The AmCham MENA Regional Council (AmCham MENA Council) was established in 2005 and comprises the AmChams of Abu Dhabi-UAE, Algeria, Bahrain, Egypt, Jordan, Lebanon, Morocco, Palestine and Tunisia. The objective of the Council is to work on promoting greater business opportunities between the U.S. and the Middle East and North Africa region. The Council works on effectively linking the various members and institutionalizing their ongoing coordination with the U.S. Chamber of Commerce. It also works on promoting free trade agreements between MENA countries and the U.S. and on fostering increased awareness among MENA region manufacturers and producers of export opportunities to the U.S. through those agreements.

AmCham Bahrain is the current Chair of the Council, and AmCham Morocco is the Vice Chair. The Council’s Secretariat resides at AmCham Egypt.

Mission

To promote trade and investment between the U.S. and the MENA Region

Objectives

- Foster increased awareness among MENA region manufacturers and producers for potential business opportunities with the U.S.
- Promote closer ties with the U.S. market.
- Support and promote various investment and trade initiatives.
- Coordinate formal programs focusing on the promotion of U.S. business opportunities.
- Foster increased collaboration between members of the Council.
- Effectively link the different organizations and institutionalize their ongoing collaboration with the U.S. Chamber of Commerce.
- Organize regional trade and investment conferences and exhibitions.
1. The MENA Landscape

The Middle East and North Africa (MENA) region is a geographic classification for a group of countries extending from Morocco in northwest Africa to Iran in southwest Asia. The diversity of countries makes for a heterogeneous region, encompassing a variety of income levels, economic landscapes, standards of living, and main imports and exports. There is also a diversity of definitions for this region: some, like the World Bank, include Djibouti and Sudan in northeast Africa, or Turkey and Malta in Europe; others make a distinction of “the Arab MENA region,” excluding these countries as well as Iran and Israel.

No matter how it is defined geographically, MENA is a strategically important region with several defining economic and social trends. The region is endowed with a wealth of natural petroleum resources (51% of world oil reserves and 47% of natural gas reserves) concentrated in the Arabian Gulf and Maghreb and serving as important growth engines for these countries. Eight MENA countries are members of the Organization of Petroleum Exporting Countries (OPEC), founded in 1960, and 10 countries make up the Organization of Arab Petroleum Exporting Countries (OAPEC), founded in 1968. The MENA region is also defined, both socially and politically, by the Arab League and the Greater Arab Free Trade Area (GAFTA), of which all Arab MENA countries are members.

In this report, MENA refers to the 16 Arab countries of Algeria, Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Qatar, Saudi Arabia, Syria, Tunisia, the United Arab Emirates (UAE) and Yemen, plus West Bank and Gaza. This group is divided into three geopolitical blocs: the Gulf Cooperation Council (GCC), comprising the oil-driven economies of Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and UAE; the Maghreb, comprising Algeria, Libya, Morocco and Tunisia; and the Mashreq comprising Lebanon, Syria and the former members of the now defunct Arab Cooperation Council (ACC) Egypt, Iraq, Jordan and Yemen.

The primary focus here will be on recent trends in investment and trade between the United States and the nine members of the AmCham MENA Regional Council — Algeria, Bahrain, Egypt, Jordan, Lebanon, Morocco, Tunisia, the UAE, and West Bank and Gaza. A special section at the end will look at the role of SMEs in MENA’s economic development.
1.1 Economic Trends

MENA covers an area of 9.6 million square kilometers, or 6.5% of the world’s landmass, which makes it the third largest after Russia and Canada. It is larger in area than China and the U.S. and more than twice the size of the European Union. The region’s population comprises 4.5% of the total world population, equivalent to almost one quarter of the population of China and just larger than the population of the United States. The sheer demographics of this region give it great economic potential. Not only does the region have the highest share of working-age population among all developing regions, but the share of working-age population is expected to continue to grow through 2035, much longer than in several other emerging and developing regions.

The global slump in oil prices since the second half of 2014 has impacted MENA countries across the board. Oil exporters have seen revenue drop, spurring a drive to diversify their economies. Fiscal tightening, however, has forced some of these governments to cut capital spending and domestic subsidies. In Saudi Arabia, for example, more than USD 20 billion of projects may be cancelled, according to the World Bank. The UAE reformed its fuel prices in late July 2015, removing most subsidies and setting them monthly based on international prices. A number of other GCC countries also announced their intent to study energy subsidies with the eventual goal of reforming or removing them. In addition, GCC countries have taken steps to boost the role of the private sector and create jobs for their rapidly growing labor forces. The most notable is Saudi Arabia, which in April 2016 released Vision 2030, its plan for diversifying the economy.

Oil importers are also struggling with efforts to sustain economic growth. Lower remittances from workers in the Gulf have affected these countries, as have the conflicts in Syria, Iraq, Libya and Yemen. These effects are most notable in Jordan and Lebanon, which are hosting the majority of the region’s refugees. Tourism, a source of income for many of the countries, has dropped amid fears of terrorism, especially in Tunisia and Egypt, both

### MENA Demographics (2016)

<table>
<thead>
<tr>
<th>Metric</th>
<th>Total/Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total population (million)</td>
<td>331.8</td>
</tr>
<tr>
<td>Total land area (million sq. km)</td>
<td>9.6</td>
</tr>
<tr>
<td>Average population density (people/sq. km)</td>
<td>244.7</td>
</tr>
<tr>
<td>Population growth rate</td>
<td>1.8%</td>
</tr>
<tr>
<td>Total labor force (million)</td>
<td>200</td>
</tr>
</tbody>
</table>

**Top three countries by land area (million sq. km)**

- Algeria: 2.4
- Saudi Arabia: 2.2
- Libya: 1.8

**Top three countries by population (million)**

- Egypt: 94.7
- Algeria: 40.3
- Iraq: 38.1

**Top three countries by population density (people/sq. km)**

- Bahrain: 1,814.3
- West Bank and Gaza: 715.6
- Lebanon: 599.8

**Top three countries by labor force (million)**

- Egypt: 32.0
- Morocco: 12.2
- Saudi Arabia: 12.0

Source: CIA World Factbook
of which have seen high-profile terrorist attacks in the past two years. In August 2016, the International Monetary Fund (IMF) approved a USD 723 million agreement with Jordan under the Extended Fund Facility (EFF); in November of the same year, Egypt received a three-year EFF in the amount of USD 12 billion. Both EFFs promote fiscal and economic reforms to help the recipient countries create and sustain economic growth. Even in countries that have already seen substantial reforms—including Morocco, Tunisia and Jordan—their economic prospects depend on commitment to sound macroeconomic policies and the deepening of structural reforms aimed at growing the private sector and reducing youth unemployment and poverty.

MENA's current social and political setting also has effects on the economy. The region's youth bulge—about half of the region's population is under the age of 25—means the MENA countries are both ripe for and in desperate need of economic growth and development. After the political upheaval of the Arab Spring, which originated in Tunisia in late 2015, governments have recognized the urgency of embracing the needs of the younger generations with millennials at the forefront: Since 2011, youth unemployment (the 15-24 age bracket) for the region has hovered around 26%. Finally, the conflict in countries such as Syria, Iraq, Libya and Yemen has had a spillover effect, increasing economic uncertainty and hurting tourism and investment in neighboring countries. Empirical studies have quantified tourism losses due to the Arab Spring leading to annual decreases in GDP in the range of 0.5-2.9%.

### MENA Economic Outlook

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Sub-Region</th>
<th>2014</th>
<th>2015</th>
<th>2016*</th>
<th>2017*</th>
<th>2018*</th>
<th>2019*</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>GDP per capita (USD at PPP)</strong></td>
<td>GCC</td>
<td>69,753</td>
<td>69,623</td>
<td>69,467</td>
<td>70,600</td>
<td>72,706</td>
<td>74,652</td>
</tr>
<tr>
<td></td>
<td>Maghreb</td>
<td>12,245</td>
<td>12,211</td>
<td>12,301</td>
<td>13,194</td>
<td>13,945</td>
<td>14,856</td>
</tr>
<tr>
<td></td>
<td>Mashreq and former ACC</td>
<td>11,986</td>
<td>11,769</td>
<td>12,170</td>
<td>12,525</td>
<td>12,968</td>
<td>13,494</td>
</tr>
<tr>
<td><strong>MENA average</strong></td>
<td></td>
<td>35,162</td>
<td>35,028</td>
<td>35,124</td>
<td>35,933</td>
<td>37,123</td>
<td>38,320</td>
</tr>
<tr>
<td><strong>Current GDP (billion USD at PPP)</strong></td>
<td>GCC</td>
<td>3,040</td>
<td>3,176</td>
<td>3,273</td>
<td>3,421</td>
<td>3,599</td>
<td>3,781</td>
</tr>
<tr>
<td></td>
<td>Maghreb</td>
<td>1,035</td>
<td>1,075</td>
<td>1,114</td>
<td>1,186</td>
<td>1,257</td>
<td>1,337</td>
</tr>
<tr>
<td></td>
<td>Mashreq and former ACC</td>
<td>1,804</td>
<td>1,826</td>
<td>1,947</td>
<td>2,050</td>
<td>2,173</td>
<td>2,319</td>
</tr>
<tr>
<td><strong>MENA total</strong></td>
<td></td>
<td>5,880</td>
<td>6,077</td>
<td>6,334</td>
<td>6,657</td>
<td>7,030</td>
<td>7,437</td>
</tr>
<tr>
<td><strong>Real GDP Growth (%)</strong></td>
<td>GCC</td>
<td>3.1</td>
<td>3.1</td>
<td>2.1</td>
<td>2.5</td>
<td>2.8</td>
<td>2.5</td>
</tr>
<tr>
<td></td>
<td>Maghreb</td>
<td>-3.9</td>
<td>0.7</td>
<td>0.9</td>
<td>6.1</td>
<td>4.4</td>
<td>5.2</td>
</tr>
<tr>
<td></td>
<td>Mashreq and former ACC</td>
<td>1.3</td>
<td>-4.6</td>
<td>2.7</td>
<td>4.5</td>
<td>3.9</td>
<td>4.0</td>
</tr>
<tr>
<td><strong>MENA average</strong></td>
<td></td>
<td>0.7</td>
<td>-0.1</td>
<td>2.0</td>
<td>4.1</td>
<td>3.6</td>
<td>3.7</td>
</tr>
<tr>
<td><strong>Current Account Balance (% of GDP)</strong></td>
<td>GCC</td>
<td>14.5</td>
<td>-2.0</td>
<td>-5.0</td>
<td>-2.1</td>
<td>-1.2</td>
<td>-0.9</td>
</tr>
<tr>
<td></td>
<td>Maghreb</td>
<td>-11.8</td>
<td>-17.3</td>
<td>-17.9</td>
<td>-14.7</td>
<td>-12.6</td>
<td>-10.5</td>
</tr>
<tr>
<td></td>
<td>Mashreq and former ACC</td>
<td>-7.6</td>
<td>-9.3</td>
<td>-10.4</td>
<td>-8.2</td>
<td>-8.2</td>
<td>-7.0</td>
</tr>
<tr>
<td><strong>MENA average</strong></td>
<td></td>
<td>0.1</td>
<td>-8.5</td>
<td>-10.2</td>
<td>-7.5</td>
<td>-6.6</td>
<td>-5.5</td>
</tr>
<tr>
<td><strong>Average Consumer Price Inflation (%)</strong></td>
<td>GCC</td>
<td>2.5</td>
<td>2.2</td>
<td>3.1</td>
<td>3.0</td>
<td>3.5</td>
<td>2.9</td>
</tr>
<tr>
<td></td>
<td>Maghreb</td>
<td>2.8</td>
<td>6.3</td>
<td>6.3</td>
<td>5.6</td>
<td>5.3</td>
<td>4.9</td>
</tr>
<tr>
<td></td>
<td>Mashreq and former ACC</td>
<td>5.0</td>
<td>9.4</td>
<td>3.2</td>
<td>8.5</td>
<td>6.7</td>
<td>5.2</td>
</tr>
<tr>
<td><strong>MENA average</strong></td>
<td></td>
<td>3.4</td>
<td>5.7</td>
<td>4.0</td>
<td>5.6</td>
<td>5.1</td>
<td>4.2</td>
</tr>
</tbody>
</table>

