



ANALYSIS OF IRELAND'S EXPORTS TO THE ARAB WORLD

Jim Power Economics

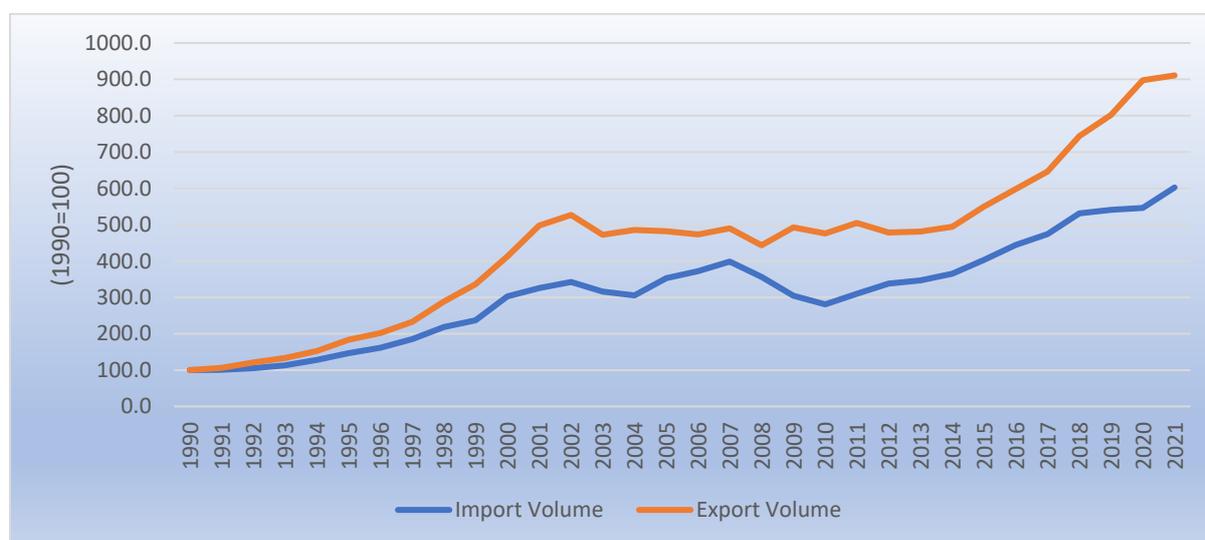
A REPORT PREPARED FOR ARAB-IRISH CHAMBER OF
COMMERCE, DECEMBER 2022

THE IRISH TRADE CONTEXT

Ireland is the textbook example of a small open economy, where external trade in both directions makes a very significant contribution to overall economic activity and employment. In 2021, exports of goods and services were equivalent to 134 per cent of gross domestic product (GDP). Merchandise goods exports were equivalent to almost 40 per cent of GDP.

Figure 1 shows the remarkable growth in external trade since 2010. Over the period 2010 to 2021 the volume of exports increased by 91.3 per cent.

Figure 1: Trade Volume Index



Source: CSO

Ireland's main export relationship is with the EU-27, the US and to an increasingly diminishing extent with the United Kingdom. In the first 10 months of 2022, the EU-27 accounted for 38.4 per cent of total exports; the US accounted for 30.4 per cent; the United Kingdom accounted for 10.6 per cent; and the rest of the world accounted for 20.6 per cent.

Table 1: Ireland's Merchandise Export Partners (Jan-Oct 2022)

REGION	€M	% OF TOTAL
EU-27	67,845	38.4%
United States	53,641	30.4%
Great Britain	14,592	8.3%
Northern Ireland	4,078	2.3%
Rest of World	36,311	20.6%
Total	176,466	100.0%

Source: CSO

Much of the growth in Ireland's export performance has been driven by the multi-national sector and the model of driving economic growth and development through attracting

foreign direct investment (FDI). However, the indigenous export sector is also important, particularly in the agri-food area. It is clear that this model of economic development is not going to change. The continued focus on foreign direct investment will remain, and export growth will be crucial to Ireland's economic success going forward.

Given the relatively small size of the Irish domestic market – population of 5.1 million in April 2022 – export markets are essential for the multi-national sector, but if indigenous Irish firms want to achieve scale, it will have to be on the back of expanding into various export markets.

This reality underlies the strategy approach of Enterprise Ireland. The mission of Enterprise Ireland is to *'Accelerate the development of world-class Irish companies to achieve leading positions in global markets.'* Enterprise Ireland has a strategic objective to *'work with companies to strengthen their capability to expand market reach, accelerate diversification and deliver sustainable export growth.'*ⁱ

In the context of building export potential and achieving geographic diversification, it will be necessary to build trading relationships with as many countries as possible and particularly those with significant growth potential. In this context, the Arab world offers enormous potential. This market for Irish exporters is expanding strongly but is still relatively small in the overall context of Irish trade and it is dominated by a narrow range of sectors.

