

Brexit: An Emerging Trade Opportunity in MENA

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Abstract: Following UK’s exit from the EU, many countries—both in the Union and outside—have started to gauge Brexit’s possible impacts on their economies. Simply put, the EU countries will be affected negatively since they will be required to do some extra paperwork to import from or export to the UK from now on. On the other hand, non-EU countries have a chance to expand their export to the Kingdom, which is looking for improving its trade relations with the countries outside the Union. From this point of view, our study aims to investigate how the Middle Eastern and North African countries could benefit from this transition. We have made a sectoral analysis covering these countries to determine which sectors are advantageous in exporting to the Kingdom after the Brexit. We found that with Brexit, automotive sectors in Turkey, Morocco and Tunisia could enhance its export to the Kingdom. Businesses in Turkey, Morocco, Tunisia, and Egypt are likely to increase their exports for the textile sector. In the region, another critical industry is electrical machinery and its equipment in which Turkey, Egypt, Morocco, Israel, and UAE have an export potential. When we evaluate all the countries in the region, Turkey seems to have the highest export potential to the UK after the Brexit.

Keywords: Brexit, MENA, Turkey, Export, Trade

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Brexit: OKA Bölgesi İçin Yeni Bir Ticaret Fırsatı

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Öz: Birleşik Krallık’ın Avrupa Birliği’nden (AB) ayrılmasıyla birlikte hem birlik ülkeleri hem de diğer birçok ülke bunun kendi ekonomileri üzerine etkisini hesaplamaya başladılar. AB ülkeleri İngiltere ile ticaret yapabilmek için artık fazladan bürokratik işlemlere maruz kalacaklarından dolayı bu süreçten negatif etkilenecekler. Ancak, birlik üyesi olmayan ülkeler tam tersi Birleşik Krallık ile ticaret hacimlerini artıracaklar ve bu durumdan faydalanma şansına sahip olacaklar. Bu bakış açısıyla, çalışmamızda Ortadoğu ve Kuzey Afrika ülkelerinin bu süreçten ne kadar fayda sağlayacaklarını irdelemekteyiz. Bu doğrultuda çalışmamızda Ortadoğu ve Kuzey Afrika ülkelerindeki sektörlerin tek tek ihracat potansiyelleri analiz edilmektedir. Bulunan sonuçlara göre; Brexit sonrası Türkiye, Fas ve Tunus’un otomotiv sektörlerinin Birleşik Krallık’a ihracatını artırması mümkün gözükmektedir. Tekstil sektöründe ise Türkiye, Fas, Tunus ve Mısır’ın ihracatını artırma potansiyeli olduğu görülmektedir. 3. olarak ihracat potansiyeli bakımından bölgenin diğer bir önemli sanayisi, elektrikli makineler ve bunların parçalarını üreten sektör olarak karşımıza çıkmaktadır. Bu alanda da Türkiye, Mısır, Fas, İsrail ve Birleşik Arap Emirlikleri’nin öne çıktığı görülmektedir. Bölgenin tüm ülkelerini değerlendirdiğimizde Türkiye’nin Birleşik Krallık’a ihracat potansiyeli bakımından oldukça önde olduğu görülmektedir.

Anahtar Kelimeler: Brexit, OKA, Türkiye, İhracat, Ticaret

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بريكسيت: فرصة تجارية جديدة لمنطقة الشرق الأوسط وشمال إفريقيا

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الملخص

مع خروج المملكة المتحدة من الاتحاد الأوروبي، بدأت دول الاتحاد والعديد من الدول الأخرى في حساب تأثير ذلك على اقتصاداتها. ستتأثر دول الاتحاد الأوروبي سلبيًا بهذه العملية لأنها ستعرض الآن لإجراءات بيروقراطية إضافية من أجل التجارة مع المملكة المتحدة. ولكن على العكس من ذلك، فإن الدول غير الأعضاء ستزيد حجم تجارتها مع المملكة المتحدة وستتاح لها فرصة للاستفادة من هذا الوضع. من وجهة النظر هذه، ندرس في دراستنا مدى استفادة دول الشرق الأوسط وشمال إفريقيا من هذا الوضع. في هذا الاتجاه، يتم تحليل إمكانات التصدير للقطاعات في دول الشرق الأوسط وشمال إفريقيا واحدة تلو الأخرى. وفقًا للنتائج التي تم العثور عليها؛ يبدو أنه من الممكن لقطاعات السيارات في تركيا والمغرب وتونس زيادة صادراتها إلى المملكة المتحدة بعد بريكسيت. أما في قطاع النسيج، يُلاحظ أن تركيا والمغرب وتونس ومصر لديها القدرة على زيادة صادراتها. ثالثًا، ومن حيث إمكانات التصدير، فإن القطاع المهم الآخر الذي يبرز في المنطقة هو قطاع إنتاج الآلات الكهربائية وأجزائها. ومن الواضح أن تركيا ومصر والمغرب وإسرائيل والإمارات تبرز في هذا المجال أيضًا. عند تقييم جميع دول المنطقة، نرى أن تركيا متقدمة جدًا من حيث إمكانات التصدير إلى المملكة المتحدة.

