



# GREEN GROWTH IN THE MIDDLE EAST

*Executive Global Insight, September 2023*

# UNDERSTANDING GREEN PATHWAYS IN THE DECADE OF THE MIDDLE EAST

In recent times we have witnessed regional events spread and cause ripple effects across the globe, crippling economies in an unprecedented way. Simultaneously, new realities have brought forth societal change that would otherwise have taken years to normalise.

Digital and remote solutions have been fast-forwarded, changing the way we work, shop, engage and meet. War and instability in Europe sparked soaring price inflations and costs of living in most countries, and a shift in the global power balance has taken centre stage where the Gulf states and China are both playing pivotal roles, filling vacuums where the US was previously dominant.

The population of the Gulf states has long lived in abundance due to their natural resources. Generous governments have inhibited competition and development by making ordinary jobs for nationals highly rewarding. Female participation in the workforce has not been needed as households could live comfortably on just one income. This consequential inertia has permeated many aspects of daily life across the Middle East and has unleashed challenges that the countries are now trying to tackle.

When it comes to transforming the region's economies, analysts at the research firm Emerging Markets Intelligence & Research (EMIR) describe the outlook as follows: *"While each country's pace and scale of green transition may vary based on their unique circumstances, available resources and policy priorities, the overarching commitment to sustainable development is clear. The pursuit of green transition marks a fundamental shift toward economic diversification, energy security, environmental preservation, and international cooperation."*

We are embarking on "the Decade of the Middle East" as the push for sustainable development now accelerates. This report aims to provide an analysis of the region's progress, challenges, and opportunities in achieving a sustainable future, highlighting the importance of collaboration and innovation in driving transformative change. The study delves further into the progress being made in four Middle Eastern countries.

The countries we examine in-depth are Saudi Arabia, the United Arab Emirates, Egypt, and Iraq as each country represents different responses to the overarching macro trends that are driving the region's green transition: economic diversification away from hydrocarbons and increased focus on resilience and adaptation to tackle impacts of climate change.



## KEY TAKEAWAYS

- The green transition in the Middle East is picking up momentum and unlocking new opportunities for Swedish companies.
- In terms of export volumes to the Middle East, Sweden underperforms compared to European peers.
- Impactful measures in the Middle East deliver substantial progress in reducing poverty, promoting gender equality, and improving access to basic services.
- The UAE's economic diversification strategies have been used as a roadmap by neighbouring countries, and this Gulf state is now paving the way as regional sustainability frontrunner.
- Saudi Arabia's ambitious social and economic reforms make it one of the few countries in the world with a robust growth forecast.

- Egypt's ambition to become a regional energy hub unlocks opportunities for Swedish renewable energy experts.
- Iraq's need for urgent climate adaptation drives long-term opportunities in basic infrastructure such as irrigation, city resilience, roads and agriculture.

*Executive Global Insight* is published by Business Sweden to give Swedish business leaders a regular deep-dive into the most important trends in cross-border trade. The report series helps decision-makers break down risks and opportunities and provides actionable insights, drawn from the knowledge and expertise of Business Sweden's global advisors based in more than 40 markets.

**Stay ahead of the curve in global business. [Subscribe now](#) and get our next analysis in your inbox.**



# A NEW HORIZON FOR BUSINESS AND TRADE

The potential is rising for Swedish companies in the Middle East as the region's major economies embark on a new path toward sustainable development. The green transition and diversification away from oil and gas are now firmly in the spotlight.

## REGIONAL OUTLOOK

Although the Middle East is a heterogeneous region, it is currently characterised by a number of macro trends. Throughout the coming years, until the end of the decade, the region's development will be marked by major economic and social reform.

The green transition is likely to take up more and more of the countries' focus and investments in the short to medium term. The shift is spurring both economic diversification away from oil and gas on the one hand and, on the other, societal adaptation for resilience and survival to cope with the increasingly harsh effects of climate change.

The region's ongoing demographic shift, in which an already large young population is expected to continue to grow rapidly will have further substantial implications including an increased demand for education, health-care and jobs. Coupled with an increasing life expectancy, primarily in the region's wealthier countries, it is a recipe for change putting more pressure on the regional healthcare systems and government spending.

Diving deeper into demographics, the populations of the region vary greatly in composition from country to country. Some countries, such as Saudi Arabia and Egypt, are characterised by an overwhelming majority of young people (<35 years) where the majority share (~60%) are nationals of the country, with the rest consisting mainly of expatriates from the Middle East and the Indian subcontinent. In contrast, many of the other countries in the GCC (Gulf Cooperation Council) have older populations and a much smaller share of nationals (~10–15%), with the large majority instead being expats from other countries.

As a result, foreigners are a far more integral part of these countries' societal makeup – resulting in a much more diverse population in terms of religion and culture and more importantly, completely different outlooks for economic and social reform.

## ECONOMIC GROWTH AND DIVERSIFICATION

Against the backdrop of war in Europe and an overall gloomy economic outlook for large parts of the world, the Middle East is one of few regions globally that has a positive forecast for economic growth. In contrast to the region's historical reputation – the future looks increasingly stable.

When evaluating the Middle East's outlook, it is important to remember its past as several countries transitioned from relatively rural and underdeveloped tribal states into modern economies in just a few decades. Many Middle Eastern economies saw exponential growth driven by the region's vast reserves of oil and gas, and global demand for these resources.

Oil and gas exports have been, and still are, the backbone of many of the region's economies, and the sector accounts for a significant portion of GDP and government revenue. However, based on experience from volatile oil prices, and its direct negative effects on government spending and unemployment, many governments have recognised the risks associated with dependency on oil and gas and made economic diversification a key objective.

To find a more sustainable equilibrium and reduce dependency, countries such as Saudi Arabia, the United Arab Emirates and Qatar, are now actively pursuing ambitious development programmes and visions underpinned by the desire to diversify away from oil and gas.

The global climate action agenda and direct implications of climate change are likely to accelerate this desire as the demand for hydrocarbons slowly declines, forcing producing countries to look for alternative revenue streams. Economic diversification in the Middle East has so far involved investments in industries such as tourism, technology, manufacturing, and renewable energy. This has been coupled with government reforms aimed at increased efficiency and reduced government subsidies in key sectors.