*Note: No data available for Syria. *IMF Staff Estimates

**Source:** IMF, World Economic Outlook, October 2016
1.2 Economic Outlook

The MENA region is looking at a positive start to 2017. OPEC’s agreement in September 2016 to cut production will hopefully lead to increased oil revenues for oil exporters. In addition, economic activity in the non-oil sector is picking up due to improved global demand. The region’s overall projected real GDP growth rate is 2.8%, lower than both 2016 and 2015 (2.9% and 3.2%, respectively), but expected to rise modestly starting in 2018.

In the GCC countries, growth slowed by nearly two percentage points between 2015 and 2016, from 3.6% to 1.9%. Each of these countries, except Kuwait, saw a drop in growth rate between 2015 and 2016. This was the result of low oil prices on the global market and its spillover into investment growth. Growth is expected to recover slightly in 2017 but still remains below the MENA average.

In the non-GCC countries, GDP rose between 2015 and 2016, from 3.0% to 3.6%, but is projected to dip slightly back to 3.0% in 2017. Growth in Egypt dropped slightly between 2015 and 2016, but is expected to rise again from 2017 onwards—depending on how quickly the economy adjusts to the floating exchange rate regime adopted in November 2016, and how quickly and effectively the government applies fiscal consolidation. Growth in Morocco is expected to recover in 2017 from a low of 1.5% in 2016, the result of a drought on the agricultural sector. Jordan, Tunisia and Lebanon are all expected to see consistent growth from 2017 through 2019, the latter as a result of improved political stability following the presidential election in October 2016.

Going forward, the MENA countries must carefully navigate deep fiscal and structural reforms, such as the removal of energy subsidies, which are politically unpopular but essential for continued growth. Growth will continue to be threatened by conflict throughout the region. Disrupted trade, fiscal pressures from spending demands related to refugees and security, and loss of revenue from tourism will continue to adversely affect MENA countries.
2017 GDP Growth Forecasts for MENA Countries

Note: Green denotes AmCham MENA Council countries. No data for Libya, Syria, and Yemen.

MENA Growth: GCC and Non-GCC Countries

*estimate, **projected Note: Does not include Libya, Syria, or Yemen.
1.3 The Business Environment

The MENA region continues to improve as a location for doing business but still lags behind other developing countries. High levels of bureaucracy, weak rule of law, unclear and sometimes arbitrary laws, and a lack of transparency continue to hinder business in this region.

In the World Bank’s Doing Business 2017 report, the average regional ranking for MENA was 116. This puts MENA above the regions of South Asia and Sub-Saharan Africa, but and below four others, including Latin American and the Caribbean, a region also home to many developing countries.

Within MENA, the GCC countries dominate as the best countries to do business in. These six countries have been among MENA’s top eight for the past three years, and as a bloc have an average global ranking of 72. The UAE remains the best place in MENA to do business and ranks 26th in the world, followed by Bahrain (63) and Oman (66). The UAE and Bahrain were ranked among the top 10 economies improving the most across three or more areas of doing business: During the ranking year covering June 2015 to June 2016, the UAE made five reforms while Bahrain made three.

Of the non-GCC countries, Morocco and Tunisia are the best places to do business, taking up the two remaining spots in MENA’s top eight for the past three years. Morocco’s recent reforms, including reducing the time for border compliance and streamlining the property registration process, helped boost it seven spots in the global ranking from 75 in 2016 to 68 in 2017. Egypt jumped nine spots, from 131 globally in 2016 to 122 in 2017, on the back of reforms in starting a business and protecting minority investors. Amidst a backdrop of political turmoil and violent conflict, Syria, Yemen and Libya continue to occupy MENA’s lowest spots.

### Ease of Doing Business Rankings for MENA Countries (2017)

<table>
<thead>
<tr>
<th>Country</th>
<th>Regional Rank 2017</th>
<th>Global Rank 2017 (1-190)</th>
<th>Number of Reforms 2017</th>
<th>Change in Global Ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>UAE*</td>
<td>1</td>
<td>26</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Bahrain*</td>
<td>2</td>
<td>63</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>Oman</td>
<td>3</td>
<td>66</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>Morocco*</td>
<td>4</td>
<td>68</td>
<td>5</td>
<td>7</td>
</tr>
<tr>
<td>Tunisia*</td>
<td>6</td>
<td>77</td>
<td>1</td>
<td>-3</td>
</tr>
<tr>
<td>Qatar</td>
<td>7</td>
<td>83</td>
<td>2</td>
<td>-15</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>8</td>
<td>94</td>
<td>2</td>
<td>-12</td>
</tr>
<tr>
<td>Kuwait</td>
<td>9</td>
<td>102</td>
<td>1</td>
<td>-1</td>
</tr>
<tr>
<td>Jordan*</td>
<td>10</td>
<td>118</td>
<td>2</td>
<td>-5</td>
</tr>
<tr>
<td>Egypt*</td>
<td>12</td>
<td>122</td>
<td>2</td>
<td>9</td>
</tr>
<tr>
<td>Lebanon*</td>
<td>13</td>
<td>126</td>
<td>0</td>
<td>-3</td>
</tr>
<tr>
<td>West Bank and Gaza*</td>
<td>14</td>
<td>140</td>
<td>0</td>
<td>-11</td>
</tr>
<tr>
<td>Algeria*</td>
<td>15</td>
<td>156</td>
<td>4</td>
<td>7</td>
</tr>
<tr>
<td>Iraq</td>
<td>16</td>
<td>165</td>
<td>2</td>
<td>-4</td>
</tr>
<tr>
<td>Syria</td>
<td>18</td>
<td>173</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Yemen</td>
<td>19</td>
<td>179</td>
<td>0</td>
<td>-9</td>
</tr>
<tr>
<td>Libya</td>
<td>20</td>
<td>188</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>MENA Average</td>
<td>-</td>
<td>116</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

*Member of the AmCham MENA Council.

**Note:** The World Bank also includes Malta (5), Iran (11) and Djibouti (17) in its regional rankings.

**Source:** World Bank Doing Business 2017
The Heritage Foundation’s Index of Economic Freedom ranks 180 countries on 10 factors (dubbed ‘freedoms’), grouped under four main pillars: Rule of Law, including property rights and freedom from corruption; Limited Government, including fiscal freedom and government spending; Regulatory Efficiency, including business, labor and monetary freedom; and Open Markets, including trade, investment and financial freedom. Each of the economic freedoms are graded on a scale of 0-100, and the average of these 10 grades is the country’s Economic Freedom Rank.

MENA as a region dropped six spots to 85 on the 2017 Economic Freedom Index. Three MENA countries—Bahrain, UAE and Qatar—sit among the top 50 countries in the world, and eight of the 12 MENA countries for which 2017 data was available were classified as “Mostly free” or “Moderately free.” As with the Ease of Doing Business rankings, the GCC dominates MENA’s rankings, occupying six of the top seven spots with an average ranking of 48 as a bloc. However, Bahrain, which was 2016’s top ranked country in the region, fell 26 ranks in the international rankings and saw its economy downgraded from “Mostly free” to “Moderately unfree.”

Non-GCC countries have an average ranking of 119 as a bloc. Top non-GCC performers are Jordan (53) and Morocco (86). Several other non-GCC countries saw their rankings slip this year, and Algeria saw its economy downgraded from “Mostly unfree” in 2016 to “Repressed” in 2017.

