

Findings from the 2019 Global Business and Spending Outlook from American Express

Future Perfect, Present Tense

Middle East finance executives' views
on economic outlook, spending plans
and the future of technology



Thought
Leadership
Studio



Future Perfect, Present Tense

Contents

- P4	Economic outlook: Performance expectations remain strong
- P13	Spending plans: Restraint in spending and investment
- P26	Hiring plans: Tight labor market demands thinking beyond compensation
- P31	Technology: Emerging technologies dominate corporate strategies and spending

Introduction

The Middle East is the crossroads of the world, and the economic currents of our time—emerging technologies, generational shifts, trade tensions, and growing interconnectedness among the world's regional economies—are shaping the future of the region.

This year's Global Business and Spending Outlook study finds Middle East senior finance executives are positive about growth in the near term and optimistic about the future, especially in their ability to reach the members of "Generation Z," the young people who are now emerging as a new cohort of employees and consumers. Preparation for this generational change is especially important in the Middle East, where young people aged 24 and under now make up 50%-65% of the population.

Economic uncertainties add a note of caution, though, and an unanticipated surprise event is a rapidly growing concern at almost 9 out of 10 companies surveyed. A focus on international trade is especially understandable: The region is still recovering from lower oil prices as it seeks to engage more closely with the developed economies of the West and the high-growth markets of Asia.

However, Middle East executives have valid reasons for their cautious optimism. The region has a growing middle class that will increase domestic demand, and early efforts to diversify the region's economy beyond oil have seen some success, especially in technology and higher value-added industries.

The economic future of the Middle East depends on the speed at which a dynamic private sector and a young, tech-savvy generation of employees and consumers will have an environment in which to thrive.

.....
Economic outlook:
Performance expectations
remain strong in Middle East

Economic outlook

Performance expectations remain strong in Middle East

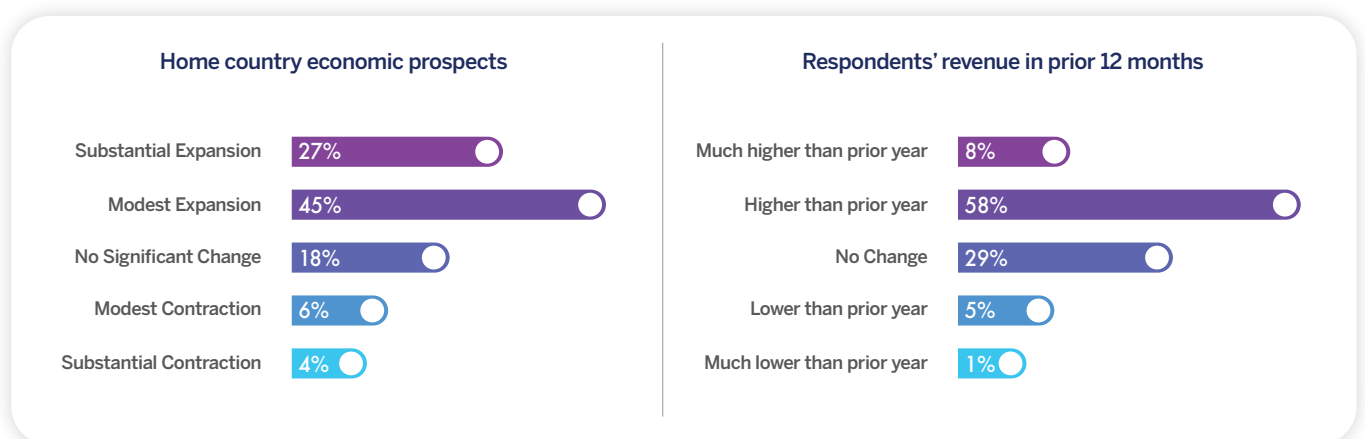
The Middle East economy has long been synonymous with oil, but demographic shifts and innovations in tech and finance show the potential of a more diverse economy. This transition from oil to a more balanced economy will continue in the coming years and decades. Senior finance executives are less likely to foresee economic growth in the region as they did last year (72% in 2019 vs. 92% in 2018), due in part to weak demand for oil. (Despite oil prices rising in early 2019, long-term global trends point to more supply and less demand.)

The growth outlook for the Middle East is in line with expectations worldwide, as 71% of the total response base anticipates substantial or modest expansion in their home countries. Growth expectations within the region range from 67% of respondents from Bahrain expecting substantial or modest expansion, to 77% in Egypt, with 71% of respondents from Saudi Arabia and 72% of those from the United Arab Emirates (UAE) expecting substantial or modest growth in 2019.

Still, only 10% of senior finance executives from the Middle East foresee a modest or substantial contraction in 2019. Of the 72% who expect to see growth in 2019, 45% anticipate modest expansion while 27% anticipate a substantial economic expansion.

The majority of executives saw their companies' worldwide revenue rise in 2018 as well, and the Middle East showed especially strong firm-level performance compared with Europe and Asia.

