and through the lens of stakeholder capitalism, as key stakeholders, should play a more active role in policy dialogue, if this region is to achieve its full potential. A first step is **alignment on a mechanism to drive action and create a greater sense of partnership between the public and private sectors. From that starting point charting a concrete plan for instigating lasting positive change and unleashing the power of the MENAP region can truly begin.**

1. SOURCE: World Bank

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1. CONTEXT & THE CASE FOR CHANGE

1. Context & The Case For Change

We aspire to bring together a select group of private sector players in the MENAP[1] region to catalyse economic integration in the region. Spanning from Morocco to Pakistan (including Algeria, Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Pakistan, Qatar, Saudi Arabia, Tunisia, and the United Arab Emirates) the group will work towards articulating a private sector perspective on the most critical issues with the aim of unlocking the economic potential of the region.

Today, the region is a collection of fragmented economies, very few of which have the scale, breadth, depth, institutional development, and regulatory environment to be considered attractive markets. Only Pakistan, Egypt, and Algeria can offer scale in terms of population (constituting 2/3 of the region`s population with ~370 mn people) but present their own challenges. The current situation has far-reaching implications concerning economic progress. For example, most successful businesses across industries are 'national champions,' and very few have successfully managed to expand across the region significantly. This, in turn, means that most businesses lack real scale and global relevance (Exhibit 1).

Attempts for greater economic integration have been made (e.g., PAFTA2, Agadir agreement)**, but with limited success** due to economic and political factors. Only the GCC defined common objectives for regional economic integration captured in and based on their national visions and aspirations.

1. Excluding Iran, Syria, Yemen, Malta and Palestine due to instable and/or sanctioned regimes
2. Pan Arab Free Trade Area (PAFTA), 2011; Agadir agreement is free trade area comprising Arab Mediterranean countries; 2001
3. World Bank, 2018

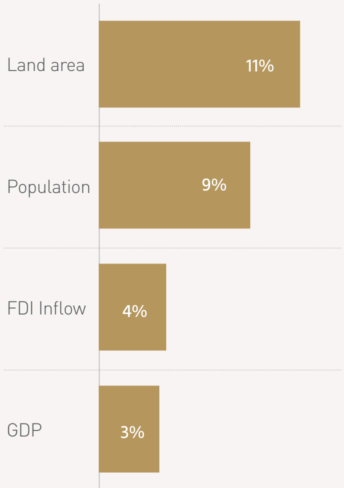
Exhibit 1

The MENAP region at a glance

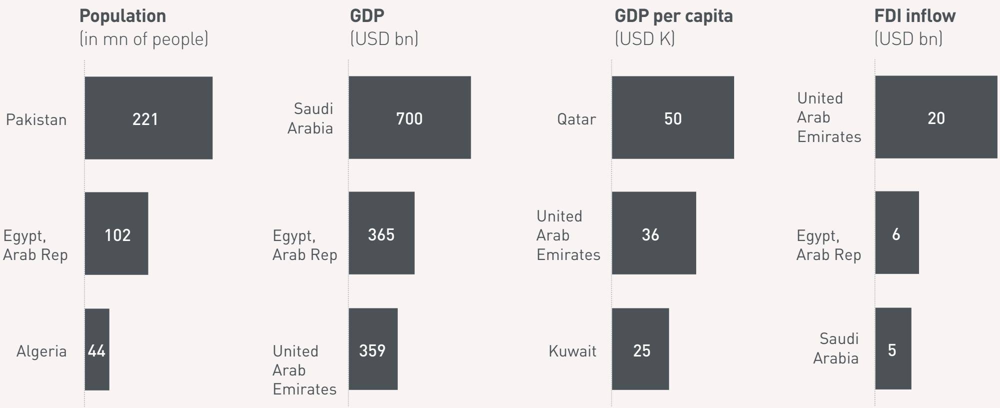
MENAP comprises countries from Morocco to Pakistan - including Algeria, Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Oman, Qatar, Saudi Arabia, Tunisia and United Arab Emirates

MENAP's proportion of global metrics

% of world



The top 3 MENAP countries across the 4 metrics have remained consistent over the past ~10 years



1. Excluding Iran, Syria, Yemen, Malta and Palestine due to instable and/or sanctioned regimes
2. Pan Arab Free Trade Area (PAFTA), 2011; Agadir agreement is free trade area comprising Arab Mediterranean countries; 2001
3. World Bank, 2018

Our 2020 report set out the strong case for closer economic integration in MENAP. Today, more than ever, we see it as a **fundamental policy imperative due to five regional and global developments that have catapulted the region into a new economic reality.**

1) The COVID-19 pandemic & the conflict in Ukraine

The world continues to grapple with the effects of a global pandemic and conflict in Ukraine, which have led to unprecedented supply chain disruption, commodity price volatility, and geopolitical tensions. The MENAP region has not been immune to these disruptions, with oil exporters exposed to energy price volatility and food security coming under real pressure, with up to 14% of food lost across the supply chain before it reaches consumers, compared to 10% before the pandemic[1].

COVID-19 pandemic, coupled with oil prices collapse, has had an adverse impact on MENAP economies. While the region was forecast to grow at 3.7% in 2020, it faced a significant decline that amounted to -4% in the mentioned year, while unemployment rose by 1.5 p.p. This was driven by substantial supply chain disruptions, a steep decline in tourist visitors -estimated at ~-74% from 2019 to 2020 (y-o-y)-and commodity price volatility.

More recently, the Ukraine conflict has further impacted supply chain and commodity price volatility.

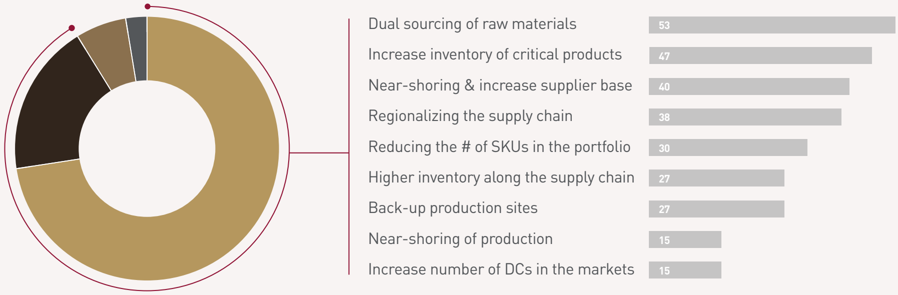
Globally, these disruptions were triggered by supply shocks starting in China, followed by a demand shock that revealed vulnerabilities in the production strategies of firms (e.g., by April 2021, import container wait time in Shanghai jumped 163% from ~4.5 days in March to ~12 days in April). Ukraine conflict has further magnified the supply chain shock with high Russian/Ukrainian export dependency (Exhibit 2). This has triggered high interest for supply chain leaders to increase supply chain resilience, specifically through near-shoring as well as regionalization.

Additionally, commodity price volatility was seen globally with the two countries considered the breadbasket of the world, supplying ~30% of global wheat and barley, 65% of sunflower seed oil, and 15% of corn. According to the United Nations Food and Agriculture Organization (FAO), **food prices have increased by 30% in April 2022** compared to the same month of the previous year. **Similarly, crude oil prices have increased by 64%, and fertilizer prices more than doubled in the same period** (Exhibit 3).

1. SOURCE: FAO
2. SOURCE: McKinsey survey of global Supply Chain leaders (May 15 – 22, 2020, N=608), food and agriculture organization of the united nations, World bank

Exhibit 2

Need to increase Supply Chain resilience?



Global value chains depend on Russia and Ukraine mostly for agricultural and material and chemical products

Global exports and Russian/Ukrainian export dependency by-products/commodities

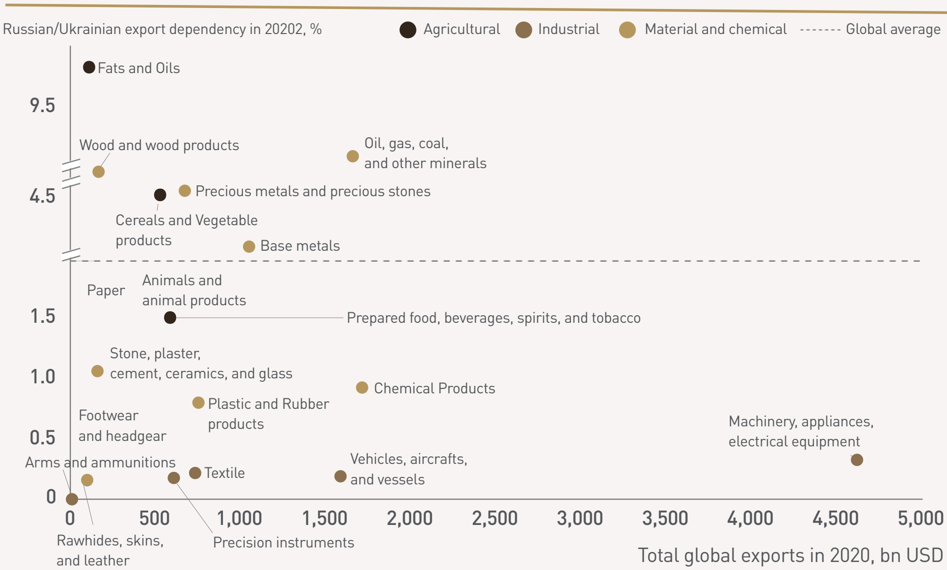
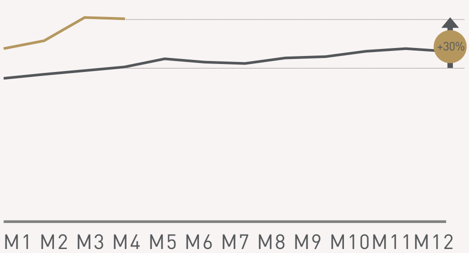
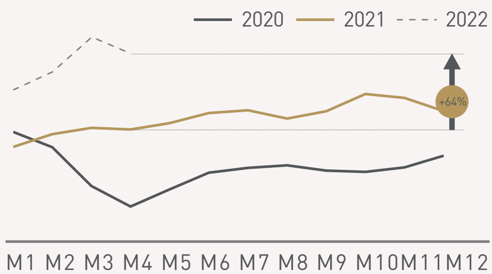


Exhibit 3

Food price Index



Average Crude oil prices USD/ BBL



2) 'Slowbalization': decelerating globalization

In the context of globalization, a phenomenon that has been underway since the 1980s, the prospect of regional economic integration was traditionally seen as a luxury. Since 2015, **the momentum for globalization has slowed, a phenomenon referred to by some as 'slowbalization.'** In fact, a gradual reversal has been observed across many fundamental indicators. World exports as a % of GDP have declined between 2010 and 2020 from 29% to 26%, respectively, and global FDI has come down by 36% in the same period.

