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EXPORT POTENTIAL OF TURKEY AND MENA COUNTRIES AFTER BREXIT

SAVAŞ KAPTAN

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Center for Middle Eastern Studies

Adress : Mustafa Kemal Mah. 2128 Sk. No: 3 Çankaya, ANKARA
Phone : +90 850 888 15 20
Email : info@orsam.org.tr
Photos : Anadolu Agency (AA

About Author

Savaş Kaptan

Savaş Kaptan currently works as a research assistant at the department of Public Finance - Ankara Yıldırım Beyazıt University Faculty of Political Sciences. He graduated from Bahçeşehir University with a Bachelor of Arts in International Trade and Business department in 2015 along with a second major in Economics. Having finished his Master of Science in Economics department at Middle East Technical University in 2019, he has started PhD in Public Finance department at Ankara Yıldırım Beyazıt University. He has studies in international economics, fiscal and monetary policies.

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INTRODUCTION

In the aftermath of the Great Recession in 2008-09, the European economies were dramatically affected. The UK (United Kingdom) economy could not completely recover, and loss of employment soared.[1] The unemployment rate increased from 5.26 percent in 2007 to around 8.04 in 2011, which is a remarkable change for a developed economy like the UK. Afterward, British citizens started to accuse migrant workers from the EU countries of stealing their jobs. At this point, it should be noted that, in the 2010s, an annual average of more than 100 thousand EU citizens migrated to the UK for work.[2] Along with these developments, in 2013, David Cameron—the Conservative Prime Minister of the coalition government from 2010 to 2015—promised a referendum on leaving the European Union if his party wins the election in 2015. When the Conservative Party won the election in 2015 and took office with no coalition partners, the referendum was held on 23 June 2016, which resulted in 51.9 percent of the votes in favor of leaving the EU.

After the referendum and following the negotiation period with the EU, the UK officially left the European Union, a process known as "Brexit", on 31 January 2020. The name "Brexit" comes from the combination of two words: Britain and exit. Note that Britain–referring to Great Britain–and the UK are used interchangeably in the Brexit literature, however, there is a difference between these two specifications. Britain encompasses the geographical areas of England, Scotland

[1] Terazi, Ebru, and Seçil Şenel, "The effects of the global financial crisis on the central and eastern European Union countries", International Journal of Business and Social Science, Vol. 2, No. 17, 2011.

[2] Sumption, Madeleine, and Denis Kierans, "Work visas and migrant workers in the UK", *Migration Observatory briefing, COMPAS, University of Oxford, UK,* 2019.

and Wales, whereas The UK includes Northern Ireland in addition to Britain. There is also the term British Isles, which refers to all the areas belonging to the UK and the Republic of Ireland.

Following the exit, many countries have stressed the possible impacts the exit would have on their economies. Even if the UK and the EU sign a free trade agreement that abolishes taxes or customs duties, the trade volume will be affected negatively. That is because the EU countries will be required from now on to do some extra paperwork to be able to import from or export to the UK.[3] For some goods, exporters will need to get some special licenses and certificates. Before Brexit, international trade between the EU and the UK had been like a domestic trade without any bureaucracy, which has come to an end. Also, the free trade agreement does not prevent either side from imposing tariffs on imported goods in the future. In addition, labor mobility will be limited because of the visa requirements for the citizens traveling between the EU and the UK. Therefore, the coming period poses many threats to the relations between European and British economies.

Even if the UK and the EU sign a free trade agreement that abolishes taxes or customs duties, the trade volume will be affected negatively.

The economic size of the UK inescapably offers a glimpse into how crucial Brexit is for the world's economies. The Gross Domestic Product (GDP) of the country reached 2,829 billion USD in 2019.[4] It accounts for 3 percent of the world output (87,799 billion USD) and 18 percent of the EU output (15,626 billion USD). On one hand, many economists and institutions predict that the UK will lose some of its economic power after the exit as the country will lose some of its foreign demand from the EU countries. On the other hand, the fact that the UK will not make any more payments to the EU is considered to be one of the positive results of the exit. 19 billion USD was paid in 2018, which is a remarkable amount for the government. [5]

The exit of the UK also has a great potential to affect its trade relations with almost all countries in the world. According to the statistics of International Trade Centre[6] (ITC), the 2019 merchandise trade volume of the UK was 1,160 billion USD (468 billion USD in exports and 692 billion USD in imports). This volume accounts for 3 percent of all the merchandise trade in the world, which is around 37,794

[3] "Brexit: Seven things changing on 1 January", 28 January 2021, https://www.bbc.com/news/explainers-54195827

[4] "World Development Indicators-DataBank", *World Bank*, 1 March 2021, https://databank.worldbank.org/reports.aspx?source=world-development-indicators

[5] "Office for National Statistics", *UK*, 3 March 2021, https://www.ons.gov.uk/

[6] "Trade Map", *ITC*, 1 March 2021, https://www.trademap.org/

billion USD. The UK recorded this volume by the virtue of its trade relations with approximately 200 countries. Moreover, the UK is one of the largest service exporters in the world with 416 billion USD in exports that accounts for 7 percent of global services export (6,098 billion USD). The total volume of trade of services is 700 billion USD, of which 284 billion USD is in imports and 5 percent of the world total (5,747 billion USD).

Aside from the UK's economic share in the world, Brexit also means that the country can sign trade deals without the consent of the EU. This will provide many opportunities for non-EU countries. Needless to say, the UK will try to enhance its trade with distant markets through new trade deals. Lower trade costs, new markets and cheaper products outside the EU will be a new emphasis for the country. In this vein, the most noteworthy action of the UK after the exit was signing a trade deal with Japan, named as Comprehensive Economic Partnership Agreement (CEPA).[7] This agreement aims to enhance the trade between the UK and Japan by removing tariffs on many goods or reducing tariff rates. Before this deal, the UK was trading with Japan under the EU-Japan Economic Partnership Agreement (EPA) that brought some privileges regarding tariffs and duties. When compared to the CEPA, its scope is narrow, which means that the UK will be willing to further its trade relations with non-EU countries in the near future. More importantly, this agreement will pave the way for the UK to join the Trans-Pacific Partnership, (TPP) which is not active yet but might be in the future. This partnership already consists of 11 countries: Singapore, Brunei, New Zealand, Chile, Australia, Peru, Vietnam, Malaysia, Mexico, Canada, and Japan.[8]

In this respect, Middle East and North Africa (MENA) countries must seek to sign trade deals with the UK in order to be able to get a share in the UK market in this new era. The developing and least-developed economies in the MENA region like Algeria, Egypt, Iran, Iraq, Morocco, Syria, and Tunisia have great potential in terms of demand for foreign goods of the developed economies like the UK, due to the requirement for massive infrastructure investments such as highways, ports, airports, hospitals, schools, etc. Besides, the MENA region can export its cheap products (thanks to its relatively low-cost labor) to the UK more often. Therefore, the policymakers on both sides should evaluate all these opportunities in order to enhance their trade relations and benefit from this period.

The current merchandise trade volume between MENA countries and the UK is nearly 82 billion USD with 27 billion USD in exports of the MENA and 55 billion USD in exports of the UK.[9] Thus, the region has a 28 billion USD trade deficit with the UK. The region mainly exports petroleum products, precious metals, electrical machinery and equipment, fruits and vegetables to the UK while importing high-technology products like vehicles, machinery, mechanical appliances, electronic products, precious metals, stones, pearls, aircrafts and parts thereof, and pharmaceutical products.

Most of the MENA economies (Algeria, Iraq, Iran, Libya, Oman, Kuwait, Qatar, Saudi Arabia, the United Arab Emirates, and Yemen) are mainly dependent on oil extraction and the export of petroleum products, which make them highly fragile and unstable. Also, the countries with the largest share in the annual exports of

[7] "Brexit: What trade deals has the UK done so far?", 8 February 2021, https://www.bbc.com/news/uk-47213842

[8] "UK and Japan sign free trade agreement", *UK Government,* 23 October 2020.

[9] "Trade Map", *ITC*, 1 March 2021, https://www.trademap.org/

Following the negotiation period with the EU after the referendum, the United Kingdom (UK) left the European Union officially on 31 January 2020.

the region are oil exporting countries; such as the UAE with 321 billion USD, Saudi Arabia with 252 billion USD, Iraq with 91 billion USD, Qatar with 73 billion USD, and Israel with 58 billion USD according to the ITC. More importantly, the share of petroleum products in the export basket exceeds 90 percent for some economies in the region such as Libya, Iraq, Kuwait, and Algeria. On the other hand, some countries have very low levels of exports due to the size of their economy, political instabilities and the scarcity of natural resources, namely Lebanon, Malta, South Sudan, Syria and Yemen, whose annual export volumes are lower than 5 billion USD.

In contrast to oil dependent economies, there are some countries in the region that have a relatively diversified economy like Morocco, Tunisia and Egypt. Morocco, a North African country bordering the Atlantic Ocean and the Mediterranean Sea, is worthy to be considered in this context. It is not an oil-dependent economy, unlike many others in the region. Indeed, due to its geographic location, the country has a one-day shipping time to Spain and two-day shipping time for the rest of Europe. Additionally, there is a trade cooperation between Morocco and the EU, which makes the country an important trade partner for the Union. In fact, one of the biggest contributors to Morocco's international trade development is the Port of Tanger Med, which is the biggest port in the Mediterranean and in Africa.[10] After Morocco, Tunisia is another country in the region that has a diversified economy. It is also the first Arab country to join the Euro-Mediterranean Partnership in 1995, with the aim of facilitating the bilateral trade.[11] Following Tuni-

[10] "Moroccan automotive value chain profile and opportunities", 28 July 2020, https://www.tradecommissioner.gc.ca/

[11] Amirah, El-Haddad, "Exporting for growth: identifying leading sectors for Egypt and Tunisia using the Product Space Methodology", *German Development Institute/Deutsches Institut für Entwicklungspolitik (DIE)*, No. 25, 2018.

sia, Egypt joined this partnership in 2001. Like Tunisia and Morocco, Egypt also has a diversified economy with other sources of income in addition to its oil revenues.

