The U.S. Should Expand Its Economic Cooperation with the Middle East and North Africa

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**KEY TAKEAWAYS**

Most of America’s recent focus in the Middle East and North Africa (MENA) has been on security issues, but the U.S. also has economic interests in the region.

The MENA region has been hit sharply by two external shocks—plunging oil prices and the coronavirus—that have severely undermined economic growth.

The U.S. should engage the MENA region at the technical and practical policy level in a way that enables countries to advance their economic development.

Strategically situated at the intersection of the Afro-Eurasia landmass, the Middle East and North Africa (MENA) have been a focus of United States foreign policy dating back to the earliest days of the republic. U.S. relationships in the region are built on pragmatism, shared security concerns, and economic interests. Just like in other places around the world, the region is being hit hard by the COVID-19 pandemic. The first cases occurred in nearby Iran in February; since then, the virus has spread to almost every other MENA country. At the time of this writing, more than a quarter million MENA cases have been reported.

The International Monetary Fund (IMF) has warned that the world faces its worst recession since the Great Depression of the 1930s. The pandemic’s economic impact in the MENA region will be severe. The IMF’s Spring 2020 economic forecast predicts that the MENA region’s economy will shrink by 2.8 percent this year.¹
Countries in the MENA region were already facing significant economic challenges before the COVID-19 pandemic, especially when it comes to bloated government spending, dwindling oil revenues, and youth unemployment. The region contains one of the world’s youngest and fastest-growing populations. In most of the West, this would be viewed as an advantage, but not in the MENA region. Known as “youth bulges,” these demographic tsunamis have overwhelmed the inadequate political, economic, and educational infrastructures in many countries, and the lack of access to education, jobs, and meaningful political participation fuels discontent. Because almost two-thirds of the region’s inhabitants are under the age of 30, this demographic bulge will continue to have a substantial effect on political stability across the region.\(^3\)

Geographically, the Middle East is critically situated. Two-thirds of the world’s population lives within an eight-hour flight of the Gulf region, making it easily accessible from most other regions of the globe. The Middle East also contains some of the world’s most critical maritime choke points, such as the Suez Canal, the Bab el-Mandeb Strait, and the Strait of Hormuz.

Financial and logistics hubs are also growing along some of the world’s busiest transcontinental trade routes. One of the region’s economic bright spots in terms of trade and commerce is in the Persian Gulf. The emirates of Dubai and Abu Dhabi in the United Arab Emirates (UAE), along with Qatar, are competing to become the region’s top financial center. Oman’s ports of Duqm and Salalah not only are strategically located for global trade but also offer the U.S. Navy important basing options outside the Persian Gulf.

The economic situation in North Africa is similar to that of the Middle East. High unemployment, especially among the young, bloated bureaucracies, centralized economic planning, and low growth rates dog the economies. The best performing North African country in The Heritage Foundation’s 2020 Index of Economic Freedom was Morocco, which earned a “Moderately Free” ranking, while the rest received a “Mostly Unfree” or “Repressed” ranking.

The region’s insecurity exacerbates its economic problems and has global ramifications. The festering war in Libya directly affects the rest of Africa, Europe, and the Middle East, and is increasingly a proxy war as foreign powers pursue their rivalries there. Terrorists target all five of the region’s countries, and Tunisia was a major source of foreign fighters for ISIS. The political situations in Algeria, Libya, and Tunisia are unsettled. Morocco emerged mostly unscathed from the Arab Spring, and the relative stability of Egypt—which is critical to regional stability and the Arab world’s tentative détente with Israel—is overseen by the government’s iron rule.
The economic situation in the MENA region is part of what drives the political environment. The lack of economic freedom was an important factor leading to the Arab Spring uprisings, which began in early 2011 and disrupted economic activity, depressed foreign and domestic investment, and slowed down economic growth. If the region does not respond to the COVID-19 pandemic effectively, there will likely be even more instability.

It is in America’s interests to ensure that the region is stable, secure, and prosperous. In order to help achieve this stability, the U.S. should double down on its diplomatic effort to end the Gulf dispute, end pointless and economically harmful tariffs on steel and aluminum, ensure that the proposed Middle East Strategic Alliance has a robust economic component, and promote economic freedom and free trade with the region when and where appropriate.

While these measures taken individually will only have a limited impact on the economic health of the MENA, taken together they offer a realistic and meaningful approach for the United States and friendly governments in the region to help each other.