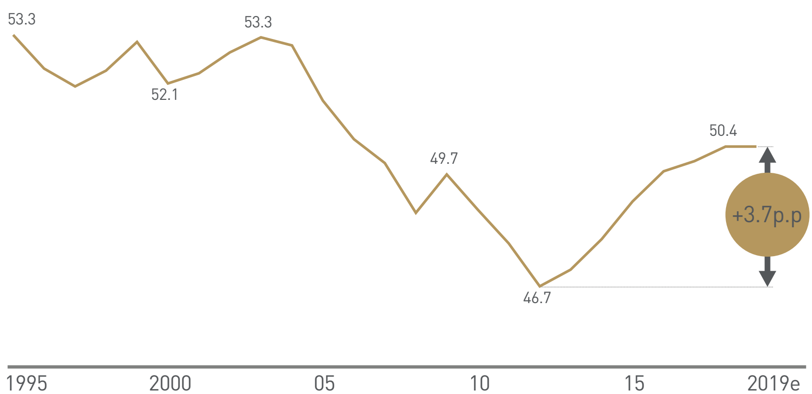
Slowbalization has been driven by multiple factors including the rise of populism, higher trade barriers, and the shift of consumer spend from manufacturing to service sectors, which are more difficult to export. The pandemic, and more recently, conflict in Ukraine, have **accelerated this reversal**, revealing the **fragility of global trade and supply chain activities,** with 93% of supply chain leaders planning to increase resilience, flexibility, and agility as a result of these disruptions[1].

The MENAP region has not been immune to these disruptions. Tourism represents a major economic pillar for MENAP economies - contributing ~10% of the region's GDP in 2019 - and a key component of economic diversification for oil-exporting countries. The pandemic containment measures considerably reduced arrivals, which heavily impacted the region's economies. Oil exporters were also hit by the economic impact of the lockdown, which caused a decline in oil demand and prices.

Despite the slowdown in globalization, the drive towards more **purposeful efforts towards regionalization has remained stable in the last 5-10 years**, with intra-regional trade increasing by 3.7 p.p. since 2015 (Exhibit 4). Regional trade agreement (RTA) notifications increased by a CAGR of 5% between 2015-21, with the introduction of new/updated RTAs such as USMCA (an updated version of the NAFTA agreement), Pacific Alliance (between Chile, Colombia, Mexico, and Peru), and Progressive Trans-Pacific Partnership (CPTPP) Agreement (Asia Pacific focused and signed by 11 parties).

Exhibit 4

Share of intraregional goods trade in total trade (exports + imports), 1995-2019, %



1. SOURCE: McKinsey survey of global Supply Chain leaders (May 15 – 22, 2020, N=60)
2. SOURCE: McKinsey survey of global Supply Chain leaders (May 15 – 22, 2020, N=608), food and agriculture organization of the united nations, World bank

3) Acceleration of the global energy transition

As energy demand continues to surge, **governments and corporates are increasing efforts toward decarbonization** amid extreme volatility in energy markets driven **by geopolitical tension and a strong rebound in energy demand following the COVID pandemic.**

As a result, the energy mix is predicted to shift towards electric power. By 2050, **electricity and enabling hydrogen and synfuels will account for 50% of the energy mix** (Exhibit 5), especially as the **cost of renewable energy is expected to steadily decrease by -50% between 2022 and 2035** to equate to non-renewable sources. **Energy producing countries will need to invest, especially in times of high energy prices, to ensure that they are able to meet the everchanging demand and continue to support their economies through energy exports.**

The acceleration in the global energy transition will affect the region more than most, given the traditional reliance of many of its countries on energy exports. This transition has upped the stakes for economic diversification away from oil. **Local markets alone are not a sufficient breeding ground for cultivating at-scale national champions;** this would require freer access to a much broader addressable market if these are to become true economic engines in a post-fossil fuel world. However, there are upsides to consider for these economies as well: **the current high energy price environment unlocks investment capacity for government that could be deployed towards economic diversification,** as well as investing to ensure that their oil producers are primed to meet changing future demand.

Exhibit 5

The global energy mix is predicted to shift rapidly towards electric power and hydrogen

Final energy consumption per fuel, million TJ

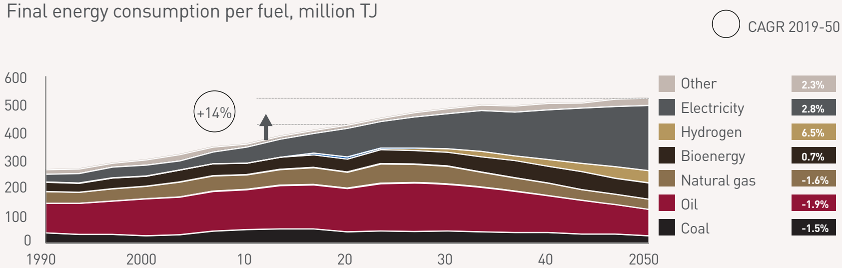
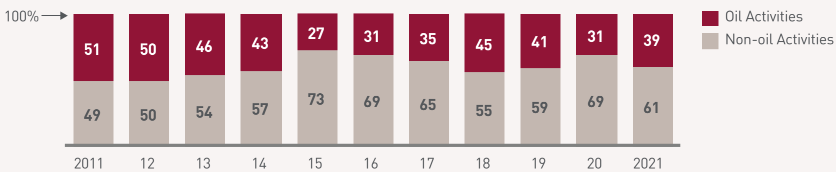


Exhibit 6

Renewed diversification interest for GCC countries seen in declining oil vs. non-oil GDP

KSA GDP breakdown, % of total GDP



1. Includes Heat and Synthetic fuels
2. SOURCE: Mckinsey analysis, KSA MOF

4) The Abraham Accords and the Israel-Morocco Normalization Agreement

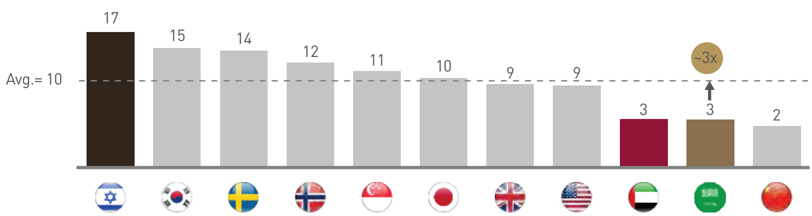
Until recently, Israel did not have diplomatic or economic ties with most of the region, except for Egypt (Camp David Accords, 1979) and later Jordan (Wadi Araba Treaty, 1994). However, **in September 2020, Israel, the United Arab Emirates and Bahrain signed the "Abraham Accords"** – Morocco and Sudan followed in October and December, respectively. This formal recognition facilitated the launch of economic ties **through trade liberalization, knowledge & innovation sharing, and movement of talent.**

Since the signing of the Abraham Accords, the participating nations have seen early signs of impact. The United Arab Emirates recorded exports of 771.5 mn USD to Israel in 2021, with Israeli exports to the UAE totaling 383.2 mn USD, according to Israel's Central Bureau of Statistics (CBS). In addition, the UAE hosted over 250,000 Israeli tourists since the signing of the Abraham Accords.

Over the last decade, Israel has showcased its technological sophistication – positioning itself as one of the top countries for start-up growth and success. **Today Israel has the highest concentration of technological start-ups globally,** following Silicon Valley, landing itself as **the 7th most innovative country in the world according to the Bloomberg Innovation Index in 2021.** One of the key drivers is **Israel's dedication to investing heavily in civil research and development, at 5.44% of GDP in 2020** (Exhibit 7). Israel has 17 researchers per 1000 people employed (Exhibit 8).

Exhibit 7

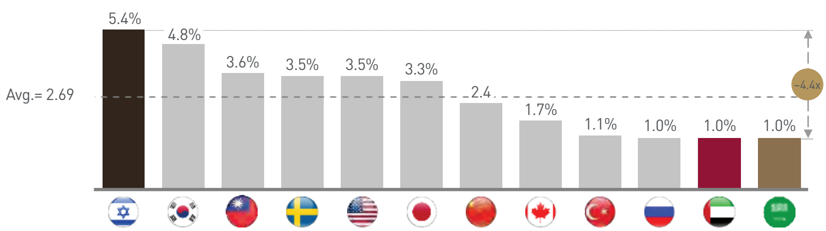
Israel dominates the world rankings in number of researchers per 1000 employed (2020)



SOURCE: Statista

Exhibit 8

Israel leads Gross Domestic Spending on R&D (2020)



SOURCE: Statista

1. SOURCE: OECD, UNESCO, Statista, Israel Central Bureau of Statistics, Bloomberg Forbes

5) Emergence of a buzzing innovation & start-up ecosystem

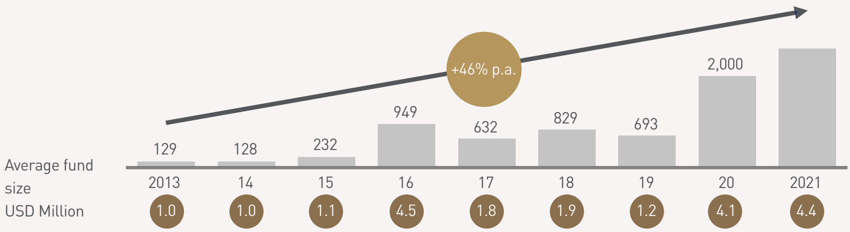
A young population, with pockets of untapped talent, in addition to rapid digitization has cultivated an environment of innovation and has allowed the region to develop into a hotbed of opportunity. The start-up ecosystem is increasingly emerging as a driving force of the region's economic and social development, with MENA start-up funding exceeding 2.5 bn USD for the first time in 2021. **Today, the MENAP region boasts 4 'unicorns' compared to only one in 2020, with 35+ start-ups completing fundraising rounds at 100 mn USD+ valuations in 2021.**

The region is relatively one of the most digitally connected in the world. An average of 88% of the population is online daily, with 94% owning smartphones. Additionally, high digital consumption is seen across most countries in the region. For example, Saudi Arabia ranks seventh globally in social media engagement, with an average of seven accounts per individual.

The high digital appetite of the population has paved the way for digital entrepreneurship, with a generation of local digital start-ups emerging constituting ~85% of total start-ups in the region. **The growth of local digital entrepreneurship was highly catalyzed by the rapid demand for e-commerce post-COVID-19. MENAP** has seen a 69% growth in e-commerce between 2019 and 2020, while growth is expected to persist at an average of ~18% p.a.1

On the other hand, the VC MENAP ecosystem to support entrepreneurship is flourishing. The total funding in the region has risen by 2.7x between 2019 and 2020 (Exhibit 9), up by 46% p.a. from 2013 to 2021, with increasing ticket size at a **CAGR of 18% from 2013 to 2021**. Therefore, entrepreneurs and early-stage companies have higher access to capital which can be highly facilitated by enabling the free movement of capital.

Exhibit 9
MENAP VC funding (USD Million)



Furthermore, the growing number of young people entering the labor market over the next two decades, coupled with high unemployment rate and changing skill-set requirements in the job market, present a job creation challenge for MENAP governments, especially with the rising fiscal burden post the COVID-19 pandemic.

