

**Section 6 Middle East and Africa**

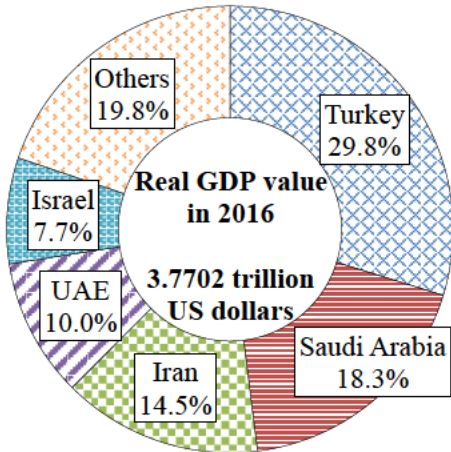
**1. Middle East**

While some Middle Eastern countries<sup>226</sup> are experiencing political instability, there are also countries that are achieving economic growth from oil and other resources and are implementing reforms to achieve industrial diversification. In this paragraph, we will look at economic trends of Middle Eastern countries, focusing mainly on Saudi Arabia.

**(1) Macroeconomic trends**

First, we will provide an overview of the economies of Middle Eastern countries. In terms of economic scale, Turkey accounted for more than one quarter, 29.8%, of the total GDP of the region in 2016, followed by Saudi Arabia with 18.3% adding up to around half of the total GDP of the region (Figure I-2-6-1-1).

**Figure I-2-6-1-1 Shares of GDP in the Middle East by economy and region**



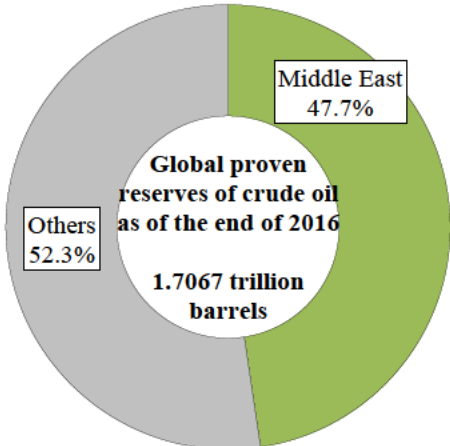
Source: National Accounts Main Aggregates Database (UN).

In the Middle East, some of the most resource-rich countries in the world are concentrated: the region accounts for 47.7% of the global proven reserves of crude oil and 42.5% of the global proven reserves of natural gas. Of the global total value of exports of mineral fuels<sup>227</sup> in 2016, which was 1,509.5 billion dollars, exports from the Middle East accounted for more than one quarter, 426.4 billion dollars (Figure I-2-6-1-2).

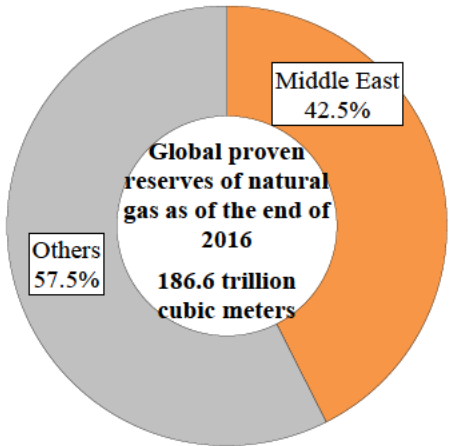
226 The Middle Eastern countries as referred to in this white paper are the following 14 countries: the UAE, Yemen, Israel, Iraq, Iran, Oman, Qatar, Kuwait, Saudi Arabia, Syria, Turkey, Bahrain, Jordan and Lebanon.

227 This refers to HS Code Chapter 27.

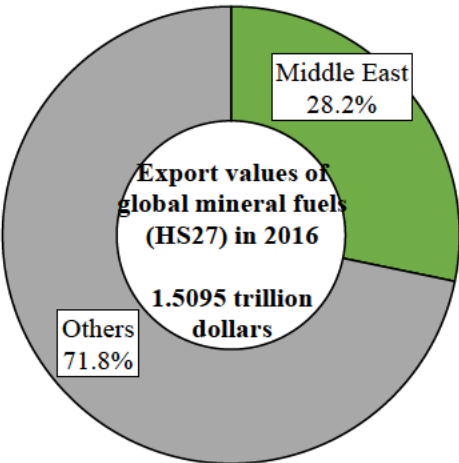
**Figure I-2-6-1-2 Proven reserves of resources and export shares in the Middle Eastern economies**



Source: *Statistical Review of World Energy* (BP, June 2017).



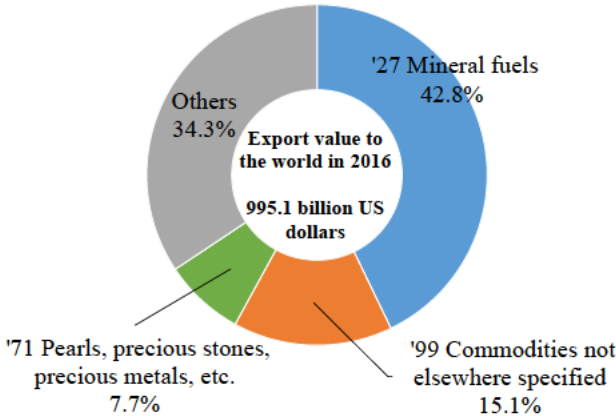
Source: *Statistical Review of World Energy* (BP, June 2017).



Source: *International Trade Statistics* (International Trade Centre).

The Middle East’s main import and export goods differ from economy to economy, but as a whole, the share of mineral fuels in the total value of exports was 42.8% in 2016, meaning that the region depends on mineral fuels for around half of its foreign currency income from trade (Figure I-2-6-1-3).

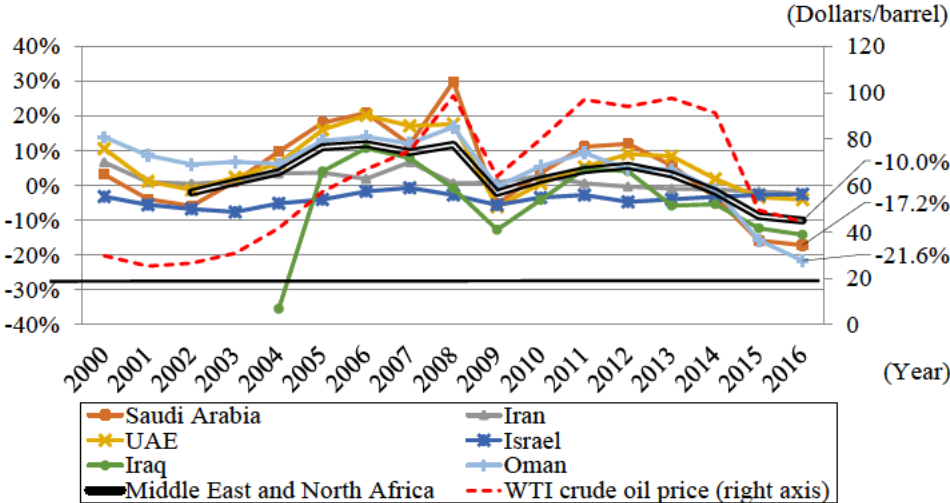
**Figure I-2-6-1-3 Changes in import and export values and trade items in the Middle East**



Source: *International Trade Statistics* (International Trade Centre).