Sustained optimism based on strong performance in 2018



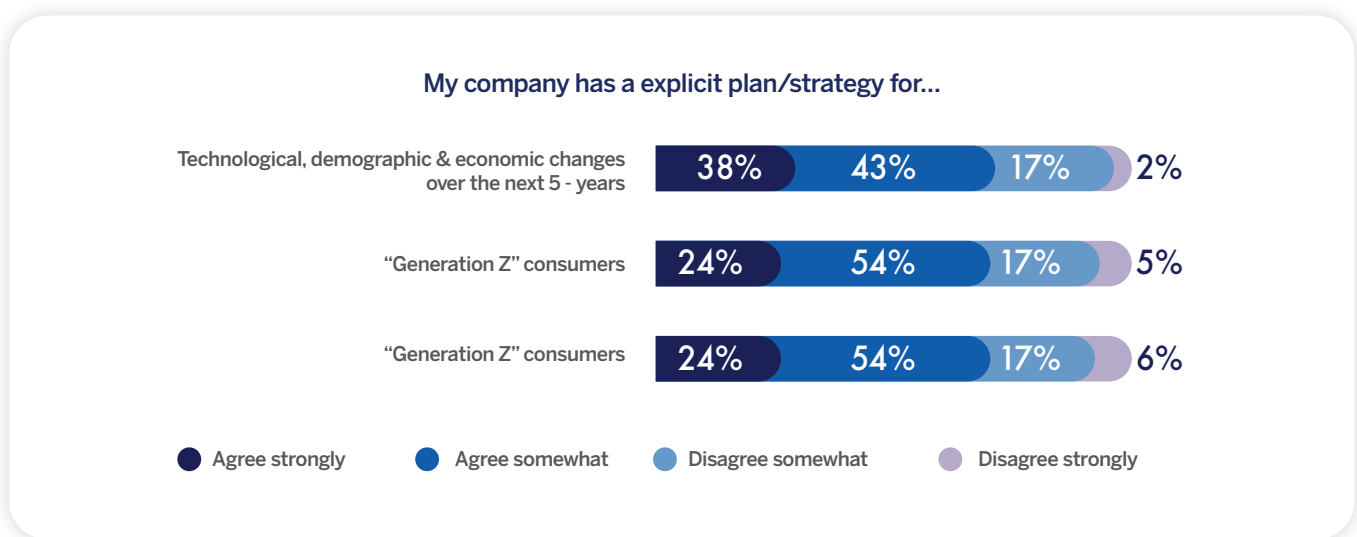
Youth movement defines future of Middle East

Generation Z – defined loosely as people aged between 7 and 22 – accounts for a quarter of the world’s population and they are beginning to enter the workforce. The impact of this generation will be especially pronounced in the Middle East because the region has such a young population. Young people aged under 24 now make up between 50% and 65% of the Middle East population, according to the Brookings Institution. In response, the regions governments, along with foreign and domestic institutions, are taking steps to ensure a brighter future for the next generation in the region. The United Arab Emirates has established cabinet level positions for youth, for happiness and well-being, and for artificial intelligence—each indications of its commitment to modernization and liberalization of the nation’s economy. Foreign institutions—notably the Sorbonne and New York University—have established universities in the UAE in an effort to establish a presence for western education to the “crossroads of the world.”

Senior finance executives in the Middle East believe their companies are prepared for Generation Z and the technological and economic changes this generations’ emergence will lead to. Eighty-one percent of the executives surveyed agreed with the statement, “My company has a long-term plan that considers technological, demographic and economic changes over the next 5-10 years,” and 78% agreed that, “My company has explicit strategies to appeal to ‘Generation Z’ consumers born between 1995 and 2005.” These values are in line with those of respondents from the more industrialized regions of North America and Europe.

These Generation Z strategies are likely to address this new cohort’s technological savvy, as this is the first generation to grow up with ubiquitous access to the internet, smartphones and social media. As a result, researchers say, members of Generation Z often consume news and entertainment media from a broad array of sources and are especially likely to see technology as a tool for personal enrichment. They are also committed to education and professional success.

A new generation of consumers and employees demands attention



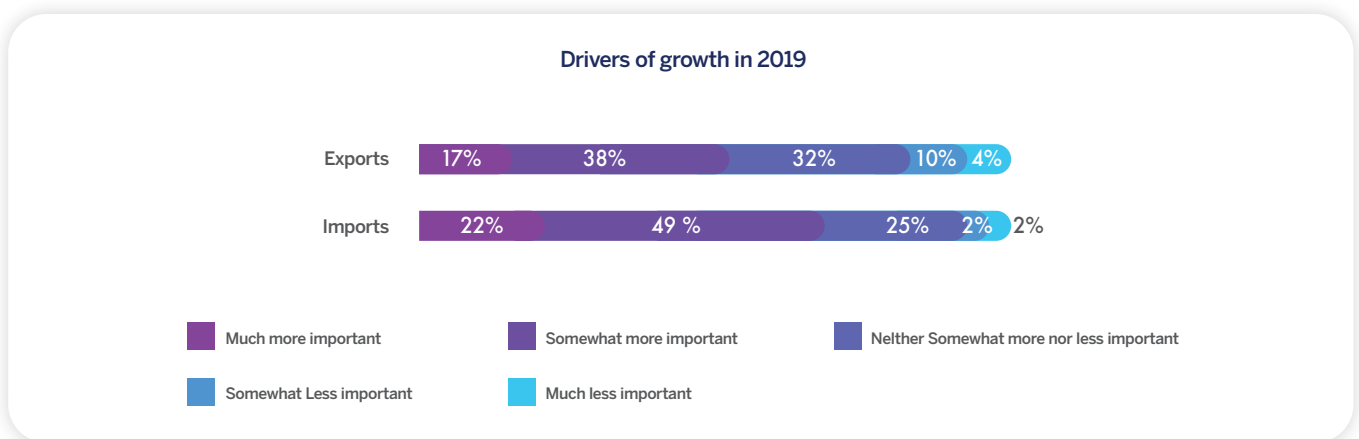
Imports take on a central role in Middle East economy

The Middle East remains one of the most export- and import-dependent regions due to the significant role oil exports play in the regional economy. Senior finance executives in the Middle East are substantially less likely to see exports being more important for their companies' growth than both respondents from other regions and their own views in 2018.