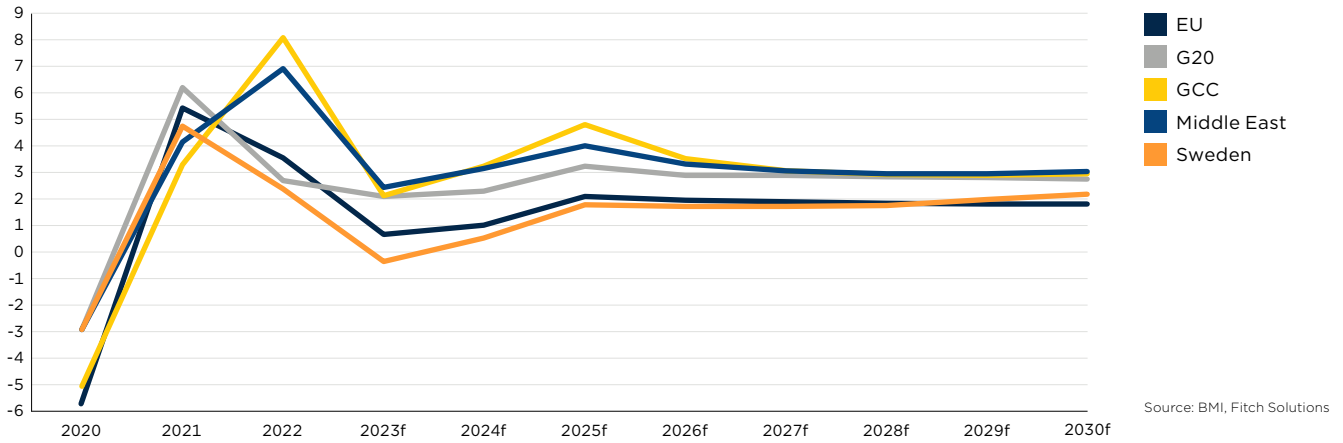
An important focus of the diversification agenda is to find a new sweet spot in the global marketplace for the region's economies. Many of

*“With innovation and market competitiveness, private companies play a crucial role in scaling up renewable energy projects, creating jobs and accelerating the region's progress towards sustainability goals.”*

EMERGING MARKETS  
INTELLIGENCE &  
RESEARCH (EMIR)

## GROWTH FORECAST FOR THE MIDDLE EAST REMAINS STRONG

2030 forecast for GDP growth, per cent



the countries have set a target to become "knowledge economies", underpinned by booming private sectors generating new job opportunities for the large part of the population that still is on government payrolls employed in the countries' vast public sectors.

Countries such as Israel and the United Arab Emirates have emerged as major hubs for start-ups and tech companies. They are good examples of how this focus has yielded tangible results in terms of new jobs and increased human capital in the region. Supportive government policies and investments in technology and innovation have been key in this development, which has attracted foreign direct investments and knowledge transfer from stakeholders abroad.

### INTERNATIONAL TRADE

Over the last years, Sweden has steadily increased its exports to the largest economies in the Middle East. As shown in the graph below, Saudi Arabia is the largest trading partner and accounts for over a third of total Swedish exports to the region. This is on par with the regional trend in which 80 per cent of all incoming investments are channeled towards Saudi Arabia.

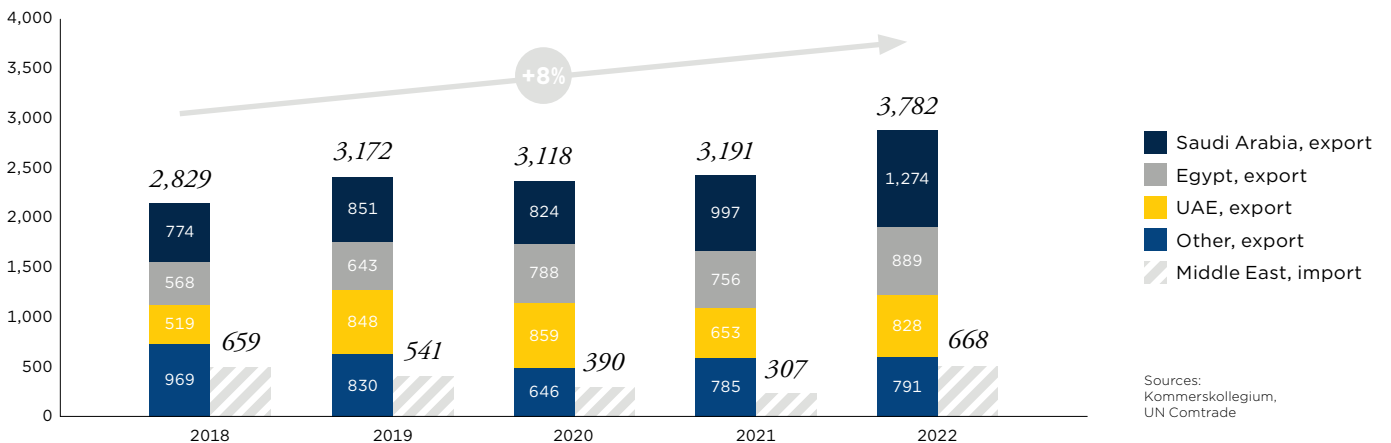
Thereafter, Egypt and the UAE make up the second and third largest trading partners for Swedish companies in the region. Sweden's export figures to Iraq, which is also the focus of this study, are currently negligible. But Iraq is steadily improving and still holds vast natural resources, enabling the country to invest heavily in the coming years as it becomes more stable. Much of what is exported to the UAE is thereafter shipped to neighboring countries given that the UAE serves as an important regional hub for many Swedish companies, both from a logistical and managerial perspective.

Swedish imports from the region are pale in comparison. Raw materials and fuels have been the primary goods sourced from the region, unlike Swedish exports which consist of iron and industrial goods for a wide variety of sectors.

Compared to the other Scandinavian countries, Sweden is performing well when it comes to exports to the Middle East with the highest figures measured in absolute numbers. However, it can be argued that Denmark is doing slightly better considering its relative size to Sweden. In relation to many of its European peers, it is clear that Sweden and Swedish companies have great

### STEADY RISE IN EXPORTS TO THE MIDDLE EAST

Goods export and import, current prices MUS\$





potential, as the trade volumes are lagging quite significantly even compared to countries of similar size in population such as Switzerland and Belgium.

Although population size is not in any way an indicator of how strong a country's exports should be, we are using it here for simplification purposes to compare countries that share other fundamental similarities – such as being highly developed European countries dependent on exports.

