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Delta Economics | Regional Trade Profiles | MENA

2nd Quarter 2012

About Delta Economics

Delta Economics is a pre-eminent source of specialist forecasting and economic research. We provide unique global market insight and analysis through our trade, trade payments and GDP forecasts and conduct economic research that allows our clients to anticipate market developments across a comprehensive range of sectors and continents.

About the Delta Economics World Trade Outlook

Delta Economics looks at the world from the perspective of the drivers of trade. Unlike other forecasts, we look at the things that affect businesses when they decide to trade abroad: the costs of trade in terms of capital, people and locating in a different country. We also look at reasons for trade: for example, differential economic conditions, investment and comparative advantage (including skills and education, innovation and ease of doing business) and indicators of long term economic development such as population growth and the Human Development Index.

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1.

MENA | Overview

Delta Economics forecasts that trade in the Middle East and North Africa will grow by 5.7% in 2013. This represents a slip of 0.4% from the last forecast and is largely down to a fall in our export outlook. Though a substantial decline, MENA data is historically prone to fluctuations due to the volatile political climate.

Nevertheless, we expect exports to grow by 5.3% in 2013, 0.5% slower than our last forecast. Our forecasts for the oil and gas industry have fallen significantly in recent months. The big three of crude, gas and non-crude have all seen falls of over 0.5%, and so have many important ancillary alcohols, chemicals and fertilizers. Elsewhere, the drops are less severe, and there are even some slight increases in the electrical sectors.

We see imports increasing by 6.3%, representing a 0.2% fall from our previous estimate. The big decreases here were in cars and diamonds, suggesting that domestic consumption, particularly in the Gulf's lucrative luxury goods markets, is not as buoyant as it has been.

Despite these slower forecasts, trade growth in MENA should still be much higher than our 2.1% forecast for World trade. But with recent reports suggesting that the influx of shale could halve oil prices in the next ten years, this momentum may not be sustainable for much longer.

Table 1 | MENA's total trade

MENA	2012 Value (bn)	Last Forecast YoY 2013	This Forecast YoY 2013	% Change
Export Growth	1,124	5.8	5.3	↓ 0.5
Import growth	751	6.5	6.3	↓ 0.2
Total Trade Growth	1,876	6.1	5.7	↓ 0.4

Table 2 | MENA's top economies (by GDP)

Top-5 economies (by GDP)	2012 market size (bn)	Total Trade last forecast	Total Trade this forecast	% Change
Saudi Arabia	457	4	4	-
Iran	189	16.8	15.7	↓ 1.1
UAE	415	4.2	4.2	-
Israel	103	4.2	5.8	↑ 1.6
Egypt	72	5.9	6.6	↑ 0.7

2.

