



**MIDDLE EAST**



**NORTH AFRICA**

# MIDDLE EAST AND NORTH AFRICA

Stretching from Morocco’s Atlantic shores to Iran and Yemen’s beaches on the Arabian Sea, the Middle East and North Africa (MENA) region remains central to world affairs. The region encompasses some of the world’s most ancient civilizations. Today, however, most of its economies are not free. Both blessed and in some ways cursed by enormous natural oil resources, most of the local populations are characterized by extreme concentrations of wealth and poverty. Most notably, the region continues to be a critical global hot spot for economic, political, and security vulnerabilities.

The population-weighted average GDP per capita for the region is approximately \$18,803, with monetary stability relatively well maintained. However, in recent years, the MENA region has been suffering from low economic growth and plagued by a high level of unemployment.

Since early 2011, many countries in the region have experienced socioeconomic upheaval or outright conflict, and outcomes have

been far from certain. The lives of many ordinary people have yet to change for the better. Of the Arab Spring economies, Tunisia and Egypt have shown the most encouraging results over the past year. However, Bahrain continues to be on a downward path in terms of economic freedom, and grading of economic freedom for Iraq, Libya, Syria, and Yemen remains suspended because of ongoing violence and unrest.

Chart 1 shows the distribution of countries in the MENA region within the five categories of economic freedom. The region does not have any economically “free” countries. The United Arab Emirates and Qatar are the region’s two “mostly free” economies. The majority of the Middle East/North Africa region’s 14 economies graded by the *Index* continue to be rated only “moderately free” or “mostly unfree,” with the Algerian economy categorized as “repressed.”

Structural and institutional problems abound throughout the region, and private-sector growth continues to lag far behind levels needed to provide adequate economic opportunities for growing populations. Despite the outflow of crude oil, actual trade flows remain very low, indicating a lack of economic dynamism. Taken as a whole, the MENA region’s lack of job opportunities remains a serious problem, particularly for younger members of the labor force whose average unemployment rate is close to 25 percent.

The MENA region is the absolute world leader in one notable category: tax policy. (See Table 1.) The region’s tax burden score is more than 10 points above the world average, a level reached because of the low income tax rates typical in the oil kingdoms. The region also scores slightly above the world average in such other areas as rule of law and regulatory efficiency, in part reflecting ongoing reform