Swedish companies have been present in the region for decades and Swedish brands are held in high regard, particularly when it comes to quality, innovation, and sustainability performance. This opens up the door for many other companies who want to enter the market.

### SUSTAINABILITY RISKS

The Middle East is a remarkably diverse region. Keeping its history and geopolitical situation in mind is key when evaluating the region's sustainability risks. Many Middle Eastern countries have seen extremely eventful and rapid economic development in just a few decades. Consequently, a dichotomy between high economic prosperity and an old socioreligious social order has arisen.

Closing this gap takes time but the shift is underway, especially in the Gulf states.

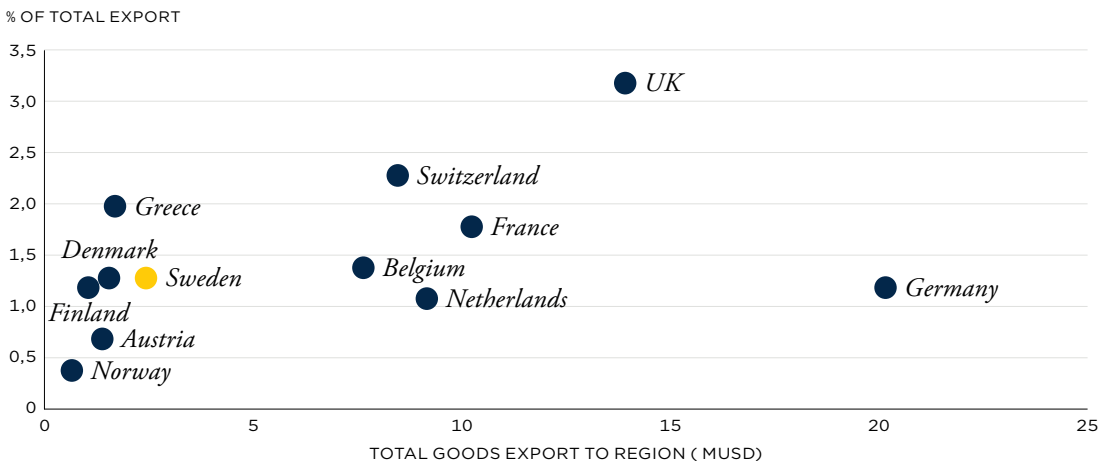
When it comes to environmental sustainability in the Middle East, the risks and impact areas are substantial and could have a de-stabilising effect given that it is one of the driest and hottest regions in the world. In general, the region is highly vulnerable to the effects of climate change and is already experiencing the consequences of rising temperatures and changing weather patterns causing severe droughts, heat waves, dust storms, and floods on a regular basis.

Given the undeniable direct impact of climate change that the region is experiencing today, climate change and its effects on local biodiversity and habitat should be taken into account in any macro-level assessment as a significant risk. One of the most pressing issues is increased water scarcity. Climate change exacerbates this problem by increasing the frequency and severity of droughts, with a lack of rainfall causing groundwater depletion.

Many Middle Eastern countries rely heavily on groundwater resources, which are now being depleted at an alarming rate. In addition, large parts of the Middle East are also prone to

### SWEDISH EXPORTS LAG BEHIND EUROPEAN PEERS

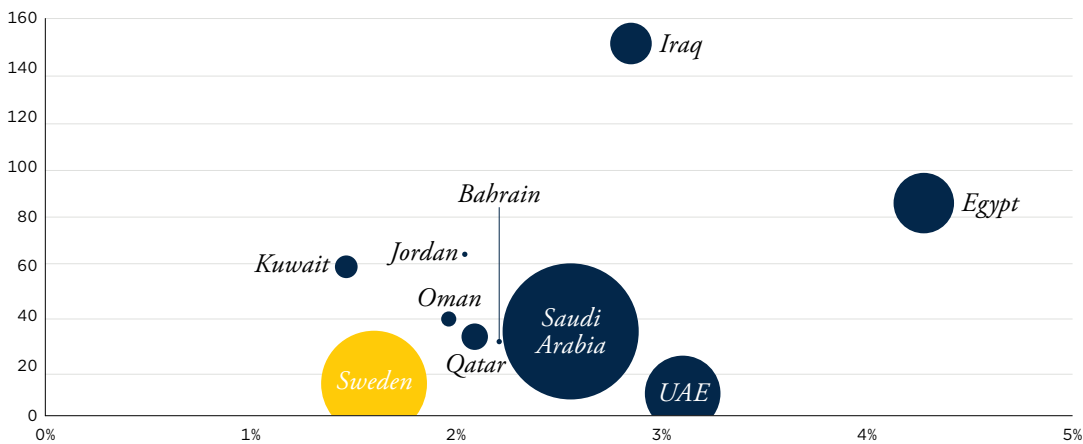
Exports to Middle East, percentage share of total goods exports, MUS\$



Source: UN Comtrade

## CALCULATING RISK IS KEY TO CAPTURING GROWTH

Projected growth, per cent (GDP CAGR), versus operational risk ranking



Source: Operational Risk Index, BMI, Fitch Solutions

desertification, which in turn leads to soil degradation, loss of biodiversity, and reduced productivity in agriculture. Future economic, social, and environmental impacts of this can only be expected to increase as infrastructure is damaged, agriculture is disrupted, and as human health deteriorates.

Addressing the region's environmental sustainability challenges will require a combination of strategies that include water conservation, renewable energy development, land restoration, sustainable agriculture and urban planning. In response, Middle Eastern countries are already investing heavily in adaptation measures such as improving water management practices, promoting renewable energy, and enhancing infrastructure resilience.