The high economic dependence on mineral fuels has led to a large budget deficit in line with a rapid shrinkage of the trade surplus since 2014, when the crude oil price fell steeply. This was because most of the Middle Eastern oil-producing countries’ government revenue was derived from crude oil export. Although the crude oil price has been on a gradual recovering trend since the OPEC agreement on the reduction of production in 2016, many economies have not yet returned to a budget surplus (Figure I-2-6-1-4).

**Figure I-2-6-1-4 Changes in budget balance (rates to GDP) in Middle Eastern oil-producing economies**



Source: WEO Database (IMF, October 2017).

In addition to the high volatility of revenue depending on the market conditions of crude oil, the reserve of crude oil is limited.<sup>228</sup> In order to shift to an industrial structure less dependent on oil and establish sustainable economic and social systems, Middle Eastern oil-producing countries are

<sup>228</sup> According to BP Statistical Review of World Energy June 2017, published by British Petroleum of the United Kingdom, the reserve to production ratio for crude oil in the Middle East is 69.9 years.

implementing domestic reforms. For example, Saudi Arabia announced “Saudi Vision 2030” in 2016, the UAE announced “UAE Vision 2021” in 2010, and Kuwait announced “Kuwait Vision 2035” in 2010, all aiming for the diversification of their industries.

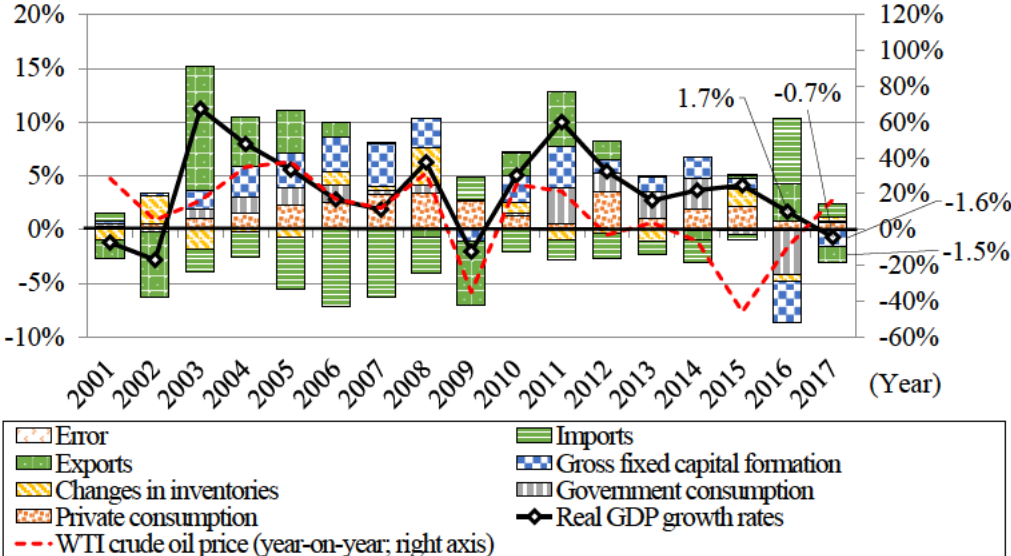
In the following sections, we will discuss the case of Saudi Arabia as an example of economic structural reform, in relation to the macroeconomic trends in the country.

**(2) Macroeconomic trends in Saudi Arabia**

First, we will provide an overview of the macroeconomic trends in Saudi Arabia.

Saudi Arabia is the second largest economic power in the Middle East, following Turkey (Figure I-2-6-1-1). Between 2000 and 2017, Saudi Arabia’s real GDP grew at an annual average rate of 3.5%. In the first half of the 2000s, export was the main growth driver, but the ratios of private consumption and gross fixed capital formation have gradually increased. For two consecutive years from 2016, the real GDP growth declined, and the real GDP growth rate in 2017 was minus 0.7%, the first negative growth in eight years since the global financial crisis (Figure I-2-6-1-5).

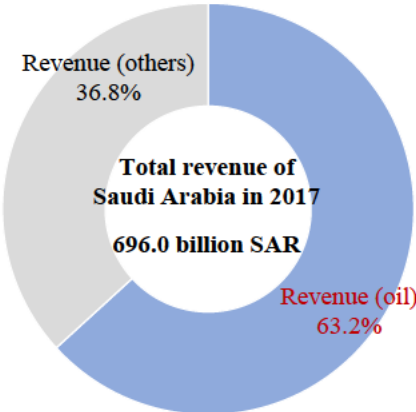
**Figure I-2-6-1-5 Changes in real GDP growth rates in Saudi Arabia (by expenditure)**



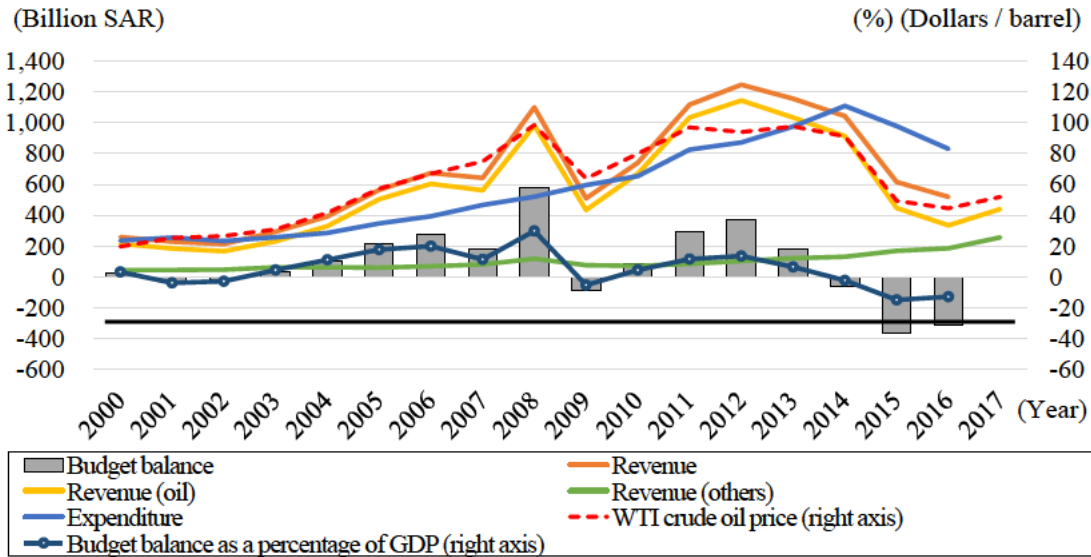
Source: CEIC Database, General Authority of Statistics, Ministry of Economy and Planning of Saudi Arabia.

Regarding the budget structure of the government of Saudi Arabia, oil-related income accounted for 63.2% of the government’s revenue in 2017 (on a provisional basis). As already mentioned, Middle Eastern oil-producing countries’ revenue declined steeply due to the oil price drop starting from 2014, plunging the countries into a budget deficit. Saudi Arabia was no exception, recording a large budget deficit for three consecutive years from 2014. Especially in 2015 and 2016, the budget deficit was equivalent to more than 10% of GDP (Figure I-2-6-1-6). In response to the rapid increase in the budget deficit, the government of Saudi Arabia took austerity budget measures, including the reduction of subsidies and salaries for public servants. The negative contribution of government consumption partly because of the austerity measures, and the decline of contributions by private consumption and gross fixed capital formation, has led to a fall in the GDP growth rate, and in 2017, the growth turned negative.

