Developing REGIONAL RESILIENCE *in the* MANUFACTURING SECTOR

The Middle East is rapidly emerging as a key player in global manufacturing, with substantial investments from the UAE, Saudi Arabia, Egypt, Bahrain and Qatar, explains Peter French MBE and Andrew Hudson, SSR Personnel

These countries are not only diversifying their economies but are also leveraging technologies like AI and robotics as well as digital transformation to build sustainable manufacturing sectors. Regional instability in the Red Sea, however, is forcing global shipping companies to adapt logistics strategies. As the region works to strengthen its industrial base, the Middle East is poised to become an even more integral part of the global economy, despite ongoing security challenges.

The Red Sea and the Suez Canal are vital arteries for global trade, with an estimated third of global shipping container traffic passing through the region. In 2023, just under 21,350 ships crossed the Red Sea, an average of 59 ships per day. However, recent disruptions in this critical shipping route have begun to alter the dynamics of global logistics…

The security threat

The Red Sea is the primary shipping route connecting Europe, Asia and Africa, facilitating the passage of goods worth over US$1t annually. However, attacks in the region, particularly by the Houthi group based in Yemen, have posed a significant threat to global trade. The Houthis have employed various tactics, including drone, missile and boat attacks, as well as more recently, drone boat attacks. Their intent is to disrupt trade, with the Suez Canal as a central supply route.

Despite the US launching Operation Prosperity Guardian, Houthi forces have continued their aggression. The most high-profile attack occurred in August 2024 when the MV Sounion, a tanker carrying 922,000 barrels of Iraqi crude oil, was targeted. After initial missile attacks, a group of Houthi militants boarded the vessel, planted explosives and remotely detonated them, causing damage and fires. The incident threatened to become one of the worst oil spills in history, prompting a UN emergency appeal for help. The situation was eventually defused and the ship was towed after international diplomatic pressure, reportedly involving Iran.

The impact on shipping and global trade

Disruptions to Red Sea shipping have led to uncertainty for shipping companies. Some have opted to re-route vessels around the Cape of Good Hope, a route that can add up to 35% more time to transit. According to JP Morgan, this diversion results in a 9% reduction in global container shipping capacity, as the longer routes reduce the overall effectiveness of the shipping network. Environmental costs are also rising, as the increased distance and speed required to mitigate delays lead to higher fuel consumption. The extra fuel costs alone are estimated to be around US$1m per sailing.

From December 2023 to February 2024, shipping costs surged dramatically due to the Red Sea attacks. Costs tripled, particularly on routes from Asia to Europe via the Suez Canal. By March 2024, shipping costs on these routes had increased five-fold, putting significant pressure on industries dependent on timely shipments, such as the European automotive sector, which faced production shutdowns due to delays in receiving essential parts.

The broader impact on global logistics is also evident in changing container traffic statistics. Before the attacks, 53% of shipping from Asia to Europe passed through the Suez Canal, with the balance equally via the Panama Canal and around the Cape of Good Hope. These figures have shifted dramatically. As of 2024, only 15% of Asia-to-Europe shipping passes through the Suez Canal, 26% are using the Panama Canal and 58% takes the longer route via the Cape of Good Hope.

Regional response

In response to the security challenges in the Red Sea, many ships have taken measures to safeguard themselves, such as disabling their automatic identification system (AIS). This system, while critical for avoiding collisions, has been used by the Houthis to target vessels. On average, around 15 ships each week turn off their AIS as they pass through this area. As the Red Sea faces instability, shipping companies and logistics operators will need to continue reassessing routes and security protocols. It remains to be seen whether US-led multinational missions and regional diplomacy ▸

