

Middle East Megatrends: Transforming our region

Understanding the impact of global trends on the Middle East, and how governments and businesses succeed in a very different world



Demographic and social change



Shift in global economic power



Rapid urbanisation



Climate change and resource scarcity



Technological breakthroughs

Understanding the Megatrends

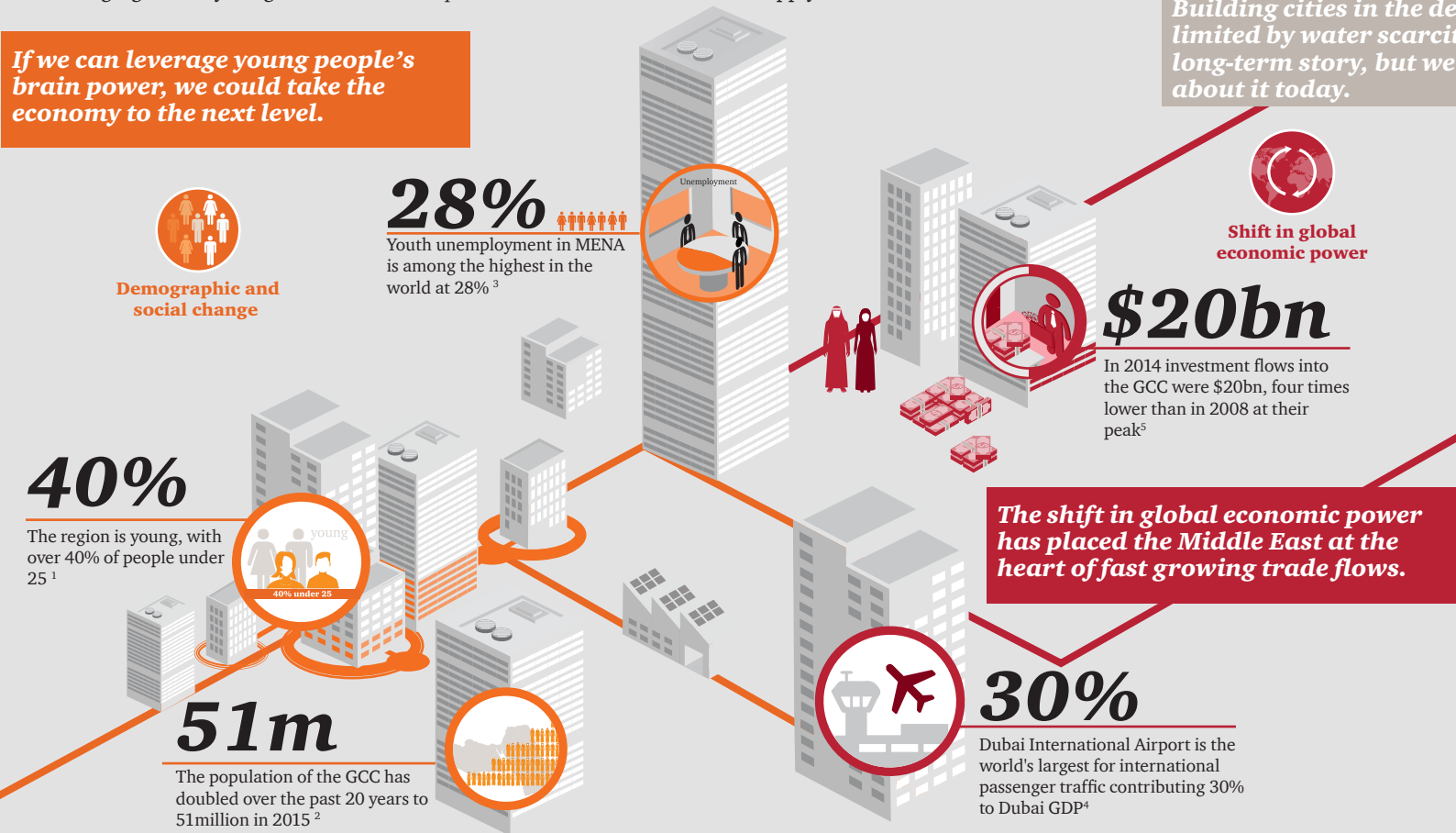
Distinguishing clearly between cyclical and structural trends can always be difficult. In the Middle East, where the oil cycle appears to determine the fate of so many sectors, it is especially hard. When the oil price is high, our region booms. When it is low, it is hard to do anything but react to the cut in investment. Yet our region, perhaps more than any other, is at the epicentre of the megatrends reshaping the world. Understanding how these structural trends will impact us – both separately and together – is vital to get a clear picture of how to tackle the challenges we face successfully and to uncover opportunities we may have never considered.

We see five megatrends impacting the world and our region over the next few decades. **Demographic and social change** has driven both prosperity and instability in much of the Middle East, as explosive population growth has boosted economies, strained resources and raised the spectre of youth unemployment. Part of that population growth stems from the inflow of expatriates, responding to the **shift in global economic power** which has placed the Middle East firmly in the middle of the world's fastest-growing markets allowing Dubai, in particular, to turn itself into a global hub.