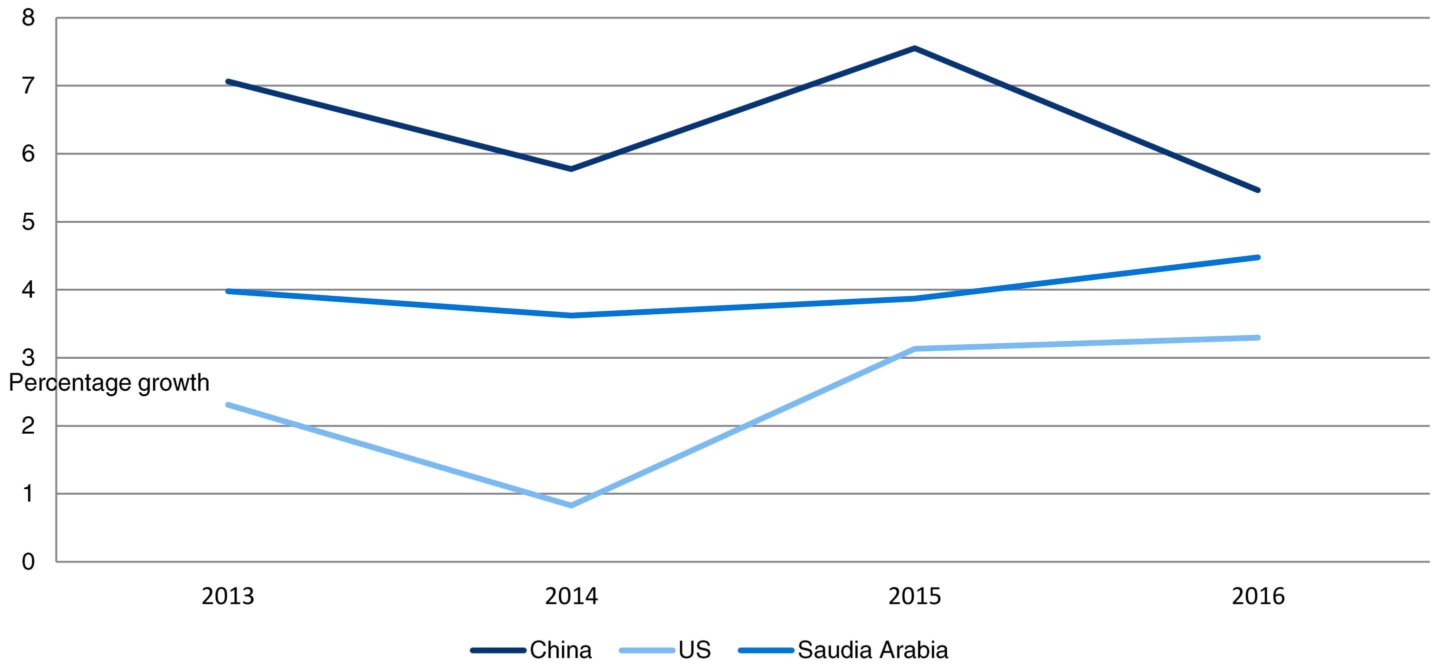
MENA | Top 5 Economies

Saudi Arabia

Given the growing uncertainty around oil prices, the lack of movement in our trade outlook suggests that the region's largest economy is bearing up well. Although 4.0% growth is the slowest rate of MENA's top-five economies, it is in line with the more modest growth rates expected in China and the continuing instability in the US (two of their biggest trade partners).

Indeed, Saudi Arabia's long-term credit ratings were recently upgraded on the assumption that the progress of the non-oil economy would offset potential losses in the oil industry. This explanation seems unlikely given that their third biggest export (itself an important ancillary commodity in the oil economy) was worth just 3% of the value of their exports of crude and non-crude in 2012, but the upgrade does represent a valuable vote of confidence. For the moment, at least, the fiscal climate looks reasonably stable.

Graph 1 | Forecast growth in total trade for Saudi Arabia, China and the US



2.

