

INTRODUCING THE

# MENAP ECONOMIC INTEGRATION BAROMETER

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KNOWLEDGE PARTNER

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# Recapping the Factors In Realising MENAP's Economic Potential

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In early 2020, Majid Al Futtaim released a report highlighting the opportunities that could be unlocked by improved economic integration across the MENAP region. The inaugural report identified three levers that would yield the greatest impact: selective deregulation, free movement of goods and services, capital, people and data, and common standards.

The supporting analysis estimated the implementation of common standards and the free flow of capital, data, goods and services could unlock ~USD 230 bn in GDP. However, the value at stake would potentially be much higher. Although 8.5% of the world's population live in the region, MENAP currently only accounts for 3.4% of global GDP, suggesting a USD 2.5 tn potential opportunity for regional public and private sectors to capture.

Two years and a global pandemic later, we revisited our initial research to understand both the immediate effect of the health crisis and the wider impact COVID-19 has had on the region's readiness for economic integration opportunities. While it was to be expected that advancement would occur at differing speeds, the constant has been the increasingly purposeful efforts to enhance cross region synergies and economic competitiveness. From efforts to develop capital markets and expand data regulation frameworks to modernising the ability of residents to move around the region with ease, there is a clear recognition of the benefits to improving regional synchronicity. While laudable, these efforts also serve to highlight the extent of MENAP's fragmentation in comparison to others, as well as underdevelopment of the private sector contribution, a critical element in untapping the region's full potential.

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# Introducing The MENAP Economic Integration Barometer

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Cross-border interconnectivity and the impact of globalisation are increasingly topics for discussion and debate. Success in building cross-regional consensus as to MENAP's position relative to the rest of the world, as well as its path to economic prosperity, are critical first steps in realising sustained and meaningful progress.

Building clear indices of progress against which efforts could be gauged, first requires defining a common understanding of economic integration, and its quantitative and qualitative measurement. In doing so, organisations are able to engage in constructive discourse through a shared lens. Over the last few months, we have set about classifying that language, and developing a MENAP Economic Integration Barometer that would enable the tracking of progress against a set of defined criteria.

McKinsey Global Institute's (MGI) analysis of globalisation has been leveraged to define four benchmarked and measurable dimensions: Trade, Intangibles, Capital and People (Exhibit 1). In doing so, we are able to bring the MENAP region into global alignment regarding GDP vs. population.

In considering these dimensions, the Barometer can be used to provide insight as to the standing of the Region today and its trajectory as efforts evolve across the suggested metrics. However, it is important to understand the nuance of such measures: being 'high' or 'low' on a certain metric is not necessarily 'good' or 'bad', but rather depends on the underlying drivers and the collective economic development goals of the Region. As such, the purpose of this Barometer is not as a scoring mechanism, but rather a source of transparency to trigger discussion and drive alignment on key collective priorities.

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# Exhibit 1

Four dimensions will feed the Economic Integration Barometer

Metric	Specific KPI	Unit	Year	Source
<b>1. Trade</b>				
<b>1.1 - Overall</b>	1.1.1 - Intraregional exports as % of GDP	%	2021	UNCom Trade
	1.1.2 - Global exports as % of GDP from region	%	2021	UNCom Trade
<b>1.2 - Manufactured goods</b>	1.2.1 - Intraregional exports as % of GDP	%	2021	UNCom Trade
	1.2.2 - Global exports as % of GDP from region	%	2021	UNCom Trade
<b>1.3 - Resources</b>	1.3.1 - Intraregional exports as % of GDP	%	2021	UNCom Trade
	1.3.2 - Global exports as % of GDP from region	%	2021	UNCom Trade
<b>1.4 - Services</b>	1.4.1 - Intraregional exports as % of GDP	%	2019	OECD BATIS
	1.4.2 - Global exports as % of GDP from region	%	2019	OECD BATIS
<b>2. Intangibles</b>				
<b>2.1 - Data transferred</b>	2.1.1 - Intraregional data flows per capita, MB/s	MB/s	2020	OECD BATIS
<b>2.2 - IP flows</b>	2.2.1 - Intraregional IP imports as % of total IP imports	%	2019	OECD BATIS
	2.2.2 - Net global IP exports as % of GDP	%	2019	OECD BATIS
<b>3. Capital</b>				
<b>3.1 - FDI</b>	3.1.1 - Intraregional inflows (stock) as % of GDP	%	2020	IMF CDIS
	3.1.2 - Global inflows (stock) as % of GDP	%	2020	IMF CDIS
<b>3.2 - FDI Regulatory Restrictiveness Index</b>	3.2.1 - 0-1 index (weighted average by GDP)	#	2019	OECD
<b>3.3 - Cross-border M&amp;A</b>	3.3.1 - Intraregional M&A activity as % of GDP	%	2021	CapitalIQ
	3.3.2 - Global M&A activity as % of GDP	%	2021	CapitalIQ
<b>3.4 - Market capitalisation</b>	3.4.1 - Equity market capitalisations % of GDP	%	2021	WorldBank
	3.4.2 - Foreign holding as % of total market capitalisation	%	2021	CapitalIQ
<b>4. People</b>				
<b>4.1 - Cross-border mobility</b>	4.1.1 - Intraregional mobility of people as % of population	%	2019	UN
	4.1.2 - Outward mobility from region as % of total population	%	2019	UN
<b>4.2 - Cross-border connectivity</b>	4.2.1 - % of routes between major cities* with daily direct flights	%	TBD	TBD
<b>4.3 - Regional unemployment</b>	4.3.1 - As % of population	%	2021	WorldBank
<b>4.4 - Visa requirements for high skilled labour</b>	4.4.1 - Average of days required for high-skill expats to obtain visa	%	2021	Consulate search