**Figure I-2-6-1-6 Changes in revenue rates and budget balance values in Saudi Arabia**



Source: CEIC Database, Ministry of Finance, Saudi Arabia.



Notes:

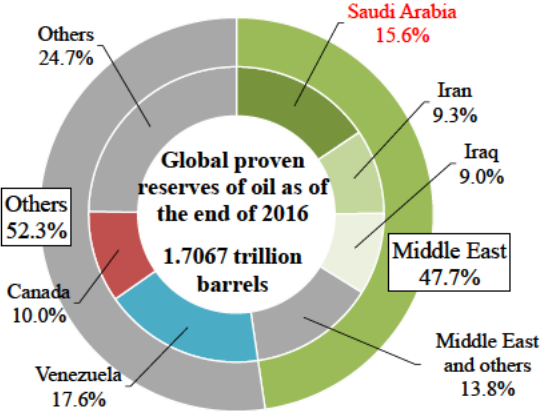
1. The WTI crude oil prices are annual average values of monthly prices.
2. Data on budget balance in 2017 are not released.

Source: CEIC Database, Ministry of Finance, Saudi Arabia, EIKON (Thomson Reuters).

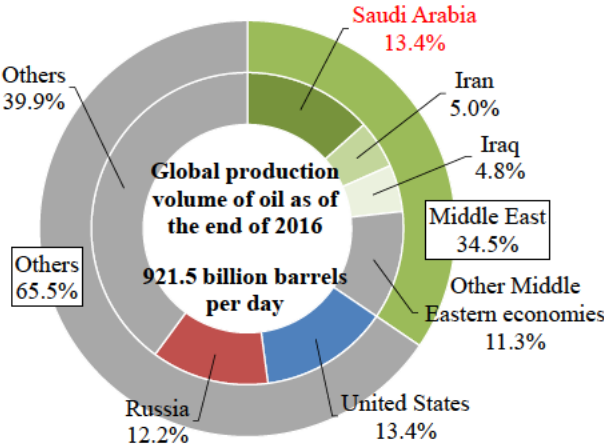
Saudi Arabia is the largest oil-producing country in the Middle East. As of 2016, Saudi Arabia had the second largest amount of proven reserves of oil in the world, after Venezuela, and its production volume per day was also the second largest in the world, after the United States (Figure I-2-6-1-7).



**Figure I-2-6-1-7 Global proven reserves of oil and production volume**



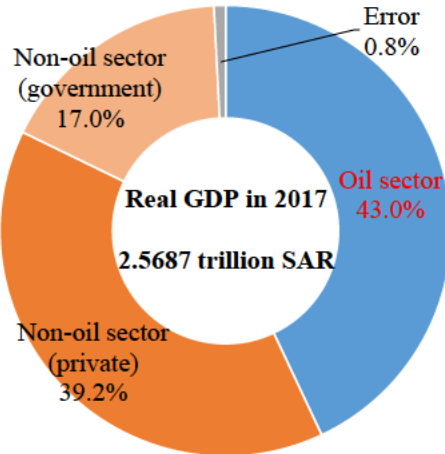
Source: *Statistical Review of World Energy* (BP, June 2017).



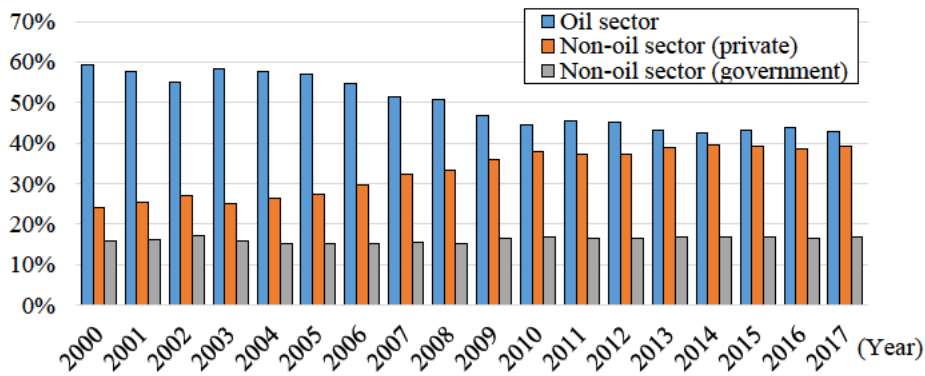
Source: *Statistical Review of World Energy* (BP, June 2017).

The oil sector is the country’s main industry. In 2017, the oil sector was 43.0% of the total industrial output. Compared with the beginning of the 2000s, the oil sector’s share has gradually declined, while the private non-oil sector’s share has gradually expanded. However, the oil sector is still Saudi Arabia’s largest industry with around 50% in GDP (Figure I-2-6-1-8).

**Figure I-2-6-1-8 Sector-based shares and changes thereof in Saudi Arabia**



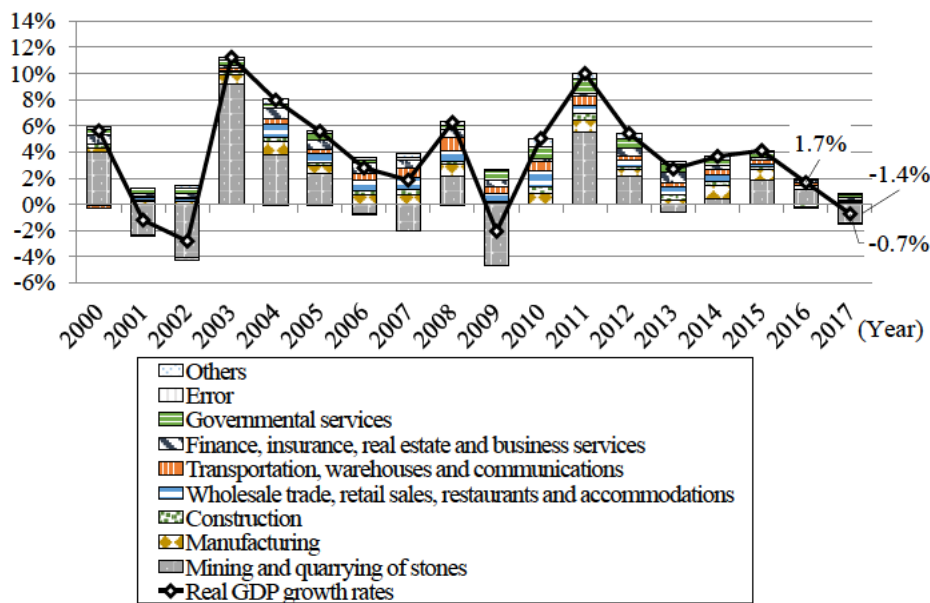
Source: CEIC Database, General Authority of Statistics of Saudi Arabia.



Source: CEIC Database, General Authority of Statistics of Saudi Arabia.

In terms of the contribution to Saudi Arabia's real GDP growth rate by industry, the mining and quarrying industry, including the oil sector, has made the greatest contribution over the past years. However, as was already mentioned, the real GDP growth turned negative in 2017, due to the decline in the mining and quarrying industry (Figure I-2-6-1-9).