### Index of Economic Freedom Rankings for MENA Countries (2017)

<table>
<thead>
<tr>
<th>Country</th>
<th>Regional Rank 2017</th>
<th>Classification</th>
<th>Global Rank 2017 (1-180)</th>
<th>Change in Global Ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>UAE*</td>
<td>1</td>
<td>Mostly Free</td>
<td>8</td>
<td>17</td>
</tr>
<tr>
<td>Qatar</td>
<td>2</td>
<td>Mostly Free</td>
<td>29</td>
<td>5</td>
</tr>
<tr>
<td>Bahrain*</td>
<td>4</td>
<td>Moderately Free</td>
<td>44</td>
<td>-26</td>
</tr>
<tr>
<td>Jordan*</td>
<td>5</td>
<td>Moderately Free</td>
<td>53</td>
<td>-7</td>
</tr>
<tr>
<td>Kuwait</td>
<td>6</td>
<td>Moderately Free</td>
<td>61</td>
<td>13</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>7</td>
<td>Moderately Free</td>
<td>64</td>
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</tr>
<tr>
<td>Oman</td>
<td>8</td>
<td>Moderately Free</td>
<td>82</td>
<td>-30</td>
</tr>
<tr>
<td>Morocco*</td>
<td>9</td>
<td>Moderately Free</td>
<td>86</td>
<td>-1</td>
</tr>
<tr>
<td>Tunisia*</td>
<td>10</td>
<td>Mostly Free</td>
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</tr>
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<td>11</td>
<td>Mostly Free</td>
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</tr>
<tr>
<td>Egypt*</td>
<td>12</td>
<td>Mostly Free</td>
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<td>-19</td>
</tr>
<tr>
<td>Algeria*</td>
<td>14</td>
<td>Repressed</td>
<td>172</td>
<td>-13</td>
</tr>
<tr>
<td>MENA Average</td>
<td>-</td>
<td>-</td>
<td>85</td>
<td></td>
</tr>
</tbody>
</table>

*Member of the AmCham MENA Council.

**Note:** Data for Iraq, Libya, Syria and the West Bank and Gaza not available. The Heritage Foundation also includes Israel (3) and Iran (13) in the regional rankings.

**Source:** The Heritage Foundation

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The Global Competitiveness Report, prepared by the World Economic Forum, ranks 138 countries on factors that determine long-term growth and prosperity. It considers 12 pillars ranked under three sub-indexes: Basic Requirements, which includes institutions, infrastructure, macroeconomic environment, and health and primary education; Efficiency Enhancers, which covers higher education and training, goods market efficiency, labor market efficiency, financial market development, technological readiness and market size; and Innovation and Sophistication, including business sophistication and innovation.
MENA’s average global ranking on the Global Competitiveness Index is 67. GCC countries are again the top performers, with an average global ranking of 36, while non-GCC countries lag behind, with an average global ranking of 96. This comes as little surprise given the factors used for the index: several of the pillars in the Efficiency Enhancers subindex and all of the pillars in the Innovation and Sophistication sub-index are features of the relatively advanced innovation-driven economies being promoted by the GCC countries. Yemen was included in the rankings this year, after falling off the 2015-16 rankings.

<table>
<thead>
<tr>
<th>Country</th>
<th>Regional Rank 2016-17</th>
<th>Global Rank 2016-17 (1-138)</th>
<th>Overall score (1-7)</th>
<th>Change in Global Ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>UAE*</td>
<td>1</td>
<td>16</td>
<td>5.26</td>
<td>1</td>
</tr>
<tr>
<td>Qatar</td>
<td>2</td>
<td>18</td>
<td>5.23</td>
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</tr>
<tr>
<td>Saudi Arabia</td>
<td>4</td>
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<td>4.84</td>
<td>-4</td>
</tr>
<tr>
<td>Kuwait</td>
<td>5</td>
<td>38</td>
<td>4.53</td>
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</tr>
<tr>
<td>Bahrain*</td>
<td>6</td>
<td>48</td>
<td>4.47</td>
<td>-9</td>
</tr>
<tr>
<td>Jordan*</td>
<td>7</td>
<td>63</td>
<td>4.29</td>
<td>1</td>
</tr>
<tr>
<td>Oman</td>
<td>8</td>
<td>66</td>
<td>4.28</td>
<td>-4</td>
</tr>
<tr>
<td>Morocco*</td>
<td>9</td>
<td>70</td>
<td>4.20</td>
<td>2</td>
</tr>
<tr>
<td>Algeria*</td>
<td>11</td>
<td>87</td>
<td>3.98</td>
<td>0</td>
</tr>
<tr>
<td>Tunisia*</td>
<td>12</td>
<td>95</td>
<td>3.92</td>
<td>-3</td>
</tr>
<tr>
<td>Lebanon*</td>
<td>13</td>
<td>101</td>
<td>3.84</td>
<td>0</td>
</tr>
<tr>
<td>Egypt*</td>
<td>14</td>
<td>115</td>
<td>3.67</td>
<td>1</td>
</tr>
<tr>
<td>Yemen</td>
<td>15</td>
<td>138</td>
<td>2.74</td>
<td>N/A</td>
</tr>
<tr>
<td>MENA Average</td>
<td>-</td>
<td>67</td>
<td>4.30</td>
<td>-</td>
</tr>
</tbody>
</table>

*Member of the AmCham MENA Council.

Note: Data for Iraq, Libya, Syria, and the West Bank and Gaza not available. The WEF also includes Israel (3) and Iran (10) in the regional rankings.

Source: World Economic Forum

The Global Innovation Index (GII) is compiled on the premise that investments in research and development and innovation are central for economic growth. The GII measures 82 indicators divided into seven main groups and 21 sub-groups: Institutions, including the political, regulatory and business environment; Human Capital and Research, including education, tertiary education, and research and development; Infrastructure, including information and communication technologies, general infrastructure and ecological sustainability; Market Sophistication, including credit, investment and trade, competition and market scale; Business Sophistication, including knowledge workers, innovation linkages and knowledge absorption; Knowledge and Technology Outputs, including knowledge creation, impact and diffusion; and Creative Outputs, including intangible assets, creative goods and services, and online creativity.

The Global Innovation Index gives MENA an average regional ranking of 76. GCC countries continue to perform well, with the UAE taking back the top spot regionally from Saudi Arabia. Bahrain, Lebanon, Morocco, and the UAE all saw improvements in their scores in the 2016 ranking compared to the 2015 index.
**Global Innovation Index Rankings for MENA Countries (2016)**

<table>
<thead>
<tr>
<th></th>
<th>Regional Rank 2016</th>
<th>Global Rank 2016 (1-128)</th>
<th>Overall Score (0-100)</th>
<th>Change in Global Ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>UAE*</td>
<td>1</td>
<td>41</td>
<td>39.35</td>
<td>6</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>2</td>
<td>49</td>
<td>37.75</td>
<td>-6</td>
</tr>
<tr>
<td>Qatar</td>
<td>3</td>
<td>50</td>
<td>37.47</td>
<td>0</td>
</tr>
<tr>
<td>Bahrain*</td>
<td>4</td>
<td>57</td>
<td>35.48</td>
<td>2</td>
</tr>
<tr>
<td>Kuwait</td>
<td>5</td>
<td>67</td>
<td>33.61</td>
<td>10</td>
</tr>
<tr>
<td>Lebanon*</td>
<td>6</td>
<td>70</td>
<td>32.7</td>
<td>4</td>
</tr>
<tr>
<td>Morocco*</td>
<td>7</td>
<td>72</td>
<td>32.26</td>
<td>6</td>
</tr>
<tr>
<td>Oman</td>
<td>8</td>
<td>73</td>
<td>32.21</td>
<td>-4</td>
</tr>
<tr>
<td>Tunisia*</td>
<td>9</td>
<td>77</td>
<td>30.55</td>
<td>-1</td>
</tr>
<tr>
<td>Jordan*</td>
<td>10</td>
<td>82</td>
<td>30.04</td>
<td>-7</td>
</tr>
<tr>
<td>Egypt*</td>
<td>11</td>
<td>107</td>
<td>25.96</td>
<td>-7</td>
</tr>
<tr>
<td>Algeria*</td>
<td>12</td>
<td>113</td>
<td>24.46</td>
<td>13</td>
</tr>
<tr>
<td>Yemen</td>
<td>13</td>
<td>123</td>
<td>14.55</td>
<td>9</td>
</tr>
<tr>
<td>MENA Average</td>
<td>-</td>
<td>76</td>
<td>31.26</td>
<td>-</td>
</tr>
</tbody>
</table>

*Member of the AmCham MENA Council.

Note: Data for Iraq, Libya, Syria, and the West Bank and Gaza not available.

Source: The Global Innovation Index 2016

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**2. U.S.-MENA Trade Trends**

The trade relationship between the U.S. and MENA has traditionally followed the pattern of exchanging American manufactured products for crude oil from MENA. However, that relationship is changing slightly as the U.S. increases its domestic production of oil and gas, meaning it is importing less of these commodities from MENA. There is a greater need for MENA countries to diversify and increase their production of exportable goods.

Trade with MENA continues to account for only a small share of total U.S. trade, indicating significant room for a deeper trade relationship. U.S. exports to MENA represented 4.4% of total U.S. exports in 2016, making it the fourth most popular destination for U.S. exports after Canada, Mexico and China. In the same year, U.S. imports from MENA were valued at USD 40.6 billion, 1.9% of all U.S. imports. MENA was the 13th most popular source for U.S. imports. The region accounted for USD 104.4 billion, or 2.9%, of the United States’ USD 3.64 trillion trade volume.

Over the past seven years, since just before the so-called Arab Spring, growth in trade between MENA and the U.S. has been fairly consistent but affected by changing trends. U.S. exports to MENA have remained stable, between 3.8% and 4.5% of total U.S. exports since 2010. Since 2014, the total value of U.S. exports has decreased from that year’s peak of USD 71.1 billion, reaching USD 63.7 billion in 2016; this mirrors the trend for total U.S. exports abroad, which also fell in 2015 and 2016.

U.S. imports from MENA reached USD 111.8 million, almost 5% of total U.S. imports, in 2012, their largest value since 2008. They dropped slightly after that, however, and fell to a new low in 2016, representing only 1.9% of U.S. imports. This slump is largely due to the cut in oil and gas imports by the U.S. due to the country’s increased domestic oil and gas production. Since 2013, U.S. imports of oil and gas from MENA has been declining steadily, going from USD 101.7 billion in that year to USD 29.6 billion in 2016. Between 2014 and 2015 alone, oil and gas imports fell by more than 50%. Non-oil imports, however, have stayed steady, rising...
8.3% in 2014 and 5.4% in 2015 before dropping 3.6% in 2016. They have started to make up a larger portion of total U.S. imports from MENA: whereas they made up no more than 11% of imports prior to 2013, they made up 27.1% of imports in 2016.

The non-oil trade balance has historically been in favor of the U.S., and it remained that way through 2016. In 2016, total U.S. exports to MENA were 5.8 times as much as non-oil and gas imports. However, 2015 marked the first time that the overall trade balance flipped in favor of the U.S., with MENA countries importing more than they exported for the first time since the turn of the century. In 2016, MENA countries imported USD 23.1 billion more from the U.S. than they exported.

