

SPECIAL REPORT

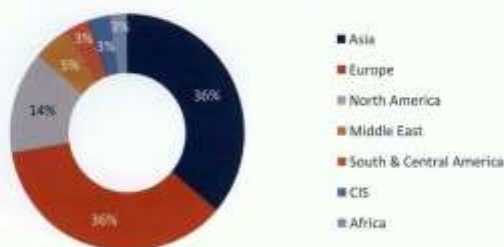
The UAE has enjoyed a status of being a major trade and logistics hub for decades.

AT THE CENTRE OF THINGS

SAUDI ARABIA LEADS REGION'S CHARGE AS
GLOBAL AND TRANSPORTATION HUB, SAYS
AL MASAH CAPITAL

“THE TRANSPORTATION AND LOGISTICS INDUSTRY IS HIGHLY FRAGMENTED AND OFFERS OPPORTUNITY FOR CONSOLIDATION AND MARKET DOMINANCE”

World Exports by Destination (2015)



Source: The World Trade Organization, Al Masah Capital Research

The region has emerged as a major global and regional transportation and logistics hub with Saudi Arabia leading the market in size, according to research by Al Masah Capital.

The global Logistics market is expected to reach \$15.5 trillion in revenue by 2024 while investments in industrial and retail projects lead to a spur in the domestic logistics industry.

Reflecting upon the surge in global trade that was witnessed in the last two decades, innovations in logistics and changes in policies across countries around the world; Al Masah Capital, the region's leading name in investments and market analysis, today released its review report on global Transportation & Logistics sector.

In terms of volume, the global transportation and logistics industry is expected to reach 92.1 billion ton by 2024. The report also mentioned that the global Third Party Logistics (3PL) market is expected to grow at a CAGR of more than 5% by 2020. Factors such as the rapid globalisation, increasing trade volume, and the revival of the global economy are some of the major contributing factors to the growth of the 3PL market. The growth of integrators will increase demand for contract logistics services and will significantly contribute to the growth of the industry.

“The logistics service provider industry in the MENA region is highly fragmented, with many small players offering point solutions, such as freight forwarding, warehousing, and transportation services,” Al Masa also notes. “Few providers have nationwide capabilities, and even fewer have the people, assets, and IT sophistication to serve clients across the entire region.

“Thus, the 3PL market in MENA is still in the early development phase, and it is gradually following the same evolutionary curve as the markets in Europe and North America, thus witnessing significant consolidation. This is giving rise to integrated service providers with the scale and resources to offer end-to-end logistics services across MENA. Currently outsourcing accounts for approximately 12% in the region, compared with 25-30% in Western Europe.”

The majority of manufacturers and retailers in the region have managed their warehousing and transportation operations in-house. However, now with increased competition and cost pressures, companies are focusing on their core activities and outsourcing logistics.

Furthermore, the harsh climate (dry desert) prevalent across the region necessitates extra

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effort and equipment in handling logistics for several industries including food, pharma, FMCG and chemicals among others, thus necessitating outsourcing of logistics.

Highlighting transportation and logistics role play in international trade, the report revealed that, robust trade, economic growth, and liberalization policies followed by many countries worldwide have resulted in increased trade volumes, thus ensuing increase in transportation, handling and warehousing needs, which has led to a demand for integrated logistics solutions. Increased globalization in manufacturing and other technological advancements has made companies focus more on core activities, and thus logistics activities have been outsourced as a cost-effective solution.

According to its research, the transportation and logistics industry in MENA generated approximately \$73 billion in revenue in 2015 (representing 3.4% of the GDP), while the GCC T&L industry accounted for \$47 billion (representing 3.3% of the GDP). The share is very low when compared to other regions across the world.

“However, transportation and logistics is emerging as one of the key drivers of economic activity in the region especially in GCC, whereby it now constitutes a major industry sector, rather than being just a support activity to other industries. Oil & Gas, infrastructure, trading and retail industry segments are the leading contributors to the GCC logistics sector,” says the report.

Among the GCC nations, Saudi Arabia’s logistics market contributes the largest, accounting for approximately 40% of the total market size in the region. Booz & Company had estimated the size of the industry at around \$18 billion in 2008,



The UAE is a highly appealing business environment for producers and manufacturers alike, as well as to logistics service providers.

–2.3% of GDP of the GCC countries (or 4.3% of GDP excluding the oil & gas sector), since then it has grown at a CAGR of 14.6%.