As oil exports fall, as long-term trends suggest, products and services for domestic consumption becomes crucial. Since the Middle East has limited sources of production inputs and capital equipment, producers must import those goods from other countries. That's why 71% of senior finance executives in the Middle East see imports as critical drivers of growth in this year's study — versus just 34% who saw imports as critical growth drivers in 2018.

This focus on imports may well also be related to regional countries' efforts to modernize their economies, and the increasingly open, pro-trade attitude expressed by leaders of the region's large nation states.

Foreign trade drives Middle East growth prospects

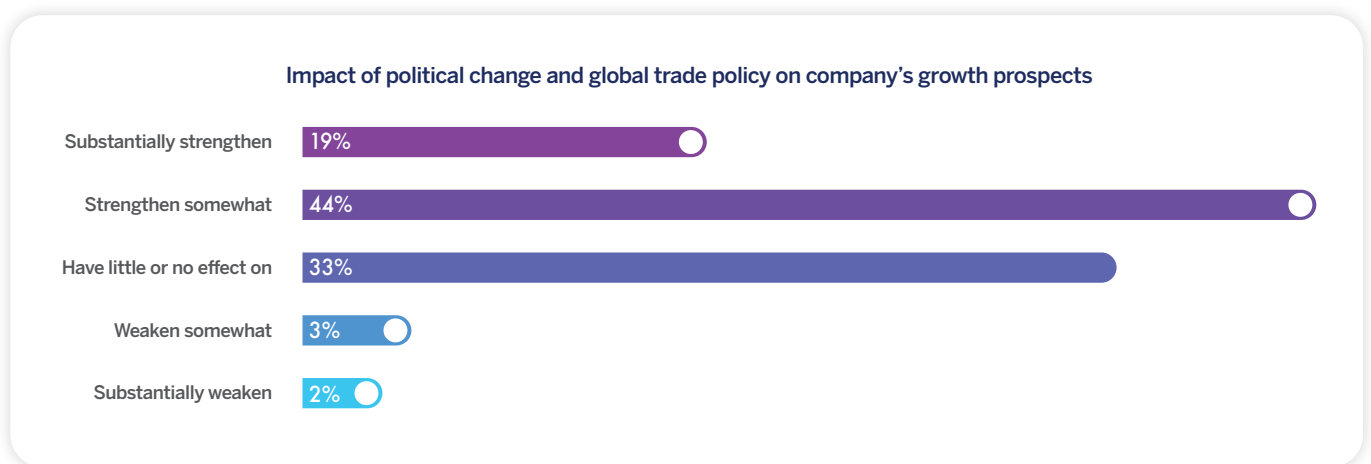


Global trade winds and social change are causes for optimism

Despite uncertainties around global trade, a substantial majority (64%) of senior finance executives in the Middle East said that they expect socioeconomic changes and global trade policy will strengthen their companies' growth prospects, while only 5% of senior executives

think these issues will weaken growth prospects. This view aligns with senior finance executives globally, where 66% believe economic changes and global trade policy will strengthen their companies' growth prospects.

Geopolitics and trade relations strengthen companies' outlook for growth



However, the growing role of imports in the Middle East economy means that senior finance executives are especially likely to see their supply chain and importing activities as drivers of the need to manage F/X risk more closely.

The source of this expanded foreign trade will be based more on organic strategies than partnerships, according to senior executives in the Middle East. Their companies

are mostly likely to set up or expand foreign operations (75%) and use online media for marketing programs (70%) to pursue international growth opportunities. These company-controlled strategies are preferred consistently over local partnerships and alliances in foreign markets (53%) and product/service localization (53%), a sign that a more nimble approach to foreign trade is taking hold in the Middle East.

Company-controlled, organic strategies for foreign market expansion



Uncertainty, disruption, and risk are major concerns

One of the biggest surprises in our survey was how much senior finance executives in the Middle East are concerned about unwelcome surprises. Almost 9 out of 10 (89%) of executives in our survey agreed that the prospect of widely unanticipated events (including economic, social, or environmental surprises) is a rapidly growing concern at their companies. Last year, just 40% of respondents agreed with this statement.

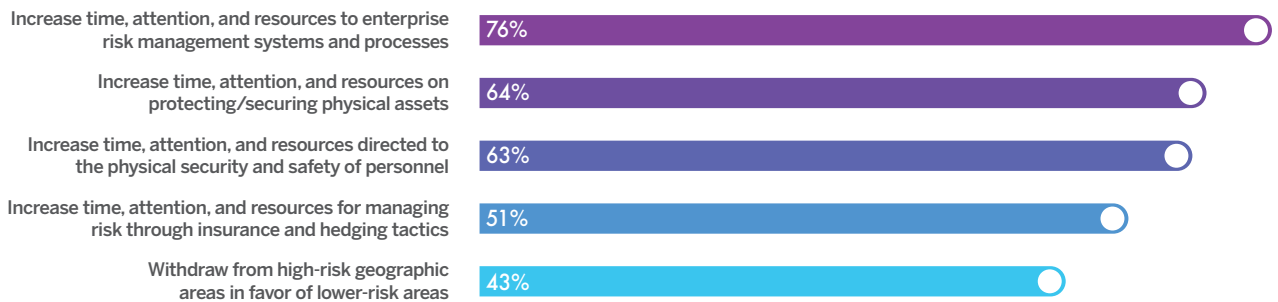
However, this concern does not mean that companies will be more cautious about increasing spending and investment or investing in other countries. Just the opposite, in fact. 76% of senior finance executive disagreed that recent economic uncertainty in their

home countries has caused them to be more cautious about increasing spending and investment. Further confirming their optimistic outlook, 65 percent disagreed that recent economic uncertainty outside their own country has caused them to be more cautious about investing in other countries.