الكلمات المفتاحية: بريكسيت، الشرق الأوسط وشمال إفريقيا، تركيا، التصدير، التجارة

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I. Introduction

Following the Global Recession of 2008-09, which severely impacted European countries, the British economy was unable to fully recover, and job losses surged.¹ The unemployment rate rose from 5.26 percent in 2007 to roughly 8.04 percent in 2011, a significant jump for a mature economy like the United Kingdom (UK).² British citizens thus began accusing migrant workers from EU countries of robbing them of their jobs. It is worth noting that in the 2010s, more than 100,000 EU people relocated to the Kingdom each year in search of a job.³ Along with these changes, David Cameron, the Conservative Prime Minister of the coalition government from 2010 to 2015, stated in 2013 that a referendum on EU membership would be held if his party won the election in 2015. The referendum was held on 23 June 2016, after the Conservative Party won the election in 2015 and gained control of the government without forming a coalition. With 51.9 percent of the vote in favor of leaving, the referendum was declared a victory. Following the negotiation period with the EU after the referendum, the UK left the European Union officially on 31 January 2020, through a process called Brexit.

Many countries have expressed concern about the economic consequences of the withdrawal. Even if the UK and EU reach a free trade agreement that excludes taxes and customs duties, the trade volume will decline since EU countries will be needed to complete additional paperwork to import or export to the UK in the future.⁴ Exporters will need to get licenses and certificates for certain commodities. Before Brexit, international trade between them was like a local transaction with no bureaucracy, but that has now ended. Furthermore, the free trade agreement does not exclude either party from imposing taxes on imported goods in the future. Furthermore, labor mobility will be restricted due to the visa restrictions for persons traveling between the EU and the UK. As a result, the relationship between the European and British economies will face numerous challenges in the future years.

The UK's economic size unavoidably reveals how important Brexit is for global economies. In 2019, the country's Gross Domestic Product (GDP) was

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

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

4 "Brexit: Seven things changing on 1 January", 28 January 2021, <https://www.bbc.com/news/explainers-54195827>

2,829 billion dollars.⁵ It contributes 3% of global GDP, or roughly 87,799 billion dollars while accounting for 18% of EU output (15,626 billion dollars). On the one hand, many experts and institutions believe that the Kingdom will lose some economic influence after leaving the EU because it will lose some of its international demand. On the other hand, one of the positive outcomes of the leave is that the UK will not make any payments to the EU. In 2018, the government received 19 billion dollars, which is a significant sum.⁶

The UK's withdrawal can have a significant impact on its commercial relations with practically any country. According to the International Trade Centre (ITC), the UK's current goods trade volume in 2019 is 1,160 billion USD (468 billion USD export and 692 billion USD import).⁷ This volume represents 3% of global merchandise trade, which totals roughly 37,794 billion dollars. This number is a result of the UK's commercial contacts with roughly 200 countries. Furthermore, the Kingdom is one of the largest service exporters in the world, with 416 billion dollars in exports that account for 7% of all global service exports (6,098 billion USD). The overall volume of services trade is 700 billion dollars, with 284 billion dollars in imports, accounting for 5% of the global total (5,747 billion USD import).

Despite its economic share in the global market, Brexit also means that the country could make trade deals without the EU's consent. This will provide many opportunities for non-EU countries. The Kingdom will seek to expand its trade with distant markets by negotiating new trade agreements. Cheaper products outside the EU, lower trade costs, and new markets will be a new focus for the country. In this vein, the most crucial action of the Kingdom after the exit is the signing of a trade deal with Japan, named as Comprehensive Economic Partnership Agreement (CEPA).⁸ This agreement intends to improve commerce between Saudi Arabia and Japan by abolishing or lowering tariffs on various goods. Prior to this agreement, the UK traded with Japan under the EU-Japan Economic Partnership Agreement (EPA), which provided some tariff and duty exemptions. When compared to CEPA, the latter has a limited scope, indicating that the UK appears eager to enhance its commercial ties with non-EU nations in the foreseeable future. More crucially, this deal will pave the way for the United Kingdom to join the Trans-Pacific Partnership (TPP), which is currently inactive but may become operational in the future.

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

6 "Office for National Statistics", *UK*, 3 March 2021, <https://www.ons.gov.uk/>

7 "Trade Map", *ITC*, 1 March 2021, <https://www.trademap.org/>

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

Singapore, Brunei, New Zealand, Chile, Australia, Peru, Vietnam, Malaysia, Mexico, Canada, and Japan are among the 11 countries that have joined this cooperation.⁹

Currently, merchandise trade volume between the MENA countries and the United Kingdom is about 82 billion dollars, with MENA exporting 27 billion dollars and the UK exporting 55 billion dollars.¹⁰ The region gives a 28 billion USD trade deficit to the Kingdom. Petroleum products, precious metals, electrical machinery and equipment, fruits and vegetables are the main exports to the Kingdom, while high-tech products such as vehicles, machinery, mechanical appliances, electronic products, precious metals, stones, pearls, aircraft and parts thereof, and pharmaceutical products are the principal imports.

