Rising US tariffs on China and the EU will have indirect impacts on economies in the MENA region over the coming years. These will include stronger energy demand from China, lower global energy and food prices, weaker manufacturing exports to the EU and potentially slower growth in China's infrastructure investment in the region.

US trade confrontation will persist

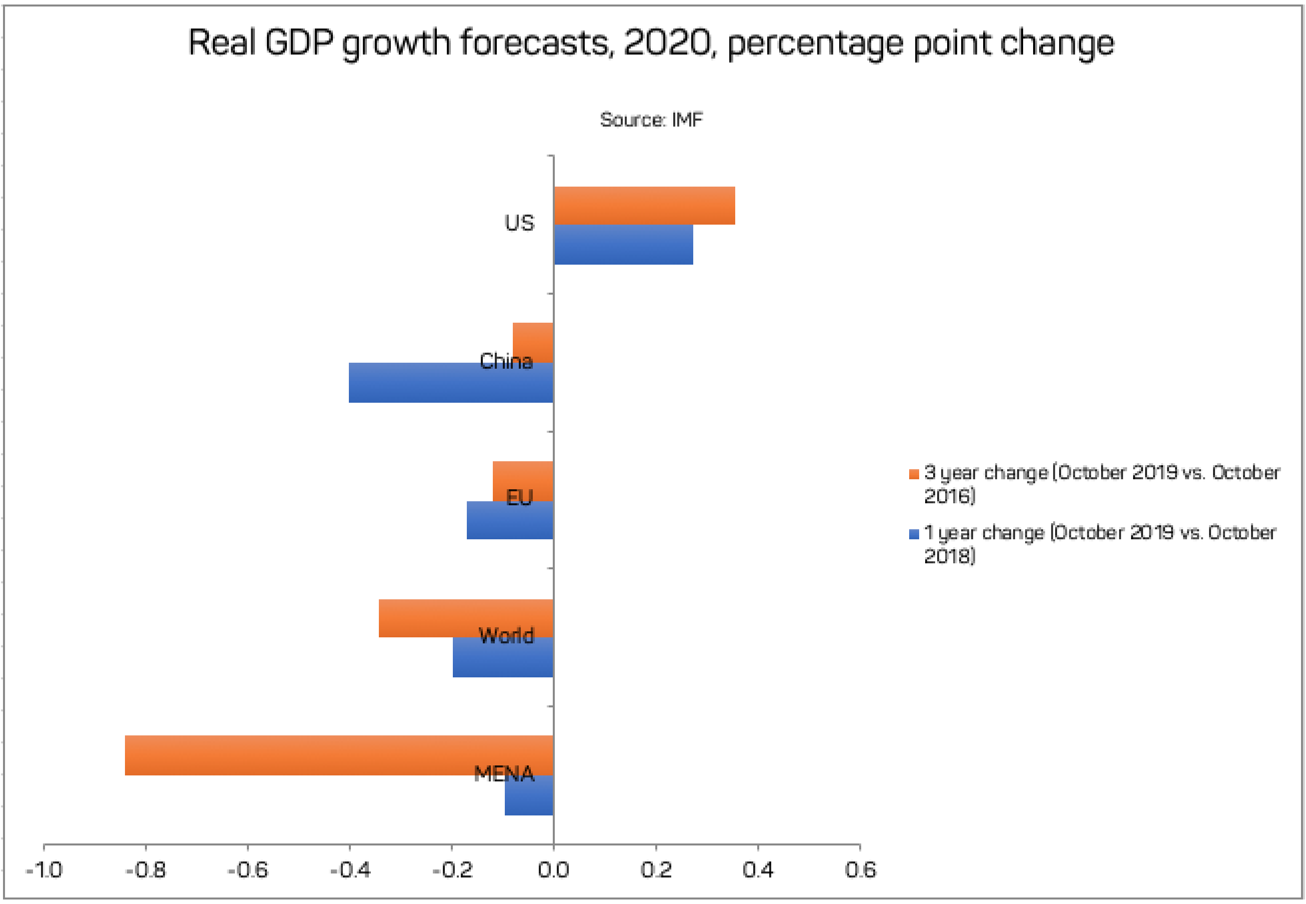
The reshaping of US trade relations that began with the election of President Donald Trump in 2016 will continue in the coming years. Major points of contention with key trading partners will likely persist, even if Trump fails to secure a second term in office. While a new administration in the White House could adopt a less confrontational negotiating style, reforming the trading relationship with China would likely remain a priority.