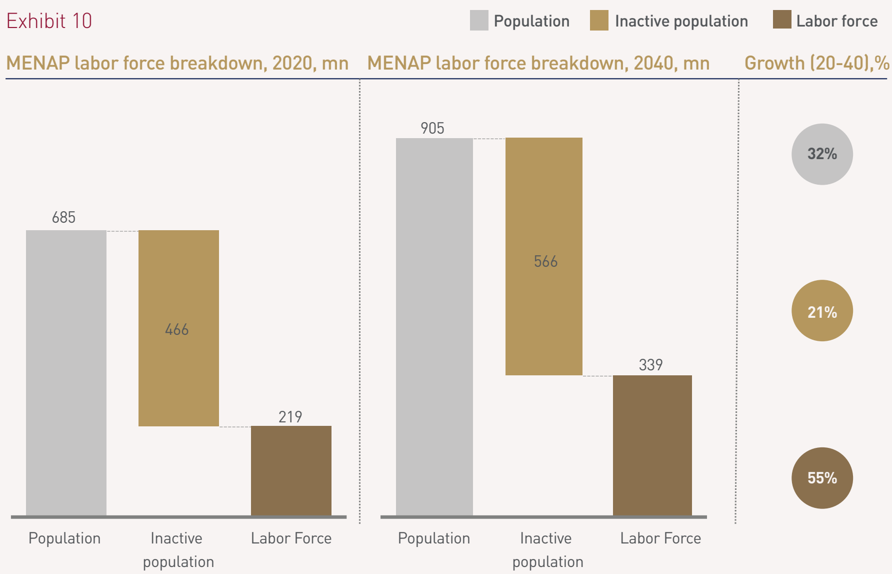
The average unemployment rate for the region's countries amounts to 9.2% compared to a global average of 5.4%. Additionally, **between 2020 and 2040, labor force is expected to grow by 55%,** driven by the growth of population in the working age - while population is increasing by ~32%, the inactive population is growing at a much lower rate of ~21%. At the current labor participation rate, **~120 million young people are set to enter the region's labor market by 2040** (Exhibit 10).

1. SOURCE: Euromonitor
2. SOURCE: Magnitt, Prequin, Pitchbook

Additionally, **changing skill sets required to succeed at work deepens job creation challenges and stresses the need for knowledge sharing and free data flow within the region.** Driven by the emergence of new technologies, a higher share of jobs will require a university degree by 2030, and more work activities will require socio-economical and technological skills.

As a result of trends accelerated by the pandemic, more than half of low-wage workers in declining occupations globally may need to shift to occupations in higher wage brackets that require different skills. **In MENAP countries, nearly 29 million jobs—about 17% of the current total—are at risk of being displaced by 2030 due to automation.**

Exhibit 10



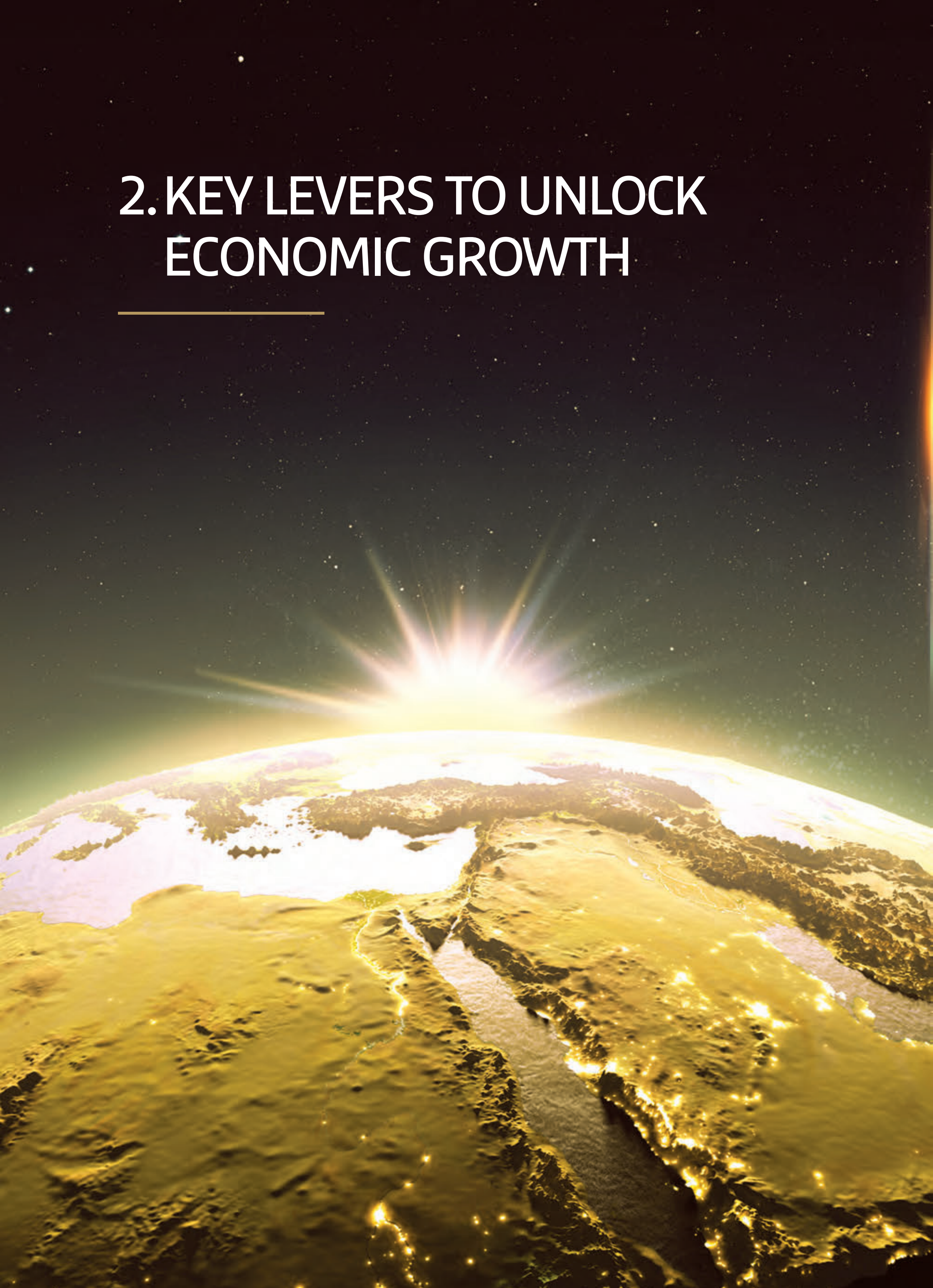
Now more than ever, **it is the time to be bold in the face of these challenges**, instigating a regional reboot that drives **closer integration between MENAP countries**. As tariff and non-tariff barriers to global trade increase, supply chain costs remain high, and supply lines continue to be disrupted. MENAP countries must hedge exposure to global trade partners by cultivating meaningful opportunities closer to home.

The 15 countries mentioned above represent a combined population of ~540 million people, a GDP of more than USD 2.3 Trillion, and 80% of the Arab population[3]. In addition, these countries represent a relatively stable political situation, thereby creating an environment conducive to a private-sector effort towards closer economic integration encompassing the entire MENAP region and potentially beyond.

This report aims to propose a set of strategic priorities and outline an initial aspiration for the region. It showcases how meaningful private sector involvement can lead to meaningful progress in one of the identified focus areas, food security.

1. SOURCE: World bank, McKinsey analysis

2. KEY LEVERS TO UNLOCK ECONOMIC GROWTH



2. Key Levers to Unlock Economic Growth

The development of a thriving private sector - and particularly, at scale multi-national champions, is essential to driving economic growth and shaping the region's future. Indeed, large companies play a powerful role in regional growth by lifting GDP, supporting development of small and medium-size enterprises, enhancing employment opportunities, and encouraging productivity improvements through R&D and asset investments.

Well performing economies have twice as many companies with revenue over USD 500 Mn than most emerging economies, e.g., revenue from large firms equaled 37% of GDP in ASEAN countries, compared with 28% for emerging-economy peers with lower growth levels. Creating an environment that is conducive to private sector development, and thus accelerating economic growth, requires an understanding of the major challenges of doing business at the regional level.

The private sector in MENAP is underdeveloped compared to global benchmarks, with very few companies at critical scale, limiting the attractiveness of markets. Only 1 MENAP company[1] is included in the Forbes Global 500, and the scale of the largest companies of the region is very limited compared to Europe, both in terms of revenues and geographical footprint. Total market capitalization across MENAP is ~10 times lower than that of EU-15 countries (~USD 1,250 Bn vs ~USD 12,000 Bn). (Exhibits 11 and 12).

Increased attractiveness is reflected in the level of foreign investment: while FDIs represent 1.9% of GDP in the EU and 6.3% in ASEAN, they represent 1.5% in the MENAP region (Exhibit 13).

Maturity of capital markets remains limited within the region, signaling that potential for regionally driven growth remains largely untapped (Exhibit 14): e.g., intra-regional goods trade represents ~16% of total MENAP trade, vs. 63% for EU.

While there are multiple ways to unlock untapped economic potential, our current hypothesis is that three levers could lead to the greatest impact in unleashing economic growth in the region, by stimulating inter- and intra-regional trade.

- **Selective Deregulation:** Breaking monopolies/oligopolies in national markets and fostering a healthy level of competition, driving value creation.
- **Free movement of goods & services, capital, people and data.**
- **Common standards:** Beyond open (tariff-free) movement of goods and services, allowing markets to operate under similar rules in order to make it easy for companies to operate in multiple markets without incurring additional "compliance" costs.

1. Saudi Aramco. The list excludes oil and gas SOEs

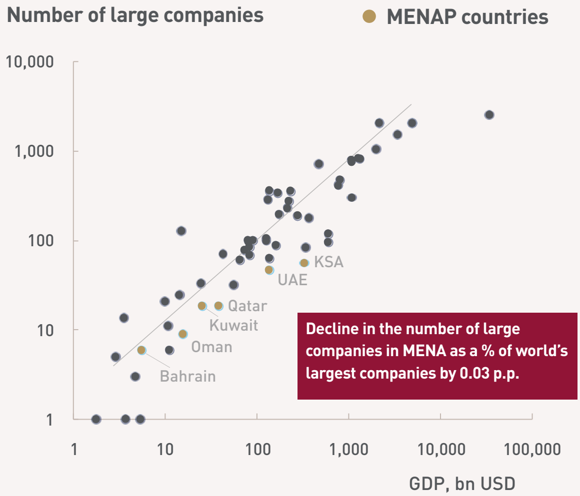
SOURCE: IMF World GDP Data, UN World Population Dataset, Eurostat EU data, UNCTAD World Economic Report, World Bank World Land Area Data

Exhibit 11

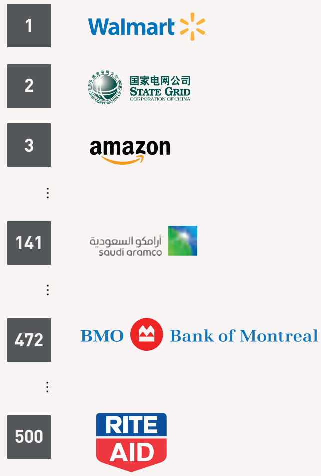
Greater MENA's private sector is underdeveloped compared with global benchmarks

MENAP countries have fewer large companies compared to peers with similar GDP, 2020

