



UKTPO
UK TRADE POLICY
OBSERVATORY

The impact of the UK's post-Brexit trade policy on development

An essay series

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Introduction and overview

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Introduction

Following the vote to leave the EU on 23 June 2016, the UK is facing one of its most formidable policy challenges. A new trade policy will have to be designed to address its new strategic interests. Considering the different and frequently opposing interests, this task is far from straightforward. At the same time, the UK is presented with a unique opportunity to redefine policy objectives and design new tools to implement them.

Many of Brexit's supporters have argued for a need to redefine the role of the UK in international politics, with trade at the centre. From the use of international development assistance to the negotiation of trade agreements, trade is regarded as the basis on which to pursue national interests as well as retain global leadership.

Unfortunately, little attention has focused on how a new UK trade policy could contribute to development. This is surprising considering that much of the UK's global leadership is derived from its relationships with developing countries, and the cross-party consensus in the UK on the importance of global development. The UK has been a major advocate of using the EU's trade policy to deliver development, and has devoted a significant share of its aid to helping developing countries increase and diversify their trade.

The potential to define a new trade strategy, agree new trade agreements and use new aid and trade tools constitutes a major opportunity for the UK to continue championing the cause of trade and development. It is also an opportunity for the UK to make trade policy work more effectively and efficiently in delivering development opportunities.

At the same time, there are significant concerns over whether the UK is willing and able to assume such a role. The challenge of defining a new trade policy is considerable, and one for which the UK Government appears ill-prepared. Given the magnitude of the tasks and the number of negotiations that the UK will face in the next few years, there is a major risk that developing countries will be overlooked.

This collection of essays offers a number of perspectives on how a new UK trade policy towards developing countries and regions could be designed and implemented, in both the short and longer term. It also conveys the concerns, opportunities and expectations from a group of leading trade specialists from academia, international organisations and think tanks in the UK and elsewhere.

Summary of essays

The essays and this introduction are structured into five sections:

1. Principles for a new UK trade policy and the relationship with developing countries
2. The potential effects of a new UK trade policy on developing countries: some scenarios
3. The value of preferential access to the UK market for developing countries
4. A new UK trade policy: opportunities beyond tariffs
5. Regional perspectives on a new UK trade policy

Following this introduction, we provide a summary of the essays. The next section then draws out some major commonalities and differences amongst the essays. This introduction and overview concludes with key messages and suggestions for UK policy makers faced with the task of designing the UK's new trade policy and trading relationship with developing countries and emerging economies.

1. Principles for a new UK trade policy and the relationship with developing countries

L. Alan Winters discusses the principles that should underpin the new UK trade policy towards developing countries. He stresses the importance of recognising the heterogeneity among developing countries and calls for a simple, pragmatic approach, which includes the definition of a simple preferential regime with forgiving rules of origin. However, he argues that policy must be made while recognising that, as a small player, the UK may lose direct influence over policies in developing countries.

Adrian Wood discusses the internal challenges that the UK will face in defining its trade policy towards developing countries. Development assistance is unpopular among many supporters of Brexit and there will be pressure to impose trade restrictions. Advocates of development will therefore need to maximise the developmental benefits of trade policies in a context of limited resources and major scrutiny from certain groups. Wood recommends focusing on a limited number of valuable dimensions and not trying to do everything at the same time.

Sheila Page analyses the priorities and objectives for developing countries. Due to the uncertainty over the evolution of a new UK trade policy, it will be hard for these countries to assess what they want and can get

out of negotiations with the UK. Moreover, developing countries will have little say in the negotiations between the EU and UK on issues such as the funding of the European Development Fund. Page concludes that, for now, developing countries should prioritise defending their interests in trade relationships with the EU and the World Trade Organization (WTO).

2. The potential effects of a new UK trade policy on developing countries

EU–UK negotiations will play a major role in defining the new UK trade policy. *Dirk Willem te Velde* identifies a number of scenarios for relationships with developing countries depending on the stance the UK adopts towards trade and the nature of the agreement reached with the EU. Much is at stake for developing countries if the UK does not form part of a customs union with the EU and instead decides to offer and negotiate trade tariffs. If the UK were to reduce margins of preference for developing countries, for example, this will increase the duties paid by those countries dependent on such preferences. The value of concluding free trade agreements (FTAs) between the UK and major emerging markets (to which the EU does not already have duty-free access) in terms of lower duties paid on UK exports could amount to \$7.3 billion.