Apart from oil-dependent economies, certain states in the region, such as Morocco, Tunisia, and Egypt, have a more diverse economy. In this context, Morocco, a North African country bordering the Atlantic Ocean and the Mediterranean Sea, is worth considering. Unlike many states in the region, it is not an oil-dependent economy. Indeed, the country has a one-day delivery time to Spain and a two-day delivery time to the rest of Europe due to its geographic location. Morocco and the EU also have a trade agreement, making Morocco a significant trading partner for the EU. Morocco's Port of Tanger Med, the largest port in the Mediterranean and Africa, contributes to the country's worldwide commerce development.¹¹ Tunisia is another country in the region with a diverse economy. In 1995, it became the first Arab country to join the Euro-Mediterranean Partnership to facilitate bilateral commerce.¹² Following Tunisia, Egypt had joined this partnership in 2001. Like Tunisia and Morocco, Egypt's diversified economy also has other sources of income in addition to its oil revenues.

As a transcontinental country that straddles Asia and Europe, Turkey has a unique place among MENA countries due to its strategic location and economic clout. Customs unions and free trade agreements have connected Turkey to the EU market. In 2019, the country's entire merchandise trade volume was roughly 371 billion dollars, with 200 billion dollars in imports

9 "UK and Japan sign free trade agreement", *UK Government*, 23 October 2020.

10 "Trade Map", *ITC*, 1 March 2021, <https://www.trademap.org/>

11 "Moroccan automotive value chain profile and opportunities", 28 July 2020, <https://www.tradecommissioner.gc.ca/>

12 "Moroccan automotive value chain profile and opportunities", 28 July 2020, <https://www.tradecommissioner.gc.ca/ace-Methodology/>, *German Development Institute/Deutsches Institut für Entwicklungspolitik (DIE)*, No. 25, 2018.

and 171 billion dollars in exports.¹³ The UK accounts for around 18.4 billion dollars of this merchandise trade volume. According to ITC data (2019), this amount accounts for 22% of the entire volume of 21 MENA nations, or 82 billion USD, demonstrating the importance of the Turkish economy in the region. Despite the other countries in the region, the Turkish economy gives a 5.6 billion USD trade surplus to the UK with a 12 billion USD export and 6.4 billion USD import. Due to its existing export potential, Turkey may increase its trade volume with the UK after Brexit. Parts for vehicles, precious metals, stones, pearls, textiles, electrical machinery, and some agricultural items are among Turkey's major exports to the Kingdom. Its technical strengths, accumulated productive knowledge, and low labor costs enable the country to compete and develop advanced products in several fields. Turkey, the world's 15th largest automobile producer and the fifth largest in Europe, is expected to make significant improvements in vehicle exports.¹⁴ Looking at the imports of Turkey from the Kingdom, the main products are machinery, mechanical appliances, vehicles, precious metals, stones, pearls, and some commodities such as iron and steel.

There are two important reasons to study Brexit's effect on MENA. First, the developing and least-developed economies in the MENA region like Algeria, Egypt, Iran, Iraq, Morocco, Syria, and Tunisia have a great potential in terms of demand for foreign goods of the developed economies like the UK. It is because of the requirement for massive infrastructure investments like highways, ports, airports, hospitals, schools etc. Second, the MENA region can export its cheap products (thanks to its relatively low-cost labor) more to the UK. Therefore, policymakers on both sides should evaluate all these opportunities to enhance their trade relations and benefit from this period.

Regarding these developments, our purpose in this study is to investigate how much the MENA countries will have a chance to improve their trade capacity with the UK since EU countries are expected to lose a share in the UK's trade while non-EU countries will be advantageous in this transition period. We examined the current trade volume between the MENA countries and the UK for this analysis using the International Trade Centre (ITC) data. Using sectoral data, we analyzed each sector individually. We then provided projections about the future trade capacity of the MENA countries with the UK.

Having introduced the main developments in the region and the scope of the Brexit, we review the literature in the next section. After that, detailed

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

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

analyses about the UK's trade potential with Turkey and the MENA region are investigated. Lastly, the fourth section concludes with a summary of the remarkable findings of our research and future projections about the trade relations between the UK, Turkey, and the MENA region.

2. Related Literature

Much of the studies about Brexit have stressed the impacts of the exit on the UK economy.^{15,16,17,18} There is no doubt that Brexit will be harmful to UK's economy and trade and thus the country's overall welfare. It is commonly known that being in a union facilitating international trade always contributes to members' trade capacity. According to Eaton & Kortum, declining trade liberalization increases the costs of goods, services, and intermediate goods under the comparative advantage hypothesis.¹⁹ When a country leaves the union, tariffs and duties will automatically raise the price of goods and services. Further, trade barriers decrease the product variety in the country, which directly affects social welfare.²⁰ Any extra cost in terms of tariffs and duties diminishes the motivation of businesses to import from foreign countries.