The largest MENA exporter to the U.S. is Saudi Arabia, which exported USD 16.9 billion, or 41.7% of all MENA exports, in 2016. Saudi Arabia is the second largest source of petroleum imports for the U.S. worldwide after Canada. Iraq is the second largest MENA exporter to the U.S., exporting USD 6.0 billion, or 14.7% of exports. Iraq has the largest trade surplus with the U.S. of any MENA country, valued at USD 4.7 billion. Kuwait, Algeria, Jordan, Libya, Syria, and the West Bank and Gaza also run small trade surpluses.

The largest MENA importer of U.S. products is the UAE, which imported USD 22.4 billion, or 35.1% of all MENA imports, in 2016. It is followed closely by Saudi Arabia, which imported USD 18.0 billion, 28.3% of all the region’s imports.

Top MENA imports from the U.S. are aerospace products and parts, vehicles, communications equipment and power transmission equipment, which together account for about 45.3% of the import basket. The top 10 MENA imports from the U.S. comprise over half of the import basket. Oilseeds and grains, including MENA imports of U.S. wheat, have dwindled in their share of the import basket for the past five years: after peaking at 9.7% in 2007, they now account for just 2.6% of it.

The top non-oil MENA exports to the U.S. are apparel, aluminum and agricultural chemicals including pesticides and fertilizers. Combined, these make up 49.5% of MENA exports to the U.S.

### Top Trading Partners with the U.S. (2016)

<table>
<thead>
<tr>
<th>Country</th>
<th>U.S. Exports (USD billion)</th>
<th>U.S. Imports (USD billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>462.9</td>
<td>315.8</td>
</tr>
<tr>
<td>Canada*</td>
<td>265.0</td>
<td>278.1</td>
</tr>
<tr>
<td>Mexico*</td>
<td>231.0</td>
<td>284.2</td>
</tr>
<tr>
<td>Japan</td>
<td>132.2</td>
<td>63.3</td>
</tr>
<tr>
<td>Germany</td>
<td>114.2</td>
<td>99.4</td>
</tr>
<tr>
<td>South Korea</td>
<td>69.9</td>
<td>42.3</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>54.3</td>
<td>55.4</td>
</tr>
<tr>
<td>MENA</td>
<td>40.6</td>
<td>13.7</td>
</tr>
</tbody>
</table>

*Member of NAFTA

Source: WISERTRADE
**MENA-U.S. Trade Trends (2006-2016)**

![Graph showing MENA-U.S. Trade Trends (2006-2016)]

*Source: WISERTRADE*

**MENA-U.S. Trade by Country (2016)**

<table>
<thead>
<tr>
<th>Country</th>
<th>MENA Exports to the U.S.</th>
<th>MENA Imports from the U.S.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yemen, Syria, West Bank</td>
<td>5,963</td>
<td>15</td>
</tr>
<tr>
<td>Libya</td>
<td>5,289</td>
<td>224</td>
</tr>
<tr>
<td>Tunisia</td>
<td>1,135</td>
<td>1,135</td>
</tr>
<tr>
<td>Bahrain</td>
<td>3,229</td>
<td>768</td>
</tr>
<tr>
<td>Lebanon</td>
<td>4,923</td>
<td>902</td>
</tr>
<tr>
<td>Iraq</td>
<td>3,152</td>
<td>1,796</td>
</tr>
<tr>
<td>Jordan</td>
<td>1,493</td>
<td>1,493</td>
</tr>
<tr>
<td>Oman</td>
<td>3,296</td>
<td>3,312</td>
</tr>
<tr>
<td>Morocco</td>
<td>3,509</td>
<td>3,509</td>
</tr>
<tr>
<td>Algeria</td>
<td>4,923</td>
<td>1,135</td>
</tr>
<tr>
<td>Kuwait</td>
<td>3,152</td>
<td>3,229</td>
</tr>
<tr>
<td>Egypt</td>
<td>3,296</td>
<td>3,296</td>
</tr>
<tr>
<td>Qatar</td>
<td>2,240</td>
<td>2,240</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>18,023</td>
<td>16,929</td>
</tr>
<tr>
<td>United Arab Emirates</td>
<td>3,356</td>
<td>3,356</td>
</tr>
</tbody>
</table>

*Source: WISERTRADE*

*AmCham MENA Council member. Note: Includes oil and gas.*
**MENA Exports to the U.S. (2016)**

Total value: 
USD 40.6 billion

Source: WISERTRADE

**MENA Imports from the U.S. (2016)**

Total value: 
USD 63.7 billion

Source: WISERTRADE
MENA Non-Oil Exports to the U.S. by Industry (2016)

Total value:
USD 11.03 billion

Source: WISERTRADE

MENA Imports from the U.S. by Industry (2016)

Total value:
USD 63.7 billion

Source: WISERTRADE
2.1 U.S. Trade with MENA Council Countries

MENA Council countries exported USD 11.9 billion to the U.S. in 2016, accounting for 29.4% of all MENA exports. The UAE was the largest MENA Council exporter, accounting for 28.1% of MENA Council countries’ exports and 8.3% of all MENA exports. It was followed closely by Algeria, which accounted for 27.1% of the MENA Council countries’ exports and 7.9% of all MENA exports.

The UAE was also the largest importer of U.S. goods in 2016. MENA Council countries as a whole imported USD 34.0 billion from the U.S., representing 53.4% of MENA’s imports. The UAE accounted for 65.7% of the MENA Council countries’ imports, a total of USD 22.4 billion, and 35.1% of all MENA imports. The next largest MENA Council importer is Egypt, which imported USD 3.5 billion, equal to 10.3% of MENA Council countries’ total and 5.5% of all MENA imports from the U.S.

2.2 U.S.-MENA Bilateral Free Trade Agreements

Bilateral Free Trade Agreements (FTAs) are designed to reduce trade barriers between two countries and create a more stable and transparent business environment. These reciprocal agreements promise to eliminate tariff and non-tariff barriers on trade in goods and services between the two countries and to establish rules in trade-related areas such as investment, intellectual property rights and the environment.

The U.S. has signed FTAs with four Arab MENA countries, including three MENA Council countries: Jordan (2001), Morocco and Bahrain (2006), and Oman (2009). The total volume of U.S. exports to these countries in 2016 was USD 6.1 billion, representing 9.5% of all exports to MENA. In the other direction, the U.S. imported USD 4.5 billion from these four countries, accounting for 11% of all its imports from MENA.

In May 2011, U.S. President Barack Obama announced the MENA Trade and Investment Partnership Initiative (MENA-TIP), which focused on Egypt, Jordan, Morocco and Tunisia. It was intended to facilitate trade and investment within the region and “open the door to willing and able MENA partners…to construct a regional trade arrangement,” according to remarks by the White House. While, the initiative produced several non-binding bilateral agreements with Jordan and Morocco, continued political uncertainty and unstable security environments limited the scope of this initiative. It remains to be seen how the new U.S. administration, which has talked tough on trade and shunned multilateral agreements, will approach trade and investment with the MENA region.

MENA Council Trade Flows (2015, in USD million)

<table>
<thead>
<tr>
<th></th>
<th>MENA Exports</th>
<th></th>
<th>MENA Imports</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total exports to the world</td>
<td>Total exports to the U.S.</td>
<td>Share of U.S. in exports</td>
<td>Total imports from the world</td>
<td>Total imports from the U.S.</td>
</tr>
<tr>
<td>Algeria</td>
<td>34,796</td>
<td>3,372</td>
<td>9.7%</td>
<td>51,803</td>
<td>1,876</td>
</tr>
<tr>
<td>Bahrain</td>
<td>13,846</td>
<td>902</td>
<td>6.5%</td>
<td>16,378</td>
<td>1,271</td>
</tr>
<tr>
<td>Egypt</td>
<td>21,967</td>
<td>1,406</td>
<td>6.4%</td>
<td>74,361</td>
<td>4,753</td>
</tr>
<tr>
<td>Jordan</td>
<td>7,833</td>
<td>1,492</td>
<td>19.0%</td>
<td>20,475</td>
<td>1,359</td>
</tr>
<tr>
<td>Lebanon</td>
<td>3,312</td>
<td>93</td>
<td>2.8%</td>
<td>20,487</td>
<td>1,272</td>
</tr>
<tr>
<td>Morocco</td>
<td>22,037</td>
<td>1,012</td>
<td>4.6%</td>
<td>37,546</td>
<td>1,625</td>
</tr>
<tr>
<td>Tunisia</td>
<td>14,073</td>
<td>546</td>
<td>3.9%</td>
<td>20,223</td>
<td>602</td>
</tr>
<tr>
<td>UAE</td>
<td>380,340</td>
<td>2,468</td>
<td>0.6%</td>
<td>298,611</td>
<td>23,004</td>
</tr>
<tr>
<td>West Bank and Gaza</td>
<td>958</td>
<td>5.4</td>
<td>0.6%</td>
<td>5,225</td>
<td>1.1</td>
</tr>
<tr>
<td>Total MENA Council</td>
<td>499,162</td>
<td>11,296</td>
<td>2.3%</td>
<td>545,109</td>
<td>35,763</td>
</tr>
</tbody>
</table>

Source: WISERTRADE and World Bank
2.3 Preferential Trade Agreements between MENA and the U.S.

In addition to formal agreements such as bilateral FTAs, the U.S. has established federal programs to encourage international trade and investment. For MENA, the most important are the Generalized System of Preferences (GSP) and the Qualifying Industrial Zones (QIZ) protocol.

The GSP is the largest and oldest U.S. trade preference program. Established by the Trade Act of 1974, the GSP promotes economic development by providing preferential duty-free entry for over 3,500 types of products from 120 beneficiary developing countries (BDCs) and territories. According to the U.S. International Trade Commission (USITC), for an imported article to be GSP eligible, it must be the growth, product or manufacture of a BDC, and the sum of the cost or value of materials produced in the BDC plus the direct costs of processing must equal at least 35% of the appraised value of the article at the time of entry into the United States.