U.S. Economic Interests in the Middle East

Most of the focus of U.S. policymakers in the MENA region in recent years has been on security issues. Transnational terrorism from groups like al-Qaeda and ISIS, and rogue state actors like Iran, have dominated the U.S. approach to the region.

While these issues remain important, economic aspects of U.S. engagement in the region cannot be ignored—especially considering the negative impact that COVID-19 will have on the region. The U.S. has a long-term interest in the Middle East that derives from the region’s economic importance as the world’s primary source of oil and gas. The MENA region contains more than half of the world's oil reserves and is the world’s chief oil-exporting region. As the world’s biggest oil consumer, the U.S., even though it has imported relatively little of its oil from the Middle East since the U.S. became energy independent, has a vested interest in maintaining the free flow of oil and gas from the region. Oil is a fungible commodity, and the U.S. economy remains vulnerable to sudden spikes in world oil prices.

Because many U.S. allies depend on Middle East oil and gas, there is also a second-order effect for the U.S. if supply from the Middle East is reduced or compromised. For example, Japan is both the world’s third-largest economy and second-largest importer of liquefied natural gas (LNG). The
U.S. itself might not depend on Middle East oil or LNG, but the economic consequences arising from a major disruption of supplies would ripple across the globe.

The U.S. has strong military, security, intelligence, and diplomatic ties with several Middle Eastern nations, including Israel, Egypt, Jordan, and the six members of the Gulf Cooperation Council (GCC). Because the historical and political circumstances that led to the creation of NATO have largely been absent in the Middle East, the region lacks a similarly strong collective security organization.

When it came into office, the Trump Administration proposed the idea of a multilateral Middle East Strategic Alliance with its Arab partners. The initial U.S. concept, which included security, economic cooperation, and conflict resolution and deconfliction, generated considerable enthusiasm, but the project was sidelined by a diplomatic dispute primarily involving Saudi Arabia, the UAE, and Qatar. Middle Eastern countries traditionally have preferred to maintain bilateral relationships with the U.S. and generally have shunned multilateral arrangements because of the lack of trust among Arab states. However, economic cooperation works best when there are more actors working together.

This lack of trust manifested itself in June 2017 when the Kingdom of Saudi Arabia, the United Arab Emirates, Bahrain, Egypt, and several other Muslim-majority countries cut or downgraded diplomatic ties with Qatar after Doha was accused of supporting terrorism in the region. All commercial land, air, and sea travel between Qatar and these nations has been severed, and Qatari diplomats and citizens have been expelled. Discussions between Qatar and GCC members to resolve the dispute began in October 2019 and broke down in February 2020. Political tensions still remain high between Gulf states.

**U.S. Economic Interests in North Africa**

North Africa does not supply significant quantities of oil or gas to the U.S., but as with the Middle East, disruptions there are relevant to Washington because of the dynamics of the global energy market. Libya sits on the world’s 10th-largest proven oil reserves, but production has cratered amid its civil war. Algeria has the 10th-largest gas reserves and is a major supplier for Europe. However, the industry is suffering, especially due to Russian and American competition, a problem likely to worsen once the Russia-to-Europe Nord Stream 2 pipeline starts pumping.
North Africa is the home of the only African country, Morocco, which has a free trade agreement with the U.S. Several North African countries, especially Morocco, are seeking to take advantage of their position in Africa and close to Europe to position themselves as gateways to Africa.

Before the pandemic descended, many of the world’s fastest-growing economies were in sub-Saharan Africa, and its booming population drew many countries’ attention as a potential new market. Morocco and Tunisia, given their existing manufacturing base, comparative stability, ties to Europe and sub-Saharan Africa, and relatively well-educated populations, could indeed serve as economic bridges between the U.S. and parts of Africa, though both need to undertake labor and regulatory reforms, and upgrade their port infrastructure, to realize their potential.

COVID-19 in the MENA Region

The rapid spread of COVID-19 in the MENA region is linked to a massive outbreak in Qom, Iran, in early February. The virus likely originated from Chinese students and guest workers or businessmen traveling between China and Iran. The virus quickly spread to nearby countries—most, if not all, of them linked to cases in Iran.

In response, most countries implemented travel restrictions and the closure of non-essential businesses, but freedom of movement varied from country to country. Jordan and Iraq implemented strict measures early to curtail the effects of the virus. Gulf countries were slower to implement the same measures. In Libya, Yemen, and Syria, civil wars have weakened infrastructure and divided governments, making it difficult to test for the virus and implement country-wide containment measures.