Number of companies with > USD 500 mn in revenue vs. GDP



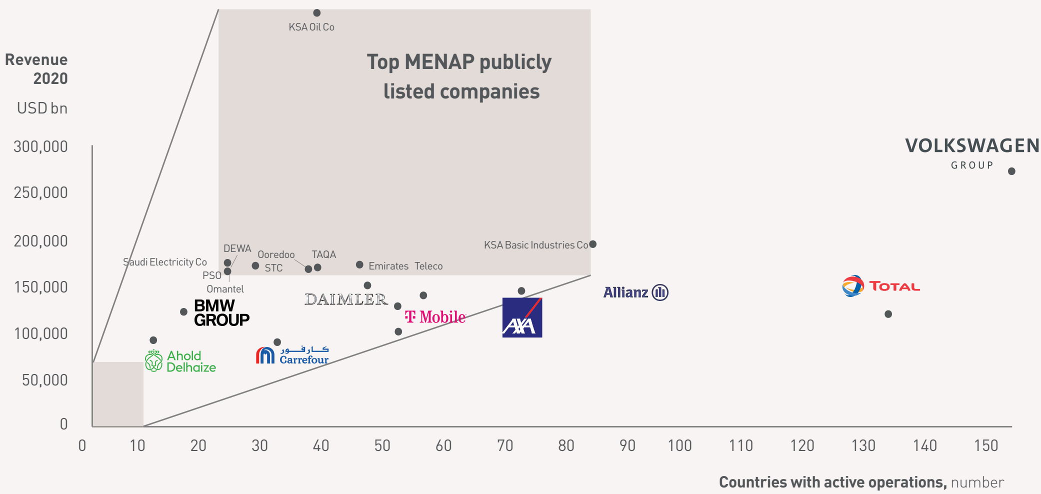
Only one of of MENA companies are on the Forbes Global 500



SOURCE: UN, Forbes list

Exhibit 12

Top 10 largest companies in the MENAP and EU regions demonstrates a big gap in geographical distribution and scale



SOURCE: Company annual reports

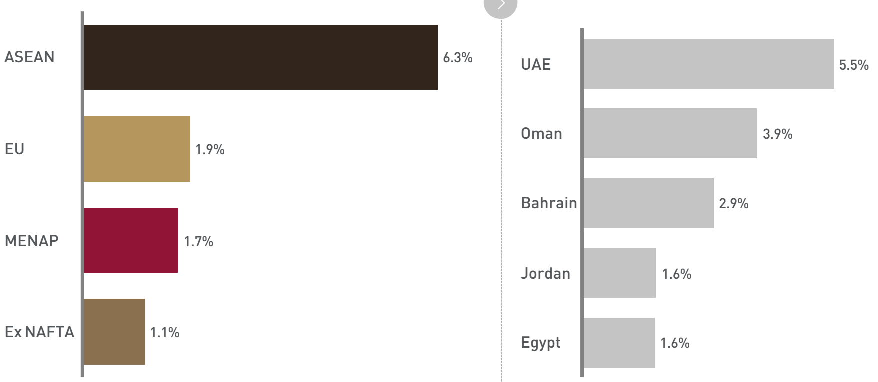
1. Saudi Aramco has announced the acquisition of Saudi Basic Industries Corporation (SABIC) in 2020

Exhibit 13

FDI analysis shows that greater MENAP region is lagging its peers

FDI inflow as a percentage of GDP (2020), %

Top countries in MENAP, FDI inflow as a percentage of GDP (2020), %



Dubai was ranked first globally in attracting FDI projects in 2021 attracting 7 bn USD in FDI up 5.5% from the previous year

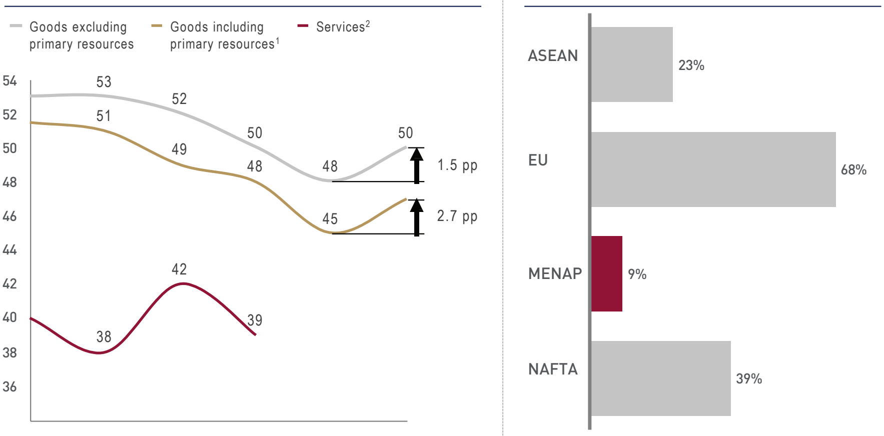
SOURCE: IMF World GDP Data, UNCTAD World Economic Report

Exhibit 14

The intraregional share of global trade for MENAP region is the lowest compared to other regional economic regions

Share of intraregional trade over time
% of trade (imports and exports)

Share of intraregional goods trade by region (including primary resources), 2019[1]
% of trade (imports and exports)



SOURCE: IMF; WTO; OECD, UNCTAD; McKinsey Global Institute analysis

1. Primary resources include mining and quarrying (uranium, thorium ores, metal ores, coal, lignite, crude petroleum, and natural gas), peat, forestry and logging, fishing, agriculture, and hunting.

2. No data since 2012 due to limited availability of bilateral services trade data

2a. Selective deregulation

In general, we observe deregulation has a value-creation effect when put in place in selected sectors. This happens through increased competition in the market as a result of the presence of more players, higher efficiency, lower prices due to competition, resulting in demand and value creation. Many existing regulatory frameworks are designed for traditional products and services and fragmented regionally. Deregulation can reduce burdensome hurdles for entrepreneurs and organizations alike and enable easier regional expansion.

National and regional deregulation measures within Europe in the past decades provide good examples of growth generation and are a good showcase of the active role played by the private sector to drive this transformation. One notable example is the telecoms deregulation initiative, resulting in the reform of telecom regulations, covering topics like net neutrality and data protection. Post-introduction of the telecoms regulatory framework, the number of telecom operators doubled while the industry revenue grew 4% CAGR (from Euro 130 Bn in 2002 to Euro 200 Bn in 2018).

The current regulatory environment in MENAP has created both cross cutting barriers to market entry and a few sector specific barriers.

Although conditions have been improving over the past few years, **cross cutting regulatory barriers to market entry** remain very high in the MENAP region, with restrictive regulation affecting not only the flow of capital and FDI, but also the movement of companies and the ability to launch a business in different markets across the region. **Overall, the "Ease of Doing Business Ranking" shows a meaningful gap between MENAP and other trade regions, with an average ranking of 105 vs. 28 for Ex NAFTA countries, 37 for EU countries, and 83 for ASEAN countries.** The greatest gaps are in dealing with construction permits, getting credit, protecting minority investors, cross border trading, enforcing contracts and resolving insolvency. (Exhibits 15 and 16).

As a result of regulatory barriers to entry, some MENAP markets in **select sectors** are dominated by a limited number of large players, with limited competition. The level of government ownership in transportation and telecom sectors in MENAP, for example, is significantly higher than other sectors. This is visible in Qatar (~80% ownership in telecom sector), Algeria (~100% ownership in transportation sector) and Tunisia (~83% ownership in transportation sector). These sectors currently contribute to ~18% of the MENAP non-energy sector GDP (Exhibit 17).

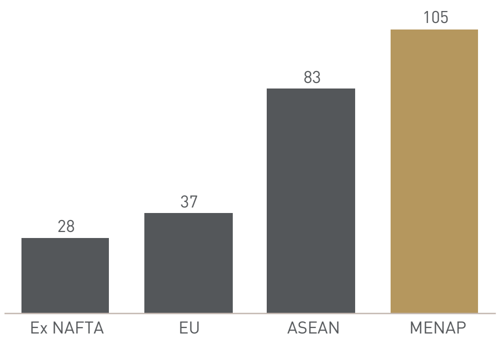
Sectors and initiatives should be prioritized and phased over time, starting with those with the highest potential for growth in the short term. This may be determined through evaluating the size of sectors, their estimated future growth, level of government ownership and the potential upside from selective deregulation. Transportation, agriculture, manufacturing and financial services would potentially witness the greatest benefits, together with other smaller sectors such as telecom and food & beverages. (Exhibit 18).

SOURCE: FORBES Report on Top 500 companies in Africa, ASIA and Middle East, Individual Company Profiles, MENAP countries ministries websites, press search, World Bank Report 2019

Exhibit 15

Global 'ease of doing business' ranking shows that MENAP is lagging behind compared to other economic regions

Ease of doing business[1] ranking, #



SOURCE: World Bank Doing Business 2020 report

Key insights

MENAP is performing worse than other regions in 6 out of 10 metrices.

- Dealing with construction permits.
- Getting credit
- Protecting minority investors.
- Cross border trading.
- Enforcing contracts.
- Resolving insolvency.

The **EU** is performing **better than other regions** in **Registering property, Paying taxes and Cross-border trading** (linked to Single Market).

Exhibit 16

MENAP is performing lower than other economic regions in 6 out of 10 ease of doing business matrices

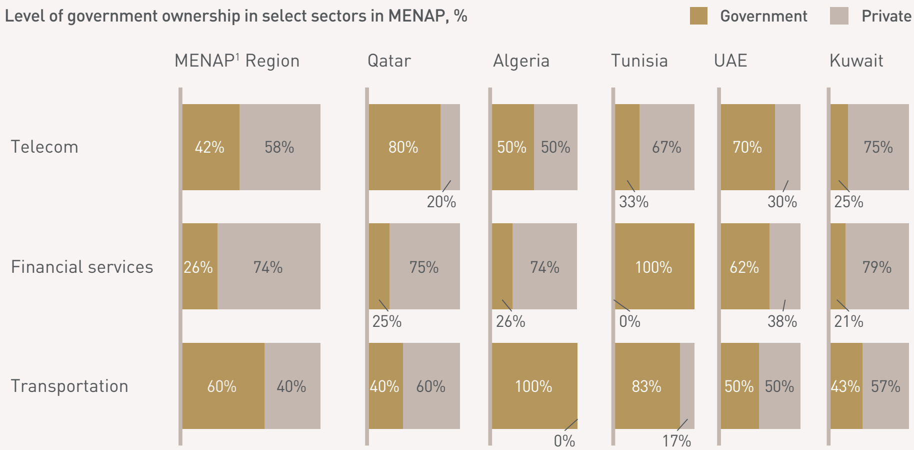
Region	Starting a business	Dealing with construction permits	Getting electricity	Registering property	Getting credit	Protecting minority investors	Paying taxes	Trading across borders	Enforcing contracts	Resolving insolvency	Overall rank
Ex NAFTA	50	61	91	58	8	44	57	51	52	16	28
EU	65	63	52	54	71	55	45	14	48	35	37
ASEAN	110	72	59	88	64	81	98	98	103	80	83
MENAP	103	91	87	85	123	95	81	123	105	112	105

