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+1 (202) 289-5920
info@nusacc.org



PANDEMIC SINKS U.S. EXPORTS TO ARAB WORLD BY 27 PERCENT IN 2020 TO \$45.66 BILLION

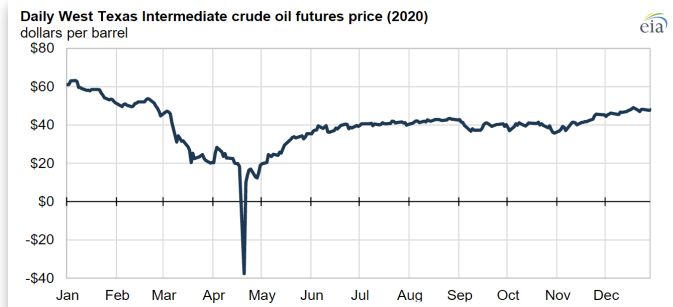
Supply Shocks and Demand Shocks Have Outsized Impacts on Energy, Aviation, and Hospitality Sectors

Despite Challenges, MENA Remains a Solid Market for U.S. Products

*Top Five Destinations : UAE, Saudi Arabia, Egypt, Qatar and Morocco
Top Three Exporting States: Texas, California, and Louisiana*

Washington, DC – According to new U.S. Government data analyzed by the National U.S. - Arab Chamber of Commerce (NUSACC), exports of U.S. goods to the Middle East and North Africa (MENA) fell in 2020 to \$45.66 billion, a decrease of 27 percent over 2019 levels (\$62.68 billion). The reason for the drop can be summed up in a single word: Pandemic.

As COVID-19 swept across the world, it tamped down consumer demand, decimated supply chains, put big-ticket projects on hold, stymied travel and tourism, and drove up budget deficits to record levels. The pandemic also played an important role in the oil price war in mid-2020 that saw contract futures for West Texas Intermediate (WTI) collapse, bottoming out at -\$37 per barrel.



“There has never been a year like 2020,” said David Hamod, NUSACC’s President

& CEO. “American exporters took a beating but, by year’s end, they were still standing. The Arab world, which also took plenty of hits in 2020, remained a reliable destination for American products, even in the face of the global pandemic.”

Source: U.S. Energy Information Administration, New York Mercantile Exchange (NYMEX)
Note: Prices reflect front-month (contract with the earliest delivery date) futures prices.

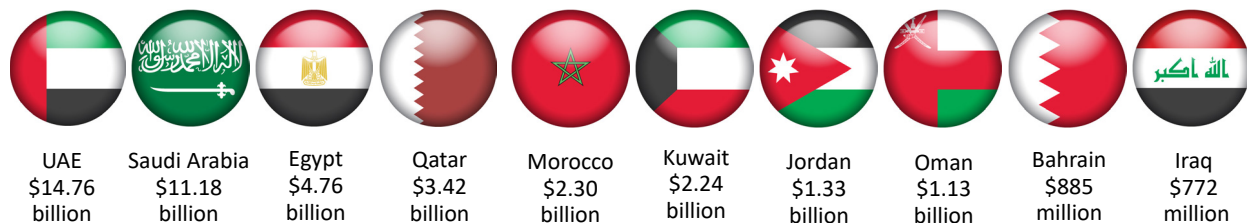
Despite the unique challenges presented by COVID-19, U.S. goods exports worldwide in 2020 reached \$1.431 trillion, representing a year-on-year loss of 13 percent.

Top Ten U.S. Export Destinations in the MENA Region

Arab countries making up the “Top Ten” list of destinations for U.S. products remained the same in 2020, with some jockeying within the ranks. Sales of American goods, on a country-by-country basis, may be found [here](#).

The United Arab Emirates (\$14.76 billion) and Saudi Arabia (\$11.18 billion) continued to dominate the field, responsible for over half (57 percent) of total U.S. goods exported to the Arab world. Egypt, a major recipient of U.S. agricultural goods, moved up to #3 in 2020 (\$4.76 billion), while Qatar dropped one place to #4 (\$3.42 billion). Rounding out the “Top Five” was Morocco (\$2.30 billion), which broke into the Top Five for the first time in 2019.

The Top Ten Destinations for U.S. Goods Exports to the Arab World



Four countries in the Arab world have signed Free Trade Agreements (FTAs) with the United States, and these countries showed considerable resilience in 2020. Morocco (\$2.30 billion) ranked #5, Jordan (\$1.33 billion) ranked #7, Oman (\$1.13 billion) ranked #8, and Bahrain (\$885 million) ranked #9. The other countries making up the “Second Five” list were oil-producing nations, led by Kuwait (\$2.24 billion) at #6, and Iraq (\$772 million), which rounded out the Top Ten (at #10).