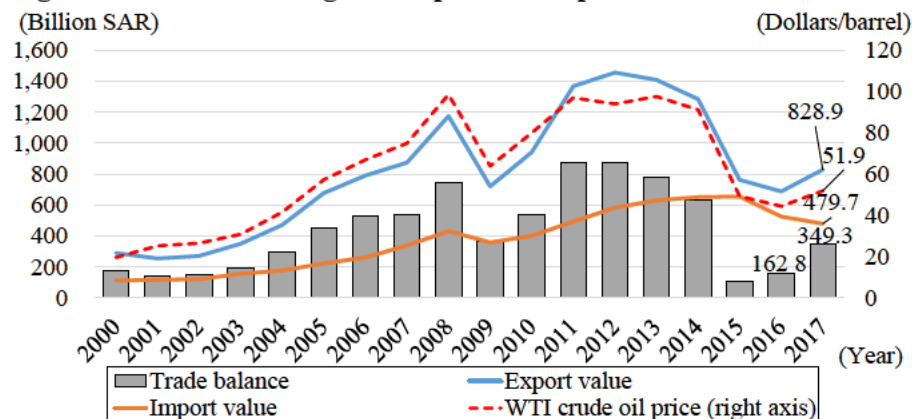
**Figure I-2-6-1-9 Changes in real GDP growth rates in Saudi Arabia (by industry)**



Source: CEIC Database, General Authority of Statistics of Saudi Arabia.

Next, we will provide an overview of the trade trends in Saudi Arabia. In 2017, the trade surplus was 349.3 billion Saudi riyals. The value of exports was 828.9 billion Saudi riyals, larger by 20.4% from the previous year, and the value of imports was 479.7 billion Saudi riyals, smaller by 8.7%. In line with an oil price decline, the trade surplus decreased for four consecutive years from 2012. However, due to a recovery of the oil price and a fall in the value of imports, the trade surplus increased for 2016 and 2017 (Figure I-2-6-1-10).

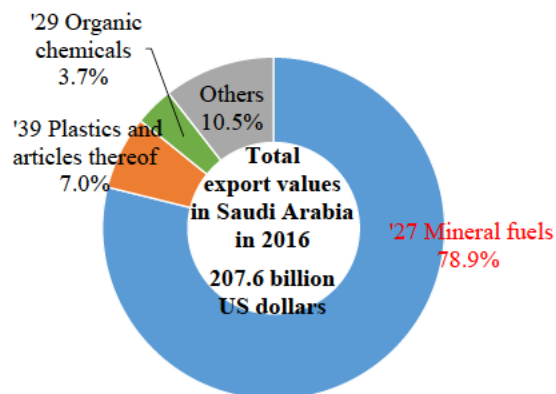
**Figure I-2-6-1-10 Changes in import and export values in Saudi Arabia**



Source: CEIC Database, General Authority of Statistics of Saudi Arabia.

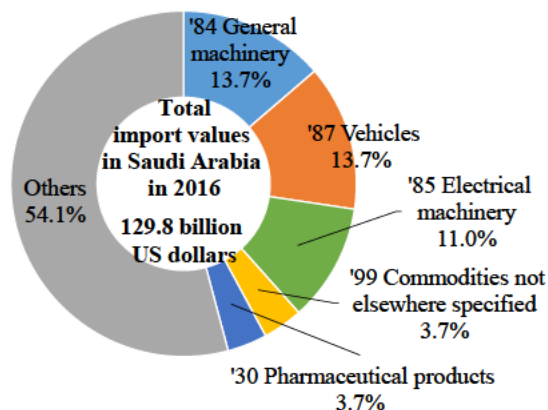
Mineral fuels, including oil, were the largest export good with a share of 78.9% in the total exported value, indicating that Saudi Arabia uses foreign currency income earned through oil export to import general machinery, automobiles and other items. The value of foreign currency income earned by Saudi Arabia is significantly affected by oil price fluctuations (Figure I-2-6-1-11).

**Figure I-2-6-1-11 Changes in import and export items in Saudi Arabia (2016)**



Notes: The two-digit code at the head of each item refers to two-digit HS codes.

Source: *International Trade Statistics* (International Trade Centre).



Notes: The two-digit code at the head of each item refers to two-digit HS codes.

Source: *International Trade Statistics* (International Trade Centre).



We will next look at Saudi Arabia's trading partners individually. As for export destination, at the beginning of the 2000s, the United States was the second largest export destination. However, the United States' ratio has gradually declined, while the presence of Asia, including China, has grown in recent years. Regarding import, the major countries have remained unchanged from the beginning of the 2000s, but the value of imports from China has increased rapidly. Thus, China's presence has grown in terms of both import and export (Table I-2-6-1-12).

**Table I-2-6-1-12 Changes in trade partner economies in Saudi Arabia**

(Unit: Million dollars)

Ranking	2001		2008		2016	
	Economy	Export value	Economy	Export value	Economy	Export value
1	UAE	858	UAE	4,586	UAE	6,567
2	United States	588	China (excluding Hong Kong)	2,131	China (excluding Hong Kong)	4,136
3	Kuwait	378	Qatar	1,550	India	2,458
4	Hong Kong	371	Egypt	1,467	Singapore	2,219
5	China (excluding Hong Kong)	367	Kuwait	1,454	Kuwait	1,758
	Total export value	67,674		312,999		207,572

Source: *International Trade Statistics* (International Trade Centre).

(Unit: million dollars)

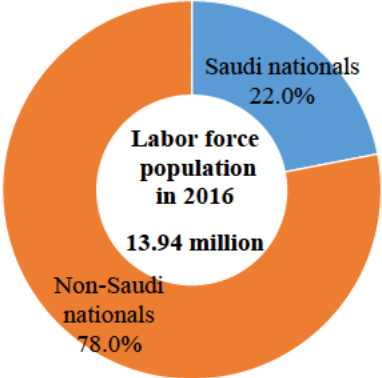
Ranking	2001		2008		2016	
	Economy	Import value	Economy	Import value	Economy	Import value
1	United States	5,236	United States	15,481	China (excluding Hong Kong)	18,841
2	Japan	3,422	China (excluding Hong Kong)	12,414	United States	17,342
3	Germany	2,407	Japan	9,347	Germany	8,181
4	United Kingdom	2,034	Germany	8,432	Japan	7,176
5	China (excluding Hong Kong)	1,267	ROK	5,079	UAE	6,930
	Total import value	29,154	Total import value	112,273	Total import value	129,796

Source: *International Trade Statistics* (International Trade Centre).

A persistently high unemployment rate has become a serious challenge to Saudi Arabia’s industrial and social policies.

Saudi Arabia receives a large number of foreign workers, and non-Saudi nationals account for 78.0% of the domestic labor population (Figure I-2-6-1-13).

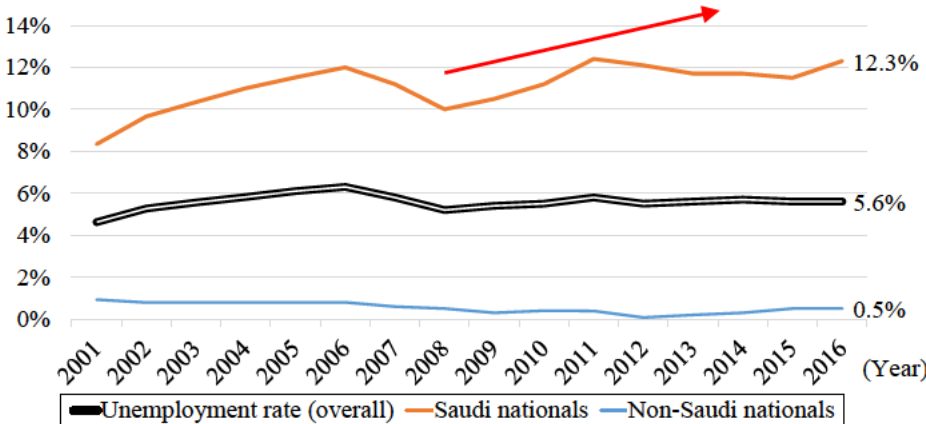
**Figure I-2-6-1-13 Shares of labor force population by nationality in Saudi Arabia (2016)**



Source: CEIC Database, General Authority of Statistics of Saudi Arabia.