IRELAND'S TRADE RELATIONSHIP WITH THE ARAB WORLD

Table 2 shows the geographical breakdown of Ireland's exports to the Arab World in the first 9 months of 2022.

Table 2: Ireland's Exports to Arab World (Jan-Sept 22) (Arab-Irish Chamber of Commerce)

COUNTRY	€	% Of Total	% Change on 2021
Algeria	88,195	4.0%	32.1%
Bahrain	45,858	2.1%	39.6%
Comoros	13	0.0%	-89.4%
Djibouti	888	0.0%	359.0%
Egypt	268,587	12.1%	35.5%
Iraq	117,168	5.3%	20.6%
Jordan	89,711	4.0%	10.6%
Kuwait	84,582	3.8%	16.8%
Lebanon	29,422	1.3%	-25.1%
Libya	27,153	1.2%	15.5%
Mauritania	3,843	0.2%	53.0%
Morocco	81,499	3.7%	-46.4%
Occupied Palestinian Territory	1,974	0.1%	153.0%
Oman	123,570	5.5%	175.7%
Qatar	102,691	4.6%	37.8%
Saudi Arabia	627,509	28.2%	23.0%
Somalia	178	0.0%	-16.8%
Sudan	20,037	0.9%	14.1%
Syria Arab Republic	4,085	0.2%	-2.6%
Tunisia	14,485	0.7%	1.1%
United Arab Emirates	477,749	21.4%	26.2%
Yemen	19,111	0.9%	195.5%
Total	2,228,310	100%	22.6%

- The latest data show that in the first nine months of 2022, Irish exports to the Arab World increased by 22.6 per cent, to reach €2.2 billion. **This is the largest export total ever recorded with the Arab World.** In 1987, exports to the region totalled just €325 million.
- Saudi Arabia is the largest market, accounting for 28.2 per cent of the total market, valued at €627 million. Exports to Saudi Arabia increased by 23 per cent in the first nine months of 2022.
- United Arab Emirates is the second largest market, accounting for 21.4 per cent of the total market, valued at €478 million. Exports to United Arab Emirates increased by 26.2 per cent in the first nine months of 2022.

- Egypt is the third largest market, accounting for 12.1 per cent of the total market, valued at €269 million. Exports to Egypt increased by 35.5 per cent in the first nine months of 2022.
- While some of the other countries are very small in terms of export market share, significant export growth was recorded in many of those countries in the first nine months of 2022.
- In total, 16 of the 22 countries saw export growth in excess of 10 per cent; 11 of the countries recorded export growth in excess of 20 per cent; and four countries recorded export growth in excess of 100 per cent.

Table 3 provides a case study on the Irish export relationship with the largest export market, Saudi Arabia. Essential oils, perfume materials, toilet preparations accounted for 41.4 per cent of total exports; medicinal and pharmaceutical products accounted for 32 per cent; miscellaneous edible products and preparations accounted for 5.2 per cent; and dairy products and birds' eggs accounted for 4.9 per cent.

A wide variety of products are exported to Saudi Arabia, but for many the magnitude is quite modest. Clearly, the multi-national sector dominates trade, but many of the smaller export sectors have a strong SME presence, so the potential for export growth for the SME sector does look significant.

Table 3: Ireland's Exports to Saudi Arabia

EXPORT PRODUCT	(€000s)	% Of Total
Essential oils, perfume materials, toilet preparations etc.	259975	41.4%
Medicinal and pharmaceutical products	200865	32.0%
Miscellaneous edible products and preparations	32620	5.2%
Dairy products and birds' eggs	30618	4.9%
Office machines and automatic data processing equipment	27992	4.5%
General industrial machinery and parts	14126	2.3%
Miscellaneous manufactured articles	10093	1.6%
Professional, scientific and controlling apparatus	10070	1.6%
Chemical materials and products	8631	1.4%
Inorganic chemicals	6851	1.1%
Electrical machinery, appliances etc.,	6313	1.0%
Organic chemicals	2427	0.4%
Non-metallic mineral manufactures,	2237	0.4%
Power generating machinery and equipment	1890	0.3%
Photographic apparatus, optical goods, watches and clocks	1803	0.3%
Feeding stuffs for animals, excluding unmilled cereals	1769	0.3%
Manufactures of metal	1716	0.3%
Telecommunications and sound recording, reproducing equipment	1632	0.3%
Machinery specialised for particular industries	1072	0.2%
Other	4812	0.8%
Total	627512	100.0%

Source: CSO

EXPLAINING THE STRONG GROWTH IN EXPORTS IN 2022

In the first nine months of 2022, Ireland's merchandise exports increased by 30.3 per cent to reach €159 billion. Exports to the Arab World increased by 22.6 per cent to reach €2.2 billion. Exports to the Arab World in the first nine months of 2022 accounted for 1.4 per cent of total Irish merchandise exports. It has a relatively small market share, but it is expanding strongly and the growth potential over the coming years could be significant. Apart from merchandise exports, to which this report pertains, it is estimated that trade in services will exceed €4 billion this year.