Companies in the Middle East will focus on risk management and building resilience to these unwelcome surprise events. In the survey, 76% of senior finance executives said their companies will “increase time, attention, and resources directed toward enterprise-level risk management systems and/or process improvement.”

Faced with uncertainty, Middle East companies will manage enterprise risk and ensure security of assets and staff

Likely responses to economic and political uncertainty in the next year



.....
Spending Plans:
Restraint in spending and investment, balanced with support for tech and infrastructure

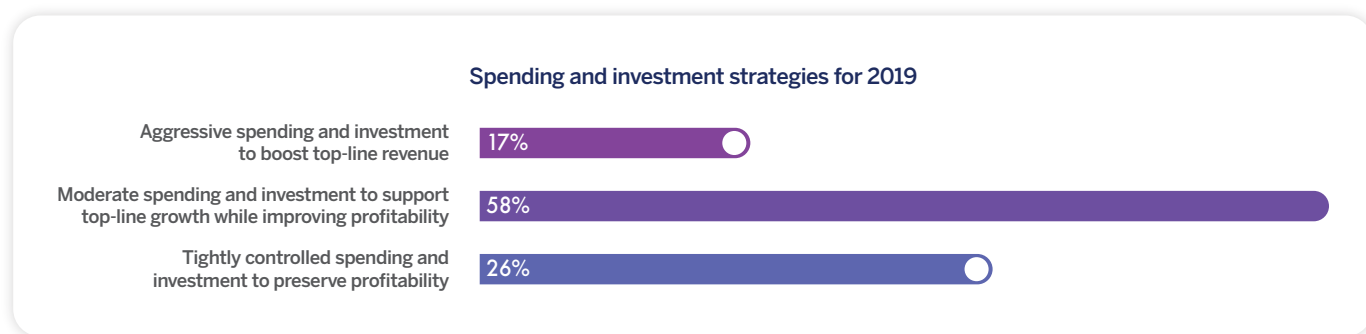
Spending Plans

Restraint in spending and investment, balanced with support for tech and infrastructure

Middle East senior finance executives will be more disciplined about spending and investment in 2019. The survey saw a steep increase in the Middle East in the proportion of finance executives who will tightly control spending this year (26%, up from 11% in 2018).

Nonetheless, a majority of respondents (58%) will seek to balance spending for growth with a keen eye on profitability, and 17% plan to spend aggressively to drive topline growth.

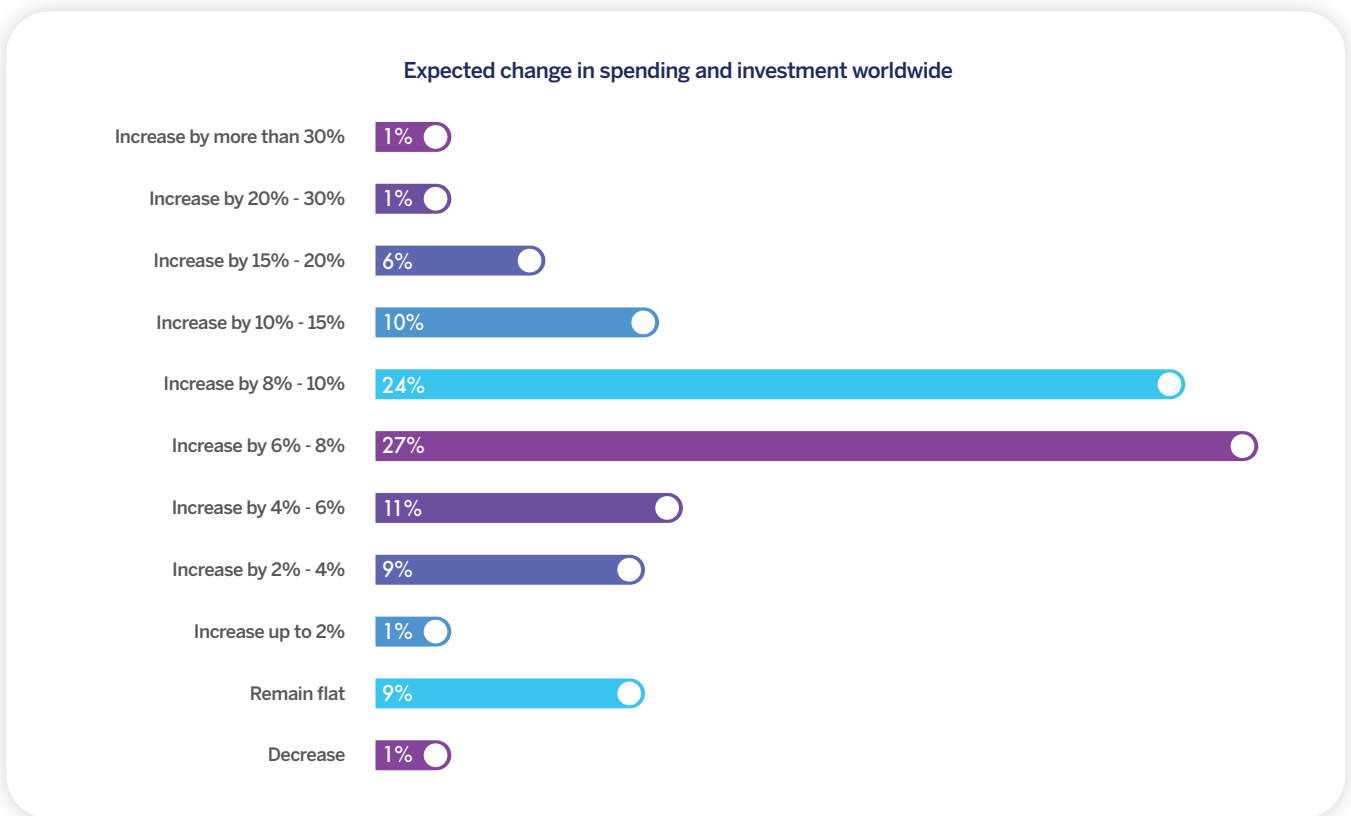
Most respondents plan for balanced spending and investment