Furthermore, Malta draws special attention with its industrialized and developed economy in the region,[12] and is expected to further enhance its economy and trade capacity in the near future. However, due to Brexit, no improvement is expected in its trade relations with the UK since Malta is also a member of the EU in addition to being a part of the MENA region.

When looking at the MENA region, Turkey must be analyzed separately since it has a unique position therein with its strategic location and economic power. Turkey, a transcontinental country that borders both Asia and Europe, is seen as a hub with access to many regional markets. It was incorporated into the EU market through customs unions and free trade agreements. The total merchandise trade volume of the country is nearly 371 billion USD with 200 billion USD in imports and 171 billion USD in exports in 2019.[13] Some 18.4 billion USD of this merchandise trade volume was realized with the UK. This amount accounts for 22 percent of the total volume of 21 MENA countries, (82 billion USD) according to 2019 data of the ITC, which shows the importance of the Turkish economy in the MENA region. Contrary to the MENA region, the Turkish economy has a 5.6 billion USD trade surplus with the UK, with 12 billion USD in exports and 6.4 billion USD in imports. After Brexit, Turkey was able to raise its trade volume with the UK owing to its existing export potential. Major products exported from Turkey to the UK are vehicles and parts thereof, precious metals, stones, pearls, textile products, electrical machinery and some agricultural products. Turkey's technical capabilities and productive know-how in addition to its cheap labor make the country competitive and enable the production of sophisticated products in some sectors. In terms of export of vehicles, one can expect a remarkable progress by Turkey as it is the 15th largest automotive manufacturer in the world and 5th in Europe.[14] Looking at the imports of Turkey from the UK, the main products are machinery, mechanical appliances, vehicles, precious metals, stones, pearls, iron and steel, and some commodities.

On the one hand, it is believed that Turkey and some of the MENA economies having a diversified economy possess a significant potential to grow and enhance their trade capacity in the new era with Brexit.

[12] "The economic context of Malta - Economic and Political Overview - Nordea Trade Portal", April 2021, https://www.nordeatrade.com/fi/explore-new-market/malta/economical-context

[13] "Trade Map", *ITC*, 1 March 2021, https://www.trademap.org/

[14] "Automotive - Invest in Turkey", *Investment Office*, 10 March 2021.

On the one hand, it is believed that Turkey and some of the MENA economies having a diversified economy possess a significant potential to grow and enhance their trade capacity in the new era with Brexit. On the other hand, there are several obstacles preventing some of the economies in the region from achieving these developments. For instance, Yemen has been struggling with political unrest since 2014 and is far from enhancing its economy and trade. Because of this political unrest, more than 100,000 people have lost their lives,[15] 4 million people have been displaced[16] and the country's GDP contracted consecutively 28 percent in 2015, 9.4 percent in 2016 and 5.1 percent in 2017.[17]

In addition, for the last 10 years, there has been an on-going civil war in Syria, which is currently the most problematic country in the region. Pro-democracy demonstrations against Bashar al-Assad turned into political turmoil in 2011 because of corruption, high unemployment rates and a lack of political freedom in the country. More than 380,000 people have died and many cities have been destroyed; causing millions of people to be displaced and led to the world's largest refugee crisis.[18] Naturally, the economic impact of this political shock was devastating. It is estimated that the Syrian economy contracted more than 20 percent in 2012, and the output has recorded negative growth rates for many years. The Syrian conflict also had a substantial impact on other economies in the region, especially the least-developed fragile economies. This can be seen in Lebanon as its economy mainly depends on the banking and tourism sectors. In 2010, the number of tourists visiting the country was around 2.2 million, which was reduced to 1.2 million in 2013.[19] Following this structural shock, the economic problems of the country deepened year by year. Afterward, the sudden stop in capital inflows resulted in a government debt crisis that forced the Lebanese government to impose new tax measures; this eventually prompted public protests in the evening of 17 October 2019 and quickly spread through many cities and towns.[20] Unsurprisingly, the Lebanese economy contracted 6.7 percent in 2019.

Another disadvantaged country, Iran, has been facing US sanctions harshly affecting its export of petroleum products. The country faced its first US-imposed sanction in 1979 following the Revolution. After that, the United Nations (UN) and the EU imposed new sanctions in 2006 and 2007 respectively. Even though negotiations that started in 2015 had softened these sanctions, they did not last long and sanctions were reimposed in May 2018. Consequently, the Iranian economy contracted 6 percent in 2018 and 6.8 percent in 2019 consecutively.[21]

[15] "Over 100,000 Reported Killed in Yemen War", *ACLED*, 31 October 2019.

[16] "Yemen-Global Focus", *UNHCR*, 9 March 2021, https://reporting.unhcr.org/node/2647

[17] "World Development Indicators-DataBank", *World Bank*, 1 March 2021, https://databank.worldbank.org/reports.aspx?source=world-development-indicators

[18] "Why has the Syrian war lasted 10 years?", 12 March 2021, https://www.bbc.com/news/world-middle-east-35806229

[19] "World Development Indicators-DataBank", *World Bank*, 1 March 2021, https://databank.worldbank.org/reports.aspx?source=world-development-indicators

[20] "The unprecedented mass protests in Lebanon explained", 22 September 2020, https://www.amnesty.org/en/latest/news/2019/11/lebanon-protests-explained/

[21] "Iran's Economic Update", *World Bank*, 9 October 2019, https://www.worldbank.org/en/country/iran/publication/economic-update-october-2019

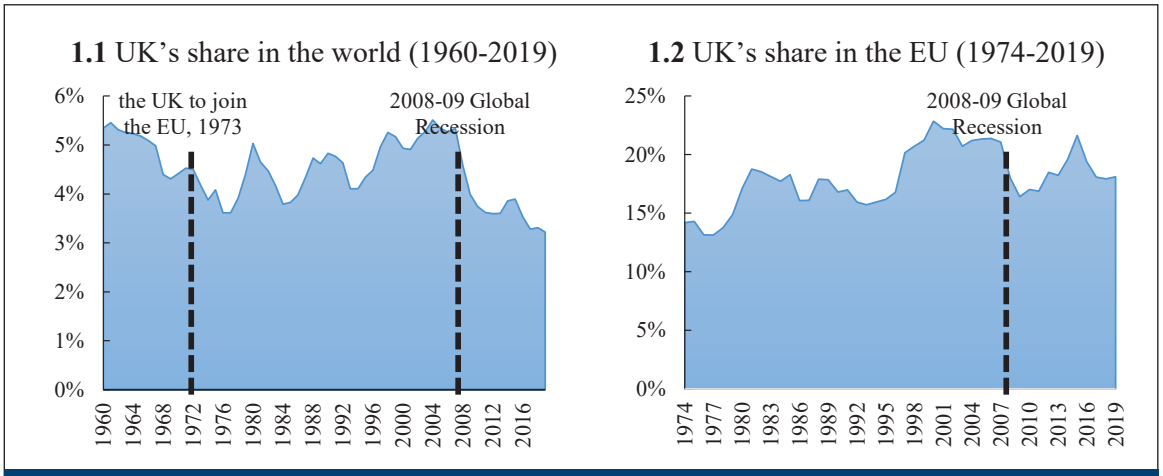
2. COMPARATIVE ANALYSIS OF THE ECONOMIC AND TRADE DEVELOPMENT IN THE UK AND MENA

In 2010s, more than 100 thousand EU citizens, annually, migrated to the Kingdom for work.

2.1. Economic Growth and Trade in the UK

The United Kingdom (UK), one of the biggest economies in the European Union (EU), has a substantial share in world economy. The country's economy accounts for nearly one-fifth of the EU total and 4 percent of the world total (see Figure 1.1 & 1.2). In Figure 1.1, it is seen that the ratio fluctuates between 3 and 5.5 percent. After the UK joined the EU, it can be seen that the share of its GDP in the world rose to higher levels and reached 5.5 percent in the 2000s. On the other hand, it lost some of its share in the world after the Great Recession in 2008-09 and the ratio sharply dropped from 5 percent to around 3 percent in the last decade. Observing the general picture from 1960 to 2019, it is seen that the country's economic size declined along with world's economies.

Figure 1 UK's Gross Domestic Product

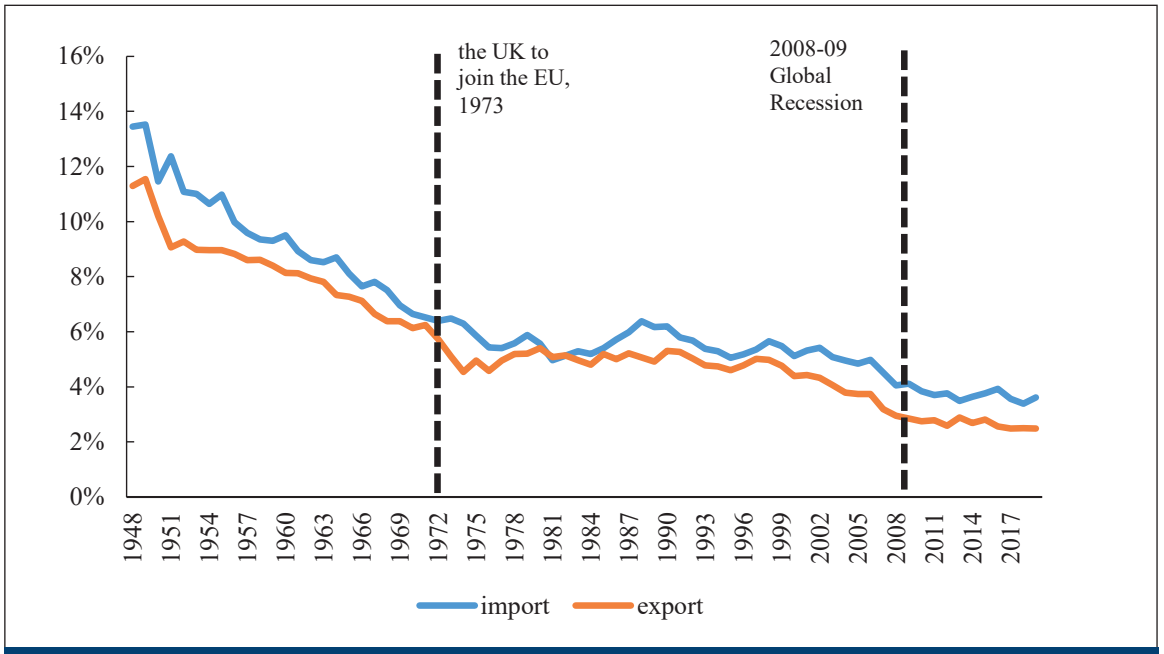


Source: World Bank, World Development Indicators (WDI)

Since the UK joined the EU in 1973, the British economy grew at a higher pace relative to the EU economies (see Figure 1.2). After trade barriers were lifted with the agreement of the Union, developed economies exported more to developing ones thanks to their cost-efficiency in production at higher capacities. Also, the single currency in the European Monetary Union makes goods and services of developed countries cheaper, which makes domestic production unprofitable in developing economies and results in lower levels of imports. Thus, being in a trade union is more advantageous for developed economies.