In understanding the growth performance of Irish exports to the Arab World, a number of factors are likely to be driving the growth:

- The Arab World economic performance has been strong in 2022. IMF estimates (October 2022) suggest that the economy of Saudi Arabia will expand by 7.6 per cent in 2022; United Arab Emirates will expand by 5.1 per cent; Kuwait will expand by 8.7 per cent; Iraq will expand by 9.3 per cent; and Egypt will expand by 6.6 per cent. In a global economy facing encountering strong headwinds, this outperformance by many of the economies of the Arab World has been good for Irish exporters. The relatively strong economic performance of the Arab World is due to a combination of strong demand for oil in an environment of energy supply difficulties; higher oil prices and oil revenues; and a relatively limited impact of the war in Ukraine.
- The ongoing growth and strength of the multi-national presence in Ireland, and particularly the growth and strength of the Chemical and Pharmaceutical sector has boosted Irish exports from the multi-national sector to the Arab World.
- In recent years, Ireland has seen the opening of a number of new embassies from the Arab World. This is partly due to Brexit, as Ireland is now the only native English-speaking country in the EU and this has made Ireland an even more attractive location for US multi-national companies seeking to sell into European and other markets, such as the Arab world. The opening of these embassies has contributed to growth in bilateral trade. It is also the case that it is becoming gradually easier to conduct business with the Arab world.
- Ireland's connectivity with the Arab World has increased significantly, with a significant number of direct flights to Arab destinations. Four Arab airlines are now flying into Ireland, and the demand for more flights is strong. Connectivity is a very important driver of trade in goods and services, particularly tourism in both directions.
- The international reputation for Irish products is strong. Irish agricultural produce is regarded as of a high quality, with a strong organic component. For technology and pharmaceutical products, Ireland is recognised as a highly regulated and high-quality production environment.
- The decision by the UK to leave the EU has improved the attractiveness of Ireland as a source of imports in the Arab World. The EU has number of free trade agreements with the Arab world, and Ireland is now and can increasingly benefit from its EU credentials.
- Ireland is putting more official personnel on the ground in the Arab World, in the form of new embassies and staff from Enterprise Ireland, the IDA and Bord Bia. This is facilitating increased trade relationships.

THE MARKET POTENTIAL FOR IRISH EXPORTS TO THE ARAB WORLD

The Arab World is still a relatively small export destination for the Irish export sector. However, export trade with the Arab World is now experiencing strong growth, and with a correct approach, the importance of the Arab market can increase strongly in the future.

The 22 countries of the Arab World covered in this report have a combined population of 444.1 million in 2021, which is equivalent to 5.5 per cent of the global population. The population of the region is growing strongly. For Irish exporters, and particularly the SME sector, the Arab World is a market that is growing strongly in numerical terms, and it represents a market with significant growth potential.

Table 4: Population of the Arab World (2021)

COUNTRY	POPULATION (m)	COUNTRY	POPULATION (m)
Algeria	44.6	Morocco	37.3
Bahrain	1.7	Occupied Palestinian Territory	4.5
Comoros	0.9	Oman	5.2
Djibouti	1	Qatar	2.9
Egypt	104.3	Saudi Arabia	35.3
Iraq	41.2	Somalia	16.4
Jordan	10.3	Sudan	44.9
Kuwait	4.3	Syria Arab Republic	18.3
Lebanon	6.8	Tunisia	11.9
Libya	7	United Arab Emirates	10
Mauritania	4.8	Yemen	30.5
		Total	444.1

Source: Economist Publications & IMF

The 22 countries of the Arab World covered in this report accounts for around 3.1 per cent of global GDP. Many of the economies are growing strongly at the moment and official forecasts are suggesting strong growth over the coming years. Table 5 shows the latest growth projections from the IMF (October 2022) for the region, and the strong growth performance of recent years.ⁱⁱ

Table 5: Economic Performance & Outlook Arab World

	Avg. 2004-13	2018	2019	2020	2021	2022f	2023f	2027f
Algeria	3.2%	1.2%	1.0%	-5.1%	3.5%	4.7%	2.6%	1.7%
Bahrain	5.3%	2.1%	2.2%	-4.9%	2.2%	3.4%	3.0%	3.0%
Djibouti	4.4%	4.8%	5.5%	1.2%	4.8%	3.6%	5.0%	6.0%
Egypt	4.7%	5.0%	5.5%	3.5%	3.3%	6.6%	4.4%	5.9%
Iraq	10.2%	4.7%	5.8%	-15.7%	7.7%	9.3%	4.0%	2.7%
Jordan	5.5%	1.9%	2.0%	-1.6%	2.2%	2.4%	2.7%	3.3%

