

Megatrends Now:

Can the Middle East ADAPT?

When we shared our thinking on how global megatrends were reshaping realities in the Middle East, the resonance was huge. Our region is at the epicentre of the five long-term trends we defined – demographics, the shift in global power, urbanisation, climate change and technological breakthroughs. These powerful forces are raising profound challenges for governments and businesses in the Middle East, complicating an environment already hit by low oil prices.

With insights from the megatrends, we have been able to shine a light on future strategic opportunities and threats.

As a region, however, we do not have the luxury of delaying a response to these challenges. They are not something for another generation to address. Nor can we tackle them using the modes of thinking and acting that have brought us to this point – however far-reaching and effective they may have been. The landscape has changed too dramatically.

It has become apparent that the long-term phenomenon of the megatrends is already upon us. As we work with governments, policy makers, corporates and family businesses, the recurring question is not when will megatrends hit, but how and what should we do today.

Our answer is to focus on the near-term manifestations of the trends and the challenges confronting us, using a framework known as ADAPT.

ADAPT

Urgent challenges caused in response to the megatrends



Asymmetry

Increasing wealth disparity and erosion of the middle class



Disruption

Disruption of business models and blurring of industry boundaries



Age

Demographic pressure on business, social institutions and economies



Populism

Breakdown in global consensus and increasing nationalism

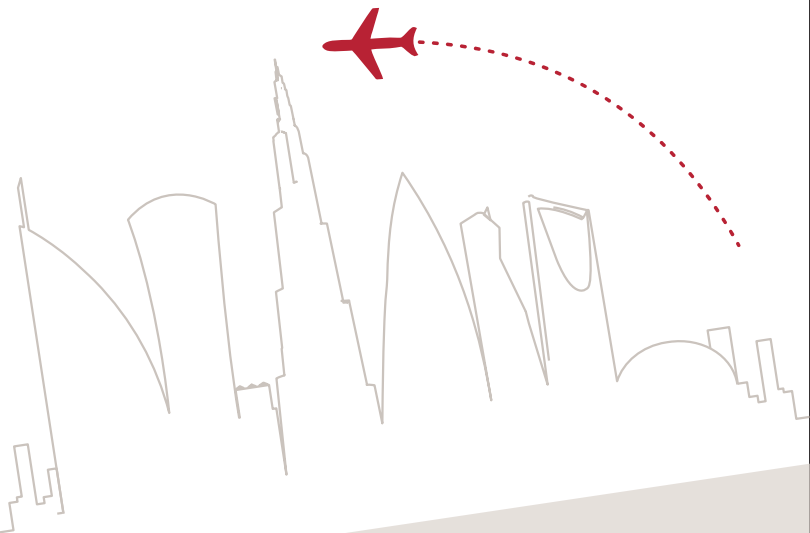


Trust

Declining trust in institutions and technology

Our aim with ADAPT is to think through solutions that also make sense for the long term. The precarious combination of issues facing the Middle East means that both governments and businesses are forced to respond at a scale and with an urgency that is unprecedented. As a result, the trade-offs between short and long-term pressures are growing. What is more, the assumptions of the past are becoming less and less helpful in finding constructive solutions for the long term.

Our region is replete with examples of the disconnect between short-term solutions and long-term needs – and these conflicting imperatives can put a strain on the transformation that is underway. Why would young nationals be attracted to the private sector when wages and benefits are kept high in an inefficient public sector? How can the private sector be encouraged to create jobs and invest locally if they are bound by regulations designed to keep control and raise revenue?



As the elements of ADAPT interact and reinforce each other, we see important new implications for our region:



Problems are getting bigger, more complex and coming faster so, regardless of the price of oil, GCC economies can no longer rely on a single source of revenue to provide growth and security.



Growing disparities, increasingly polarised societies and the speed of change make it difficult for institutions to adapt and raise the cost of failure. The social compact between governments and citizens is being restructured and new demands and frustrations are voiced openly on social media.



Governments are dealing with increased complexity, in an environment where trust is declining, resources are limited and competition for talent is growing. Corporations can no longer afford to rely on government spending and support for business – they have to cut costs and become globally competitive.