In parallel, Bloom et al. assert that the UK's exit process has led to a significant and long-lasting increase in uncertainties about the UK economy.²¹ These uncertainties, in turn, have diminished investments by nearly 11 percent from 2016 to 2019. Because of the investment decline, it is estimated that productivity has fallen by 2 to 5 percent. Busch & Matthes further forecast that the UK output could contract nearly 10 percent in a pessimistic scenario.²² Note that the pessimistic scenario is if the UK and the union members trade under the terms of WTO. The optimistic scenario is if the UK and the EU conclude a free trade agreement after the exit.

15 Nicholas Bloom, Philip Bunn, Scarlet Chen, Paul Mizen, Pawel Smietanka, and Gregory Thwaites. "The impact of Brexit on UK firms." No. w26218. *National Bureau of Economic Research*, 2019.

16 Berthold Busch and Jürgen Matthes. "Brexit-the economic impact: A meta-analysis." No. 10/2016. *IW-Report*, 2016.

17 Simionescu Mihaela. "The impact of Brexit on the UK inwards FDI." *Economics, Management and Sustainability* 3, no. 1 (2018).

18 Gemma Tetlow and Alex Stojanovic. "Understanding the economic impact of Brexit." *Institute for government* (2018): 2-76.

19 Jonathan Eaton and Samuel Kortum. "Technology, geography, and trade." *Econometrica* 70, no. 5 (2002): 1741-1779.

20 Paul Krugman. "Scale economies, product differentiation, and the pattern of trade." *The American Economic Review* 70, no. 5 (1980): 950-959.

21 Nicholas Bloom, Philip Bunn, Scarlet Chen, Paul Mizen, Pawel Smietanka, and Gregory Thwaites. "The impact of Brexit on UK firms." No. w26218. *National Bureau of Economic Research*, 2019.

22 Berthold Busch and Jürgen Matthes. "Brexit-the economic impact: A meta-analysis." No. 10/2016. *IW-Report*, 2016.

Similarly, Mihaela demonstrates that foreign direct investments in the UK could decrease by 65 to 90 percent, a considerably high prediction.²³ Note that he constructs a gravity model, which is the most used approach in estimating the economic effect of international trade policies. However, Busch & Matthes criticize the explanatory power of these models as they omit the interaction between markets and sectors.²⁴

By analyzing the sectoral merchandise trade data of the UK, Tetlow & Stojanovic also claim that there will be a considerable employment loss in some sectors, especially the financial sector.²⁵ Because business travelers will be required to apply for a visa after the exit, the financial sector will lose a significant number of customers. The financial services sector accounts for 8 percent of the UK's GDP and 12 percent of tax revenues.²⁶

Moreover, Bruno et al. indicate that foreign direct investments into the Kingdom will probably fall by nearly 22 percent.²⁷ According to the post-Brexit simulation of Dhingra et al., the UK's welfare loss could range between -1.3 (optimistic scenario) to -2.7 percent (pessimistic scenario).²⁸ Regarding these forecasts, Sampson, upon a survey of the literature, found huge differences between them, which shows the uncertainty about the British economy.²⁹

Alongside the impact on the UK itself, the exit is quite likely to influence other economies remarkably, especially in the EU region (Sampson, 2017).^{30,31,32} The main reason behind this is that the Kingdom is an important trading partner of the region and other world economies. Complementary to

23 Simionescu Mihaela. "The impact of Brexit on the UK inwards FDI." *Economics, Management and Sustainability* 3, no. 1 (2018).

24 Berthold Busch and Jürgen Matthes. "Brexit-the economic impact: A meta-analysis." No. 10/2016. *IW-Report*, 2016.

25 Gemma Tetlow and Alex Stojanovic. "Understanding the economic impact of Brexit." *Institute for government* (2018): 2-76.

26 Gloria Tyler. "Financial services: contribution to the UK economy." *House of Commons* (2015).

27 Randolph Bruno, Nauro Campos, Saul Estrin, and Meng Tian. "Gravitating towards Europe: an econometric analysis of the FDI effects of EU membership." *CEP technical paper*, Brexit analysis 3 (2016): 1-13.

28 Swati Dhingra, Hanwei Huang, Gianmarco Ottaviano, João Paulo Pessoa, Thomas Sampson, and John Van Reenen. "The costs and benefits of leaving the EU: trade effects." *Economic Policy* 32, no. 92 (2017): 651-705.

29 Thomas Sampson. "Brexit: the economics of international disintegration." *Journal of Economic perspectives* 31, no. 4 (2017): 163-84.

30 Ansgar Belke and Daniel Gros. "The economic impact of Brexit: Evidence from modelling free trade agreements." *Atlantic Economic Journal*, 45, no. 3 (2017): 317-331.

31 Swati Dhingra, Hanwei Huang, Gianmarco Ottaviano, João Paulo Pessoa, Thomas Sampson, and John Van Reenen. "The costs and benefits of leaving the EU: trade effects." *Economic Policy* 32, no. 92 (2017): 651-705.