SOURCE: World Bank Doing Business 2020 report

Ease of doing business ranking consists of ranking on the following dimensions:- Starting a business, dealing with construction permits, getting electricity registering property, getting credit, protecting minority investors, paying taxes, cross border trading, enforcing contracts and resolving insolvencies .The indicator was discontinued to be revised yet used as an indicative measure for analysis

Exhibit 17

In MENAP, level of government ownership in Transportation and Telecom sectors is significantly higher compared to other sectors

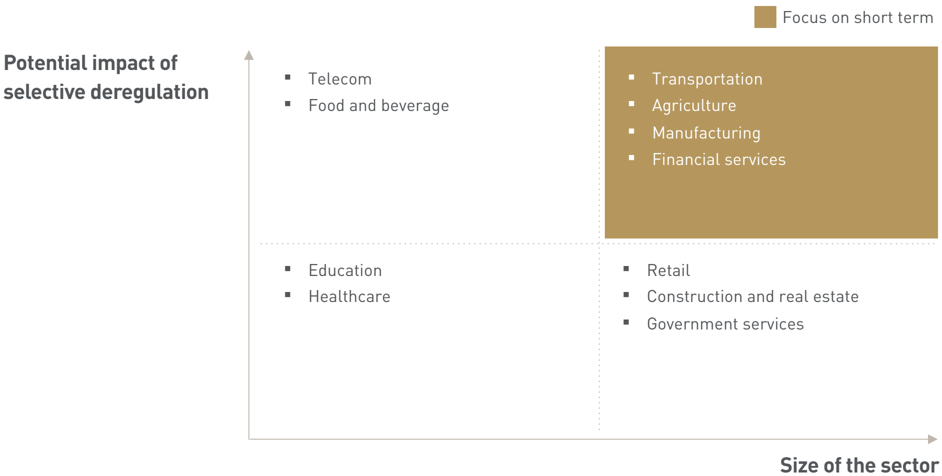


SOURCE: FORBES Report on Top 500 companies in Africa, ASIA and Middle East, Individual Company Profiles, MENAP countries ministries websites, press search

Based on sector analysis done for 11/15 MENAP countries based on data availability:- Qatar, Morocco, Algeria, Tunisia, UAE, KSA, Bahrain, Jordan, Kuwait, Pakistan and Egypt

Exhibit 18

Sectors that could potentially be most impacted by selective deregulation measures in the region are agriculture, manufacturing and financial services



SOURCE: Expert interviews

2b. Free movement of goods and services, capital, people, and data

Free movements of resources – i.e., goods & services, capital, people, and data - allow for frictionless trade and economic activity at the regional level and are at the core of regional agreements with different degrees of liberalization. The most advanced example is the EU, with free movement across the board for goods & services (esp. elimination of tariff and non-tariff barriers, liberalization of service trade), capital (esp. liberalization of foreign investment and common currency), and people (Schengen agreements with free people movements within the zone and common visa). This frictionless trade is a key enabler of economic growth. The European Commission estimates that the economic benefits amount to about 8.5% of EU's GDP (Exhibit 19).

In the EU, the private sector played a key role in making this change happen, with the advocacy of ERT openly arguing for the free movement model, for a single currency (during the Maastricht Treaty discussions), publishing a 5-year plan to eliminate trade barriers (in 1985), etc.

In MENAP, these freedoms remain a key challenge: business leaders identified "ease of moving capital" and "access to free flow of people" among top 3 barriers to business expansion in the region (67% of respondents in GCC)4 (Exhibit 20).

Exhibit 19

Case examples of implementation of policies for Free movement of resource in other economic regions

		Eurozone[1]	ASEAN[2]	Ex NAFTA[3]
Good & services	Elimination of tariffs	🟢	🟢	🟢
	Elimination of non-tariff barriers	🟢	🟡	🔴
	Common tariffs with other countries	🟢	🔴	🔴
	Liberalization of service trade	🟡	🟡	🟢
	Mutual recognition of standards	🟢	🟡	🟢
	Trade facilitation	🟢	🟡	🟢
	Intellectual property	🟢	🟡	🔴
	Government procurement	🟢	🔴	🔴
	Competition policy	🟢	🟡	🟡
Capital	Liberalization of foreign investment	🟢	🟡	🔴
	Common currency	🟢	🔴	🔴
Labor	Free movement of people	🟢	🔴	🔴

🟢 Already realized (or significant progress toward realization) 🟡 Targeting but not sufficient realization 🔴 Not targeting (to any meaningful extent)

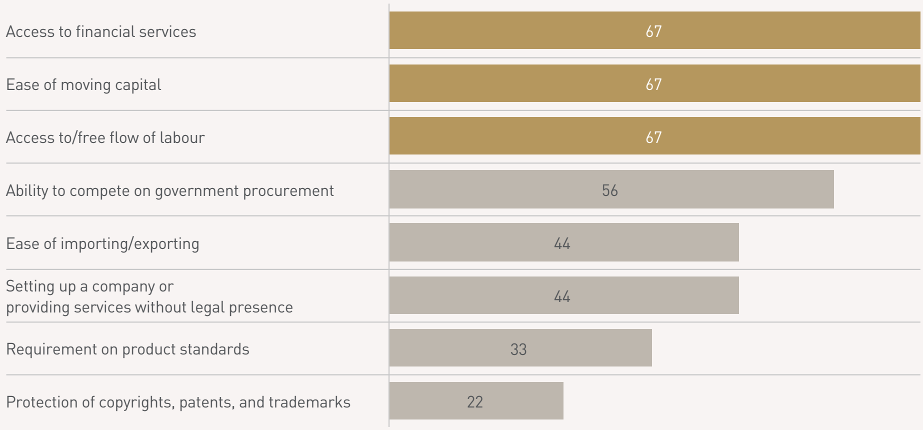
1 Refers to the monetary union created in 1999. Currently includes Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia, and Spain. A further 9 member countries are in the European Union but do not have the common currency.
2 ASEAN comprises the 10 ASEAN countries: Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam.
3 Ex NAFTA comprises of three countries: Canada, Mexico, and the United States
4 SG business survey, 2018).

SOURCE: Japan External Trade Organization; International Trade Administration, US Department of Commerce; McKinsey Global Institute analysis

Exhibit 20

Free flow of labor & capital and access to financial services are identified as the most significant challenges faced by business in GCC

Most significant challenges facing businesses expanding in the GCC % of respondents, N=36



SOURCE: McKinsey 5G Survey, 2018 - analysis based on the GCC

Movement Of Goods And Services

In MENAP, although significant progress has been made with the GAFTA agreement including all countries except Pakistan, current barriers to free movement of goods & services remain a significant obstacle to regional economic growth. Although average tariffs in the region have been reduced and are converging to global levels, they remain high to date, with a broad range across countries and products. Trade costs (incl. costs related to transportation, time delays, border controls etc.) represent 20% to 40% of the final delivered price for MENAP's non-oil exports. Additionally, non-tariff barriers (e.g., burdensome technical regulations, import authorization procedures, cumbersome customs clearance and border controls) are obstacles to both regional and global integration. This is indicated by the overall low ranking of the MENAP region across all dimensions related to trade facilitation (e.g., information availability, trade community involvement, internal border agency cooperation, automation, etc.), compared to other regions and developed countries (Exhibit 21). Trade flows even within the region remain limited (intra-regional trade represents ~16% of total MENAP trade, vs. 63% for EU) (Exhibit 22).

The economic impact of the free movement of goods and services (by removing tariff and non-tariff barriers) as well as adoption of common standards in MENAP, is estimated at USD 131 Bn in GDP annually. Most of this value can be delivered by the removal of non-tariff barriers (USD 124 Bn), through addressing all measures that lead to increased trade costs currently (e.g., quotas, licensing, customs regulations, etc.)[1] (Exhibit 23).

From a sector point of view, the highest potential for growth lies in Financial Services, Capital goods & services and Construction. From a country point of view, the highest potential lies in Saudi Arabia and Egypt. To begin with, liberalization of flows can be focused on these select sectors and trade routes in the short term, expanding later to other countries and sectors.

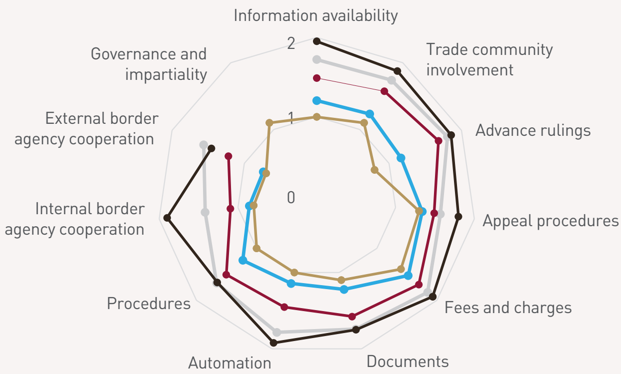
To enable free movement of goods and services, the following actions could be prioritized: Introduction of pre-arrival processing scheme for both import and export of goods, reduction of overall complexity and magnitude of documentation required for import/export clearance checks for intraregional trade, and modernization of transportation regulations and infrastructure towards reducing cost of movement.

1 Assuming 2/3 of actionable barriers are removed through a revised and harmonized regulatory framework for the region

Exhibit 21

MENAP region performs lower than other regions in terms of trade facilitation compared to other regions and developed countries

Trade Facilitation Indicator1,



Key insights

- Higher TFI scores seen by MENAP across all dimensions compared to 2017.
- Improvements are mainly driven by procedures and automation dimensions with consistent efforts to align the legal framework in MENAP to the global framework.

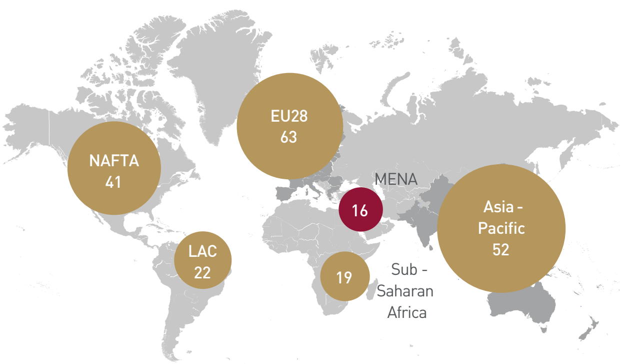
ENA 2019
OECD
EU and Central America
US
MENAP 2017

1 The TFIs take values from 0 to 2, where 2 represents the best performance that can be achieved.

Source: OECD TFI indicator worldwide ranking

Exhibit 22

Intraregional trade comparison across region shows MENAP is lagging other economic regions



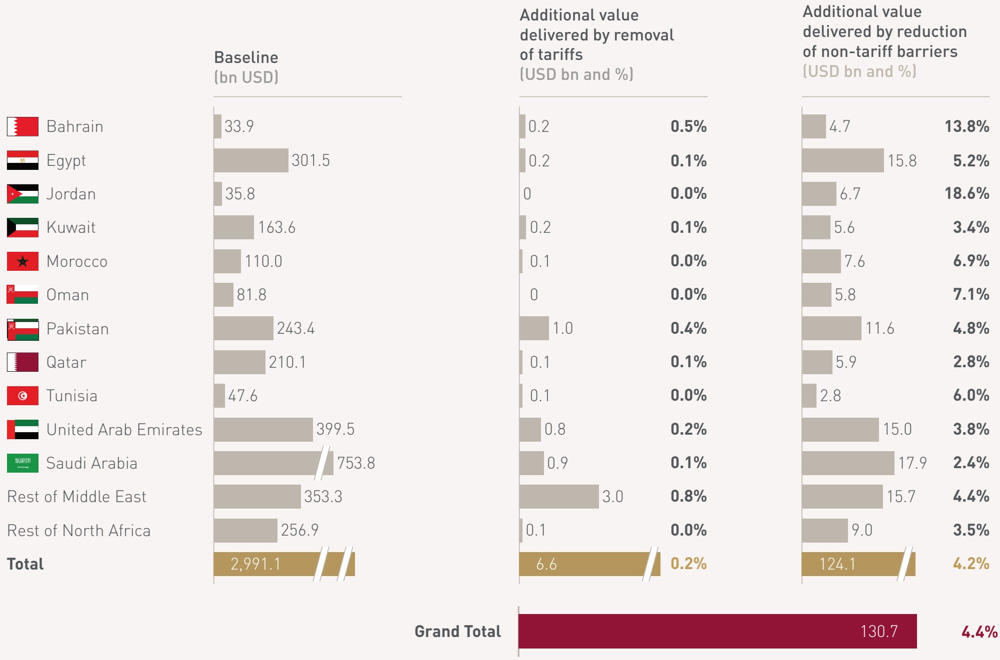
Key insights

- While Intraregional trade has seen major growth across all regions compared to 2017, MENAP has not experienced much progress.
- Major growth was witnessed by Asia-Pacific intraregional trade with 7 p.p. increase compared to 2017 as COVID-19 catalysed trade integration between the region's countries.