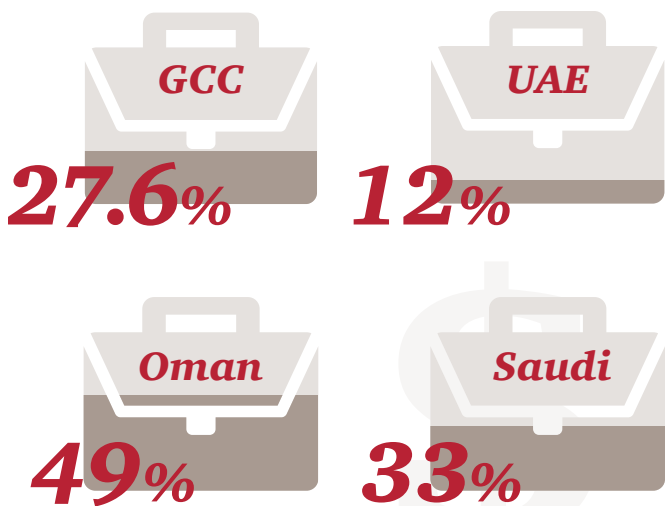
Demographic pressures and technological disruption mean that governments can no longer create jobs for young people at the scale required. The public sector has to transform itself into an enabler for private business rather than its economic competitor.

Our ADAPT framework helps organisations to understand these urgent challenges and think about what they mean in the context of their business to find solutions that will last – not just a quick fix for now. We group these issues into five categories:



Asymmetry

Asymmetry refers to the increasing disparity between a small wealthy elite and a growing cohort of citizens with limited wealth and income who are angry or disappointed at their inability to enjoy the life they expected. This polarisation is a global phenomenon – indeed, 50% of the world's wealth is now held by 1% of the population.¹



GCC youth unemployment 2017 (World Bank)

Source: <https://data.worldbank.org/indicator/SL.UEM.1524.ZS>

13m Saudis

signed up for the Citizen Account benefits scheme to support citizens in need

over half the Saudi national population

Source: Ministry of Labour and Social Development

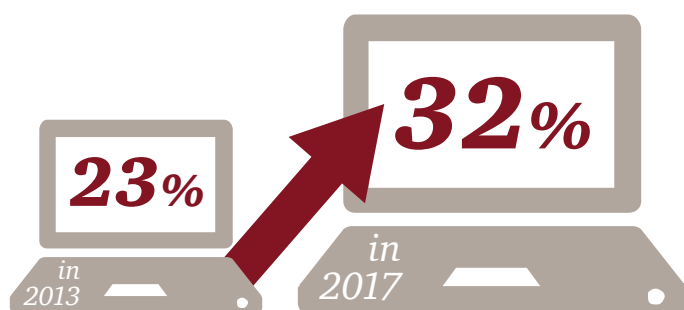
In parts of the GCC, the growing wealth disparity is exacerbating social tensions, especially among the large number of young nationals that are unable to find a job. One third of working-age Saudis under 25 are unemployed. In Oman, almost half of the young population cannot find a job, including almost 60,000 university graduates in 2017. In response, governments are trying to foster a job-creating private sector, replace expat workers with nationals, improve local skills and provide access to high quality and affordable public services, from healthcare to housing. The Saudi government has created a social security net to protect citizens in need – 13 million have signed up for benefits.

¹Source: Credit Suisse Global Wealth Databook 2017, <https://www.credit-suisse.com/corporate/en/research/research-institute/global-wealth-report.html>

Disruption

Disruption has become a central dynamic of today's global economy, as breakthrough technologies redefine business models, blur lines between industries, create agile new players unencumbered by legacy organisations and destroy others that fail to adapt quickly enough. These changes have enormous social, political and economic implications – in the US, for example, PwC estimates that 47% of jobs could be lost to automation in the next 15 years.²

In the Middle East, a weak private sector combined with restricted archaic and protectionist regulations, have delayed large-scale digital transformation, despite the potential created by a young, tech-savvy population with access to good digital infrastructure. E-commerce accounts for just 2% of retail sales, for example, compared to 15% in developed markets. Nevertheless, even the first wave of change – the arrival of sharing economy models like Uber, the wide usage of social media and the pick-up in e-commerce – has started to erode customer bases and undermine business models.



