



# **U.S. Trade and Investment in the Middle East and North Africa: Overview and Issues for Congress**

**Rebecca M. Nelson**

Analyst in International Trade and Finance

**Mary Jane Bolle**

Specialist in International Trade and Finance

**Shayerah Ilias**

Analyst in International Trade and Finance

January 20, 2012

**Congressional Research Service**

7-5700

[www.crs.gov](http://www.crs.gov)

R42153

**CRS Report for Congress**

*Prepared for Members and Committees of Congress*

## Summary

In order to support democratic political transitions and stability in the Middle East and North Africa (MENA), policymakers in Congress and elsewhere are discussing potentially using U.S. trade and investment to bolster long-term economic growth in the region. For example, President Obama has called for the creation of a “Trade and Investment Partnership Initiative” in the MENA region, and some Members of Congress have called for deeper economic ties with Arab countries undergoing profound change. This report analyzes policy approaches that the Congress might consider concerning U.S.-MENA trade and investment.

### **MENA Economies**

Economic performance in the MENA region as a whole lags behind other regions in the world in terms of GDP per capita (living standards), employment, and economic diversification, despite the fact that several MENA countries are major producers of oil and natural gas. Substantial diversity also exists among economies within the region.

### **Integration in the Global Economy**

The MENA region’s lack of integration in the global economy is frequently cited as an obstacle to overall economic development in the region. MENA’s trade with the world is concentrated in a small number of products (oil exports and imports of manufactured goods) and among a small number of trading partners (particularly the European Union). Tariffs also remain high in some MENA countries. With regard to the United States, the MENA region accounts for less than 5% of U.S. total trade and 1% of U.S. foreign direct investment (FDI) outflows. U.S. businesses face a number of non-tariff barriers, such as lack of transparency, bureaucratic red tape, corruption, weak rule of law, and differences in business cultures. The United States has free trade agreements (FTAs) with five MENA countries: Bahrain, Israel, Jordan, Morocco, and Oman.

### **Policy Approaches and Challenges**

Congress and other policymakers might consider a number of approaches regarding U.S. trade and investment in the MENA region, including

- maintaining the status quo until the impact of the political changes in MENA countries is clear;
- creating a U.S. trade preference program that grants preferential market access in the United States to exports from MENA countries;
- increasing assistance from U.S. federal export agencies to the region;
- negotiating new trade and/or investment agreements with countries in the region that do not already have them. Egypt and Tunisia have been mentioned by some U.S. policymakers as the most likely candidates for FTAs; and
- providing technical assistance to countries working towards World Trade Organization (WTO) membership.

The link between increased economic openness and democracy is debated. Some analysts maintain that new trade and investment agreements develop better governance and institutions and support sound economic growth. Other analysts argue that the empirical record between

economic openness and democracy is weak. Additionally, some observers question whether the protestors in different Arab countries favor more economic liberalization, which they sometimes associate with inequality.

If a policy agenda to promote increased U.S. trade and investment with the MENA region is pursued, Congress will face a host of questions. A few examples include

- Should the U.S. government promote expanded trade and investment in the near-term in order to support democratic transitions, or should it wait until the political situation stabilizes in various countries? Does waiting risk losing commercial opportunities for U.S. businesses in MENA to other countries? Does acting early risk supporting governments whose compatibility with U.S. interests remains ambiguous?
- To what extent should the United States balance, on one hand, pursuing a regional approach of increased trade and investment, while, on the other hand, tailoring policies to the specific needs of individual countries in the region?
- To what extent should the United States cooperate with the European Union or others on trade and investment in the MENA region?

Are existing U.S. trade and investment agreements with MENA countries benefitting the region, and achieving the intended objectives? What lessons can be learned from past U.S. efforts to promote trade and investment?

## Contents

|   |    |
|---|----|
| Introduction.....   | 1  |
| Economic Challenges in the MENA Region .....                                  | 3  |
| Weak Economic Development Despite Abundant Natural Resources .....            | 3  |
| Obstacles to Development.....   | 5  |
| Important Caveats: Areas of Success, and Heterogeneity Among Countries .....  | 5  |
| Weak Integration in the Global Economy.....                                   | 8  |
| MENA’s Trade and Investment with the World.....                               | 8  |
| U.S.-MENA Trade and Investment.....   | 10 |
| Trade.....  | 10 |
| Investment .....  | 12 |
| Obstacles to Closer U.S. Trade and Investment Ties with MENA Countries .....  | 14 |
| Policy Options for Increasing U.S.-MENA Trade and Investment.....             | 15 |
| Current Status of U.S. Trade and Investment Policy with MENA .....            | 16 |
| Formal Agreements to Liberalize Trade and Investment .....                    | 17 |
| Federal Programs to Promote Trade and Investment .....                        | 20 |
| Possible Policy Approaches for Increasing U.S.-MENA Trade and Investment..... | 25 |
| Unilateral Options .....  | 25 |
| Bilateral and Regional Options .....  | 26 |
| Multilateral Options .....  | 28 |
| Issues for Congress: Possible Challenges and Implementation Questions .....   | 28 |

## Figures

|  |    |
|--|----|
| Figure 1. Map of Middle East and North Africa.....   | 2  |
| Figure 2. The MENA Economy in Comparative Perspective: Key Indicators .....  | 4  |
| Figure 3. MENA’s Trade as a Percent of GDP Compared to Other Regions, 2009.....  | 8  |
| Figure 4. MENA’s Exports and Imports of Goods and Services with the World,<br>by Commodity or Type of Service, 2008..... | 9  |
| Figure 5. MENA’s Major Trading Partners, 2010.....   | 9  |
| Figure 6. Top U.S. Exports to and Imports from the MENA Region, 2010 .....   | 11 |
| Figure 7. U.S. Exports to and Imports from MENA Countries/Territories, 2010.....   | 12 |
| Figure 8. U.S.-MENA Foreign Direct Investment (FDI), 2010.....   | 13 |
| Figure 9. U.S.-MENA Foreign Direct Investment (FDI): Country Breakdown, 2010 .....                                       | 14 |
| Figure A-1. U.S. Exports to MENA Countries/Territories.....  | 32 |
| Figure A-2. U.S. Imports from MENA Countries/Territories, 2010 .....   | 33 |

## Tables

|  |   |
|--|---|
| Table 1. Selected Economic Indicators for MENA Countries ..... | 7 |
|--|---|

Table 2. U.S.-MENA Trade and Investment Agreements ..... 19  
Table 3. Federal Export and Investment Promotion Support in MENA ..... 24  
Table A-1. Top U.S. Exports to MENA Countries/Territories, 2010 ..... 34  
Table A-2. Top U.S. Imports from MENA Countries/Territories, 2010..... 35

## **Appendixes**

Appendix. Trade Tables ..... 32

## **Contacts**

Author Contact Information..... 36

## Introduction

In early 2011, anti-government and pro-reform demonstrations, protests, and uprisings began sweeping through several countries in the Middle East and North Africa (MENA) region.<sup>1</sup> The heads of state in three countries—Tunisia, Egypt, and Libya—have been overthrown, and political protests have occurred in a number of countries, including Yemen, Syria, Bahrain, and Jordan, among others.<sup>2</sup> Some commentators claim that a new wave of democratization is sweeping through the MENA region,<sup>3</sup> and term the recent political unrest the “Arab Spring.” Others are less optimistic about these political changes and warn that the outcomes are still unclear.

The U.S. government and the broader international community have begun to discuss how they can support democratic political transitions in the region. A key focus of these discussion is the role that economic growth can play in solidifying and supporting political transitions. Policymakers in Congress and elsewhere have considered possible short-term measures that might provide economic relief to transitioning countries. For example, the FY2012 State and Foreign Operations appropriations legislation provides for increased U.S. foreign aid to Egypt, Tunisia, and Jordan, provided certain conditions are met.<sup>4</sup> A portion of these funds can be used to create “enterprise funds” to invest U.S. government funds in these countries.<sup>5</sup> Policymakers have also discussed measures that could bolster economic growth over the longer-term, in particular through greater trade with and investment in the region. This report focuses on these trade and investment discussions.

Calls for greater trade and investment with MENA countries have come from the Administration and some Members of Congress. In a speech delivered at the State Department in May 2011, President Obama called for, among other measures, a new “Trade and Investment Partnership Initiative” with MENA countries.<sup>6</sup> Within Congress, some Members have called for new free

---

<sup>1</sup> There is no standard definition of which countries belong to the MENA region; different organizations define the region differently. This report primarily relies on the categorization used by the World Bank. The World Bank defines the MENA region to include Algeria, Bahrain, Djibouti, Egypt, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Libya, Malta, Morocco, Oman, Qatar, Saudi Arabia, Syria, Tunisia, the United Arab Emirates (UAE), the West Bank, and Yemen. Some may disagree with the categorization; for example, Malta, may be a particular point of contention because it is a member of the European Union (EU). However, given the data constraints for the MENA region and the availability of data from the World Bank, the World Bank’s categorization is used in this report.

<sup>2</sup> For more information on the political developments in the region, see CRS Report RL33003, *Egypt in Transition*, by Jeremy M. Sharp; CRS Report RS21666, *Political Transition in Tunisia*, by Alexis Arief; CRS Report RL33142, *Libya: Transition and U.S. Policy*, by Christopher M. Blanchard; CRS Report RL34170, *Yemen: Background and U.S. Relations*, by Jeremy M. Sharp; CRS Report RL33487, *Unrest in Syria and U.S. Sanctions Against the Asad Regime*, by Jeremy M. Sharp and Christopher M. Blanchard.

<sup>3</sup> For example, see Stephen R. Grant, “Starting in Egypt: the Fourth Wave of Democratization?” Brookings, February 10, 2011, [http://www.brookings.edu/opinions/2011/0210\\_egypt\\_democracy\\_grand.aspx](http://www.brookings.edu/opinions/2011/0210_egypt_democracy_grand.aspx).

<sup>4</sup> P.L. 112-74. For more on U.S. foreign assistance to MENA, see CRS Report RL32260, *U.S. Foreign Assistance to the Middle East: Historical Background, Recent Trends, and the FY2011 Request*, by Jeremy M. Sharp.

<sup>5</sup> Enterprise funds seek to promote the expansion of the private sector in developing and transition countries by lending or taking equity positions in firms. They are initially funded by the U.S. government, although additional capital may be raised from the private sector. For more background information on enterprise funds, see Carol Lancaster (Coordinator), Kwaku Nuamah, and Matthew Lieber, et al., *Foreign Aid and Private Sector Development*, Providence, RI: Watson Institute for International Studies, Brown University, 2006.

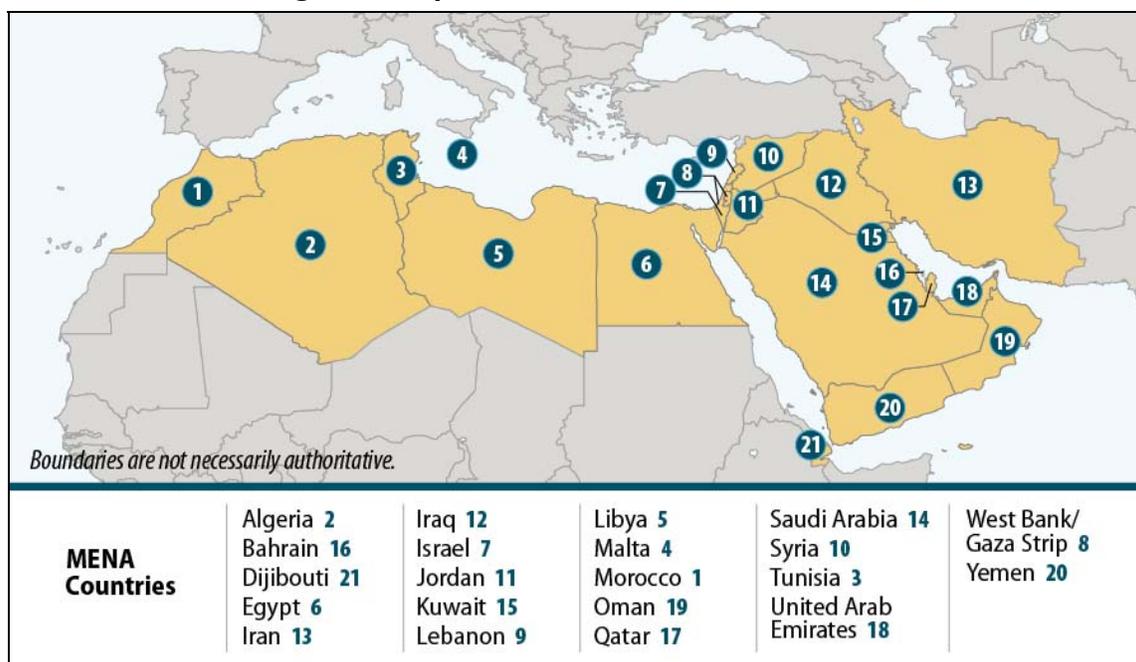
<sup>6</sup> Office of the Press Secretary, “Remarks by the President on the Middle East and North Africa,” The White House, State Department, Washington, DC, May 19, 2011, <http://www.whitehouse.gov/the-press-office/2011/05/19/remarks-> (continued...)

trade agreements (FTAs) with Egypt and Tunisia, and deeper economic ties with Libya.<sup>7</sup> In November 2011, Representative Dreier introduced a resolution, co-sponsored by Representative Meeks, that calls for the United States to initiate FTA negotiations with Egypt (H.Res. 472).

Any new U.S. trade and investment initiatives with the MENA region will almost certainly require congressional involvement. For example, legislative action would be needed to implement any new trade and investment agreements. Congress may also want to exercise oversight over any changes to government programs that promote U.S. trade and investment.

This report provides background and analysis for policymakers considering re-evaluating U.S. trade and investment in the MENA region in light of recent political developments. In particular, the report examines the economic challenges facing many countries in the region and the area's limited integration in the world economy, including relatively weak economic ties with the United States. It also analyzes various policy options for increasing trade and investment with MENA countries. The report concludes by discussing: 1) the premise of the policy agenda, specifically whether increased trade and investment can support or lead to successful democratic transitions and political stability; and 2) if such a policy agenda is pursued, possible implementation questions that policymakers in Congress and the Administration may face.

**Figure 1. Map of Middle East and North Africa**



**Source:** CRS.

**Note:** World Bank definition of the Middle East and North Africa. For more information, see footnote 1.

(...continued)

president-middle-east-and-north-africa.

<sup>7</sup> For example, see Prepared Remarks of Senator Joseph Lieberman, Carnegie Endowment for International Peace, July 22, 2011, [http://carnegieendowment.org/files/Lieberman\\_Prepared\\_Remarks.pdf](http://carnegieendowment.org/files/Lieberman_Prepared_Remarks.pdf); and John McCain, Lindsey Graham, Mark Kirk, and Marco Rubio, "The Promise of a Pro-American Libya," *Wall Street Journal*, October 7, 2011.