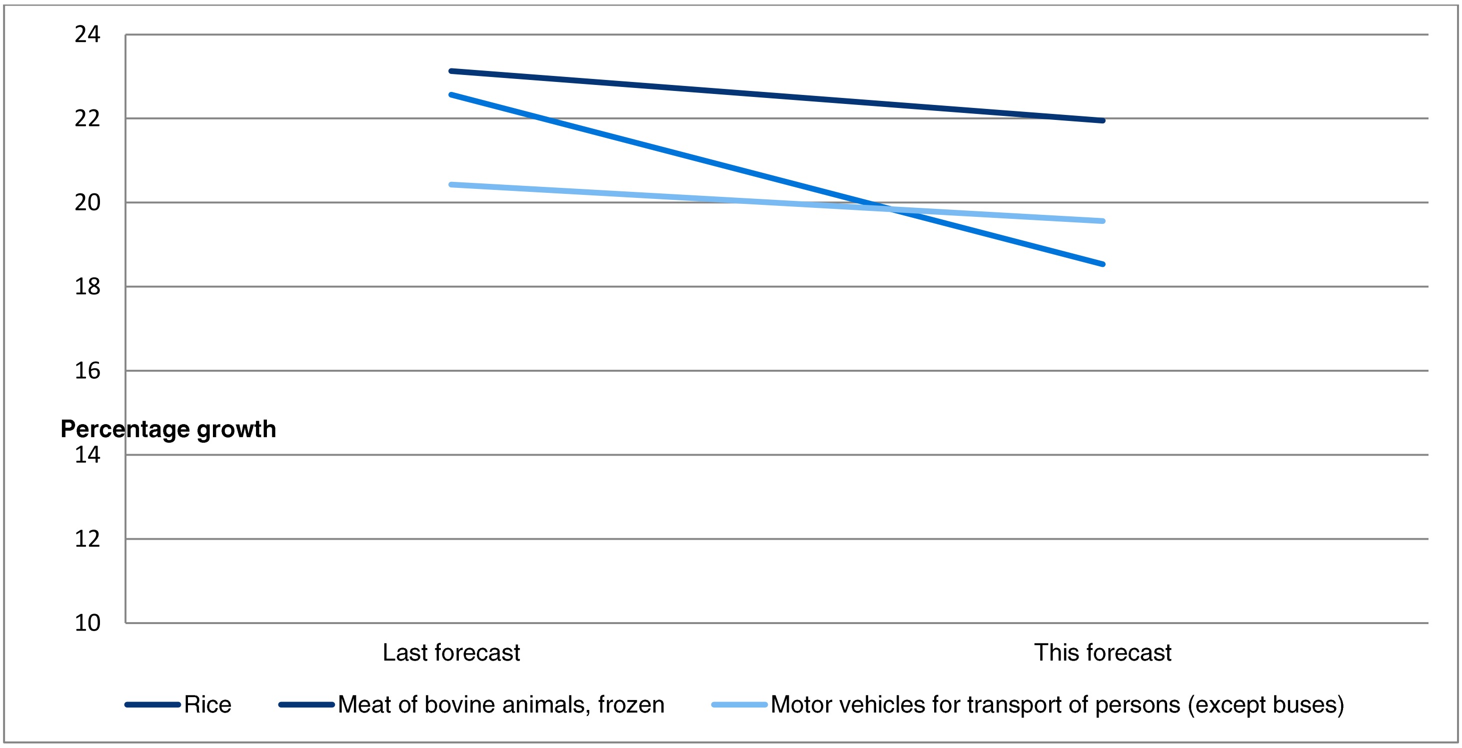
MENA | Top 5 Economies

Iran

The prospects look rather bleak for the nation. After an initial bout of resilience, the renewed US-led trade sanctions have slowly taken hold as more trade partners have begun to look elsewhere and the list of embargoed commodities has steadily grown. As a consequence, our rapidly receding trade forecast will only get worse.

Our current prediction of 15.7% growth may seem high but the last two years have seen a severe depreciation of the currency and trade volumes have dropped accordingly. Even trade growth of this magnitude will still see their value of trade significantly below 2008 levels. The result of the recent election has sparked hope that Iran could begin to change course. But the systemic damage will take a long time to repair.