Jim Rollo also discusses different scenarios for the EU–UK negotiations and how they might affect the relationship with developing countries. He stresses that there is room to improve the arrangements that will be ‘inherited’ from the EU, but also notes the damage that uncertainty over the timing and content of the future UK trade policy is causing in developing countries.

3. The value of preferential access to the UK market for developing countries

The issue of preferences is an important feature of many of the contributions. *Simon Evenett* highlights the problems of basing UK trade policy towards developing countries exclusively on preferences and FTAs. He suggests a move away from preferences towards a regime of uniformly low tariffs. However, there is potential for additional policy towards specific countries to lower trade costs using Aid for Trade (AfT).

Emily Jones highlights the importance of securing duty-free, quota-free access for Least Developed Countries (LDCs) to the UK. She highlights that the UK may need to devise its own unilateral preferences and replace the existing FTAs it has with the EU. As these new arrangements may take time, however, a waiver at the WTO must be requested as soon as the UK recovers its negotiation rights.

Urgent steps are needed to keep markets open for developing countries. *Barbara Crowther*, *Liz May* and *Matt Grady* highlight the importance of enhancing preferential regimes for LDCs and selected non-LDC developing countries, by allowing the maximum cumulation possible in rules of origin to allow more goods to meet the relevant

rules. They argue that the effects on the poorest countries should be included in analyses of FTAs with third countries, and call for a review of the UK’s bilateral investment treaties and the inclusion of commitments on labour, human rights and the environment.

Christopher Stevens and *Jane Kennan* examine the potential effects on Economic Partnership Agreements (EPAs) of the UK’s exit from the EU. They find that in general, very little changes in the cost–benefit analysis of EPAs for many African, Caribbean and Pacific (ACP) signatories. The importance of the UK for exports of certain sensitive products from the Caribbean, however, may compel some countries to seek to revise their agreements with the EU if the UK is no longer party to their EPAs.

Jane Kennan also discusses the effect of the potential change in market access resulting from Brexit on exports to the UK. She finds that non-LDC ACP countries may have to pay additional duties on their exports to the UK and estimates the effect of not granting preferences to these countries to be €205 million.

4. A new UK trade policy: opportunities beyond tariffs

Trade policy today goes well beyond tariffs. It includes provisions on services, investment, rules of origin, anti-dumping, AfT and other issues. *Stephen Gelb* points out that investment and trade policy are increasingly hard to separate. After Brexit, the UK will need to define a new investment policy. This presents an opportunity to consider the development impact of investments in the context of global value chains and to create a more open and transparent dispute settlement mechanism.

There are certain other technical aspects with major effects on developing countries that need to be considered. *Peter Holmes* looks beyond tariffs to analyse the implications for developing countries of anti-dumping and trade-related standards. He also discusses how membership of the European Economic Association (EEA) would not grant the UK the same level of access to the Single Market as membership of the EU currently does. Access for developing countries to a UK that is part of the EEA will not necessarily translate into access to the EU.

Jodie Keane focuses on services, a key UK sector and one that is also of increasing importance in many developing countries. The EU’s EPA with the Caribbean Forum (CARIFORUM) is the only comprehensive agreement in place that covers services, investment and e-commerce, and is more ambitious on services than the General Agreement on Trade in Services. It can therefore provide a benchmark against which to measure any future agreements. However, Keane also discusses the data limitations that make such assessments challenging.

Max Mendez-Parra and *Dirk Willem te Velde* discuss how AfT could complement a new UK trade policy. AfT will continue to play a key role in helping developing countries to reduce trade costs in the context of an

independent trade policy. In addition, it can complement trade and investment agreements and compensate vulnerable countries whose preference margins are eroded. The risks include AfT being diverted away from the poorest countries and being used as a bargaining chip. However, these risks can be minimised by increasing the volume of AfT and using additional financial transfers, both of which can be justified on the grounds of national interest, as AfT benefits both recipients and providers.

