REPUBLIC OF LEBANON
MINISTRY OF INDUSTRY

BREXIT

(Source IESE Blog Network - IESE Business School)

By

The Economist

Bassam Jouny

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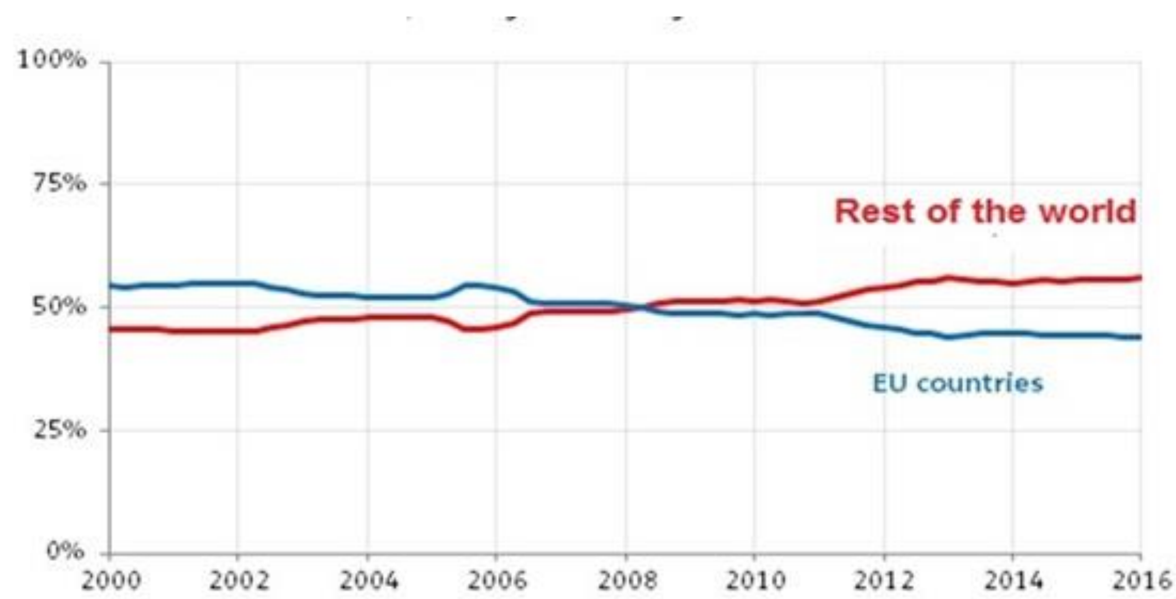
1- Introduction

The population of the United Kingdom reached around 65 million people (*ons.gov.uk/people* 2015), with a GDP valued at $2.77 trillion, economic growth of 2.3 % and unemployment rate 5.4 %. Around 80% of the UK’s economy relies on providing services and the public debt / GDP is 89.2%. A referendum was conducted in UK on the 23rd of June to decide whether the UK should leave or remain in the European Union, every British of voting age participated at the voting. The campaign for Leave votes won by 52% to 48% for Remain votes. The referendum result was 71.8% (45million electorate) with around 32 million people voters. England voted for Brexit, by 53.4% to leave and by 46.6% to stay, as did Wales, with Leave getting 52.5% of the vote and Remain 47.5%. Scotland and Northern Ireland both supported staying in the EU. Scotland voted for Remain by 62% to 38% to leave, while 55.8 % in Northern Ireland voted to Remain and 44.2% to leave (BBC News). After the referendum, Britain appointed a new Prime Minister Theresa May, the former Home Secretary, took over David Cameron, who resigned on the same day he lost the referendum.

2-UK Trade with the EU

UK’s Total exports (goods and services) in 2015 reached $635.37 billion (512.4 billion pound-ONS), and the total imports reached $ 678.52 billion (547.2 billion pound-ONS). Around 44% of UK’s exports went to the European Union, equal to $279.56 billion (225.45 billion pound-ONS) and about 56% of UK’s exports went to the rest of the world, equal to $355.80 billion (286.94 billion pound-ONS). Total UK’s imports from the European Union amounted to $360.9 billion (291.1 billion pound-ONS). As for the UK’s imports from the rest of the world, it reached $317.5 billion (256.1 billion pound-ONS). The trade deficit between the European Union and UK in 2015 reached around $81.34 billion (65.5 billion pound for the interest of the EU). (ONS- 2015).