Even if all the European economies were harshly affected from the Great Recession, it seems that the UK economy recorded a better performance relative to others (see Figure 1.2). The UK-EU GDP ratio increased from 18 percent to 22 percent from 2009 onwards (see Figure 1.2). It is because small and fragile economies in the region, especially the latest members Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, and Slovenia, were affected dramatically relative to developed ones like the UK.

Figure 2 UK's Share in World Trade 1948-2019



Source: WTO

In addition to the size of its economy, the UK also has a considerable amount of trade volume in the world and that is why many argue that Brexit will have a remarkable influence on world trade. According to the data of the World Trade Organization (WTO), the UK recorded 470 billion USD in merchandise exports in 2019, which is 2.5 percent of the world's total merchandise exports of 18,933 billion USD.[22] Also, its share of merchandise imports in the

[22] "Iran's Economic Update", *World Bank*, 9 October 2019, https://www.worldbank.org/en/country/iran/publication/economic-update-october-2019

world is 3.61 percent with a volume of nearly 700 billion USD in 2019. Looking at the big picture covering the years between 1948 and 2019, the UK always has trade deficits except for the years around 1980s (see Figure 2). Moreover, there has been an enormous decline in the share of the UK in world trade. In 1948, the imports of the UK accounted for nearly 14 percent of the world's total and the exports share was 11 percent, and these ratios dramatically decreased to 3.6 and 2.5 percent respectively in 2019. It can be seen that the import and export trade shares continually dropped between 1948 and 1973. After the UK joined the EU, the ratios stayed same around 4-6 percent for many years, which seems like an advantage that comes with the EU. However, the UK could not maintain these levels, and after the 2008-09 Great Recession, the ratios diminished to around 2-4 percent. All of these developments in turn raised questions about the future of the British economy, which clearly explains why the British started to think about leaving the Union in the 2010s.

Looking at the general composition of traded goods, according to ITC data, the UK mostly exports machinery, mechanical appliances, vehicles, precious metals, stones and pearls, petroleum products, electrical machinery, pharmaceutical products, aircraft, spacecraft, and parts thereof.[23] In 2019, the exports of machinery and mechanical appliances were 73 billion USD that mainly came from 26 billion USD in exports of turbojets, turbo propellers and other gas turbines. The second important item in the export basket is vehicles, parts, and accessories thereof. In 2019, the total value was 50 billion USD, of which 39 billion USD came from the export of motor vehicles. Accordingly, more than 20 percent of the merchandise exports of the country are high-technology products, which is unsurprisingly high. The third most-exported product group consists of precious metals, stones and pearls, which was 47 billion USD in 2019, and some 20 billion USD of which comes from the export of gold.

On the other side, the UK imports precious metals, stones and pearls, machinery, mechanical appliances, vehicles, electrical machinery, petroleum products, etc.[24] In 2019, a total export of 89 billion USD in precious metals, stones and pearls was recorded. 80 percent of this volume (71 billion USD) comes from the import of gold, followed by the import of machinery, me-

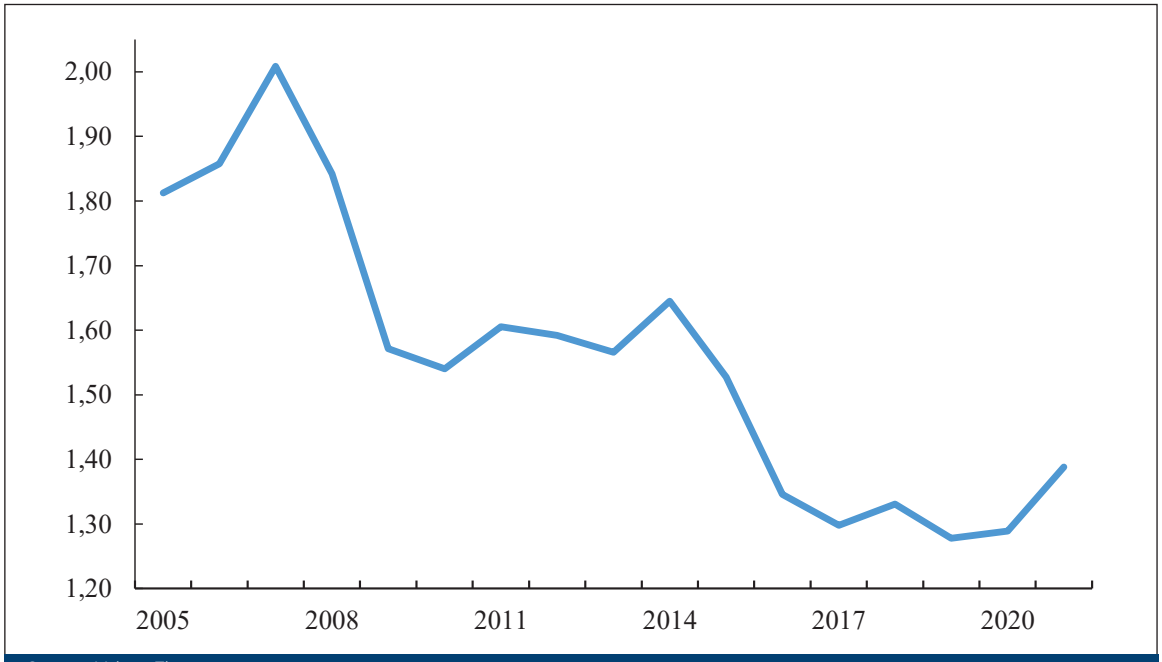
In addition to the size of its economy, the UK also has a considerable amount of trade volume in the world and that is why many argue that Brexit will have a remarkable influence on world trade.

[23] "Trade Map", *ITC*, 1 March 2021, https://www.trademap.org/

[24] "Trade Map", *ITC*, 1 March 2021, https://www.trademap.org/

chanical appliances and parts thereof worth 84 billion USD in 2019. The main items under this group are turbojets, turbo propellers and other gas turbines worth 21 billion USD. The third biggest group is vehicles, parts, and accessories thereof worth 75 billion USD in 2019. The import of motor cars and other motor vehicles under this group has a volume of 44 billion USD.

Figure 3 UK's Exchange Rate – GBP/USD



Source: Yahoo Finance

In addition to the economic dynamics and the trade composition of the UK, another important issue that should be considered in the aftermath of Brexit, is the exchange rate of the country. Note that the UK was not a part of the European Monetary Union (Eurozone), which made Brexit possible. The European Union Treaty does not allow members of the Eurozone to leave the currency union, which is irrevocable and irreversible.[25] This is due to the fact that the relative level of currency is one of the main determinants of foreign trade. An overvalued domestic currency makes foreign goods cheaper and domestic goods more expensive, which results in a higher current account deficit along with lower imports and higher exports.[26] Conversely, an undervalued currency leads to the improvement of current account balance. China's control over its currency, Renminbi, and its huge current account

[25] Lord, Locke and Charles Proctor, "The Eurozone crisis - the final stage?", *Lexology*, 16 May 2012, https://www.lexology.com/library/detail.aspx?g=a92664b9-d267-4347-a59a-6488ab3895fb

[26] Boyd, Derick, Gugielmo Maria Caporale, and Ron Smith, "Real exchange rate effects on the balance of trade: cointegration and the Marshall–Lerner condition", *International Journal of Finance & Economics*, Vol. 6, No. 3, 2001, pp. 187-200.

surplus for years can be shown as an example in this regard.[27] In this sense, the value of the British Pound (GBP), which was harshly affected with Brexit, is very critical for other countries in terms of trade relations.

Figure 3 indicates the historical data of the exchange rate of the British Pound (GBP) to the USD (USD) and shows the relative value of the currency. It can be seen that the GBP/USD rate is at 2.00 levels in 2007 but it decreases to around 1.60 after the Great Recession. The loss in the value of the currency continues after the exit negotiations in 2013. The GBP/USD falls to below 1.30 in 2017, which is nearly an 18 percent devaluation of the domestic currency. The one reason could be that investors thought that the UK would be negatively impacted by the exit, which repressed the pound.

On one side, the impact of this devaluation will be positive thanks to the relation mentioned above. The UK will increase its export volume and improve its trade balance thanks to the undervalued domestic currency. On the other side, the devaluation of the domestic currency means a decline in the purchasing power of the British citizens and companies. This secondary effect might be advantageous for developing and low-income economies like the ones in the MENA region; because countries, even developed ones, always tend to import cheaper products produced by cheap labor in low-income countries as their currency loses value.

2.2. Economic Growth and Trade in the MENA

Developing economies like the ones in the MENA region have been steadily expanding their share in the world output while developed economies (e.g. the USA, the UK and Japan) lost a considerable portion, which could be explained by the catch-up theory.[28] In line with this theory, the MENA economies consisting mainly of low-income countries, despite the Arab spring protests, recorded an average of 2.4 percent output growth rate; which is relatively better compared to the US, the UK, the Eurozone countries and Japan (see Table 1). According to this theory, poorer economies generally grow at faster rates compared to richer economies, a process also named as the convergence process. In a developed economy, obtaining higher profit rates is not so possible through the improvement of efficiency as it is already at higher levels. In an under-developed or a developing economy, on the other hand, there are many profitable and untapped areas to invest in. Therefore, any unit of investment provides relatively more return in a poorer economy, which results in higher rates of economic output. However, note that this depends on certain conditions such as the openness to free trade, sufficient human capital, adaptation to new technologies, diversified and sustainable economic structure, etc. In terms of diversification, the MENA economies are substantially weak because the economic growth in the region is mostly dependent on oil revenues.