5. Regional perspectives on a new UK trade policy

Ricardo Meléndez-Ortiz examines specific options for the UK's preferential trade relations with a range of developing countries. Unilateral duty-free, quota-free access with improved rules of origin is suggested for LDCs; for non-LDC countries, there is a need to rethink the current EPAs to reflect the changes in regional configurations. Negotiations with Africa's Continental Free Trade Area (CFTA) are considered, as is a UK engagement with the Trans-Pacific Partnership and other major G20 emerging countries.

Mohammad Razzaque and *Brendan Vickers* ask whether the UK should use the existing EPA framework or devise a completely new framework in negotiations with non-LDC countries. Using the EPA framework may imply a re-opening of the negotiations and, as the UK will not be in the same bargaining position as the EU, this may prolong talks. The authors recommend that the UK request temporary WTO waivers for its ACP partners to ensure continuity of preferential treatment and the recent developments in ACP countries' policy such as the CFTA.

There are specific principles that should guide the design of policy towards certain regions or countries. *David Luke* and *Jamie McLeod* analyse the implications of Brexit from an African perspective. They argue that the post-Brexit approach to Africa must be pro-poor and pro-development, and must ensure certainty for Africa's exports. The UK should also take a continent-wide approach, in alignment with the CFTA and Africa's other plans for continental regional integration.

Ganeshan Wignaraja highlights the potential in the trade relationship between the UK and developing Asia, where engagement in regional value chains plays a key role. While recognising the challenges and the likely length of the negotiations, he argues that an FTA with China should be attempted, and points to the complementarities that exist between the two countries. In addition, the UK should look to engage more with the plurilateral agreements to which southeast Asian economies, China and India are parties.

Finally, the UK should also pay more attention to Latin America. *Max Mendez-Parra* argues that, although the extent of bilateral trade is small, the UK could obtain quick, concrete results from negotiating agreements with some countries in the region. He points out that while an FTA with Brazil would be beneficial, Brazil's membership of Mercosur makes this unlikely in the short to medium

term. The UK may need to work harder to re-engage with the region.

Common messages

The essays in this collection offer some initial thoughts from a number of leading trade experts. Despite the breadth and complexity of the issues, a number of common messages have emerged.

Perhaps the most frequent of these is the value of the preferential access that LDCs receive to the UK market through the EU's Generalised System of Preferences (GSP), and particularly its Everything But Arms (EBA) element. *Kenman* estimates that they save LDC exporters €385 million annually and non-LDC ACP exporters €205 million. *Te Velde* reports that preferences save Commonwealth exporters €715 million per year. The preferences not only give the LDCs an advantage relative to exporters facing most-favoured nation (MFN) tariffs, but also reassure them that exporting will be relatively hassle free.

Some commentators, including *Jones* and *Crowther et al.*, suggest that the margins of preference are the key advantage of EBA, and that the UK should take all possible steps to preserve them. Developing countries (both their governments and businesses) need certainty, so the UK should move quickly to confirm that existing arrangements will remain in place for a certain period of time following the UK's departure from the EU. Others, including *Evenett* and *Winters*, argue instead that preferences are not the way forward and that the focus should be on liberalising imports to developing countries in general, reducing trade costs and, where necessary, offering adjustment assistance to LDCs that lose out significantly from reduced preferences.

A second common theme is the need to seek transition arrangements that extend current market access regimes well beyond the two-year horizon associated with the UK leaving the EU via Article 50 of the Treaty on European Union. For some, this stems from a desire to extend preferences indefinitely; others would like to offer developing countries some security in order to reduce uncertainty and prevent them from undertaking major adjustments unnecessarily. A third group maintain a simple pragmatic argument that the UK will not get around to dealing with most developing countries for several years. *Page* cautions that continuing with current regimes would preserve current patterns of advantage and disadvantage, which are more the product of historical accident than careful tailoring to current conditions. She suggests that any continuations should be no more than temporary expedients.

A number of essays – especially those in the section on regional perspectives – highlight the differences between developing countries, and note that the right approaches for the UK to adopt and the prospects for striking new trade deals differ accordingly. This suggests that UK trade policy will need to be somewhat differentiated and that it will take time to renew the whole range of relations,

although some authors (e.g. *Winters*) caution against allowing the regime to become too complex. There are some strong arguments for signing an FTA with China (see, for example, *te Velde*'s estimate of a significant reduction in duties paid on UK exports) and for thinking about a pan-African arrangement, but there is also a strong sense for realism regarding the prospect of deals with certain other large emerging markets.