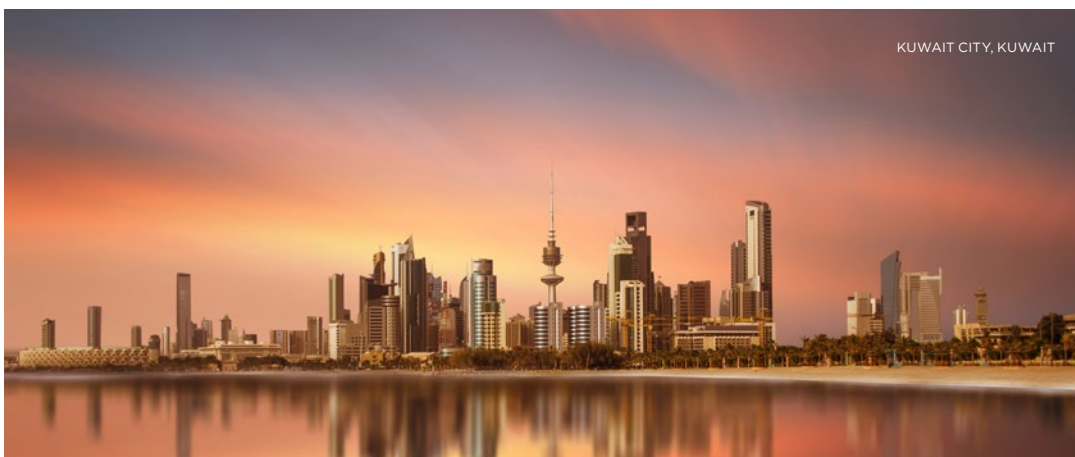
A range of social sustainability risks remain across the region and must be considered and fully understood before entering the markets. These include discrimination and social exclusion, corruption, human rights abuses, displacement, health challenges and high youth unemployment. Substantial progress has been made with impactful measures aimed at reducing poverty, promoting gender equality, and improving access to basic services such as healthcare and education for all citizens.

It is important to remember that social and environmental sustainability risks are usually interconnected, and social sustainability risks can significantly impact both the economic and environmental sustainability of countries.

Addressing both social and environmental challenges in the Middle East requires a comprehensive approach that considers the complex social, economic, political and cultural legacy of each country. Its reputation for being a troubled region, plagued by wars, geopolitical and economic instability is primarily linked to four fragile states – Yemen, Syria, Iraq and Lebanon.

At the same time, it is worth noting that Iraq has taken promising steps towards increased financial and political stability, and has achieved improvements particularly in the northern parts of the country.

In stark contrast to these fragile nations, the Gulf states and the UAE and Saudi Arabia in particular, stand out as business havens. Here, geopolitical stability and ongoing social and economic reform are expected to lay the foundation for a more favourable business environment with reduced sustainability risks over time.



# SHAPING THE GREEN TRANSITION: FOUR GROWTH HOTSPOTS

The Middle East is one of the world's most vulnerable regions to the impacts of climate change. Building climate-resilience and transforming industries while investing in new sectors is key to ensuring future prosperity, social stability and global competitiveness.

## TRANSITION DRIVERS

With economic and social reform ongoing, and the green transition becoming an increasingly existential item on the agenda for Middle Eastern governments, we can conclude that the coming years will be pivotal in shaping the countries' outlook and prosperity.

Increased investments and focus on societal mitigation and adaptation efforts in the short to medium term is an obvious step, but the drivers motivating each country to prioritise such measures can vary. To outline and break down the different rationales underpinning why the countries in the Middle East must now give top priority to the green transition, a transition matrix has been developed by Business Sweden.

The countries' score in the matrix for oil and gas dependence is based on their oil and gas rents as a percentage of GDP in 2021, and the

countries' score for environmental performance is based on their Environmental Performance Index in 2022.

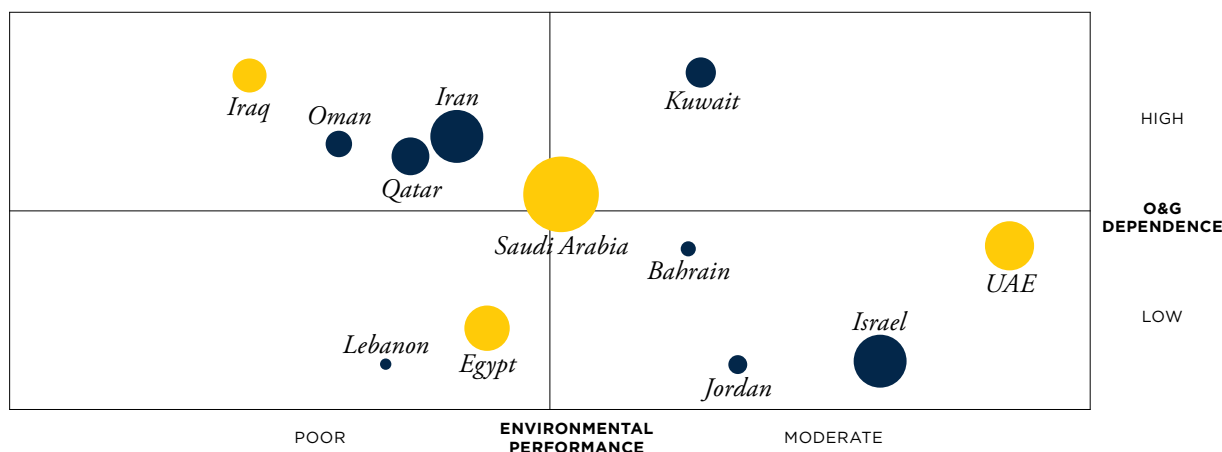
The matrix clarifies that two key drivers are underpinning the accelerating focus on green transition initiatives domestically, namely the countries' current oil and gas dependency and the potential economic loss of failing to diversify, as well as the countries' environmental performance domestically and subsequent exposure to the direct effects of climate change.

## COUNTRY DEEP DIVES

Based on the key drivers outlined above, we present a deep-dive into current progress in four selected countries – the UAE, Saudi Arabia, Egypt and Iraq – and the steps that are currently being prioritised by the respective governments in their sustainability strategies.

## GREEN TRANSITION IS BECOMING A TOP PRIORITY

Matrix for two key drivers: oil and gas dependence and environmental performance







## UNITED ARAB EMIRATES

Like most Gulf Cooperation Council (GCC) countries, the United Arab Emirates (UAE) has historically been highly dependent on oil and gas exports for its economic growth and development. However, the government of the UAE recognised the associated risks early on and took action to develop a long-term strategy that aims to decrease the country's dependence on oil and gas revenue to create a more sustainable and diversified economy.

The strategy involved several key initiatives, such as establishing economic free zones to attract foreign investment and create new business opportunities, promoting tourism as a significant contributor to the economy, and developing a knowledge-based economy through investments in education, research, and innovation.

In the quest to attract international talent, investments and tourists, the UAE also pushed through several legal reforms. These reforms have targeted both the ease of doing business, such as allowing 100 per cent foreign ownership in local companies as well as liberalising social legislature and ruling court systems.