Graph 2 | Impact of oil sanctions on key import sector forecasts

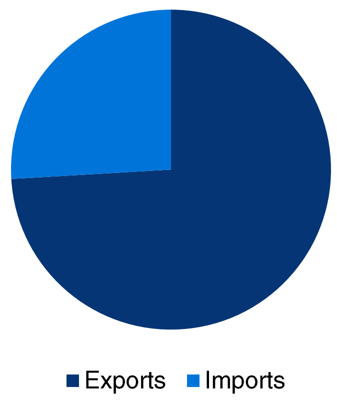


United Arab Emirates

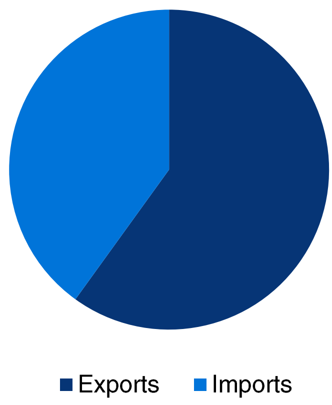
Like their much larger neighbour (although notably not that much larger in terms of trade value), the unchanged forecast for the UAE is evidence of an increasingly rare and coveted stability. Again, like Saudi Arabia, it remains to be seen how long they can keep this up, particularly as their export portfolio is almost as lopsided. Their exports of oil are worth more than all of their other exports combined, including those crucial ancillary sectors.

However, it is the country's overall trade picture that gives them the edge over their partners in the Gulf. A carefully cultivated import industry has seen domestic demand keep pace with rapidly growing exports, resulting in a stable trade balance for the UAE, almost uniquely for an oil-based economy. Policymakers' claims of looking outside the oil industry, so often just empty rhetoric, actually have some validity here. Flourishing import sectors include jewellery and diamonds, and these industries are even beginning to have a significant impact in export markets.