32 Thomas Sampson. "Brexit: the economics of international disintegration." *Journal of Economic perspectives* 31, no. 4 (2017): 163-84.

the studies measuring Brexit's risk, Hassan et. al. found that Denmark, the Netherlands, South Africa, Sweden, France, Switzerland, and Germany are the most exposed countries.³³ Their method was based on the reports of the companies. They calculated the number of times 'Brexit' was used in the financial analysis reports and linked the number to the risk level. The analysis covers nearly 176 thousand reports in English from 2011 to 2019 belonging to 10,059 firms in 81 different countries.

Dhingra et al. forecast the impact of the leave by constructing a general equilibrium model covering 31 different sectors and 35 countries.³⁴ In the worst scenario, according to their calculation, Ireland, the closest partner of the Kingdom, will face a 2.4 percent welfare loss. Hassan et al. also estimate that investments declined 2.53 percent, and the employment rate decreased by 3.75 percent after the Brexit referendum.³⁵

Other EU countries will also face a welfare loss because of decreasing trade volume, but it will be less than the loss of the Kingdom.^{36,37,38} It is demonstrated that the most affected EU countries will be Netherlands, Belgium, Hungary, and Denmark.³⁹ Using Global Network Model, Vandenbussche further reveals that even the countries that do not have close trade ties with the UK will be worse off.⁴⁰ He claims that this situation emanates from the network effects in European global value chains involving Czech Republic, Hungary, Poland, Romania, Slovakia, Sweden.

On the other hand, for the non-EU countries, Dhingra et al. found that the UK's decision to leave will make them better off.⁴¹ Because the Kingdom will

33 Tarek Alexander Hassan, Stephan Hollander, Laurence Van Lent, and Ahmed Tahoun. The global impact of Brexit uncertainty. No. w26609. *National Bureau of Economic Research*, 2020.

34 Swati Dhingra, Hanwei Huang, Gianmarco Ottaviano, João Paulo Pessoa, Thomas Sampson, and John Van Reenen. "The costs and benefits of leaving the EU: trade effects." *Economic Policy* 32, no. 92 (2017): 651-705.

35 Tarek Alexander Hassan, Stephan Hollander, Laurence Van Lent, and Ahmed Tahoun. The global impact of Brexit uncertainty. No. w26609. *National Bureau of Economic Research*, 2020.

36 Ansgar Belke and Daniel Gros. "The economic impact of Brexit: Evidence from modelling free trade agreements." *Atlantic Economic Journal*, 45, no. 3 (2017): 317-331.

37 Thomas Sampson. "Brexit: the economics of international disintegration." *Journal of Economic perspectives* 31, no. 4 (2017): 163-84.

38 Vandenbussche, Hylke. "Sector-Level Analysis of the Impact of Brexit on the EU-28." *Report for Flanders Department of Foreign Affairs*, Belgium (2019).

39 Swati Dhingra, Hanwei Huang, Gianmarco Ottaviano, João Paulo Pessoa, Thomas Sampson, and John Van Reenen. "The costs and benefits of leaving the EU: trade effects." *Economic Policy* 32, no. 92 (2017): 651-705.

40 Hylke Vandenbussche. "Sector-Level Analysis of the Impact of Brexit on the EU-28." *Report for Flanders Department of Foreign Affairs*, Belgium (2019).

41 Swati Dhingra, Hanwei Huang, Gianmarco Ottaviano, João Paulo Pessoa, Thomas Sampson, and John Van Reenen. "The costs and benefits of leaving the EU: trade effects." *Economic Policy* 32, no. 92 (2017): 651-705.

switch from trading with the EU countries to non-EU countries, which is also our main concern in this study. Based on this finding of Dhingra et al., we claim that Turkey and the MENA countries will increase their export share in the UK market, which will be thoroughly analyzed in the next section.⁴²

Furthermore, there is another study by Lawless & Morgenroth, based upon a microsimulation covering 5205 different products, assessing the effect of the UK exit.⁴³ They construct their model with a projection of a no-deal between the EU and the UK. It is named the WTO scenario, implying that the UK will trade under WTO terms, not the EU's. Even though the UK has signed a trade deal with the region and continued free trade, the termination of this agreement is possible in the future. Therefore, it is of importance to evaluate a no-deal Brexit scenario.

For the no-deal Brexit scenario, Lawless & Morgenroth indicate that exports of the EU to the UK might decline 30 percent, and the export of the UK might decrease 22 percent.⁴⁴ They further analyze trade in sectors individually and find that the food and textile sectors might be affected harshly under the WTO scenario. Vandenbussche shows that 112,000 people might lose their jobs in the food and beverages sector across Europe.⁴⁵ For the textile sector, they calculate the expected employment loss as 130,000. Indeed, Lawless & Morgenroth reveal that the trade in the vehicles sector between the EU and the UK could decrease by over 60 percent.⁴⁶

In a similar vein, Bisciari surveys the long-term consequences of Brexit on the UK and the EU region economies.⁴⁷ He concludes that the small open economies of the region like Ireland, Luxembourg, Cyprus, and Malta will be hit harder relative to others. These economies, especially Ireland, Cyprus, and Malta, are also directly dependent on the British economy, making them very fragile in this transition period.