## Economic Challenges in the MENA Region

### Weak Economic Development Despite Abundant Natural Resources

The Middle East and North Africa (MENA) region lags behind other regions on many key economic indicators (**Figure 2**). The region has a relatively small population, 383 million in 2010, accounting for nearly 6% of the world's total population, but its economic output is disproportionately smaller.<sup>8</sup> The region's share of world economic output, measured by gross domestic product (GDP), was just 3.7% in 2009. Additionally, the region's GDP per capita in 2009 (\$5,728) was lower than in Latin America and the Caribbean (\$7,200) and East Asia and the Pacific (\$6,441). The region generally has poorly developed manufacturing and service sectors; the value added, or net output, of manufacturing and services relative to GDP in MENA is the smallest in the world. Weak economic opportunities combined with one of the fastest growing populations in the world have resulted in high levels of unemployment.<sup>9</sup> Unemployment averaged 11.8% between 2004 and 2007 in the MENA region, more than double the unemployment rate in East Asia and the Pacific (4.8%) during the same time period. Unemployment among youth in particular is a problem in the MENA region. For example, youth (15-24 year olds) unemployment in Egypt was 25% in 2007, and 28% in Jordan. Thailand's similar GDP per capita is similar to Jordan's, but its youth unemployment rate in 2007 only 4.5%.<sup>10</sup>

While several countries in the region are rich in natural resources, especially oil and natural gas, the revenues from these resources have been poorly utilized and the development of other production and export industries has lagged. MENA countries produced 35% of the world's oil and nearly 20% of the world's natural gas in 2010.<sup>11</sup> Oil production is concentrated in Algeria, Bahrain, Iran, Iraq, Kuwait, Libya, Oman, Qatar, Saudi Arabia, the United Arab Emirates (UAE), and Yemen. Other countries in the region import more oil than they produce, or do not produce any oil at all. The mismatch between endowments of natural resources and weak economic development is frequently called a "resource curse, since endowments of natural resources like oil seem to have deterred, rather than jumpstarted, broad economic development in many countries and potentially exacerbated inequality. In some countries, notably in the oil-rich Gulf region, governments are now actively seeking to leverage state oil export revenues to support the development of non-hydrocarbon economic sectors and the expansion of employment opportunities.

---

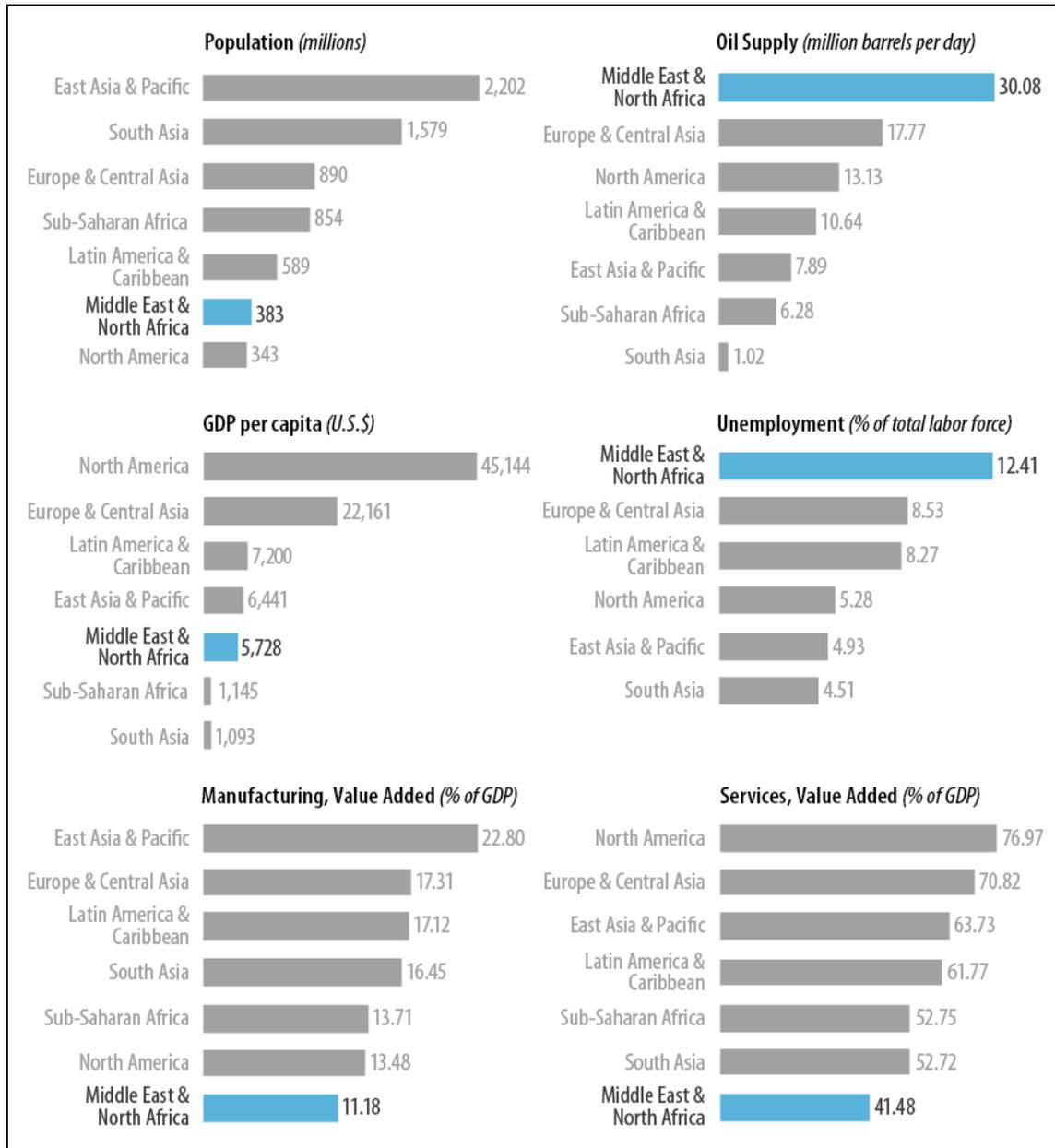
<sup>8</sup> Data in this section "Economic Challenges in the MENA Region" are from the World Bank, *World Development Indicators*, 2011, unless otherwise noted.

<sup>9</sup> Population growth in MENA countries averaged 2.0% per year during the 2000s, second only to Sub-Saharan Africa (2.5%). In contrast, population growth averaged 1.5% in South Asia and 1.3% in Latin America and the Caribbean in the same time frame.

<sup>10</sup> 2010 GDP per capita in Jordan was \$4,560, and \$4,608 in Thailand.

<sup>11</sup> U.S. Energy Information Administration, *International Energy Statistics*, 2011. World Bank regional grouping used in calculation. Data for total oil supply and dry natural gas production used.

**Figure 2. The MENA Economy in Comparative Perspective: Key Indicators**



**Source:** World Bank, *World Development Indicators*, 2011; U.S. Energy Information Administration, *International Energy Statistics*, 2011.

**Notes:** Data are for the most recent year available. Population and oil production data are for 2010; GDP per capita data are for 2009; unemployment data is for 2005; and service and manufacturing data are for 2007. Unemployment data for the Sub-Saharan Africa region as a whole is not available.

- As noted above, unemployment data is for 2005; more recent data for comparing unemployment levels across a number of regions is not available. However, the reader should note that the global financial crisis of 2008-2009 and ensuing recession had substantial impacts on employment levels in some countries and regions. The World Bank reports that unemployment in the United States, for example, rose from 5.1% in 2005 to 9.3% in 2009.

## Obstacles to Development

Numerous explanations have been put forward to explain why economic development in the MENA region has lagged behind other regions.<sup>12</sup> For example, it has been argued that

- **Weak integration in the global economy** has prevented the region from reaping the opportunities of globalization;
- **“Easy money” from natural resources** has provided few incentives to develop sound economic policies or other productive industries, with the benefits of natural resources going to a few and not the public at large;
- **Non-democratic political institutions** have stifled innovation and economic competition, leading to slow growth and distortions in the economy;
- **A weak business environment**, stemming from heavy government involvement in the economy, red tape, corruption, and weak rule of law, has deterred foreign investment;
- **A weak educational system** has not equipped youth in the region with the skills demanded by the private sector in a competitive global environment;
- **Lack of government social spending**, with large portions of the budget going to defense and subsidies for basic needs, creates distortions in the economy; and
- **Women make-up a low proportion of the labor force**, preventing the region from tapping all its productive potential.

## Important Caveats: Areas of Success, and Heterogeneity Among Countries

Despite the economic challenges faced by the region as a whole, it is important to note that there have been some areas of economic success. Appreciating economic diversity among the MENA economies may have implications for the types of economic policies that might be pursued to bolster growth in the region, and suggests that policy solutions may need to be tailored to the specific circumstances of each economy.

For example, the World Bank and the International Monetary Fund (IMF) have applauded success on various social indicators of well-being and macroeconomic stability for the MENA region.<sup>13</sup> In 2009, the MENA had a life expectancy of 72 years, a primary education completion rate of 88%,

---

<sup>12</sup> For example, see Marcus Noland and Howard Pack, “The Arab Economies in a Changing World,” *Peterson Institute for International Economics*, June 2007, <http://bookstore.piie.com/book-store/3931.html>; United Nations, “Arab Human Development Report 2002: Creating Opportunities for Future Generations,” 2002, <http://www.arab-hdr.org/publications/other/ahdr/ahdr2002e.pdf>; Howard Schneider, “Arab Nations Lag Behind Rest of World Economically, Despite Oil and Natural Gas,” *Washington Post*, February 23, 2011; Arvind Subramanian, “Arab Spring Will Not See an Economic Boom,” *Financial Times*, February 21, 2011, <http://www.iie.com/publications/opeds/oped.cfm?ResearchID=1770>.

<sup>13</sup> For example, see International Monetary Fund (IMF), “IMF Note on Economic Transformation in MENA: Delivering on the Promise of Shared Prosperity,” May 27, 2011, Prepared for the G-8 Summit in Deauville, France, <http://www.imf.org/external/np/g8/052611.htm>; World Bank, “Middle East and North Africa Regional Brief,” September 2011, <http://go.worldbank.org/1JVCODGRS0>.

and an under-5 mortality rate of 32 per 1,000 births. Absolute poverty in the region is also relatively low, with less than 4% of the population living on \$1.25 a day.<sup>14</sup> Additionally, the IMF has noted that over the past two decades, the region has generally been successful in reining in inflation, improving trade balances, and reducing public debt levels.

Substantial diversity also exists among economies within the region, and some economies have achieved greater levels of economic success than others (**Table 1**). For example, some of the region's small, oil-exporting countries are among the richest countries in the world; GDP per capita is higher in Qatar (\$61,532 in 2009) than in the United States (\$45,745 in 2009). Additionally, Israel had a GDP per capita of \$26,102 in 2009.

Likewise, some countries have stronger political and legal institutions than others; according to the World Bank's *Worldwide Governance Indicators*, Qatar ranked in the 75<sup>th</sup> percentile among countries worldwide in strength of rule of law in 2010.<sup>15</sup> Economic reforms have taken root in some countries; in the World Bank's *Doing Business* Report, Saudi Arabia is ranked as the 12<sup>th</sup> easiest country in the world in which to do business.<sup>16</sup> Tunisia was also noted as a top regional economic reformer in the 2009 *Doing Business* report. While female participation in the labor force is low in many countries, women made up 47% of the labor force in Israel in 2009.

Finally, some countries in the region continue to grapple with various social challenges and macroeconomic stability, areas where the region as a whole is viewed as having succeeded. For example, poverty in Egypt is relatively high, with nearly one in five Egyptians (18%) living on less than \$2.00 a day in 2005. The under-5 mortality rate in Yemen was 79 per 1,000 births in 2009, about three times higher than the average for the region as a whole. In terms of macroeconomic stability, Lebanon has a high level of public debt (forecasted to be 134% of GDP in 2010), and Iraq is running a large budget deficit (expected to have topped 9% of GDP in 2010).<sup>17</sup>

---

<sup>14</sup> World Bank, "Middle East and North Africa Regional Brief," September 2011, <http://go.worldbank.org/1JVC0DGRS0>.

<sup>15</sup> World Bank, *Worldwide Governance Indicators*, 2010, <http://info.worldbank.org/governance/wgi/index.asp>.

<sup>16</sup> World Bank, *Doing Business*, 2011, <http://www.doingbusiness.org/rankings>.

<sup>17</sup> International Monetary Fund, *World Economic Outlook*, September 2011.

**Table I. Selected Economic Indicators for MENA Countries**

|                      | <b>Population</b> | <b>Oil Production</b>   | <b>GDP</b>   | <b>GDP per capita</b> | <b>Manufacturing</b>  | <b>Services</b>       | <b>Unemployment</b>    |
|----------------------|-------------------|-------------------------|--------------|-----------------------|-----------------------|-----------------------|------------------------|
|                      | Millions          | Million barrels per day | Billion US\$ | US\$                  | Value added, % of GDP | Value added, % of GDP | % of total labor force |
|                      | 2010              | 2010                    | 2009         | 2009                  | 2007                  | 2007                  | 2008                   |
| <b>Oil exporters</b> |                   |                         |              |                       |                       |                       |                        |
| Algeria              | 35.5              | 2,078                   | 141          | 4,022                 | 5.3                   | 30.7                  | 11.3                   |
| Bahrain              | 1.3               | 46                      | 21           | 17,609                | n.a.                  | n.a.                  | n.a.                   |
| Iran                 | 74.0              | 4,252                   | 331          | 4,526                 | 10.6                  | 45.3                  | 10.5                   |
| Iraq                 | 32.0              | 2,408                   | 65           | 2,097                 | n.a.                  | n.a.                  | n.a.                   |
| Kuwait               | 2.7               | 2,450                   | 109          | 41,365                | n.a.                  | n.a.                  | n.a.                   |
| Libya                | 6.4               | 1,789                   | 62           | 9,957                 | 4.5                   | 21.5                  | n.a.                   |
| Oman                 | 2.8               | 868                     | 47           | 17,280                | n.a.                  | n.a.                  | n.a.                   |
| Qatar                | 1.8               | 1,437                   | 98           | 61,532                | n.a.                  | n.a.                  | n.a.                   |
| Saudi Arabia         | 27.4              | 10,521                  | 373          | 13,901                | 9.5                   | 31.6                  | 5.0                    |
| United Arab Emirates | 7.5               | 2,813                   | 230          | 33,183                | 12.4                  | 37.6                  | 4.0                    |
| Yemen                | 24.1              | 259                     | 26           | 1,130                 | n.a.                  | n.a.                  | 15.0                   |
| <b>Oil importers</b> |                   |                         |              |                       |                       |                       |                        |
| Djibouti             | 0.9               | 0                       | 1            | 1,203                 | 2.5                   | 79.3                  | n.a.                   |
| Egypt                | 81.1              | 663                     | 189          | 2,371                 | 15.7                  | 49.6                  | 8.7                    |
| Israel               | 7.6               | 4                       | 195          | 26,102                | n.a.                  | n.a.                  | 6.1                    |
| Jordan               | 6.0               | 0                       | 25           | 4,242                 | 20.4                  | 67.0                  | 12.7                   |
| Lebanon              | 4.2               | 0                       | 35           | 8,321                 | 10.4                  | 71.0                  | n.a.                   |
| Malta                | 0.4               | 0                       | 8            | 19,326                | 16.3                  | 59.4                  | 5.8                    |
| Morocco              | 32.0              | 4                       | 91           | 2,842                 | 15.0                  | 59.0                  | 9.6                    |
| Syria                | 20.4              | 401                     | 54           | 2,692                 | 11.7                  | 46.9                  | n.a.                   |
| Tunisia              | 10.5              | 84                      | 44           | 4,169                 | 16.9                  | 60.7                  | 14.2                   |
| West Bank            | 4.2               | 0                       | n.a.         | n.a.                  | n.a.                  | n.a.                  | 26.0                   |

**Source:** World Bank, *World Development Indicators*, 2011; U.S. Energy Information Administration, *International Energy Statistics*, 2011.