SOURCE: McKinsey Global Institute (MGI) Analysis

Exhibit 23

Overview of impact of removal of tariffs and non-tariff barriers



Source: OECD TFI indicator worldwide ranking

Movement Of Capital

Even if the overall picture is slowly starting to change in the GCC these past few years, there is a **significant restriction on FDI in the MENAP region, which is amongst the lowest performing regions in terms of "ease of access to capital"** (ranked 123rd globally vs. Ex NAFTA (8), ASEAN (64) and EU (71)) in 2019[1].

Factors inhibiting FDI in the region are operational restrictions (e.g., restrictions on capital repatriation or land ownership), foreign ownership caps (e.g., 49% maximum foreign ownership in Algeria), and screening or approval mechanisms (e.g. prohibition of FDIs in 14 sectors in UAE) As of 2017, intra-regional FDI as a percentage of total FDI represents only ~40% for MENAP, far behind the EU and ASEAN regions performances in this metric (~70% and ~50% respectively). (Exhibits 24 and 25)

1 SOURCE: The World bank

The UAE, however, has made remarkable progress on this front since 2020, removing multiple barriers to FDI. Recently the country raised foreign equity ownership in local companies from 49% to 100%. Additionally, the country has become number one globally in its ability to attract FDI as a % of GDP, attracting 7 bn USD of FDI projects in 2021.

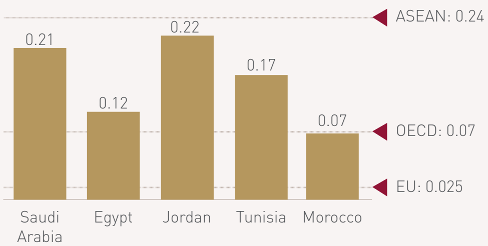
The economic impact of free movement of capital is estimated at ~USD 100 bn (3.4% of GDP) of additional FDI, assuming MENAP aligns to the ASEAN benchmark of 4.9% of GDP vs. 1.6% today, reaching USD 144 bn vs. 47 bn USD today. This is based on the performance of selected countries in the region with historically restrictive regimes related to free movement of resources and compatible levels of development.

To enable free movement of capital, the following actions could be prioritized: Removing blanket bans on majority foreign ownership across the region, relaxing screening requirements for foreign investment in critical sectors (e.g., energy, and diversifying financial instrument offerings for local and regional investors and improving their access to capital, thereby increasing their regional/global competitiveness.

Exhibit 24

Comparison of FDI restrictiveness index for members of the larger MENAP region against peers from OECD & EU countries

Total FDI restrictiveness index [1,2], all restriction types [3]



SOURCE: OECD, 2020

Key insights

- **Saudi Arabia** imposes the **most restrictions on FDIs,** their **index is over double the overall average** of the listed regions.
- **Morocco** imposes the **fewest FDI restrictions** overall among the listed Arab regions.
- The **EU** is the **one of the world's most open regions in terms of facilitating FDIs,** in line with their high ranking (globally) in cross-border trading.

• Scale: 0 to 1

• Countries and regions included are based on availability of data

• OECD uses 4 types of FDI restrictions:

(1) Foreign equity restrictions (3) Restrictions on foreign personnel

(2) Discriminatory screening (4) Operational restrictions

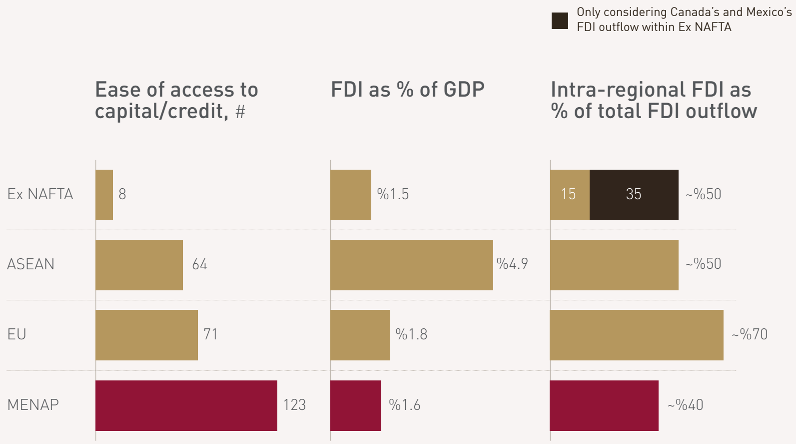
• Excluding Bulgaria, Croatia, Cyprus & Malta

• Excluding Singapore, Thailand & Brunei

1 SOURCE: The World bank

Exhibit 25

MENAP lagged behind other regions in ease of access to capital and overall FDI measures



SOURCE: World Bank Ease of Doing Business Ranking Report, IMF, EuroStat EU data

Movement Of People

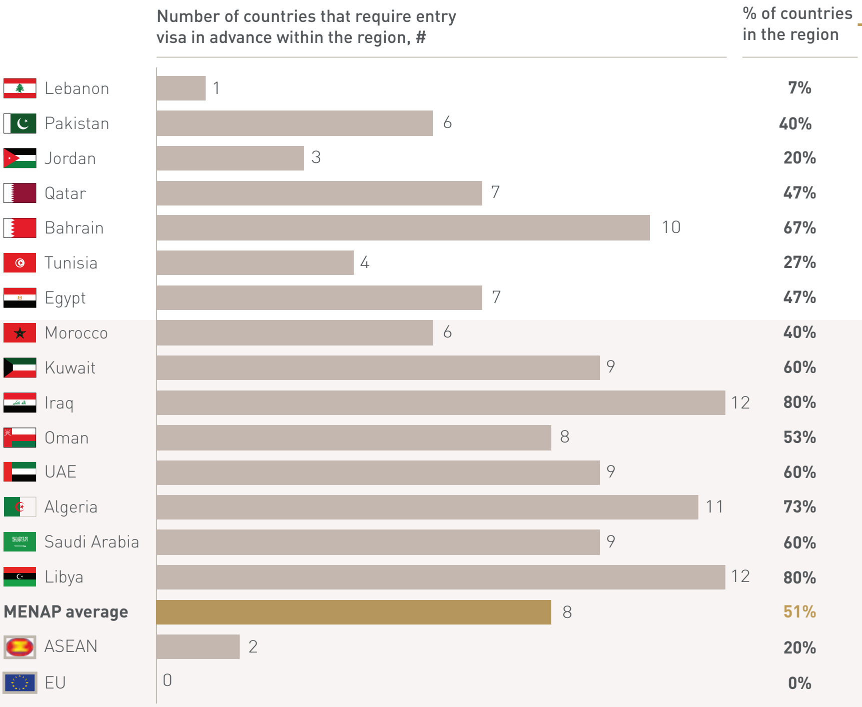
The free movement of people is a key element to unlock economic potential, delivering direct economic and social impact in terms of both employment as well as growth. The European Commission estimated that extending free-movement rights to Eastern Europe in 2004 and 2007 increased the overall GDP of the older member countries by almost 1%. Based on OECD, the free movement of people has lowered the average unemployment rate across Europe by 6%.

In MENAP, free movement of people remains limited with highly controlled entry, requiring visas for numerous nationalities. Most countries of the region grant visa-free rights to a very limited number of countries, with variable levels of complexity and length of the visa procedure (Exhibits 26 and 27).

To enable free movement of people, the following actions could be prioritized: Evaluation of the existing regulations on foreign employment such as national quotas in certain sectors and reduction of complexity and magnitude of documentation required for high skilled labor visa applications.

Exhibit 26

Nationalities of 51% MENAP countries will require visa in advance to travel within the region

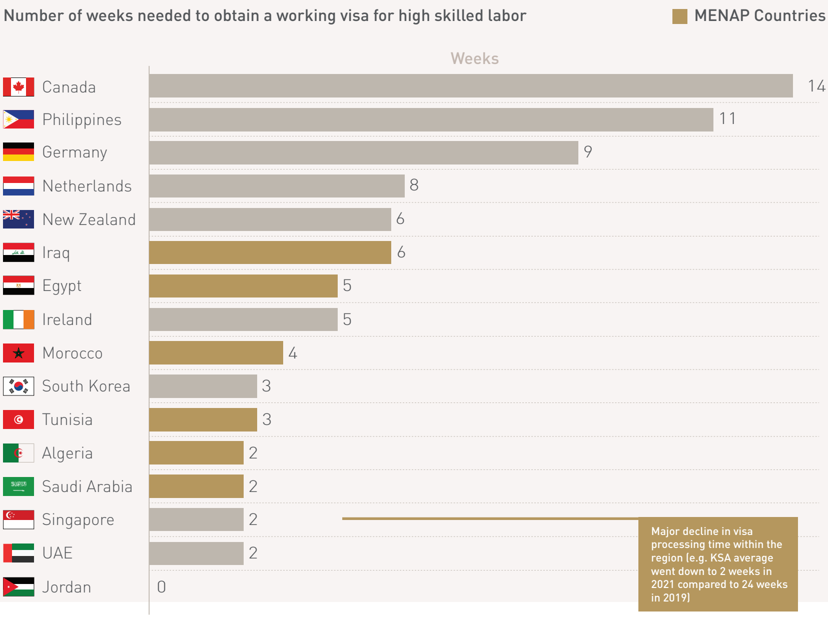


Higher restrictions imposed by MENAP countries with more nationalities requiring entry visa within the region as average increased from 6 to 8 countries in 2021 vs. 2019

SOURCE: McKinsey Global Institute (2016), Digital Globalization: The New Era of Global Flows

Exhibit 27

Number of weeks needed to obtain a working visa for high skilled labor



SOURCE: World Bank Employing Skilled Employees, Embassy and Consulates Websites, Press Search

Movement Of Data

As the world is experiencing unprecedented increases in connectivity, global data flows are increasingly important, with data protection now bearing a direct relation to trade of goods and services in the digital economy. Digital flows which were practically non-existent just 15 years ago, now have a greater impact on GDP growth than the centuries-old trade in goods; the international dimension of flows is estimated to have increased global GDP by approximately 10 percent, equivalent to a value of USD 7.8 Trillion in 2014; data flows represent an estimated USD 2.8 Trillion of this added value. As a consequence, regulatory frameworks are being put in place for this new economy to operate in.