For example, expatriates can now apply the laws of their own country regarding marriage, divorce and inheritance, and the consumption of alcohol, and couples co-habiting without being married is now decriminalised. Stricter laws against the harassment of women have also been introduced. Through these measures, the UAE has made significant progress in accelerating economic diversification and the non-oil economy is expected to grow by 4.2 per cent in 2023.

At the same time, the UAE has been an ambitious frontrunner in the Middle East when it

comes to environmental performance. In recent years, the UAE has taken several steps to promote environmental protection and sustainability domestically through long-term strategies and regulations. In 2016, the country launched its National Climate Change Plan 2017-2050, and in 2021 it announced its goal to become net-zero by 2050, making UAE the first nation in the Middle East and North Africa to do so.

The UAE government has repeatedly argued that the path to net zero unlocks major economic opportunities that directly support the country's vision of becoming one of the most dynamic economies in the world. Federal and local government authorities are responsible for preparing comprehensive studies, development and investment plans to reduce emissions and ensure resilience across society.

From an energy perspective, the UAE began investing in clean energy projects more than 15 years ago and it has already invested over USD 40 billion in the sector. Current forecasts predict that the country's fossil-free energy production capacity, including solar and nuclear, will reach 14 GW by 2030, up from about 100 MW in 2015 and 2.4 GW in 2020.

An important initiative in this development has been Masdar which was launched in 2006. The initiative aims to develop renewable energy and sustainable technologies through targeted projects in Masdar City, an eco-friendly community in the outskirts of Abu Dhabi. The aim is to make Masdar City one of the world's most sustainable urban developments, designed to be carbon-neutral and powered entirely by renewable energy sources (solar and wind power).

To achieve this, the Masdar Institute is today

conducting research into advanced hydrogen production, energy storage technologies and other fields. Hydrogen is considered a key pathway for the UAE to achieve its sustainability goals while maintaining its position as a global energy leader.

Another focus area in the domestic energy sector is investments in solar energy and the country is today home to one of the world's largest single-site solar energy parks, the Mohammed bin Rashid Al Maktoum Solar Park. This large-scale renewable energy project located in Dubai has a planned capacity of 5,000 MW by 2030. By the end of 2022, the capacity reached 2,027 MW, thereby increasing the clean energy share in Dubai to about 14 per cent of total production capacity in the Emirate.

The Mohammed bin Rashid Al Maktoum Solar Park was founded through a public-private partnership and involves various technologies, including photovoltaic panels and concentrated solar power, and the park has attracted significant international attention and investments.

The UAE has also established an ambitious nuclear energy programme which includes the construction of four nuclear reactors in Barakah, located in the western regions of the Emirate of Abu Dhabi. The first of these reactors began commercial operations in 2020 and the entire Barakah nuclear power plant is expected to have a total capacity of 5,600 MW.

The country also has a history of supporting and investing in clean energy projects and new infrastructure internationally. To date, it has provided more than USD 400 million in aid and soft loans as well as invested around USD 16.8 billion

in renewable energy ventures spread across 70 countries, with a primary focus on helping developing nations decarbonise their energy supply.

When it comes to infrastructure investments, the UAE has launched the megaproject Etihad Rail, a 1,200 km national rail network designed to further the nation's green transition and sustainability goals. The network extends across the UAE, from the border of Saudi Arabia to the border of Oman and the railway will link the principal centres of trade, industry, manufacturing, production, logistics and population with all of the country's major import and export entry points. By 2050, the railway aims to reduce carbon emissions from road transport by 21 per cent and reduce road transport emissions per capita by 40 per cent.

The UAE's efforts to promote environmental sustainability have long been part of its broader diversification strategy, and its goal has always been to become a global frontrunner in the green transition, especially in clean energy. By the end of 2023, the UAE's green transition commitments will be in the global spotlight as the country takes up the Presidency of the 28th Conference of the Parties to the UN Framework Convention on Climate Change (COP28) which it will be hosting.

This year's COP will focus on the first Global Stocktake, which aims to assess countries' collective progress towards achieving the goals of the Paris Agreement that came into force in 2016. The conference, which for the first time will be hosted in an oil and gas producing country, is also expected to bring the energy industry to the negotiation table to discuss a realistic path to an accelerated global green transition.



DUBAI, UAE



## SAUDI ARABIA

Saudi Arabia is the largest economy in the Arab world. Since 2017, it has been on a journey to push through economic reforms and liberalisation of its social contract. The country seeks to position itself on the world stage not only as a global leader for energy and innovation, but also politically as a peacemaker and diplomatic midpoint between the East and the West.

Saudi Arabia recognised the need to diversify its economy and reduce its dependence on oil which prompted the launch of Vision 2030 in 2016. This ambitious plan aims to transform the country's economy, society, and infrastructure by focusing on three main themes: a vibrant society, a thriving economy, and an ambitious nation. Although oil and gas dependency remains high, Crown Prince Mohammed Bin Salman has rolled out major reforms to reduce the country's dependence on oil under the overarching Vision 2030 agenda. Several measures have been introduced, including partial privatisation of state-owned entities such as Saudi Aramco, the world's largest oil company, the launch of futuristic mega-projects such as NEOM, a sustainable city of the future on the Red Sea coast with a total estimated investment of 500 billion USD, as well as opening the country to international tourism and developing the domestic entertainment sector.

With a size similar to the country of Belgium, NEOM is situated at the crossroads of Asia, Europe, and Africa, and is expected to provide access to global markets within a few hours flight. Its proximity to the Suez Canal is also expected to make it an ideal hub for international trade and commerce. NEOM consists of four separate mega-projects (called regions) which will become cities

in their own right: The Line, Oxagon, Trojena, and Sindalah.

The Line represents a bold and innovative approach to urban development with a focus on sustainability, efficiency, and quality of life. The project aims to create a model for future cities, demonstrating how technology, nature, and community can be integrated to create a better and more sustainable urban environment. As the name implies, The Line will be a 170 km long linear city in the desert with all amenities needed for everyday life, from work to leisure, available within a few minutes walking distance or via sustainable public transport.

Oxagon, in contrast, is a floating industrial complex shaped like an octagon, which is expected to become the economic and industrial engine of NEOM as it channels value and growth in industry and technology. This floating city will be a hub for innovation, enabled by an automated port integrated with a smart supply chain network. Oxagon will be home to large-scale industrial activities in areas such as technology in the service of people, water innovation to address water scarcity, green hydrogen and e-fuels.