[27] "China and the WTO: Assessing and Enforcing Compliance, Hearings before the US-China Economic and Security Review Commission, One Hundred Ninth Congress, First Session, February 3 and 4, 2005," *In United States. Government Printing Office*. 3,4 February 2005.

[28] Nayyar, Deepak, "Catch up: Developing countries in the world economy", OUP Oxford, 2013.

Table 1 Average Growth Rates in the MENA economies 2011-2019 (GDP with constant prices)

Turkey	5.6%
MENA (average)	2.4%
Libya	6.2%
Malta	5.5%
Iraq	5.4%
Qatar	4.1%
UAE	3.8%
Egypt	3.7%
Israel	3.5%
Morocco	3.4%
Saudi Arabia	3.3%
Bahrain	3.3%
Oman	3.2%
Algeria	2.6%
Jordan	2.4%
Kuwait	2.0%
Tunisia	1.8%
Lebanon	0.4%
Iran	0.3%
Yemen	-5.0%
World	2.8%
Developed Economies	
United States	2.2%
United Kingdom	1.9%
Euro Area	1.3%
Japan	1.0%

Source: World Bank - WDI

In Table 1, the average growth rates in the MENA region and some developed economies from 2011 to 2019 are provided. Libya is the fastest-growing economy in the MENA region with 6.2 percent average growth rate. However, the war in the early-2019 has harshly affected the country's economy, as the major ports in Tripoli were blocked and the oil production fell to 100,000 barrels per day from 1.2 million barrels per day.[29] The second country recording the highest growth rate (5.5 percent) is Malta, which is a very small yet high-income country thanks to its sound financial system and developed infrastructure. Malta's economy is heavily dependent on tourism sector and thus was deeply affected by the Covid-19 crisis. According to IMF figures, the country's output contracted 7.9 percent in 2020. Observing Turkey, it is seen that the Turkish economy, with 5.6 percent average growth rate, outpaces all the countries in the region except Libya.

In the region, the worst-performing country is Yemen, which has been struggling with civil wars since 2014. Due to this political unrest, more than 100,000 people have died,[30] 4 million people have been displaced[31], and the country's GDP contracted consecutively 28 percent in 2015, 9.4 percent in 2016, and 5.1 percent in 2017.[32] The second worst-performing country in the MENA region is Iran. This is mainly a result of the plummeting exports due to the US sanctions along with the drop in oil prices in 2018-2019.[33] The country's economy contracted 6 percent in 2018 and 6.8 per-

[29] "Libya's Economic Update", *World Bank*, 19 October 2020, https://www.worldbank.org/en/country/libya/publication/economic-update-october-2020

[30] "Over 100,000 Reported Killed in Yemen War", *ACLED*, 31 October 2019.

[31] "Yemen-Global Focus", *UNHCR*, 9 March 2021.

[32] "World Development Indicators-DataBank", *World Bank*, 1 March 2021, https://databank.worldbank.org/reports.aspx?source=world-development-indicators

[33] "Iran's Economic Update", *World Bank*, 9 March 2021, https://www.worldbank.org/en/country/iran/publication/economic-update-october-2019

cent in 2019 respectively after oil exports fell nearly to 100,000 barrels per day from 2.5 million barrels per day. In this turbulence, the domestic currency Riyal dipped to historic low levels and the inflation soared to 20 percent.[34] The only positive prospect about the Iranian economy is the recovery in the trade balance as the currency lost value and domestic products became more competitive in the international market.

The overall output value in the MENA region reached 3.6 trillion USD in 2019 from 778 billion USD in 1990, which equals to a 362 percent expansion in 30 years, outperforming the world output growth rate of 288 percent (Table 2). Correspondingly, the share of the MENA in the global output increased to 4.1 percent from 3.4 percent, which is in line with our hypothesis about the convergence of poorer economies defined above. Developed economies like the US, the UK, the Eurozone countries, and Japan recorded 259, 159, 127, 62 percent growth rates respectively. Turkey recorded 405 percent growth from 1990 to 2019, significantly over-performing the MENA region as well as the developed economies. Qatar expanded its economy 2289 percent, which is the highest growth rate in the region. The next highest expansion belongs to Lebanon with 1732 percent. The third fast-growing economy in the region is Jordan with a GDP growth rate of 970 percent.

To rank the countries in the region in terms of their economic size, the biggest economies are, respectively; Saudi Arabia with 793 billion USD, Iran with 440 billion USD, and the UAE with 421 billion USD according to data for 2019. The smallest economies are South Sudan with 5 billion USD, Malta with 15 billion USD and Yemen with 23 billion USD. Compared to the economies in the region, Turkey, with a GDP above 760 billion USD, has a bigger economy compared to all except Saudi Arabia.

[34] Hafezi, Parisa and Davide Barbuscia, "Currency crisis impoverishes Iranians, strains economic defenses", 7 July 2020, https://www.reuters.com/

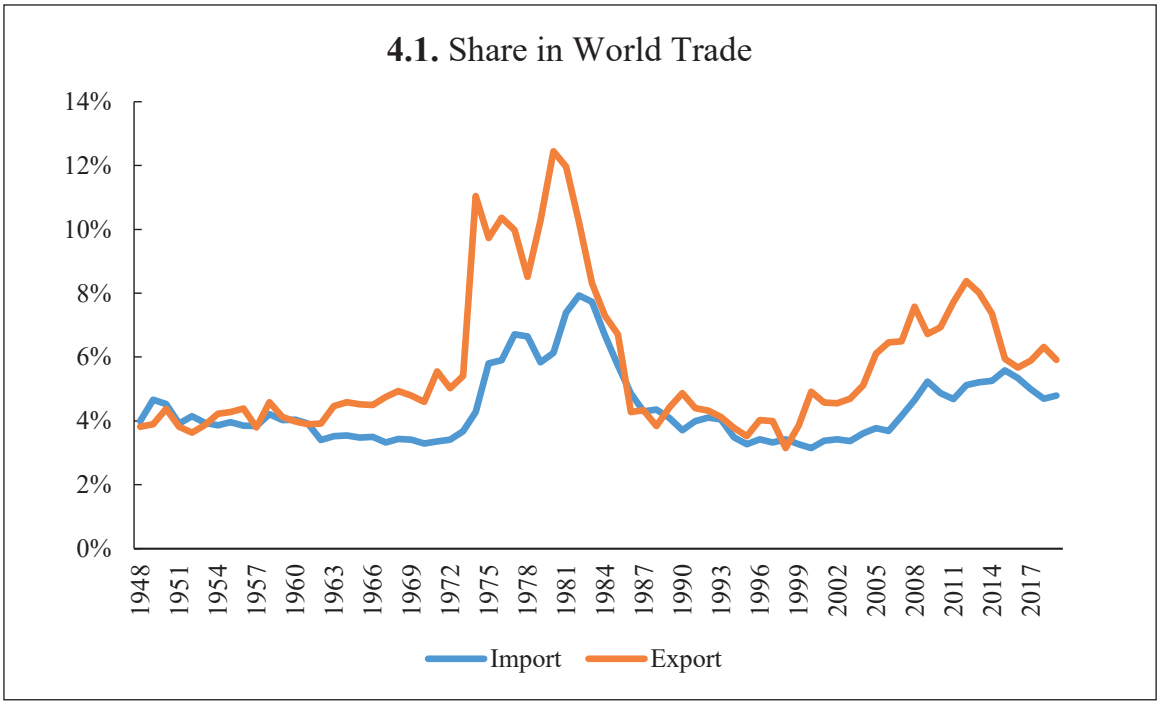
Table 2 GDP statistics for MENA Countries and Developed Economies (current, billion USD)

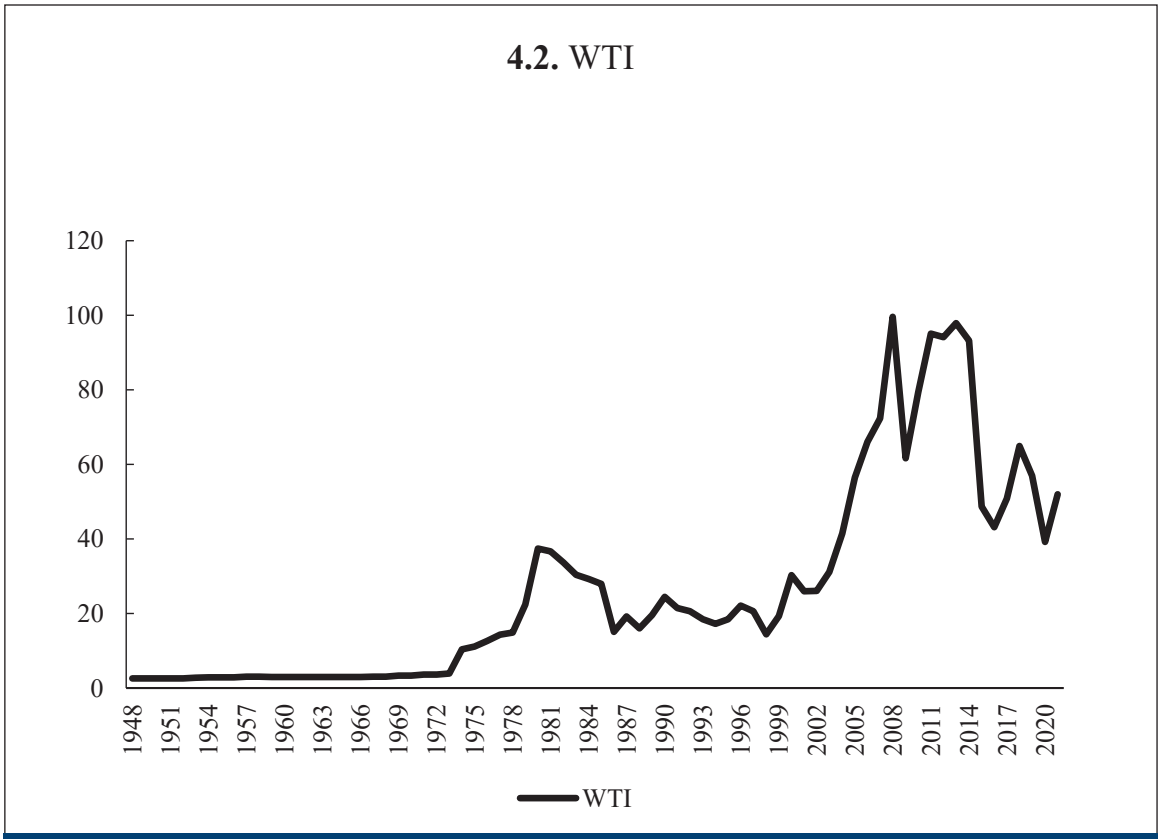
	1990	2000	2010	2019	30-year growth
Turkey	151	274	777	761	405%
MENA	778	958	2,773	3,597	362%
Algeria	62	55	161	171	176%
Bahrain	4	9	26	39	812%
Egypt	43	100	219	303	605%
Iran	125	110	487	440	253%
Iraq	180	26	138	234	30%
Israel	59	132	234	395	566%
Jordan	4	8	27	45	970%
Kuwait	18	38	115	135	631%
Lebanon	3	17	38	52	1732%
Libya	29	38	75	52	80%
Malta	3	4	9	15	488%
Morocco	30	39	93	120	297%
Oman	12	20	57	76	553%
Qatar	7	18	125	176	2289%
S. Arabia	118	190	528	793	574%
S. Sudan	-	-	15	5	-
Syria	12	19	60	65	428%
Tunisia	12	21	44	39	216%
UAE	51	104	290	421	731%
Yemen	6	10	31	23	300%
World	22,627	33,624	66,126	87,799	288%
USA	5,963	10,252	14,992	21,433	259%
UK	1,093	1,658	2,475	2,829	159%
Euro area	5,883	6,479	12,629	13,356	127%
Japan	3,133	4,888	5,700	5,082	62%