UK's exports to the EU and to the rest of the world in 2015

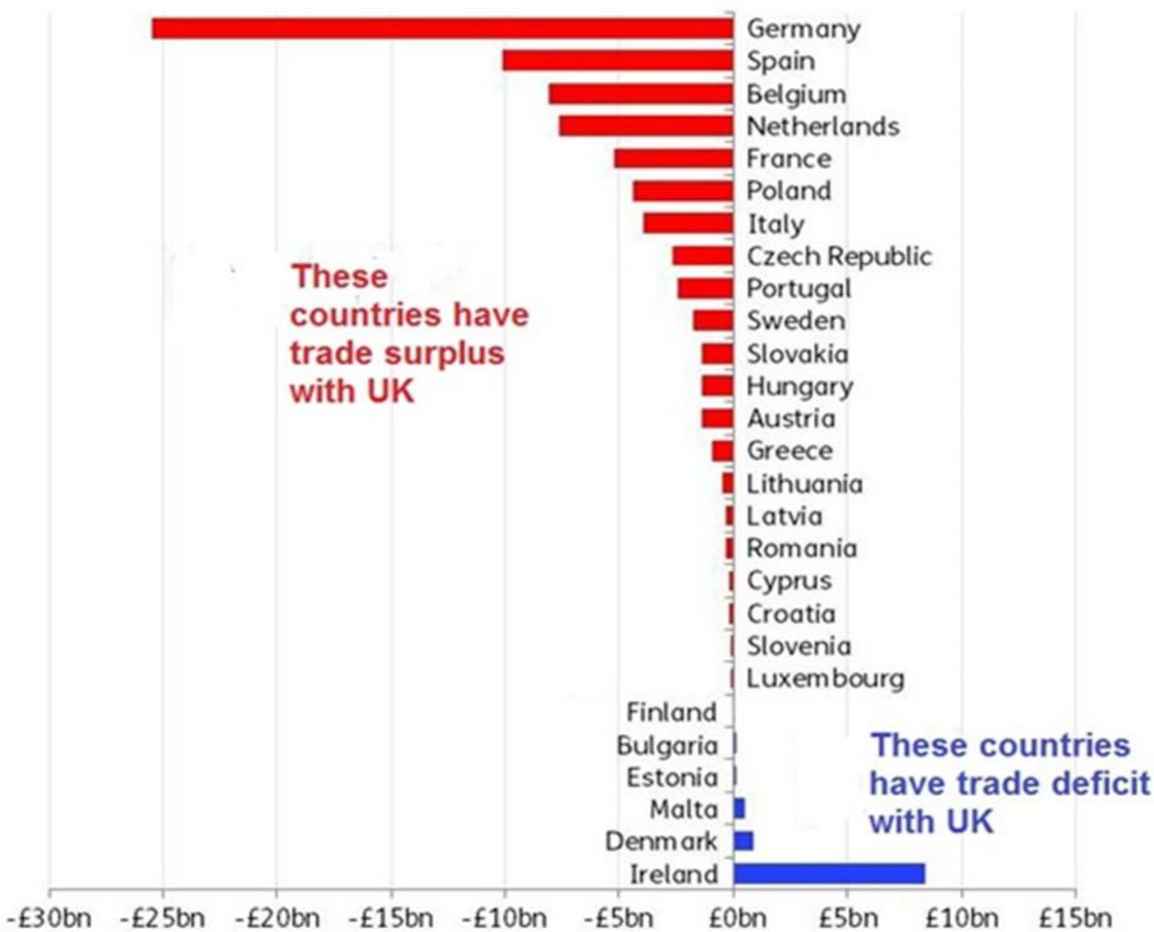


(Office of the national statistics -ONS)

This graph shows the value of UK's exports to the EU and UK's exports to the rest of the world as percentages of total UK's exports. UK's exports to the EU represent around 44% of total UK's exports, whereas UK's exports to the rest of the world represent around 56% of UK's total exports (ONS- 2015).

After Brexit, UK will have to select between Norwegian / EEA model relationship, under which UK would have to pay for Single Market access and accept almost all EU regulations without participating in decision making in EU or select the Swiss-model bilateral trade agreement and the Canadian-model bilateral trade agreement. With the WTO-model, the UK will try to conduct a special negotiated relationship with the Single Market, but the WTO type of relationship would bring substantial economic costs to UK. Upon leaving the EU, will be facing new rules on trade, depending on the agreement that will be agreed upon in advance. UK would have to pay tariffs to trade with EU. If the trade is arranged under the World Trade Organization with "most favored nation" terms, it means that the UK would get the same level of tariffs as the EU's most favored trading partner outside of the EU.

Trade balance between UK and EU in billions of pounds in 2015



(Office of the national statistics -ONS)

The graph shows the trade balance between the UK and the European countries (European countries marked with red have trade surplus with UK and European countries marked with blue have a trade deficit with the UK). The graph shows that Germany, which has the largest trade surplus with UK, reached $32.24 billion (26 billion pound as for the graph ONS-2015).

3- The European Union

The European Union is an economic and political partnership, which comprises 28 European countries. It was established after World War Two aiming to activate the economic collaboration among EU countries. EU has grown to become a "single market" allowing goods and people to move freely around Europe as if the member states were one country. EU has its own currency, the euro which is adopted by 19 of the member countries, and its own parliament, which it develops legislations and laws in different range of areas (politics, Economics, environment, food safety, transport, consumer rights, trade etc.).

3.1 Immigration

UK's Prime Minister declared that British people wants to mitigate the burden of immigration. The key issue is whether other EU nations will give the UK access to the single market, while at the same time being allowed to restrict the rights of EU citizens to live and work in the UK. After Brexit, there could be some restrictions on British Citizens' ability to live and work in EU countries.

The United Kingdom could choose to join the European Economic Area (EEA) which includes 28 EU nations plus Iceland, Lichtenstein and Norway or the European Free Trade Agreement (EFTA). The EEA allows for the free flow of persons, goods, services and capital between the member states of the EU, Iceland, Lichtenstein and Norway, whereas British citizens can conduct a visit for up to 90 days without needing a visa. It is possible that such arrangements could be negotiated with European countries.

3.2 Single Market

Britain was a member of a free trade area in Europe before it had joined the common market. In a free trade area, countries can trade with each other without paying tariffs, but it is not a single market, because the member states do not have to merge their economies together. The European Union single market that was completed in 1992 allows the free movement of goods, services, money and people within the European Union as if it was a single country. The mass migration from poorer countries in east of Europe to richer countries in west of Europe raised concerns about the free movement of peoples rules.

3.3 UK contribution to the EU

The UK is one of 10 member states who pay the biggest amount into the EU, only France and Germany contribute more. During the years 2014-15, Poland was the largest beneficiary from the EU budget, was followed by Hungary and Greece. In year 2015, and according to the latest Treasury numbers (ONS), UK's net contribution to the EU reached around $11billion yearly (8.8 billion pound-ONS).

3.4 Britain and TTIP

The Transatlantic Trade and Investment Partnership or TTIP, currently under negotiation between the EU and United States, will create the biggest free trade area in the world. It will reduce the value of American imports to UK and increase the value of British exports to the US. After Brexit, UK will no longer be a part of TTIP, and then it will have to negotiate its own trade agreement with the USA, in order to increase its exports to the latter.