As of May 6, the virus has spread to all 18 countries in the Middle East and North Africa. At the time of this writing Iran, Saudi Arabia, and Qatar have the highest number of recorded coronavirus cases, while the West Bank, Yemen, and Syria have the lowest reported number of cases in the region—though this is probably because of inadequate reporting mechanisms. Disparities in state capacity and transparency may explain data inaccuracy. Egypt and Iran are accused of actively suppressing information about the virus from the public. In Yemen and Syria, displaced people living in overcrowded refugee camps are the most vulnerable due to the lack appropriate health and sanitation services. Migrant and guest worker communities in the Gulf are also at risk for a potential outbreak. Making up a significant percentage of the labor force, these guest workers live in densely packed and unsanitary living conditions. So far, it has been
difficult for international health organizations to understand the size and scope of the virus outbreak in the region.

The regional economic impact of the COVID-19 pandemic has been devastating. In addition to the widespread loss of production and wages due to public lockdowns, MENA oil and gas exporters have been severely affected by the sharp decline in world energy prices due to the pandemic-related economic recession. Plunging oil revenues have led Gulf oil exporters to lay off foreign workers, which in turn diminished the flow of remittances that formerly boosted the economies of labor-exporting countries, such as Egypt, Jordan, Lebanon, and the Palestinian territories. The pandemic also decimated the tourism industries that play important roles in the economies of Egypt, Israel, Jordan, Morocco, and Tunisia. Saudi Arabia, Iraq, and Iran also were hurt by declining revenues from fewer foreign religious pilgrims visiting Muslim holy sites.

Africa’s first confirmed COVID-19 case was reported in Egypt in February, and North Africa has been the continent’s hotspot ever since. According to Johns Hopkins University, Egypt, Morocco, and Algeria have the second-, third-, and fourth-highest number of confirmed coronavirus cases, respectively, on the continent at the time of this writing. According to the Africa Centres for Disease Control and Prevention, North Africa also leads the African continent in COVID-19-related deaths, despite being only the third-most populous region. However, given the lack of widespread testing, it is impossible to know the accuracy of the data. The virus could have spread to North Africa from Europe, given the geographical proximity and the strong trade and human ties linking the two.

North African governments launched aggressive lockdowns to counteract the virus’ spread, but the restrictions are unlikely to have much effect in Libya as the violence and lack of government capacity there makes it difficult to track and treat COVID-19 patients. Some human rights organizations also claim that North African governments are using the lockdowns as a pretext for squashing political dissent. The main focus of most countries in both the Middle East and North Africa is to shape a favorable narrative to curb the economic effects of the pandemic, which are key drivers of political unrest.

**Economic Freedom and Economic Conditions in the MENA Region**

Many of the countries in the MENA region had undergone political and economic turbulence prior to the global outbreak of COVID-19. The region
as a whole has been hit sharply by two interwoven, reinforcing external shocks that have been severely undermining economic growth. The spread of COVID-19 and plunging oil prices have forced the region to confront significant economic turmoil and social challenges. Almost all countries in the region have reported official COVID-19 cases, and oil prices have fallen by approximately 50 percent since the beginning of the year.

The task of preserving and revitalizing engines of economic growth has become more vital than ever. The ongoing pandemic has resulted in severe supply disruptions as well as consumer demand contraction for the region, affecting various sectors of the economies. At the same time, global financial conditions have tightened sharply, adding to the region’s challenges.

The negative impact of COVID-19 could be long-lasting, given that there is a high degree of uncertainty around the depth and duration of the pandemic that further compounds the region’s institutional weaknesses.

As The Heritage Foundation’s annual Index of Economic Freedom has documented over the years, structural and institutional problems prevent the much-needed expansion of economic freedom in the region. The region’s problems are complex, rooted in decades of authoritarian or non-democratic rule, which has kept power and resources in the hands of a few. Progress on economic restructuring and diversification that reduce the state’s overall role in the economy and people’s lives have been limited.

According to the 2020 Index, the MENA region does not have any economically “Free” countries, and the UAE, Israel, and Qatar are its only “Mostly Free” economies. The majority of the countries in the region fall into the “Moderately Free” or “Mostly Unfree” categories, with Iran and Algeria categorized as “Repressed.”