42 Swati Dhingra, Hanwei Huang, Gianmarco Ottaviano, João Paulo Pessoa, Thomas Sampson, and John Van Reenen. "The costs and benefits of leaving the EU: trade effects." *Economic Policy* 32, no. 92 (2017): 651-705.

43 Martina Lawless and Edgar LW Morgenroth. "The product and sector level impact of a hard Brexit across the EU." *Contemporary social science* 14, no. 2 (2019): 189-207.

44 Martina Lawless and Edgar LW Morgenroth. "The product and sector level impact of a hard Brexit across the EU." *Contemporary social science* 14, no. 2 (2019): 189-207.

45 Hylke Vandenbussche. "Sector-Level Analysis of the Impact of Brexit on the EU-28." *Report for Flanders Department of Foreign Affairs*, Belgium (2019).

46 Martina Lawless and Edgar LW Morgenroth. "The product and sector level impact of a hard Brexit across the EU." *Contemporary social science* 14, no. 2 (2019): 189-207.

47 Patrick Bisciari. "A survey of the long-term impact of Brexit on the UK and the EU27 economies." *National Bank of Belgium*, Working Paper No. 366, (2019).

3. Opportunities for the MENA After the Brexit

Unlike the existing literature on Brexit, our research study evaluates the sectoral merchandise trade statistics of the United Kingdom. It provides detailed information about the critical sectors, focusing on Turkey and the MENA region. As the existing literature points out that the UK will switch from trading with the EU countries to non-EU countries after the leave, it is noteworthy to analyze how Turkey and the MENA will share this transformation process.

In this sense, the considerable import potential of the UK will provide many opportunities for both the region and Turkey. The UK's total import volume is 3,273 billion USD in the last five years (2016-2020), which demonstrates the large import capacity of the country. The share of the MENA in the UK's import volume is considerably low, as we mentioned in the previous section. The total export of 21 MENA countries to the UK in the last five years (2016-2020) is 60 billion USD, i.e., 2 percent of the total import of the UK. If we add 57 billion USD export of Turkey, it will reach 117 billion USD, or 4 percent of the total volume. To evaluate how this ratio will be affected after Brexit, we should look at the main products imported by the UK from MENA countries and Turkey.

MENA countries' export to the UK are mainly mineral fuels, oils, and products made from these natural resources. As can be seen in Table 1, nearly 33 billion USD worth of petroleum products were imported from 2016 to 2020, which makes the MENA region the third biggest partner after Norway (77 billion USD) and the EU region (54 billion USD). It is important to note here that focusing on 5-year total data instead of yearly statistics shows the general trend and prevents misinterpretation based on one-year exceptions.

The share of MENA is approximately 13 percent of the total petroleum products imported by the UK. Algeria, Saudi Arabia, Qatar, the UAE, and Kuwait have a considerable share in this percentage. When we consider the 54 billion USD export of EU countries to the UK, Brexit provides a remarkable potential for MENA countries to expand their export volume. Many expect that the UK will increase its petroleum import from non-EU countries after the advantages arising from trade cooperation ends with Brexit. Thus main partners like Norway, Russian Federation, the US, Nigeria, Algeria, Saudi Arabia, and Qatar might be affected positively, according to our forecast.

Although Turkey is an oil-importing country, it exported 724 million USD worth of petroleum products in the 5-year-period (see Table 1). However, this amount is very low relative to Turkey's five-year total of 808 billion USD in

merchandise export from 2016 to 2020. Additionally, it seems nonsignificant compared to Turkey's nearly annual GDP of 700-800 billion USD (World Bank, World Development Indicators, 2019). Hence, the petroleum goods sector provides a limited opportunity for Turkey's export to the UK.

Table 1 UK's Import 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 USD

Vehicles, parts, and accessories are the second crucial sector that offers opportunities for the MENA region, particularly Turkey. Table 2 indicates that the total export volume of MENA countries is nearly 13 billion USD for the years between 2016-2020. However, Turkey holds 11.8 billion dollars, meaning that the MENA region has limited potential, whereas Turkey has a clear advantage. Many foreign automotive companies such as Mercedes-Benz, Ford, Fiat, Hyundai, Toyota, Renault, Isuzu, and domestic firms like Temsa, Tofaş, Tümosan etc, are based in Turkey. By the end of 2018, Turkey was the 15th largest automotive producer in the world and the fifth largest in Europe.