By nationality, the unemployment rate is very high among Saudi nationals. In 2016, the unemployment rate among Saudi nationals was 12.3%, meaning that more than one in 10 people among the labor population of Saudi nationals were out of job (Figure I-2-6-1-14). In particular, the unemployment rate was very high among young generations: the rate was 45% in the age group of 20 to 24 and 63.2% in the age group of 15 to 19. As for Saudi Arabia’s population mix, people aged 24 or younger account for 49.0% of the total population. Many Saudi nationals who cannot be employed by the public sector remain out of work<sup>229</sup> (Figures I-2-6-1-15 and I-2-6-1-16).

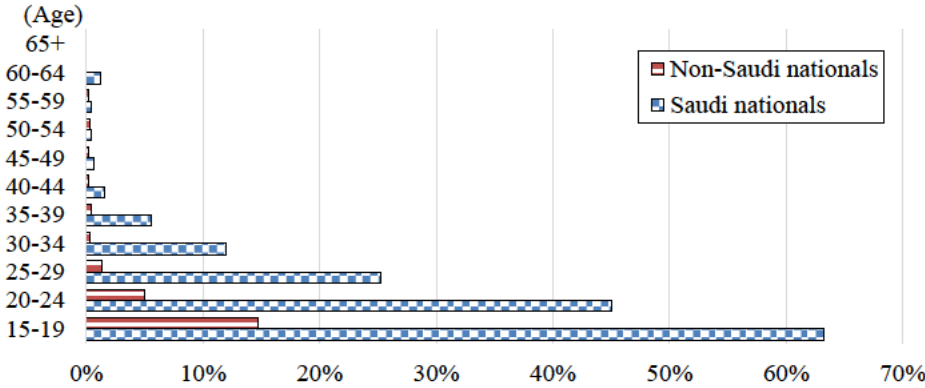
**Figure I-2-6-1-14 Changes in shares of labor force population by nationality in Saudi Arabia**



Source: CEIC Database, General Authority of Statistics of Saudi Arabia.

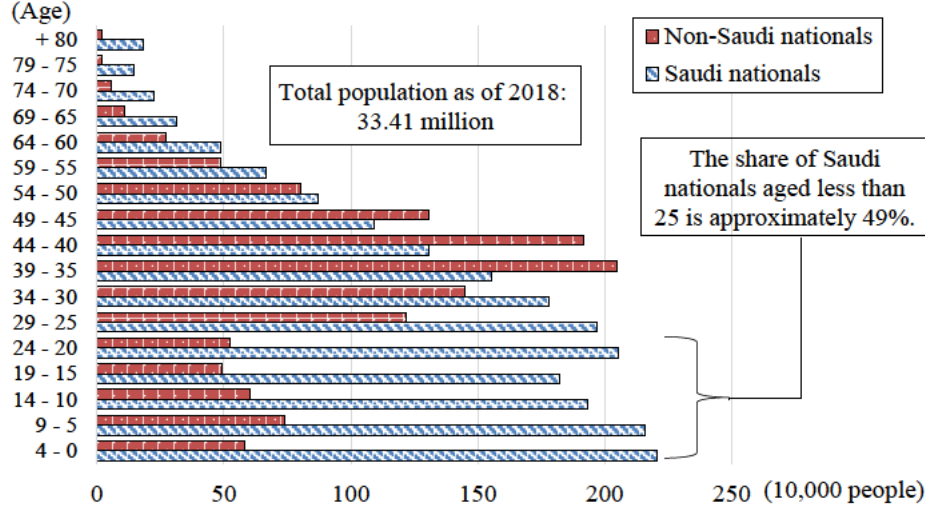
229 In Saudi Arabia, where citizens receive generous subsidies, there are many jobless people who have never engaged in a job.

**Figure I-2-6-1-15 Unemployment rates by age and nationality in Saudi Arabia (3rd quarter in 2017)**



Notes: The data in this figure are those in the third quarter in 2017.  
 Source: Labour Force Survey (LFS; EU), General Authority of Statistics of Saudi Arabia.

**Figure I-2-6-1-16 Population by age and nationality in Saudi Arabia (January 2018)**



Source: General Authority of Statistics of Saudi Arabia.

**(3) Saudi Arabia’s “Saudi Vision 2030” and its progress**

As described above, Saudi Arabia faces many challenges such as the high economic dependence on oil, the budget deficit, and the high unemployment rate. The government has been announcing measures to address the problems under the five-year development plan,<sup>230</sup> but fundamental reform has yet to be achieved. Under this situation, in April 2016, Crown Prince Mohammed (who was a deputy crown prince at that time) announced a new national development plan called “Saudi Vision 2030” as an upgraded follow-up to the five-year development plan.

Saudi Vision 2030 has three major targets--(i) a vibrant society, (ii) a thriving economy, and (iii) an ambitious nation--based on the following three pillars: 1. positioning as the center of the Arab and Islamic worlds, 2. becoming a major global investment player; 3. transforming its unique strategic

<sup>230</sup> The current five-year development plan, the tenth of its kind, covers 2014 to 2019.

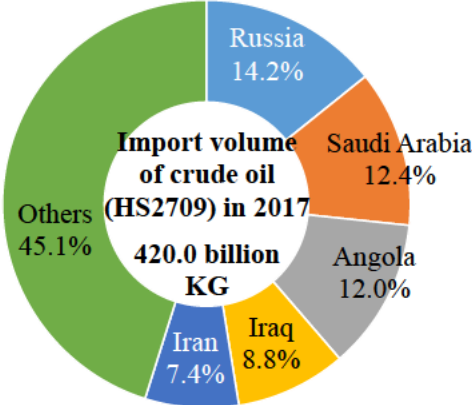
location into a global hub connecting three continents (Asia, Europe and Africa). The vision is also accompanied by numerical targets for individual objectives. It inherits the main objectives that have been advocated under the previous five-year development plan--creating jobs, attracting foreign direct investments, promoting the private sector, and achieving industrial diversification--and additionally promotes social empowerment of women. In June 2016, Saudi Arabia announced the National Transformation Program 2020, which has set objectives for 2020 as well as specific target figures in order to implement Saudi Vision 2030.

To realize Saudi Vision 2030, the government of Saudi Arabia is calling for cooperation from various countries. One of those countries is Japan, with which Saudi Arabia has launched “Japan-Saudi Vision 2030.”<sup>231</sup>

Saudi Arabia is also calling for cooperation from China. Crown Prince Mohammed and King Salman visited China in 2016 and 2017 as part of an Asian tour. During King Salman’s visit to China, an agreement was reached on cooperation in fields such as petrochemicals and oil stockpiling.