4-Reasons for leaving or staying in the EU

The leave campaign considered that UK was being detained by the EU, which imposed too many rules on British businesses and charged billions of pounds a year in membership fees for little in return. By leaving the EU, United Kingdom could save a net contribution to the EU, amounting to approximately $11billion per year (8.8 billion pound -2015-ONS). British also aimed at sovereignty and democracy, and they want to take back full control of their borders to reduce the number of people coming to live and work in UK. It could also be a good opportunity for UK to conduct free trade agreements with any other country, especially the USA, in order to get access to American markets, and increase its exports.

The stay campaign in UK claimed that they receive a big support from Uk's membership in EU. This membership enables the trade to flow easily between UK and other EU countries. One of the main principles of EU membership is free movement of people, which means, European citizens do not need a visa to live in another EU's country. The Stay campaign considers the flow of young immigrants

who are able to work will help boosting economic growth, by contributing in increasing tax revenues, which in turn, will help UK pay for the development of the public services.

Britain's status in the world would be weakened by leaving the EU. UK is more secured as part of the 28 nations. Some large business owners inclined to be in favor of Britain staying in the EU, because it makes it easier for them to transfer money, people and products around the world. Given that the central role of London city as a financial center of Europe and how many jobs opportunities UK would lose to other countries in the EU. Some of banks in London city are planning to move up to 1,000 jobs to Paris (e.g. HSBC).

5-UK's Mechanism of leaving the EU

Article 50 of the Lisbon Treaty gives the two parties (UK and EU) two years to agree on the terms of the split. UK's Prime Minister intends to start this process by the end of March 2017, meaning that UK will be expected to have left by the summer of 2019. The government will enact a Great Revoke Bill which will end the primacy of EU law in the UK. It is expected to incorporate all EU legislations into UK law at once. UK's PM set up a government department to take responsibility for Brexit. Once Article 50 has been implemented, the UK will have two years to negotiate its withdrawal but no one knows exactly how the Brexit process will work. Article 50 was only created in late 2009 and it has never been used before. It could take up to six years for the UK to complete exit negotiations. The terms of Britain's exit will have to be agreed upon by 27 national parliaments in the EU, which could take some years.

EU law still stands in the UK until it stops being a member in the EU and the UK will continue to abide by EU treaties and laws, but will not be able to participate in any decision-making. Both sides (EU, UK) want trade exchange to continue after Brexit. The traders in UK are calling for a comprehensive free trade deal which gives UK the greatest possible access to the single market. The UK is currently part of the EU customs union that prevents the UK from being able to conduct its own trade agreement with other countries. UK's PM wants to reach a new customs union agreement with the EU in order not to impose tariffs on each other's goods and to have common tariffs on goods coming in, from other countries.

6- Soft and Hard Brexit Effects

- Hard Brexit could happen, when UK refuse to compromise on issues like the free movement of people in order to maintain access to the EU single market.

- Soft Brexit may occur if UK follows a similar path to Norway, which is a member of the single market and as a result, the UK has to accept the free movement of people.

The government has denounced to guarantee the status of EU nationals living currently in the UK, without a reciprocal pledge from the other EU members regarding millions of British nationals living in other countries all around the EU. The EU nationals, who have the right to permanent residence which is granted after they have lived in the UK for five years, will be able to stay in UK. The other EU nationals would be subject to the results of the negotiations on Brexit and the decision of UK's Parliament. Everything is depending on the sort of the agreement the UK will conduct with the EU.

If UK remains within the single market, it would certainly retain free movement rights, allowing UK citizens to work in the EU and vice versa. If the UK's government chooses to impose work permits restrictions, then the other countries could respond in kind and Britain nationals would have to apply for visas to work. It depends on whether the UK government decides to introduce a work permit system of the kind that currently applies to non-EU citizens, limiting entry to EU for skilled workers in some professions where UK have shortages. In addition to losing the right to live, work and own property in the other Member States, UK citizens would also lose the ability to vote in local elections in their EU country of residence.

7-First Shock on UK's Economy

Financial services represent a 9.6% share of total UK's exports of which 41% are going to the EU. The insurance sector represents a 4.3% share of total UK exports of which 18% are going to the EU (ONS). The "financial Passport" whereby UK's financial firms, including banks, insurers, and asset managers generally have the right to sell financial services and establish branches anywhere in the EU without other countries being able to impose different or additional requirements. Outside the EU, UK's firms would no longer have that right to liberalize trade in services, in which Britain is especially competitive and will be diminishing after Brexit.

UK's economy has already faced the first initial shock of the Brexit, and the value of the pound reached near a 30-year low, it decreased from $1.507 before the referendum of June 23th 2016 by 10% to reach at $1.37 on 25th of June 2016 after the referendum's results, and continue to decrease to reach $1.244.

UK lost its top AAA credit rating and the cost of government borrowing will be higher. The Bank of England cut interest rates from 0.5% to 0.25% a record low which is the first cut since 2009 after the vote.

This graph shows the British pound's value decrease (from $ 1.507 before the referendum 23th of June 2016) by10% against the dollar to reach the value of $1,37 in 25 June 2016 after the referendum date, and continues to decrease reaching to $1.244 per pound.

After Brexit, British travelling overseas have found their pounds are buying fewer euros or dollars. Most Experts expect that the pound decreased at least 10% below where it was on 23th of June 2016 before the referendum. In the long term the imported goods to UK which represent around 29% of UK's GDP will consequently increase, prices of foods will rise; clothing and home ware goods will increase too.

The latest UK's inflation rates showed that the CPI inflation rate increased to 1.6%, its highest level for two years with indicators of increasing pressures on the British's purchasing power.

On the other side, decreasing rate of the pound will increase the demand on the UK's exports worldwide, which represent around 27% of UK's GDP (ONS-2015). It could be an opportunity for UK to boost its economy and increase employment rate in the long run.

8- Less stable Europe

Some employees have begun to leave Britain, fearing of the repercussions of Brexit and seeking to be settled in Ireland. Statistical Company named "Manpower" announced that the demand for financial jobs in Dublin, capital of Ireland increased and reached to 800% after the Brexit vote (Business Insider Web).