Certain articles are prohibited by law from receiving GSP treatment, including most textile and apparel articles. As an exception, the U.S. has entered into agreements providing for the certification and GSP eligibility of handmade, folkloric products with 14 countries, including Egypt, Jordan and Tunisia. This agreement allows certain textile products to be eligible for GSP treatment.

The GSP expired on July 31, 2013, but was reauthorized on June 29, 2015, through the end of 2017. Seven Arab MENA countries and territories are eligible to export under the GSP: Algeria, Egypt, Jordan, Lebanon, Tunisia, West Bank and Gaza, and Yemen. As of 2006, with the implementation of the U.S.-MFTA, Morocco is no longer eligible for the GSP.

In 2016, the total value of GSP-eligible goods imported by the U.S. was USD 18.4 billion, of which USD 267.8 million (1.5%) came from MENA countries. Tunisia, Egypt and Lebanon are the top GSP beneficiary countries in MENA, ranking 13, 18 and 22 respectively among all GSP BDCs exporting to the U.S. in 2016.

**MENA GSP Exports (2016)**

- **Lebanon's Top GSP Exports (\% of country's GSP exports)**
  - Jewelry 51%  
  - Roasted Nuts and Peanut Butter **10\%**  
  - Fruits and Vegetables, Preserved **9\%**  

- **Egypt's Top GSP Exports (\% of country's GSP exports)**
  - Fruits and Vegetables, Preserved **23\%**  
  - Frozen Fruits, Juices and Vegetables **17\%**  
  - Plastic Materials and Resins **4\%**  

- **Tunisia's Top GSP Exports (\% of country's GSP exports)**
  - Soybean Oil, Other Oilseed and Other Oilseed Products **65\%**  
  - Other Non-Citrus Fruit **12\%**  
  - Speed Changers/Industrial High-Speed Drives/Gears **7\%**  

*Source: U.S. Department of Commerce and USITC*
QIZs are a trade program unique to the Middle East. The protocol was established by Congress in 1996 to support the Middle East Peace Process and build economic ties between Israel and its neighbors. It allows the West Bank and Gaza, as well as specific zones in Egypt and Jordan, to export certain products to the U.S. duty-free. Eligible products must be manufactured in the designated zones and contain a specified percentage of inputs from Israel. There are currently 13 QIZs in Jordan and 15 in Egypt.

In order for products to be eligible for duty-free entry into the U.S., QIZ factories must add at least 35% to the value of the article. In Jordan, the 35% content must include at least 11.7% from a Jordanian QIZ and 8% from Israel (7% for high-tech goods); the remainder may be fulfilled by content from a Jordanian QIZ, Israel, the U.S. or West Bank and Gaza. For Egypt, the 35% minimum content can include inputs from Israel, Egypt or the U.S. Egypt must contribute at least one-third (11.7%) of the minimum content requirement, while Israel must contribute 10.5%.

In 2016, the total value of goods imported by the U.S. under the QIZ protocol was USD 779.3 million, a 14.6% drop from the USD 912.6 million imported in 2015. Of the 2016 volume, 95.4% was produced in Egypt, 4.3% in Jordan, and less than 1% in the West Bank (the Gaza Strip did not contribute any exports in 2016). Imports from both Egypt and Jordan are dominated by apparel products, which made up over 90% of each country’s 2016 QIZ exports. Because U.S. tariffs on textile and apparel goods are relatively high, production of these goods in QIZWs is particularly attractive; also, factories operating in this labor-intensive sector create many much-needed jobs. The QIZ protocol remains an essential component of the trade relationship between the U.S. and MENA, accounting for 7.1% of all non-oil exports from MENA to the U.S.

QIZ Export Trends

Source: U.S. Department of Commerce and USITC
Six years after the popular uprisings of the Arab Spring rolled across the region, foreign direct investment (FDI) flows to MENA have yet to return to their pre-2011 levels. Investors are still wary of the possibility of socioeconomic unrest in the region and are also deterred by tough business environments. Total FDI inflows to MENA reached a post-2011 peak in 2012, hitting USD 47.6 billion before dropping steadily to reach USD 37.0 billion in 2015, the last year for which data was available at publishing time. As a share of the world’s total FDI, the MENA region was slowly moving back up toward its pre-2011 level of almost 5%, reaching a high of 3.3% in 2014 before dropping in 2015 to 2.1%. The regional picture, however, masks the success of individual countries such as Egypt, Iraq, Morocco, Qatar and the UAE, which are all currently attracting more total FDI inflow than in 2011.

North Africa saw FDI inflows rise by 9% to USD 12.6 billion in 2015, largely due to growth in Egypt. The country attracted the second-highest FDI inflows in Africa behind Angola, taking in USD 6.9 billion, a 49.3% increase from 2014; this was due to expansions in the financial, pharmaceutical, telecommunications and gas industries. Morocco had the fourth-highest inflows on the continent at USD 3.2 billion. It serves as a manufacturing base for foreign investors in Africa and saw expansions in the automotive industry,
including planned investments from French brands PSA Peugeot-Citroën and Renault and the American
automaker Ford Motors. The continuation of these trends, as well as privatization of state-owned assets—includ-
ing plans by Sonatrach SPA, Algeria’s state-owned oil and gas company—to sell interest in 20 of the
country’s fields, should boost FDI inflows in North Africa going forward.

North Africa has also been a source of the continent’s FDI outflows. Libya (USD 864 million) and Mor-
occo (USD 649 million) both increased their outward investments in 2015; the latter country’s outflows
were largely intra-African, in the fields of financial services, telecommunications and manufacturing. Al-
geria also contributed USD 103 million to outward FDI, mostly coming from Sonatrach’s investments in
Mali, Niger, Libya and Egypt.

Outside of North Africa, low oil prices and geopolitical uncertainty affected global FDI to the oil-pro-
ducing countries of the GCC. FDI flows to the UAE reached USD 11 billion, a six-year high, while inflows
remained at stable but low levels in Qatar (USD 1.1 billion) and Saudi Arabia (USD 8.1 billion). Kuwait
saw inflows slashed to a third of 2014 levels, from USD 953 million to USD 293 million. Finally, Bahrain
saw major divestments, with FDI inflows dropping from USD 1.5 billion in 2014 to USD -1.4 billion in
2015.

Outward FDI flows from the Middle East, on the other hand, rose 54% to USD 31 billion, largely due
to a turnaround in Kuwait, a major investor in the subregion, which went from USD -10.5 billion in 2014
to USD 5.4 billion in 2015. In addition, outflows from the UAE (USD 9.3 billion) rose by 3% and those
from Saudi Arabia (USD 5.5 billion) rose by 2%.

U.S. investment in MENA continues to account for just over 1% of all U.S. foreign investment stock
abroad. (Stock refers to total FDI, while flows refer to the movement of FDI in a given year.) In 2015, U.S.
investment stock in MENA was USD 68.8 billion, representing 1.4% of U.S. investment stock around the
globe. U.S. investment flows to MENA dipped slightly in 2011, following the Arab Spring, before climbing
to USD 7.5 billion in 2012, representing 2.3% of U.S. investment flows abroad. Investments remained at
similar levels until 2015, when it dropped to USD 2.6 billion, representing just 0.9% of U.S. investment
flows abroad.

The U.S. accounted for 6.9% of all FDI inflows in MENA in 2015, a drop from 2014, when U.S. ac-
counted for almost 17% of FDI inflows in MENA, a five-year high. The main investments in MENA from
the U.S. in 2015 were in the sectors of mining, wholesale trade, finance, and professional, scientific and
technical services. The region also has great potential in sectors such as renewable energy, manufacturing,
tourism and business development services.

MENA Council countries receive a large percentage of the U.S. FDI flows to MENA. In 2015, eight
MENA Council members (excluding the West Bank and Gaza, for which investment figures from the
U.S. are not available) received 42% of U.S. FDI flows to MENA and 61% of all FDI flows to the region.
They account for 65% of U.S. investment stock in the region. U.S direct investment made up 5% of the
FDI inflows to MENA Council countries in 2015, for a total of USD 1.1 billion; it also accounted for
10% (USD 44.9 billion) of the FDI stock in these countries in the same year. Egypt, Algeria and the UAE
have the highest shares of USD I in their FDI stock, with U.S. investment accounting for 25%, 18% and
14%, respectively.

The U.S. is actively trying to promote investment in the MENA region by boosting the private sector,
largely through support of SMEs (discussed in Section 4) and advocating for improved business laws and
regulations. In addition, it works with multilateral institutions to stimulate and attract investment. For ex-
ample, the Organization for Economic Cooperation and Development (OECD) is helping the MENA region
boost its potential as a location for investment through the MENA-OECD Competitiveness Program,
lunched in 2005 and extended until 2020. From 2011-2015, in cooperation with the IMF’s Middle East
Center for Economics and Finance, the program carried out capacity-building training courses in areas
such as public-private partnerships, enhancing competitiveness, and improving policies and access to
finance for SMEs. It has also convened the MENA-OECD Working Group on Investment Policies and
Promotion, a forum co-chaired by Jordan and Japan to discuss ways to attract investment.
World FDI Flows to MENA (2010-2015)

Source: UNCTAD

Net FDI Inflows by Country

*Member of the AmCham MENA Council

Note: Data for Syria not available.

Source: UNCTAD
U.S. Direct Investment in MENA Council Countries (2015, USD millions)

<table>
<thead>
<tr>
<th>Country</th>
<th>U.S. Investment</th>
<th>Share of the U.S. in Country Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Stock</td>
<td>Inflows</td>
</tr>
<tr>
<td>Algeria</td>
<td>4,766</td>
<td>-33</td>
</tr>
<tr>
<td>Bahrain</td>
<td>168</td>
<td>398</td>
</tr>
<tr>
<td>Egypt</td>
<td>23,326</td>
<td>445</td>
</tr>
<tr>
<td>Jordan</td>
<td>228</td>
<td>11</td>
</tr>
<tr>
<td>Lebanon</td>
<td>224</td>
<td>30</td>
</tr>
<tr>
<td>Morocco</td>
<td>304</td>
<td>-20</td>
</tr>
<tr>
<td>Tunisia</td>
<td>311</td>
<td>-16</td>
</tr>
<tr>
<td>UAE</td>
<td>15,622</td>
<td>266</td>
</tr>
<tr>
<td>Total MENA Council</td>
<td>44,949</td>
<td>1,081</td>
</tr>
</tbody>
</table>

Source: UNCTAD, U.S. Bureau of Economic Analysis

3.1 MENA-U.S. International Investment Agreements

Bilateral investment treaties (BITs) are agreements between two countries that establish rules to govern foreign investment in each other’s countries. Designed to give investors better access to foreign markets, BITs are mutually beneficial for investors, who are often developed countries, and investees, who are often developing countries such as those in the MENA region. A BIT’s terms facilitate and protect foreign investments by the developed countries; in turn, they help developing countries improve their policy framework to attract more FDI.