Saudi Arabia’s call for Chinese cooperation regarding Saudi Vision 2030 comes against the backdrop of the deepening of the two countries’ economic relationship. For Saudi Arabia, China is the second largest importer and the largest exporter (Table I-2-6-1-12). For China, Saudi Arabia is the second largest exporter of crude oil (Figure I-2-6-1-17). In addition, Saudi Arabia was the largest recipient of Chinese external economic cooperation (in terms of the value of completed projects) in 2016 (Figure I-2-6-1-18).

**Figure I-2-6-1-17 Shares of China’s import sources of crude oil (HS2709) by economy and region (2017)**



Source: GTA.

231 Regarding the specific activities under Japan-Saudi Vision 2030, see Part III, Chapter 2, Section 5 of this white paper.





sense, not only intended for reducing dependence on oil, but also to meet young generations’ desires. Symbolic reforms, such as the removal of bans on cinemas (April 2018) and driving of cars by women (scheduled for June 2018), are being implemented one after another. These reforms will create new business opportunities for domestic and foreign companies. There are expectations for Japanese companies to aptly take advantage of those business opportunities in the future.

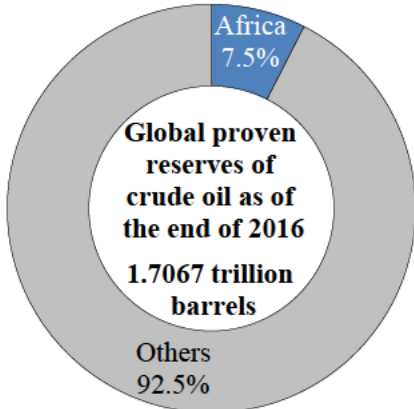
**2. Africa**

**(1) Macroeconomic trends**

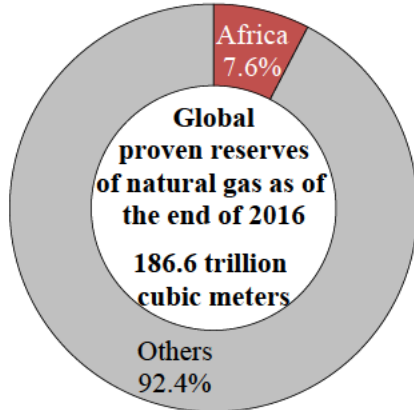
A long time has passed since the African continent started to be called the “last frontier” of the world.

The combined GDP of the 55 member countries of the African Union is around 250 trillion dollars. Africa is rich in mineral resources, including oil, natural gas, cobalt, platinum and chrome. Resource development projects are ongoing in a number of locations and Africa has high potential for continuous and secure supply of resources (Figure I-2-6-2-1).

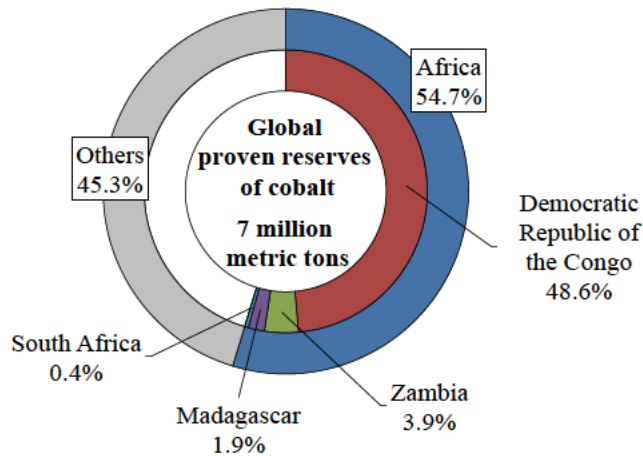
**Figure I-2-6-2-1 Presence of resource reserves in Africa**



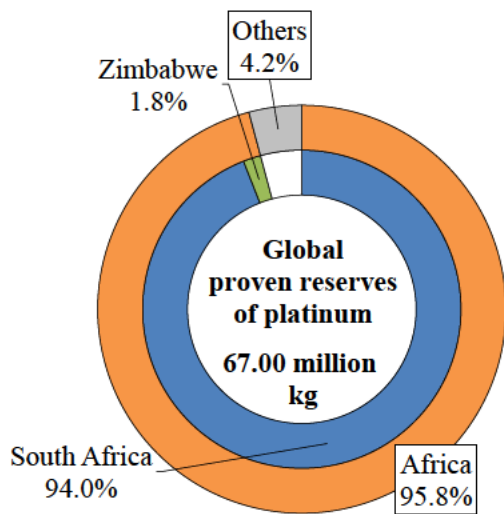
Source: *Statistical Review of World Energy* (BP, June 2017).



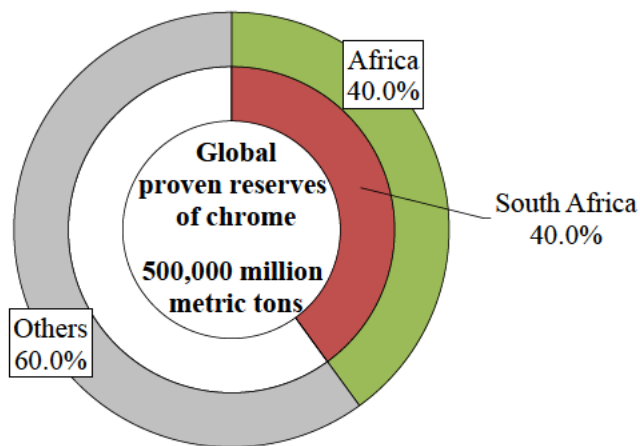
Source: *Statistical Review of World Energy* (BP, June 2017).



Source: *Mineral Commodity Summaries 2017* (United States Geological Survey (USGS)).



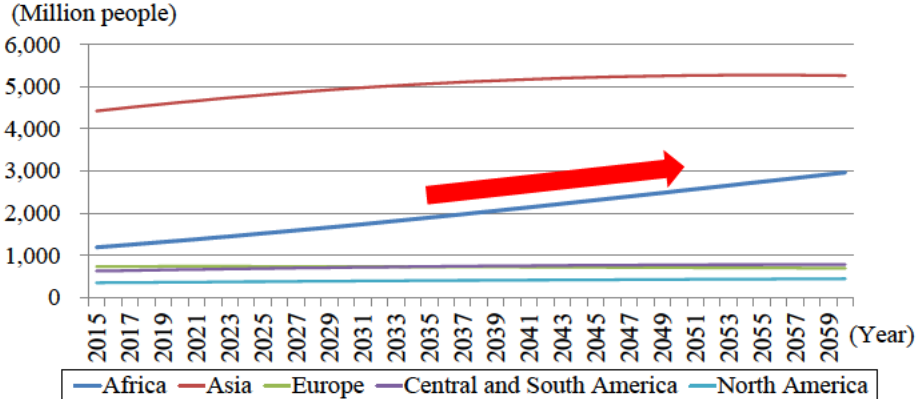
Source: *Mineral Commodity Summaries 2017* (USGS).



Source: *Mineral Commodity Summaries 2017* (USGS).

In 2015, Africa’s population was 1.2 billion people, nearly equal to the Chinese population. Africa’s population growth is expected to continue over the long term, and the population is estimated to reach 2.5 billion by 2050 (Figure I-2-6-2-2).