Major exporters of energy and industrial commodities were hit hard in 2020, largely because of the pandemic, and this was apparent in the Arab world: Year-on-year, Iraq fell 35 percent, Kuwait fell 29 percent, Algeria fell 27 percent, the UAE fell 26 percent, and Saudi Arabia fell 23 percent. Qatar experienced the steepest decline among major energy producing nations in the MENA region: Doha faced a drop of 47 percent in U.S. imports in 2020, but this came on the heels of Qatar’s 46 percent *growth* in 2019.

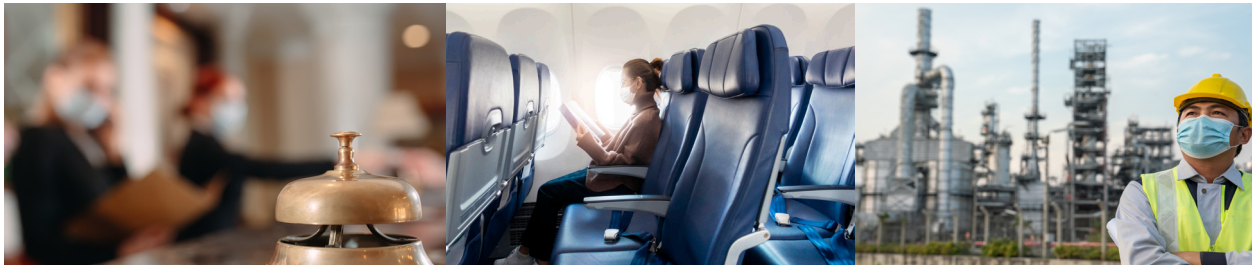
A handful of Arab countries *increased* their imports from the USA in 2020: Mauritania (up 41 percent to \$128 million), Djibouti (up 30 percent to \$195 million), and Yemen (up 23 percent to \$331 million). Remarkably, perhaps, Djibouti and Yemen showed year-on-year growth in both 2019 and 2020.

U.S. Goods Exports to MENA: Top Five Sectors (2020)

- #1 Transportation Equipment \$11.70 billion
- #2 Computer and Electronic Products \$6.11 billion
- #3 Machinery (except electrical) \$4.43 billion
- #4 Chemicals \$3.88 billion
- #5 Agricultural Products \$3.70 billion

Source: U.S. Census Bureau





The Impact of the Pandemic on U.S. Exports

Certain sectors were hit very hard in 2020, reducing demand for U.S. products and services. Consumer-facing businesses suffered badly as families sheltered-in-place, reducing demand in such sectors as hospitality, tourism & travel, and leisure (restaurants, museums, theaters, and other venues). S&P Global Market Intelligence also included auto parts and oil & gas drilling in S&P's "Top Five" sectors that have been most vulnerable to the pandemic. And plummeting demand in all of these sectors had a profound impact on oil & gas prices, of course, as energy needs and transportation around the world slowed substantially in 2020.

U.S. exports worldwide fell in 2020: Sales of American goods to South/Central America dropped 19 percent; Africa dropped 17 percent; North America (Canada and Mexico) dropped 15 percent; Europe dropped 13 percent; Australia and Oceania dropped 12 percent; and Asia dropped eight percent. The Arab world experienced the largest decline, a drop of 27 percent in imports from the USA.

At the heart of these losses was the pandemic:

✂ Supply chains were disrupted significantly, creating supply shocks

Outputs from U.S. factories fell as workers battled COVID-19, and shipments around the world faced major delays. According to the U.N. Conference on Trade and Development (UNCTAD), the pandemic caused global maritime trade to decline more than four percent in 2020, and new variants of COVID-19 suggest that there may be even steeper declines in cargo volumes in the months ahead.

For many companies, the pandemic exposed deep flaws in their just-in-time supply chains. According to the Institute of Supply Management (ISM), more than three-quarters of U.S. firms experienced major supply chain disruptions in 2020, with significant impacts on pricing. Said Thomas Derry, ISM's CEO, "For a majority of U.S. businesses, lead times have doubled, and that shortage is compounded by the shortage of air and ocean freight options to move product to the United States — even if they can get orders filled."





🔗 Consumers hunkered down at home in 2020, creating demand shocks

According to the World Bank, the pandemic led to widespread job losses in 2020, resulting in the largest contraction of per capita income globally since 1870. Even for those who managed to keep their jobs, income spent on discretionary items tanked.

According to the Brookings Institution, the pandemic led to a drop in global consumers in 2020 – for the first time in half a century – by 120 million people. The Middle East was one of the hardest hit parts of the globe, with one of the slowest rates of recovery in spending per capita (projected to recover after 2025).