**Note:** n.a. = not available.

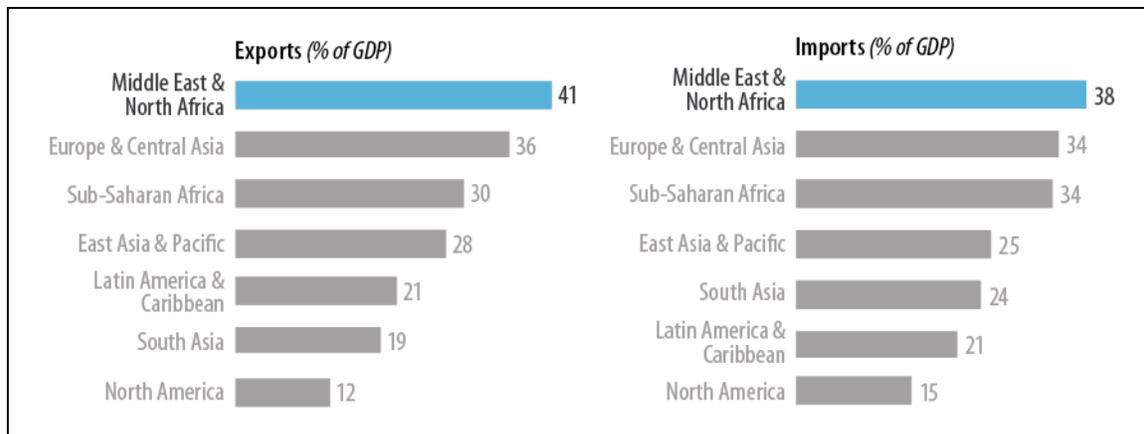
## Weak Integration in the Global Economy

With some exceptions, MENA countries face serious economic challenges despite some countries' large oil and gas production. Weak integration in the global economy, including weak integration within the region, is frequently cited by economists as a factor impeding economic development in the region. This section highlights the relatively limited nature of MENA's trade and investment relations in the global economy, including with the United States.

### MENA's Trade and Investment with the World

On the surface, MENA appears to be relatively active in global trade. Relative to GDP, the MENA region had the highest level of exports (41% of GDP in 2009) of any major geographic region in the world in that year, and the highest levels of imports (38% of GDP in 2009, see **Figure 3**).<sup>18</sup> Net inflows of foreign direct investment (FDI) into MENA countries were 3.5% of GDP in 2010, one of the highest in the world (second to Sub-Saharan Africa, at 3.6% of GDP), and well above the average for countries worldwide (2.1% of GDP).<sup>19</sup>

**Figure 3. MENA's Trade as a Percent of GDP Compared to Other Regions, 2009**



**Source:** World Bank, *World Development Indicators*, 2011.

**Note:** Includes trade in goods and services.

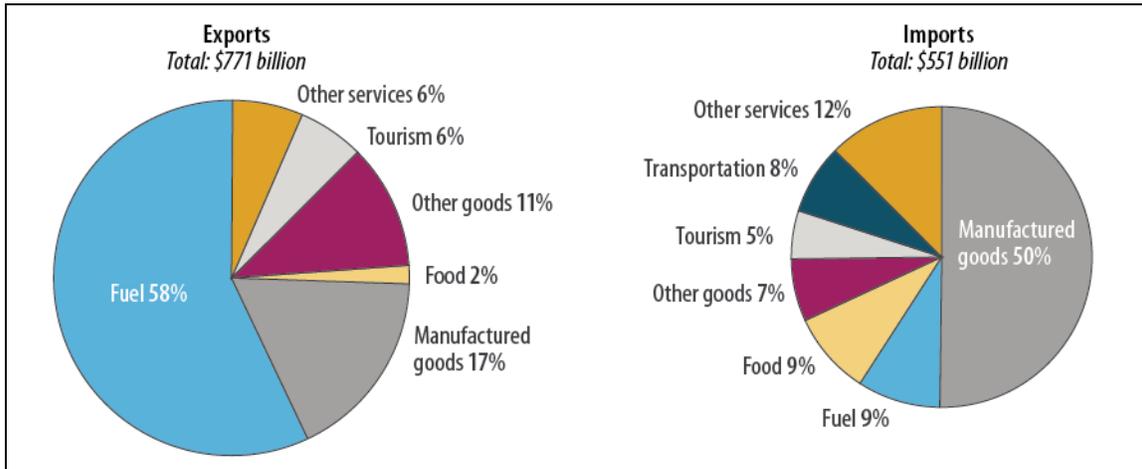
Delving deeper, however, reveals the limitations of MENA's interactions in the global economy. First, MENA's trade tends to be highly concentrated in a few key products. **Figure 4** shows that oil dominates the region's exports, with fuel accounting for 58% of the region's total exports in 2008. In some countries, export concentration is even more significant. Fuel accounted for more than 90% of total merchandise exports in Algeria, Iraq, Kuwait, and Yemen in 2009. MENA's imports are also heavily concentrated on manufactured goods, which accounted for 50% of total imports in 2008 as shown in **Figure 4**.<sup>20</sup>

<sup>18</sup> World Bank, *World Development Indicators*, 2011.

<sup>19</sup> FDI refers to a company expanding its operations overseas by created a subsidiary, branch, factory, or similar enterprise in a different country. World Bank, *World Development Indicators*, 2011.

<sup>20</sup> World Bank, *World Development Indicators*, 2011.

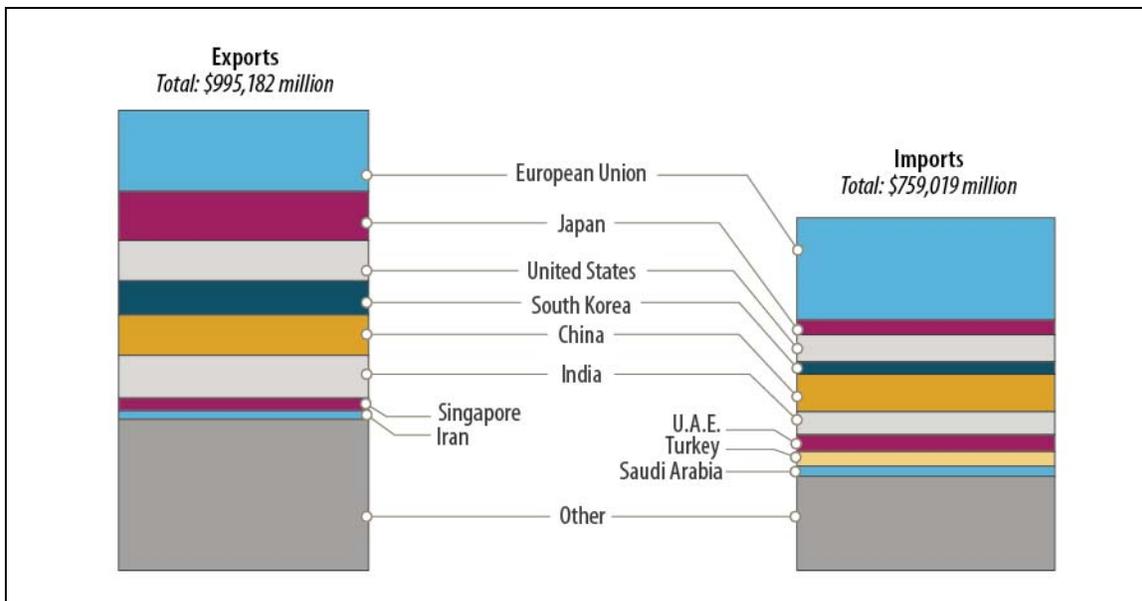
**Figure 4. MENA’s Exports and Imports of Goods and Services with the World, by Commodity or Type of Service, 2008**



Source: World Bank, *World Development Indicators*, 2011.

MENA’s major merchandise export markets in 2010 were the EU, Japan, the United States, and India, accounting for 46% of MENA’s merchandise exports. Likewise, nearly 50% of MENA’s merchandise imports came from the EU, China, and the United States in 2010, as shown in **Figure 5**.<sup>21</sup> Intra-MENA trade is relatively limited, accounting for just 11% of total exports and 15% of total imports in 2010.<sup>22</sup>

**Figure 5. MENA’s Major Trading Partners, 2010**



Source: International Monetary Fund (IMF), *Direction of Trade Statistics*, 2012.

Notes: Merchandise data only; services data not available.

<sup>21</sup> International Monetary Fund (IMF), *Direction of Trade Statistics*, May 2010.

<sup>22</sup> Ibid.

There are a number of economic and political explanations for why trade within the region is limited. Some of the countries in the region produce similar products, limiting the opportunities for intra-regional trade. Political tensions among countries may also restrict trade among MENA countries. For example, the Arab League, an umbrella organization of more than 20 Middle Eastern and African countries and entities, has maintained an official boycott of Israeli companies and Israeli-made goods since the founding of Israel in 1948.<sup>23</sup>

Finally, some lower-income countries in MENA still have relatively high levels of protectionism. Tariff rates averaged 7.4% in 2009 among developing MENA countries, compared to an average of 5.1% among developing countries and 3.1% for countries worldwide.<sup>24</sup>

## **U.S.-MENA Trade and Investment**

### **Trade**

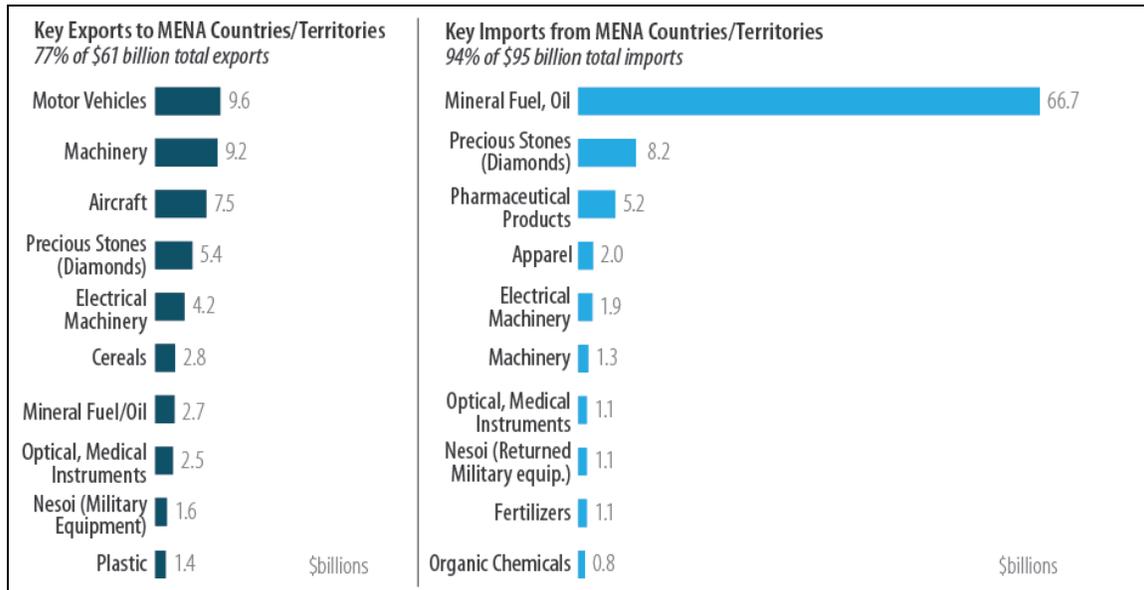
Trade and investment between the MENA region and the United States is relatively limited, suggesting scope for deeper economic ties. U.S. trade with MENA countries accounts for a small share of total U.S. trade: \$155 billion, less than 5% of the U.S. total, in 2010. U.S.-MENA trade primarily consists of exchanging a wide variety of U.S. goods for crude oil, which is then processed and refined into such petroleum end-products as gasoline, diesel fuel, heating oil, kerosene, and liquefied petroleum gas. As shown in **Figure 6**, oil accounted for 70% of all U.S. imports from the MENA region in 2010 (\$67 billion out of \$95 billion). If Israel were removed from the list of countries, oil's share of all U.S. imports from the region rises to 90%. Despite the fact that the MENA region consists of several oil exporters, it still ranks second as a U.S. oil supplier, accounting for nearly one-fifth (19%) of U.S. oil imports, with Canada first (24%) and Mexico third (9%). The United States exports a range of goods to the MENA region, including motor vehicles, machinery, aircrafts, and diamonds (**Figure 6**).

---

<sup>23</sup> For more on the Arab League, see CRS Report RL33961, *Arab League Boycott of Israel*, by Martin A. Weiss.

<sup>24</sup> World Bank, *World Development Indicators*, 2011. Data are for applied tariff rates for all products (weighted mean).