The next region, Trojena, is part of NEOM's broader vision of becoming a global destination for tourism and leisure, by offering a unique and sustainable mountain resort experience. The project is nestled in the mountains of the region, providing visitors with a range of outdoor activities such as hiking, mountain biking, and rock climbing. Trojena will also host the Asian Winter Games in 2029.

Finally, Sindalah is a luxury island tourism destination in the Red Sea outside NEOM. With its commitment to sustainability and world-class

hospitality, Sindalah is set to elevate Saudi Arabia's position in the global tourism market, establishing the country as a premier destination for discerning travelers worldwide.

In addition to the regions above, NEOM will be home to the world largest green hydrogen plant which is set to start production of green ammonia at scale in 2026.

In terms of environmental performance, Saudi Arabia has launched several green initiatives and sustainability projects aimed at mitigating and reducing the country's carbon footprint while promoting sustainable development in a wider context. One of the more prominent projects is the Saudi Green Initiative, which was launched in March 2021. The initiative started with the aim to plant 10 billion trees in the country over the next decade, but has grown into a wider project in the Middle East with a set goal to plant 40 billion trees across the region.

Another initiative and concept being promoted by Saudi Arabia as key step in the green transition is the so-called Circular Carbon Economy, which together with the King Salman Renewable Energy Initiative is the backbone of the country's efforts to reduce its domestic carbon emissions. This will be done primarily by using carbon capture, utilisation, and storage technologies, and by planning for the construction of several large-scale solar and wind power projects across the country.

The fully operational plants so far are the Sakaka Solar Power Plant, the largest solar panel project with a capacity of 300 MW and the Dumat Al Jandal wind farm, with a capacity of 400 MW, which is also the first utility-scale wind project in Saudi Arabia.

For carbon capture and storage (CCS) technologies to reduce greenhouse gas emissions, the national oil company Aramco is the main actor. It has been working on a CCS project at the Uthmaniyah natural gas processing plant – a project that captures around 800,000 tons of CO<sub>2</sub> per year which is then injected into oil reservoirs for enhanced oil recovery. Aramco is also heavily involved in the development of hydrogen and aims to become a top global supplier, with clean hydrogen production targets of 2.9 million tons per year by 2030 and 4 million tons per year by 2035.

In addition to Aramco, ROSHN – a subsidiary of the Public Investment Fund – will be another key player in driving Saudi Arabia's sustainability agenda. The company focuses on developing integrated and sustainable residential communities. The mission is to improve quality of life for residents by providing modern, sustainable, and affordable housing solutions.

ROSHN is committed to incorporating environmentally-friendly practices and technologies in its projects. The company utilizes renewable energy sources such as solar power and implements energy-saving technologies to reduce overall energy consumption. Water conservation is another priority as water-saving technologies

and practices are adopted across all projects. This includes efficient irrigation systems and rainwater harvesting. The company is also dedicated to implementing effective waste management strategies in its communities, including recycling and composting programmes, to minimise the environmental impact of waste.

From an adaptation perspective, water and agriculture are key priority areas for Saudi Arabia as a whole, not just for individual companies. The Saudi Water Efficiency Program works to reduce water consumption in the country by promoting water-efficient practices and technologies, whereas the Saudi Sustainable Agriculture Program aims to promote the use of organic farming methods, sustainable irrigation practices, and renewable energy in agriculture.

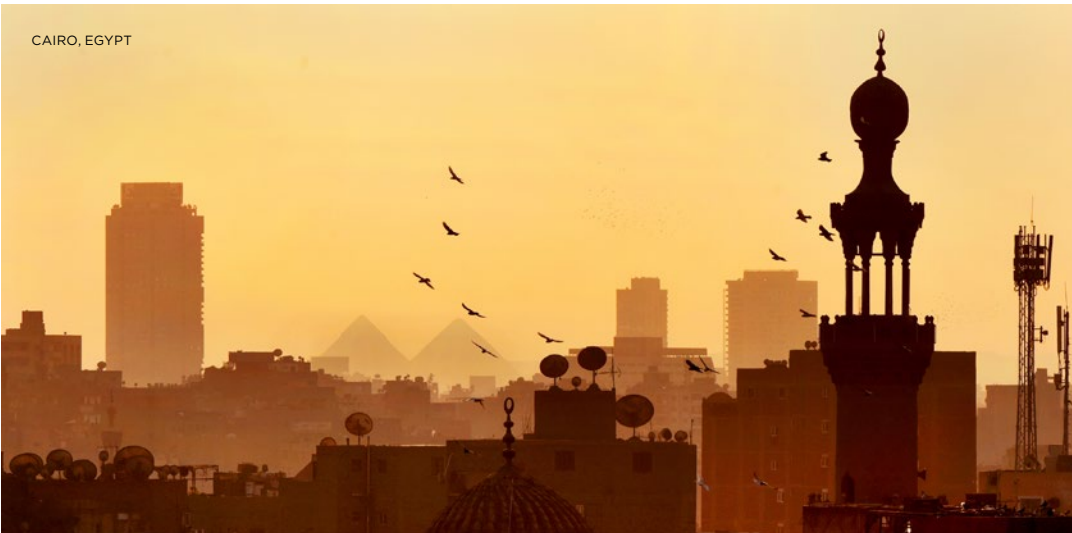
Besides this, waste management and circularity are also high on the agenda, as demonstrated by the Saudi Waste Management Program which aims to raise public awareness around the importance of waste reduction, recycling and composting.

Other major initiatives include the Saudi Green Transport Program which aims to promote sustainable transport and covers the promotion of electric vehicles, the construction of bike lanes and pedestrian walkways and the use of public transport to reduce car usage.

In a turbulent world where recessions loom across the globe, Saudi Arabia is one of few countries where steady growth is expected to continue over the coming years. Its strong financial muscles enable the country to launch monumental plans at a higher pace, thereby attracting international companies to the Arabian Peninsula.

Presenting contributions to the local economy and having a permanent local presence is of utmost importance for foreign companies looking to do business with government stakeholders. Failing to do so will most likely disqualify companies for bids and commercial offers. All this is part of achieving the much-needed economic diversification away from oil and gas, outlined in Vision 2030.

CAIRO, EGYPT



## EGYPT

Egypt, the country with the largest population in the Middle East has an outspoken ambition to become an energy nexus connecting the African continent with the Middle East and Europe. Solar energy has seen major investments in recent years, and one of the most notable projects is the Benban Solar Park which is among the largest solar installations in the world. The project, which was completed in 2019, has a total capacity of 1.65 GW and attracted approximately USD 4 billion of investments. More is now to come as the country embarks on several megaprojects in solar energy production as part of its 2030 vision.