\*Cities with more than 500k population



...the purpose of this Barometer is not to be a scoring mechanism, but rather a source of transparency...

In developing this Economic Integration Barometer, the scarcity of data and inconsistency of measurement methodologies (Exhibit 2) became immediately apparent. In some cases, the most recent available information dates to 2019. Other data sources such as FDI, served to highlight the inconsistency in publishing data sets where voluntary participation has resulted in many countries being excluded from the IMF reporting bi-lateral flows across the Region. As such, the Barometer has been developed on a comprehensive set of measures that serve as a baseline for future tracking.

If left unaddressed, the lack of progress monitoring in combination with the relatively small number of entities gathering data, will lead to continued uncertainty as to MENAP's standing across many key measures, limiting stakeholders' ability to identify and address critical priorities.

It is essential to shed light on the importance of creating a comprehensive, fact-based measure for MENAP regional economic integration. The support of the regional and global community is key in creating a repository of clean, granular, timely and consistent data. It is our aim that the Barometer act as the channel for that data to be visualised and the Region's progress in relation to economic integration be tracked and understood.

# Exhibit 2

## Varying data quality and consistency across metrics

Metric	Data Quality	Rationale
<b>1. Trade</b>		
1.1 - Overall		Values can vary by reporting country, as a result trade values between countries may not match, e.g., KSA to USA oil exports are reported at ~\$2bn, whereas USA to KSA oil imports are reported at ~\$11.4bn
1.2 - Manufactured goods		
1.3 - Resources		
1.4 - Services		Current bilateral export data is not complete for all MENAP countries
<b>2. Intangibles</b>		
2.1 - Data transferred		Not granular and vast enough to cover MENAP comprehensively, includes double counts as data transfers across multiple countries
2.2 - IP flows		Comprehensive data, latest available at a bilateral level is 2019
<b>3. Capital</b>		
3.1 - FDI		Not all components of CDIS are required to be filled by reporting country. Further, FDI can stem from offshore registered vehicles etc.
3.2 - FDI Regulatory Restrictiveness Index		Only 6 countries in MENAP are listed in the index (does not include UAE), latest available is 2020
3.3 - Cross-border M&A		Comprehensive
3.4 - Market capitalisation		Reporting in the region is not comprehensive, inconsistent in ability to disaggregate holding positions of local and international investors
<b>4. People</b>		
4.1 - Cross-border mobility		Comprehensive, latest available is 2019
4.2 - Cross-border connectivity		Data publicly available but fragmented, requires a manual process to consolidate
4.3 - Regional unemployment		Comprehensive
4.4 - Visa requirements for high skilled labour		No single source, requires a country-by-country scrub of consulate websites

### 1: Trade

Quantifying trade flows provides insight into the level of dependency and vitality of trade in the region, with intraregional flows providing key indicators into trade (i.e., manufactured goods, resources, services) from countries in the region to their neighbours. This is particularly significant for fragmented regions such as MENAP. A clear understanding of the extent to which countries within the bloc engage in cross regional trade would further prove increased levels of trade provide the support required by trading entities to effectively build scale. In addition, MENAP's global exports data provides insight to the Region's true reach. The impact of an increase in regional integration would in turn enable regional brands to attain a global trade status.

### 2: Intangibles

The Barometer measures flows of intangibles from two angles. The first is intraregional data flow on a per capita basis. In an increasingly digital world, this measure represents a solid proxy for the flow of information between countries within the region, which in turn creates a good sense of the amount of intraregional activity. The second is IP trade flows, providing insight into the volume of IP purchased by MENAP countries originating from within the region vs. abroad, as well as how much of regional IP is purchased globally.