**Figure 6. Top U.S. Exports to and Imports from the MENA Region, 2010**

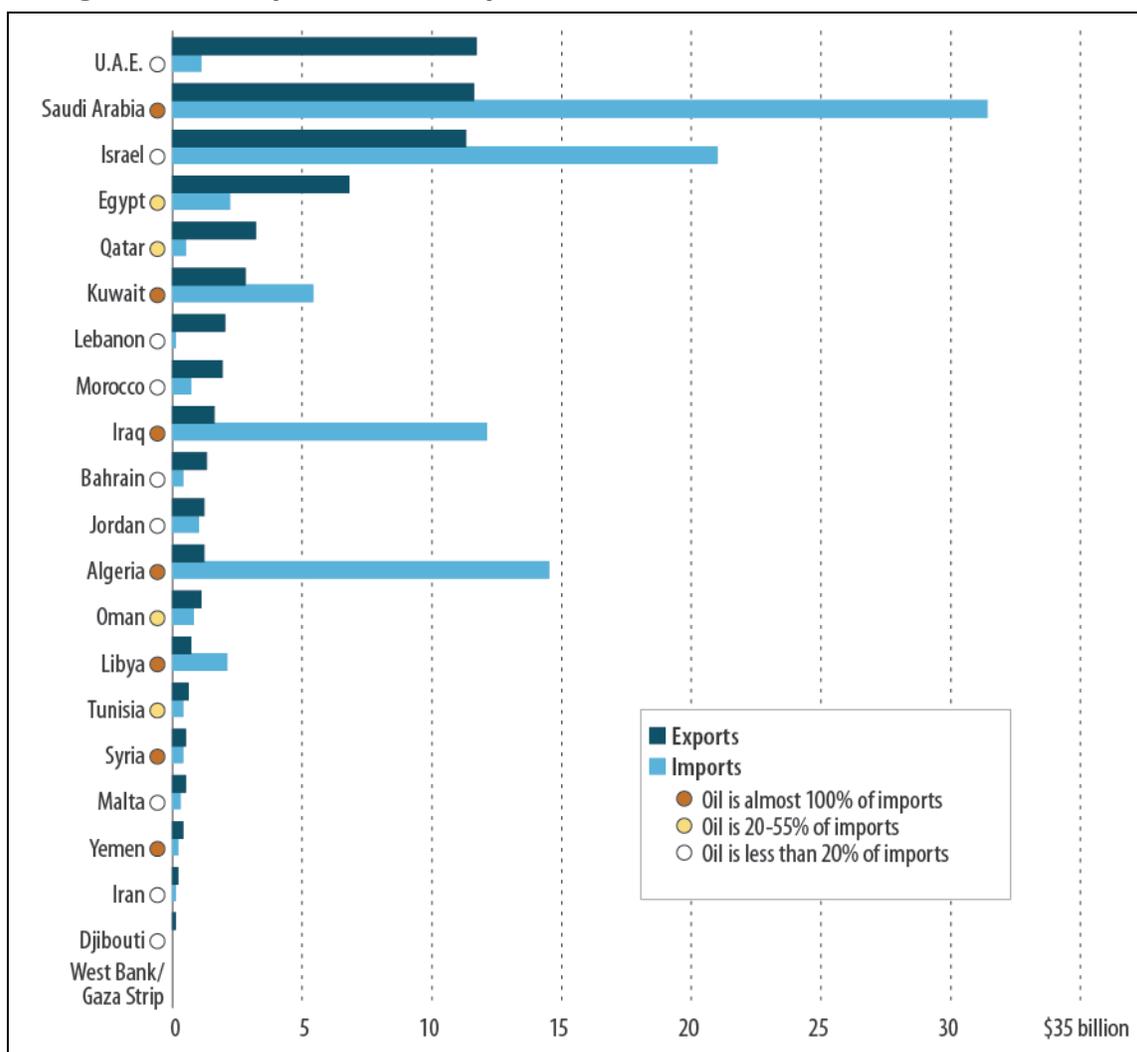


**Source:** Global Trade Atlas.

**Notes:** NEOSI = Not elsewhere specified or included. See the **Appendix** for more detailed data.

Within the region, the value of U.S. trade with individual MENA economies varies widely (**Figure 7**). In 2010, U.S. trade with the MENA region was concentrated in nine countries: Saudi Arabia, Israel, Algeria, Iraq, UAE, Egypt, Kuwait, Qatar, and Libya. Together, they account for more than 90% of all U.S. trade (exports and imports) with the region. For five of these countries—Saudi Arabia, Algeria, Iraq, Kuwait, and Libya—oil constituted nearly all of their exports to the United States. For three, Egypt, Oman, Qatar, oil exports represented 34%, 50%, and 55% of all such exports respectively. In contrast, Israel exports a broader mix of products to the United States. More detailed trade data are provided in the **Appendix**.

**Figure 7. U.S. Exports to and Imports from MENA Countries/Territories, 2010**



Source: Global Trade Atlas.

Note: See the Appendix for more detailed data.

## Investment

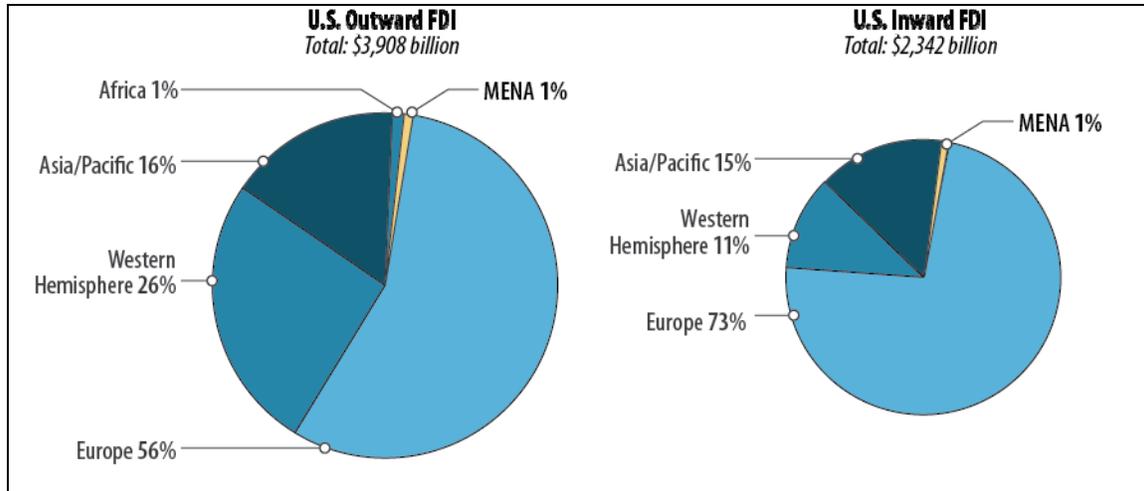
Closely linked to trade is foreign direct investment (FDI). **Figure 8** shows that the MENA region accounts for a small share of global FDI by U.S. firms (“outward” FDI). In 2010, the total stock of U.S. outward FDI was \$3.9 trillion.<sup>25</sup> Of this, about only \$54 billion, or 1%, was invested in the MENA region.<sup>26</sup> Likewise, the total stock of FDI in the United States (“inward” FDI), in 2010

<sup>25</sup> FDI data is from the Department of Commerce, Bureau of Economic Analysis (BEA). BEA defines FDI as a business enterprise that is owned 10% or more, directly or indirectly, by a foreign person or company.

<sup>26</sup> Includes FDI from the United States to Algeria, Bahrain, Djibouti, Egypt, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Qatar, Saudi Arabia, Syria, Tunisia, UAE, and Yemen. Uniworld, a privately-held publishing firm, maintains a database on overseas investments by private firms. Its listings show that many of the investors in the MENA countries/territories are familiar U.S. corporations, including Starbucks, Pitney Bowes, Polo (continued...)

was \$2.3 trillion. Firms located in MENA countries accounted for approximately \$15 billion, or 0.6% of total FDI into the United States.<sup>27</sup>

**Figure 8. U.S.-MENA Foreign Direct Investment (FDI), 2010**



**Source:** Department of Commerce, Bureau of Economic Analysis (BEA).

**Notes:** BEA classification of countries by region, with the exception of Egypt, Algeria, Djibouti, Libya, Morocco, and Tunisia re-classified to be in the MENA region rather than the African region. U.S. “outward” FDI refers to U.S. FDI into MENA countries/territories. U.S. “inward” FDI refers to FDI flowing from MENA countries/territories to the United States. Data is for the stock of FDI, rather than flows of FDI, and is on a historical-cost basis.

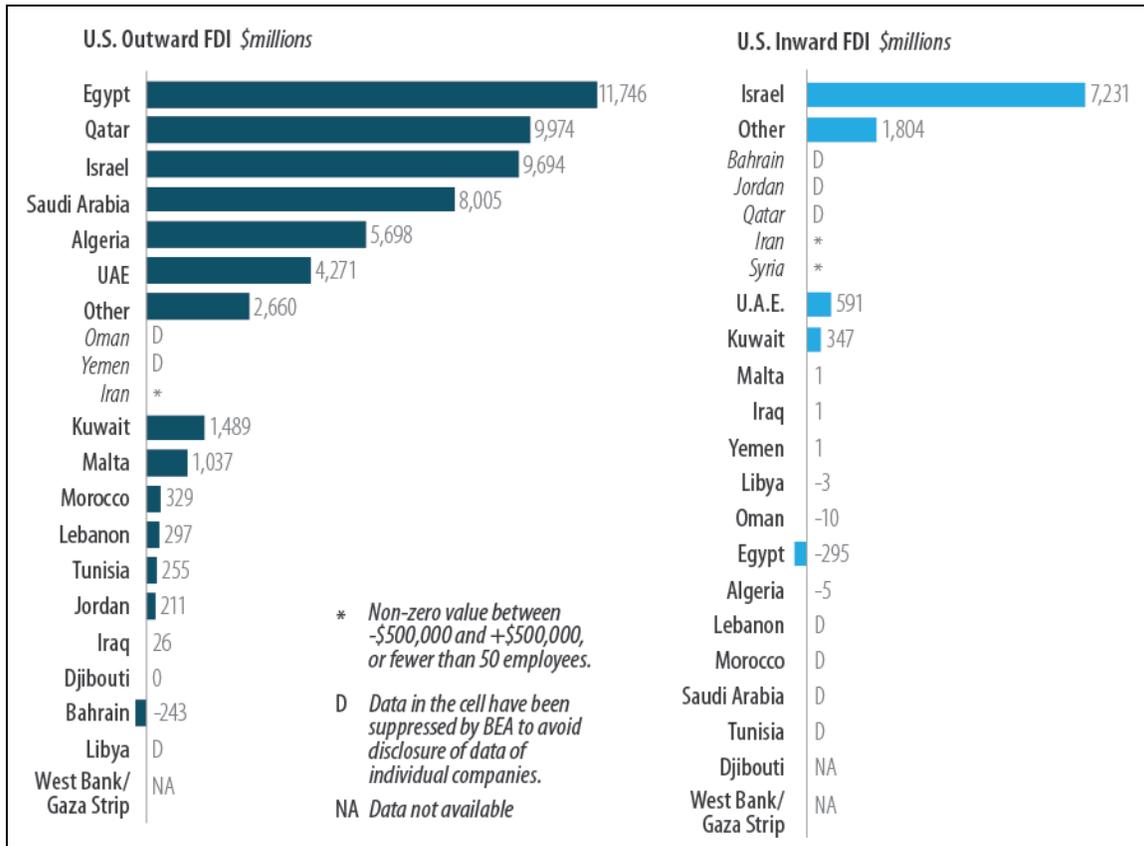
**Figure 9** shows the stock of U.S. foreign direct investment in specific MENA economies in 2010, as well as the stock of FDI from MENA countries to the United States. FDI from the United States to the MENA region was concentrated in a small number of countries, including Egypt, Qatar, Israel, Saudi Arabia, Algeria, and the UAE. **Figure 9** also shows that Israel accounted for nearly half of FDI into the United States from MENA countries, with more than \$7 billion invested in the United States.

(...continued)

Ralph Lauren, Sodexo, Coca-Cola, Hertz, Ritz Carlton, Tupperware, UPS, W.R. Grace & Company, Wachovia, 3M, Century 21, Curves, Dale Carnegie, Hewlett Packard, Johnson & Johnson, McDonalds, Microsoft, Motorola, Office Depot, Dun & Bradstreet, Estee Lauder, and Xerox, as well as numerous oil and drilling companies including Chevron, Exxon Mobil, Conoco Phillips, Occidental Petroleum, and Schlumberger.

<sup>27</sup> Includes FDI to the United States from Bahrain, Egypt, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Qatar, Saudi Arabia, Syria, UAE, and Yemen.

**Figure 9. U.S.-MENA Foreign Direct Investment (FDI): Country Breakdown, 2010**



**Source:** U.S. Department of Commerce, Bureau of Economic Analysis (BEA).

**Notes:** U.S. “outward” FDI refers to U.S. FDI into MENA countries/territories. U.S. “inward” FDI refers to FDI flowing from MENA countries/territories to the United States. Data is for the stock of FDI, rather than flows of FDI. Data is on a historical-cost basis. Note that for U.S. outward flows of FDI, “other” includes Oman, Yemen, and Iran. For inward flows to the United States, “other” includes Bahrain, Jordan, Qatar, Iran, and Syria.

- Negative positions can occur when a parent company’s liabilities to the foreign affiliate are greater than its equity in and loans to the foreign affiliate.

## Obstacles to Closer U.S. Trade and Investment Ties with MENA Countries

What factors have limited U.S.-MENA trade and investment ties? Some countries in the MENA region have undertaken efforts to improve their regulatory and business environments. However, serious challenges remain to international firms, including U.S. firms, looking to do business in the region. One source of information about obstacles to doing business in various countries overseas is the *Country Commercial Guides* published by the U.S. Commercial Service, part of the Department of Commerce.<sup>28</sup> For the MENA region, the reports generally emphasize impediments to U.S. firms seeking to do business in MENA countries related to lack of transparency, bureaucratic red tape, weak rule of law, corruption, and differences in business

<sup>28</sup> The *Country Commercial Guides* are available at [http://export.gov/worldwide\\_us/index.asp](http://export.gov/worldwide_us/index.asp). The State Department’s *Investment Climate Statements* are included as part of the FCS’s *Country Commercial Guides*. The State Department publishes their *Investment Climate Statements* on their website at <http://www.state.gov/e/eeb/rls/othr/ics/>.

cultures. Some examples of issues raised by these U.S. government reports in some specific MENA countries are listed below.

- **Egypt:** corruption; ill-defined regulatory framework; generally unresponsive commercial court system; multiplicity of regulations and regulatory agencies; and need to partner with local firms in order to successfully penetrate the market.<sup>29</sup>
- **Libya:** corruption; arbitrary regulatory changes; lack of transparency in government decision-making; clash of business culture; restrictive visa policies for U.S. citizens traveling to Libya; weak and opaque regulatory environment; and lack of skilled labor.<sup>30</sup>
- **Tunisia:** cumbersome and slow bureaucracy; lack of coherence and consistency in the regulatory environment; and opaque decision-making within the government.<sup>31</sup>
- **Morocco:** irregularities and lack of transparency in government procurement procedures; corruption; and counterfeit goods.<sup>32</sup>
- **Saudi Arabia:** weak enforcement of arbitration of private sector disputes; foreign visitors need to obtain a local sponsor to obtain a business visa; delayed payments; and preference to local firms in government contracts.<sup>33</sup>
- **UAE:** difficult to dismiss non-performing local employees; difficult to sell without a local partner; slow payments.<sup>34</sup>

## **Policy Options for Increasing U.S.-MENA Trade and Investment**

Given the economic and governance challenges, recent political upheaval, and the MENA region's limited integration into world markets, policymakers, both domestically and internationally, have discussed how trade and investment could foster growth among the MENA countries, promote greater economic reforms, and provide support for successful and stable democratic transitions. For example, President Obama said in his May 2011 speech on the MENA region that, "just as democratic revolutions can be triggered by a lack of individual opportunity, successful democratic transitions depend upon an expansion of growth and broad-based

---

<sup>29</sup> U.S. Commercial Service, "Doing Business in Egypt: 2010 Country Commercial Guide for U.S. Companies," [http://www.buyusainfo.net/docs/x\\_5991895.pdf](http://www.buyusainfo.net/docs/x_5991895.pdf).

<sup>30</sup> Drawn from the 2008 *Commercial Guide* available from the U.S. Embassy in Libya, [http://libya.usembassy.gov/uploads/images/Ctlb\\_B9GaiYq1ai9cp4AQ/021108\\_-\\_2008\\_Country\\_Commercial\\_Guide.pdf](http://libya.usembassy.gov/uploads/images/Ctlb_B9GaiYq1ai9cp4AQ/021108_-_2008_Country_Commercial_Guide.pdf).

<sup>31</sup> U.S. Commercial Service, "Doing Business in Tunisia: 2011 Country Commercial Guide for U.S. Companies," [http://www.buyusainfo.net/docs/x\\_2600129.pdf](http://www.buyusainfo.net/docs/x_2600129.pdf).

<sup>32</sup> U.S. Commercial Service, "Doing Business in Morocco: 2011 Country Commercial Guide for U.S. Companies," [http://www.buyusainfo.net/docs/x\\_1606158.pdf](http://www.buyusainfo.net/docs/x_1606158.pdf).

<sup>33</sup> U.S. Commercial Service, "Doing Business in Saudi Arabia: 2011 Country Commercial Guide for U.S. Companies," [http://www.buyusainfo.net/docs/x\\_1357949.pdf](http://www.buyusainfo.net/docs/x_1357949.pdf).