It seems that London is losing its position as a financial center and the capital of banks. Financial companies and several banks declared their intention to transfer their operations to other places in Europe. It is widely considered that Paris or Frankfurt will acquire the position that London continues to have so far. The increase of the financial and banking activities in Dublin was related to its membership in the European Union. Many of the financial transactions in London depend on the European Union, and the agreement called (Banking Passport) which allows the facilitation of financial transactions between European countries could no longer work after Brexit.

9- Brexit and USA

Strong relationships connect the United states with the United Kingdom since hundreds of years (on the commercial, cultural, social and political level). The United States supports UK and considers it as an advanced front in Europe, in the middle of the world and a platform for trade and communication to benefit from its expertise and relations.

On the other side America considers any action that weakens the EU, affects EU's internal unity and weaken its decision making process, will be harmful to US interests. On the political level, a stable EU will enable USA to focus on more pressing issues in the Middle East, Central Asia and East Asia, Chinese ambitions in the South and East China Seas, continuing issues with nuclear production, and especially Iran's and North Korea's nuclear weapons program, as well as Russian interests in Eastern Europe and the Middle East.

Some American economists consider that US's priority was to conduct a trade agreement with the EU, which could lead to TTIP. But the Transatlantic Trade and Investment Partnership (TTIP) was stopped, by the policymakers on both sides of the Atlantic. It is worth to mention that, Britain's exit from the EU could make TTIP less likely and could promote and activate the (U.S.-U.K.) trade agreement and moving it to the highest level. Whereas Britain could become an associate member of the North American Free Trade Area after it leaves the European Union. UK will have the opportunity to activate close trading relationships with USA, whereas the two countries have similar policies and interests towards the free market and the trade.

UK will have to take the opportunity to activate its relationship with US on different levels, (political, economic, etc.) in order to create together a strategic balance against the EU. Given that, Britain is considered the main link through which U.S expresses its economic and political will in Europe.

Some of U.S. companies who had invested in the UK to reach Europe's markets (Rolls Royce and JPMorgan...) warned before the referendum, that the Brexit would put their investments and jobs in the UK at risk. Other companies and banks may also move to Germany or France to avoid disturbance of their EU business. As for unemployment rate in UK, it may increase leading UK's economy into recession, which in turn could affect the American's economy as well.

UK-USA Trade in Goods			
USA Export/Imports from UK	**Export**	**Imports**	**balance**
TOTAL	55,396.1	54,326.1	1,070.0

(In millions of US dollars 2016, USA Census)

EU-USA: Trade in goods			
Year	**EU imports**	**EU exports**	**Balance**
2014	209.3	311.6	102.2
2015	249.3	371.3	122.0

2016	246.8	362.0	115.3

(Trade in goods 2014-2016, € billions- EU Commission Trade)

EU-USA: Trade in services			
Year	**EU imports**	**EU exports**	**Balance**
2013	166.0	183.5	17.5
2014	189.3	199.2	9.9
2015	212.8	225.8	13.0

(Trade in services 2013-2015, € billions- EU Commission Trade)

10-Brexit and Commonwealth Countries

Several Commonwealth developing countries depend heavily on the UK's market for their exports (beef, bananas, sugar, fresh vegetables, and textile and apparel products). The opportunities are available to revive and expand these old trade linkages. Commonwealth countries' exports to UK reached $58.28 billion in 2015 (47 billion ONS) and the UK's exports to commonwealth countries reached to 60 $ billion in 2015 (48 billion pound-ONS).

Commonwealth countries are increasingly concerned that the decrease in the value of the pound since the Brexit referendum will reduce exports and lead to a downturn in tourism sector from the UK. About 60 % of Commonwealth nations are small states, and tourism sector is the main source of income for them. Pound's depreciation might lead to decreasing the value of remittances from Commonwealth's citizens living in Britain back to their home countries. By 2019, the UK will be able to establish large new trade zone, which could be a perfect opportunity for the UK to reach out to its former colonies. UK considers Promoting trading links with Commonwealth countries as a priority to increase its exports by accessing new foreign markets.

11-Brexit and GCC

The Gulf Cooperation Council countries (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and United Arab Emirates) have close political relationships with the United Kingdom. Gulf States have approximately around 50 million consumers (2013- http://gccstat.org) and a combined Gross Domestic Product of $1.6 trillion (2013- http://gccstat.org) larger than that of South Korea or Australia. Despite the decreasing of Growth rates in the GCC due to low oil prices in the past two years, UK is still attracted to GCC and the latter are attractive to Britain too, in spite of the diversification of GCC's economy and relations on the international level for many years.

The GCC is currently witnessing an important shift on political and economic levels. Policymakers in the region have called for diversification after a sustained period of low oil prices and planned for gradual implementation of long term economic reforms. UK is not a major importer of oil and petroleum products from the GCC, only 7.73 % (Gulf business.com/economic impact-Brexit-GCC) of its total imports are from these countries, so the direct impact from oil imports on GCC will be minor. The GCC countries will be influenced by the fall in oil prices, where a global slowdown will reduce demand for oil, forcing them to increase the diversification of their economies.

Saudi Arabia's economy mainly depends on the Oil sector, which represents 90% of Saudi Arabia's total exports, 80% of the government revenues, and 45% of Saudi Arabia's GDP (2017- GulfBase.com). Saudi Arabia recently developed the National Strategic Plan to diversify its economy due to the excessive dependence on the Oil prices which decreased lately. GCC currencies are pegged to the US dollar and this will have an impact on their trade, tourism and investment. The major impact on tourism will be felt in the UAE and specifically Dubai. British Tourists coming to Dubai counted up to 1.2 million (*aawsat.com*2015). The tourism sector will therefore be impacted negatively with the fall in the pound and Euro, leading to the decrease of the tourists' numbers coming from UK and other EU countries to the region.