A special element of EU trade policy for the last two decades has been the large-scale effort to sign EPAs with the ACP countries. The preferential access these agreements grant to UK markets is seen by many as useful, but attempts to encourage the developing countries to liberalise their own imports have not been overtly successful. Now the UK will be on its own, it may no longer be sensible to try to leverage trade liberalisation from most ACP partners. The UK will have much less influence than the EU over trade policies, and it is likely that any reciprocity that it demands of developing country partners will result in discrimination between different sources of imports in their schedules, with the consequential dangers of welfare-reducing trade diversion. The only exceptions are likely to be the few ACP countries for which the UK is the predominant trade partner, such as Ghana and Guyana (see the essays by *Stevens* and *Kennan*) or Fiji (see the essay by *Jones*).

Another common theme is that trade policy is now about far more than just tariffs. The UK can consider Brexit as an opportunity to go beyond tariffs and develop a 'gold standard' trading policy that benefits both developing countries and the UK. Investment is intimately tied up with trade and there are many challenges arising from trade defence instruments and standards. Moreover, with services becoming ever more significant in countries' trade bundles,

it is necessary to consider their regulation and how one might weave them into development-friendly packages. The other non-tariff issue that needs to be considered is migration. We do not consider it here – not because it is not important either for trade or for development, but because it is deeply sensitive politically and there is, as yet, no indication of how the UK Government will define its overall stance on migration. All we do here is note that it is a subject to which we must return in the context of the UK's relations with developing countries.

AfT features in several of the essays and should certainly continue to be a core theme of UK trade relationships with developing countries. *Evenett* advocates the use of AfT in efforts to reduce trade costs, and *Winters* argues for its role in adjustment to new trade realities. *Mendez-Parra* and *te Velde* both argue that AfT can be good for recipients and providers, without the aid being tied to exports of the aid providers.

Conclusion

Due to the significant value of preferential access to the UK market for developing countries, transitional arrangements will be needed while a new UK trade policy is put in place. This new UK trade policy can be made more development-friendly by going beyond tariffs to include new provisions on services, investment, rules of origin, standards and AfT. It will also need to differentiate amongst different types of developing countries, including, for example, seeking an African FTA, concluding a FTA with China and paying more attention to the Latin American region. There is much to contemplate in what could be a short period of time, but the essays in this volume argue that it is worth getting it right.

Key messages

Following the vote to leave the EU on 23 June 2016, the UK is facing one of its most formidable policy challenges. A new trade policy will have to be designed. Much more attention needs to focus on how a new UK trade policy can contribute to development. The new UK trade policy and the relationships with developing countries will need to address the differences that exist among developing countries.

- Some developing countries, such as LDCs, depend on preferences in the UK market. They need certainty so the UK should move quickly to confirm that existing arrangements will remain in place for a certain period of time following the UK's departure from the EU. Linked to this, the UK needs to put 'transitional arrangements' in place to minimise disruption.
- The value of the preferential access that developing countries receive to the UK market through the EU's GSP, and particularly its EBA element, is considerable. They save LDC exporters €385 million per year, non-LDC ACP exporters €205 million and Commonwealth exporters €715 million.
- Other developing countries are likely to be regarded mainly as valuable export markets with whom the UK may struggle to negotiate new trade agreements (e.g. Brazil, China, India) or hope to maintain current free trade access (e.g. Korea, Mexico, Turkey). The UK needs transition agreements for all of these given the time it takes to conclude new trade arrangements. The right approaches for the UK to adopt and the prospects for striking new trade deals differ, and it will take time to renew the whole range of relations.
- There are strong arguments for signing FTAs between the UK and major emerging markets (to which the EU does not already have duty-free access) – worth \$7.3 billion in terms of lower duties paid on UK exports – and for considering a pan-African arrangement.
- A new UK trade policy can be made more development-friendly by going beyond tariffs to include new provisions on services, investment, rules of origin and standards.
- Preserving preferences should not take priority over lowering tariffs more generally if that makes sense for the UK and other partners. AfT may ease the strain of adjustment, especially in those countries dependent on preferences. AfT should continue to be a core theme of UK trade relationships with developing countries, in order to reduce trade costs and help adjustment to new trade realities in developing countries. AfT benefits both recipients and providers, without aid being tied to exporters of aid providers. UK AfT is highly valued, but its level is currently below that of the US and major EU countries.