The United States has established five BITs with MENA countries: Morocco (1991), Egypt (1992), Tunisia (1993), Bahrain (2001) and Jordan (2003). Total U.S. investment in these countries in 2015 was USD 24.3 billion, representing 35.4% of total U.S. investment in MENA.

The U.S. also has a number of Trade and Investment Framework Agreements (TIFAs) with MENA countries. Sometimes seen as an initial step toward a free trade agreement (FTAs), TIFAs establish the strategic framework and principles upon which to base dialogue for expanding and strengthening trade and investment. Since 1999, the U.S. has signed TIFAs with 13 MENA countries, as well as the GCC.
**3.2 Leading Sectors for U.S. Business in MENA Council Countries**

There is a broad range of sectors attracting investment within the MENA Council countries, including the traditional sectors of agriculture, medical equipment, automotives, and oil and gas. New sectors are also opening up to investment such as renewable energy, telecommunications, cyber security, e-health and medical software.

<table>
<thead>
<tr>
<th>Agriculture</th>
<th>Healthcare and Medicine</th>
<th>Infrastructure and Utilities</th>
<th>Oil, Gas and Renewable Energy</th>
<th>Safety and Security</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Algeria</td>
<td>Wheat and dairy</td>
<td>Medical equipment and supplies; Hospital and clinic construction</td>
<td>Construction equipment; Prefabricated housing; Civil engineering; Power generation and distribution; Water treatment</td>
<td>Oil and gas exploration and production; Refinery EPC; Solar energy</td>
<td>Border security; Oil and gas pipeline security; Cybersecurity; Alarm systems</td>
</tr>
</tbody>
</table>

**Source:** United States Trade Representative
<table>
<thead>
<tr>
<th>Country</th>
<th>Agriculture</th>
<th>Healthcare and Medicine</th>
<th>Infrastructure and Utilities</th>
<th>Oil, Gas and Renewable Energy</th>
<th>Safety and Security</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bahrain</td>
<td>Dairy; Frozen meat and poultry; Snack foods; Processed and fresh fruits and vegetables; Tree nuts; Seafood; Condiments</td>
<td>Drug packaging and distribution; Health education; E-health; Biotechnology</td>
<td>Small housing units; Elevators; Power plant spare parts</td>
<td>Renewable energy technology</td>
<td>Fire suppression systems</td>
<td>Motor vehicles: passenger cars, mini-vans, trucks, and SUVs</td>
</tr>
<tr>
<td>Egypt</td>
<td>Wheat, corn, soybeans; Wood products; Tree nuts; Beef; Dairy products; Vegetable oils</td>
<td>Surgical and medical equipment and disposables</td>
<td>Road management; Low income housing; Electrical power generation and distribution; Water treatment and desalination</td>
<td>Extraction equipment; CNG and LNG equipment; Natural gas vehicle technology; Renewable energy technology</td>
<td>Bomb detection equipment; Border security; Surveillance equipment</td>
<td>Food and non-food franchising</td>
</tr>
<tr>
<td>Jordan</td>
<td>Rice; Poultry, beef, fish; Processed and canned foods; Condiments; Vegetable oil; Almonds</td>
<td>Medical and surgical supplies and equipment; Healthcare management systems; E-health services</td>
<td>Water scarcity solutions</td>
<td>Renewable energy technology and consultancy</td>
<td>Fire protection systems; Ambulances; Metal detectors; Electronic security</td>
<td>ICT: Computer hardware and networking equipment; ICT Solutions</td>
</tr>
<tr>
<td>Lebanon</td>
<td>Edible fruits and nuts; Cereals; Animal or vegetable fats and oils; Meat; Beverages and spirits; Dairy products</td>
<td>Medical equipment; pharmaceuticals</td>
<td>Electricity; Water; Solid and water waste treatment</td>
<td>Offshore oil and gas exploration technologies</td>
<td>Surveillance systems; Metal detectors; Firefighting and fire protection systems; Electronic security technologies</td>
<td>Franchising; Apparel; Motor vehicles and automotive parts</td>
</tr>
<tr>
<td>Country</td>
<td>Agriculture</td>
<td>Healthcare and Medicine</td>
<td>Infrastructure and Utilities</td>
<td>Oil, Gas and Renewable Energy</td>
<td>Safety and Security</td>
<td>Other</td>
</tr>
<tr>
<td>------------------</td>
<td>-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
<td>--------------------------------------------------------------------------------------------</td>
<td>---------------------------------------------------------------------------------------------</td>
<td>-------------------------------------------------------------------------------------------</td>
<td>-------------------------------------------------------------------------------------</td>
<td>-------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Morocco</td>
<td>Dairy products; Oilseeds and products; Soybeans, grain and feed; Vegetable oil; Dried fruits and nuts; Confectionary items; Canned products</td>
<td>MRI and x-ray equipment; Cancer treatment; Hospital infrastructure; E-health services; Medical software</td>
<td>Building materials; Construction equipment; Architecture services; Railways and airports logistics</td>
<td>Solar water heaters; PV cells; Renewable energy EPC</td>
<td>Surveillance systems; Biometrics; Seaport and container inspection equipment; Fire prevention and control; Cybersecurity</td>
<td>Telecoms: Data center services; Cloud computing; Big Data; Communication technologies</td>
</tr>
<tr>
<td>Tunisia</td>
<td>Pesticides; Agricultural equipment and irrigation systems; Grain storage</td>
<td>Medical equipment</td>
<td>Engineering services; Heavy equipment; Power generation; Energy efficiency technologies, Landfill projects; Wastewater treatment</td>
<td>Renewable energy technologies</td>
<td>Firefighting equipment and vehicles; Surveillance equipment; Metal detectors</td>
<td>Insurance; Motor vehicles and automotive parts; Telecoms infrastructure</td>
</tr>
<tr>
<td>UAE</td>
<td>Medical devices; Hospital construction</td>
<td>Medical devices; Hospital construction</td>
<td>Green buildings; Facilities management; Power grid modernization; Nuclear power plants; Water storage and Desalination; Wastewater treatment; Airports</td>
<td>Oil and gas machinery, services, and chemicals; Renewable energy technologies</td>
<td>Airport and critical infrastructure security; Surveillance systems; Cybersecurity</td>
<td>Luxury vehicles, motorcyles, alternative fuel/electric vehicles; Consumer electronics; Education</td>
</tr>
<tr>
<td>West Bank and Gaza</td>
<td>Medical equipment and supplies</td>
<td>Medical equipment</td>
<td>Construction material and equipment; Elevators; Electricity grid upgrade; Water scarcity solutions</td>
<td>Solar energy generation</td>
<td>CCTV; Fire alarm and suppression systems; Metal detectors</td>
<td>Automotive parts and lubricants</td>
</tr>
</tbody>
</table>

4. Small and Medium Enterprises in MENA

Small and medium enterprises (SMEs) play an important role in most economies, including those in the MENA region. SMEs are defined by the Organization for Economic Co-operation and Development (OECD) as non-subsidiary, independent firms which employ fewer than a given number of employees. This category of businesses is also sometimes referred to as MSMEs to include microenterprises. The international institutions that gather statistics on them, such as the OECD and the International Finance Corporation (IFC), are forced to rely on country-by-country definitions, which can vary greatly. For example, the IFC defines micro enterprises as those having 1-9 employees, small enterprises as those having 10-49 employees, and medium enterprises as those having 50-249 employees. In the Middle East only two countries, Algeria and the UAE, use that definition, according to a 2010 survey by the IFC. Some MENA countries don’t register a difference between small and medium enterprises, and even fewer specifically define micro enterprises. Therefore, this report will generally use the term SMEs rather than MSMEs.

No matter how they are defined, SMEs are powering much of the global economy, especially in the developing world, and are steadily growing. SMEs range from kiosks and street cafes, often operating within the informal sector, to farms and factories; they include start-ups, often in technology-based services, and individual entrepreneurs. The SME Finance Forum, based on data from IFC and the World Bank, estimates that there are close to 400 million SMEs in the developing world. It’s difficult to accurately tally SMEs because so many of them operate in the informal sector that makes up much of the developing countries’ economies. Within the MENA region, the IFC in 2013 estimated that there are 19-23 million SMEs between the formal and informal sectors. One 2016 study by Bloovo, a Dubai-based online recruitment platform, observed that SMEs account for 90% of registered companies in MENA.

The economic contribution of these enterprises varies widely by country, from as high as 99% of GDP in Lebanon to as low as 26% of GDP in Bahrain, according to the Global Entrepreneurship Monitor. In the GCC as a whole, it is estimated that SMEs employ 17 million people, accounting for 25% of total employment; that number is expected to rise to 20 million by 2020. But these Gulf countries are by no means uniform. In Qatar and Kuwait, SMEs account for an estimated 20% and 23% of employees, respectively. In Saudi Arabia, that number is 60%, and in the UAE it is 72%. SMEs account for an estimated 30% of the UAE’s overall GDP and 60% of its non-oil GDP; that number is targeted to rise to 70% by 2021, according to the country’s minister of economy.

SMEs are essential to economic growth in the MENA region for several reasons. As an important source of private sector jobs, they have the potential to alleviate the high rates of unemployment that plague the Middle East. They offer opportunities to a large number of job seekers including youth, women and other marginalized groups, such as people living in less-developed and rural areas. SMEs help build or expand the middle class, fueling demand for new goods and services that can then be provided by SMEs and creating a cycle of growth. Also, as the World Bank points out, a robust SME sector “is understood to be a key indicator of economic dynamism and a source of new ideas and competitive pressure that spur innovation.”