**Figure I-2-6-2-2 Estimated population by region**

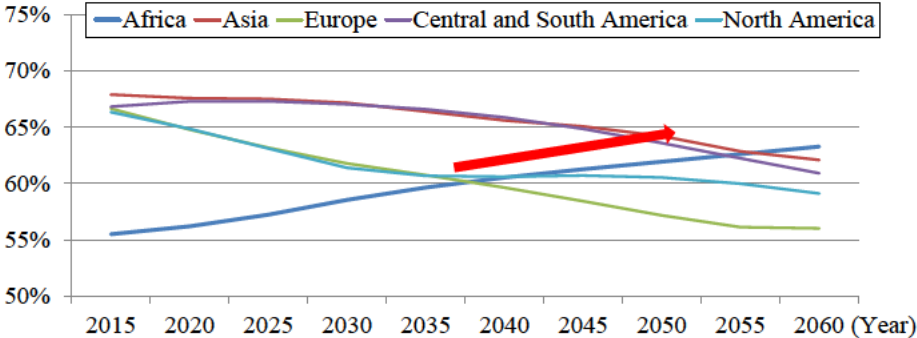


Notes: The values show median estimates released by the UN.

Source: *UN Population* (UN).

The working-age population, which is expected to decline in other regions, is projected to continue to grow in Africa, with its share in the total population projected to increase to 62% by 2050. Africa has high growth potential from the viewpoint of not only the presence of natural resources but also the growth of the working-age population (Figure I-2-6-2-3).

**Figure I-2-6-2-3 Estimated working-age population by region**



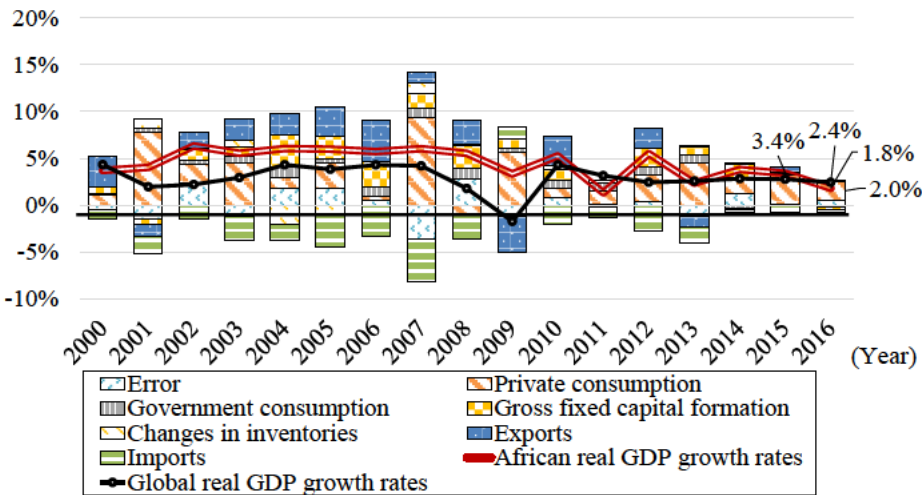
Notes:

1. The term “working-age population” refers to people aged 15 to less than 65.
2. The values show median estimates released by the UN.

Source: *UN Population* (UN).

Africa’s average annual real GDP growth rate between 2000 and 2016 was 4.5%. In terms of contribution by expenditure to the GDP growth rate, consumption is Africa’s growth driver. Because of the growing population and other factors, the average contribution by private consumption between 2000 and 2016 was 3.0% (Figure I-2-6-2-4).

**Figure I-2-6-2-4 Changes in real GDP growth rates by expenditure in Africa**

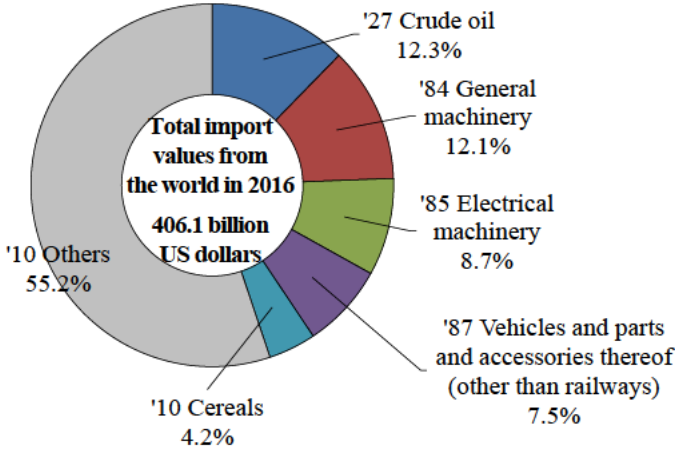


Source: National Accounts Main Aggregates Database (UN).

Meanwhile, as agriculture is Africa’s main industry, the production volume of industrial products necessary for meeting robust consumption needs within the region is very small, and are mostly covered by imports.

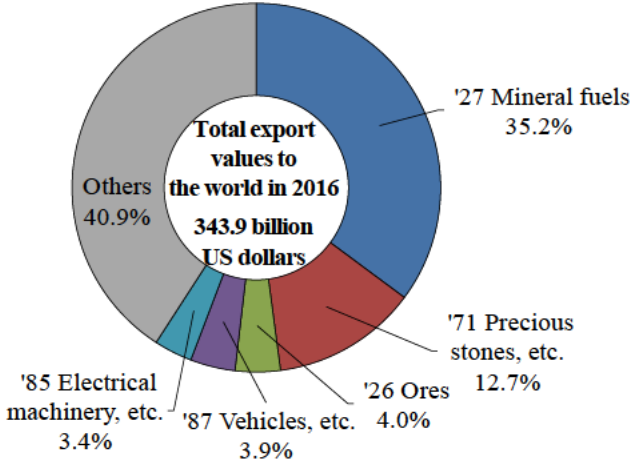
African countries earn foreign currency mainly by exporting domestically extracted mineral resources. In 2016, mineral fuels constituted 35.2% of total export of the region, followed by precious stones 12.7% and ore 4.0%, with mineral resources as a whole accounting for more than 50% of the total value of exports (Figure I-2-6-2-6).

**Figure I-2-6-2-5 Shares of Africa’s import items from the rest of the world (2016)**



Source: *International Trade Statistics* (International Trade Centre).

**Figure I-2-6-2-6 Shares of Africa’s export items to the rest of the world (2016)**



Notes: The two-digit code at the head of each item refers to two-digit HS codes.

Source: *International Trade Statistics* (International Trade Centre).

Therefore, foreign currency income that can be earned through exports is prone to be affected by price fluctuations in markets of mineral resources. As well as income from agriculture, which is the main domestic industry, the trade balance is also unstable, and many African countries, including oil-producing ones, are recording a large budget deficit. Regarding this situation, in order to reinforce the economic structure, African countries are promoting industrialization, and the term “industrialization” has become a fixture in economic development plans formulated by the governments of African countries.

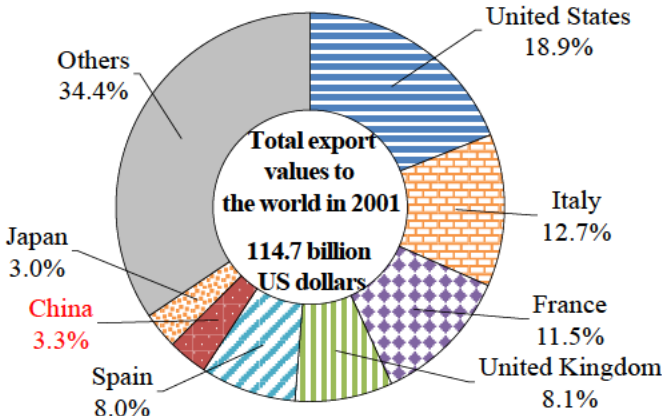
**(2) Changes in major trading partner countries**

Next, we will look at Africa’s trade structure. As was mentioned earlier, Africa’s main items of export are domestically extracted mineral resources, including mineral fuels, precious stones and ore. Africa exports these items to advanced economies, including Japan, and imports electrical equipment, automobiles and other items with foreign currency income earned through exports (Figure I-2-6-2-5). However, in recent years, the major trading partner economies have been changing.