So how much will they spend? Asked about their plans for spending and investment, 43% of senior executives in the Middle East responded that they will increase spending and investment by 8% or more. On average, respondents from the Middle East will boost spending

by 7.8%, a decrease from 9.3% growth in the 2018 study. At the global level, spending is estimated to rise by 8.2% this year, led by a strong rise in spending of 9.0% among North American study participants

Balanced spending strategies lead to 7.8% average growth in spending in the Middle East



The primary goal of that investment will be to improve core products and services. Respondents are most likely to say that they will focus on better meeting the needs of their customers (78% in 2019 vs. 77% last year), while, to a lesser extent, executives will invest to enter new markets (47% in 2019 vs. 46% in 2018) and protect current market share (35% vs. 23% in 2018).

To achieve these objectives, finance executives say their companies will focus on developing new products and services, adding production capacity, and sales and marketing activity. In the Middle East, 53% of executives surveyed intended to increase investment in developing new products and services this year, and 58% intend to increase production capacity, versus just 22% last year. They are also committed to growth in their core businesses, with 44% intending to increase spending on sales and marketing, versus 21% last year.

Middle East respondents expect to spend on new product development and production



Despite the increased discipline on spending, senior finance executives in the Middle East see a clear need for increased investment in hardware and infrastructure, with 57% expecting to see an increase in spending in 2019, versus 23% in 2018. Workforce is another area for increased spending, as 39% expect to see increased spending on labor

in 2019 versus last year's survey (27%). The environmental, social, and governance (ESG) revolution is making headway in the Middle East as well, with 41% of senior executives anticipating increased spending on services to ensure sustainable, ethical and transparent business practices, versus 27 last year.

Expect higher spending in IT, modernization, transportation, and labor



Economic outlook



Spending plans



Hiring plans



Technology

Hiring Plans:

Tight labor market
demands thinking
beyond compensation

Hiring Plans

Tight labor market demands thinking beyond compensation

Companies will be competing for talent in the coming year, but senior finance executives are looking beyond compensation to attract and retain the best workers. In the Middle East, 61% of senior finance executives expect to increase their companies' worldwide number of employees by between 8%-15%. On average, headcount will grow by 8.6% at companies in the Mideast, somewhat

lower than the global average of 9.2%. Interestingly, though, this increase is not going to be accompanied by aggressive increases in compensation. Instead, companies will focus on improving career development opportunities and working environments, key qualities for younger generations, who place a high value on work-life balance and achieving personal goals.

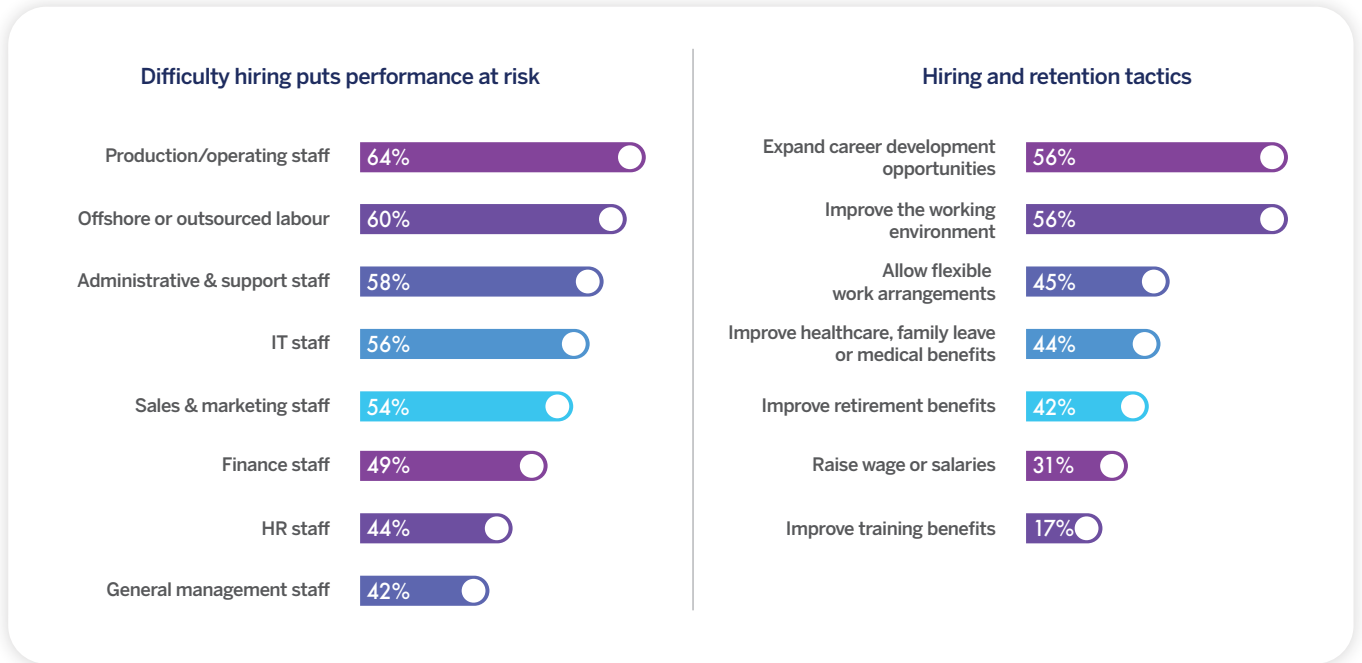
Employee headcount is forecast to increase by 8.6% on average in the Middle East



The reason that talent is in such demand is that difficulty in hiring and retaining talent is blocking many companies from meeting key performance goals. In every single function, Middle East companies are more likely than last year to have trouble finding and retaining the talent needed to meet their performance goals. The need

is most acute in production/operating staff (64% of senior finance executives say they have difficulty hiring and retaining employees in this function), in offshore or outsourced labor (60%), administrative and support staff (58%), and IT staff (56%).