<sup>34</sup> U.S. Commercial Service, "Doing Business in the United Arab Emirates: 2010 Country Commercial Guide for U.S. Companies," [http://www.buyusainfo.net/docs/x\\_3648632.pdf](http://www.buyusainfo.net/docs/x_3648632.pdf).

prosperity.”<sup>35</sup> Government initiatives that foster U.S. private sector trade and investment in MENA countries may be attractive policy options compared to others under discussion, such as debt relief and foreign aid, in a time of tight U.S. budget constraints. Government initiatives to foster trade and investment in MENA may also provide new opportunities for U.S. businesses overseas and generate stronger economic growth. However, the effects of trade and investment initiatives may be borne out over the long-term, and they may not provide immediate economic relief that foreign aid or debt relief could produce for countries undergoing political transitions.

The section below provides an overview of the current U.S. trade and investment policy in the region, and analyzes policy options for increasing U.S. trade with and investment in MENA economies.

## **Current Status of U.S. Trade and Investment Policy with MENA**

The United States uses policy tools globally to promote trade and investment that may be grouped into two broad categories: 1) formal agreements to liberalize trade and investment and advance rules-based trade; and 2) U.S. federal government programs that aim to encourage international trade and investment. Details on selected policy tools are provided in the text box below.

### **Background on Selected U.S. Trade and Investment Policy Tools**

#### **Multilateral Trade Agreements**

- The **World Trade Organization (WTO)** is a multilateral body that establishes liberalized trade through negotiations and implements a multilateral system of rules on trade in goods and services and other trade-related matters. The WTO also adjudicates disputes under the rules. Countries must negotiate the terms of their accession to the WTO with current WTO members. Accession to the WTO includes a focus on the implementation of WTO provisions, the establishment of a stable and predictable market access for goods and services, and the development of a proven framework for adopting policies and practices that promote trade, investment, growth, and development.<sup>36</sup> The WTO has 153 members.

#### **Bilateral Trade and Investment Discussions**

- **Trade and Investment Frameworks (TIFAs)** are agreements between the United States and another country or a group of countries to consult on issues of mutual interest in order to facilitate trade and investment. TIFAs are non-binding agreements, do not involve changes to U.S. law, and therefore, do not require congressional approval. TIFAs may lead to FTA negotiations.

#### **Bilateral Trade and Investment Agreements**

- **Bilateral Investment Treaties (BITs)** and investment chapters in free trade agreements (FTAs) constitute binding rules for the reciprocal protection of investment in each other’s territories. Most BITs contain provisions that assure U.S. and foreign partner country investors of non-discriminatory treatment of investments by the host country, place limits on expropriation of investments, and provide for due process to settle investment-related disputes with host governments, among other things. As treaties, U.S. BITs are ratified by the Senate. The United States has 40 BITs, including five with MENA countries (Bahrain, Egypt, Jordan, Morocco, and Tunisia).

<sup>35</sup> Office of the Press Secretary, “Remarks by the President on the Middle East and North Africa,” The White House, State Department, Washington, DC, May 19, 2011, <http://www.whitehouse.gov/the-press-office/2011/05/19/remarks-president-middle-east-and-north-africa>.

<sup>36</sup> Office of the United States Trade Representative, “WTO Accessions,” <http://www.ustr.gov/trade-agreements/wto-multilateral-affairs/wto-accessions>. For more on current WTO negotiations, see CRS Report RL32060, *World Trade Organization Negotiations: The Doha Development Agenda*, by Ian F. Fergusson.

- **Free Trade Agreements (FTAs)** are reciprocal trading arrangements in which member countries agree to eliminate tariff and non-tariff barriers on trade in goods and services between or among countries covered by the agreement. FTA partners also may agree to reduce barriers or establish rules and standards related to other economic activities, such as investment, intellectual property rights (IPR), worker rights, and environmental protection. In addition to helping to reduce trade and investment barriers, these agreements can enhance domestic economic reform in partner countries, such as on transparency of regulatory policies, intellectual property rights protection, and customs procedures. Congress must approve and implement reciprocal trade agreements. The United States has 17 FTAs, including five with MENA countries (Bahrain, Israel, Jordan, Morocco, and Oman).

#### **U.S. Federal Government Programs to Encourage Trade and Investment**

- **Export promotion** constitutes a wide variety of functions that may directly or indirectly support the expansion of U.S. exports, including providing information, counseling, and export assistance services; funding feasibility studies; financing and insuring U.S. trade; conducting government-to-government advocacy; and negotiating new trade agreements and enforcing existing ones. Congress authorizes export promotion programs.
- **Trade preference programs** provide preferential treatment, usually in the form of lower tariffs or duty-free treatment, to a range of imports from developing countries to promote their economic development and growth by stimulating exports and investment. Congress authorizes trade preference programs. The **Generalized System of Preferences (GSP)** is the most comprehensive of all U.S. trade preference programs. Specifically, GSP provides non-reciprocal, duty-free tariff treatment to certain products imported from designated beneficiary developing countries.
- **Qualifying industrial zones (QIZs)**, established by Congress in 1996, permit Jordan and Egypt to export duty-free certain products manufactured in designated zones in their countries to the United States, provided that they contain a certain percentage of inputs from Israel.

### **Formal Agreements to Liberalize Trade and Investment**

Current U.S. trade and investment agreements with MENA countries are the result of previous initiatives undertaken to expand economic and political ties with the region. The Bush Administration in 2003 launched a plan to create a U.S. Middle East Free Trade Area (MEFTA) by 2013. MEFTA aimed to support economic growth and prosperity in the Middle East through liberalizing trade and investment regionally and bilaterally with the United States, as part of a broader plan to fight terrorism. The plan included actively supporting membership in the World Trade Organization (WTO) for countries in the region who were not yet members, negotiating formal bilateral investment treaties (BITs) with interested countries, and negotiating comprehensive free trade agreements (FTAs), among other provisions. The initiative, carried out over several years, fell short of creating a regional free trade area, but did result in the completion of new FTAs with four countries in the region: Bahrain, Jordan, Morocco, and Oman. FTAs were also explored with the UAE and Egypt. Before MEFTA, the only FTA that the United States had in the region was with Israel, completed in 1985.

The United States has a network of trade and investment agreements in the MENA region that vary dramatically across countries (**Table 2**). Most of the countries in the MENA region are members of the WTO. The MENA countries that are not—Algeria, Iran, Iraq, Libya, Syria, and Yemen—have “observer status,” which enables them to follow discussions on matters of direct interest to them. Several of them are also in the process of joining the WTO, and the United States has supported some of these efforts. For example, the United States has provided technical support to Iraq, Lebanon, and Yemen for their WTO accession efforts.<sup>37</sup>

<sup>37</sup> Ibid.

Presently, the United States has Trade and Investment Framework Agreements with most MENA countries, and bilateral investment treaties (BITs) with five MENA countries: Bahrain, Egypt, Jordan, Morocco, and Tunisia. It also has free trade agreements (FTAs) with five countries in the region: Bahrain, Israel, Jordan, Morocco, and Oman. U.S. FTA negotiations with some MENA countries have experienced complications. For example, discussions on a potential FTA between the United States and Egypt were put on hold in 2005 due to concerns over election results and human rights. Issues of particular concern included adequacy of Egypt's intellectual property rights regime and import duties for certain apparel and textile products.<sup>38</sup> As another example, negotiations between the United States and the UAE on an FTA were placed on hold in 2007, complicated by differing views on issues related to labor, market access for services, and government procurement.

Important exceptions to a more liberalized U.S. trade and investment policy in the region include Iran and Syria. There is broad international support, including from the United States, to support progressively strict economic sanctions on Iran to try to compel it to verifiably confine its nuclear program to purely peaceful uses.<sup>39</sup> Likewise, the State Department has designated Syria as a state sponsor of terrorism, making Syria subject to a number of legislatively mandated penalties, including export sanctions and ineligibility to receive most forms of U.S. aid or to purchase U.S. military equipment.<sup>40</sup>

---

<sup>38</sup> Barbara Kotschwar and Jeffrey J. Schott, *Reengaging Egypt: Options for US-Egypt Economic Relations*, Peterson Institute for International Economics, January 2010.

<sup>39</sup> For more on Iran sanctions, see CRS Report RS20871, *Iran Sanctions*, by Kenneth Katzman.

<sup>40</sup> State Department, "Background Note: Syria," March 18, 2011, <http://www.state.gov/r/pa/ei/bgn/3580.htm>; CRS Report RL33487, *Unrest in Syria and U.S. Sanctions Against the Asad Regime*, by Jeremy M. Sharp and Christopher M. Blanchard.

**Table 2. U.S.-MENA Trade and Investment Agreements**

|                        | <b>WTO membership</b><br>(year joined) <sup>a</sup> | <b>Generalized System of Preferences<sup>b</sup></b> | <b>Trade and Investment Framework Agreements</b><br>(year signed) | <b>Bilateral Investment Treaty with the United States</b><br>(year entered into force) | <b>Bilateral Free Trade Agreement with the United States</b><br>(year entered into force) |
|------------------------|---|--|---|--|---|
| Algeria                | (Observer)  | √  | √ 2001  |  |   |
| Bahrain                | √ 1995  |  | √ 2002  | √ 2001   | √ 2006  |
| Djibouti               | √ 1995  | √  |   |  |   |
| Egypt                  | √ 1995  | √  | √ 1999  | √ 1992   |   |
| Iran                   | (Observer)  |  |   |  |   |
| Iraq                   | (Observer)  | √  | √ 2005  |  |   |
| Israel                 | √ 1995  |  |   |  | √ 1985  |
| Jordan                 | √ 2000  | √  |   | √ 2003   | √ 2010  |
| Kuwait                 | √ 1995  |  | √ 2004  |  |   |
| Lebanon                | (Observer)  | √  | √ 2006  |  |   |
| Libya                  | (Observer)  |  | √ 2010  |  |   |
| Malta                  | √ 1995  |  |   |  |   |
| Morocco                | √ 1995  |  |   | √ 1991 <sup>c</sup>  | √ 2006  |
| Oman                   | √ 2000  | √  | √ 2004  |  | √ 2009 <sup>d</sup>   |
| Qatar                  | √ 1996  |  | √ 2004  |  |   |
| Saudi Arabia           | √ 2005  |  | √ 2003  |  |   |
| Syria                  | (Observer)  |  |   |  |   |
| Tunisia                | √ 1995  | √  | √ 2002  | √ 1993   |   |
| United Arab Emirates   | √ 1996  |  | √ 2004  |  |   |
| West Bank / Gaza Strip |   | √  |   |  |   |
| Yemen                  | (Observer)  | √  | √ 2004  |  |   |

**Source:** CRS Report RL32638, *Middle East Free Trade Area: Progress Report*, by Mary Jane Bolle; CRS Report RL33663, *Generalized System of Preferences: Background and Renewal Debate*, by Vivian C. Jones.

**Notes:** Countries listed are based on the World Bank's classification of countries in the region (excluding West Bank).

- a. The purpose of observer status for international intergovernmental organizations in the WTO is to enable these organizations to follow discussions therein on matters of direct interest to them.
- b. Based on Generalized System of Preferences (GSP) eligibility criteria, some countries on the table are ineligible for GSP because, for example, they are developed (e.g., Bahrain, Israel, UAE) or are designated as state sponsors of terrorism (e.g., Iran, Syria).
- c. FTAs include investment chapters with updated investment provisions
- d. FTA includes investment chapter modeled after BIT provisions.

## **Federal Programs to Promote Trade and Investment**

In addition to formal agreements to liberalize trade and investment, the United States relies on federal programs to encourage and support international trade and investment. For the MENA countries, the most important of these programs include the Generalized System of Preferences (GSP), Qualifying Industrial Zones (QIZ), and export finance and other export promotion programs run by various federal government agencies, including the Export-Import Bank of the United States (Ex-Im Bank), Overseas Private Investment Corporation (OPIC), and United States Trade and Development Agency (USTDA).

### ***Generalized System of Preferences (GSP)***

The United States grants preferential treatment to imports from certain developing countries under the U.S. Generalized System of Preferences (GSP).<sup>41</sup> GSP beneficiary countries in MENA include Algeria, Djibouti, Egypt, Iraq, Jordan, Lebanon, Oman, Tunisia, the West Bank/Gaza Strip, and Yemen. Specifically, GSP allows certain products from designated developing countries to enter the United States duty-free. In order to be eligible for GSP, countries must comply with trade, investment, labor, and other conditions.<sup>42</sup> The United States first authorized the program in 1974. In October 2011, President Obama signed legislation authorizing GSP through 2013 (P.L. 112-40).

Overall, GSP program utilization among beneficiary developing countries, including in the MENA region, remains low. The percentage of goods entering the United States duty-free under the GSP program, relative to total U.S. imports from beneficiary developing countries, has remained relatively flat—at around 10% of total imports from beneficiary developing countries.<sup>43</sup> The utilization rate is even lower for the MENA region; it peaked at 2.02% in 2006 and declined to 0.79% in 2010.<sup>44</sup> One reason for this is that oil accounts for 71% of all MENA exports to the United States, but oil from most MENA countries is not eligible for GSP tariff benefits. Additionally, some of the region's other major exports, including apparel, iron, and steel, are goods that are excluded from preferential treatment under the GSP program.

### ***Qualifying Industrial Zones (QIZs)***

Qualifying industrial zones (QIZs), established by Congress in 1996, permit the West Bank, the Gaza Strip, and qualifying zones in Egypt and Jordan to export certain products to the United States duty-free.<sup>45</sup> Products eligible for duty-free export to the United States must be manufactured in the West Bank, the Gaza Strip, or specified designated zones within Jordan or Egypt and must contain a certain percentage of inputs from Israel. The purpose of the QIZ legislation is to support the Middle East peace process and to build closer economic ties between

---

<sup>41</sup> For more information on the GSP program, see CRS Report RL33663, *Generalized System of Preferences: Background and Renewal Debate*, by Vivian C. Jones.

<sup>42</sup> Certain “import sensitive” products are specifically excluded from preferential treatment. These include most textiles and apparel goods, watches, footwear and other accessories, most electronics, steel and glass products, and certain agricultural products subject to tariff-rate quotas.

<sup>43</sup> CRS Report RL33663, *Generalized System of Preferences: Background and Renewal Debate*, by Vivian C. Jones.

<sup>44</sup> CRS analysis of data from U.S. International Trade Commission (USITC) Interactive Tariff and Trade Data Web.

<sup>45</sup> Section 9 of P.L. 99-47, as amended by P.L. 104-234; 19 USC § 2112 note.

Israel and its Arab neighbors. U.S. imports under the QIZ programs in both Egypt and Jordan are dominated by apparel products.