Perceptions of the economic relationship with China have deteriorated sharply among Americans. According to a May 2019 survey by the Pew Research Centre 60% of respondents held "unfavourable" opinions of the country compared to 47% in 2018. This was the most negative perception of China that the Pew survey has ever recorded. The negative view of the economic relationship between the two countries is likely coloured by the fact that 81% of Americans now view China's growing military power as a threat to the US.

Given this backdrop, major aspects of the US and China's respective negotiating positions on trade will remain irreconcilable over the next few years. The slow pace of reform to China's state support for domestic industry and opening up to foreign firms in the services industry, coupled with continued restrictions on the ability of Chinese firms to acquire US companies and technology, will prevent agreement on a comprehensive trade deal. To a lesser extent, US trade tensions with the EU will also remain high, particularly with regard to EU exports of automobiles to the US.

Asia and Latin America to be more affected than MENA

The indirect impact of the re-routing of global trade flows will most acutely affect countries in East Asia (manufactured products) and Latin America (food products). While it is highly unlikely that the US will target any particular country in the MENA region for aggressive trade renegotiations, various economies will be indirectly impacted, creating both winners and losers.



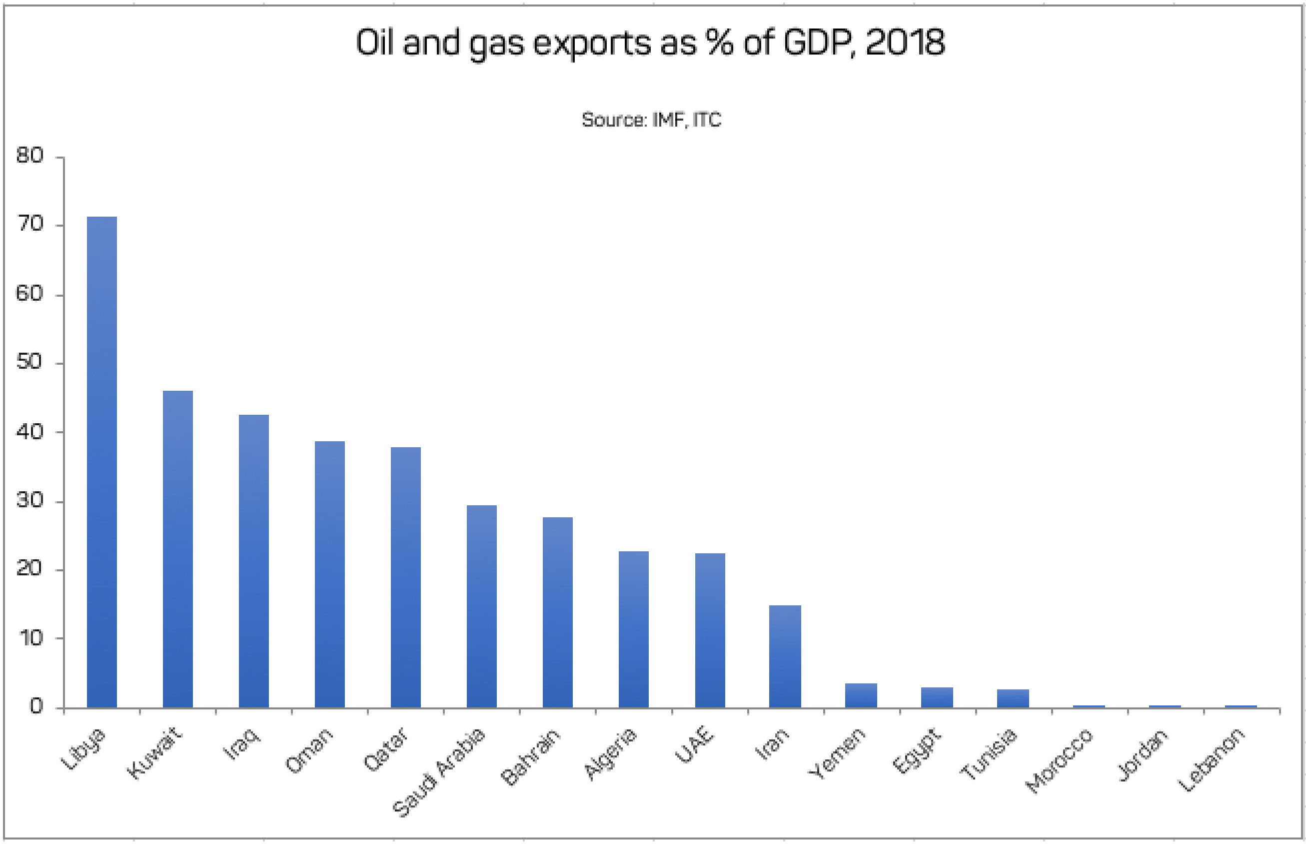
Assuming that US trade tensions with China and the EU remain high over the next five years, the most significant impacts on MENA economies will be as follows:

Lower energy prices

Summary: Weaker global economic growth will place downward pressure on global oil prices and, therefore, revenues received by MENA oil exporters. The persistence of tariffs on trade between the US, China and the EU will slow global economic growth in two ways. First, tariffs will impose higher costs on businesses. Second, prolonged uncertainty over national long-term trade policy will curb business investment in the US, EU and China. The IMF has downgraded its global real GDP growth forecasts several times since 2016 (see chart), repeatedly citing the negative impact of rising global trade protectionism. A weaker economic growth outlook has contributed to the IMF also lowering its forecasts for hydrocarbon prices. The IMF now expects Brent Crude to average $60.5 per barrel in

2020, a 12.8% downgrade from its 2020 forecast one year ago.

Main countries impacted: Libya, Kuwait, Iraq, Oman, Qatar, Saudi Arabia, Bahrain, Algeria, UAE, Iran



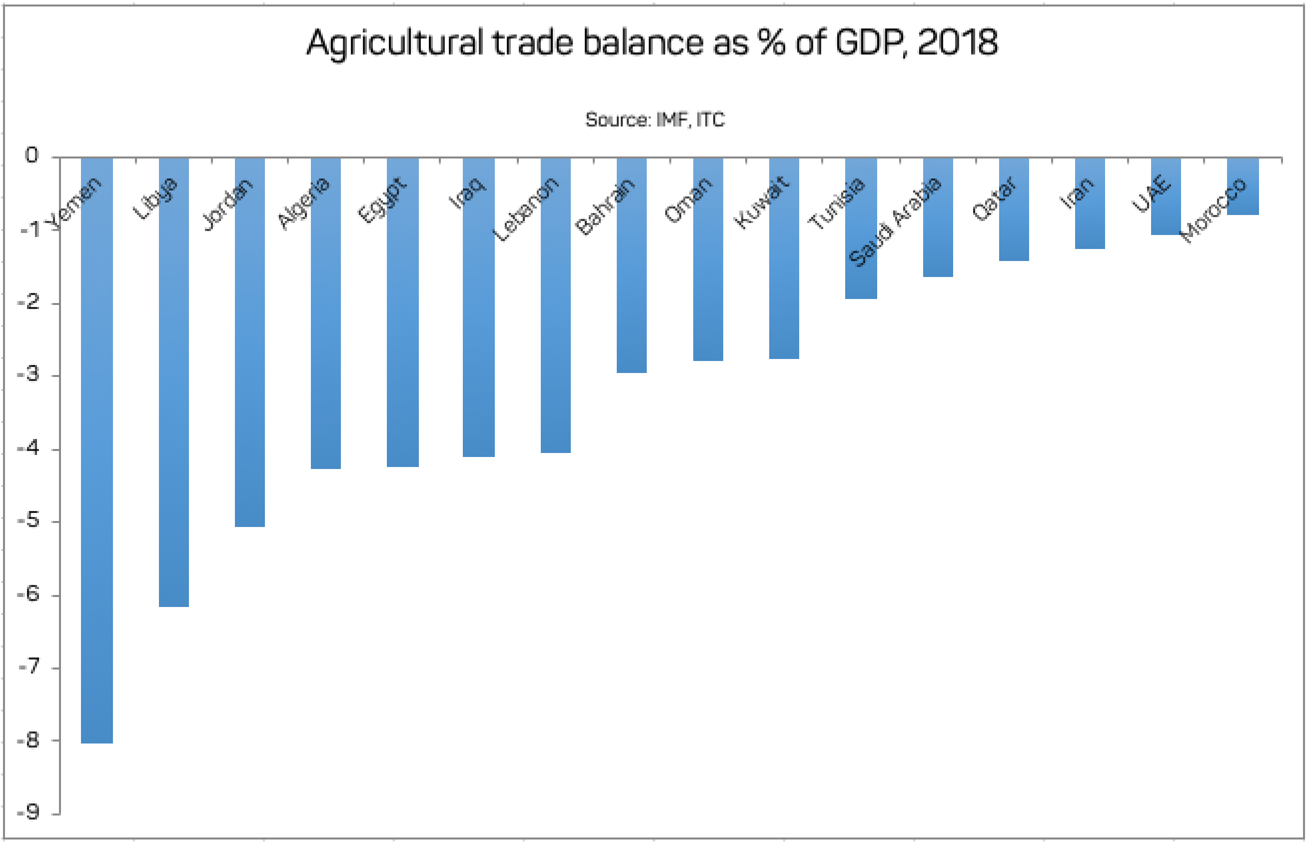
China's energy reliance on the Middle East to be bolstered
Summary: China will continue to diversify energy import sources away from the US, to the benefit of hydrocarbon exporters in the MENA region. China is the world's largest importer of both crude oil and liquefied natural gas and the country sourced 2.8% of oil and 4.1% of natural gas imports from the US in 2018. This is particularly good news for MENA LNG exporters, as surging LNG export potential from the US had been set to compete strongly for sales to China in the coming years. Instead, Chinese imports of both US crude oil and LNG have dried up in recent quarters. US government data suggests that oil and natural gas exports from the US to China declined by 59.3% year-on-year in the first ten

months of 2019.

Main countries impacted: Qatar, UAE, Kuwait, Saudi Arabia

Cheaper food imports
Summary: Chinese tariffs on imports of US agricultural products such as corn, soybeans, dairy and livestock will exert a downwards pull on global food prices by encouraging production in other food-exporting countries. For instance, China has ramped up imports of grains and oilseeds from Brazil and Argentina since 2016, resulting in a boom in production levels in those countries. The MENA region is acutely exposed to swings in global food prices, as the region is a major net-food importer.