## MIDDLE EAST/NORTH AFRICA: QUICK FACTS

**TOTAL POPULATION:** 412.6 million

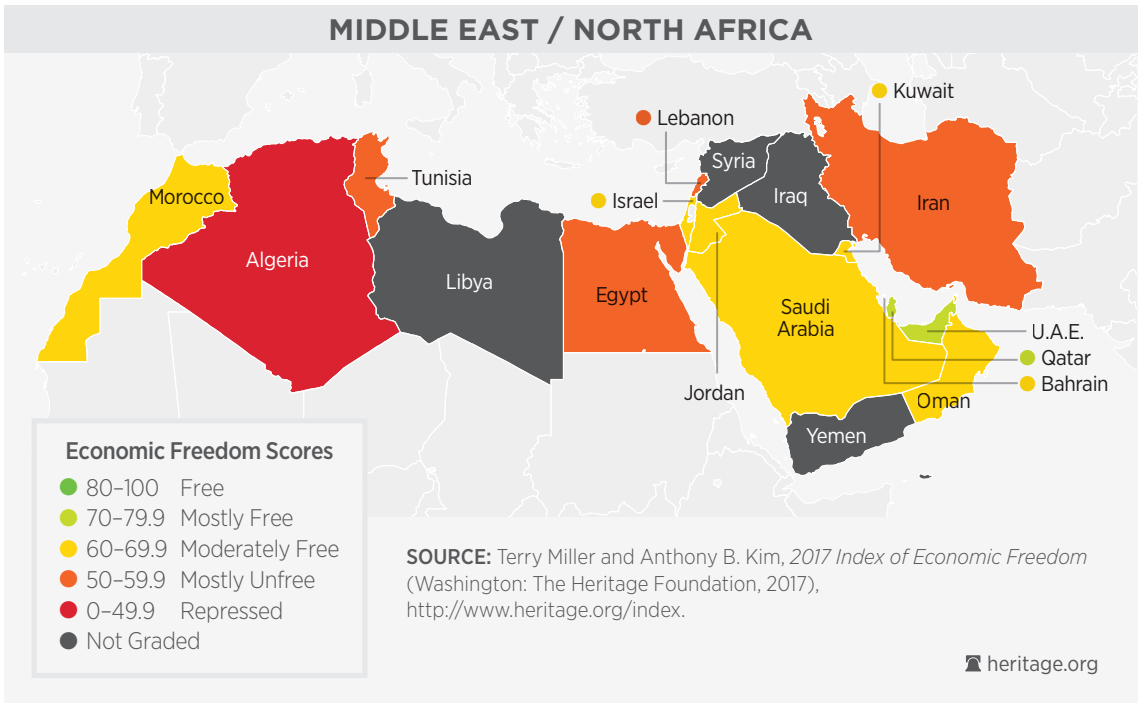
### POPULATION WEIGHTED AVERAGES

<b>GDP PER CAPITA (PPP):</b>	\$18,803
<b>GROWTH:</b>	0.2%
<b>5 YEAR GROWTH:</b>	2.0%
<b>INFLATION:</b>	9.1%
<b>UNEMPLOYMENT:</b>	10.7%
<b>PUBLIC DEBT:</b>	47.1%

**SOURCE:** Terry Miller and Anthony B. Kim, *2017 Index of Economic Freedom* (Washington: The Heritage Foundation, 2017), <http://www.heritage.org/index>.

 heritage.org

## MIDDLE EAST / NORTH AFRICA



efforts that regional leaders are making to cut back on bribery and government malfeasance.

Given the extreme oil wealth within the region, which has little to do with economic freedom, it is somewhat surprising that the MENA countries also demonstrate in dramatic fashion the correlation between economic freedom and prosperity. Chart 2 illustrates the positive relationship between high levels of economic freedom and high GDP per capita. The ongoing transformation of innovative states such as the United Arab Emirates, Qatar, and Israel may yet light the way to broader-based economic growth and political stability regionally.

As shown in Chart 3, across the region, higher economic freedom is also strongly correlated with overall human development as measured by the United Nations Human Development Index, which measures life expectancy, literacy, education, and the standard of living.

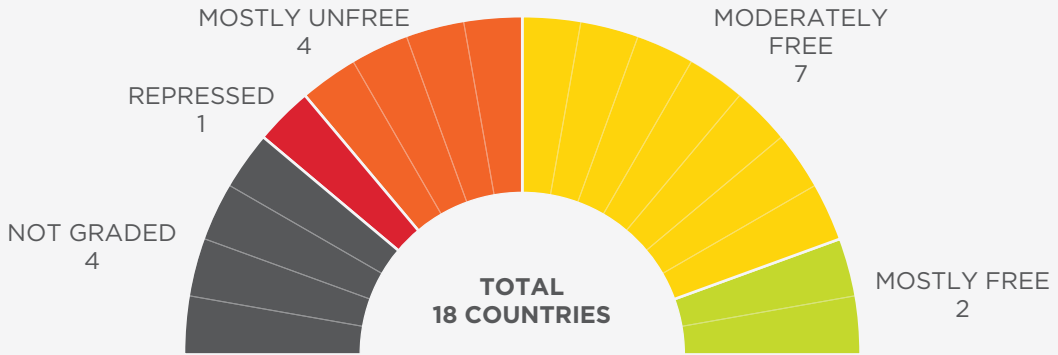
In light of the disappointing impact of the Arab Spring, it is clear that mounting economic problems will not be solved simply by

holding elections or allowing greater expressions of dissent. Existing policies and practices continue to restrict economic freedom. Costly energy and food subsidies, which place a considerable burden on budgets and stand in the way of sound sustainable economic development, are still on the rise as many governments in the region continue to rely on lavish spending to quell social and political unrest.

### NOTABLE COUNTRIES

- Israel's economy has been on a path of economic expansion. With the productive base increasingly diversified and structural reforms ongoing, steady growth has averaged over 3 percent annually over the past five years. Economic competitiveness has been anchored in strong protection of property rights and facilitated by openness to global trade and investment. Israel has the world's highest concentration of high-technology start-ups per capita.

## MIDDLE EAST/NORTH AFRICA: ECONOMIC FREEDOM SUMMARY

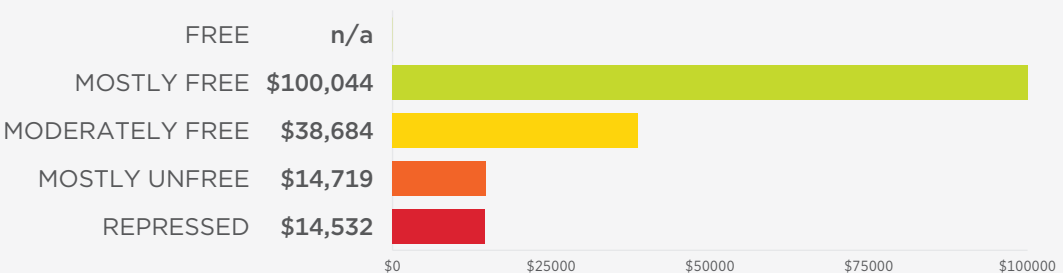


**SOURCE:** Terry Miller and Anthony B. Kim, *2017 Index of Economic Freedom* (Washington: The Heritage Foundation, 2017), <http://www.heritage.org/index>.