Putting the spotlight on MENA’s strategic location, Al Masah reviewed Dubai’s favourable position for international transportation and logistics. Dubai possesses well established and modern facilities including free trade zones and a local marine terminal operation considered one of the largest in the world. Most companies find that the region offers a range of benefits for their regional and international operations. The rising exports and imports drove the supply chain and logistics market and the Middle East, led by

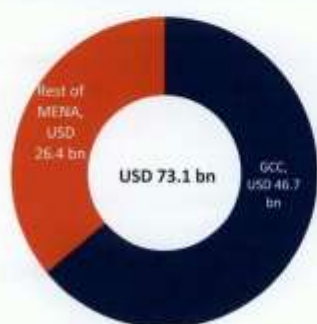
the UAE, to become one of the most important hubs in the changing global trade lanes: “Thus, overall, as MENA countries pursue political transformation and economic diversification, transportation and logistics investment is the cornerstone to its future growth.”

Revealing interesting facts about the MENA region, the report cited that MENA has trade relations with almost every country/region across the globe. The region exports hydrocarbons and hydrocarbon-related products that are in great demand, and meets a large part of its food requirement through imports. Data from the WTO suggests that MENA engages in maximum merchandise trade with Asia (55% of all exports and imports), followed by Europe (31%), and North America (8%).

Merchandise trade in the MENA region has been growing rapidly. Over the last decade, merchandise trade as a percentage of GDP expanded from 77% in 2005 to 81% in 2014, increasing at a CAGR of 6% to \$1.5 trillion in 2015 from \$807 billion in 2005. At 95%, this ratio was higher for the GCC, up from 86% in the same period. In 2005, Saudi Arabia dominated trade with 30% share followed by UAE (25%), which got reversed in 2015 with UAE dominating with 33% share followed by Saudi Arabia (25%).

MENA countries also lead in Sea and Air Trade routes with the UAE and Saudi Arabia ranking among ‘Top 10 Air Freight Lanes’ globally.

MENA Transportation and Logistics Industry (2015)



Source: Solidance, Al Masah Capital Research



Trade routes with the UAE and Saudi Arabia rank among the 'Top 10 Air Freight Lanes' globally.

Although the region has a diversified network of air, sea and road transport, the bulk of economic activity is skewed toward maritime transport.

The region has total of 134 Sea ports handling a total of 48.3 million TEUs of container traffic. Of these, the GCC has nearly 41 ports (35 major ports) which together handle 68% of MENA container port traffic. Besides sea transport, the region has 114 international and domestic airports of which 43 airports are located within GCC.

The report notes: "The transportation and logistics industry is highly fragmented and offers opportunity for consolidation and market dominance. The domestic services segment (inland transportation and warehousing) is dominated by local players, while the international services segment (freight forwarding and international transportation by air/ocean) is dominated by multinational players. The Solidiance whitepaper shows that transportation is the largest segment in GCC, followed by warehousing, freight forwarding and others."

The Middle East has also acted as a refuelling point for air freight carriers and shipping lines moving between Europe and Asia for many years which led to the creation of hub and spoke operations in the region.

The GCC has further built on modern warehouses and transportation infrastructure, developed free zones, adopted 'open skies' policies, simplified customs procedures and has

strengthened its anti-corruption measures in order to boost its non-oil economy. Most notably, an increasing number of manufacturers are establishing their distribution facilities at hubs such as the Jebel Ali Free Zone in Dubai, from where they have been efficiently supplying a growing consumer market across the region.

Within the region, the UAE and Saudi Arabia are the most attractive targets for logistics investments and easiest markets to operate. Other MENA countries, particularly those in the GCC, such as Qatar, Oman, Kuwait and Bahrain, along with Morocco, Jordan are also emerging as potential investment destinations.

"34 free trade zones, non-existent corporation tax and the offer of full ownership, coupled with unlimited repatriation of profits, makes the UAE a highly appealing business environment for producers and manufacturers alike, as well as to logistics service providers," found the report.

"The growth of transportation and logistics in MENA is being driven by government initiatives toward economic diversification from energy-based industries to expansion into other commercial sectors such as trade, export, import and tourism. This renewed focus on commercial sectors is paving the way for investments in transport infrastructure, including seaports, airports and major rail initiatives across the region." ●

EVOLUTION OF THE MENA T&L INDUSTRY

"The global economy has grown manifold over the last 30 years which led to an increase in the movement of raw materials and finished products. The rising exports and imports drove the supply chain and logistics market and the Middle East, led by the UAE, became one of the most important hubs in the ensuing changing global trading lanes. Further, over the last 30 years, the region itself has grown from a rural landscape to a cityscape, with a large middle class population and increased spending on critical infrastructure, which led to increase in the transport of goods into and around the region, thus driving the domestic logistic market. Global manufacturers started setting up their regional headquarters and distribution facilities around the region, attracted by the improving transportation links, modern facilities and skilled workforce. All this led to the setup of companies specializing in logistics, transportation, freight handling, warehousing, packaging and supply chain management in the region to meet demands. Additionally, in the recent years, governments across the region have set up Free Zones with in-built logistics infrastructure, providing incentives for using the air and seaports as stopovers for the transportation of goods globally, reducing the time to customers and making it more cost effective."