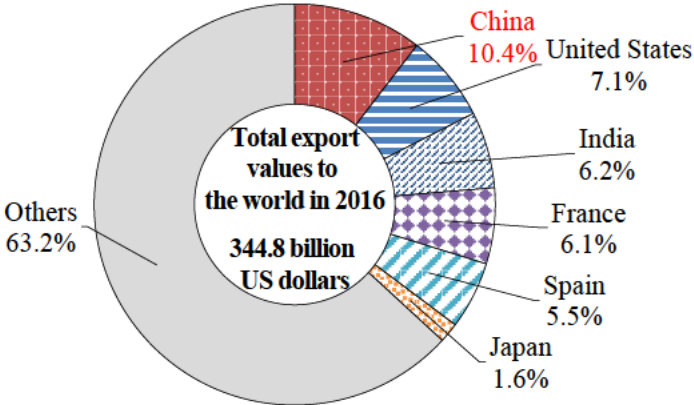
At the beginning of the 2000s, Western advanced economies, including the United States, Italy, France and the United Kingdom, were main importers from Africa. However, China overtook the European countries and the United States, becoming the top importer in 2016. In addition, the share of exports to the top importers has gradually declined, indicating the diversification of export destinations (Figure I-2-6-2-7).



**Figure I-2-6-2-7 Changes in shares of Africa's international export destinations by economy and region**



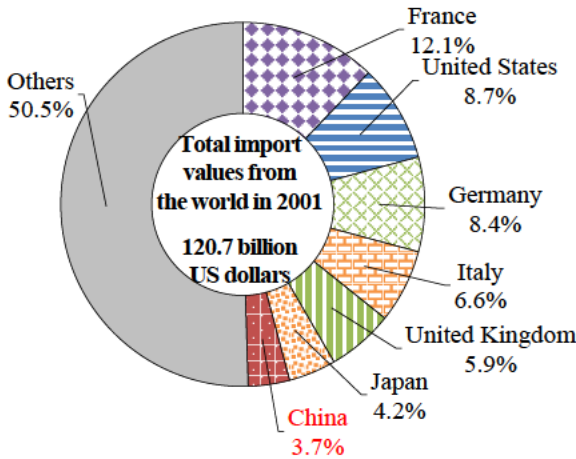
Source: *International Trade Statistics* (International Trade Centre).



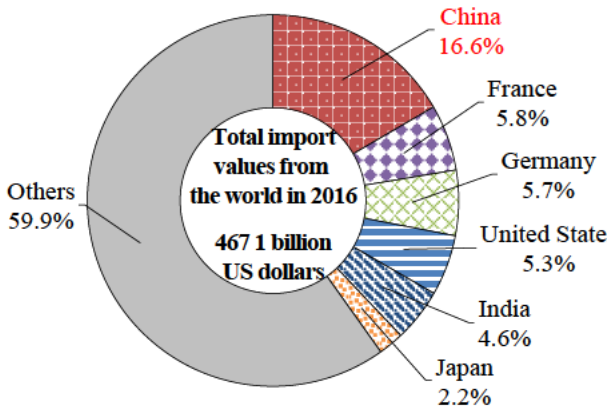
Source: *International Trade Statistics* (International Trade Centre).

Next, regarding exporters to Africa, European countries, such as France, Germany and Italy, and other advanced economies, including the United States, accounted for most of the total value of exports to Africa at the beginning of the 2000s. However, China increased its share, and in 2016, it became the top exporter with a share of 16.6%. The share of the main exporters' source economies has declined, indicating that the diversification of import sources as well as export destinations has proceeded (Figure I-2-6-2-8).

**Figure I-2-6-2-8 Changes in shares of Africa's international import sources by economy and region**



Source: *International Trade Statistics* (International Trade Centre).



Source: *International Trade Statistics* (International Trade Centre).

In terms of both import and export, China’s presence is growing for Africa, with the trade relationship rapidly becoming increasingly close. In addition, India’s presence has been growing in terms of both import and export in recent years. One factor behind this is that India designated Africa for the focus market scheme in 2009 and introduced a preferential tax program for Africa which facilitated export of products manufactured in India. The focus market scheme was revised in April 2015 and was integrated with other schemes.

On the other hand, Japan’s presence in trade relationship with Africa is small. In 2016, exports to Japan accounted for 1.6% of the total value of Africa’s imports and exports from Japan accounted for 2.2% of the total value of imports. Japanese companies have been lagging behind in exporting products or doing business in Africa because of various problems and concerns, including a lack of ability to identify products that suit the local needs, income level, a lack of knowledge concerning commercial and legal systems, and the presence of security risks unique to Africa. Therefore, Japanese companies are exploring the possibility of exporting products to or doing business in Africa through third countries. Some companies are starting to use India, where there are well developed commercial and legal systems, as a foothold for exporting products to or doing business in Africa, although their number is still small.

### **(3) Activities to promote intra-region trade**

In Africa, activity to promote intra-regional trade is becoming more and more vigorous. As a symbolic activity, the African Union's 55 member countries are initiating the African Continental Free Trade Area (AFCFTA). At the 18th Ordinary Session of the Assembly of Heads of State and Government of the African Union, held in Addis Ababa, Ethiopia in January 2012, a resolution for the establishment of AFCFTA in 2017 was adopted, and the negotiations started in June 2015. The negotiations were divided into two phases. The first phase of negotiation dealt with an agreement on the establishment of AFCFTA, trade in goods and services, and a dispute settlement mechanism. Concerning trade in goods, an agreement was reached on lowering the average intra-regional trade tariff rate from the current 6.1% through the liberalization of more than 90% of all product items.

At the 10th negotiation forum that was held in Kigali, Rwanda in March 2018, the remaining points of debate in the first phase were discussed, and an agreement on the establishment of the AFCFTA was reached. Although 11 of the African Union's 55 member countries refrained from acceding to the agreement, it was decided to aim to ratify and put the agreement into force by the end of 2018.<sup>232, 233</sup>

The United Nations Economic Commission for Africa estimates that as a result of the abolition of tariffs under the AFCFTA, intra-regional trade in Africa will increase by 52.3% and that if non-tariff barriers are reduced at the same time, the trade promotion effect will be doubled. As goods share excluding natural resources in intra-regional exports is larger than their share in extra-regional exports, invigorating intra-regional trade is expected to lead to job creation in non-resource industries in Africa countries.

From the end of 2018, the second phase of negotiation is scheduled to start with respect to intellectual property rights, investment, and competition policy.<sup>234</sup>

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232 *African Continental Free Trade Area - Question and Answers* (United Nations Economic Commission for Africa).

233 *Weekly Africa Business vol. 388* (AFRICA BUSINESS PARTNERS, March 26, 2018).

234 Among topics over which additional negotiations may be held in the second phase of negotiation is facilitation of the e-commerce environment.