All in all, private-sector growth in the region has lagged behind levels needed to provide enough job creation, particularly for the younger population, reflecting a considerable lack of economic dynamism and vitality. To strengthen the private sector, expand job opportunities, diversify the economy, and reduce its dependence on oil-export revenues, Saudi Arabia has launched Saudi Vision 2030. This strategic framework for economic development includes attracting foreign investment, privatizing portions of the state-owned oil industry, reforming public-sector services, and expanding the entertainment and tourism sectors. Other Arab Gulf governments established similar goals with UAE Vision 2021, Qatar National Vision 2030, Kuwait Vision 2035, and Oman Vision 2040.

The objective of America’s strategic and practical economic engagement with the MENA region should be to help to put it on a track to sustainable and broad-based entrepreneurial growth.
Time for an Economic Freedom Partnership with MENA Allies and Friends

The promotion of economic freedom at home and abroad is essential not only for a genuine and sustained revitalization of the U.S. economy, but also for strengthening U.S. national security.

The ongoing COVID-19 pandemic underscores the importance of advancing economic freedom for the region. Policies and governing systems that promote freedom, whether through improvements in the rule of law, the promotion of competition and openness, or suitable restraints on the size and economic reach of government, turn out in practice to advance practical solutions to a wide range of challenges. Indeed, as the Index has shown, countries with higher degrees of economic freedom are more resilient in times of calamity because they capitalize more fully on the capacity of their private sectors.

As the 2020 Index reported, the region’s overall economic freedom improved slightly over the past year. There is still much room for improvement, however. Several of the core components of economic freedom, such as rule of law and limited government, are inimical to corruption, and enhancing economic freedom around the globe will necessarily bring down levels of corruption as well.

Central to the task of advancing economic freedom and a welcoming business environment in the region must be committed economic statecraft that creates a more inviting playing field for private investors. Needless to say, the U.S. cannot give MENA countries the political will that they need to transform their economies according to free-market principles. However, by becoming involved at the levels of critical policy dialogue and implementation, the U.S. can ensure that its guidance and concerns are taken into account.

Women’s economic empowerment is a driving force to meaningful long-term economic development in the MENA region. In 2019, women represented only 20 percent of the workforce, despite outnumbering men in pursuing university degrees. This data dramatically varies across the region. Israel performs the best in the region at 60 percent, while Yemen performs the worst at 6 percent. Gulf countries, such as the UAE and Qatar generally perform above average, while Iraq, Syria, and Jordan perform the worst. Legal and regulatory barriers in addition to cultural attitudes represent the biggest challenges affecting women’s economic freedom. As a country that embodies and promotes the free market, private enterprise, and innovation, the United States is uniquely positioned to illustrate the
importance of women’s empowerment via its foreign policy. Over the past few years, the Trump Administration has embraced this agenda through its Women’s Global Development and Prosperity (W-GDP) Initiative. If implemented well, the W-GDP Initiative could usher in a new model for U.S. foreign assistance in the MENA region based on free-market principles.

Indeed, as Secretary of State Mike Pompeo pointed out in his January 2019 speech at the American University in Cairo, titled “A Force for Good: America Reinvigorated in the Middle East,”

America is a force for good in the Middle East. We need to acknowledge that truth, because if we don’t, we make bad choices—now and in the future. And our choices, the choices we make today have consequences for nations, and for millions and millions of people, for our safety, for our economic prosperity, for our personal freedoms, and those of our children.12

Recommendations for the U.S.

Advancing economic freedom is more urgent and imperative than ever for the MENA region, and it is time to make the critical choice together. The U.S. can also engage at the technical and practical policy level in a way that enables countries to advance their economic development. The United States should:

- **Encourage countries in the region to ensure independent judiciaries and commercial legal frameworks.** Corruption not only squanders economic resources, but also restricts economic competition and hinders the development of free enterprise. Transparency and anti-corruption practices in trade and investment should be emphasized in bilateral investment treaties and other economic exchanges.

- **Incentivize governments to further liberalize their economies to spur the development of vibrant private sectors.** Countries in the MENA region have long suffered from a lingering legacy of flawed socialist economic development models, which have curtailed economic growth, protected dysfunctional bureaucracies, and prolonged the existence of inefficient state-owned sectors. Expanding the private sector is key to ensuring economic rebound and growth as well as creating a larger middle class, which is an important building block for greater political stability. Washington should boost the foreign
aid programs of the Millennium Challenge Corporation (MCC) in the MENA region, which comprised only 11 percent of the total dollar value of active MCC compacts in 2019.13

- **Pursue pragmatic region-wide trade agenda that will remove barriers to flows of goods and services.** The United States has already established a network of trade pacts in the region through bilateral free trade agreements (FTAs) with Israel, Bahrain, Oman, Jordan, and Morocco. In addition to making strategic efforts to better utilize these existing FTAs, Washington should consider pursuing additional trade agreements that can not only lower the costs of imported goods for consumers in the MENA region, but also expand exports to the U.S. market.