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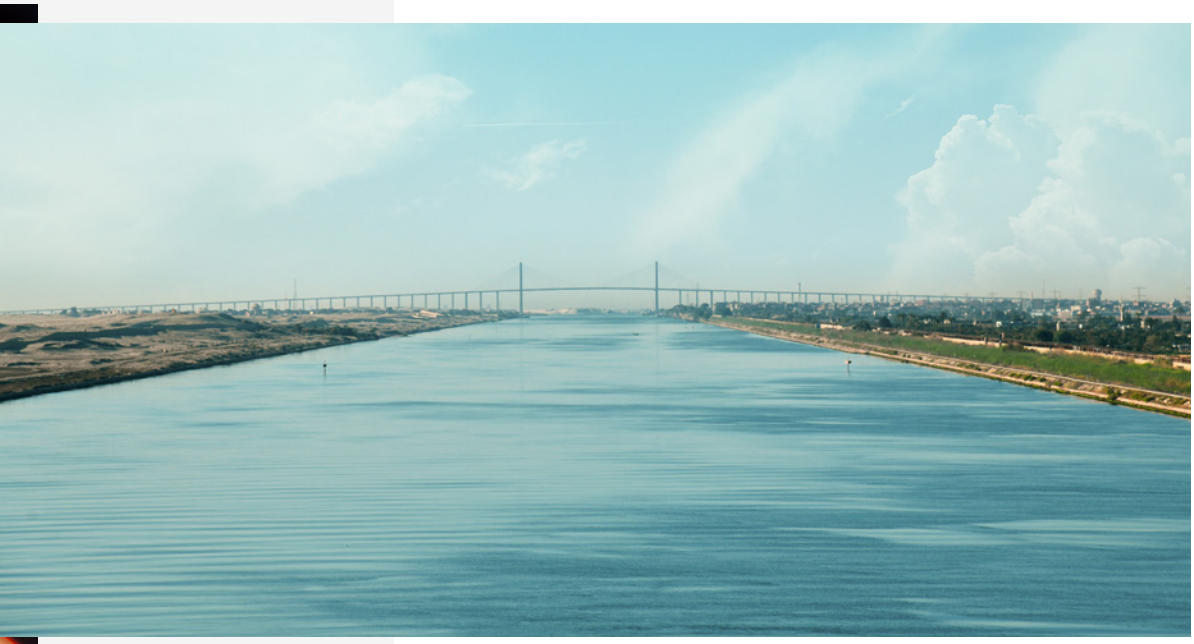

"Looking ahead, Saudi Arabia plans to establish fifteen new factories across various sectors."

will be enough to mitigate the threat posed or if further disruptions will continue to reshape global shipping patterns.

The Middle East's manufacturing boom

GCC countries have positioned themselves as major players in manufacturing and industrial development. Countries like Saudi Arabia, the UAE, Bahrain, Egypt and Qatar are making substantial investments to diversify their economies, reduce dependence on oil exports and strengthen their manufacturing sectors. The GCC intercontinental (Etihad) railway running from the Red Sea to the Mediterranean would be a game changer for logistics, but it suffers from delays in some countries.

Saudi Arabia: A hub for advanced manufacturing

Saudi Arabia has embarked on a bold transformation to position itself as a global logistics hub and industrial powerhouse. While oil represents over 40% of the country's GDP, investments in manufacturing have reached over US$130b since 2016. A key part of this effort is the adoption of Industry 4.0 technologies, such as AI and robotics, to drive productivity and efficiency. In December 2022, manufacturing activity in Saudi Arabia grew 20% compared to the previous year, following the launch of the Saudi Advanced Manufacturing Hub, in partnership with the World Economic Forum.

Looking ahead, Saudi Arabia plans to establish fifteen new factories across various sectors, including chemicals, pharmaceuticals, aerospace components and metal forming. These efforts are part of a broader strategy to diversify the economy and reduce reliance on oil exports. Saudi Arabia's Advanced Manufacturing Hub strategy has also identified over 800 investment opportunities, totalling US$273b. By 2035, the country aims to expand its factory count from 10,000 to 36,000, with 4,000 of those factories being fully automated.

The UAE: A strong focus on sustainability and innovation

The UAE has also made strides in expanding its manufacturing sector. The country's manufacturing base spans industries such as chemicals, rubber and plastics, metals and food. To boost this sector, the UAE launched "Operation 300bn", an initiative to grow the industrial sector's contribution to the national economy. The goal is to achieve AED 300b in output by 2031, with a focus on clean energy solutions, industrial innovation and promoting sustainable consumption and production.

The UAE has become a leader in aluminium production, accounting for 10% of global output. The country's location, youthful workforce and economic stability make it an attractive hub for high-tech manufacturing, including semiconductors and industrial robots, which could generate an estimated US$25b in revenue by 2025.

Egypt: The green hydrogen frontier

In Egypt, manufacturing is the largest contributor to the nation's GDP and it accounts for over 85% of Egypt's non-oil exports. To further capitalise on its strategic location and boost its industrial capabilities, Egypt is focusing on becoming a key player in the green hydrogen industry. The development of green hydrogen is expected to create thousands of jobs, attract new investments and support Egypt's broader goals of economic diversification and sustainable growth.

Qatar, Bahrain: The digital revolution

Qatar is also focusing on manufacturing diversification, with plans to double the value of its sector, which is currently valued at US$11b. Bahrain, through its Economic Recovery Plan and Industrial Sector Strategy, aims to contribute US$6b to its GDP by 2026, focusing on Industry 4.0 technologies, circular carbon economy solutions and bolstering local value chains.

Bahrain and Qatar are investing heavily in digital transformation, with projected investments in digital technologies to nearly US$300b by 2032. This rapid adoption of technology is setting the stage for future innovation and the development of high-tech manufacturing, which could significantly boost the region's competitiveness on the global stage. ■