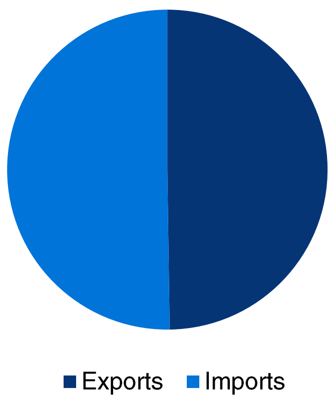
Graph 3 | Saudi Arabia's trade balance



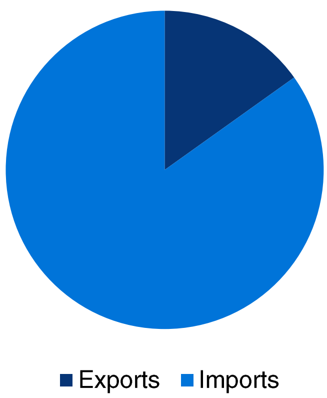
Russia's trade balance



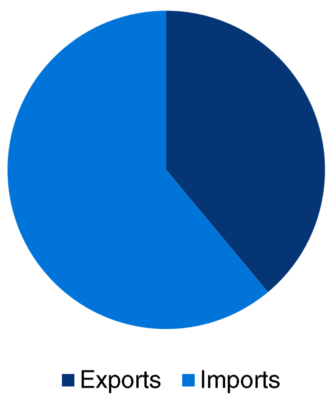
UAE's trade balance



Venezuela's trade balance



USA's trade balance



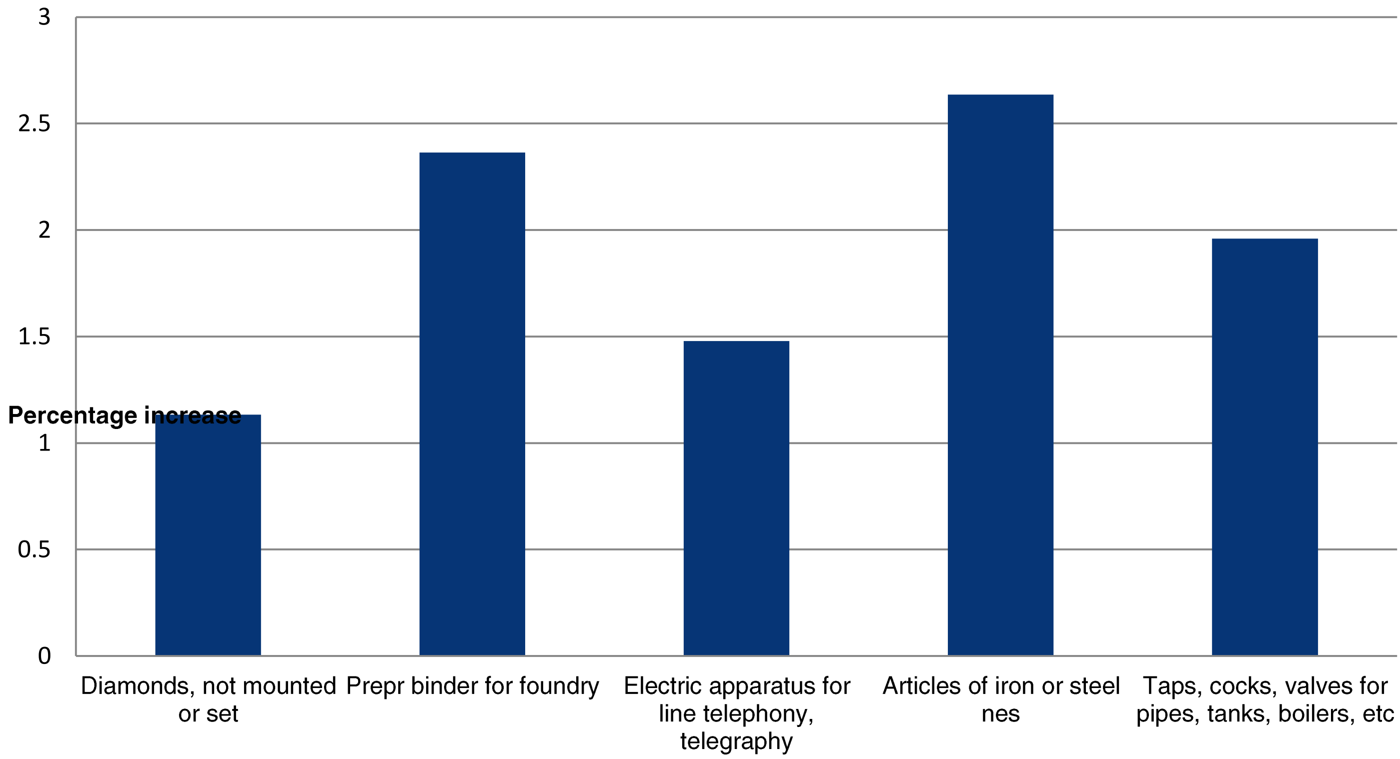
MENA | Top 5 Economies

Israel

After a sluggish 2012, the Israeli economy looks to be in in healthier shape. A rise of 1.6% in our total trade forecast is a major improvement. It is partly due to the rising price of rough diamonds, which has given a much needed boost to Israel's top export sector, and partly due to recovering demand in the US, their biggest export partner.

This combination looks as though it has energised sectors across their trade portfolio. Indicators in the manufacturing industry are particularly encouraging, with rises of over 2% in both export and import sectors. Consumers are also showing more confidence, with imports of cars and computers set to see bigger rises this year than we previously expected.

Graph 4 | Percentage increases in Israel's diamond and manufacturing export sectors since the last forecast



2.