- **Double down on efforts to help to end the pointless Gulf dispute.** True economic recovery will not take place in the Gulf as long as the region remains divided. It is time that all countries involved sit at the same table and find a solution that can end the blockade. The U.S. should play a major leadership role through this process.

- **Remove unnecessary tariffs.** The current steel and aluminum tariffs put in place by the United States not only negatively affect the relations with notable American allies like Canada or the U.K., but also smaller ones, like those in the GCC. Over the years, countries like Bahrain and Oman have done much to diversify their economies, and the steel and aluminum sectors have played a key role. Not only are these tariffs bad for the American consumer, they also needlessly complicate America’s bilateral relationships—especially in the Middle East.

- **Ensure that the Middle East Strategic Alliance (MESA) includes an economic component.** In 2017, the Trump Administration proposed the creation of a MESA with its Arab partners in order to deepen relations, but little progress has been made. A good MESA will include security, economics, and energy issues. A sensible U.S. strategy would be to balance these issues as equally as possible. MESA should be seen as a stool with three legs (security, economics, and energy). If one leg is longer than the other, the whole stool is slanted at best, and unusable at worst. For too long, the U.S. has focused too much on just one of these issues at a time. This is not a healthy or sustainable way to advance U.S. interests in the region.
• **Call on MENA states to normalize economic activity with Israel.** Israel is a key economic engine in the Middle East, yet many MENA countries refuse any commercial exchange with Israel due to residual tensions over the Israeli–Palestinian conflict. Washington should seek incremental progress on Israeli–Palestinian negotiations to defuse these tensions and lower the barriers to trade with Israel. But progress is unlikely if Israeli–Palestinian negotiations are not revived, and would be politically impossible if Israel follows through on current plans to annex portions of the West Bank. Absent annexation, and given the depth of the current crisis, some MENA countries may consider accepting an American offer to facilitate the forging of economic links with Israel. MENA states could especially benefit from cooperating with Israel, which faces many of the same climactic and water-scarcity challenges as other MENA countries, but is a food exporter and leading innovator in the agriculture and water-management sectors.

• **Plan a U.S.–MENA forum to promote U.S. private-sector and MENA private-sector contributions to economic recovery.** The American and MENA private sectors will be critical to the post-pandemic recovery of their respective regions, and the U.S. can support the process by hosting a high-level forum convening senior government and private-sector representatives from the U.S. and the MENA region. In addition to bolstering private companies, a forum is a public way for Washington to demonstrate commitment to the U.S.–MENA relationship and remind MENA governments of the desirability of collaborating with the United States.

**Conclusion**

For the foreseeable future, the MENA region will remain a key focus for U.S. policymakers. The impact of COVID-19 on the world has been far-reaching and hugely damaging to every major economy. The pandemic has been the most widespread and hard-hitting health crisis in more than a century; it must not, however, weaken or undermine U.S. interests in the MENA region.

Overall, regional security has deteriorated in recent years and COVID-19 will only worsen the situation. The economic recovery plan described in this Backgrounder can ensure that Washington and regional capitals work together effectively to lay the foundations for renewed economic growth,
job creation, and enhanced security in the aftermath of the biggest global crisis since World War II. This recovery must be based on the principles of economic freedom and free trade, combined with a determination and commitment to strengthening regional security, and standing up to those actors—including Iran and China—who threaten stability.

America’s adversaries will seek to use the COVID-19 pandemic to divide the United States from its partners, sow division and disinformation, and exert greater influence. They must not be allowed to do so. This is a key moment for the U.S., Israel, and the Arab world to stand strong and steadfast, and to look forward to a new era of cooperation for advancing shared interests.

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Endnotes


2. In June 2017, Saudi Arabia, the UAE, Bahrain, Egypt, and several other Muslim-majority countries cut or downgraded diplomatic ties with Qatar after Doha was accused of supporting terrorism in the region. All commercial land, air, and sea travel between Qatar and these nations has been severed, and Qatari diplomats and citizens have been evicted.


6. Algeria, Bahrain, Egypt, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Qatar, Saudi Arabia, Syria, Tunisia, the UAE, Yemen.


8. Ibid.


11. Ibid.