The struggle to find and retain talent



Showing once again that the Middle East is a region especially receptive to global trends, senior finance executives are developing hiring and retention strategies focused on benefits likely to attract and keep their millennial and millennial-minded employees. Just 31% of senior finance executives intend to raise wages or salaries to attract and retain employees in 2019. Instead, companies will expand career development opportunities (56%), improve working environments through reconfigured offices spaces and increased amenities (56%), and allow flexible work arrangements (45%).

Still, substantial changes in improving healthcare and retirement benefits, anticipated by 44% and 42% of executives surveyed, are likely to be very costly to

companies, as such programs are tied closely to direct costs rather than to changes in policies and greater accommodation of employee preferences.

When it comes to meeting staffing needs, Middle East companies will repatriate overseas employees, said 72% of survey respondents, while just 19% of executives expect to make greater use of offshoring or outsourcing. Temporary or contract workers are also in-demand, as 72% of respondents see these workers are a solution for near-term staffing requirements, as well as filling longer-term needs. Nearly as many respondents (67%) said, "The use of independent contractors, freelancers or temporary workers will be an important part of my companies' practices two years from now."

.....
Technology:
Emerging innovations
dominate corporate
strategies and spending

Technology

Emerging innovations dominate corporate strategies and spending

Digital transformation is now the rule for companies across all industries. Companies in the Middle East are most focused on business intelligence and data collection in their IT-spending priorities, as well as cybersecurity. And while these executives understand the transformational potential of these technologies, most Middle East finance executives anticipate technology advances will produce incremental changes more than disruption in their countries, but a growing number are realizing that the changes in their industries might be more disruptive.

The first step in successfully employing technology is ensuring mastery of current applications and systems.

To that end, 87% of finance executives in the Middle East say they are most likely to invest in training current employees on current systems. But the future appears to be in new technologies, not existing applications, since only 57% will invest in training new employees on current systems.

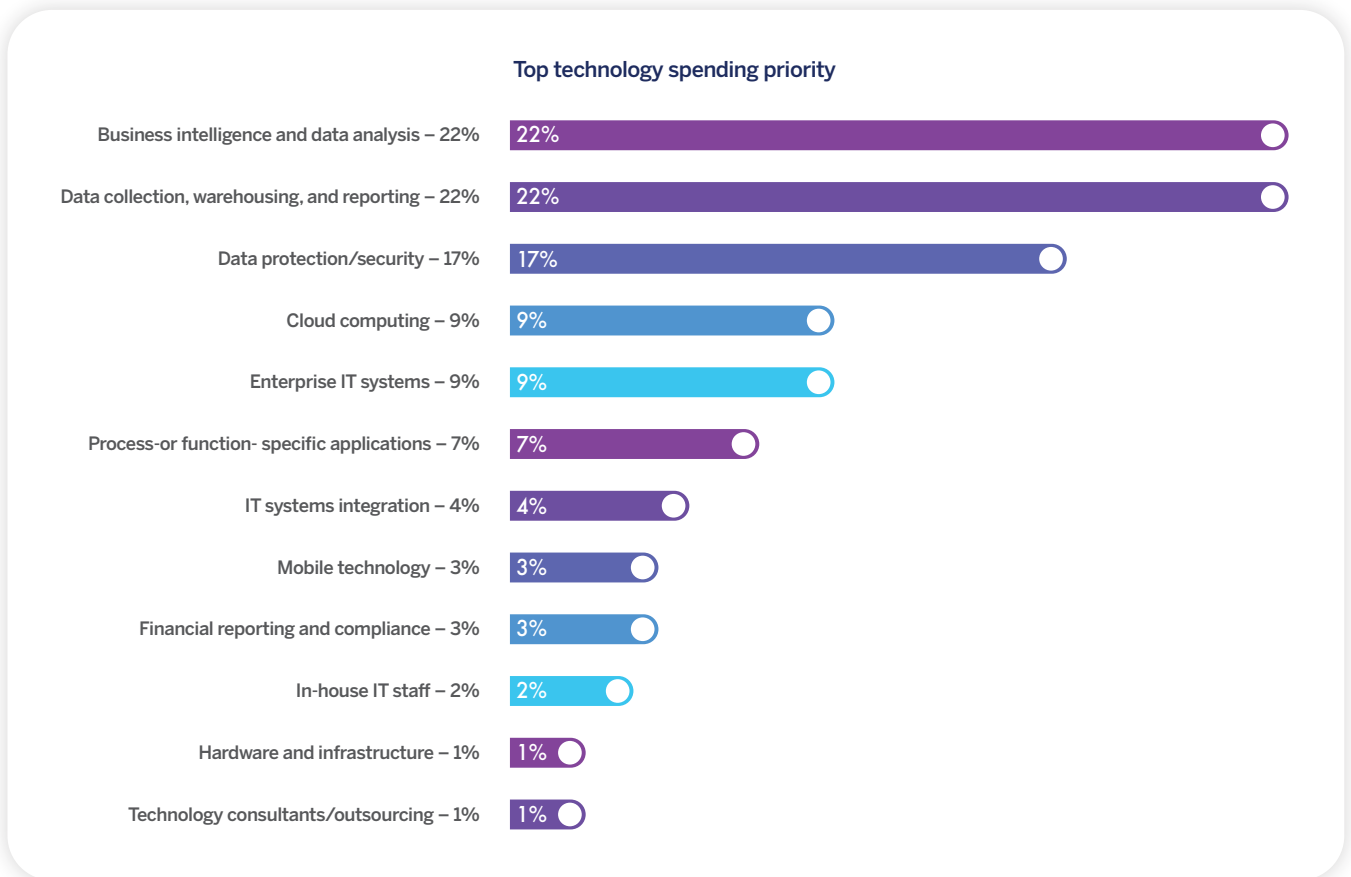
Those new employees will be learning emerging technologies, as will current IT staff, showing that executives have their eyes on the horizon. Both existing and new employees will be trained on emerging technology and automation expertise, agreed 90% of senior executives in the Middle East.