Chart 1 heritage.org

- Morocco continues to make gradual but notable progress in economic liberalization. The country's commitment to economic reform has encouraged the development of a dynamically evolving private sector. Policies that facilitate competitiveness and diversification of the productive base have contributed to economic expansion averaging around 4 percent annually over the past five years.
- Civil war has left Syria's economy in ruins and precludes assigning the country a rank in the 2017 *Index*. The devastation and chaos have inflicted a horrific human cost and caused enormous physical damage. Economic policy has focused on protecting the regime and maintaining the military's fighting capacity. With the escalating cost of the war compounded by a collapse in oil prices, the fiscal situation is dire.

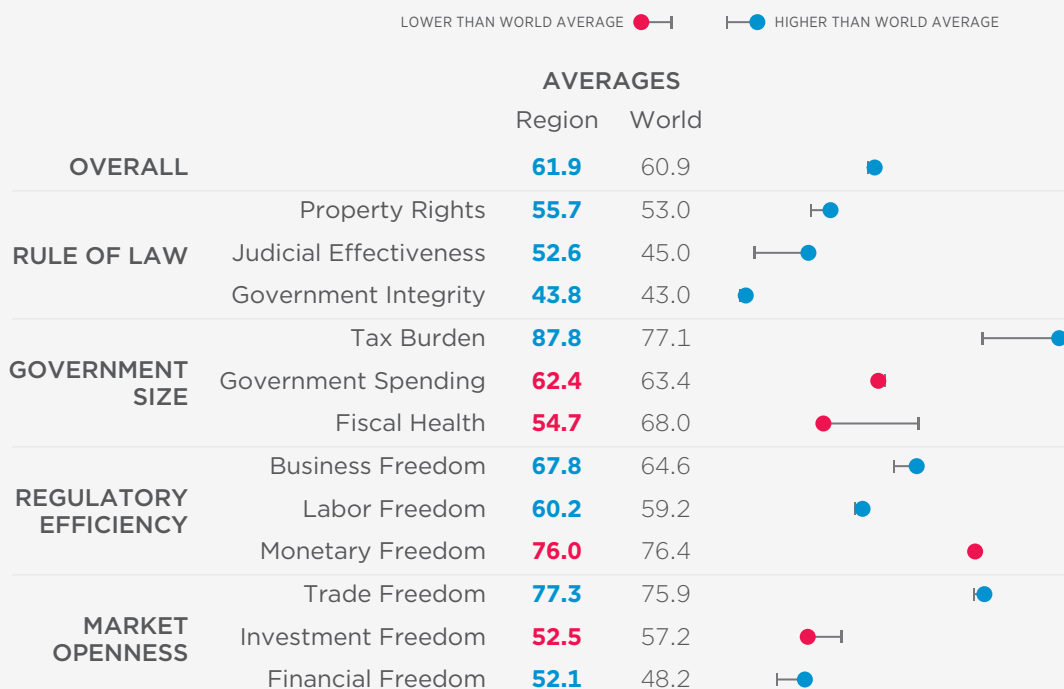
## MIDDLE EAST/NORTH AFRICA: GDP PER CAPITA, BY ECONOMIC FREEDOM CATEGORY



**SOURCES:** Terry Miller and Anthony B. Kim, *2017 Index of Economic Freedom* (Washington: The Heritage Foundation, 2017), <http://www.heritage.org/index>, and International Monetary Fund, World Economic Outlook Database, April 2016, <https://www.imf.org/external/pubs/ft/weo/2016/01/weodata/index.aspx> (accessed December 13, 2016).

Chart 2 heritage.org

## MIDDLE EAST/NORTH AFRICA: COMPONENTS OF ECONOMIC FREEDOM



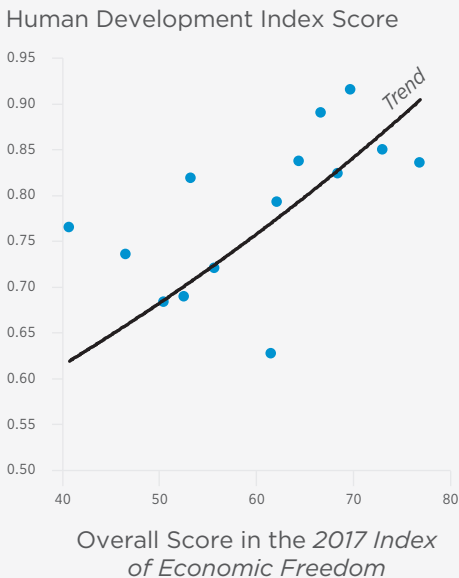
SOURCE: Terry Miller and Anthony B. Kim, *2017 Index of Economic Freedom* (Washington: The Heritage Foundation, 2017), <http://www.heritage.org/index>.