The EU put in place General Data Protection Regulation (GDPR) in May 2018, which not only applies to organizations located within the EU but also applies outside of the EU if they offer goods or services to, or monitor the behavior of EU data subjects. GDPR has replaced the1995 Data Protection Directive and is intended to protect individuals' right to privacy in a modern world. This regulation has a major impact on businesses, increasing reputational risk and requiring preparation resulting in higher compliance costs (9% of US businesses plan to spend USD 10+ Mn).

In MENAP, countries have individually enacted laws to ensure compliance with GDPR, but no regulation framework is yet in place for data flows in the region. Countries like Bahrain, Qatar, UAE (Free Zones), and Algeria are already advanced in aligning their data regulations with GDPR. Lebanon, Saudi Arabia, Morocco, and Tunisia are following in the same footsteps. However, the region as a whole lacks a unifying data framework addressing the movement of data within the region (Exhibit 28).

In the face of increasing demand for data regulation, two areas need to be addressed promptly: collaboration to improve data maturity and data sharing across the region and engagement of critical decision-makers around future data policies in the region.

Exhibit 28

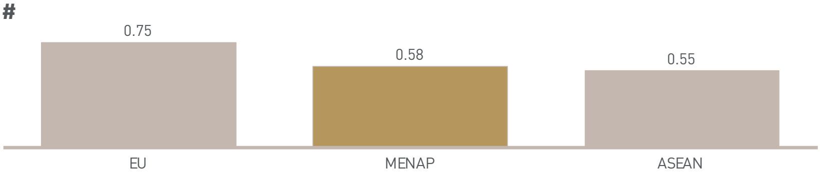
MENAP countries do not have an aligned framework for data flow regulation

Present/fully aligned · Partially present/partially aligned · Not present/no alignment

Countries	Does a data regulation exist?	Is the country moving towards alignment to GDPR?
Bahrain	Present/fully aligned	Present/fully aligned
Egypt	Not present/no alignment	Not present/no alignment
Jordan	Not present/no alignment	Not present/no alignment
Kuwait	Present/fully aligned	Not present/no alignment
Lebanon	Present/fully aligned	Partially present/partially aligned
Oman	Not present/no alignment	Not present/no alignment
Qatar	Present/fully aligned	Present/fully aligned
Saudi Arabia	Present/fully aligned	Partially present/partially aligned
Morocco	Present/fully aligned	Partially present/partially aligned
UAE	Not present/no alignment	Not present/no alignment
UAE free zones	Present/fully aligned	Present/fully aligned
Pakistan	Not present/no alignment	Not present/no alignment
Algeria	Present/fully aligned	Present/fully aligned
Libya	Not present/no alignment	Not present/no alignment
Tunisia	Present/fully aligned	Partially present/partially aligned

Major efforts in the region to align frameworks for data regulations to GDPR

Digital adoption index[1]
#



1. Digital Adoption Index, ranked on a 0-1 scale with 0 indicating minimal digital adoption and 1 indicating maximal digital adoption

SOURCE: GSMA, 2019: Data Privacy Frameworks in MENA Emerging approaches and common principles

2c. Common standards and norms

Standards help remove technical barriers to trade, unleashing economic growth. They consist of documented consensus agreements containing safety or technical specifications or other precise criteria to be used consistently as rules, guidelines, or definitions of characteristics for materials, products, processes, and services. In many cases, they provide uniformity which allows worldwide or regional acceptance and application of a product or material.

Main trade areas have set standards and norms as key supporting measures toward liberalization of the economy, with the EU as the most advanced benchmark. The EU's standards cover education and professional certificates (equivalence system), telecom and digital landscape (e.g., no roaming charges), harmonization of customs law (unique tariff framework), food quality, manufacturing products, financial services (e.g., interest rate and cash holding requirements set by the ECB), transportation (e.g., railway and bus safety), healthcare (e.g., medical devices regulations) (Exhibit 29).

In all regions, the private sector has played an active role in the process of establishing these common standards. In the EU, the ERT publishes papers with recommendations for European standard-setting bodies and public authorities on harmonizing standards (e.g., certification scheme of waste containing metals, near field communications standards (telecommunications). It shares its views through press releases on current stage of standards and advises on how to improve them further.

The economic impact of common standards is estimated as part of the free movement of goods and services to be USD 124 Bn of additional GDP (+4,2%) by playing the role of key enabler to freedom of movement (removal) non-tariff barriers) and to facilitate trade.

To take a specific case of impact from common standards, unification of food safety in ASEAN demonstrates the impact specifically tied to this type of measure. The ASEAN Food Safety Policy adoption in 2015 helped accelerate intra- and extra-ASEAN food imports and exports. Comparing trade intensity before and after this standardization, we observe a clear acceleration of intra- and extra- ASEAN food trade (CAGR respectively 6% vs. -1% previously, and 7% vs. 0% previously). This was reinforced in April 2018, when ASEAN countries agreed to standardized inspection and certification standards for food hygiene to remove technical barriers to trade and protect consumers' health (Exhibit 30).

In MENAP, no regional standard is in place for any of the sectors. Near-term priority should be to harmonize manufacturing, retail, agricultural, financial services, and telecom standards as these are large economic sectors with significant integration potential. While these sectors jointly represent 37.9% of current regional GDP, their share is projected to drop to 36.0% by 2030. Slow-growth outlooks for telecom and agriculture would be particularly boosted by cross-border initiatives on uniform products such as cellular coverage and food commodities. For instance, while GAFTA provides a framework for regional cooperation on food provision, misalignment on food safety and nutritional information guidelines continues to stymie intra-regional trade. (Exhibit 31).

To unlock potential in these priority areas, several ideas can be set in motion: harmonize regional food safety guidelines, establish joint regional data protection strategy for telecoms, create a financial services regulatory commission and, finally, align manufacturing safety guidelines.

Common standards and free flow of capital, goods, and services can help unlock ~USD 230 bn in GDP as described in the previous chapter. However, the value at stake in MENAP is much higher than that. To give an idea of the magnitude of the opportunity, it is crucial to understand that while 8.5% of the world's population lives in the MENAP region, it only accounts for 3.4% of global GDP. An **incremental USD 2.5 tn would need to be generated for the region to produce its fair share of GDP.**

As proven by more mature economic regions, such as the EU, most of the value coming from integration is typically unlocked by creating a 'healthy' level of competition among countries and territories, hence stimulating (de)regulation at a national or local level and an 'exchange of ideas,' where development is accelerated through emulation and cross-pollination of best practices.

Exhibit 29

Overview of existing standardisation initiatives in MENAP region

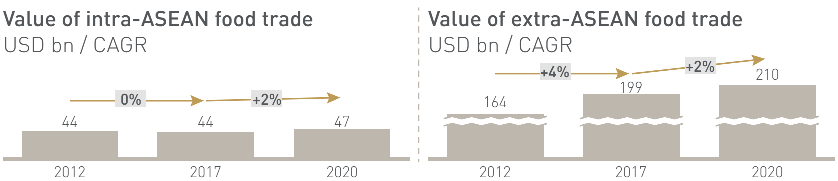
● Present across region ● Present for selected countries in the region ● Not present

Largest sectors in MENAP[1]	Do common standards exist in MENAP region?	Do common standards exist in other economic regions? ASEAN	EU
Construction and real estate	Not present	Not present	Present across region
Agriculture	Not present	Present for selected countries in the region	Present across region
Transportation	Not present	Not present	Present across region
Financial services	Not present	Present for selected countries in the region	Present for selected countries in the region
Telecom & digital	Not present	Present for selected countries in the region	Present across region
Food & beverage	Not present	Present across region	Present across region
Education	Present for selected countries in the region	Present across region	Present across region
Healthcare	Not present	Present for selected countries in the region	Present across region

Source: International Telecommunication Union, UN FAO, 2013, Assessing the Impacts of the GAFTA Agreement on Selected Members' bilateral Agricultural Trade report

Exhibit 28

Adoption of the ASEAN Food Safety Policy in 2015 helped accelerate intra- and extra-ASEAN food imports and exports

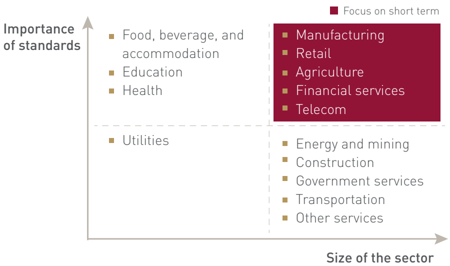


- The **ASEAN Food & Beverage Alliance** was created in 2013.
- The **adoption of the ASEAN Food Safety Policy in 2015** helped accelerate intra- and extra-ASEAN food imports and exports.
- In April 2018, ASEAN countries agreed to **standardized inspection and certification standards for food hygiene to remove technical barriers to trade** and protect health of consumers.
- In their blueprint, the ASEAN Economic Community listed priority areas for food agriculture, including **strengthening food security and facilitating trade in agriculture products.**

SOURCE: ASEAN Secretariat, ASEAN Statistical Yearbook

Exhibit 30

Priority sectors for standardization in MENAP are Manufacturing, Retail, Agriculture, Financial Services, and Telecommunications



- In **manufacturing** and **retail,** misaligned production safety and packaging regulations inhibit scaling among domestic companies.
- In **agriculture,** misaligned food safety regulations hamper free movement of goods mandated by GAFTA.
- In **Financial Services,** outdated banking regulations and limited stock market privatisation, have held back private capital investment.
- In **Telecommunications,** government TSP monopolies continue to curb consumer and investor confidence regionally.

SOURCE: UNCTAD (United Nations Conference on Trade and Development), IMF (International Monetary Fund)

3. THOUGHT STARTERS ON POTENTIAL PRIORITY INITIATIVES

3. Thought Starters On Potential Priority Initiatives

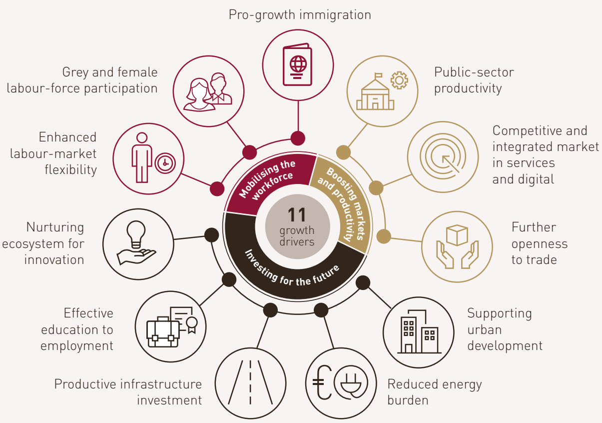
To unlock the economic potential from increased market integration, MENAP countries would need to work on two levels to remove the barriers across the identified three pillars (deregulation, free movement, and common standards). Governments can execute **country-level initiatives** to remove barriers in the local economy, or they can work with other regional governments to take **multilateral interventions** that eliminate cross-country restrictions.