In the past two years, 126 solar power stations were established across Egypt. During 2022, Egypt's role in the global green transition hit the spotlight as the country undertook the Presidency of the 27th Conference of the Parties to the UN Framework Convention on Climate Change, hosting COP27. While failing to deliver major progress or breakthroughs, the conference in Sharm El Sheikh turned the world's attention to issues such as climate finance, climate adaptation and loss & damage.

Although the visions are grand and possible, Egypt is not devoid of challenges. Many other critical areas are also in need of significant investments, both to support population growth and social development. This includes upgrading roads, ports, and airports, as well as investing in digital infrastructure to support e-commerce and other digital services.

Egyptian society is known for its stark contrasts where one part of the population live in opulence in gated communities in new parts of Cairo, far away from the slums.

The middle class, accounting for close to a third of the population, live under relatively decent conditions despite rising inflation and a series of devaluations of the Egyptian pound, having access to higher education, health, and basic services. Finally, the financially vulnerable, accounting for around 60 per cent of the population according to WHO, have very limited access to basic services and clean water, and nearly 10 million children are considered multidimensionally poor in Egypt.

Despite recent reforms to reduce fiscal imbalances and improve macroeconomic stability, Egypt's economy is still facing significant challenges in the short to medium term. The need for economic diversification is therefore urgent and is a key objective of government programmes and investments.

Although Egypt's economy is less dependent on oil and gas compared to its peers in the GCC (-15%), the country faces serious challenges including high levels of poverty and unemployment, high inflation, a large informal sector, and a dire lack of foreign currency.

The country has received substantial financial support from the Gulf countries since the military came into power a decade ago, consisting of central bank deposits, loans, aid and grants. In 2022, three Gulf Cooperation Council countries – Saudi Arabia, UAE, and Qatar – pledged another USD 22 billion to Egypt both in the form of deposits as well as investment deals. These investments come with strings attached and a clear expectation that the government must focus more on privatisation in terms of enabling a healthy and well-functioning private market and by selling off the government's vast portfolio of public and military-run companies.

For decades, the Egyptian Armed Forces (EAF) has been allowed to engage in economic activities to reduce the government's official defense spending. The EAF therefore owns and manages a massive part of the country's economy, between 25 to 40 per cent according to reputable sources. Many infrastructure projects, as well as the provision of goods or services, are either run directly by the EAF or indirectly through contracts awarded to military affiliated companies.

Moreover, Egypt is characterised by poor environmental performance, battling numerous environmental challenges such as waste, desertification, air pollution and water scarcity, which in all demonstrates the country's stark failure to tackle the implications of climate change. Addressing these challenges and adapting Egyptian society to become more resilient is crucial for the long-term sustainability of the country.

Water quality and water scarcity are particularly challenging for Egypt's agriculture sector, which is a major contributor to the national

economy. Despite the fact that only 3 per cent of Egypt's total land area constitutes arable land, agriculture accounts for nearly one-eighth of the country's GDP and is an important sector for employment. It employs roughly one-fourth of the Egyptian labour force and provides the country, through agricultural exports, with a substantial part of its foreign exchange.

Given the substantial national risk in terms of lost employment opportunities and economic activity due to climate change, extensive capital has been invested and is expected to continue to be invested in canals, drains, dams, water pumps, barrages, commercial fertilizers, pesticides and skilled labour.

While price remains a significant factor in investment decisions, sustainability is gaining more attention and becoming a decisive factor in investments as well – it is now a strategic imperative to prioritise sustainability as it addresses the immediate challenges but also ensures long-term resilience and prosperity.

*“Egypt has recognised the threat posed by climate change and is pushing for much-needed green investments. Besides addressing scarcity of water and arable land, the government wants to capture the potential of renewable energy. Some private sector companies are doing more than required by national regulations to adapt their business models to be able to service the European market.”*

ERIK ELDHAGEN, FORMER SENIOR ECONOMIC AND COMMERCIAL ADVISOR,  
EMBASSY OF SWEDEN IN CAIRO



SUEZ CANAL, EGYPT



BASRA, IRAQ



## IRAQ

Iraq has one of the world's largest proven oil reserves and gas deposits, and oil and gas exports account for more than 90 per cent of Iraq's total exports. The public sector is estimated to account for about 60 per cent of the Iraqi economy (GDP), while the private sector remains very weak and static.

Iraq's economy is almost completely dependent on oil and gas revenue, which is leaving the nation highly vulnerable to fluctuations in global oil prices in the near term. The country is also greatly exposed in the long term as global demand for hydrocarbons gradually declines across the globe, as economies move to cleaner energy sources. Investments in economic diversification is therefore a critical necessity for Iraq.

Over the next 10 years, real GDP in Iraq is projected to expand by a yearly average of 3.6 per cent. Over this period, the oil and gas sector, coupled with investments in the reconstruction of the country's infrastructure, will be the economy's lifeblood. However, economic growth in Iraq will be hampered by the country's low economic diversification and weak private sector.

The risk of increasing political instability is another factor curbing Iraq's potential as a regional economic force. The outlook for the non-oil-related sectors remains uncertain due to Iraq's challenging political environment and lack of structural reforms, combined with rising inequality which, in all, weighs on consumer and business confidence. In addition to political instability within the country, foreign proxy rivalry continues to play out in Iraq and limits autonomous policymaking. Despite the removal of Daesh from Iraqi territory, the security risks remain elevated,

making it more challenging for most foreign businesses to operate in the country.

Iraq's economic vulnerability is further directly amplified by its environmental performance domestically and the harsh impacts of climate change currently felt in the country. This includes water scarcity and temperature rise, which will have wide-ranging socio-economic consequences, affecting all its economic sectors.

In 2021, Iraq was ranked the world's fifth most vulnerable country to extreme temperatures and decreasing availability of water, arable land, food and fragile ecosystems. The observed average annual mean temperatures in Iraq are rapidly rising and increased from 22 degrees Celsius in 2008 to nearly 25 degrees Celsius in 2021. As the temperatures continue to rise, they will put biological ecosystems and the agricultural sector in Iraq at risk by halting some of the country's most important non-oil sectors. Iraqi agriculture workers are also expected to be most affected by deteriorating working conditions with as much as 35 per cent of workers likely to be exposed to extreme heat conditions on a daily basis.