SMEs’ Contribution to GDP in MENA Council Countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Algeria</td>
<td>45-50%*</td>
</tr>
<tr>
<td>Bahrain</td>
<td>26%</td>
</tr>
<tr>
<td>Egypt</td>
<td>80%</td>
</tr>
<tr>
<td>Jordan</td>
<td>50%</td>
</tr>
<tr>
<td>Lebanon</td>
<td>99%</td>
</tr>
<tr>
<td>Morocco</td>
<td>38%</td>
</tr>
<tr>
<td>Tunisia</td>
<td>51%</td>
</tr>
<tr>
<td>UAE</td>
<td>30%</td>
</tr>
<tr>
<td>West Bank and Gaza</td>
<td>N/A</td>
</tr>
</tbody>
</table>

4.1 Challenges faced by SMEs

SMEs could be a transformative force in MENA economies if they are given the right environment to thrive. A number of factors hinder the performance of SMEs, including a difficult business climate, ineffective regulatory and legal procedures, and a lack of access to finance. This is quantified by the Global Entrepreneurship Monitor’s National Expert Survey, which assesses the entrepreneurial ecosystem in countries across the world on a scale of 1-5. Among the 12 factors it measures are financing for entrepreneurs, government support and policies, taxes and bureaucracy, and commercial and professional infrastructure. Two MENA Council countries, Algeria and the UAE, have average scores higher than three, the threshold for a “sufficient” ecosystem. All of the scores demonstrate the need for MENA countries to make progress in supporting SMEs.

### National Expert Survey Rankings for MENA Council Countries

<table>
<thead>
<tr>
<th></th>
<th>Average score (1-5)</th>
<th>Financing for entrepreneurs</th>
<th>Governmental support and policies</th>
<th>Taxes and bureaucracy</th>
<th>Commercial and professional infrastructure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Algeria</td>
<td>3.08</td>
<td>3.42</td>
<td>3.19</td>
<td>2.56</td>
<td>2.86</td>
</tr>
<tr>
<td>Egypt</td>
<td>2.27</td>
<td>2.34</td>
<td>2.17</td>
<td>1.96</td>
<td>2.31</td>
</tr>
<tr>
<td>Jordan</td>
<td>2.42</td>
<td>2.44</td>
<td>2.13</td>
<td>2.10</td>
<td>2.86</td>
</tr>
<tr>
<td>Lebanon</td>
<td>2.67</td>
<td>3.05</td>
<td>2.08</td>
<td>2.34</td>
<td>3.20</td>
</tr>
<tr>
<td>Morocco</td>
<td>2.42</td>
<td>2.18</td>
<td>2.55</td>
<td>2.52</td>
<td>2.84</td>
</tr>
<tr>
<td>Tunisia</td>
<td>2.46</td>
<td>2.58</td>
<td>2.38</td>
<td>1.67</td>
<td>3.49</td>
</tr>
<tr>
<td>United Arab Emirates</td>
<td>3.21</td>
<td>2.66</td>
<td>3.51</td>
<td>3.30</td>
<td>3.29</td>
</tr>
<tr>
<td>West Bank and Gaza</td>
<td>2.52</td>
<td>2.52</td>
<td>2.24</td>
<td>2.43</td>
<td>3.07</td>
</tr>
</tbody>
</table>

*Note: 2016 rankings for all countries except Algeria (2013), Tunisia (2015) and West Bank and Gaza (2012).*

*Source: Global Entrepreneurship Monitor*
The region as a whole suffers from a difficult business environment, and small firms, which might not have consistent cash flow or large profit margins, more strongly feel the adverse effects. The World Bank in 2012 noted that “small firms in particular significantly stand out in the degree to which they identify regulatory policy uncertainty, corruption… [and] access to finance as serious constraints.” SMEs particularly in the GCC countries are hindered by bankruptcy laws, which, if present at all, offer insufficient protection for debtors, generally governing the liquidation of a bankrupt company’s assets rather than offering a way to restructure and stay in business. Ineffective bankruptcy laws deter would-be investors by increasing the risks of establishing a small business.

By far the biggest issue affecting SMEs across the region is the lack of access to finance. The SME Finance Forum estimates a total credit gap of USD 359 billion in the MENA region, with 49% of firms—about 10 million enterprises—unserved (they need credit but do not have access) or underserved (they have a loan and/or a line of credit but still find financing a constraint). A 2016 World Bank report on SMEs in GCC countries reported that only 11% of SMEs in the Gulf have access to credit, and that only 2% of bank lending goes to SMEs. Banks in non-GCC countries lend more, with the International Monetary Fund (IMF) reporting in 2014 that loans to SMEs make up an average of 13% of lending in these countries.

SMEs lack access to finance for several reasons. Banks perceive SMEs as a higher credit risk and therefore demand risk premiums or collateral requirements that may be prohibitively high for SMEs. Complicating the risk assessments is the still-limited coverage of credit reporting systems. Credit bureaus are important but only six MENA countries have them; two-thirds of MENA countries rely solely on credit registries instead, which are geared towards policymakers and regulators, not commercial lenders. The World Bank observed that “the countries that are able to strengthen creditor rights and provide more information to creditors succeed in inducing more SME lending overall.” In addition, lending in the MENA region is highly concentrated on large borrowers. Banks still prefer to utilize excess liquidity to finance large, well-established corporations or the government’s deficit. Finally, both banks and SMEs lack an enabling environment to facilitate finance. As the IFC observed in 2013, “Regulations are insufficient, financial infrastructure is inadequate, lending capacity and tools are lacking...[and] financial transparency needs to be encouraged.”

**Measures of Financial Infrastructure for MENA Council Countries**

<table>
<thead>
<tr>
<th></th>
<th>Score (out of 100)</th>
<th>Rank (out of 185)</th>
<th>Depth of Credit Information Index (0-8)</th>
<th>Credit Bureau Coverage (% of adults)</th>
<th>Credit Registry Coverage (% of adults)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Algeria</td>
<td>175</td>
<td>10</td>
<td>0</td>
<td>0</td>
<td>3.0</td>
</tr>
<tr>
<td>Bahrain</td>
<td>101</td>
<td>45</td>
<td>8</td>
<td>25.7</td>
<td>0</td>
</tr>
<tr>
<td>Egypt</td>
<td>82</td>
<td>50</td>
<td>8</td>
<td>21.6</td>
<td>7.1</td>
</tr>
<tr>
<td>Jordan</td>
<td>185</td>
<td>N/A</td>
<td>0</td>
<td>0</td>
<td>2.5</td>
</tr>
<tr>
<td>Lebanon</td>
<td>118</td>
<td>40</td>
<td>6</td>
<td>0</td>
<td>22.0</td>
</tr>
<tr>
<td>Morocco</td>
<td>101</td>
<td>45</td>
<td>7</td>
<td>24.6</td>
<td>0</td>
</tr>
<tr>
<td>Tunisia</td>
<td>101</td>
<td>45</td>
<td>6</td>
<td>0</td>
<td>27.5</td>
</tr>
<tr>
<td>UAE</td>
<td>101</td>
<td>45</td>
<td>7</td>
<td>53.8</td>
<td>8.9</td>
</tr>
<tr>
<td>West Bank and Gaza</td>
<td>118</td>
<td>40</td>
<td>8</td>
<td>0</td>
<td>17.2</td>
</tr>
</tbody>
</table>

*Source: World Bank, Doing Business Report 2017*
SMEs also face barriers related to their own capacities. Even if they have solid technical experience, entrepreneurs may need to improve their general management and business administration knowledge. They sometimes lack the range of skills needed to successfully run a business as it grows and becomes more complex. They struggle to prepare business plans or loan applications; they produce poor quality financial statements or may not keep financial statements at all; they generally operate in a more informal way than the large corporations and banks are accustomed to.

In addition to improving access to knowledge and finance, helping SMEs in MENA conform to international standards and regulations would greatly enhance their ability to export their products, contribute to the economy and boost their attractiveness for foreign investment. Affecting nearly every sector from toys to food to pharmaceuticals, standards and regulations are an essential part of the global economy, contributing to consumer protection and facilitating trade by ensuring compatibility. However, compliance can be complex and time consuming, requiring high upfront costs for long-term benefits, putting SMEs at a disadvantage. The International Trade Center observed in 2016, “small firms in the MENA region hold few internationally recognized quality certificates,” hindering their ability to capitalize on growth potential for fresh and processed food exports. Providing more information on standards compliance and strengthening firm-level capacity to meet them would contribute to increased export growth and competitiveness.

4.2 Encouraging SME Finance

Encouraging finance is essential to SME development because it allows them to expand their operations, hiring more employees and growing the economy. There are a number of steps that need to be taken to allow SMEs to access the finance they badly need. The IFC has created “best practices” for creating an environment that encourages lending to SMEs. These include developing a supportive legal and regulatory framework, strengthening the financial infrastructure, creating and implementing effective government support mechanisms, and building reliable data sources for SME finance. These steps require close coordination between banks, SMEs and the governments that regulate them.

A number of MENA Council countries have had success improving the internal environment for SMEs. In several countries, state-owned banks have taken the lead in supporting SMEs. Tunisia has two state banks devoted to SMEs: The Tunisian Solidarity Bank, established in 1997, and the Bank for Financing Small and Medium Enterprises, established in 2005. The former specializes in financing SMEs with a start-up capital between 100,000 and 10 million Tunisian dinars (TND), while the latter finances micro projects with start-up capital less than TND 100,000. By financing both new projects and young entrepreneurs as well as more established SMEs, these banks have helped ameliorate the credit shortage in Tunisia.

In Egypt, the Central Bank of Egypt (CBE) mandated in January 2016 that at least 20% of any commercial bank’s lending must be directed towards SMEs by 2020. Companies with revenue of between USD 130,000 and USD 255,000 can access loans at interest rates of less than 5%, a significant discount from CBE’s main credit rate of 11.25%. This initiative could amount to an additional USD 25 billion in financing for SMEs. In addition, the country’s credit bureau, I-score, has launched a subsidiary, Tasnif, focused exclusively on SMEs, in an effort to deepen coverage of the SME sector.