When we look at the general picture in the import of vehicles and their parts, the EU has an 84 percent share in UK's imports. As a result, for nations like Turkey, the question of how much the UK's vehicle imports from the EU will be affected is critical. On the other hand, Turkey faces stiff competition from Japan, Korea, China, and the United States. Because of the UK-Japan Comprehensive Economic Partnership Agreement (CEPA) signed on 11 September 2020, which will undoubtedly bring several benefits/privileges to Japanese exporters, Japanese exporters will receive the biggest share after Brexit. Significantly, this deal will pave the way for the United Kingdom to join the Trans-Pacific Partnership (TPP), which is currently inactive but may become operational in the future. Singapore, Brunei, New Zealand, Chile, Australia, Peru, Vietnam, Malaysia, Mexico, Canada, and Japan are among the 11 countries that have joined this collaboration. Without a doubt, signing a trade deal with the United Kingdom will be important for Turkey to obtain a competitive advantage over these suppliers in the automobile industry.

Apart from Turkey's potential, which stems from its accumulated productive knowledge and technical capabilities, Morocco might benefit considerably from Brexit with its burgeoning automotive sector and existing knowledge. In recent years, the country's vehicle sector has emerged as the most important export channel, accounting for 25% of total export volume. In doing so, Morocco is Africa's second-largest automobile manufacturer. Large automotive corporations such as Renault-Nissan, PSA, and China's BYD, as well as approximately 250 other companies in the industry, produce automobiles in Morocco and export them to other nations, mainly European countries. In 2000, the country signed an Association Agreement with the EU, which covers trade cooperation. Thanks to its geographic location, shipping time between Morocco and EU countries is only one or two days. In addition, Morocco's Port of Tanger Med, which is the largest port in the Mediterranean and Africa, offers a significant competitive advantage over its competitors.

Another remarkable feature of the car industry is that the UAE was unable to capitalize on its potential in the UK market. The total exports in this sector were 12 billion USD in 2019. However, in the same year, the sector only exported 0.08 billion USD worth of vehicles to the Kingdom due to the UK government's high tariffs (compared to Turkey, Morocco, and Tunisia).

Table 2 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

Precious or semi-precious metals, stones, and pearls are the third group of products that the UK imports primarily from the Middle East and Turkey. From 2016 to 2020, the UK's total imports reached 358 billion USD, making it a very substantial market (see Table 3). Switzerland, Canada, and the

United States are the three largest partners. Following these economies, EU countries rank fourth, accounting for 11% of the total volume of 41 billion dollars. Turkey has a volume of 6.7 billion USD in this category, more than twice the sum of the 21 MENA nations. After the automotive sector, Turkey's main export to the United Kingdom is jewelry. Therefore Brexit could open many doors for Turkish businesses in this sector. However, with a matured and regulated industry dating back to the 1880s, Swiss-made products enjoy a significant comparative advantage over their competitors in this market.⁴⁸ At first look, it appears like Brexit will benefit Swiss firms by making them more competitive than EU firms.

The MENA economies have a limited share in the jewelry market in the UK. With a volume of 2.6 billion dollars, they account for less than 1% of the Kingdom's total jewelry imports. The UAE, with 1.3 billion dollars in exports, Israel, with 1.1 billion dollars, and Saudi Arabia, with 0.2 billion dollars, are the Kingdom's biggest regional partners. In light of Brexit, it appears that jewelry is the UAE's second most important exported good after petroleum products.

48 "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>

Table 3 UK's Import of Natural or cultured pearls, precious or semiprecious stones, precious metals, metals clad

Partner	2016-2020	
World	358,093,072	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

Articles of apparel and clothing are the fourth leading group of products that provide a potential for the MENA region, particularly Turkey. Turkey is the world's sixth-largest textile supplier and the third-largest in the European Union.⁴⁹ Besides, Turkey is a leading actor in the UK's textile market. From 2016 to 2020, the country exported 6.1 billion dollars worth of textile items to

49 "Textile Industry in Turkey in 2020", *ERAI Turkey*, 12 May 2020, <https://eraiturkey.com/news/textile-industry-in-turkey-in-2020/>

the Kingdom, making it the third-largest supplier (see Table 4). The Turkish textile industry dates back to the Ottoman Empire.⁵⁰ The country's textile industry employs around 72 thousand people and earns over \$60 billion in annual sales. From this point of view, Turkey, with its robust textile sector, could benefit from Brexit by expanding its export to the UK.

As expected, Turkey's major rivals in the UK's textile market are China, the world's largest textile manufacturer,⁵¹ and Bangladesh, the world's second-largest Readymade Garment (RMG) exporter.⁵² In the UK market, Turkey and the MENA countries face stiff competition from China, which has dramatically increased its trade capacity. Textiles and garments are also one of Bangladesh's most developed industries. Bangladesh would aim to improve its trade links with the UK after the Brexit because textile items account for 80% of the country's overall exports. Thanks to its low labor costs, this country is a formidable competitor for the economies of the Middle East and North Africa, as well as Turkey.

When we look at the MENA region's textile export potential, we see a relatively low volume for the years between 2016 and 2020. Between 2016 and 2020, 21 MENA nations exported 644 billion USD in textile items. Morocco, Tunisia, Egypt, and the United Arab Emirates are the largest exporters of these goods to the United Kingdom. Morocco receives attention due to its 294 million USD textile export volume to the Kingdom. The textile and clothing sector accounts for 15 percent of Morocco's economy.⁵³ Regarding Morocco's international trade capacity with continental Europe, Brexit could open doors for the textile industry.