Source: World Bank-WDI, IMF-WEO

Contrary to their increasing share in the world output, MENA countries could not improve their trade performance relative to the world. Figure 4 demonstrates that the trade shares of 18 MENA countries (Algeria, Bahrain, Egypt, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Libya, Malta, Morocco, Oman, Qatar, Saudi Arabia, Syria, the United Arab Emirates, and Yemen) have recorded a changing pattern over the last 72 years. Up to the 1970s, the import and export ratios remained nearly the same between 3-6 percent, and afterward jumped up to 6-10 percent. This jump is mainly because of the soar in oil prices–a change in the West Texas Intermediate (WTI) crude oil prices from 4 USD to 37 USD–in the years between 1973 and 1986 (see Figure 4.2). After the normalization of the oil prices at the end of 1980s, the import and export ratios turned back to their previous levels and remained nearly the same until the second half of the 2000s. As the oil prices bounced back, the ratios rose to the 5-8 percent level. The close relationship between oil prices and trade volumes in the MENA region can obviously be associated with this situation. Needless to say, this causality is originated from the oil exporting countries in the region.

Figure 4 MENA's Share in World Trade and Oil Prices 1948-2019





Source: WTO, U.S. Energy Information Administration

Looking at the country-specific trade statistics in the region, it can be deduced that most of the MENA economies (Algeria, Iraq, Iran, Libya, Oman, Kuwait, Qatar, Saudi Arabia, the United Arab Emirates, and Yemen) export mainly petroleum products, which makes them highly fragile and unstable. For instance, Algeria, as an oil dependent economy in the region, has an export volume of 37 billion USD based mainly on the export of petroleum products amounting to 34 billion USD, according to ITC data of 2019.[35] It means that 92 percent of the total exports come from oil revenues. This export ratio is 97 percent for Libya with 28 billion USD in oil exports; 96 percent for Iraq, 93 percent for Kuwait, 85 percent for Qatar, 80 percent for Saudi Arabia, 71 percent for Oman, 62 percent for Yemen, 57 percent for Iran, and 30 percent for the UAE. When other commodities are included, this ratio rises to 60 percent for the UAE. For Iran, this ratio was 68 percent in 2018 before the sanctions. These statistics clearly show how much of the region's exports are dependent on natural resources. Besides, oil exporting countries in the region record the highest annual export volume relative to non-oil exporting countries except Turkey. According to the ITC data of 2019, the UAE's total export volume is 321 billion USD, followed by Saudi Arabia with 252 billion USD, Iraq with 91 billion USD, and Qatar with 73 billion USD.[36] In the same year, Turkey recorded

[35] "Trade Map", *ITC*, 1 March 2021, https://www.trademap.org/

[36] "Trade Map", *ITC*, 1 March 2021, https://www.trademap.org/

171 billion USD in exports, by far the highest number among the non-oil-exporting MENA economies. Unlike the UAE, Saudi Arabia, Iraq, and Qatar, the country's export basket is much more diversified and mainly comprised of sophisticated and technologically advanced products, such as vehicles, machinery, and equipment.

Similar to Turkey, there are also some remarkable MENA economies that achieved diversification; namely Egypt, Morocco, and Tunisia, which export a range of products (including technologically advanced items) rather than natural resources. They export vehicles, machinery and equipment, and textile products. Sectoral composition in the export basket provides them a more solid economic structure with higher growth potential in the future.

Looking at the smaller economies in the region, some of them have negligible levels of exports due to their economic size, political instability, or the scarcity of natural resources. These are Lebanon, Malta, South Sudan, Syria and Yemen with an annual volume of less than 5 billion USD in exports.

2.3. Trade relations between the UK and the MENA

The UK has a considerable share in world's imports. According to the calculations of the International Trade Centre (ITC) based on United Nations (UN) COMTRADE statistics, some 632 billion USD in exports was recorded in 2020. Table 3 indicates that the volume of total imports for the last 5 years (2016-2020) was 3,273 billion USD, while this number was 2,187 billion USD between 2001-2005. As is seen, the main import partners of the UK are expectedly the EU, China, and the US. Other important partners are respectively Switzerland, Canada, Japan, Russian Federation, MENA, Turkey, India, South Africa, and Hong Kong. The MENA consisting of 21 countries was ranked 8th with 60 billion USD in exports to the UK for the years between 2016-2020, except the years between 2011-2015 during which oil prices soared, and thus no substantial improvement in the MENA's performance was seen. Another noteworthy detail in the table is the huge increase (almost 128 percent) in Turkey's export to the UK from the beginning of the 2000s to the end of the 2020s. It can be observed that in the years between 2016-2020, Turkey recorded 57 billion USD in exports while the MENA's total was 60 billion USD. There is a continuous increase in Turkey's merchandise trade from the beginning of the 2000s to the end of the 2020s.

In Table 4, five-year export totals of MENA economies to the UK from 2000 to 2020 divided into four periods can be observed. According to the last period's

The MENA consisting of 21 countries was ranked 8th with 60 billion USD in exports to the UK for the years between 2016-2020.

(2016-2020) statistics, Saudi Arabia with 9.4 billion USD, the United Arab Emirates with 9.3 billion USD, Algeria with 8.65 billion USD, and Qatar with 7.6 billion USD have the highest export volumes in the region. The UK's imports from these countries are mainly petroleum products.

Even with its small economic size, Malta has a higher volume at 0.8 billion USD in its merchandise exports to the UK. This could be explained by the fact that Malta is an EU member and a developed economy. Malta's main exported products to the United Kingdom are machinery and equipment, vehicles and parts thereof, and pharmaceutical products. Among others, Palestine, Syria, Yemen, and South Sudan have not remarkable export volumes to the UK (see Table 4).

Table 3 UK's Imports (merchandise trade) from Its Major Partners and MENA

	2001-2005	2006-2010	2011-2015	2016-2020
World (Total)	**2,187**	3,**180**	**3,389**	**3,273**
EU	1,165	1,594	1,746	1,678
China	126	267	307	324
USA	223	287	294	304
Switzerland	25	60	72	81
Canada	34	72	78	73
Japan	98	94	65	62
Russian Federation	30	56	55	61
MENA	43	68	105	60
Turkey	25	42	49	57
India	20	40	50	45
South Africa	36	56	37	42
Hong Kong, China	22	39	18	35

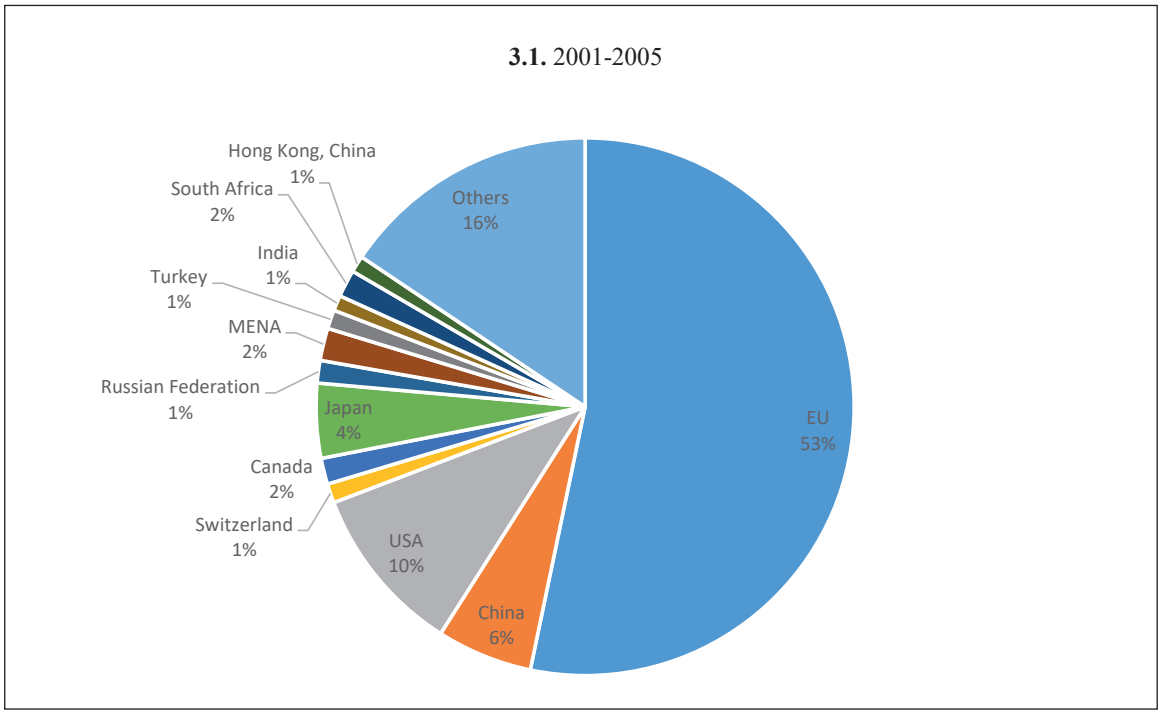
Source: ITC calculations based on UN COMTRADE statistics Unit: Thousand USD