The airlines companies (Emirates, Etihad and Qatar Airways) will be negatively impacted by the Britons and positively by the GCC. The fall of the pound will reduce international travels by British but UK will remain an attractive destination for GCC's tourists, as hotel costs will reduce in terms of their currencies and Gulf airlines will benefit from this opportunity.

The fall in the pound will make goods exported from the UK (machinery and equipment, telecom equipment, vehicles, medicines and pharmaceuticals) to GCC countries cheaper.

Studying at British schools and universities for citizens of GCC countries will become more affordable for students and their families, which in turn will have an impact in many ways on the GCC's education's sector.

Investments by British citizens in Dubai in real estate sector with the fall in the pound will make investing in GCC countries unattractive. Property prices are expected to decrease across the UK, along with reduced demand for offices and residential spaces due to companies moving abroad to EU countries. UK will still be considered as a favorite destination for GCC nationals to invest in real estate and it could become more attractive for GCC nationals after the Brexit.

The GCC- EU Free Trade Agreement has been under negotiation for the last two decades. But Brexit will give the UK an opportunity to conduct bilateral FTAs with GCC countries.

12- Brexit and India

The EU is India's number one trading partner (http://ec.europa.eu/ trade),whereas it represents 13.5% of India's overall trade with the world in 2015-16, the value of EU exports to India grew from €24.2 billion in 2005 to €37.8 billion in 2016 (http://ec.europa.eu/ trade). India is one of the fastest growing economies in the world. UK has an old relationship with India; in addition to, that UK is considered the third largest investor in India. The UK's total exports to India reached to $10.66 billion (8.6 billion pound- ONS- 2015). India's exports to United Kingdom reached to $11.78 billion (9.5 billion pound –ONS 2015). India's exports include engineering goods, and jewelry, manufactured goods, chemicals and other manufacturing.

Brexit might have positive or negative impacts on various Indian's economy sectors:

- Trade: Britain is considered the gateway to the European Union, and many Indian businesses have their offices in Britain, so they can reach the whole European markets. After Brexit, Indian companies might be able to relocate their businesses to other places in Europe. On the other hand Brexit could introduce better trading opportunities for UK by conducting free trade agreements with India without being under pressures of the stringent rules of the European Union.

- Industry: IT sector in India is considered one of the major Indian sectors, with around 230000 jobs. Brexit may affect the IT sector negatively in the short term, which represents 38% of India's total exports of services to the world (*https://www.ibef.org › Industr*y). The Indian IT firms will have to renegotiate all the ongoing projects currently in UK because of the depreciation of the pound. In the long term the IT sector will be promoted by the effect of the trade agreement between India and UK.

- Education: Britain has always been considered as one of the most favored destination for education to Indians. Before Brexit, British universities were forced to offer scholarships and subsidies to the citizens of the UK and EU. Brexit will free up some funds for other students and more Indian students might be able to get scholarships. Depreciation in pound value will reduce travelling cost to the UK and will make it more affordable for Indian tourists to visit UK.

- Investments: India's focus on innovation and entrepreneurship makes it an attractive destination for outsourcing and investment. In the short run Brexit may force many Indian investors to sell their risky assets and move towards safe investments (as Gold). But in the long run, and after conducting trade agreements between India and UK, Indian investors might have more opportunities in UK's economy and vice versa.

- 13-Brexit and China

After Brexit, UK's will enjoy more freedom to conduct trade agreements with china away from EU's restrictions rules. There is a mutual benefit between

UK and China, whereas the latter is considered the world's second largest economy. UK exports to China have grown rapidly and Britain is home to more Chinese investments than any other European country, with a strong focus on infrastructure investment, trade and financial services. UK's exports to china reached $23 billion (18.7 billion pound- ONS - 2015), and UK's imports from china reached $47.5 billion (38.3 billion pound-ONS- 2015).

UK used to offer Chinese companies large investments in the infrastructure that delivers stable long-term returns. The Foreign direct investment from China into the EU as a whole reached $23 billion in 2015 (Oxford University Politics Web). There is a growing trend in technology sector seeking foreign direct investment through mergers, acquisitions and joint collaboration between European firms and Chinese partners. Britain has been a favored destination for Chinese companies, and it is considered as a passage to the rest of the EU's single market of 500 million consumers (EU Commission).

The question is, will the close relation between USA and UK will hinder any possibility to increase the trade exchange between UK and China, or will Brexit be a good opportunity to deepen the economic relations among USA and UK? It would take longtime before we see the new economic orientations.

14-Brexit and Australia

There are British citizens in Australia more than any other foreign country. Around 1.2 million Britons are permanent residents in Australia with over 600,000 visitors every year. Around 1500 UK companies are doing business in Australia each day. The UK's total exports to Australia reached to $10.66 billion (8.6 billion pound in 2015 - ONS). UK's imports from Australia reached $8.8 billion in 2015. Today, Australia is the eighth biggest investor in UK's economy. UK's exports to Australia are cars (£770 million) as well as medicines and pharmaceuticals (£400 million), travel and tourism (£1.3 billion) and business and professional services are big export revenue earners on the services side. Australia's exports include precious metals, lead, wine, beverages, medical, technical equipment and meat.

The two economies, UK and Australia, have adopted different regional economic strategies in the past, whereas, the UK's economy is integrated into the European Union, and Australia's economy is integrated with its Asia-Pacific neighbours. In 2015, UK was the second biggest foreign investor in Australia and held the second largest stock of Australian overseas investment. Australian companies use Britain as a departure point to the EU, as UK receives Most of Australia's export.

Brexit had increased expectations of volatility in the pound's exchange rate against the US dollar. The Australian policy makers expect that if Britain leaves the EU, the Australian dollar could fall against the US dollar and this will make Australian exports cheaper. Then UK will have to relax immigration rules for Australian if they want to secure a free trade agreement with the Commonwealth countries. Australia wants to conduct a trade agreement with the UK to allow access of Australian workers to Britain's labor market. The direct effects of Brexit on the Australia's economy are likely to be minimal, leading to a trade agreement between UK and Australia to increase trade exchange.