Countries in the Gulf have also taken steps to encourage SMEs. In 2006, the government of Bahrain established Tamkeen, an organization dedicated to making the private sector the key driver of economic development. The organization works with banks, financial consultants and training institutions to assist SMEs in hiring well-trained local talent and obtaining access to finance. The UAE has had an agency focused on SMEs since 2002, when the Mohammed Bin Rashid Establishment for SME Development was incorporated into the Department of Economic Development (DED). The DED produces the Dubai SME 100, an annual ranking of the country’s top SMEs, to identify role models and encourage continued investment in the SME sector. The UAE also passed Federal Law
No. 2 of 2014 to categorizes SMEs, establish a dedicated council and determine incentives for small business owners, and passed Federal Law No. 9 of 2016 to decriminalize bankruptcy.

Private funding from angel investors or “business angels” has increasingly become popular for some MENA SMEs, a response to the growing number of entrepreneurs in the years since the Arab Spring. These investors and the platforms that connect them to businesses tend to focus on innovative SMEs, often in the field of technology. Since its founding in 2011, Bahrain’s first Business Angel company, Tenmou, has helped 23 local start-ups, providing on average 20,000 Bahraini dinars (about USD 53,000) and a three-month mentorship program to each company funded. There is also Cairo Angels, which was founded in 2012 and invests between EGP 250,000 and EGP 1 million per company. The UAE’s WOMENA focuses exclusively on female investors.

Wamda Research Lab, which focuses on entrepreneurial ecosystems in MENA, noted more than 200 events focused on entrepreneurship, startups and innovation held in 2016, including BDL Accelerate in Lebanon, Riseup Summit in Egypt and the Step Conference in UAE, which all together drew almost 30,000 people. Wamda also reported that more than 15 accelerators—programs that offer start-ups support and help match them with sponsors—were launched in MENA in 2016, bringing the total number to 52 accelerators. Increased numbers of angel investors, accelerators and incubators will help grow MENA’s start-up scene. However, there is still a need for private investors to support SMEs outside of the tech sector.

In some MENA countries, SMEs can also access financing through partial credit guarantee (PCG) schemes, in which a third party offers to absorb a portion of the lender’s losses in the event the SME defaults on its loan. By mitigating the risk of lending, a PCG encourages banks to lend to SMEs that they might otherwise turn away. A number of countries have successfully introduced PCG schemes, the most successful of which is Kafalat, a Lebanese financial company that provides loan guarantees for SMEs and innovative start-ups with less than 40 employees. As of November 2013, it has provided USD 1.2 billion in loans with an average loan size of USD 109,000. Another scheme, the European Palestinian Credit Guarantee Fund, was established in 2005 for the West Bank and Gaza. This model provides guarantees and helps its seven partner banks establish specialized SME departments and implement SME-appropriate lending technologies. It also developed a risk-rating system to help banks mitigate risk and strengthen their SME portfolios. The Tunisian government has created the Tunisian Guarantee Company to guarantee certain types of loans to SMEs.

The U.S. also provides support for SMEs in MENA through both unilateral and multilateral lending. The U.S. Agency for International Development (USAID) promotes inclusive economic growth throughout the region by offering SME start-up capital, training, mentorship, entrepreneurship skills and regional networking opportunities. In Egypt, USAID’s USD 22.9-million Supporting Entrepreneurship and Enterprise Development project, established in late 2015, offers technical support to entrepreneurs and SMEs to help develop new business ideas, strengthen essential business development services, introduce new financial tools, and enhance financial literacy and management. It also administers the Egyptian-American Enterprise Fund, which provides access to investment capital and loans, modern technologies and best business practices to SMEs. In 2014, USAID announced it was partnering with the Shell Foundation in Iraq to deliver business support and long-term capital to SMEs there. That same year, USAID teamed up with Berytech Foundation in Lebanon to provide matching equity capital and equity guarantees for early stage investors and businesses. In partnership with OPIC in Jordan, USAID has established the Jordan Loan Guarantee Facility, which provides partial loan guarantees and technical assistance to mobilize bank financing for creditworthy but previously underserved SMEs.

Multilateral donors, in partnership with the U.S., have also contributed money and technical assistance to support SMEs in MENA countries. Following the Arab Spring, the World Bank lent around USD 1 billion earmarked for SME funding to Egypt, Tunisia, Morocco, Jordan and Lebanon. The World Bank estimates that these loans have created around 150,000 jobs. Also, the World Bank and IFC introduced the MENA MSME Technical Assistance Facility, which provides packages of technical assistance, advisory services and policy support to SMEs. The facility—which focuses on Egypt, Jordan, Lebanon, Libya, Morocco, Tunisia and the West Bank and Gaza—supports reforms to facilitate SMEs’ access to finance and provides advisory services to banks and other financial institutions that serve SMEs as well as technical assistance to the SMEs themselves. Since the introduction of the facility, total World Bank Group investments have amounted to USD 2.32 billion.
SWOT Analysis: SMEs in MENA

Strengths

• SMEs have a greater labor intensity than larger firms, creating more jobs for the same capital. Also, SMEs tend to have higher employment growth rates, continually generating jobs.
• SMEs provide much-needed employment in rural areas, where they are generally more common than larger businesses.
• Innovative SMEs attract foreign and domestic investment.
• GCC SMEs have a strong presence in the trading and construction sectors.
• SMEs in non-GCC countries are numerous and constitute many of these countries’ private sector firms.

Weaknesses

• Educational systems in MENA countries don’t always provide the skills that successful SMEs require.
• SMEs find it costly and difficult to meet international standards and regulations, hindering their ability to export.
• SMEs often operate informally. They lack general business knowledge and skills, such as accounting and management practices. They produce poor quality financial statements or none at all, and may struggle to prepare business plans. This hinders their ability to access finance at banks, as well as their future chances of success.
• There is a lack of an enabling environment for SMEs. Government policies and the commercial infrastructure, including taxes and the judicial system, are not “SME-friendly.”

Opportunities

• Demographics in the MENA region provide a constant demand for SME products.
• Many countries, realizing the importance of SMEs, are setting up SME-focused banks and other financing programs. Private investors are also filling the scene.
• GCC SMEs have room for expansion into value-added manufacturing sectors.
• SMEs in non-GCC countries can diversify their exports of basic manufactured goods, transportation equipment, and fresh food and raw agro-based product sectors.
• The diverse SME sector will be an essential component in GCC countries working to diversify their economies.
• If SMEs can harness their economic potential they can be a powerful force demanding a better business environment.

Threats

• Financing is difficult to access or has conditions that are not favorable to small businesses. The lack of credit information makes it difficult for banks to accurately assess the riskiness of lending to SMEs.
• Diligent and committed policy reform is necessary to create an environment in which SMEs and the banks that lend to them can thrive. Policy slippage in the business and regulatory environment will be especially harmful to SMEs.
• Despite their proven importance, SMEs risk losing priority in the face of more public economic challenges (inflation, subsidy reform, etc.). They also might be less vocal than large firms and therefore don’t hold the same influence in the government.
### Key Economic Indicators for MENA Council Countries (2015)

<table>
<thead>
<tr>
<th></th>
<th>Algeria</th>
<th>Bahrain</th>
<th>Egypt</th>
<th>Jordan</th>
<th>Lebanon</th>
<th>Morocco</th>
<th>Tunisia</th>
<th>UAE</th>
<th>West Bank and Gaza</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>GDP (current USD billions)</strong></td>
<td>166.8</td>
<td>31.1</td>
<td>330.8</td>
<td>37.5</td>
<td>47.1</td>
<td>100.6</td>
<td>43.0</td>
<td>370.3</td>
<td>12.7</td>
</tr>
<tr>
<td><strong>Real GDP growth (%)</strong></td>
<td>3.9</td>
<td>2.9</td>
<td>4.2</td>
<td>2.4</td>
<td>1.3</td>
<td>4.5</td>
<td>0.99</td>
<td>3.8</td>
<td>12.4</td>
</tr>
<tr>
<td><strong>Population (million)</strong></td>
<td>39.7</td>
<td>1.4</td>
<td>91.5</td>
<td>7.6</td>
<td>5.9</td>
<td>34.4</td>
<td>11.1</td>
<td>9.2</td>
<td>4.4</td>
</tr>
<tr>
<td><strong>GDP per capita, PPP (current international $)</strong></td>
<td>14,717</td>
<td>46,586</td>
<td>10,913</td>
<td>10,902</td>
<td>13,936</td>
<td>7,841</td>
<td>11,467</td>
<td>69,971</td>
<td>5,020</td>
</tr>
<tr>
<td><strong>Unemployment – Age 15+ (%)</strong></td>
<td>11.0</td>
<td>1.2</td>
<td>12.8</td>
<td>13.1</td>
<td>6.5</td>
<td>9.7</td>
<td>15.2</td>
<td>3.8</td>
<td>25.9</td>
</tr>
<tr>
<td><strong>Average Consumer Price Inflation (%)</strong></td>
<td>4.8</td>
<td>1.8</td>
<td>10.4</td>
<td>-0.9</td>
<td>-3.7</td>
<td>1.6</td>
<td>4.9</td>
<td>2.3**</td>
<td>1.4*</td>
</tr>
<tr>
<td><strong>Total reserves (current USD billion)</strong></td>
<td>150.6</td>
<td>6.2**</td>
<td>15.9</td>
<td>16.6</td>
<td>48.5</td>
<td>23.0</td>
<td>7.5**</td>
<td>93.9</td>
<td>0.6</td>
</tr>
<tr>
<td><strong>Lending interest rate (%)</strong></td>
<td>8.0</td>
<td>5.2</td>
<td>11.6</td>
<td>8.5</td>
<td>7.1</td>
<td>2.4*</td>
<td>N/A</td>
<td>5.3**</td>
<td>6.8</td>
</tr>
<tr>
<td><strong>FDI inflows (USD million)</strong></td>
<td>-587.3</td>
<td>-1,462.8</td>
<td>6,885.0</td>
<td>1,274.8</td>
<td>2,341.0</td>
<td>3,162.3</td>
<td>1,001.7</td>
<td>10,975.8</td>
<td>120.0</td>
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<tr>
<td><strong>Yearly average exchange rates (Local currency per USD)</strong></td>
<td>104.88</td>
<td>0.40</td>
<td>8.04</td>
<td>0.71</td>
<td>1,588.88</td>
<td>10.21</td>
<td>2.04</td>
<td>3.82</td>
<td>4.05</td>
</tr>
</tbody>
</table>

**Source:** World Bank, World Development Indicators; UNCTAD, IRS, ILO. *EIU data, **2014 data
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