SME Promotion Policies in the Middle East and their Implications for Korea –Middle East Cooperation

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I. Introduction

The aim of this research is to suggest policy proposals to enhance bilateral cooperation for SMEs (small and medium sized enterprises) between Korea and the Middle East. Towards this goal, Chapter 2 examines the significance of SMEs in the Middle Eastern economy and their characteristics with comparison of business environment by country in the region. Chapter 3 explains SME promotion policies conducted in the region on the basis of case studies of Saudi Arabia, UAE, Egypt and Tunisia. Chapter 4 analyzes major difficulties that Korean SMEs have in the region using the results of a survey conducted in 2018. Chapter 5 draws some policy proposals for SME cooperation between Korea and the Middle East based on case studies and survey results.

II. Characteristics of Measures to Foster SMEs in the Middle East and Analysis of the Business Environment

SMEs are expected to play an important role in sustainable economic growth in the future, for instance by contributing to diversity in the economy and creating jobs in the Middle East. While the contribution that SMEs make to GDP is relatively low in the region compared to that of developed countries, SMEs account for the majority of all firms and contribute largely to employment. Amid the growing need for economic diversification and private sector development following the drop in oil prices that started from the second half of 2014, oil-producing countries in the Middle East have become more active in promoting SMEs to achieve their goals. Governments have expanded their support programs and investments for corporate development, which has led to an increase in local startups.

While the growth potential of SMEs in the region is assessed to be quite high, there is still a need to improve the environment for fostering businesses. The Middle East ranked low overall on the Ease of Doing Business Index, Global Competitiveness Index, and Global Innovation Index, all of which evaluate business environments and competitiveness of countries. Notwithstanding differences among countries, SMEs in the Middle East struggle with limitations in financial access, lack of legal institutions, and poor efficiency in the labor market,
problems which must be addressed with priority.

Another challenge in the Middle East is the high preference for public sector jobs, and the lack of human resources to meet demands in the private sector. While job seekers generally avoid taking jobs in the private sector, which tend to pay lower wages for relatively heavy workloads, there is an urgent need to foster the private sector through SMEs in order to develop the economy and resolve unemployment issues in the future. Under these circumstances, labor productivity should be improved through education reform and vocational training, and efforts must be made to improve the public perception of employment in the private sector.

III. SME Promotion Policies in the Middle East

Saudi Arabia, UAE, Egypt and Tunisia along with the other Middle East countries have recently been strengthening SME promotion policies as a way to help boosting the economic recovery in each country. Saudi Arabia has recently presented its vision and detailed strategies for SMEs through the announcement of the "Saudi Vision 2030" and the "National Transformation Program 2020". The Saudi Arabian government is providing credit guarantees and long-term financing to SMEs through the Saudi Industrial Development Fund, and promoting SMEs’ technological innovation by operating technology incubators, technology transfer program and so on.

The UAE has also shown strong interest in promoting SMEs by introducing SMEs law in April 2014. The UAE government provides SMEs with various financial programs based on size and characteristics of lenders through the Khalifa Fund for Economic Development and promotes technological start-ups by running contests for business ideas on technology and technology commercialization programs.

Egypt outlined six strategies for promoting SMEs through the announcement of ‘Industrial and Trade Development Strategies 2016-2020’ in 2016 and established Micro, Small and Medium Enterprise Development Agency in the following year to enhance efficiency of support policies. The Egyptian government has shown relatively high interest in promoting start-ups, but its policy on SMEs innovation seems somewhat lacking compared to other three countries. Egypt has pushed for a total of four projects with the Canadian government in the field of SMEs.

Figure 1. Rank of Evaluation of Business Environment by Country (2018)

Note: Ease of Doing Business Index is ranked among 190 countries, Global Competitiveness Index is ranked among 140 countries, and Global Innovation Index is ranked among 126 countries.

Tunisia reorganized its existing industrial division into the Ministry of Small and Medium Business and established a department related to SMEs within the ministry in December 2017. To promote technological innovation for SMEs, the Tunisian government emphasizes the importance of clusters such as Techno Park. Policies for vitalizing start-ups in Tunisia are being implemented based on the creation of incubators and the simplification of business establishment procedures. Tunisia has recently stepped up cooperation with the EU and German governments in areas such as financial and technological support for SMEs.

### Table 1. Objectives of SME-Promoting Policies in the Middle East Countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Relevant Plans</th>
<th>Objectives</th>
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<tbody>
<tr>
<td>Saudi Arabia</td>
<td>• Saudi Vision 2030&lt;br&gt;• National Transformation Program 2020</td>
<td>• Increase SME Contribution to the GDP to 35% by 2030&lt;br&gt;• Increase SME Contribution to Total Employees to 53% by 2020</td>
</tr>
<tr>
<td>UAE</td>
<td>• UAE Vision 2020</td>
<td>• Increase SME Contribution to the GDP to 71% by 2021</td>
</tr>
<tr>
<td>Egypt</td>
<td>• Industrial and Trade Development Strategies 2016-2020</td>
<td>• Increase SME Contribution to the GDP</td>
</tr>
<tr>
<td>Tunisia</td>
<td>• -</td>
<td>• Increase SME Contribution to the GDP to 70% by 2020</td>
</tr>
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### IV. An Analysis of the Business Environment of the Middle East for Korean Small and Medium-Sized Enterprises

The Middle East is a region where SMEs account for the largest portion of regional exports of Korea and the export volumes of Korean SMEs are more stable than conglomerates. Korean SMEs’ major export destinations in the region are Iran, UAE, Saudi Arabia and Egypt. Korean SME’s foreign direct investment in the region is showing a relatively poor performance. Major investment countries in the region include Saudi Arabia, UAE, and Egypt and major investment sectors are construction, real estate.

The biggest difficulties of Korean companies in the Middle East are the unique laws and regulations in the region, including the sponsorship and workforce nationalization in private companies. According to the survey, most of the Korean companies in the region have worked out their business difficulties for themselves or have received help from private institutions and only 16.7% of the companies have utilized Korean government’ support programs. In addition, Korean companies’ awareness and satisfaction of the Korean government's policies to support overseas companies were not that high.

Regarding policy demand, Korean companies in the Middle East requested the easing of trade finance/insurance support requirements, increasing funding for overseas investment, and providing more detailed and reliable information on local investment conditions and the sponsorship system.
V. Concluding Remarks

Three policy schemes to enhance SME cooperation between Korea and the Middle East can be suggested based on the research results in the previous chapters. First, financial assistance is necessary to increase joint ventures and M&A in the region. Second, information sharing systems should be strengthened to enable businesses operating in the region to easily access the latest information they need. Toward this, a ‘Korean team network’ between embassies in the region, KOTRA and other assistance institutions including private companies should be established, constructing a database for business opportunities and past cases of success or failure. Third, intergovernmental programs should be expanded to establish an SME cooperation partnership and network between Korean and Middle Eastern governments. These programs could include diverse human exchange programs and institutional capability improvement programs.