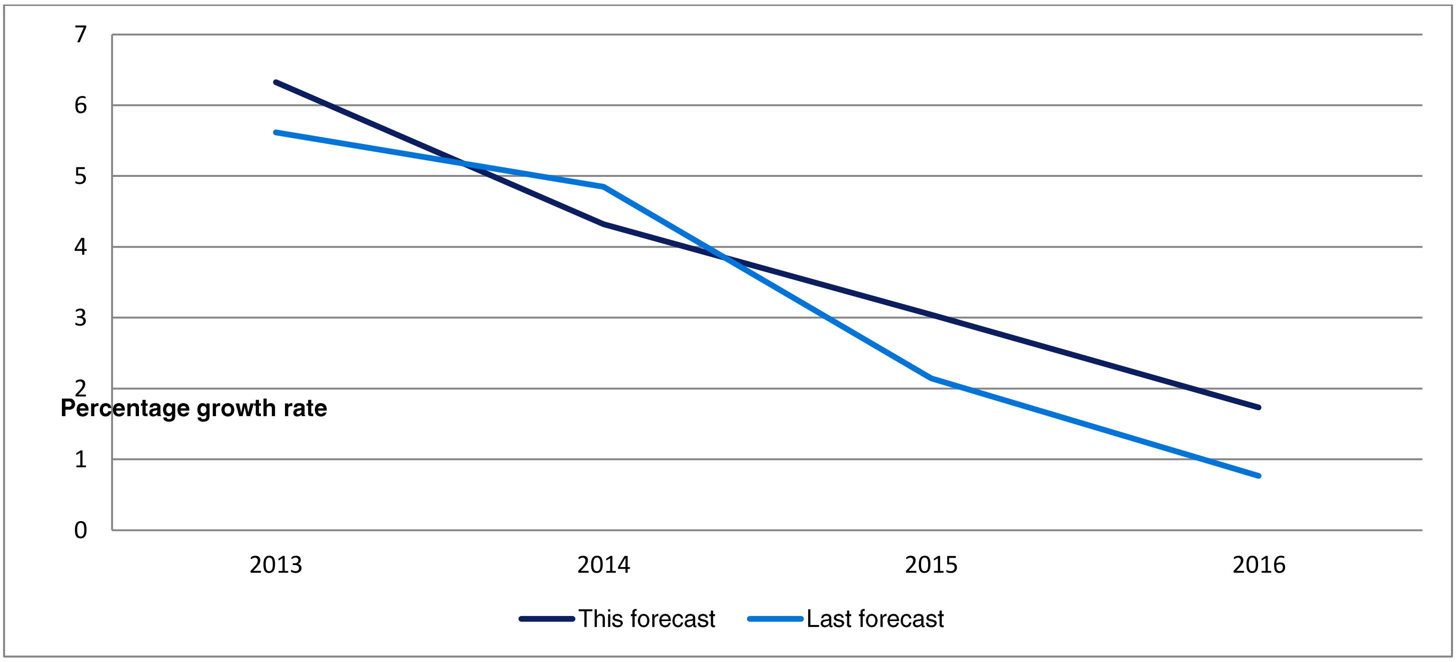
MENA | Top 5 Economies

Egypt

The current round of protests has again ignited uncertainty about Egypt's economic future. Our forecast of 6.6% trade growth was tentatively based on the assumption of at least moderate stability. Before these latest events, the data was suggesting that Egyptian trade was beginning to rebound from a turbulent few years.

Our export growth outlook for 2013 had risen by nearly 1%, crucial progress for an economy running a wide trade deficit. Our predictions for major construction export sectors were especially improved, an indication of the potential for Egypt to become a trade hub for countries like Libya and the Sudan who, like Egypt, desperately need to rebuild and reinvest in infrastructure. However, the recent insecurity could well have checked these signs of recovery.

Graph 5| Projected Egyptian export growth



3.

MENA | One to Watch | Iraq

Iraq's trade is booming. Our estimate for overall trade growth this year is hovering at just under 10%, way above our predictions for the other countries in the Middle East, save Iran. But unlike their much bigger neighbour, where soaring growth rates can largely be written off as a mixture of volatile data and a response to a particularly tough couple of years, Iraq's growth is looking increasingly sustainable. Indeed, part of the impetus behind this brighter outlook has been the US trade sanctions with countries turning to Iraq to pick up the slack. This extra demand has acted as a valuable kick-start for the fledgling post-war economy. Levels of FDI are accelerating, with South Korea, the US and the UK the top three countries of origin for investment. US mega-bank Citigroup recently announced plans to open an office in Baghdad, hoping to beat competitors to Iraq's largely untapped credit markets. This, in turn, is fuelling faster trade growth; we currently put 2013 trade growth with South Korea at 15%.