Notes

- 1 The essay by *Jane Kennan* in Part III addresses this issue for the non-Least Developed Countries among the African, Caribbean and Pacific countries. Duties saved are €205 million annually. In separate calculations available elsewhere, Kennan estimates the amount of duties saved for LDCs as €385 million annually

1. The UK's trade policy towards developing countries: some principles

L Alan Winters, UK Trade Policy Observatory, University of Sussex

Abstract

Constructing a development-friendly UK policy is quite different from trying to influence EU policy in that direction. This essay sets out four principles to guide the process: recognise differences between developing countries; forget about influencing the EU; accept that the UK will have much less influence than the EU on developing country policies; and keep policies simple and pragmatic.

Introduction

Following the decision in the referendum to leave the EU, the UK needs to devise its own trade policy towards developing countries. The UK has a fine record on development aid and other support for development, so this process can be expected to be development-friendly. Designing a trade policy is complex, however, and this essay sets out four principles that should guide UK thinking about how to set about doing so.

Developing countries are not homogeneous

The UK must develop policies for several classes of countries – ranging from Least Developed Countries (LDCs) to major emerging economies, such as China and India. The latter group will require tailor-made agreements whose principal drivers will be trade rather than development. However, these are not dealt with in this essay.

The focus will no longer be on moulding EU policy

Much of the past 40 years' effort on trade and development policy has been devoted to trying to mould EU policies – usually in a relatively market-friendly direction. There is now no role for this, and so a major shift in focus is required among UK trade and development officials. The UK may well retain influence on trade and development policy through global institutions such as the World Bank Group and the World Trade Organization (WTO), and indeed it should seek to exercise this to a greater extent than previously. As a smaller player, however, the UK will have less influence than the EU has had collectively.

The UK will lose most of its direct influence over developing countries

This represents the largest change required in the UK mind-set. Despite being the fifth or sixth largest economy in the world, the UK will effectively become a small open economy that will have to take its environment as given. Thus, whereas the EU designed policies such as the Generalised System of Preferences+ (GSP+) and Economic Partnership Agreements (EPAs) to influence developing country governance and economic policies, this is not realistic for the UK, except in a small number of cases with very small economies that are highly dependent on the UK.

This principle has two implications. First, using UK trade policy for broader policy leverage is likely to be ineffective unless it is explicitly combined with EU policy or that of several other players. Given the focus on sovereignty in the UK referendum debate, sinking policy discretion into a collective does not seem very likely, so broad political influence seems likely to be greatly reduced. That is, trade policy will become trade policy, not foreign policy.

Second, and as a consequence of the first, one needs to recognise that any quid pro quo the UK extracts from developing countries for access to its market will be exceptions to the developing country's policies, not the mainstream. Thus, for example, if the UK insists, as do the EPAs, that its developing country partners offer zero tariffs on most of its exports, this will not liberalise the partners' trade policy so much as create a distortion that could lead to costly trade diversion away from more efficient suppliers. This potentially increases the tensions between the trade promotion and the development policy aspects of policy towards developing countries.

Trade policy should be simple and pragmatic

I have advocated the former rule for decades, for the sake of economic and administrative efficiency, but the latter is now equally important. Simplicity suggests that the UK should aim to have only a few columns in its tariff schedule – perhaps one for EBAs (Everything But Arms) and one for non-LDC GSP recipients. Rules of origin should be forgiving and easy to administer for both exporters and the UK customs authorities. Likewise, using international standards for imported goods will allow developing country exporters to avoid producing solely for the UK.