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

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

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

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

Table 4 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%
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%
Vietnam	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

Electrical machinery, equipment, parts thereof, and some electronic goods are other prominent items exported by Turkey and MENA nations to the Kingdom. EU countries account for about half of the total volume of exports in this industry, making them an important partner of the Kingdom (see Table 5). Following the EU, the top exporters of electrical items are China, the United States, Vietnam, Chinese Taipei (Taiwan), Japan, and Turkey. Turkey's exports of these products to the Kingdom nearly double the total of 21 MENA nations, at 6.1 billion USD for 2016–2020.

In comparison to the Middle East and North Africa economies, Turkey has a well-developed electrical machinery sector. According to figures from the Turkish Machinery Federation (MAKFED), total production in the electrical

machinery sector reached more than 20 billion dollars in 2018.⁵⁴ The annual export volume of this sector is around 9 billion USD. Hence, the Brexit era provides visible opportunities for the Turkish electrical machinery sector.

Table 5 Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television

Partner	2016-2020	
World	298,749,839	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	78,307,311	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		

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

Egypt, which follows Turkey in terms of industrial capability, exports a significant amount of electrical machinery to the Kingdom. From 2016 to 2020, the Egyptian electrical machinery sector's export volume is expected to be 1.2 billion USD. The country's total annual electrical machinery export volume to the world is around 1.5 billion USD. Similarly, Morocco has a remarkable production capability in the machinery sector, which can be seen in its export performance. As a result, the country's electrical machinery exports to the Kingdom are expected to total over 930 billion dollars over the five years from 2016 to 2020. Furthermore, Israel, the United Arab Emirates, Tunisia, Malta, and Saudi Arabia are among the MENA nations that export electrical machinery to the Kingdom.

4. Evaluations and Prospects

The share of the UK's economy in the world output has considerably declined in recent years. The 2008-09 Global Financial crisis has further worsened this situation for the country. As a reaction to these developments, the Kingdom wanted to leave the Union to design its policies independently and regain power. Brexit has many consequences for the world economies. While non-EU countries could have a chance to increase their export to the UK, the EU countries could lose their free trade advantages and suffer economic repercussions.

In this vein, the MENA region economies could enhance their export to the Kingdom. However, as revealed in the previous section, the current trade volume between the MENA region and the Kingdom is very low, and the main export goods are petroleum products. This is because region economies have an undeveloped economic structure. If they can successfully increase the degree of complexity of goods produced in the country and diversify their product range, they could have a chance to get a share in the UK's trade market after the exit. In this regard, they should implement appropriate tax incentives in the productive sectors and make their domestic companies more competitive in the international market. Also, they must seek to sign trade deals with the Kingdom in order to be able to get a share in the UK market in this new era because developed economies have already started to secure trade deals like the Comprehensive Economic Partnership Agreement (CEPA). If the UK signs the CEPA, it will make Japanese exporters more competitive in the UK market and limit the opportunities for MENA countries in the Brexit era.

Apart from these problems, when we evaluate region economies individually, some of them have a remarkable potential to raise their trade

capacity with the UK after the exit. With its developed automotive and textile sectors, Turkey could be shown as one of them, as it is already an important supplier in the UK. After the exit, Turkey could gain more share in the automotive sector of the UK. We suggest that the Turkish government increase its support in this sector to make it more competitive in the UK's automotive market.

Besides, in the UK market, Turkey is the 3rd largest supplier of textile products. As the history of the textile sector in the country goes back to the 16th century, its potential is certainly non-negligible. Therefore, the Turkish government should encourage companies to export textile products to the Kingdom. There may be some tax incentives, advertising supports, and exemptions.

After Turkey, Morocco is another country in the region that can produce sophisticated products, and the main advantage of the country is its proximity to trade routes. Thanks to these advantages, the export of the Moroccan automotive sector to European countries, including the UK, is considerably high. Also, Morocco is an important supplier of textile products in the Kingdom. Therefore, the exit will provide several opportunities for the country regarding its export capacity to the Kingdom. We suggest that the Moroccan government implement policies supporting automotive and textile exporters to the Kingdom, which will remarkably contribute to the country's economic growth in the medium term.

In addition to Turkey and Morocco, other region economies like Egypt, Israel, and the UAE could enhance their trade share in the UK market. These countries export electrical machinery products to the Kingdom, and we think that the exit will affect these sectors positively. As revealed in the previous section, Egypt has recorded 1.2 billion USD export volume to the Kingdom in this sector in the last five years, which is considerably high. Therefore, the exit could be a significant opportunity for Egypt to increase its electrical machinery export.

Aside from these positive impacts of the exit on the region, Malta, as a small MENA economy, could lose its trade share in the UK market due to being a member of the EU. As mentioned above, we expect that the EU countries will be affected negatively by this transition period because of rising bureaucracy with the exit. Therefore, the government of Malta should try to retain pre-Brexit conditions in trade relations by new agreements.

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