Big data and analytics are top priorities while cybersecurity falls

The most important IT-spend priority at 44% of Middle Eastern companies is business intelligence and data-analysis capabilities or data collection, warehousing. While 17 percent of senior finance

executives said protection against data breaches was their most important IT-spending priority, it represents a decline from 25% in 2018.

Harnessing the power of data and analytics is a top IT priority



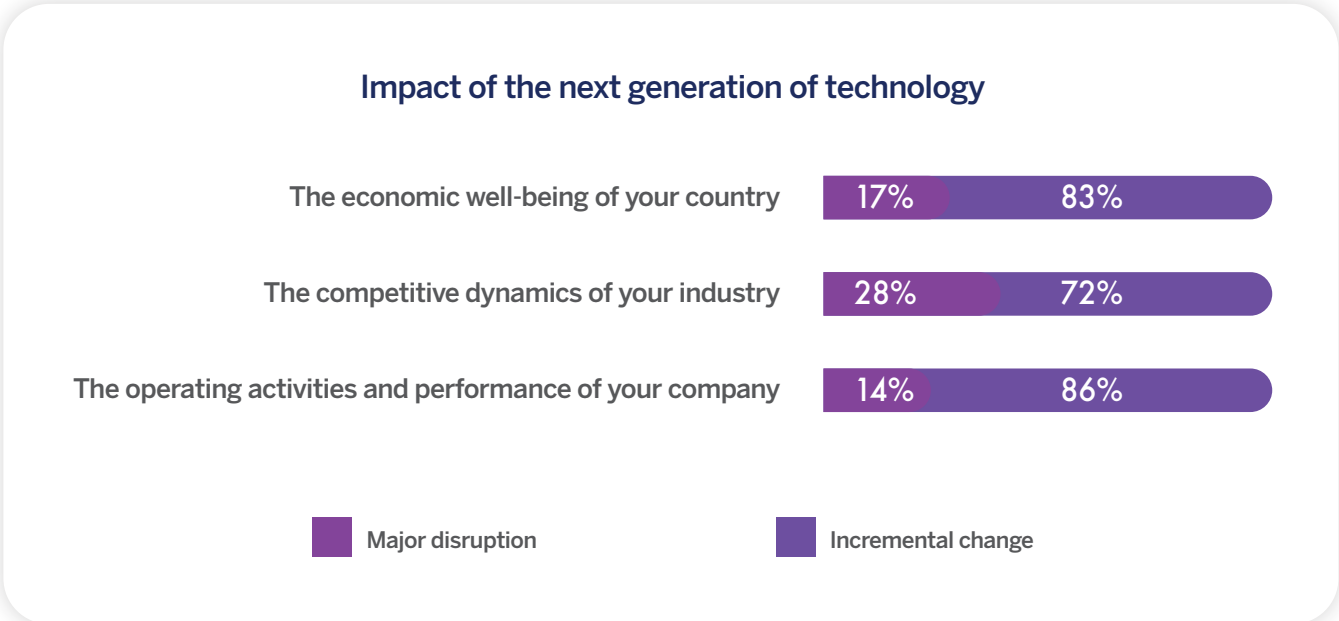
In the Middle East, 87% of senior executives surveyed were confident that their data was protected.

Disruption or incremental change? Measuring the impact of emerging technology on countries and industries

Artificial intelligence, the internet of things, robots, biotechnology, and autonomous vehicles promise to have a transformation impact on business and society. While the vast majority of executives in the Middle East