Table 1  heritage.org

- Economic dynamism is constrained in Tunisia by institutional weaknesses that remain unaddressed, primarily because political instability has hindered decisive government action. The regulatory regime, despite some improvements, remains burdensome and deters entrepreneurial activity. Deeper reforms to enhance governance and strengthen the critical pillars of economic freedom are needed to push the economy along a positive path of transition.
- Recent years' broad-based and dynamic growth in the United Arab Emirates has been underpinned by continuous efforts to strengthen the business climate, boost investment, and foster the emergence of a more vibrant and diverse private sector. The generally liberal trade regime has helped to sustain the momentum for growth. The UAE aims to be a regional financial hub, and its banking sector is resilient.

## MIDDLE EAST/NORTH AFRICA: ECONOMIC FREEDOM AND HUMAN DEVELOPMENT

Each circle represents a nation in the  
*Index of Economic Freedom*



**SOURCES:** Terry Miller and Anthony B. Kim, *2017 Index of Economic Freedom* (Washington: The Heritage Foundation, 2017), <http://www.heritage.org/index>, and U.N. Human Development Programme, International Human Development Indicators, <http://hdr.undp.org/en/data> (accessed December 13, 2016).

**Chart 3**  heritage.org

## ECONOMIC FREEDOM IN MIDDLE EAST/NORTH AFRICA

World Rank	Regional Rank	Country	Overall Score	Change from 2016	Property Rights	Judicial Effectiveness	Government Integrity	Tax Burden	Government Spending	Fiscal Health	Business Freedom	Labor Freedom	Monetary Freedom	Trade Freedom	Investment Freedom	Financial Freedom
8	1	United Arab Emirates	76.9	4.3	76.7	85.0	74.2	96.4	67.4	99.2	81.1	80.9	78.4	83.5	40	60
29	2	Qatar	73.1	2.4	74.8	63.0	59.0	99.6	71.2	97.4	68.1	65.4	80.6	83.1	55	60
36	3	Israel	69.7	-1.0	71.9	82.0	47.6	61.0	50.5	71.8	69.9	64.3	84.9	88.0	75	70
44	4	Bahrain	68.5	-5.8	64.2	53.7	55.5	99.9	69.8	12.0	69.4	78.7	80.7	82.8	75	80
53	5	Jordan	66.7	-1.6	60.1	49.5	49.8	91.3	73.3	55.5	63.9	58.1	86.7	82.0	70	60
61	6	Kuwait	65.1	2.4	55.5	56.4	41.3	97.7	40.8	99.8	61.2	61.5	73.6	78.7	55	60
64	7	Saudi Arabia	64.4	2.3	62.0	65.0	45.9	99.7	54.5	65.7	73.8	68.5	70.1	78.2	40	50
82	8	Oman	62.1	-5.0	60.8	52.3	47.6	98.5	20.5	36.3	68.4	70.3	80.6	85.2	65	60
86	9	Morocco	61.5	0.2	55.0	41.9	37.1	71.7	69.4	55.0	67.7	33.8	82.7	84.0	70	70
123	10	Tunisia	55.7	-1.9	49.6	39.9	37.3	73.7	73.4	53.4	80.6	56.1	75.9	63.8	35	30
137	11	Lebanon	53.3	-6.2	43.8	25.3	23.3	91.8	76.1	0.0	51.5	49.5	78.4	84.4	65	50
144	12	Egypt	52.6	-3.4	35.4	56.3	32.7	86.1	63.0	4.6	66.8	51.3	69.6	70.2	55	40
155	13	Iran	50.5	7.0	32.4	36.0	29.6	81.1	92.7	94.9	64.8	54.5	55.5	54.5	0	10
172	14	Algeria	46.5	-3.6	38.2	29.6	31.7	81.1	51.0	19.8	62.1	49.5	67.0	63.3	35	30
N/A	N/A	Iraq	N/A	N/A	37.3	15.9	19.1	N/A	36.1	11.3	61.2	68.0	76.9	N/A	N/A	N/A
N/A	N/A	Libya	N/A	N/A	6.8	22.6	26.7	95	0	11.4	65.0	52.5	69.2	80.0	N/A	N/A
N/A	N/A	Syria	N/A	N/A	37.3	22.6	30.0	N/A	N/A	0.0	66.4	55.7	N/A	56.6	N/A	N/A
N/A	N/A	Yemen	N/A	N/A	37.3	22.6	17.4	N/A	77.2	10.6	51.4	54.2	59.7	N/A	N/A	N/A