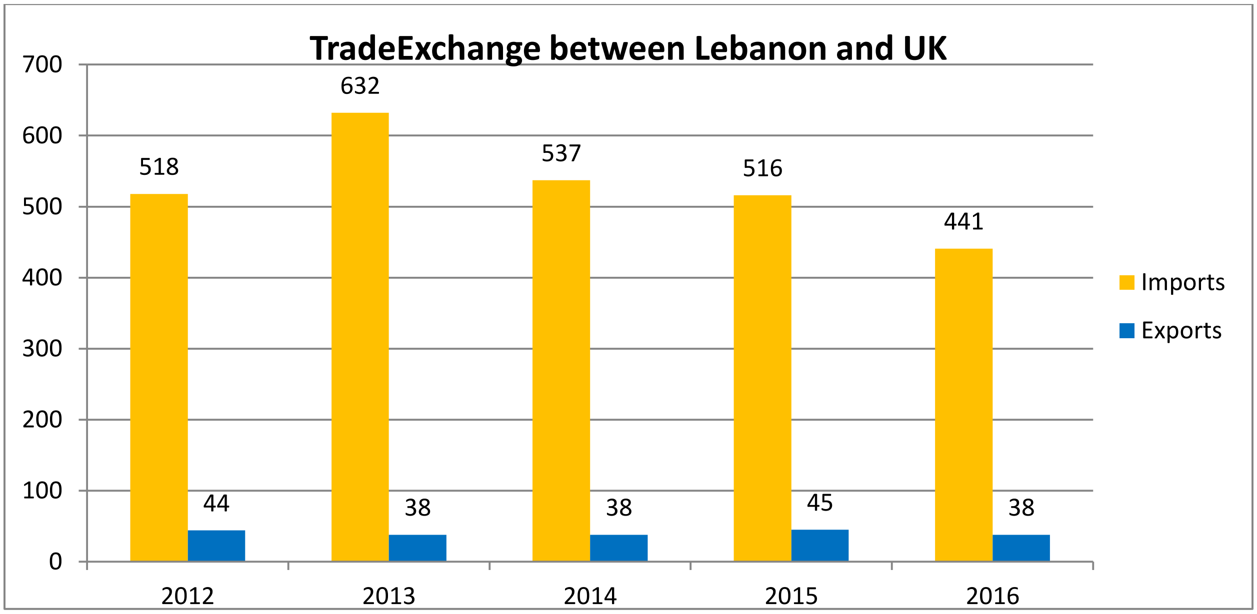
15 -Brexit and the Repercussions on Lebanon

Britain's vote to exit the European Union is likely to have a positive short-term impact on Lebanon's economy, while negative repercussions will only affect Lebanese investors in the real estate and stock markets in the UK. It is clear that Brexit will result in a decline in the euro currency and since our local currency is pegged to the U.S. dollar, thus our imports value from the EU will go down. Around 44% of Lebanon's imports valued at $8.3 billion (2014- Lebanese customs) come from the EU and the decline in the euro will definitely decrease the country's imports value, while only 12 % of Lebanon's total exports go to the EU (Lebanese customs 2014).

Lebanon's trade relations with the U.K. are minimal, as the country's imports from UK stand at $441 million per year (Lebanese customs 2016), while exports from Lebanon to UK are valued at $38 million (Lebanese customs 2016).

year	Imports	Exports
2012	518	44
2013	632	38
2014	537	38
2015	516	45
2016	441	38

(Trade between Lebanon and UK in millions of dollars –Lebanese customs 2016)