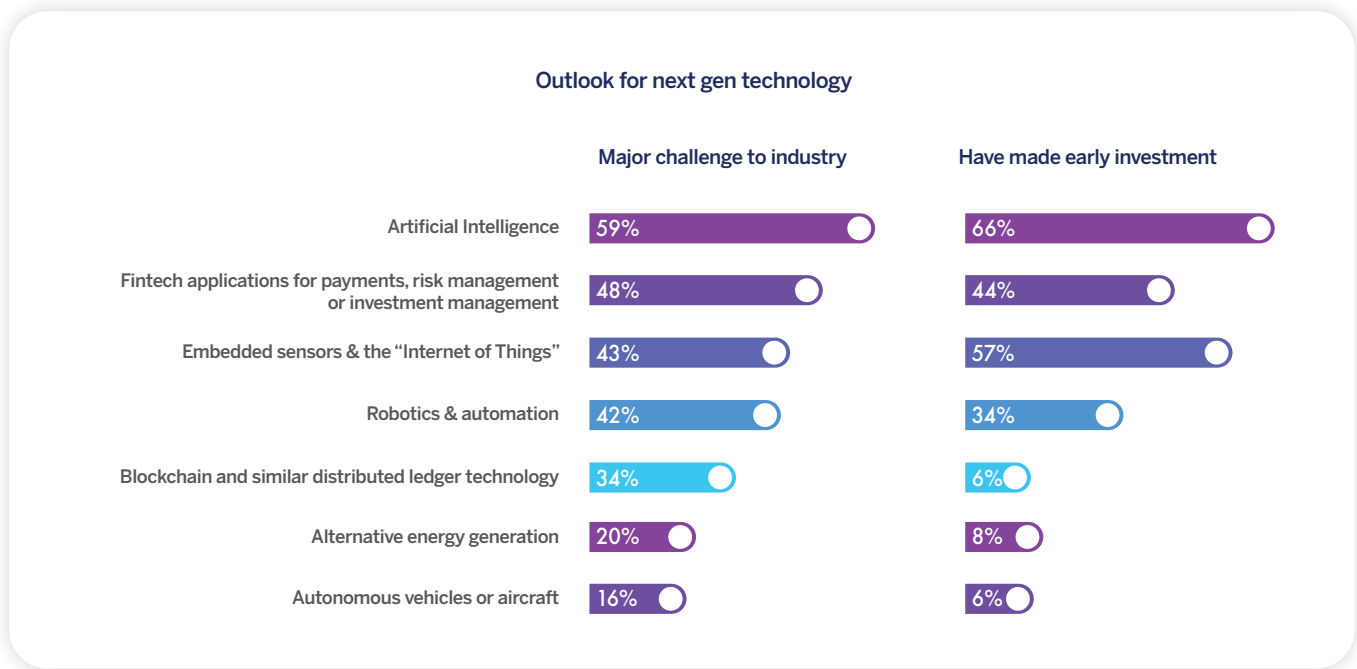
(83%) believe that technological-driven transformation of their countries will be incremental, a growing number (28%) believe the impact of emerging technologies on their industries will be disruptive.

Next-gen technology is more likely to disrupt industry dynamics, not national economies



Of these emerging technologies, senior executives believe the greatest challenges to their industries are presented by artificial intelligence (59%), the internet of things (43%), and robotics and automation (42%).

Autonomous vehicles are not seen as a near-term challenge; only 16% of executives think self-driving cars present the greatest challenge to their industries in the next five years.



In keeping with their focus on the next generation, many Middle Eastern companies are investing in emerging technologies. The most popular technology is artificial intelligence, where 66% of senior executives surveyed said their companies are investing (up from 40% in 2018). Other technologies receiving steep increases in investment are the internet of things (57% in 2019 versus 24% in 2018), and fintech (44% in 2019 versus 27% in 2018). Investment in robotics and automation has declined from 54% in 2018 to 34% in 2019.

These investments in emerging technologies are already paying off for companies in the Middle East. Investments in blockchain and other distributed ledger technologies have already yielded significant benefits, as have early investments in robotics and automation, alternative energy, and artificial intelligence, according to survey responses.

Conclusion

Economic growth expectations in the Middle East are lower than last year, but still remain robust. Businesses are optimistic about Generation Z's emergence and have strategies to appeal to these prospective consumers and employees. But that optimism is tempered by caution, especially around unexpected socioeconomic events. However, most executives believe that socioeconomic change and global trade policy will ultimately strengthen their companies' growth prospects.

Companies will be more disciplined in spending in 2019 and intend to invest primarily in improving core products and services. However, they will also invest in technology, especially hardware and infrastructure.

The ultimate success of companies might depend on their ability to attract and retain talent. Across every function, Middle East companies are having difficulty maintaining the talent they need to meet key performance goals. Executives are turning to strategies around better working environments and career development opportunities to attract employees instead of increased compensation.

The issue of talent is closely related to the impact of emerging technology. This year's survey shows that executives in the Middle East are increasingly aware of the disruptive impact technologies like artificial intelligence and the internet of things could have on their industries. Early investments in next-generation technology are already bearing fruit and are likely to do so in the years ahead.

About this research

The 2019 Global Business & Spending Outlook was conducted by Institutional Investor's Custom Research Lab and is based on a survey of 901 senior finance executives from companies around the world with annual revenues of \$500 million or more. The survey includes 180 respondents from companies in the Middle East,

with representation from Bahrain, Egypt, Saudi Arabia, the United Arab Emirates, among other countries in the region. All survey responses were gathered in late November and December 2018. It estimates the margin of error for the survey to be approximately +/-3.2% at a 95% level of confidence.

About American Express

AMEX (Middle East) B.S.C.(c) is a payments company, providing customers with access to products, insights and experiences that enrich lives and build business across the Middle East and North Africa.

We began operations in the MENA region in 1959 and set up our first office in Bahrain in 1977. In 1992, AEME was established in Bahrain as a joint venture company owned by American Express and Mawarid Investment Limited.

Today, we employ a diverse workforce of more than 500 employees, covering its consumer card, corporate

payments and merchant businesses across the Middle East and North Africa region.

Our aim is to offer the powerful backing and full support of American Express to all of our customers, partners and stakeholders in everything that they do.

Learn more at www.americanexpress.com.
bh and connect with us on www.facebook.com/AmericanExpressME www.linkedin.com/company/AmericanExpressME

About Institutional Investor

For more than 50 years, Institutional Investor has consistently distinguished itself as the world's foremost financial publication and convener of global institutional investors. By leveraging Institutional Investor, exclusive memberships, forums, industry benchmarks, award-

winning content, and workflow solutions such as capital placement, Institutional Investor is the essential hub for the world's financial decision-makers.

www.institutionalinvestor.com