🔗 Some big-ticket projects were put on hold or canceled

The pandemic slowed economies across the Arab world, resulting in fiscal austerity. Some projects had to be mothballed, while others were scrapped. The pandemic even affected some of the region's most important signature projects, such as Expo 2020 in Dubai, which was rescheduled to October 1, 2021.



PwC characterized the regional slowdown this way: “Across the Middle East, the capital projects and infrastructure industry confronts a perilous market landscape . . . forcing many projects to be cancelled or temporarily placed on hold. As the region emerges from lockdown, strategic priorities have started to change, with investors and contractors conducting urgent portfolio reviews amid a severe economic downturn.”

Colin Foreman at MEED put it this way: “In 2020, the lesson to learn is that developing large master-planned projects is a marathon, not a sprint.” And Ghassan Ziadat, vice president of major projects at McKinsey & Company, concluded, “If things go well, construction activity could be back to pre-crisis levels by early 2021. But longer-term lockdowns could mean it takes until 2024 or even later.”

🔗 The pandemic contributed to volatility in oil markets

In response to the pandemic, governments worldwide curtailed travel, issued shelter-in-place orders, and asked many public-facing businesses to close their doors. This created a massive demand shock in oil markets, with consumption of world crude and liquid fuels falling nine percent to 92.4 million bpd for the year, according to the U.S. Energy Information Administration (EIA).



Oil-producing nations – faced with a glut of crude – scrambled to find facilities to store oversupply. During this same period, Russia and Saudi Arabia – two of the world’s top oil producers – initiated a price war when they failed to agree on production levels.

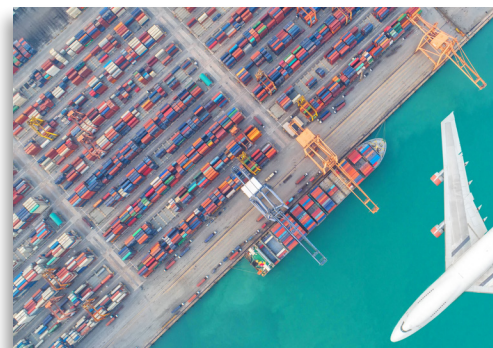
This chain of events led to an unprecedented collapse in oil prices. West Texas Intermediate crude traded at negative prices on April 20, 2020, for the first time ever. The next day, Brent crude plummeted to \$9.12 per barrel, down from \$70 in early 2020. Oil prices gradually moved toward recovery as 2020 wore on, but volatility continued throughout the year, and more is expected in 2021.

This volatility had a profound impact on the ability of Arab nations to manage their economies, including purchases of American goods and services. And not just for the energy-producing nations: The decline in oil prices created a “ripple effect” across the entire region, so countries that are accustomed to largesse provided by their oil-producing neighbors – like Jordan, Bahrain, Tunisia, and others – were affected deeply.

The Pandemic’s Impact on Air Travel: A Case Study

Aircraft sales by Boeing make up a major part of America’s export profile, and the pandemic has had a profound impact on air travel. At times in 2020, air passenger traffic was down 95 percent compared to 2019, and at least half of the world’s commercial aircraft were grounded at one time or another.

According to the U.S. Census Bureau, civilian aircraft exports decreased \$27.4 billion in 2020, and exports of civilian aircraft engines decreased \$18.4 billion. The aircraft and spacecraft sector made up 5.7 percent (\$80.9 billion) of total U.S. goods exports in 2020, a year-on-year drop of more than 40 percent.



The International Air Transport Association (IATA) estimates that airline carriers worldwide will see a record loss of \$157 billion in 2020 and 2021. And in a ranking of industries most impacted by COVID-19, S&P Global Market Intelligence placed airlines at the very top of that list.

Airline travel is especially important in the MENA region, where other modes of transport are often inconvenient or unavailable for international travel. With that in mind, Gulf Cooperation Council (GCC) countries have ensured that their airports are among the most sophisticated and luxurious in the world.

Air travel in the Arab world was hit hard in 2020. At one point, MENA airspace contained fewer than 50 total aircraft, according to GardaWorld. IATA recently estimated that full-year 2020 passenger numbers to, from, and within the Middle East will reach only 30 percent of 2019 levels, rising to 45 percent in 2021, with a full recovery unlikely until late 2024.

The pandemic has been tough on Boeing, America's top exporter.



Boeing is America's top exporter.

Photo: AP News

Boeing predicts that the negative impact of the pandemic on aircraft demand in the Middle East will be triple the global average. Sales of Boeing commercial aircraft represent a very important part of U.S. exports to the MENA region so, when sales drop, as they did in 2020, this has an outsized impact on America's export numbers for the entire Arab world. (It also has an outsized impact on the State of Washington, where many Boeing aircraft are assembled. Washington was America's second largest exporting State in 2019, but it dropped to #10 in 2020, presumably because of the dip in Boeing sales to the MENA region.)