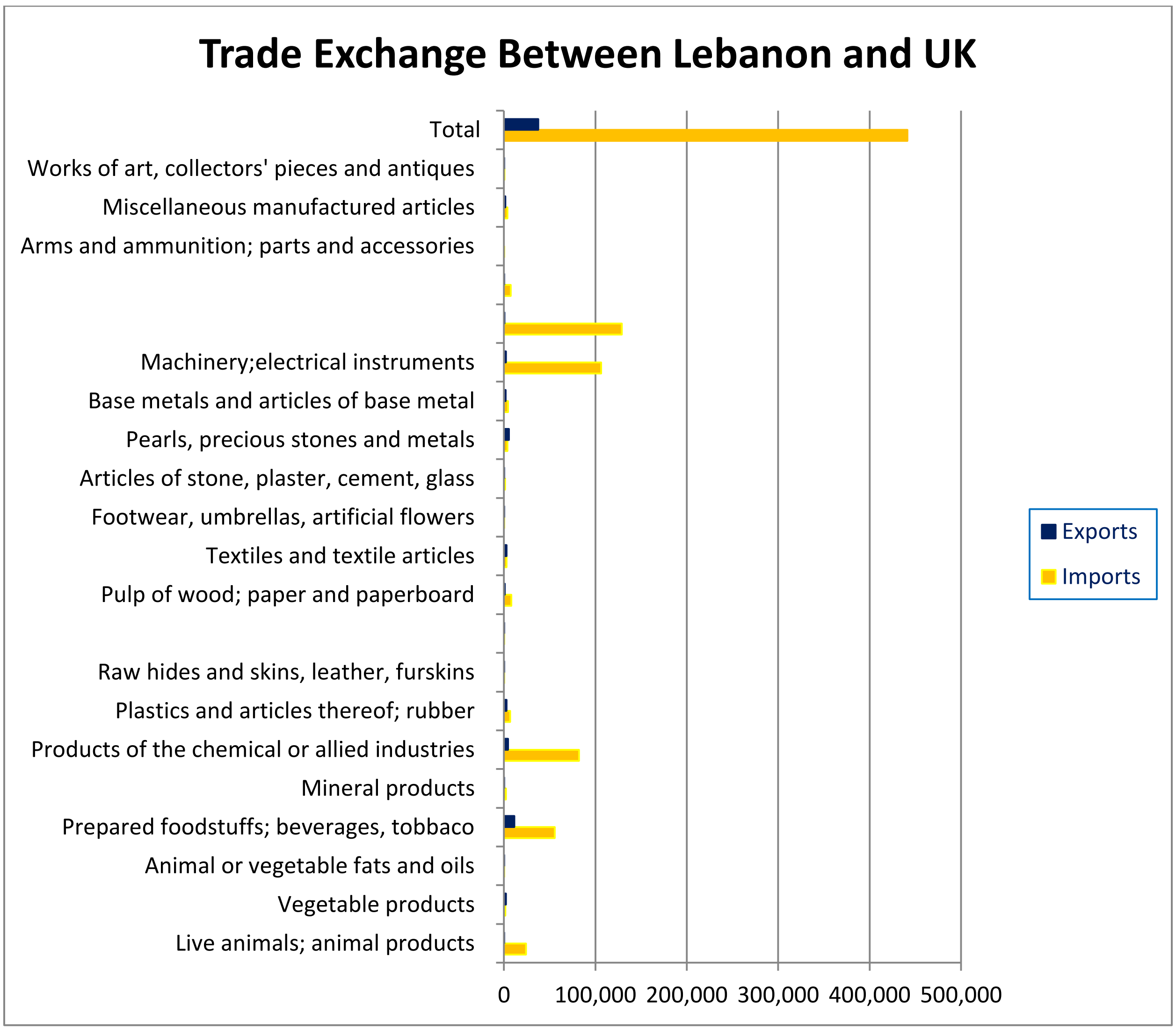


(Trade between Lebanon and UK in millions of dollars –Lebanese customs 2016)

HS1	Description	Imports	Percent	Exports	Percent2
1	Live animals; animal products	24,306	6%	11	0%
2	Vegetable products	1,618	0%	2,125	6%
3	Animal or vegetable fats and oils	83	0%	350	1%
4	Prepared foodstuffs; beverages, tobacco	55,529	13%	11,300	30%
5	Mineral products	2,099	0%	63	0%
6	Products of the chemical or allied industries	82,224	19%	4,431	12%
7	Plastics and articles thereof; rubber	6,860	2%	2,720	7%
8	Raw hides and skins, leather, furskins	75	0%	170	0%
9	Wood and articles of wood; wood charcoal; cork	158	0%	53	0%

10	Pulp of wood; paper and paperboard	8,269	2%	948	3%
11	Textiles and textile articles	2,963	1%	2,787	7%
12	Footwear, umbrellas, artificial flowers	312	0%	9	0%
13	Articles of stone, plaster, cement, glass	1,266	0%	306	1%
14	Pearls, precious stones and metals	3,913	1%	5,619	15%
15	Base metals and articles of base metal	4,530	1%	1,887	5%
16	Machinery; electrical instruments	106,344	24%	2,300	6%
17	Vehicles, aircraft, vessels, transport equipment	128,882	29%	469	1%
18	Optical, photographic, medical, musical instruments	7,519	2%	228	1%
19	Arms and ammunition; parts and accessories	44	0%	0	0%
20	Miscellaneous manufactured articles	3,730	1%	1,406	4%
21	Works of art, collectors' pieces and antiques	692	0%	285	1%
	Total	441,418	100%	37,468	100%

(Trade between Lebanon and UK in thousands of dollars –Lebanese customs 2016)



(Trade between Lebanon and UK in millions of dollars –Lebanese customs- 2016)

The values of the imports from U.K. will definitely go down but we have already a minimal trade relationship with UK, so the depreciation in the pound will make a small difference. As a result of Brexit, the GBP (pound) exchange rate to the US dollars has dropped by 10%, and this is likely to enable Lebanon to save around 30 million USD or the equivalent of 6% of its imports value.

The gold prices will increase following Britain's voting to exit from the EU. This will have a positive impact on the country, because Lebanon's Central Bank has the second largest gold reserves in the MENA region. Whereas The Central Bank has around 9 million ounces of gold reserve and its market value reached about $12 billion (BDL, 2016).

As for oil and fuel representing Lebanon's largest imports, it's possible for Lebanon to benefit from the reduction of oil prices by decreasing its trade deficit and increasing the balance of payments.

Brexit may have negative repercussions on Lebanese investors in the UK's stock markets and houses; it's expected that the value of their investments will drop in after Brexit.

In case the Federal Reserve decides to increase interest rates by 0.25% to reach the range (0.75%-1%), this action will not have any impact on interest rates in Lebanon in the short term. In the long term, this action by the US federal reserves will enable the Lebanese banks to increase the interest rates to improve profitability and the Lebanese government may take advantage from increasing interest rates while reducing the banks' profitability. The expected increase in Lebanese interest rates is more related to the evolution of global interest rates, to attract the foreign direct investment to Lebanon. But in the long run that would further increase the cost of debt payments for Lebanon, whereas the figures show that Lebanon ranks among countries with the highest debt payments in 2016.

The Lebanese diaspora in Britain count around 18000 people (the International Migration Organization) their remittances to Lebanon reached $153 million yearly (World Bank, 2015) equal around 2.14% of total remittances of the

Lebanese diaspora ($7.3 billion, 2015 world bank). These remittances are likely to drop by 10% (USD 15.3 million) due to the decrease in the pound exchange rate and increase inflation rate. Brexit will result in increasing domestic unemployment which in turn will enable the British government to exert more pressures on foreign labors and lay off tens of Lebanese employees.

The Lebanese financial institutions and banks owning assets in pound and other currencies may be affected by Brexit and may face considerable losses as a result of the decreasing value of the pound.

15.1 Future opportunities and expectations for Lebanon

Based on the economic analysis mentioned above, it will be of great interest for Lebanon to offset the deficit in its trade balance (around $15.729 billion, Lebanese Customs- 2016) by:

- Taking advantage of Brexit's repercussions, and start working on promoting Lebanon's exports, on the political and the economic level.

- Trying to benefit from the competition circumstances stemming from the future trade relationship between UK and the EU, by taking advantage and seeking to activate the relations with British officials on different levels (education, social, politics, etc.).