- **Jordan:** Exports from Jordan to the United States under the QIZ program grew from \$159,000 in 1999 to about \$200 million in 2010. However, the QIZ share of Jordan's total exports to the United States has declined in recent years, from a high of 90% in 2002 to about 20% in 2010.<sup>46</sup> This is because most imports from Jordan increasingly enter the United States duty-free under the FTA rather than the QIZ program.
- **Egypt:** Exports from Egypt to the United States under the QIZ program have grown from \$266 million in 2005 to \$956 million in 2010. The QIZ share of Egypt's total exports to the United States also has grown during this time period, from 13% in 2005 to 43% in 2010.<sup>47</sup>

Certain issues have risen in the QIZ programs. For example, in Jordan's QIZ facilities, labor issues related to working conditions, particularly for migrant laborers, have emerged; the United States is working with Jordan to resolve these issues.<sup>48</sup>

### ***Government Export Finance and Promotion Programs***

The U.S. government plays an active role in promoting U.S. exports of goods and services by administering various forms of export assistance through federal government agencies. A combination of congressional mandates and executive branch actions have directed U.S. export promotion efforts. Most recently, such efforts have been focused through the National Export Initiative, the Obama Administration's plan to double exports to \$3.14 trillion in 2015, as a way to generate and support U.S. jobs.<sup>49</sup> A range of federal government agencies are involved in U.S. export promotion activities.<sup>50</sup> Key agencies that may play a key role in promoting U.S. commercial ties with MENA countries include the following:

The **Export-Import Bank of the United States (Ex-Im Bank)** provides direct loans, guarantees, and insurance to help finance U.S. exports, when the private sector is unable or unwilling to do so, with the goal of contributing to U.S. employment. In FY2011, Ex-Im Bank authorized \$443.2 million in loans, guarantees, and insurance to support U.S. exports to the MENA region, about 1% of Ex-Im Bank's support for exports worldwide (\$32.7 billion). In that year, Ex-Im Bank's total exposure for its credit and insurance activities in the region amounted to \$9.2 billion, about 10% of its total worldwide exposure (\$89.2 billion).<sup>51</sup> Ex-Im Bank financing has supported a

---

<sup>46</sup> Ibid.

<sup>47</sup> CRS analysis of data from USITC, Interactive Tariff and Trade Data Web; QIZ Egypt, [http://www.qizegypt.gov.eg/About\\_QIZ.aspx](http://www.qizegypt.gov.eg/About_QIZ.aspx).

<sup>48</sup> Office of the United States Trade Representative, *2011 Trade Policy Agenda and 2010 Annual Report*. In addition, a 161 page report released by the National Labor Committee in 2006: *U.S.-Jordan Free Trade Agreement Descends into Human Trafficking and Involuntary Servitude*, is a compilation of stories from over 100 guest workers in Jordan.

<sup>49</sup> *Report to the President on the National Export Initiative: The Export Promotion Cabinet's Plan for Doubling U.S. Exports in Five Years*, Washington, D.C., September 2010. Trade Promotion Coordinating Committee (TPCC), *2011 National Export Strategy: Powering the National Export Initiative*, June 2011.

<sup>50</sup> For more information on U.S. export promotion activities, see CRS Report R41495, *U.S. Government Agencies Involved in Export Promotion: Overview and Issues for Congress*, coordinated by Shayerah Ilias.

<sup>51</sup> Ex-Im Bank, *Export-Import Bank of the United States 2011 Annual Report*. Ex-Im Bank's annual report does not list authorization information by regional groupings. While the annual report does provide exposure data by regional (continued...)

range of U.S. export sales to the countries in the MENA region. Examples of such transactions are

- In 2011, Ex-Im Bank extended two loan guarantees, one for \$272 million and the other for \$137 million, to support the sale of commercial aircraft by the Boeing Company to the UAE.<sup>52</sup>
- In 2010, Ex-Im Bank extended a loan guarantee of \$7 million to support the sale of equipment by Morrison Textile Machinery Co., a U.S. small business in South Carolina, to Egypt to establish a denim production plant.<sup>53</sup>
- In 2009, Ex-Im Bank supported the export of General Electric gas and steam turbines to Bahrain for a combined cycle power plant through a \$230 million direct loan.<sup>54</sup>

The **Overseas Private Investment Corporation (OPIC)** provides political risk insurance and finance to support U.S. investment in developing countries, which may contribute to U.S. exports and employment. In FY2011, OPIC committed \$3.2 billion for investment projects worldwide. In response to the Arab Spring, OPIC has targeted up to \$3 billion in support for investments in the Middle East. OPIC's commitment stems from two separate announcements by the Administration:

- In March 2011, Secretary of State Clinton announced that OPIC would provide up to \$2 billion in financial support “to catalyze private sector development” in the MENA region in order to spur economic growth and job creation. Countries eligible to receive this OPIC-supported investment are Egypt, Tunisia, Morocco, Iraq, Jordan, Lebanon, and the Palestinian Territories (and potentially Algeria, Oman, and Yemen). The OPIC initiative aims to prioritize investments in small- and medium-sized enterprises (SMEs), infrastructure (especially renewable resources), and other key sectors. It will also include “fast-track” approval, to ensure “rapid deployment” of capital, while maintaining “OPIC investment policy standards” related to the environment and worker/human rights.<sup>55</sup>
- In May 2011, President Obama announced that OPIC would provide up to \$1 billion in financing to support infrastructure and job creation specifically in Egypt.<sup>56</sup>

---

(...continued)

groupings, it does not provide a specific breakdown for the MENA region. MENA values for authorizations and exposure come from CRS analysis of Ex-Im Bank's 2011 annual report.

<sup>52</sup> Ex-Im Bank, *Export-Import Bank of the United States 2011 Annual Report*.

<sup>53</sup> Ex-Im Bank, “South Carolina Small Business Grows by Exporting to Egypt Backed by Ex-Im Bank Loan Guarantee,” press release, May 4, 2010, <http://www.exim.gov/pressrelease.cfm/63D715C4-A6E3-A8F4-328FACCB92FE08FB/>.

<sup>54</sup> Ex-Im Bank, “Ex-Im Bank Supports Export of GE Gas Turbines to Bahrain,” press release, August 28, 2009, <http://www.exim.gov/pressrelease.cfm/628E1012-B4D1-79CD-F251D81AED8FB82F/>.

<sup>55</sup> OPIC, “OPIC to Provide Up to \$2 Billion for Investment in Middle East and North Africa,” press release, March 11, 2011.

<sup>56</sup> Office of the Press Secretary, “Remarks by the President on the Middle East and North Africa,” The White House, State Department, Washington, DC, May 19, 2011, <http://www.whitehouse.gov/the-press-office/2011/05/19/remarks-president-middle-east-and-north-africa>.

Since announcing the goal, OPIC has approved \$657 million in transactions for the MENA region, primarily in support of investments in small businesses.<sup>57</sup>

The **United States Trade and Development Agency (USTDA)**, which operates under a dual mission of promoting economic development and U.S. commercial interests in developing and middle-income countries, connects U.S. businesses to export opportunities for priority development projects by funding feasibility studies, pilot projects, reverse trade missions, and other activities. In FY2011, USTDA program funding for MENA activities totaled \$7.98 million, nearly one-fifth of total USTDA program funding (\$41.1 million). USTDA projects in the MENA region have focused on a range of economic sectors.<sup>58</sup> Examples of projects include

- In June 2011, USTDA sponsored an *Egypt: Forward* initiative, bringing together 250 U.S. company representatives and 50 Egyptian public and private sector leaders in the energy, information and communication technology (ICT), transportation, and agribusiness sectors, in an effort to foster greater commercial and economic ties.<sup>59</sup>
- In 2011, USTDA funded three technical assistance grants and one reverse trade mission to position U.S. firms to play an active role in Morocco's deployment of renewable energy resources.<sup>60</sup>

Taken together, Ex-Im Bank, OPIC, and USTDA provide support for U.S. exports and investments for most countries in the MENA region (see **Table 3**). Exceptions are Iran and Syria, countries which are legally prohibited from receiving federal support. Should fundamental political change come to Syria, Congress may revisit longstanding restrictions in consultation with the Administration. The specific countries in which these agencies provide support may vary according to factors such as their missions, mandated policy criteria, or availability of resources.<sup>61</sup>

---

<sup>57</sup> OPIC, "OPIC Records Net Income of \$269 Million in FY2011, Helping to Reduce U.S. Budget Deficit for 34<sup>th</sup> Consecutive Year," press release, January 3, 2012.

<sup>58</sup> USTDA, *U.S. Trade and Development Agency 2011 Annual Report*. MENA data are based on USTDA's categorization of countries in the MENA region.

<sup>59</sup> Ibid.

<sup>60</sup> Ibid.

<sup>61</sup> For more information, see CRS Report RL31502, *Nuclear, Biological, Chemical, and Missile Proliferation Sanctions: Selected Current Law*, by Dianne E. Rennack and CRS Report RS20871, *Iran Sanctions*, by Kenneth Katzman.

**Table 3. Federal Export and Investment Promotion Support in MENA**

| Country              | OPIC <sup>a</sup>           | USTDA <sup>b</sup>                 | Ex-Im Bank <sup>c</sup> |
|----------------------|-----------------------------|------------------------------------|-------------------------|
|                      | Availability of Support     | Recent or Ongoing Project Activity | Availability of Support |
| Algeria              | √                           | √                                  | √                       |
| Bahrain              | √                           | —                                  | √                       |
| Djibouti             | √                           | —                                  | √                       |
| Egypt                | √                           | √                                  | √                       |
| Iran                 | X                           | X                                  | X                       |
| Iraq                 | √                           | √                                  | √                       |
| Israel               | √                           | —                                  | √                       |
| Jordan               | √                           | √                                  | √                       |
| Kuwait               | √                           | —                                  | √                       |
| Lebanon              | √                           | √                                  | √                       |
| Libya                | —                           | —                                  | √                       |
| Malta                | √                           | —                                  | √                       |
| Morocco              | √                           | √                                  | √                       |
| Oman                 | √                           | —                                  | √                       |
| Saudi Arabia         | Suspended (worker concerns) | —                                  | √                       |
| Syria                | X                           | X                                  | X                       |
| Tunisia              | √                           | —                                  | √                       |
| United Arab Emirates | Suspended (worker concerns) | —                                  | √                       |
| West Bank            | √                           | √                                  | √ <sup>d</sup>          |
| Yemen                | √                           | √                                  | √                       |

**Source:** OPIC, USTDA, and Ex-Im Bank agency websites and annual reports.

- a. OPIC: A check (√) denotes countries in which OPIC support is available; a cross (X) denotes countries in which OPIC support is legally prohibited; and a dash (—) refers to countries in which OPIC support is not legally prohibited, but is not currently available. A list of countries which are eligible for OPIC support is available at <http://www.opic.gov/doing-business/investor-screener>. OPIC operations were suspended in Saudi Arabia and UAE in 1995 over concerns about worker rights; see the Foreign Commercial Service Saudi Arabia and UAE *Country Commercial Guides* ([http://www.buyusainfo.net/docs/x\\_1357949.pdf](http://www.buyusainfo.net/docs/x_1357949.pdf); [http://www.buyusainfo.net/docs/x\\_216958.pdf](http://www.buyusainfo.net/docs/x_216958.pdf)).
- b. USTDA: A check (√) denotes countries in which USTDA reports having recent and ongoing projects; a cross (X) denotes countries in which USTDA support is legally prohibited and is not provided; and a dash (—) represents countries in which USTDA support is not legally prohibited, but in which USTDA does not report recent or ongoing projects. Information on USTDA project activity in the MENA region is available at <http://www.ustda.gov/program/regions/mena&europe/>.
- c. Ex-Im Bank: A check (√) denotes countries in which Ex-Im Bank support is available, and a cross (X) denotes countries in which Ex-Im Bank support is legally prohibited and not provided. For information on the specific types of Ex-Im Bank financing for which countries are eligible (such as short-term or long-term), see Ex-Im Bank's Country Limitation Schedule: [http://www.exim.gov/tools/country/country\\_limits.cfm](http://www.exim.gov/tools/country/country_limits.cfm).
- d. Ex-Im Bank financing for U.S. exports to the West Bank is available, provided that the obligor or guarantor of the transaction is located in a country in which Ex-Im Bank currently has programs available, such as Jordan.

## **Possible Policy Approaches for Increasing U.S.-MENA Trade and Investment**

A range of potential options—at the unilateral, bilateral/regional, and multilateral levels—are available to Congress, as well as the executive branch, for increasing U.S. trade and investment ties with countries in the MENA region, should there be interest in doing so.

### **Unilateral Options**

Congress could consider a number of unilateral trade policy tools to support and expand U.S. economic relations with countries in transition and other economies in the MENA region. Such policy tools constitute non-reciprocal trade benefits that would not necessarily require negotiations with MENA trading partners, and thus might be easier to implement in the short-term. Countries that receive such trade benefits often have to meet certain criteria (such as worker rights and intellectual property protection requirements) in order to be designated as beneficiaries and to maintain such status. Thus, the U.S. extension of non-reciprocal trade benefits to MENA countries may provide a mechanism to encourage improvement on potential issues of concern.

- **Trade preference programs:** The U.S. government could work with MENA governments to increase their use of existing trade preference programs. The U.S. Embassy in Egypt, for example, has announced that it intends to help Egyptian businesses increase and diversify their exports to the United States under existing GSP provisions.<sup>62</sup> Additionally, Congress could revise provisions of the GSP program to facilitate and expand use by MENA beneficiary countries, such as by expanding product coverage.

Congress also could create a regional trade preference program for the MENA region using existing agreements elsewhere as possible models. Currently, Congress has established five regional or targeted trade preference programs: 1) the Andean Trade Preference Program; 2) the Caribbean Basin Economic Recovery Act (CBERA); 3) the Caribbean Trade Partnership Act (CBTPA); 4) the African Growth and Opportunity Act (AGOA); and 5) the Haitian Opportunity through Partnership Encouragement (HOPE) Act.<sup>63</sup>

- **QIZ program:** Congress could consider revising the QIZ program. One option could be to expand existing QIZs in Jordan and Egypt by approving additional zones in these countries. Another option may be to encourage a MENA-wide QIZ, or create QIZs in other countries. Egypt and Jordan were targeted initially for the QIZ program, because they were two Arab countries that had signed peace treaties with Israel. Proposing new Israeli content requirements for QIZ programs may draw criticism from groups opposed to trade with Israel in some MENA countries.
- **Export finance and promotion programs:** Congress could consider boosting U.S. export assistance, financing, and other efforts targeted toward the MENA

---

<sup>62</sup> Embassy of the United States in Cairo, Egypt, “U.S. Offers Egyptian Companies Duty-Free Access to American Market,” Press Release, January 9, 2012, <http://egypt.usembassy.gov/pr010912.html>.

<sup>63</sup> For more information on the role of Congress in establishing these programs, see CRS Report R41429, *Trade Preferences: Economic Issues and Policy Options*, coordinated by Vivian C. Jones.

region, or encouraging the executive branch to do so. For instance, with the end of U.S. combat operations and the formation of a governing political coalition in Iraq, economic development in that country could arguably represent export and investment opportunities for U.S. businesses in areas such as transportation and infrastructure, which could require U.S. export financing and political risk insurance. As another example, assuming the political situation in Libya stabilizes, commercial opportunities may emerge in areas such as energy, housing, and infrastructure. U.S. exporters and investors may benefit from federal assistance in pursuing such opportunities.