The risks must not be underestimated. In many areas, violence is still endemic, and experts are warning that the instability is leading to spiralling levels of corruption. Iraq's economic thrust is still very narrow. The country is still overwhelmingly reliant on exports of crude oil, which, according to our data, made up 99% of the total value of exports in 2012. Infrastructure is so patchy that exports of non-crude are actually set to fall this year, despite already being worth comparatively little. This almost total dependency on crude has also been underpinned by a growing trade deficit as a nascent middle class almost exclusively buy foreign goods. It is a dangerously self-perpetuating cycle. But there are signs that it can be broken. Construction sectors lead our import growth estimates and commentators are even going so far as to talk of a real estate bubble in the Kurdistan region. This may be a little premature. But, like trade, optimism is growing at a healthy rate.

Table 3 | Iraq's total trade

Total Trade	9.5
Exports	9
Imports	10.8

Table 4 | Iraq's top exports

Top exports	2013 Growth (%)
Crude oil	9.1
Gold	19.1
Non-crude oil	-4.5

Table 5 | Iraq's top imports

Top imports	2013 Growth (%)
Cars	14.6
Wheat and meslin	8.5
Iron/steel bar	18.7

4.

MENA | Sector Watch

At first glance, the falls in our growth forecasts for MENA's big three exports (crude, non-crude and gas) could give the impression that the shale revolution is already eating into the value of region's dominant asset. But on closer inspection, the fall in our forecast can largely be ascribed to the impact of the oil sanctions on Iran. As Ernest Moriz, US energy secretary, has said, Iran is no longer a 'dominant player in the market'. In contrast, our growth forecasts for the other big oil producers are all holding steady.

Table 6 | MENA's top 5 export sectors

Top-5 Export Sectors	2012 Value (bn)	Last forecast	This forecast	% Change
Crude Oil	649	4.7	4.1	↓ 0.6
Petroleum gases	84	9.3	8.9	↓ 0.4
Non-crude Oil	79	3.7	3	↓ 0.7
Diamonds	23	5.1	4.6	↓ 0.5
Hydrocarbons	13	8.5	8	↓ 0.5