-Working on conducting a bilateral free trade agreement with Britain, which will be more flexible and free from the European Union pressures and control.

- Seeking to benefit of UK's relations with the commonwealth countries and the U.S.A, in order to conduct bilateral trade agreements with each one of them, Especially USA and the Commonwealth countries, they have very huge trade markets, which could help Lebanon access new markets, increase its exports, decrease its trade deficit and increase growth rate.

- Decreasing the value of the imports from EU by taking advantage of the pound depreciation by 10% from its original value before the referendum results that reached $1.244 at present, in addition to the depreciation of the Euro exchange rate to dollar, Especially the raw materials imported from UK to be used in the

Lebanese manufacturing sector (Engines, industrial machinery and equipment). Consequently the cost of the production of will be also reduced.

- Increasing exports to UK from $38 million to approximately be equivalent to $200 million at least, after conducting the bilateral trade agreement with UK by working on facilitating exports of:

- Animal products (dairy products) to UK, and increase exports from 0 % of total Lebanon's exports to 12%.
- Pharmaceuticals from 1% to 10 %.
- Food stuffs and beverages from 30% to 45%
- Vegetable products from 6% to 10%.
- Chemical products could be increased from 12% to 18%.
- Plastic products from 7% to 12%.
- Jewelry from 15% to 25%.
- Oils (olive oil) from 1% to 5%
- Machinery and electrical instrument from 6% to 15%.

- Britain has always been considered as one of the favored destinations for education to Lebanese students. Before Brexit, British Universities were committed to offer scholarships and subsidies to the citizens of the UK and EU. After Brexit, the UK will free up some scholarships for other students from non EU countries and could be an opportunity for the Lebanese students to be able to get more scholarships.

- After conducting the trade agreement between Lebanon and UK, British citizens (businesses owners, students, tourists...) will be encouraged to visit Lebanon in larger numbers than today. On the other hand, the depreciation in pound value will reduce travelling costs to the UK, which in turn will make it more affordable for the Lebanese to visit, study, and invest in the UK.

15.2 Future opportunities and expectations for UK

Lebanon has been considered the link between the industrial western countries and eastern countries where the natural resources are concentrated;

therefore signing a trade agreement between Lebanon and UK will have positive impact on UK by:

- Enabling UK's products to access Lebanese and Arab markets especially, Syria and Iraq.

-Promoting investment in Lebanon in the promising sectors (Industrial, Oil, etc.)

-Establishing a commercial platform in Lebanon as a corridor to Arab markets (Syria, Iraq, and GCC), which in turn will lead to increasing UK's exports to Lebanon and the Region.

- Increasing the numbers of Lebanese and Arab travelers (businessmen, students, tourists...) to UK.

-Allowing Britons to benefit by deepening the economic and investment relations with Lebanon and the Lebanese diaspora throughout the world. Lebanese diasporas are very large, effective and capable in many countries especially, Africa, south America and GCC.

16-Conclusion

Upon looking, analyzing and assessing tens of reports and articles, it was clear that British exit from the EU will carry with it large economic and political costs and opportunities. May be it will weaken the UK's standing in the world and its ability to influence the international events that affect it the most. It is also evident that none of the alternative relations will be as more advantageous compared to UK's membership in the EU. But at the same time Brexit could create a real opportunity for UK to promote its economic, societal and political role worldwide.

For these reasons we conclude that leaving the EU is a historical step made by the UK's leave campaign, whose effects will have a lasting impact on the UK's future for many years to come.

Voting for Brexit will have global repercussions in the long terms and UK could be facing better economic circumstances. All depends on, UK reaching an agreement with the EU to adopt the Soft Exit. UK can follow the path of Norway; the Soft Exit will enable UK to enjoy a free trade agreement and free movement of people with EU. UK will be able to export to EU countries and British's workers will be able to work and live in other EU countries and vice versa. It is a priority for the UK to maintain close trade relations with the EU, even if it would choose to withdraw politically.

UK could conclude an agreement with the EU following the example of a customs union (Turkey's model). In this case, it would not be obliged to contribute to the EU budget or accept immigration from the EU member states.

On the other side if the UK adopts the hard exit principle, in the short run, the pound value will continue to decrease and leads the inflation in UK to its highest level. The unemployment rate in UK may increase, when the British nationals who live and work around the EU will be out of jobs, then they will have to go back home to compete with other British nationals to find jobs opportunities. As for the trade movement, the exports of UK will face new challenges and the UK traders will have to look for new markets outside the EU to sell their products.

In both cases, the UK will have an opportunity to conduct bilateral trade agreements with other countries (USA, China, India, Australia, Commonwealth, GCC, Lebanon…) in order to get access to new markets, fill the gap resulted from leaving the EU, and increase the UK's economic growth.

As for Lebanon, Brexit may have a positive effect on the Lebanese imports from the EU due to the decrease of the Euro value and exports from the UK due to the decrease of the GBP (Pound) value.

On the other hand, some of the Lebanese diaspora who live in the UK may face some financial problems (unemployment, losses in investments in houses and stocks) and the value of remittances from UK to Lebanon may decrease.

Lebanon needs also to activate the collaboration with UK to take advantage of the UK's relation with the commonwealth countries and the U.S.A to enter in bilateral trade agreements with each one of them.

Finally, all the figures of the trade exchange of Lebanon with other countries (large trade deficit of 15.7 billion dollars as of 2016- Lebanese customs) call for developing an emergency plan in Lebanon based on reviewing all the trade agreements conducted by Lebanon with other countries. Lately the Lebanese Ministry of Industry took the initiative and started assessing the association agreement between Lebanon and EU, aiming at facilitating the access of the Lebanese product to the EU markets.

Brexit could be an attainable opportunity for Lebanon as for UK, it is necessary for us to work, in order to make it fruitful and useful as much as possible, and the Lebanese government is invited to take quick initiatives and measures aiming at realizing mutual interests with UK.

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