September 8th, 2016

**Brexit and GCC: Opportunities ahead**

*Authored by THC*

When the UK announced its intention to leave the EU, many questions were raised in the region about the potential impact this will have – especially in light of the strong, and historic, relations between the GCC and UK. More specifically, GCC governments, businesses, and investors outlined three major concerns:

- The valuation of the British pound and its implication on inward investments and tourism flows
- The impact on GCC trade arrangements
- The impact on GCC Sovereign Wealth Fund investments in the UK

Additionally, the volatility in currency markets can also have a bearing on other asset markets such as commodities and global monetary policy, all of which would have a direct impact on the region.

GCC Sovereign Wealth Funds (SWFs)

GCC-based SWFs and High Net-worth Individuals (HNIs) have traditionally invested heavily in the UK's real-estate market (UAE alone accounted for circa 20% of UK buy-to-let property sales in 2015, while Qatar Investment Authority (QIA) is known for landmark investment like Shard skyscraper, Harrods department store, and Olympic Village).

The depreciation of the British pound marked down the value and returns of these holdings, with a post Brexit knock down of circa 15-20%. However, analysts seem to agree that this loss in value of the existing investments will not weaken the net asset position of the GCC governments, and may even make the purchase of new assets will look more attractive now given currency exchange rates. It is expected that GCC investors will hold on to their current UK assets, and will probably expand their investments. The Brexit will do little to harm the long-standing relation between GCC and UK in terms of investment.

Unlike other regions, GCC investments into the UK are for most part not made with the motive of accessing European markets, but rather they are standalone investments made in their own right, in areas such as real estate and hospitality. Moody's Investors Service noted that the Brexit will not have a significant credit impact on GCC sovereigns because their trade exposure to the UK is limited and the size of their sovereign wealth funds offers resilience against potential fluctuations in the value of some assets.

GCC-UK Trade

While the GCC's investment in the UK may increase, it is unlikely that Brexit will have any negative impact on FDI inflows in the region as most of the UK's FDI is in the hydrocarbon sector, which remains resilient to these developments as UK accounts for a marginal share of total global oil consumption.

Actual trade between GCC and the UK has been relatively modest in recent years, with the latter accounting for ~2.7% of the region's global trade in 2015. However, one area that has already felt a negative impact is tourist flows from the UK to the GCC (mainly UAE). On the other hand, a weaker pound (compared to Gulf currencies which are pegged to the US dollar) is *expected to help improve the trade balance with imports such as capital equipment in sectors such as defense, telecom, power, and luxury vehicles from British manufacturers, getting cheaper.*

In terms of export, the GCC’s main export commodity is oil, and the UK accounts for 1.6% of total global consumption, hence little to no impact on the GCC.

Economists say the bilateral trading landscape between the GCC and the UK may not necessarily be harmed by Brexit. The EU has been unable to reach a Free Trade Agreement with the GCC, despite negotiations going back to 1988 which are currently stalled. Having lost free trade access to the EU, the UK will be more inclined to strike beneficial bilateral trade deals with the GCC. Building trade relations with wealthier GCC countries would be a key priority for the UK, which will present an exclusive opportunity for the region, especially the UAE as it acts as a trading hub for the wider MENA region. In April 2016, the UK signed a Double Taxation Agreement with the UAE, demonstrating that bilateral deals might actually be preferred and more easily achieved.

It is anticipated that the UK will now push hard for a trade deal with GCC (the destination for the bulk of its regional exports). *This push by UK government, along with low Sterling exchange rates might encourage ‘bargain’ buying from Gulf investors and governments alike.*