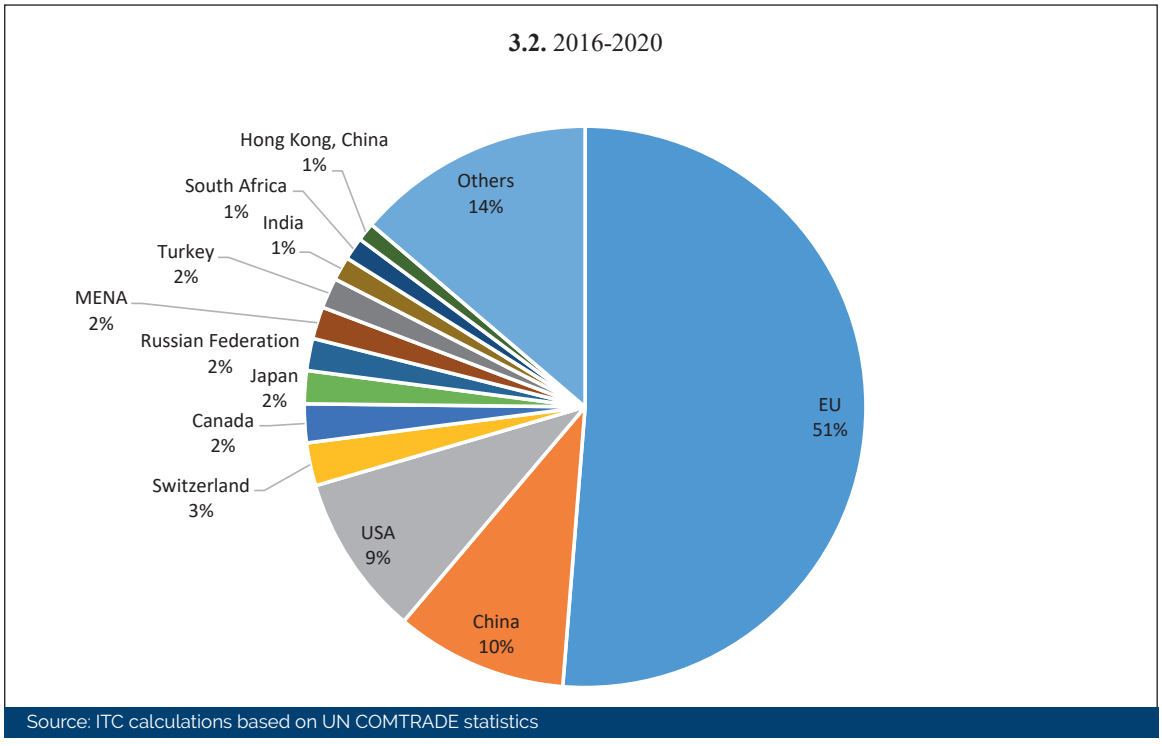
Table 4 Exports of MENA Countries to the UK (merchandise trade)

	2001-2005	2006-2010	2011-2015	2016-2020
MENA	**42,547,081**	**68,114,543**	**105,313,141**	**60,481,443**
Saudi Arabia	7,634,201	6,397,518	10,828,617	9,399,468
UAE	6,593,248	6,995,136	7,963,038	9,301,303
Algeria	2,625,570	6,558,081	19,161,151	8,654,110
Qatar	449,686	5,052,818	21,270,871	7,604,569
Israel	7,911,969	10,370,719	13,257,546	6,751,676
Egypt	3,685,408	5,274,613	5,628,815	4,602,550
Morocco	3,997,708	3,759,600	4,023,800	4,141,821
Kuwait	2,826,152	8,109,495	10,268,996	3,593,993
Libya	1,807,831	7,175,462	5,935,393	2,587,265
Tunisia	1,211,148	2,908,716	2,259,635	1,000,747
Bahrain	544,668	851,411	1,022,309	873,366
Malta	1,327,609	1,324,876	1,135,386	765,989
Oman	437,358	728,526	626,050	415,687
Jordan	237,205	158,677	226,107	239,136
Lebanon	134,708	301,853	240,531	218,313
Iran	333,251	1,049,265	929,971	177,908
Iraq	3,932	16,235	97,819	102,703
Palestine	4,947	9,097	14,346	26,362
Syria	748,007	964,403	60,034	20,465
Yemen	32,475	108,042	362,711	3,773
South Sudan	0	0	15	239

Source: ITC calculations based on UN COMTRADE statistics — Unit: Thousand USD

Figure 5 Countries' Shares of Exports (goods) to the UK





Source: ITC calculations based on UN COMTRADE statistics

Figure 3.1 reveals the imports of the UK from its main partners and the MENA region for the years 2001-2005 while Figure 3.2 is for 2016-2020. The aim is to reveal the change in the share of partner countries from the beginning of 2000s to end of 2010s. It is seen that the share of the EU countries in the imports of the UK dropped sharply from 53 percent to 51 percent. Likewise, the US and Japan lost 1 and 2 percent shares respectively in their total imports from the UK. On the other side, China increased its share from 6 percent to 10 percent. Observing the MENA region, there is no improvement and the ratio remained at 2 percent. Despite this trend in the MENA, Turkey, which can be included in the Middle East region, expanded its share in the UK's imports from 1 percent to 2 percent.

Furthermore, the UK has a considerable share in the global services trade. The total services trade of the country is 700 billion USD with 416 billion USD in exports and 284 billion USD in import in 2019. The UK has a 6 percent share in world's services trade totaling 11.8 trillion USD. Contrary to the merchandise trade, the UK has a large trade surplus in the service sector. The main exported items of the country are financial services, travel, and transportation.

Table 5 UK's Import (services) from Its Major Partners and MENA

	2006-2010	2011-2015	2016-2019
World	**1,022.6**	**1,093.4**	**1,006.2**
EU	**522.3**	**517.7**	**485.4**
USA	167.8	179.2	196.5
Switzerland	26.5	28.9	28.5
India	23.6	25.8	27.5
Japan	21.6	23.0	26.6
Singapore	2.2	13.9	16.9
Hong Kong, China	11.8	14.7	16.5
MENA	**2.4**	**11.8**	**14.5**
Egypt	1.3	4.9	1.8
Iran	-	-	0.3
Israel	-	-	3.4
Malta	0.7	3.9	3.5
Morocco	0.4	3.0	2.9
Saudi Arabia	-	-	2.6
Australia	3.6	19.9	14.5
Luxembourg	6.0	13.9	13.0
Canada	13.5	13.0	11.1
China	10.3	10.6	9.5
Turkey	**2.7**	**13.2**	**8.7**

Source: ITC, UNCTAD, WTO — Unit: Billion USD

Table 5 indicates that the last five years' total volume of service imports is around 1 trillion USD, which demonstrates the potential of the UK market. Almost half of this volume (500 billion USD) was realized with the EU region. The second biggest import partner of the UK in services trade is the US with a volume of 196 billion USD. The MENA region has a very small share in the total volume with 14.5 billion USD in exports to the UK. However, comparing the volumes in 2006-2010 and 2016-2019, it can be seen that the MENA economies have progressed well by increasing their exports to 14.5 billion USD from 2.4 billion USD. Moreover, Turkey's exports of services is 8.7 billion USD, which is considerably low compared to its merchandise exports of 57 billion USD. Yet, it is still more than half of the total of 21 MENA economies.

Regarding Brexit, one cannot expect a considerable improvement in the services trade between the UK and the MENA countries including Turkey. It is because the Brexit negotiations provide that the on-going businesses in services trade between the UK and the EU will remain the same as before. Besides, the UK has an apparent comparative advantage in the services sector thanks its developed economy and highly skilled human capital. Therefore, it is very difficult for the developing economies in the MENA region, including Turkey, to export services to the UK.

3. WHY IS BREXIT AN OPPORTUNITY FOR THE MENA?

Turkey, a transcontinental country that occupies both in Asia and Europe, is a hub to access many regional markets.

Table 6 UK's Imports of Mineral fuels, mineral oils and products of their distillation (Thousand USD)

Partner	**2016-2020**	
World	248,855,740	100.0%
Norway	76,741,375	30.8%
EU	**53,830,462**	**21.6%**
Netherlands	19,167,246	7.7%
Belgium	10,264,531	4.1%
France	6,361,546	2.6%
Sweden	6,146,921	2.5%
Ireland	2,466,280	1.0%
Finland	2,279,663	0.9%
Others	7,144,243	2.9%
MENA (total)	**32,892,661**	**13.2%**
Algeria	8,444,297	3.4%
Saudi Arabia	7,937,106	3.2%
Qatar	7,159,945	2.9%
UAE	4,370,478	1.8%
Kuwait	3,441,737	1.4%
Bahrain	689,498	0.3%
Egypt	481,501	0.2%
Oman	95,690	0.0%
Iraq	92,168	0.0%
Tunisia	80,955	0.0%
Israel	48,611	0.0%
Malta	46,991	0.0%
Others	3,684	0.0%
Russian Federation	24,551,699	9.9%
USA	23,359,953	9.4%
Nigeria	8,673,729	3.5%
India	3,229,254	1.3%
Canada	2,978,832	1.2%
Turkey	**724,931**	**0.3%**

Source: ITC calculations based on UN COMTRADE statistics, HM Revenue & Customs (HMRC) Unit: Thousand

The end of trade cooperation between the UK and the EU after Brexit provides many opportunities for other countries in the world due to the huge import potential of the UK, whose total import volume is 3,273 billion USD in the last 5 years (2016-2020), which clearly demonstrates the large import capacity of the coun-

try. The share of the MENA in the UK's import volume is considerably low as mentioned in the previous section. The total exports of 21 MENA countries to the UK in the last 5 years (2016-2020) are 60 billion USD, accounting for 2 percent of the UK's total imports. If Turkey's 57 billion USD in exports is added, it will reach 117 billion USD, which is 4 percent of the total volume. To evaluate how this ratio will be affected after Brexit, the main products imported by the UK from MENA countries and Turkey should be observed.