2020 was a turbulent year for Boeing, but the Chicago-based company does not expect the current pandemic to have a major impact over the next two decades (2020 – 2039). "I'd say we are only seeing a total 20-year impact of six percent," said Darren Hulst, Boeing's Vice President of Commercial Marketing, recently.

The MENA region will continue to be an important market for Boeing. According to Boeing's latest Commercial Market Outlook, percentage growth in Middle East fleets (4.3 percent) is the fastest in the world, tied with Asia-Pacific (also 4.3 percent). The total number of Boeing jets destined for the MENA region is expected to grow to 3,500 by 2039, with a services market value of \$725 billion.

Global and Regional Factors Holding Back U.S. Exports to MENA

In recent years, U.S. exports to the MENA region have faced headwinds from certain global and regional factors. The United States enjoys some special relationships in the MENA region, but the USA is not the only game in town.

Some of America's biggest competitors – led by Russia and China – have made major inroads into what have traditionally been U.S. domains in the Arab world. The pandemic slowed this process for everyone in 2020, but there is every indication that the MENA region's "Look East" to Asia policies will resume as soon as pandemic protocols permit.



Technology has enabled the United States to become the world's number one producer of oil and gas. As [Dr. Daniel Yergin told NUSACC earlier this year](#), this has created a “Big Three” trifecta of global oil producers composed of Saudi Arabia, Russia, and the USA. However, this situation has also had the effect of drawing Saudi Arabia and Russia closer together as a counterweight to energy competitors around the globe, with both countries heralding their new strategic partnership. This “partnership” took a hit in mid-2020, when the two nations fought a brief price war over oil production levels, but the marriage of convenience continues.

Dr. Daniel Yergin speaking to NUSACC:

“The energy position of the United States has moved from being an oil importer, representing 60 percent of American oil consumption, to being an oil exporter now. This is the result of the shale revolution, of course, a very disruptive technology that really did disrupt the world oil market to a degree that was not anticipated.”



Russia and China have both invested heavily in the MENA region in recent years. Russia has become a major player in the Arab world through its military exploits in Syria, Iraq, Yemen, Libya, and elsewhere, and President Vladimir Putin has converted successes on the battlefield into long-term commercial contracts in energy, petrochemicals, transport, and other sectors.

By contrast, China's investments have been primarily commercial and political, especially through its Belt & Road Initiative. Deep pockets have enabled China to support infrastructure projects across the Middle East and North Africa, and these are interconnected through China's 5G technology, with Huawei serving as the “tip of the spear.” The fight over 5G is emblematic of the larger struggle between two global powers – the United States and China – and the 2020 race to find vaccines to counter COVID-19 has exacerbated this battle for supremacy.

Regional players that threaten America's export position in the Arab world are led by Turkey and Iran. Both have been actively involved in proxy wars across the region, and both have taken advantage of commercial deals at every opportunity. When the blockade of Qatar began in 2017, for example, Turkey and Iran were quick to lend support to Qatar, providing food and water, medicine, airspace for overflights, shipping lanes and, reportedly, security advisors. The January 2021 Al-Ula declaration effectively ends the impasse between Qatar and some of its neighbors, but it is unlikely that Turkey or Iran will be reducing their presence in the region anytime soon.

In 2021 and beyond, Russia, China, Turkey, Iran, and other players will continue to move opportunistically to take MENA market share away from U.S. companies.

Top U.S. Exporting States

The State of Texas has historically been America's largest exporting State to the MENA region, and this was the case in 2020, with \$8.03 billion in sales to the Arab world. That represented a steep decrease (-28 percent) over 2019 levels, a drop that was presumably tied to energy shocks.

The State of California moved into the #2 position with \$3.95 billion in sales to the MENA region, representing a seven percent decrease over 2019 levels.

The State of Louisiana moved up to the #3 position with \$2.58 billion in sales to the Arab world, representing a nine percent decrease over 2019 levels.



Texas
\$8.03 billion



California
\$3.95 billion



Louisiana
\$2.58 billion

Rounding out the rest of the Top Ten:



New York
\$2.43 billion



New Jersey
\$2.05 billion



Georgia
\$1.88 billion



Ohio
\$1.74 billion



Florida
\$1.71 billion



Maryland
\$1.59 billion



Washington
\$1.36 billion

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For five decades, the National U.S. - Arab Chamber of Commerce (NUSACC) has served as a commercial bridge between the United States and the Arab world. Widely regarded as the voice of American business in the Middle East and North Africa (MENA) region, the Chamber serves nearly 50,000 members and stakeholders in the USA and across the Arab world. Awarded the E-Award for export excellence by the President of the United States, NUSACC is the only business entity in the USA that is recognized by the League of Arab States and the Union of Arab Chambers.