The Iraqi agricultural sector is vital to the country's economy and food security and in 2020, the sector accounted for 5.9 per cent of GDP and employed approximately 9 per cent of the workforce. Water shortages already weigh on Iraq's agricultural output and recent years have shown a consistent decline in crop yields. Without proper adaptation measures, water scarcity and suboptimal water quality pose a significant risk to Iraq's agricultural sector and society. Infrastructure investments in irrigation, dams and embankments are needed in the short to medium term to cope with increasing water stress caused by climate change.

Jobs in the sector are rarely formal or salaried, and compensation is directly tied to output. Reduced labour productivity therefore translates into lost earnings and increased poverty in the country, leaving the unskilled workforce disproportionately affected by climate change.

In this context, if the water-agriculture-poverty nexus in the country was addressed properly, Iraq could increase water productivity, diversify the economy, create employment, improve the quality of jobs and livelihoods, contribute to food security, and support the resilience of the most vulnerable parts of the population.

To ensure Iraq's long-term growth prospect, the country needs to diversify its economy away from hydrocarbons to alternative sectors, while at the same time investing in urgent climate adaptation measures. Key investment sectors include basic infrastructure, such as irrigation, city resilience, roads, and agriculture.

Unfortunately, Iraq's capacity to adequately channel investments to address these issues is restrained by prevailing social sustainability risks and the country's history of authoritarianism,

foreign intervention, civil war, and political gridlock.

Iraq faces significant challenges on many levels that have to be overcome for the country to continue to be inhabitable, but the government is now committed to shaping a more sustainable future. Iraq also stands a better chance than many of its neighbors, considering its vast oil resources to make the necessary investments. Furthermore, Iraq cooperates with international organisations such as the United Nations Development Programme (UNDP) and the World Bank to implement sustainable development projects and policies.

The long-standing battle against power outages is just one example. To tackle the issue, Iraq has invested in renewable energy projects, particularly solar and wind power. The country has a high potential for solar energy, with an average of 5.6 hours of sunlight per day. The Ministry of Electricity has set a target to generate 10 per cent of the nation's power from renewable sources by 2025. While these may seem like small steps, the potential is rising – if correct action is taken – to make a tangible impact on Iraq's future.

*“Increasing revenues from the oil and gas sector could enable a green transition in Iraq if it is prioritized and funds are allocated to strategic investments – similarly to what we are currently seeing in Saudi and UAE.”*

MAGNUS ANDRE, PROGRAM MANAGER,  
THE SWEDISH INTERNATIONAL DEVELOPMENT COOPERATION AGENCY (SIDA)



BAGHDAD, IRAQ



## CONCLUSION

# TIME TO CAPTURE THE MOMENTUM

The green transition has become both an existential and strategic imperative for Middle Eastern markets. Understanding the drivers, needs and priorities of each country is critical for success as vast opportunities emerge.

This report has outlined the current regional dynamics and reasoning as to why and how the short to medium term (5–10 years) is a period that can be described as the “Decade of the Middle East”. Simply put, the Middle East has now become a key growth region in the global context and has reached relative geopolitical stability compared to its legacy of conflicts during previous decades.

Although challenges remain when it comes to the drive for sustainability, there is unmistakable positive momentum with reforms and unprecedented investments that put the region on the right track to achieve meaningful change.

### TWO OVERARCHING TRENDS

Several Middle Eastern countries are now giving top priority to the green transition. Their individual rationales and drivers vary but can be summarised by two overarching trends: economic diversification away from oil and gas and increased focus on resilience and adaptation to tackle the impacts of climate change.

The UAE, Saudi Arabia, Egypt and Iraq represent four different country profiles for how these factors come into play. Each country will take a different approach to accelerate their green

transition plans, but it is clear that the need and urgency of industry-wide transformation is now recognised by decision-makers in all these countries.

### URGENT NEED FOR CLIMATE-SMART SOLUTIONS

Substantial investments and reforms are getting underway across the Middle East bringing together government and private sector stakeholders together in a common mission. This opens up a new playing field for Swedish companies who can offer climate-smart technologies and leading know-how across all facets of sustainable development – ranging from renewables and energy storage to ICT, smart mobility and smart city development.

But these opportunities come with a caveat: to capture the region’s promising potential, Swedish business leaders need to navigate the complex reality of Middle Eastern markets – a reality that is vastly different from the conventional ways of operating in the West.

To jumpstart your analysis, we present five key steps below that will lay the groundwork when it comes to identifying the most successful roadmap for your market entry.



## TAPPING INTO GREEN INVESTMENTS: FIVE STEPS TO SUCCESS

- **Do your homework:** Identify growth opportunities for your products and services and don't approach the Middle East as a homogenous region.
- **Define and develop your strategy:** Start asset light in order to maintain flexibility in a region where market conditions change rapidly – but plan to scale long term to stay relevant.
- **Ensure local interaction:** Invest in building your local presence through greenfield, joint venture or distributorship models. Hire local personnel when possible.
- **Adapt your business model:** Use changing market conditions and uncertainty to create a competitive advantage by adapting your service and product offering.
- **Plan for the long haul and build resilience:** Invest in long term relationships with government representatives and key local stakeholders.

## BUSINESS SWEDEN CAN SUPPORT YOU

Business Sweden's team in the Middle East stands ready to support your next strategic move in the region. We can help you adapt your solutions, identify the right partners and support and guide you through all steps of your expansion journey – covering all strategic, operational and practical considerations.

We have local market knowledge, an extensive network of local partners and key expertise on how to position Swedish solutions in the diverse markets of the Middle East. We combine 50/50 teams "on the ground", with in-house experts in key areas, ranging from export rules and regulations to best practices when establishing your business.

Our advisors stay on top of trends and opportunities within the following sectors: healthcare and life science, mobility, connectivity, sustainable solutions.



### MASSOUD BIOUKI

Market Area Director and Trade Commissioner

[massoud.biouki@business-sweden.se](mailto:massoud.biouki@business-sweden.se)





*We help Swedish companies grow global sales and  
international companies invest and expand in Sweden.*

---

**BUSINESS-SWEDEN.COM**

**BUSINESS SWEDEN** Box 240, SE-101 24 Stockholm, Sweden  
World Trade Center, Klarabergsviadukten 70  
T +46 8 588 660 00 [info@business-sweden.se](mailto:info@business-sweden.se)  
[www.business-sweden.com](http://www.business-sweden.com)