### 3: Capital

Measuring capital flows is vital to understand the economic strength of the Region. Looking at intraregional flows provides insight into the level of investment from countries in the region to their neighbours. This is particularly important for a region like MENAP where there is, in many cases, a mismatch between 'capital-rich' and 'opportunity-rich' countries. Understanding global flows to MENAP provides insight into the attractiveness of the Region for foreign investors, which could expect to grow as integration increases and investors can look at the Region as one market rather than a collection of small, fragmented economies. The FDI Restrictiveness Index and equity market capitalisation, provide insight into the ease of access to capital and the depth of capital opportunities in the region, respectively.

### 4: People

The free movement of people is a key element to unlocking economic potential, delivering direct economic and social impact in terms of both employment and growth. The Barometer looks at the level of mobility within the region as a % of total population, providing indication as to the ease of movement. This is of particular importance when considering the threat of 'brain drain', as MENAP's human capital moves outside of the region in pursuit of education and career opportunities. To track the extent of this movement, the Barometer tracks the % of the population leaving MENAP in a given year.



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# Establishing A Baseline For MENAP

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This inaugural edition of the Barometer represents ‘a line in the sand’, establishing a MENAP economic integration baseline compiled from nine data sources and spanning 2019, 2020 and 2021. This represents the latest available across each metric, as per the aforementioned scarcity of data sources and availability.

MENAP data has been compared to the averaged data from seven regions. (Europe, North America, Latin America & Caribbean, Asia- Pacific, Central Europe, and Sub-Saharan

Africa), as well as to data where a region has outperformed others. In considering both mean and top performance we highlight the growth opportunity in intraregional integration with the aim to enable meaningful and considered debate as to MENAPs future path (Exhibit 3).

Despite the data limitations, this first Barometer showcases the potential for action, and the impact opportunity from increased regional collaboration.

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# Exhibit 3

MENAP scores below average across all dimensions of the barometer

Metric	Specific KPI	MENAP	Lowest	Avg.	Highest
<b>1. Trade</b>					
<b>1.1 - Overall</b>	1.1.1 - Intraregional exports as % of GDP	<b>2.9%</b>	2.9% MENAP	7.9%	22% EU, Norway, Switzerland, UK
	1.1.2 - Global exports as % of GDP from region	<b>33.9%</b>	10.5% North America	25.5%	33.9% MENAP
<b>1.2 - Manufactured goods</b>	1.2.1 - Intraregional exports as % of GDP	<b>1.6%</b>	1.6% MENAP	5.9%	18.1% EU, Norway, Switzerland, UK
	1.2.2 - Global exports as % of GDP from region	<b>11.6%</b>	7.5% Latin America & Caribbean	15.1%	27.8% EU, Norway, Switzerland, UK
<b>1.3 - Resources</b>	1.3.1 - Intraregional exports as % of GDP	<b>1.3%</b>	1.3% MENAP	1.9%	3.9% EU, Norway, Switzerland, UK
	1.3.2 - Global exports as % of GDP from region	<b>22.3%</b>	2.8% North America	10.4%	22.3% EU, Norway, Switzerland, UK
<b>1.4 - Services</b>	1.4.1 - Intraregional exports as % of GDP	No data readily available; to be populated in subsequent iterations			
	1.4.2 - Global exports as % of GDP from region				
<b>2. Intangibles</b>					
<b>2.1 - Data transferred</b>	2.1.1 - Intraregional data flows per capita, MB/s	No data readily available; to be populated in subsequent iterations			
<b>2.2 - IP flows</b>	2.2.1 - intraregional IP imports as % of total IP imports	<b>1.4%</b>	0.7% Sub-Saharan Africa	16%	62% EU, Norway, Switzerland, UK
	2.2.2 - Net global IP exports as % of GDP	<b>-0.06%</b>	-0.29% Other Europe & Central Asia	-0.05%	0.2% North America
<b>3. Capital</b>					
<b>3.1 - FDI</b>	3.1.1 - Intraregional inflows (stock) as % of GDP	<b>1.5%</b>	1.5% MENAP	12%	56% EU, Norway, Switzerland, UK
	3.1.2 - Global inflows (stock) as % of GDP	<b>36%</b>	27% Asia-Pacific	43%	66% EU, Norway, Switzerland, UK
<b>3.2 - FDI Regulatory Restrictiveness Index</b>	3.2.1 - 0-1 index (weighted average by GDP)	<b>0.21</b>	0.21 MENAP	0.12	0.04 EU, Norway, Switzerland, UK
<b>3.3 - Cross-border M&amp;A</b>	3.3.1 - Intraregional M&A activity as % of GDP	<b>1.3%</b>	1.1% Latin America & Caribbean	2.0%	6.9% North America
	3.3.2 - Global M&A activity as % of GDP	<b>2.2%</b>	0.7% Other Europe & Central Asia	3.2%	8.5% North America
<b>3.4 - Market capitalisation</b>	3.4.1 - Equity market capitalisations % of GDP	<b>32%</b>	32% MENAP	98%	174% North America
	3.4.2 - Foreign holding as % of total market capitalisation	No data readily available; to be populated in subsequent iterations			
<b>4. People</b>					
<b>4.1 - Cross-border mobility</b>	4.1.1 - Intraregional mobility of people as % of population	<b>2.1%</b>	0.8% Asia-Pacific	2.8%	5.9% EU, Norway, Switzerland, UK
	4.1.2 - Outward mobility from region as % of total population	<b>2.0%</b>	3.9% Latin America & Caribbean	2.2%	0.5% North America
<b>4.2 - Cross-border connectivity</b>	4.2.1 - % of routes between major cities* with daily direct flights	No data readily available; to be populated in subsequent iterations			
<b>4.3 - Regional unemployment</b>	4.2.1 - As % of population	<b>7.4%</b>	10.1% Other Europe & Central Asia	7.6%	4.2% Asia-Pacific
<b>4.4 - Visa requirements for high skilled labour</b>	4.3.1 - Average of days required for high-skill expats to obtain visa	No data readily available; to be populated in subsequent iterations			