Kuwait	4.3%	2.4%	-0.6%	-8.9%	1.3%	8.7%	2.6%	2.7%
Lebanon	5.3%	-1.9%	-6.9%	-25.9%	N/A	N/A	N/A	N/A
Libya	-0.5%	7.9%	-11.2%	-29.5%	28.3%	-18.5%	17.9%	4.1%
Mauritania	4.3%	4.8%	5.4%	-0.9%	2.4%	4.0%	4.8%	4.8%
Morocco	4.6%	3.1%	2.9%	-7.2%	7.9%	0.8%	3.1%	3.4%
Oman	4.9%	1.3%	-1.1%	-3.2%	3.0%	4.4%	4.1%	2.7%
Qatar	14.1%	1.2%	0.7%	-3.6%	1.6%	3.4%	2.4%	3.8%
Saudi Arabia	4.5%	2.5%	0.3%	-4.1%	3.2%	7.6%	3.7%	3.0%
Somalia	N/A	3.7%	2.7%	-0.3%	2.9%	1.9%	3.1%	4.1%
Sudan	0.7%	-2.3%	-2.5%	-3.6%	0.5%	-0.3%	2.6%	6.0%
Tunisia	3.7%	2.5%	1.4%	-8.7%	3.3%	2.2%	1.6%	2.6%
UAE	4.3%	1.2%	3.4%	-4.8%	3.8%	5.1%	4.2%	4.2%
Yemen	2.4%	0.8%	1.4%	-8.5%	-1.0%	2.0%	3.2%	5.5%

Source: IMF World Economic Outlook, October 2022

Growth in the Middle East and Central Asia is projected by the IMF to increase to 5.0 percent in 2022, largely reflecting a favourable outlook for the region’s oil exporters and an unexpectedly mild impact of the war in Ukraine on the Caucasus and Central Asia. In 2023 growth in the region is set to moderate to 3.6 percent as oil prices decline and the headwinds from the global slowdown and the war in Ukraine take hold. Nevertheless, the region is likely to be one of the stronger growing regions over the coming years.

The Arab World has an exceptionally high propensity to import and imports up to 90 per cent of its requirements. This fact shows the potential for Ireland’s penetration of that market. The ex-pat Irish community in many of the Arab States also offers considerable market opportunity.

Official efforts are being ramped up to facilitate export potential in Ireland, particularly for the SME sector. The Middle East has been identified as a market with considerable opportunity in the ‘Trade and Investment Strategy 2022-2026: Value for Ireland, Values for the World’.ⁱⁱⁱ It sets out to see Ireland grow sustainably, diversify export markets, and support continued prosperity and higher living standards for all the people of Ireland. Its strategic aims are:

- Support Ireland’s Economic and Trade ‘Ecosystem’.
- Review and refresh the Local Market Teams.
- Positioning Ireland within Global Value Chains and Supply Chains.
- Communicating Ireland’s Interests as a Trading Nation.
- Maximising Ireland’s return from EU Free Trade Agreements.
- Team Ireland - Trade Mission Week.
- Reaping the Benefits of the EU Single Market.

The areas of opportunity, which includes those dominated by multi-national companies and domestic SMEs are clear. They basically represent sectors that already export to the Arab

World, but the growth potential seems to be very significant in both goods and services, with the adoption of a correct approach. These sectors include:

- The food and dairy sector.
- Essential oils, perfumes and toiletries.
- Pharmaceutical and medical.
- Healthcare.
- Agricultural advice and training.
- Construction.
- Education.
- Renewable energy.
- Infrastructure.
- Aviation.
- Tourism.

For Irish firms seeking to diversify into alternative markets, particularly for SME exporters in the aftermath of Brexit, the Arab World presents significant opportunity and growth potential, provided the correct approach is adopted. It takes time to build up any trading relationship, particularly with markets that have a very different culture. It is essential to understand the culture and behave accordingly. To do business successfully in the Arab World, a number of cultural factors need to be understood. These include:

- The workweek, which for many Arab countries does not include Friday.
- Face to face engagement and many meetings to build up trust and a solid relationship.
- Respect the language.
- Flexibility.
- Patience.
- Hard work and dedication.
- Dress code and cultural norms.

The Arab World is a market that offers significant potential for Irish exporters given its population size and the strength and growth of the trading relationship in recent years.

REFERENCES

ⁱ 'Leading in a Changing World, Strategy 2022-2024', Enterprise Ireland.

ⁱⁱ IMF World Economic Outlook, October 2022

ⁱⁱⁱ 'Trade and Investment Strategy 2022-2026: Value for Ireland, Values for the World,' Department of Enterprise, Trade and Employment.