Regional integration from other blocks shows that **majority of barriers can be removed at the country level.** For instance, **a McKinsey Global Institute report** estimates that **75% of EU growth can be achieved through national efforts and 25% by cross-cutting initiatives** (Exhibit 32). In the case of MENAP, the impact of cross-country initiatives is likely to be higher given the lower starting base in terms of the level of integration. Nevertheless, the benchmarking clearly shows that governments can start unlocking potential through country-level initiatives.

In addition, **the absence of regional bodies** (public or private) in MENAP makes it even more challenging to pursue cross-cutting initiatives, providing another argument to tackle barriers at a national level but with regional impact.

Exhibit 31

EU example: studies estimate that 75% of growth can be achieved through national efforts, and 25% by cross-cutting initiatives



Increasing competitiveness

Implementing best practice in three key areas can deliver growth aspirations

75% Growth

can be achieved by national governments

SOURCE: McKinsey Global Institute (2015), A window of opportunity for Europe

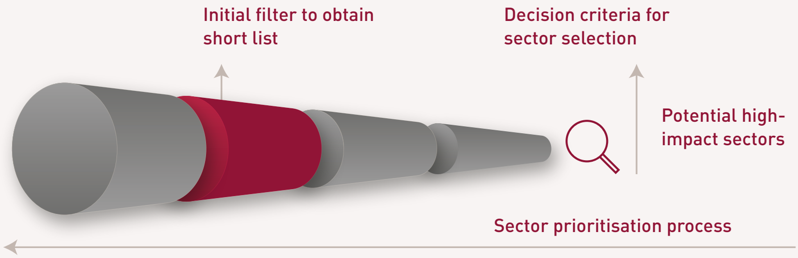
While each MENAP country would need to conduct thorough diagnostics to prioritize initiatives, this document shares a perspective on **potential priority sectors for 5 MENAP countries** i.e. **UAE, KSA, Pakistan, Morocco and Egypt.** In addition, we would also look at cross-cutting initiatives (i.e. with no sector or country specific focus) launched by other regions, that can serve as a **thought starter for MENAP.**

3a. Country And Sector Specific Opportunities

As the diagnostic found that barriers are prevalent across most sectors across the MENAP region, fixing them necessitates prioritization so that governments can deliver on this. This report does not give a definitive answer on the priority sectors in each country. However, it offers a perspective on looking at sector prioritization through 5 country case examples. A two-step approach has been followed (Exhibit 33).

Exhibit 32

Two main steps are followed to prioritize sectors for our five selected MENAP countries



Filter outliers	Identify priority sectors

• **Exclude sectors** that are either **not possible to liberalize** (e.g. government services) or **commonly restricted** at a global level (e.g. utilities).	• **Rank** sectors according to **restriction levels, market size** and **growth.**
	• Inform ranking with additional qualitative information.
	  • **Review reports** on **trade, investment and operational barriers** (e.g. WTO Policy Review).
	  • **Conduct expert interviews.**
	• **Form an initial hypothesis** for sectors with highest economic potential considering both quantitative and qualitative analysis

SOURCE: McKinsey

The quantitative analysis was based on a ranking of sectors according to 3 parameters.

1. Market size: Domestic value added by sector in 2018 from IHS Markit normalized into an index from 0 to 100.

2. Growth Potential: Growth Potential Index analysis of the expected future growth rate of each sector from IHS Markit, based on the average MENAP value-added between 2018 and 2023.

3. Restriction level: To calculate the 'restriction level' related to free movement of goods, services, and capital, three indicators were used that provided depth of information across the five countries and most sectors:

- Non-tariff barriers1

- FDI restriction index, and

- Foreign ownership restriction index.

We then normalized each indicator from 0 to 100, based on scores attributed to every country across MENAP, EU, and ASEAN. We finally assigned a score to each county based on the average of the three indicators. Sectors ranking above the 60th percentile represented higher restriction levels than peers, while sectors below the 25th percentile were considered relatively liberalized.

Non-tariff barriers (NTBs) are trade barriers other than tariffs such as licenses, product labelling or unjustified Sanitary and Phyto-sanitary (SPS) conditions. The difficulty to measure NTBs poses a challenge to quantify such trade barriers. Academic literature has commonly estimated NTBs in form of ad-valorem equivalent tariffs expressed as a percentage of the trade valueof the specific good or service. For manufacturing and agriculture goods UNESCAP data has been leverage, while services NTBs were used from GTAP, an open-source model and database developed by scholars at Purdue University. Information on FDI restriction were used from the OECD and the World Bank "Investing Across Borders" initiative.

For each of the five largest MENAP countries, three potential priority sectors were identified based on the analysis:

- **UAE:** Financial services, Wholesale & Retail, and Telecommunication represent relatively large and fast-growing sectors that present an opportunity given recently relaxed foreign ownership restrictions and operational barriers (e.g., removal of exclusive distribution rights for GCC agencies in retail).
- **KSA:** Financial services, Agriculture/Food production, and Air travel showcase foreign equity restrictions (e.g., 60% for financial services) and highly restrictive import/export regulations (e.g., food products).
- **Morocco** represents a relatively more liberalized MENAP country that could benefit from larger regional collaboration in **Business services and Automotive,** as well as loosening restrictions on ownership rights in the **Transport & Logistics** sector.
- **Pakistan** could unlock high economic potential through further market opening in **Financial Services, Wholesale & Retail, and Agriculture.** These are sectors that are large and/or are growing at a fast pace and present high entry barriers for foreign companies to operate in the sectors (e.g., foreign equity of 49% in agriculture).
- **Egypt:** Priority sectors include **Wholesale & Retail, Financial Services, and Agriculture,** where foreign firms struggle with investment regulations and standards (e.g., Egypt has not adopted many international standards for animal-based products).

In summary, there are **similarities in terms of priority sectors** identified as well as the restrictions that foreign companies commonly face in the MENAP region. **Financial Services, Wholesale & Retail, as well as Agriculture/Food processing,** represent sectors that could benefit from regional market opening as they are large, fast-growing, and highly restricted in terms of regulations and standards.

These restrictions also share similarities across the MENAP region. For instance,

- **Foreign equity limits** are common practice, mainly imposing a cap of 49%, but in some sectors even lower, including limitations to operate in specific sectors (e.g., transport and logistics in Morocco).
- **Large presence of SOEs** in the region and **monopolistic or duopolistic** market powers impose additional entry barriers for both private local and foreign firms.
- **Non-tariff barriers** such as product labeling, technical and sanity requirements for food products, and a lack of common and/or international standards impede that products can be sold in variety, cost-efficiently, and in a timely manner across borders.

Deep-dive: the food security imperative

Global food supply chains increasingly have to contend with a conjunction of challenges: growing global population, higher disposable incomes, supply chain disruptions, and water scarcity, all of which have led to volatile commodity prices and dire consequences for our planet, including CO2 emissions and soil degradation.

Within this context, **food security represents a burning platform** through which to design, pilot, and refine **initiatives to drive greater economic cooperation in MENAP, which can then be expanded in scope to other sectors** while maximizing impact in an area which is becoming increasingly important for the region and beyond.

The MENAP region currently relies heavily on food imports. Egypt is the world's largest importer of wheat – 10% of global wheat imports – and the UAE imports 80-90% of the food it consumes. Furthermore, the region lags the world average on stock to the consumption ratio, 18%, vs. a global average of 27% (Exhibit 34). The COVID-19 pandemic and current conflict in Ukraine – the source of 25% of Egypt's wheat imports – have **brought the systemic risk of such a model into sharp focus, given that only 15% of MENAP's food imports originate from within the region.**

With just 5 percent of the region's land deemed arable and freshwater supplies depleting rapidly, **achieving self-sufficiency would be virtually insurmountable at a country level** (Exhibit 34) and distinctly challenging even at a regional level. Such an undertaking would require a zero-based approach to sector planning, as well as focus and unprecedented investments. However, with unity of resolve, real progress can be made through a combination of **bold policy moves, meaningful dialogue, and purposeful private sector involvement.**

The private sector has an opportunity to drive tangible impact through four concrete actions:

- **Engaging in the policy dialogue:** the EBRD organized a set of roundtable discussions to boost the development of the Ukrainian grain sector, which ultimately led to the removal of export quotas that deterred investment in the sector in favor of export duties, which were subsequently also repealed in another set of roundtable discussions a year later.
- **Tapping into the potential of innovation and technology:** a tech consortium including Amazon, Microsoft, and Cisco collaborated with India's government to gather information on crop pattern, soil health, insurance, credit, and weather patterns in a central database that leverages AI and machine learning to develop personalized services to optimize farming.
- **Unleashing the power of PPP:** Kraft foods approached the Coffee Chamber in Peru to develop and execute a project aimed at improving the quality of Peruvian raw coffee beans along with promoting better working conditions for farmers and environmental practices. Kraft benefited by securing the supply of high-quality coffee while the Peruvian economy doubled coffee exports in two years.
- **Turbocharging institutional development and capability-building:** a private sector consortium led by the EBRD put together a technical working group that spent a year on the ground in Georgia working with Marneuli Agro, cucumber and tomato farm, to introduce modern agriculture techniques, leading to a doubling of harvesting volumes at a lower cost within two years.

Exhibit 33

Food self-sufficiency (region vs country average), %

3b. Cross-cutting initiatives

In terms of cross-country initiatives, benchmarking of other regional blocs points to several examples of initiatives that are more suitable to be addressed at a regional level, including:

- **Cross-country and cross-sector initiativtes,** e.g., common standards across countries for processing and storage of all personal customer data.
- **Cross-country and sector-specific initiatives,** e.g., standardization of food regulation standards across a specific region.
- **Country specific and cross-sector initiatives,** e.g., the introduction of 'corporate tax' across industries within a specific country.

Typically, countries that seek to increase their economic potential through growing their local markets to a regional scale act on all three types of initiatives. More developed regional blocs such as the EU or ASEAN have successfully implemented multiple initiatives that MENAP countries could consider replicating, such as:

- **Selective deregulation:** The creation of the ASEAN Single Aviation Market removed frequency and capacity constraints within the region. Another example is the EU telecom legislation ending roaming charges in 2017 by introducing domestic prices for roaming calls, SMS, and data in all EU countries.
- **Free movement of resources (goods/services, capital, people, and data):** Single Euro Payments Area (SEPA) has simplified bank transfers across the Eurozone. At the same time, the EU Blue Card provides a work visa for highly skilled talent from outside the EU (mainly engineers and individuals with technology backgrounds).
- **Establishing common standards:** Harmonization of food standards has been promoted across ASEAN members with the ASEAN General Standard for the Labelling of Pre-packaged Food.

SOURCE: IADB; WTO Review; ASEAN; European Commission; Expert interviews; Press Search

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