The UK's imports from MENA countries are mainly mineral fuels, oils, and the products made from these natural resources. Table 6 shows that nearly 33 billion USD worth of petroleum products were imported in the period 2016-2020, which makes the MENA region the third biggest partner after Norway (77 billion USD) and the EU region (54 billion USD). Note that focusing on five-year totals instead of yearly statistics provides the opportunity to show the general trend and prevents misinterpretation based on one-year exceptions.

The MENA has approximately 13 percent share in the UK's total imports of petroleum products. Algeria, Saudi Arabia, Qatar, the UAE, and Kuwait have a considerable share in this figure. Considering the EU countries' exports of 54 billion USD to the UK, Brexit offers a remarkable potential for MENA countries to increase their export volumes in terms of petroleum products. The UK is expected to increase its petroleum imports from non-EU countries after the advantages arising from free trade cooperation ends with Brexit; and as a result, leading partners like Norway, Russian Federation, the US, Nigeria, Algeria, Saudi Arabia, and Qatar might be positively affected according to predictions.

Even though Turkey is an oil-importing country unlike many others in the region, it exported 724 million USD worth of petroleum products to the UK in five-years period (see Table 6). However, this amount is very low compared to Turkey's five-years total of 808 billion USD in merchandise exports from 2016 to 2020. Moreover, it seems insignificant compared to Turkey's annual GDP of nearly 700-800 billion USD (World Bank, World Development Indicators, 2019). Therefore, compared to its competitors, the petroleum goods sector provides limited opportunity for Turkey in terms of its exports to the UK.

Table 7 UK's Import of Vehicles other than railway or tramway rolling stock, and parts and accessories thereof

Partner	**2016-2020**	
World	355,540,144	100.0%
EU	**297,546,913**	**83.7%**
Germany	127,095,218	35.7%
Belgium	43,523,006	12.2%
Spain	28,801,486	8.1%
France	22,350,064	6.3%
Netherlands	15,334,708	4.3%
Italy	12,797,476	3.6%
Poland	8,488,921	2.4%
Czech Republic	7,636,067	2.1%
Slovakia	7,480,713	2.1%
Sweden	6,497,515	1.8%
Austria	5,032,189	1.4%
Hungary	2,917,688	0.8%
Portugal	3,978,654	1.1%
Other EU countries	5,613,208	1.6%
Japan	14,146,859	4.0%
Turkey	**11,788,907**	**3.3%**
Korea	8,437,958	2.4%
China	5,908,497	1.7%
USA	4,251,571	1.2%

Thailand	3,243,891	0.9%
MENA (total)	**1,100,038**	**0.3%**
Morocco	615,037	0.2%
Tunisia	136,915	0.0%
Other MENA countries	348,086	0.1%

Source: ITC calculations based on UN COMTRADE statistics, HM Revenue & Customs (HMRC) Unit: Thousand USD

The second important sector providing an opportunity for the MENA region, especially for Turkey, is vehicles, parts, and accessories thereof. Table 7 indicates that the total export volume of the MENA countries plus Turkey is nearly 13 billion USD for the years between 2016-2020, of which some 11.8 billion USD comes from Turkey alone. This shows that the potential of the MENA is rather limited while Turkey has an obvious opportunity. In Turkey, there are many leading German, Japanese, French, and Korean automotive companies like Mercedes-Benz, Ford, Fiat, Hyundai, Toyota, Renault, and Isuzu as well as domestic firms like Temsa, Tofaş, Tümosan, etc. In the automotive sector, Turkey was the 15th largest producer in the world and 5th in Europe by the end of 2018. The country's vehicle export volume reached 26 billion USD in 2019.

Looking at the big picture in the import of vehicles and parts thereof, the EU has 84 percent share in the UK's imports. Therefore, the question of how much the UK's import of vehicles from the EU will be affected is highly crucial for the countries like Turkey. However, Turkey has strong competitors in this sector such as Japan, Korea, China, and the US. Especially Japanese exporters will get the highest share after Brexit owing to the UK-Japan Comprehensive Economic Partnership Agreement (CEPA) signed on 11 September 2020, which will certainly provide many benefits/privileges to Japanese exporters. More importantly, this agreement will pave the way for the UK to join the Trans-Pacific Partnership, (TPP) which is not active yet but might be in the future. This partnership includes 11 countries: Singapore, Brunei, New Zealand, Chile, Australia, Peru, Vietnam, Malaysia, Mexico, Canada, and Japan. There is no doubt that it will be very critical for Turkey to sign a trade agreement with the UK in order to gain an advantage against these suppliers in the vehicles market.

Table 8 UK's Import of Natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad

Partner	**2016-2020**	
World	58,093,072	100.0%
Switzerland	54,286,480	15.2%
Canada	51,452,759	14.4%
USA	47,186,768	13.2%
EU	**41,102,319**	**11.5%**
Germany	13,661,825	3.8%
France	8,338,294	2.3%
Spain	4,303,442	1.2%
Italy	3,723,863	1.0%
Belgium	3,713,644	1.0%
Poland	2,637,140	0.7%
Sweden	1,637,334	0.5%
Other EU countries	3,086,777	0.9%
South Africa	31,501,060	8.8%
Russian Federation	29,320,421	8.2%
Australia	26,018,670	7.3%
Hong Kong, China	24,199,055	6.8%
Japan	9,919,694	2.8%
Uzbekistan	8,408,943	2.3%
Turkey	**6,702,174**	**1.9%**
Mexico	4,443,886	1.2%
Brazil	3,862,249	1.1%
India	3,142,142	0.9%

Kazakhstan	2,739,560	0.8%
MENA (total)	**2,652,714**	**0.7%**
UAE	1,258,172	0.4%
Israel	1,079,235	0.3%
Saudi Arabia	179,925	0.1%
Other MENA countries	135,352	0.0%

Source: ITC calculations based on UN COMTRADE statistics, HM Revenue & Customs (HMRC) Unit: Thousand USD

In addition to Turkey's potential thanks to its technical capabilities and productive know-how, Morocco could also significantly benefit from Brexit thanks to its rising automotive industry and existing productive experience. In recent years, the automobile sector in the country has become the leading export area with 25 percent of the total export volume. Indeed, Morocco is the second largest automotive producer in Africa. The large automotive firms like Renault-Nissan, PSA, and China's BYD, along with nearly 250 companies in this industry produce cars in Morocco and export them to foreign countries, especially European countries such as France, Spain, Germany, Italy, etc. The country signed an Association Agreement with the EU in 2000, which encompasses cooperation in trade relations. Furthermore, the shipping time between Morocco and EU countries is one or two days due to the geographic proximity. Also, Morocco's Port of Tangier Med, the biggest port in the Mediterranean and in Africa, provides a crucial advantage compared to its rivals.

Another interesting point about the vehicles sector is that the UAE could not use its potential in the UK market. The total exports of this sector were 12 billion USD in 2019. However, the sector only exported 0.08 billion USD in vehicles to the UK in the same year. It is because of the high level of tariffs (relative to Turkey, Morocco, and Tunisia) imposed by the UK government.

The third group of products imported the most by the UK from the MENA and Turkey consists of precious or semi-precious metals, stones, and pearls. The total imports of the UK is 358 billion USD from 2016 to 2020, which makes it a very large market (see Table 8). The biggest partners are respectively Switzerland, Canada, and the US. Following these economies, the EU ranks 4th with a share of 11 percent in the total volume, amounting to 41 billion USD. In this group of products, Turkey has an export volume of 6.7 billion USD, which is more than twice the total of 21 MENA countries. After the automotive sector, Turkey mostly exports jewelry to the UK, hence Brexit could provide many opportunities for Turkish firms in this sector. However, note that in this market, Swiss-made products have considerably higher comparative advantage over their rivals with Switzerland's developed and regulated industry dating back to the 1880s.[37] At first glance, it seems that Brexit will significantly help Swiss firms become more competitive relative to the EU firms.

Table 9 Articles of apparel and clothing accessories, knitted or crocheted

Partner	**2016-2020**	
World	62,060,970	100.0%
EU	18,346,575	**29.6%**
Netherlands	3,477,439	5.6%
Italy	3,270,527	5.3%
Germany	3,202,396	5.2%

[37] "The Precious Metals Industry in Switzerland's Economy", *Institut de macroéconomie appliquée*", 15 March 2021, http://www.asfcmp.ch/pdf/precious-metals-industry-in-switzerlands-economy.pdf

Belgium	1,979,949	3.2%
France	1,936,135	3.1%
Spain	1,348,774	2.2%
Other EU countries	3,131,355	5.0%
China	12,898,144	20.8%
Bangladesh	9,018,059	14.5%
Turkey	**6,095,816**	**9.8%**
India	3,646,496	5.9%
Cambodia	3,316,491	5.3%
Pakistan	2,131,666	3.4%
Sri Lanka	1,598,150	2.6%
Viet Nam	1,052,254	1.7%
MENA (total)	**664,464**	**1.1%**
Morocco	293,691	0.5%
Tunisia	141,754	0.2%
Egypt	108,322	0.2%
UAE	84,728	0.1%
Other MENA countries	35,969	0.1%
Myanmar	502,238	0.8%
Indonesia	425,292	0.7%
Hong Kong, China	375,993	0.6%

Source: ITC calculations based on UN COMTRADE statistics, HM Revenue & Customs (HMRC Unit: Thousand USD

The MENA economies hold a very minimal position in the jewelry market in the UK. Their share of 2.6 billion USD does not even account for 1 percent of the UK's total jewelry imports. The major partners of the UK in the region are the UAE with 1.3 billion USD in exports, Israel with 1.1 billion USD, and Saudi Arabia with 0.2 billion USD. From the perspective of Brexit, it appears that jewelry is the UAE's second most-exported item after petroleum products.