Urbanisation is transforming nations worldwide. Our region is one of the most highly urbanised in the world and, with new cities under construction, the level is still rising. It is a struggle to develop sufficient infrastructure to cope with both the population explosion and the pressures brought by **climate change and resource scarcity** – water consumption and energy diversification will become more pressing issues in coming years. **Technological breakthroughs** could be part of the answer, but the disruption that digitalisation is bringing to today's organisations also requires new skills that are in short supply in the Middle East.

If we can leverage young people's brain power, we could take the economy to the next level.

Building cities in the desert is a long-term story, but we have to start about it today.



The direction of change

These five megatrends are creating new realities in the Middle East. It is true that the urgency of the transformation currently underway is a reaction to the sharp drop in oil revenues, but the direction of change – and its complexity – is an inevitable response to these multiple global forces. Governments know they need to cut subsidies, expand their fiscal base and bring private investment and corporate practices into state entities. But they also know they need to keep building infrastructure, enable technology and innovation and start producing the right kind of graduates to drive productivity growth. By understanding the broader context, governments can ensure they are doing everything needed to make the transformation successful.

Take the push for smart government in the UAE and, more recently, in Saudi Arabia. The aim is to automate processes so that citizens can conduct their business by smartphone - cutting costs and boosting productivity, while removing opportunities for corruption. That kind of technology enablement is crucial for future global competitiveness, and the public sector in the GCC is pioneering digitisation. Automation, however, also means downsizing government entities that are currently the largest employers of citizens. To handle that transition successfully, graduates will need new skill sets in these areas, which means rapidly implementing serious reforms in both school and university curricula. The opportunities are great – but so too are the threats. If the Middle East ignores the technological breakthroughs that are disrupting sector after sector around the world, it will not be able to compete in the economy of the future.

\$4trillion

There are over US\$4 trillion worth of projects planned or under construction in the Middle East and North Africa⁶

85%

The GCC is one of the most highly urbanised regions in the world⁸

The population of the GCC will have tripled in 50 years but there will not be enough water and no oil – so what do we need to do now?

Rapid urbanisation

Technological breakthroughs

Desert is not a dead land - it's a need to think

Climate change and resource scarcity

+ 1/3

Water consumption is forecast to grow by a third by 2020⁹

90%

Globally, 90% of the data that exists today was created in the last two years¹¹

Solar energy will account for almost two thirds of the Middle East's energy mix by 2050⁷

GCC is among the world's highest energy user per capita¹⁰

Informing strategy

Businesses too can translate their understanding of the megatrends into practical guidelines for future strategy. Emirates Airline is the poster child for responding successfully to changing global realities. It has developed over the past decade into the world's largest international carrier - it has taken advantage of the shift of global economic activity towards emerging markets. Emirates asked the right questions including: where is traffic flowing, what routes are needed, how do we engage with customers, how do we understand the preferences of new travellers? It analysed the flows of people and trade between Asia, Africa and the Americas and developed an innovative "super-connector" business model – with Dubai at its hub – that has disrupted the global aviation industry. When it opened in the US, for example, it opted for Boston over one of the more established major airport hubs such as Atlanta, identifying huge demand to and from the Indian subcontinent. Emirates identified the megatrends and found its role in them.

Many organisations are using megatrend insights to help them rethink strategy by taking an outside-in look at their businesses, turning the challenges they face into opportunities. One Saudi bank, for example, is looking at where its growth will come from as government investment slows. It is working on how to use technology to engage with a youthful population, how to prepare products for a growing ageing population and how it can use its risk management skills to help governments make the right choices about budget allocation now that money is scarce. Similarly GCC water utilities are focusing on how best to bring in private funding to compensate for the government's reducing ability to invest as needed.

We need to accelerate the ability to leverage and commercialise technology, diversify the economy and become competitive.

This would allow them to invest in smart technology to help manage fast-growing water demand and maximise revenue collection – recognising that this desert region cannot continue to have the world's highest per capita water consumption as well as fast-depleting aquifers and continued growth in desalination.

Prepare to succeed

Understanding how the megatrends are reshaping the world and impacting this region is not just about identifying the challenges ahead, but about understanding the context for action. That context can be complex. The megatrends bundle and collide, creating multiple consequences. Responding to the megatrends means looking at the consequences of change and ensuring that all the pieces are in place to be prepared to succeed in a very different world.



We partner with our region's Governments and businesses, to help solve the region's most important problems and build trust in society. Together we can manage change and seize the opportunities.

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Sources:

¹ UN. ² World Bank. ³ World Bank. ⁴ IATA, Airport Council International. ⁵ UNCTAD. ⁶ MEED. ⁷ IEA. ⁸ UN. ⁹ FAO. ¹⁰ UN.
¹¹ PwC analysis based on Experian (2013). ¹² ITU