people shopped online at least once a month

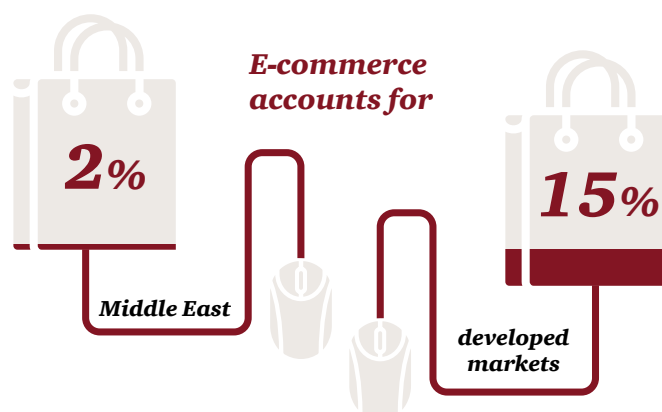
Source: PwC's 2018 Global Consumer Insights Survey

Age

Age is driving the urgency of transformation throughout the region, since rapid population growth over the past few decades has created a youth bulge, with around 60% of GCC nationals under 30. The challenge is huge. For example, over 3 million new jobs would be needed to employ young Saudis coming on to the labour market by 2025. Ensuring suitable employment is particularly difficult since Saudis tend to work in the public sector. Three times as many nationals still work in government entities compared to the private sector, despite attempts in recent years to streamline the public sector.

The young population is not just demanding jobs. Young Saudis are worried that they are losing the privileges of their parents' generation. They want a good education, high-paying jobs, and access to housing and healthcare they can afford. Both women and men also want opportunities for entertainment, sport and tourism – and they are happy to take to twitter to express their displeasure if they feel the government is not listening.

²Source: PwC, CEO Agenda: Pulse on Robotics, 2016



Source: <https://www.forbesmiddleeast.com/en/middle-east-e-commerce-industry-heats-up-as-investors-cash-in/>

Both businesses and governments are ripe for rapid and profound disruption as the region catches up to the pace of change in the rest of the world. Many companies are still in denial, but some have started to study what has happened to their peers around the world and prepare for the onslaught. Banks in the GCC, for example, are consolidating to prepare to compete, while retailers are looking at the potential of digitalisation and robotics to cut costs and improve service. Dubai is trying to anticipate the impact of change by creating self-disrupting units in each government department and by turning the emirate into a hub for best practice.



60%
of the national population of GCC are
under 30

Note: excludes UAE where data breakdown does not exist
Source: <https://data.worldbank.org/indicator/SL.UEM.1524.ZS>

On the flip side, if the government can harness the ambition of its smart young people, they can accelerate the pace of innovation, investment and growth, bringing a demographic dividend to the region. Top-level business leaders in the region tend to be in their 40s compared to a global average of late 50s.



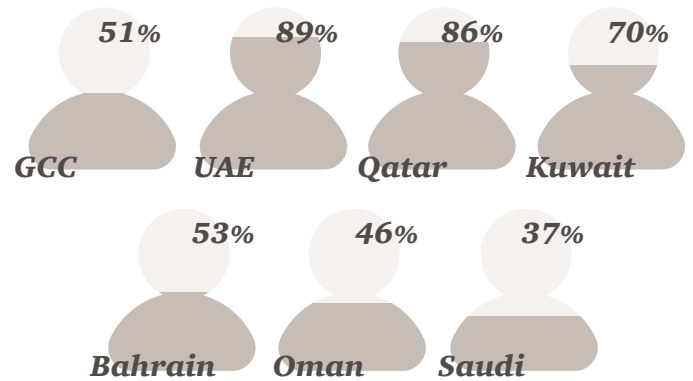
Populism

Growing populism and nationalism are the response to a breakdown in the global consensus that brought decades of openness to international trade, investment and skills. Countries around the world are turning inwards, discouraging immigration and outsourcing, while pushing companies to invest and create jobs locally. As a result, international conflict is growing and nations are experiencing greater levels of insecurity as they struggle to define national identities.