\*Cities with more than 500k population

### 1: Trade

Trade within the MENAP region lags top-performing regions, at approximately 3% of GDP compared to Europe's 22%. However, when looking at the power of the Region to supply goods abroad, MENAP dominates others, with global exports valued at 34% of GDP.

As global dialogue turns towards green energy options, it is worth noting that 22% of MENAP's trade to the world stems from fossil fuels, with an additional 7% from metals and chemicals. Furthermore, in comparison to other regions, i.e. Asia-Pacific, where data shows over 8% of trade as a % of GDP stems from electronics (approximately 6% exported intraregionally), MENAP presents a cluster of individually resource-rich countries with fewer distinct manufactured goods (non-oil-based) to export, and less trade between regions as a portion of its GDP.

### 2: Intangibles

The flow of intraregional intellectual property highlights MENAP's lag when it comes to innovation with only 1.4% of IP purchased by MENAP countries originating from within the region, vs. 16% global average. As a comparison, consider Europe's data, which thanks to significant investment in the drivers of innovation (higher education, think tanks, R&D, etc.) scores highest on IP purchased from within the region (62%). The driving forces behind this show of strength include pharmaceutical developments, bio-tech ideation, and aerospace innovation.

### 3: Capital

FDI inflows to MENAP lags top performing regions, and the intraregional portion as a share of total is also lower, i.e., MENAP countries have lower investments in each other relative to other regions. However, this is not uniform

across the region, with Dubai being ranked the world's top destination for FDI for the last two consecutive years. The investment imbalance is also reflected in the FDI Restrictiveness Index: while the region as a whole is the most restrictive than the seven analysed regions used for comparison, some MENAP countries, such as Morocco, have a restrictiveness score up to 50% lower than the global average.

Turning to public market capitalisations, MENAP's are at 32% of GDP (excluding ~98% of ARAMCO which is not floated) vs. 98% globally. While there is clear room for improvement, the outlook is promising. Regulators, especially in the UAE and KSA, have made developing robust, liquid capital markets a top priority. Between 2021 and 2022, the UAE listed eight sovereign-owned entities (SOEs), including the Dubai Electricity and Water Authority (DEWA) – the state's largest IPO. KSA's Tadawul has also made strides in recent years, introducing regulatory changes that granted MSCI inclusion, executing the world's largest IPO to date, and targeting 20+ IPOs annually by 2025.

### 4: People

In 2019, nearly 15 million people migrated intraregionally across MENAP and approximately 50% of all professionals who moved, left the region completely. Latin America currently has the greatest 'brain drain' with nearly 4% of the population emigrating from the region in 2019; the region currently has the highest unemployment rate, of approximately 11%, compared to other regions (MENAP has an unemployment rate of 7.4%, slightly lower than the global average of 7.6%). However, it is worth considering that in 2021, 0.5% of the total population of North America left the region, compared to MENAP's 2%. One can assume that sufficient working, studying, and living opportunities are the key drivers.