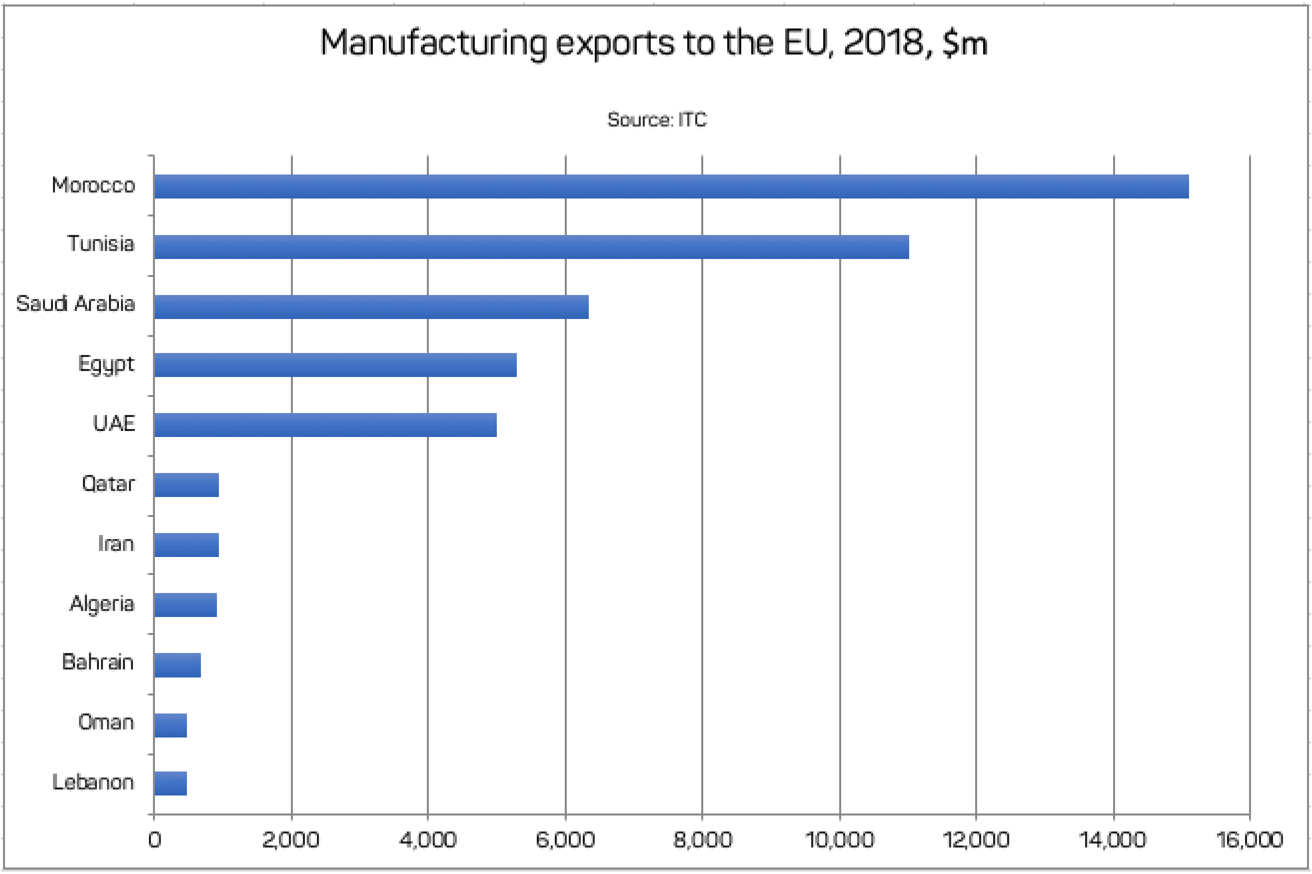
Main countries impacted: Yemen, Libya, Jordan, Algeria, Egypt, Iraq, Lebanon



Weaker manufacturing exports to Europe

Summary: The manufacturing sectors of Morocco and Tunisia are significantly integrated with the EU manufacturing sector. Assuming that the US continues to push for trade reform with the EU, tariffs on US imports of EU goods are likely to rise. The EU automobiles industry is most exposed given that its products dominate the region's trade surplus with the US. Further US tariffs on automobiles or manufacturing exports more generally would slow growth in EU industry and, by extension, shipments of semi-finished products from Morocco and Tunisia to EU supply chains.

Main countries impacted: Morocco and Tunisia



Chinese investment in regional infrastructure to slow

Summary: Greater geopolitical tension with the US will encourage China to persist in forging economic alliances with other countries through its colossal Belt and Road Initiative. At the same time, slowing economic growth in China, in part due to US tariffs, will mean that provision of state-subsidised capital for Chinese infrastructure firms operating abroad will become more constrained in the coming years. There is likely to be a shift away from concessional funding by the Chinese government towards private-led financing of projects. At the Second Belt and Road Forum in April 2019, the Chinese government indicated that it would be increasingly welcoming to foreign and private sources of financing.

Ultimately, while private financing will at least partially mitigate any funding squeeze, the decline in state financing will likely slow the realisation of a raft of infrastructure developments across the region. This will impact long-term projects such as the China-Egypt Suez Economic and Trade Co-operation Zone, the China-UAE Industrial Capacity Cooperation Demonstration Zone and the Mohammed VI Tangier Tech City in Morocco.

Main countries impacted: Iran, Egypt, Morocco, Saudi Arabia, UAE

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