In our region, the challenges of populism, nationalism and identity are turbo-charged, for three reasons. First, geopolitical tensions and conflict are high throughout the Middle East, often claiming sectarian allegiances across borders, and ensuring that security is always a policy driver. Second, tribal identities remain stronger than national ones. That explains, for example, the challenges the UAE faces in forcing common policies for Dubai, Abu Dhabi and the smaller emirates – despite the progress in nation-building in recent years.

Third, in the GCC, expatriates make up a large portion of the total resident population – ranging from a low of 37% in Saudi Arabia to a high of 89% in the UAE. They dominate the private sector and their relatively low-cost skills make it hard for nationals to compete without quotas and protectionism. Dubai has created a model that embraces a high degree of openness to both expats and foreign companies, and has built an economy that thrives on their skills, capital, labour and buying power. Saudi Arabia has taken a different approach, minimising expats to make way for nationals. But this closed economy risks losing skills, knowledge and money, and will make it harder to attract the foreign investors needed to realise the country's ambitious privatisation programme.

Share of expat population



Source: <http://gulfmigration.eu/gcc-total-population-percentage-nationals-non-nationals-gcc-countries-national-statistics-2010-2017-numbers/>
Gulf Labour Markets and Migration, 2017



Trust

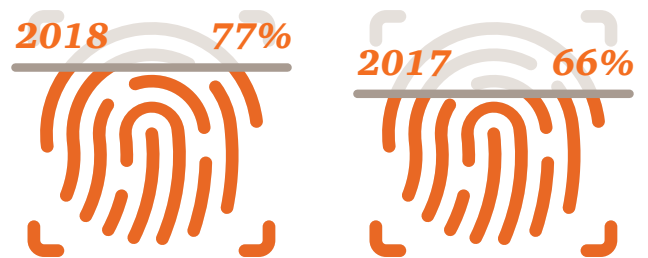
Lastly, a lack of trust in institutions and technology is making it harder globally for governments and corporations to act, while accelerating the spread of new peer-to-peer and social media based institutions. In the Middle East, these same trends are exacerbated by the immaturity of institutions and regulations, as well as the dependence on individual leaders to get things done. Where trust in the rulers is not as strong, as in Kuwait, the economy is stagnating and investors have moved on, despite its still-high oil revenues. Where leaders are highly trusted, as in the UAE, an atmosphere of confidence is pushing the pace of change and encouraging investment, while maintaining social peace and a high level of security. Its challenge now is to build future-focused institutions that can help to guarantee continued progress, while filling regulatory gaps to provide greater confidence in areas such as cybersecurity and data protection.

In the UAE, trust towards institutions rose a combined 24 points, second only to China.

Second highest gain in trust after China

Source: Edelman Trust Barometer 2018

PwC's CEO survey 2018 shows a rising level of concern about cyber threats in the Middle East



Source: PwC's 21st CEO Survey

The Saudi National Transformation Plan is a bold attempt to build trust through reform, by redefining the roles and relationships of government, private sector and citizens for an economy that is no longer dependent on oil. Real progress has been slow, but initial scepticism has given way to greater clarity and a realisation that the government is very serious and working hard to get ready for major change. The stakes are high.

The challenges the whole region faces are complex and contradictory, making it hard to achieve the goal of creating a thriving globally competitive economy that meets its people needs. How best to create millions of jobs to employ young nationals at a time when automation is wiping out entire professions and redefining the future of work? How best to introduce new taxes in a world where the very basis of taxation is being rethought?

The ADAPT framework is aimed at taking a holistic yet nuanced and detailed look at the multiple pressing challenges governments, organisations and individuals face. With its help, we are thinking through what is causing today's problems, questioning assumptions on how to solve them and finding new future-proofed responses.

Contacts



Hani Ashkar
Territory Senior Partner, Middle East

E: hani.ashkar@pwc.com



Stephen Anderson
Clients and Markets Leader, Middle East

E: stephen.x.anderson@pwc.com