# Understanding The Opportunity

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With a standardised method of measurement highlighting the gaps and opportunities for improvement across the MENAP region, it is perhaps possible to review the initial drivers behind the Economic Integration Report through a more informed lens.

Ahead of the World Economic Forum in Davos in May last year, a refreshed edition of the report highlighted five key global and regional developments. The five represented a paradigm shift towards a reality where greater economic cooperation across MENAP, shifted from a 'nice-to-have', to a fundamental strategic imperative:

## **1: The aftermath of a global pandemic**

Now three years on from the health crisis, the global community continues to face the ripple effect of unprecedented supply chain disruption and commodity price volatility, as well as heightened geopolitical tensions exacerbated by the ongoing conflict in Ukraine. These disruptions represented a major threat to MENAP's food security in particular, with up to 14% of food lost across the supply chain before it reaches consumers.

## **2: A deceleration of globalisation, referred to by some as 'slowbalisation'**

Over the last 40 years, global trade has been growing faster than GDP, but 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. This plateau has been coupled with more purposeful efforts towards regionalisation seen across the world in the last 5-10 years, and an increase in intraregional trade by 6% since 2015.

## **3: The acceleration in the global energy transition**

The energy 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: this 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.

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#### 4: The Abraham Accords

Announced in September 2020, Accords between Israel, the UAE and Bahrain were followed by the Israel-Morocco normalisation agreement announced three months later. That 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. In addition, the UAE and Israel signed an agreement to establish a joint task force to promote innovation-based business ties.

#### 5: A start-up ecosystem

A young population of untapped talent in addition to rapid digitisation has fostered an environment of innovation and is turning the Region into a hotbed of opportunity, 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 USD100mn+ 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.

Beyond these developments, there is a need for MENAP to collectively up the ante on the development and retention of home-grown talent. Nurturing and upskilling regional human capital could represent a crucial pillar for the Region in successful creating a prosperous economic future for its people. While MENAP has ~8% of total world university students, it has only 1.5% of the top 500 universities in the world, leading to those able to do so leaving to study abroad, and in many cases, not returning.

The Region could explore driving initiatives that improve domestic education opportunities and create an environment conducive to attracting and grooming top talent, from both across its borders and globally, to win the war on talent. Furthermore, there is a pressing need for job creation in MENAP noting its growing young population, high unemployment rate, and changing job market requirements. In 2020, ~60% of the MENAP region's population was of working age, of which 50% was within labour force. At the current labour participation rate, ~120 million young people are set to enter the Region's labor market by 2040<sup>1</sup>. Prioritising talent development and upskilling becomes even more important in the context of the employment imperative.

In the face of such fundamental challenges and opportunities, now more than ever, it is the time for MENAP to consider a reboot of efforts to drive greater economic cooperation between its countries. Previous attempts over the last ~50 years have largely been driven by government with limited impact. This could be the right time for a renewed effort underpinned by collaboration across both public and private sectors. Currently punching below its weight, the private sector must play a more active role in policy dialogue and fully embrace the tenets of stakeholder capitalism if the Region is to achieve its full potential. As a first step, alignment among stakeholders on a mechanism to drive action that brings together the public and private sector will ensure that together, we are able to chart a concrete plan

1. World Bank

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# Envisioned Evolution Of The Barometer

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With a baseline established, and a clear overview as to potential areas of focus, it is critical that progress continues to be systematically tracked enabling a consistent and aligned reference point for dialogue and collective action. As such, it is our aspiration to publish the Barometer on an annual basis. Released to coincide with the World Economic Forum, the Barometer will provide a yearly overview of progress and data insights for key stakeholders to gather and discuss the steps needed to drive incremental progress.

In parallel, we will continue to compile and refine data from different sources and enhance the quality and depth of indicators available. Future editions of the Barometer will be augmented with additional features, such as:

- Additional dimensions on business activity, shedding light on the intra-regional operations of large corporations and SMEs. This could include metrics such as share of regional revenues of a representative sample of companies from each country and global sales by MENAP companies as a % of GDP

- Sub-regional breakdown of Barometer dimensions to gain more granular insights on progress and priority areas within different pockets of the region (e.g., GCC, North Africa)
- Public, private and social sector stakeholder interviews to add richness and context to the commentary on the Barometer scores, and bring a perspective from those in the 'thick of the action' on the most pressing priorities and highest potential opportunities for generating the highest impact for the region's collective prosperity

In the spirit of closer collaboration, we do not envision this as a unilateral effort. As an important regional stakeholder, we invite you to partner with us on further refining and enhancing the Barometer and encourage you to join us in driving forward the actions that will see sustained economic growth through better integration and greater prosperity for our region.

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