## **Bilateral and Regional Options**

Bilateral and regional policy options also may present avenues for congressional efforts to facilitate U.S. trade and investment with MENA partners. Initiatives for trade and investment agreements may be viewed as longer-term policy options, given the timeframes most agreements take to finalize. However, the broader scope of most agreements creates opportunities to affect multiple sectors, foster important economic and governance reforms, and support greater regional integration. To reduce and eliminate tariff and non-tariff barriers to U.S. exports, trade negotiations would allow the United States to gain greater market access to MENA countries, which could assuage U.S. political opposition from import-sensitive sectors of the economy.<sup>64</sup> On the other hand, increased U.S. and other foreign import penetration of regional economies may be opposed by regional economic actors seeking protection from international competitors. In the past, Middle East countries have pursued FTAs with the United States in part to help lock in and advance domestic economic reforms and diversify their economies by building economic ties with the United States, among other objectives.

- **Launching and re-launching TIFAs:** The United States has TIFAs with most “developing countries” in the MENA region, Iran and Syria notwithstanding. In 2011, the United States re-launched discussions under the 2002 TIFA with Tunisia to support bilateral trade and investment and regional economic integration.<sup>65</sup> In the same vein, the United States could re-launch TIFAs with other MENA countries. One candidate could be Egypt, in order to reinvigorate potential FTA discussions, although it is worth noting that the United States and Egypt conduct trade and economic dialogues through other mechanisms as well.<sup>66</sup>
- **Negotiating new trade and investment agreements, bilaterally or regionally:** Longer-term, the United States could choose to focus its negotiations on trade and investment agreements with selected countries currently undergoing political transitions, such as Egypt or Tunisia. According to some experts, expanding the U.S. partnership with Egypt through an FTA could help to promote economic

---

<sup>64</sup> Andrew H. Card and Thomas A. Daschle, Chairs and Edward Alden and Matthew J. Slaughter, Project Directors, *U.S. Trade and Investment Policy*, Council on Foreign Relations, Independent Task Force Report No. 67, 2011.

<sup>65</sup> Office of the USTR, “United States and Tunisia Re-Launch Bilateral Trade and Investment Talks in Support of Tunisia’s Democratic Transition,” press release, October 2011, <http://www.ustr.gov/about-us/press-office/press-releases/2011/october/united-states-and-tunisia-re-launch-bilateral-trad>.

<sup>66</sup> Office of the USTR, “United States and Egypt Advance Bilateral Trade and Investment Talks in Support of Egypt’s Democratic Transition,” press release, October 2011, <http://www.ustr.gov/about-us/press-office/press-releases/2011/october/united-states-and-egypt-advance-bilateral-trade-an>.

development, support political reform, contribute to rising living standards for Egyptians, and serve as an incentive for Egypt to play a constructive role in the region and strengthen its ties with economic partners.<sup>67</sup> An FTA with Egypt could also potentially advance other reforms, such as those related to transparency, governance, regulatory standards, and privatization that support economic growth more broadly.<sup>68</sup> However, it is worth noting that under a potential U.S.-Egypt FTA, economic benefits of greater trade and investment for Egypt likely would occur in the longer-term; they would not necessarily help to directly address Egypt's short-term economic problems, such as pressures on the country's public debt. In addition, there is concern that, unless complementary reforms are undertaken, the benefits of an FTA may be limited to a narrow section of Egyptian society, and not contribute to general improvement of Egypt's economic conditions and living standards.<sup>69</sup>

Separately, the United States could focus on countries that currently are not undergoing political transitions. For example, the United States could renew FTA negotiations with the UAE. Additionally, the United States may consider negotiating regional investment and trade agreements, in order to bolster regional economic ties in addition to U.S.-MENA trade and investment.

- **Updating existing FTAs and BITs:** Congress could consider updating the U.S. BITs with Egypt and Tunisia. Since these BITs came into effect, the U.S. model BIT framework was revised (in 2004) in areas such as coverage, intellectual property rights (IPR), and dispute settlement. It also serves as the model for investment provisions in current U.S. FTAs. Congress could also consider revising and “updating” the U.S.-Israel FTA. The U.S.-Israel FTA, signed and entered into force in 1985, was the first FTA ever entered into by the United States. Since then, the scope of issues discussed in trade negotiations has expanded. For example, the U.S.-Israel FTA does not contain provisions on electronic commerce and technical barriers to trade, has limited coverage of services and IPR, and has had limited effect on trade in agricultural products.<sup>70</sup>

Negotiating new FTAs, or updating existing FTAs, may be complicated by the fact that Trade Promotion Authority (TPA, formerly fast track) expired in 2007.<sup>71</sup> TPA is the authority Congress grants to the President to enter into certain FTAs and to have their implementing bills considered under expedited legislative procedures, provided they meet certain statutory obligations in negotiating them. Additionally, the United States negotiates BITs on the basis of a model, and the Administration is currently conducting an interagency review of the model BIT.

---

<sup>67</sup> Barbara Kotschwar and Jeffrey J. Schott, *Reengaging Egypt: Options for US-Egypt Economic Relations*, Peterson Institute for International Economics, “In Brief”, January 2010.

<sup>68</sup> For example, see Meredith Broadbent, “The Role of FTA Negotiations in the Future of U.S.-Egypt Relations,” Center for Strategic and International Studies, December 2011, [http://csis.org/files/publication/111212\\_Broadbent\\_USEgyptTrade\\_Web.pdf](http://csis.org/files/publication/111212_Broadbent_USEgyptTrade_Web.pdf); Ahmed Galal and Robert Z. Lawrence, “Anchoring Reform with a U.S.-Egypt Free Trade Agreement,” *Policy Analyses in International Economics* 74, Peterson Institute for International Economics, May 2005, <http://bookstore.piie.com/book-store/3683.html>.

<sup>69</sup> *Ibid.*

<sup>70</sup> Edward Gresser, *Update the Israel Free Trade Agreement*, The New Democratic Leadership Council, April 2010.

<sup>71</sup> See CRS Report RL33743, *Trade Promotion Authority (TPA) and the Role of Congress in Trade Policy*, by J. F. Hornbeck and William H. Cooper.

Negotiating new BITs, or updating existing BITs, may be difficult until the model BIT review process is completed.

- **Oversight of existing FTAs:** Congress could examine existing U.S. FTAs in the region. In particular, it may be interested in examining how well they have achieved their objectives, and their impact on increasing and diversifying bilateral trade flows.

## **Multilateral Options**

Congress additionally has multilateral tools at its disposal to foster economic ties with MENA countries. Trade policy at the multilateral level may yield benefits, such as requiring countries to adopt international rules, not available under other levels. Congress could encourage the United States to intensify existing efforts to support WTO accession for MENA countries such as Iraq, Libya, and Yemen, and provide technical assistance for countries working towards WTO accession. The United States could also work with countries to fully implement their WTO accession commitments. The United States could also cooperate more closely with the European Union (EU) and other countries in international forums, such as the G-8 or the G-20, in advancing economic growth and stability in the MENA region. The United States holds the rotating presidency of the G-8 in 2012, and could use this forum to focus multilateral efforts on MENA trade and investment issues.

## **Issues for Congress: Possible Challenges and Implementation Questions**

Congress may face a number of issues if it addresses policy options to facilitate greater U.S. trade and investment with the MENA region.

**First, some analysts question whether increased trade and investment can support democratic political transitions.** Current discussions for increasing trade and investment with the MENA region are rooted in the belief that these policy tools will bolster economic growth and help support the democratic political transitions occurring in the region. However, the link between trade and investment, on the one hand, and democracy, on the other, is contentious. Some experts argue that trade and investment promote governance; increase the size of the middle class; facilitate the flow of ideas; and develop institutions related to protection of property and rule of law, which in turn, it is argued, create popular pressure for democracy.<sup>72</sup> Additionally, some analysts argue that pursuing FTAs and BITs in particular with various MENA countries could help anchor reforms, such as related transparency, governance, and rule of law, that can provide foundations for democratic political transitions and institutions.<sup>73</sup>

---

<sup>72</sup> For example, see Quan Li and Rafael Reuveny, "Economic Globalization and Democracy: An Empirical Analysis," Working Paper, 2000, <http://www.international.ucla.edu/cms/files/GLODEM39.pdf>.

<sup>73</sup> For example, see Ahmed Galal and Robert Z. Lawrence, "Anchoring Reform with a U.S.-Egypt Free Trade Agreement," Policy Analyses in International Economics 74, Peterson Institute for International Economics, May 2005, <http://bookstore.piie.com/book-store/3683.html>.

Others argue that the links between trade, investment, and democracy are not straightforward.<sup>74</sup> They argue that governments can gain legitimacy by opening their economies and securing economic growth, without reforming or opening politically. They cite a number of economies that have opened to the world economically while sustaining governments that are not fully democratic; China is often cited as an example in this context. This raises questions about whether trade and investment could be effective in helping Arab countries transition to more democratic political systems. Additionally, some analysts question whether protestors in various MENA countries want greater trade and investment ties. In Egypt, for example, public opinion indicates that many believe that the economic liberalization pursued under the old regime exacerbated economic inequality.<sup>75</sup>

**Second, questions abound about whether U.S. trade policy tools could be effective in overcoming the obstacles to greater U.S. trade and investment in the MENA region.** Some analysts question whether trade and/or investment liberalizing agreements will result in increased U.S. trade and investment to the MENA region. According to the U.S. Commercial Service, some of the greatest obstacles to U.S. firms hoping to do business in MENA countries relate to corruption, transparency, governance, rule of law, and bureaucratic red tape, among others. Some argue that completing FTAs or BITs, or encouraging countries to join the WTO, could help MENA governments push through reforms that address many of these impediments. Others worry that even if such reforms are pursued in the context of FTA, BIT, or WTO negotiations, there could be implementation problems, and that U.S. trade and investment with MENA countries and the region could remain limited. Additionally, a number of factors affect investment and trade flows beyond government policies, including the market size, economic growth, labor force, endowment of natural resources, political stability, and infrastructure, among others, which raise questions about how effective policy options could be at dramatically increasing trade and investment flows.

In addition, the capacity of federal export finance and other promotion agencies to support U.S. trade and investment in the MENA may be limited. For instance, while Ex-Im Bank could work to incentivize exports to the MENA region, U.S. firms' interest in doing business the MENA region will drive their demand for Ex-Im Bank financing.

**Third, if an agenda of increased trade and investment is pursued, there are a host of questions arise that may be considered in implementing this policy agenda.** For example:

- **Timing:** The political situation in some MENA countries is highly uncertain. Should the United States wait to enhance its trade and investment ties in the region until the political situation stabilizes? Or should the United States enhance trade and investment ties sooner, in order to facilitate political outcomes it views as favorable? If the United States delays engagement, will others—such as EU countries, Turkey, and China—take advantage of business opportunities in the region sooner, depressing opportunities for U.S. businesses?
- **Region-Wide Policies vs. Country-Specific Policies:** Current U.S. trade and investment policy is quite diverse across countries in the MENA region, and the

---

<sup>74</sup> For example, see Catharin E. Dalpino, "Does Globalization Promote Democracy?: An Early Assessment," Brookings, Fall 2001, [http://www.brookings.edu/articles/2001/fall\\_democracy\\_dalpino.aspx](http://www.brookings.edu/articles/2001/fall_democracy_dalpino.aspx).

<sup>75</sup> Economist Intelligence Unit, "Country Report: Egypt," November 2011.

MENA economies themselves are quite heterogeneous. Should the United States pursue a region-wide agenda of increasing trade and investment, while tailoring policies to fit the individual needs of specific countries? For example, some argue that Egypt and Tunisia are better positioned than, say, Libya, to enter FTA negotiations with the United States, because they are members of the WTO and have BITs with the United States, while Libya only has WTO observer status and is experiencing political upheaval. While WTO accession is not explicitly required for the United States to negotiate BITs or FTAs with a country, U.S. trade agreements generally build on WTO commitments, and WTO membership is viewed as a stepping stone to a FTA.

- **Cooperation with the EU:** In his May 2011 speech on MENA, President Obama suggested that U.S. efforts to increase trade and investment in the region would be pursued cooperatively with the EU. Will this cooperation take place, and how deep should any cooperation be? In the past, the United States and the EU have adopted different approaches in the MENA. For example, under the MEFTA effort during the Bush Administration, the United States negotiated comprehensive free trade agreements with individual countries with the goal that such efforts would expand into a region-wide free trade area agreement. In contrast, the EU adopted a more regional approach to economic integration from the start. Other factors may complicate cooperation. For example, the United States and the EU have differing views on regulatory policy and standards, and some view U.S. and EU businesses as competitors in the MENA region. Finally, some of these countries already have strong economic ties with the EU and want to develop closer economies ties with the United States, as was the case with the U.S.-Morocco FTA.
- **Congressional Interest:** In October 2011, Congress approved the implementing legislation for FTAs with Colombia, South Korea, and Panama, years after the agreements were formally negotiated.<sup>76</sup> Will their approval provide momentum for further FTA negotiations, or does their lengthy approval point to the polarization in Congress regarding future FTAs? How should Congress prioritize FTAs in the MENA region with ongoing trade negotiations, including with regards to the Trans-Pacific Partnership (TPP)?<sup>77</sup> How should Congress prioritize countries within the MENA region for FTAs?

In sum, there are a number of factors that policymakers in Congress and elsewhere may want to weigh when considering using trade and investment policy tools to support transitioning MENA countries. There are questions about the effectiveness of these policy tools in promoting increased trade and investment, as well as their impact on political transitions, and how quickly the benefits of these policy options would be borne out. Additionally, how these policies are designed could have substantial implications for U.S. interests. However, in a tight budget environment, trade and investment may be attractive

---

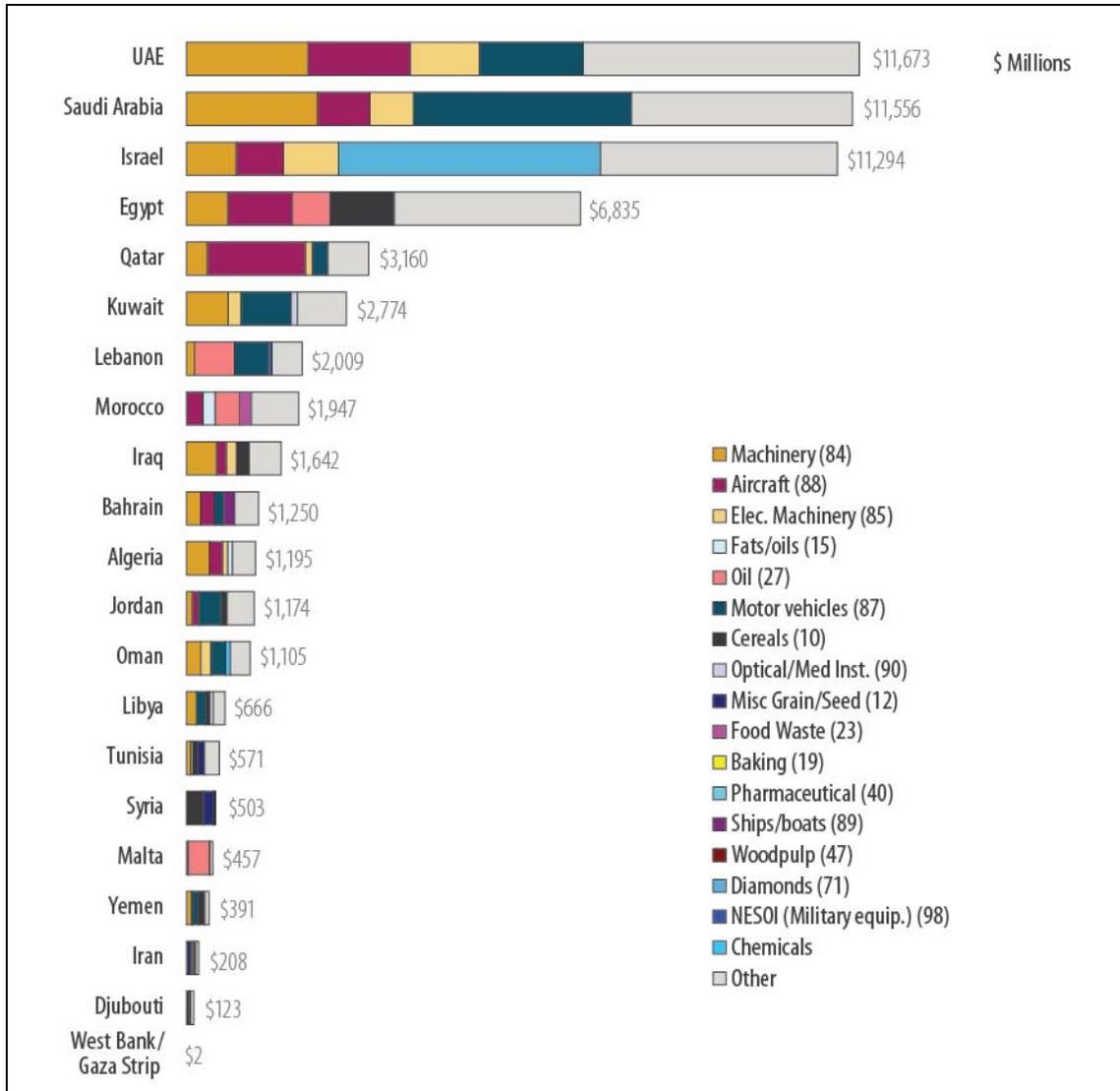
<sup>76</sup> For more on these FTAs, see CRS Report RL34470, *The U.S.-Colombia Free Trade Agreement: Background and Issues*, by M. Angeles Villarreal; CRS Report R41534, *The EU-South Korea Free Trade Agreement and Its Implications for the United States*, by William H. Cooper et al.; and CRS Report RL32540, *The U.S.-Panama Free Trade Agreement*, by J. F. Hornbeck.