The fourth important group of products providing opportunities for the MENA region, and especially Turkey, are the articles of apparel and clothing. In the textile sector, Turkey is the 6th biggest supplier in the world and 3rd in the EU.[38] Similarly, Turkey is a significant player in the UK's textile market. The country exported 6.1 billion USD worth of textile products to the UK from 2016 to 2020, which makes it UK's 3rd biggest supplier (see Table 9). The origins of the Turkish textile industry dates back to the Ottoman Empire.[39] Approximately 72 thousand textile firms operate in the country, which generate an annual revenue of more than 60 billion USD. From this point of view, Turkey, with its powerful textile sector, could benefit from Brexit by increasing its textile exports to the UK.

Turkey's key rivals in the UK's textile market are China, the world's largest textile manufacturer,[40] and Bangladesh, the world's second largest Readymade Garment (RMG) exporter.[41] China with its significantly enhanced trade capacity, is a major rival for Turkey and the MENA countries in the UK market. Additionally, one of the most developed sectors in Bangladesh is textile and clothing. Since 80 percent of the total exports of Bangladesh consist of textile products, the country will try to enhance its trade relations with the UK after the exit. Low cost of labor makes this country a very strong rival for the MENA economies and Turkey.

[38] "Textile Industry in Turkey in 2020", *ERAI Turkey*, 12 May 2020, https://eraiturkey.com/news/textile-industry-in-turkey-in-2020/

[39] Shahbandeh, M. (2021). Textiles and clothing industry in Turkey. 2 December 2020, https://www.statista.com/topics/4844/textiles-and-clothing-industry-in-turkey/

[40] "Textile business Industry in China - Chinese Textile sector import and export overview", *Infomedia*, 15 March 2021, https://www.textileinfomedia.com/textile-industry-in-china

[41] "What Makes Bangladesh — A Hub Of Garment Manufacturing?", 18 July 2018.

Table 10 Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television

Partner	2016-2020	
World	98,749,839	100.0%
EU	140,822,234	**47.1%**
Netherlands	35,289,996	11.8%
Germany	28,596,473	9.6%
France	9,897,007	3.3%
Poland	8,747,162	2.9%
Ireland	8,114,302	2.7%
Czech Republic	7,203,106	2.4%
Italy	6,375,780	2.1%
Spain	4,860,978	1.6%
Belgium	4,760,550	1.6%
Denmark	4,196,019	1.4%
Hungary	4,180,148	1.4%
Slovakia	4,030,359	1.3%
Other EU countries	14,570,354	4.9%
China	8,307,311	26.2%
USA	21,351,813	7.1%
Vietnam	10,996,584	3.7%
Taipei, Chinese	7,448,547	2.5%
Japan	7,150,283	2.4%
Turkey	**6,094,724**	**2.0%**
Malaysia	3,820,811	1.3%
MENA (total)	**3,455,559**	**1.2%**
Egypt	1,158,542	0.4%
Morocco	931,666	0.3%
Israel	569,393	0.2%
UAE	492,545	0.2%
Tunisia	136,828	0.0%
Malta	56,553	0.0%
Saudi Arabia	46,830	0.0%
Other MENA countries	63,202	0.0%

Source: ITC calculations based on UN COMTRADE statistics, HM Revenue & Customs (HMRC) Unit: Thousand USD

Looking at the export potential of the MENA region in the textile sector, numbers are very low for the years between 2016 and 2020. In total, 21 MENA countries exported 644 billion USD worth of textile products from 2016 to 2020. In the region, mainly Morocco, Tunisia, Egypt, and the UAE exported these products to the UK. Especially Morocco stands out with its export of textile products worth 294 million USD to the UK. The textile and clothing sector accounts for 15 percent of the country's economy.[42] Considering its international trade capacity with continental Europe, Brexit could provide opportunities for the textile sector in Morocco.

Another important group of products exported by Turkey and MENA countries to the UK comprises electrical machinery, equipment, parts thereof and, some electronic goods. As a major partner of the UK, the total exports of the EU countries in this sector accounts for almost the half of the total volume (see Table 10). Following the EU; China, the US, Vietnam, Taipei China (Taiwan), Japan, and Turkey are the major exporters of electronics. Turkey's exports of these products to the UK, with 6.1 billion USD for 2016-2020, is almost twice the total of 21 MENA countries, which is 3.5 billion USD.

Turkey has a developed electrical machinery sector compared to the MENA economies.

[42] "Morocco: Improving the international competitiveness of the textile and clothing sector", 15 March 2021.

The total production in the electrical machinery sector amounts to more than 20 billion USD in 2018 according to data of the Turkish Machinery Federation.[43] The annual exports of the sector were around 9 billion USD. From this point of view, the Brexit era will clearly provide opportunities for the Turkish electrical machinery sector.

Following Turkey; Egypt, with its relatively sophisticated production capabilities, exports a considerable amount of electrical machinery to the UK. The five-year export volume of the electrical machinery sector is 1.2 billion USD from 2016 to 2020. The country exports annually a total amount of about 1.5 billion USD in electrical machinery to the world. Similar to Egypt, Morocco also has a remarkable production capability in the machinery sector, which can be seen in its export performance. Accordingly, the country's exports of electrical machinery to the UK are around 930 billion USD for the five years between 2016 and 2020. Other MENA countries exporting electrical machinery products to the UK are Israel, the UAE, Tunisia, Malta, and Saudi Arabia.

[43] "Makine İmalat Sektörü, Türkiye ve Dünya Değerlendirme Raporu", *MAKFED*, October 2019, http://makfed.org/images/s/DegerlendirmeRaporu.pdf

In the textile sector, Turkey is the 6th biggest supplier in the world market and 3rd in the EU market (ERAI Turkey, 2020).

4. EVALUATIONS AND PROSPECTS

It can be observed that the United Kingdom, one of the great powers in the world, lost some of its dominance as a result of its declining share in world's economy in terms of output and international trade. Needless to say, the 2008-09 global financial crisis contributed a lot to this situation. The UK reacted to these developments by leaving the European Union, which poses many risks and opportunities for world's economies. On one side, the EU countries will lose some of their export volumes in the UK market because of the increasing bureaucratic procedures discouraging EU companies from exporting. On the other side, it is expected that non-EU countries will enhance their export volumes, especially the ones with competitive advantages in some sectors.

As none of the economies in the MENA region are members of the EU except Malta, an improvement in the trade volume between the MENA economies and the UK could be expected. However, apart from oil, the current trade volume between MENA countries and the UK is very low. The main exports of the MENA region are petroleum products, which leads to a very volatile economic and trade performance, as demonstrated by the graphics in this analysis. Typically, it is suggested that the economies in the region diversify their product range with respect to their export baskets. This can be achieved by supporting the critical industries to make them competitive in the international markets. In this regard, giving tax incentives to the companies operating in production sectors could be the first step.

In addition to the diversification problem of MENA countries, the undeveloped economy of the region is a big issue. The total GDP of 21 MENA economies accounts for 4 percent of the world's GDP, which is remarkably low. Furthermore, the political unrests and civil wars worsen the economic situation and limit the trade capacity in the region. It can be observed how Syria, Yemen, and Lebanon have been hit by these types of political shocks, which resulted in lower or negative output

growth rates in recent years. Moreover, Iran, the biggest economy in the region after Turkey and Saudi Arabia, have been struggling with the US sanctions that dramatically impact the oil revenues of the country.

Even if there are many political instabilities in the region, some economies have potential to grow and enhance their international trade capacity. In this new era with Brexit, Turkey, as a non-EU country, could show an outstanding performance compared to all MENA economies thanks to its powerful automotive and textile sectors and its geographic location. Turkey is already a big supplier of automobiles and parts thereof in the UK. As the EU countries lose some of their trade advantages in the UK market, Turkey could advance its exports in this sector. Moreover, Turkey is the 3rd biggest supplier of textile products to the UK market. Therefore, using their existing competitiveness, Turkish textile companies should seek ways to expand their exports in this new period with Brexit.

Another advantageous country is Morocco, a small-sized economy with a diversified export basket and the technical capability to produce sophisticated products compared to other MENA economies. Indeed, in terms of proximity to trade routes, Morocco is the most favorable country (after Turkey) in the region, which is evident in the country's volumes of export to the UK. Especially, the Moroccan automotive sector is an important supplier to the European economies. It is thought that Brexit will provide many opportunities for the automotive industry in Morocco, which could considerably enhance the export capacity of the country. In addition, after Turkey, Morocco is the biggest exporter of textile products to the UK in the MENA region, yet, the volume is very low. If the right policies are implemented (subsidies and tax privileges to the textile sector), Brexit could provide some opportunities for Moroccan textile exporters.

Likewise, it can be observed that the electrical machinery market in the UK could be profitable for some exporters in the region, such as Egypt, Morocco, Israel, and the UAE. In the export of electrical machinery products, Egypt, with its exports to the UK amounting to 1.2 billion USD in the last five years, is the leading country in the region after Turkey. The country is thought to have a remarkable potential to increase its exports in this sector after Brexit.

Unlike all other countries in the MENA region, Malta, which is the smallest economy in the region after South Sudan, should be evaluated from a different point of view. The country is the fastest growing economy in the MENA region, after Libya and Turkey, with an average GDP growth rate of 5.5 percent for the last five years. With its highly industrialized and stable economy, it is classified as a developed economy. However, because it is a member of the EU, the country is expected to be adversely affected by Brexit.

Aside from the possible opportunities, another important development likely to affect the export potential of Turkey and all MENA economies is the UK-Japan trade deal. The Comprehensive Economic Partnership Agreement (CEPA) could put Japanese exporters in a significantly more advantageous position in the UK market. The likelihood of the UK to join the Trans-Pacific Partnership is an important risk, which could limit the trade potential of other countries like Turkey and the MENA region.

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