Table 7 | MENA's top 5 import sectors

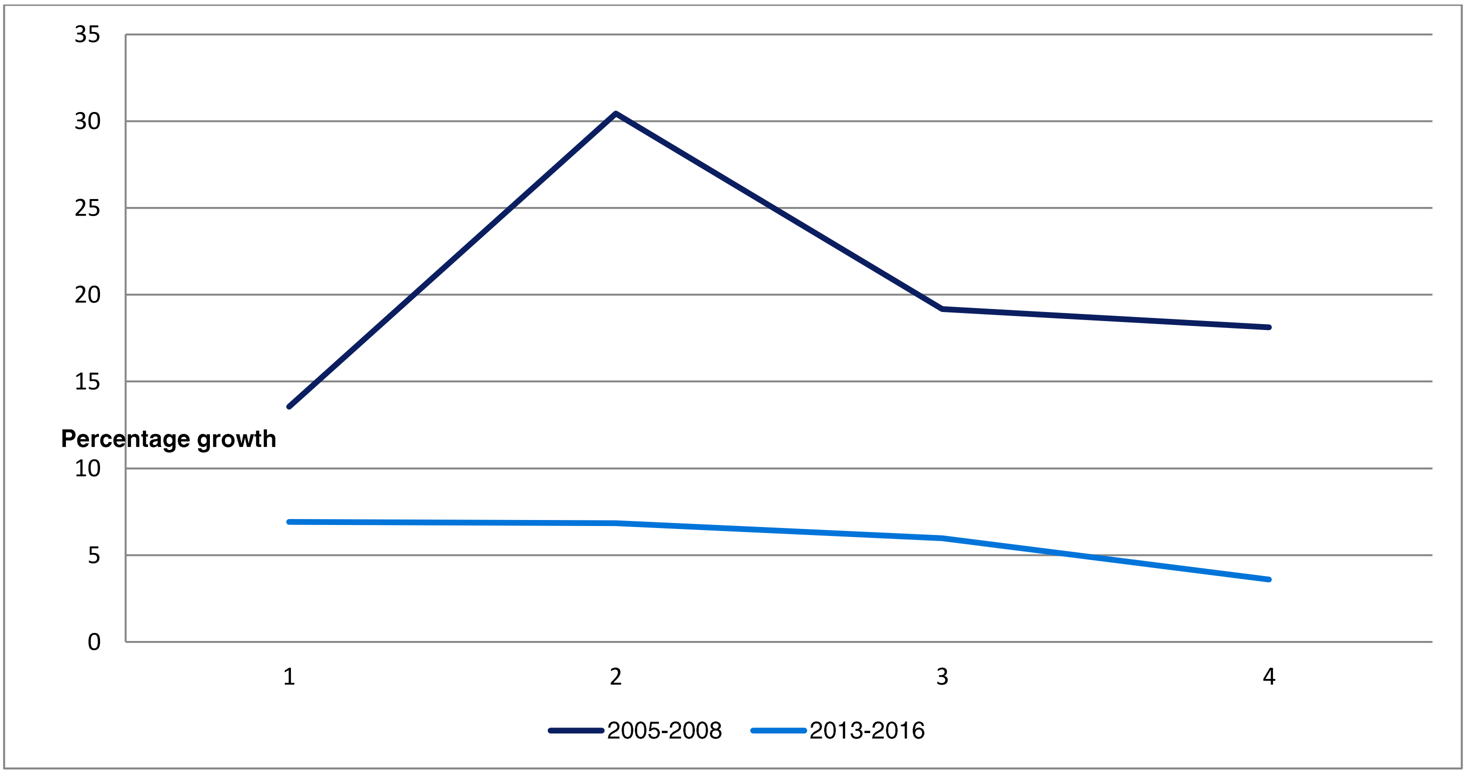
Top-5 Import Sectors	2012 Value (bn)	Last forecast	This forecast	% Change
Motor vehicles	46	4.7	4.3	↓ 0.4
Non-crude Oil	34	6.7	6.4	↓ 0.3
Diamonds	19	6.6	6.1	↓ 0.5
Jewellery	16	10.4	10.3	↓ 0.1
Medicaments	11	6	5.8	↓ 0.2

MENA | Sector Watch

Our predictions for exports of the big three in Saudi Arabia and the UAE, while hardly spectacular, are holding steady. In Qatar, our already rapid forecasts have accelerated. It seems as if the initial influx of extra oil and gas has gone to plugging the hole created by the sanctions. In time though it could pose a more serious threat to the Gulf.

However, the mere impression of a shale revolution could well be enough to frighten wealthy consumers in countries like Saudi Arabia, the UAE and Qatar. Although we still think growth will be healthy for MENA's major import sectors in 2013, the drop in our growth estimate does hint at dampening domestic demand. This could hit luxury sectors like diamonds, jewellery, televisions and cars, a key growth market in the past few years. This nervousness, although limited, does show how dependent the so called 'non-oil' economy is on the oil industry.

Graph 6| Growth rates in MENA exports of jewellery



5.

Latin America | The Smart Money

The UAE is the safest bet for investors. It is arguably the only oil rich country that has matched booming exports with booming imports. Unlike the region-wide forecasts for imports of diamonds and jewellery, our forecasts for these sectors in the UAE have stayed steady, indicating a resilience lacking in many of their neighbours.

Iran and Egypt still look very precarious. Even with the arrival of a more moderate president, the full squeeze of the US sanctions is still yet to be felt in Iran. And Egypt, where we had been more positive, looks like rolling back any small steps it had made.

Overall, the region's risks are becoming ever more accentuated, making the continued bullishness from the media and global organisations increasingly hard to understand. Countries are still heavily reliant on oil in a world where oil prices are becoming less and less reliable.