<sup>77</sup> For more on TPP, see CRS Report R40502, *The Trans-Pacific Partnership Agreement*, by Ian F. Fergusson and Bruce Vaughn.

policy tools for supporting MENA economies compared to other options, such as foreign aid, while also potentially creating new economic opportunities for U.S. businesses.

## Appendix. Trade Tables

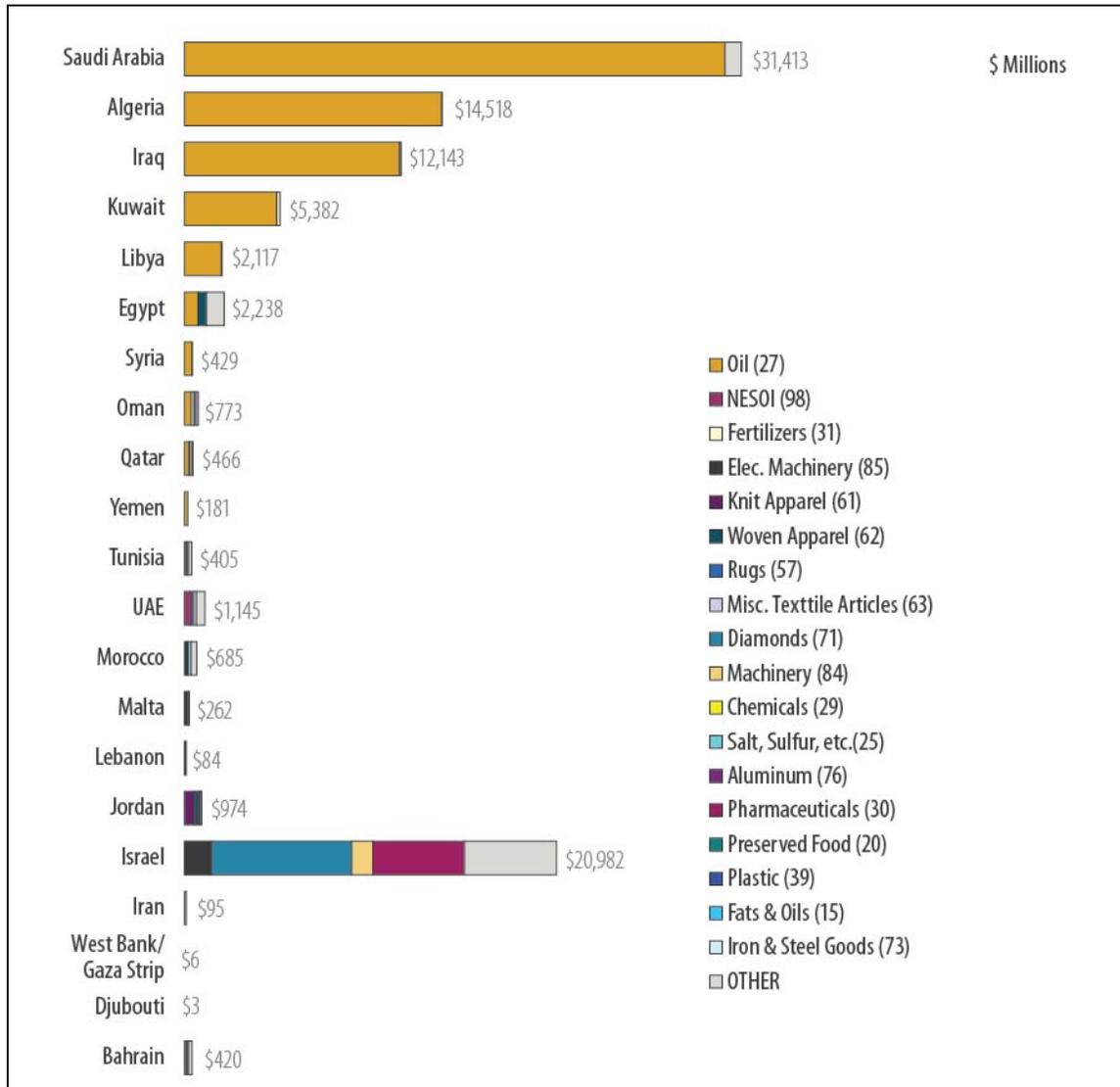
Figure A-1. U.S. Exports to MENA Countries/Territories



Source: Global Trade Atlas.

Notes: Harmonized Tariff Schedule (HTS) numbers in parentheses in legend. NESOI = Not elsewhere specified or included.

**Figure A-2. U.S. Imports from MENA Countries/Territories, 2010**



**Source:** Global Trade Atlas.

**Notes:** Harmonized Tariff Schedule (HTS) numbers in parentheses in legend. NESOI = Not elsewhere specified or included.

**Table A-1. Top U.S. Exports to MENA Countries/Territories, 2010**

| Country              | Total Exports (\$ Millions) | Major U.S. Exports and Shares of Total (with Harmonized Tariff Schedule [HTS] Numbers)                                   |
|----------------------|-----------------------------|--|
| Algeria              | 1,195                       | Machinery, 33% (84); Aircraft Parts, 19% (88); Electrical Machinery, 8% (85); and Fats and Oils, 7%=67%                  |
| Bahrain              | 1,250                       | Aircraft, 20% (88); Machinery 20%, (84); Ships and Boats 16% (89); Motor Vehicles 13% (87)=69%                           |
| Djibouti             | 123                         | Fats and Oils, 20% (15); Baking Related, 17% (19); Machinery, 12% (84); Cereals, 10% (10)=56%                            |
| Egypt                | 6,835                       | Aircraft, 16% (88); Cereals, 16% (10); Machinery, 11% (84); Oil, 10% (27)=53%  |
| Iran                 | 208                         | Grain Seeds, 30% (12); Pharmaceutical Products, 19% (30); Woodpulp, 17% (47); Optical, Medical Instruments, 11% (90)=77% |
| Iraq                 | 1,642                       | Machinery, 32% (84); Cereals, 13%, (10); Aircraft Parts, 11% (88); Electrical Machinery, 11% (85)=67%                    |
| Israel               | 11,294                      | Precious Stones (Diamonds), 40% (71); Electrical Machinery, 9% (85); Machinery, 8% (84); Aircraft Parts, 7% (88)=64%     |
| Jordan               | 1,174                       | Motor Vehicles, 34% (87); Machinery, 9% (84); Aircraft Parts, 9% (88); Cereals, 8% (10)=60%                              |
| Kuwait               | 2,774                       | Motor Vehicles, 31% (87); Machinery, 26% (84); Electrical Machinery, 8% (85); Optical/Medical Instruments, 4% (90)=69%   |
| Lebanon              | 2,009                       | Oil, 34% (27); Motor Vehicles, 29% (87); Machinery, 7% (84); NESOI (Military Equipment), 3% (98)                         |
| Libya                | 666                         | Motor Vehicles, 26% (87); Machinery, 26% (84); Cereals, 10% (10); Optical/Medical Instruments, 8% (90)=70%               |
| Malta                | 457                         | Oil, 79% (27); Machinery, 5% (84); Optical/Medical Instruments, 3% (90); Electrical Machinery, 2% (85)=89%               |
| Morocco              | 1,947                       | Oil, 22% (27); Aircraft Parts, 15% (88); Fats and Oils, 11% (15); Food Waste, 10%, (23)=58%                              |
| Oman                 | 1,105                       | Motor Vehicles, 23% (87); Machinery, 22% (84); Electrical Machinery, 16% (85); Chemicals, 7% (29)=68%                    |
| Qatar                | 3,160                       | Aircraft Parts, 54% (88); Machinery, 11% (84); Motor Vehicles, 8% (87); Electrical Machinery, 4% (85)=77%                |
| Saudi Arabia         | 11,556                      | Motor Vehicles, 33% (87); Machinery, 20% (84); Aircraft Parts, 8% (88); Electrical Machinery, 7% (85)=68%                |
| Syria                | 503                         | Cereals, 57% (10); Grain, Seeds, 34% (12); Food Waste, 5% (23); Optical/Medical Instruments, 1% (90)=97%                 |
| Tunisia              | 571                         | Grain, Seeds, 21% (12); Cereals, 15% (10); Machinery, 6% (84); Fats and Oils, 6% (15)=48%                                |
| United Arab Emirates | 11,673                      | Machinery, 18% (84); Motor Vehicles, 15% (87); Aircraft Parts, 15% (88); Electrical Machinery, 10% (85)=58%              |
| West Bank            | 1                           | Furniture and Bedding, 32% (94); Motor Vehicles, 32% (87); Plastic, 10% (39)=74%   |
| Gaza Strip           | 2                           | Electrical Machinery, 45% (85); Machinery, 33% (84); Optical/Medical Instruments, 10% (90)=88%                           |
| Yemen                | 391                         | Cereals, 27%, (10); Motor Vehicles, 25% (87); Machinery, 22% (84); Electrical Machinery, 6% (85)=80%                     |
| <b>TOTAL</b>         | <b>60,536</b>               |  |

Source: Global Trade Atlas.

Note: NESOI = Not elsewhere specified or included.

**Table A-2. Top U.S. Imports from MENA Countries/Territories, 2010**

| Country              | Total Imports (\$ Millions) | Major U.S. Imports and Shares of Total (with Harmonized Tariff Schedule [HTS] Numbers)   |
|----------------------|-----------------------------|--|
| Algeria              | 14,518                      | Oil, 100% (27)   |
| Bahrain              | 420                         | Textiles and apparel, 39% (62, 63, 52, 55, and 61); Fertilizers, 20% (31); Aluminum, 13% (76)=72%  |
| Djibouti             | 3                           | NESOI (military equipment returned to the United States for repairs, 34% (98); Electrical Machinery, 33% (85); Spices, Coffee, Tea, 21% (09)=88%       |
| Egypt                | 2238                        | Textiles and Apparel, 45% (62, 61, 57, 63.); Oil, 34% (27); Fertilizers, 9% (31)=84%   |
| Iran                 | 95                          | Textile Floor Coverings, 84% (57); Art and Antiques, 6% (97); Preserved Food, 5% (20)=95%  |
| Iraq                 | 12,143                      | Oil 100% (27)  |
| Israel               | 20,982                      | Precious Stones (Diamonds), 38% (71); Pharmaceuticals, 25% (30); Electrical Machinery, 25% (30); Machinery, 6% (84)=94%                                |
| Jordan               | 974                         | Textiles and Apparel, 83% (61, 62, 63); Precious Stones (Gold Jewelry), 8% (71)=91%  |
| Kuwait               | 5,382                       | Oil, 96% (27); Fertilizers, 3% (31)=99%  |
| Lebanon              | 84                          | Precious Stones (Gold and diamonds), 18% (71); Preserved Food, 13% (20); Machinery, 13% (84); Fertilizers, 10% (31)=54%                                |
| Libya                | 2,117                       | Oil, 98% (27)  |
| Malta                | 262                         | Electrical Machinery, 69% (85); Pharmaceuticals, 9% (30); Chemicals, 9% (29); Machinery, 4% (84)=91%   |
| Morocco              | 685                         | Salt, Sulfur (Calcium), 27% (25); Electrical Machinery, 17% (85); Fertilizers, 10% (31); Apparel, 9% (62, 61)=63%                                      |
| Oman                 | 773                         | Oil, 50% (27); Fertilizers, 20% (31); Plastic, 15% (39); Precious Stones, 8% (71)=93%  |
| Qatar                | 466                         | Oil, 55% (27); Fertilizers, 29% (31); NESOI (military equipment being returned to the United States for repair), 11% (98); Aluminum, 4% (76)=99%       |
| Saudi Arabia         | 31,413                      | Oil, 97% (27); Chemicals, 1% (29)=98%  |
| Syria                | 429                         | Oil, 93% (27); Art and Antiques, 2% (97); Spices, Coffee, Tea, 2% (09) =97%  |
| Tunisia              | 405                         | Oil, 21% (27); Fats and Oils, 20% (15); Textiles and Apparel, 19% (62, 61, 63)=60%   |
| United Arab Emirates | 1,145                       | NESOI (Military equipment returned to the United States for repair), 27% (98); Aluminum, 17% (76); Iron and Steel Products, 13% (73); Oil, 7% (27)=64% |
| West Bank            | 3                           | Grains and Seeds, 27% (12); NESOI (Military Equipment returned to the United States for repair), 26% (99); Fats and Oils, 25% (15); Toys, 6% (95)=84%  |
| Gaza Strip           | 3                           | Woven Apparel, 98% (62)  |
| Yemen                | 181                         | Oil, 96% (27); Spices, Coffee, Tea, (2%)=98%   |
| <b>TOTAL</b>         | <b>\$94,691</b>             |  |

Source: Global Trade Atlas.

Notes: NESOI = Not elsewhere specified or included.

## **Author Contact Information**

Rebecca M. Nelson  
Analyst in International Trade and Finance  
rnelson@crs.loc.gov, 7-6819

Mary Jane Bolle  
Specialist in International Trade and Finance  
mjbolle@crs.loc.gov, 7-7753

Shayerah Ilias  
Analyst in International Trade and Finance  
silias@crs.loc.gov, 7-9253