Over the next few years, the UK, with a whole new trade policy to invent, will lack the capacity to develop detailed trade policies with many (or maybe even a few) developing countries. Therefore, it needs not only to keep things simple and modest, but also to seek the means to continue existing policies, even less than perfect ones, until it has time to work on them properly. For a transitional period of, perhaps, four years after its exit from the EU, the UK should consider offering developing partners exactly the same market access as, or obviously better access than, they currently have under EU auspices. One sequencing issue that may arise is, if the UK improves its access for imports from developing countries in general, the margins of preference for the LDCs will tend to decline. If this is a major problem for particular LDCs, the aid budget should be used to compensate and facilitate adjustment for a finite time period. This may be of particular relevance where (certain) developing countries are permitted to export into restricted, high-priced EU markets (for example, in sugar).

Conclusion

Devising a new trade policy for the UK is quite different from contributing to the formulation of an EU trade policy. Officials will have to be brutally clear-headed and disciplined if they are to achieve it successfully. This essay has suggested four principles to help; the most important of which are that the UK will not be able to influence developing countries' policies in the way the EU could and, given limited capacity in the UK and its partners, the policy must be simple and pragmatic.

2. Facing up to political realities

Adrian Wood, University of Oxford

Abstract

This essay argues that the recent referendum not only requires the UK to define its trade policy towards developing countries but has also made British politics less development-friendly and more protectionist. It will therefore be important to identify ways in which UK trade policy can benefit developing countries with minimal costs to opposed groups in the UK.

Introduction

As an advocate of global development, I know what I want the UK's post-Brexit trade policy offer to developing countries to be: at least as favourable to them as what we now offer as an EU member, including Everything But Arms (EBA). I also want us to remain in the Economic Partnership Agreements (EPAs) with the African, Caribbean and Pacific (ACP) countries, and to use our membership to encourage more trade within Africa. Indeed, I would prefer to go further, by relaxing EBA rules of origin to match the US African Growth and Opportunity Act, lowering barriers to agricultural imports, de-escalating tariffs on primary products, removing tariff peaks on manufactures and easing access for Mode IV services.

None of this will strike other trade-oriented advocates of development as surprising or original; these are things for which we have been pressing for decades. But it has become less likely to happen. The balance of political forces in the UK has shifted in the opposite direction, and we are now in the world of Lewis Carroll's Red Queen, where 'it takes all the running you can do, to keep in the same place'.

Political analysis

Development assistance has for many years been as unpopular in the UK as membership of the EU. Its unpopularity has also been concentrated in the same groups and the attacks on it concentrated in the same newspapers (and in the same style) as those that successfully fought for Brexit. For 20 years, there was cross-party consensus on development, with Tony Blair, Gordon Brown and David Cameron all committed to increasing aid and giving the UK a leading global development role. But, as with the EU, that cross-party consensus concealed deep divisions within both the main parties, with large numbers of Conservative and Labour voters convinced that aid wastes money which could better be spent on deprived groups and other urgent needs in the UK. Those previously disenfranchised opponents of development assistance will now have more influence on government policy.

It is excellent that the new Secretary of State for International Development has in the past advocated more

UK trade with the developing world (and the replacement of the Department for International Development by a Department for International Trade and Development). Among the supporters of the successful Brexit vote, however, are some potentially powerful protectionist groups. The people in the East Midlands, West Midlands and North East who voted overwhelmingly to leave remember the disappearance of their manufacturing jobs to East Asia and want more restrictions on developing country access to the UK market, not further relaxation. The rural communities that also voted overwhelmingly to leave the EU will likewise not want easier access for temperate agricultural imports, let alone reduction of trade-distorting agricultural subsidies. And the Prime Minister's Joint Chief of Staff is a great admirer of Joseph Chamberlain, who founded the Tariff Reform League and was a consistent (though ultimately unsuccessful) advocate of protection against 'unfair imports'.¹

Conclusion

Trade-oriented advocates of development should continue to fight for trade policies that help developing countries. Nor is this cause without allies. Important groups within the main political parties – especially those in Westminster – still support such policies; there is a strong non-governmental organisation lobby for development. On some issues, support will come from the private sector as well. There are powerful external allies too: World Trade Organization rules would make it difficult for the UK to become more protectionist, and the UK would not want to reduce EU goodwill in the crucial negotiations over future UK access to the Single Market by upsetting the EU's developmental status quo.

However, those who wish to maintain, and preferably improve, the development-friendliness of the UK's trade regime will need to think carefully about how to deploy their limited forces. Efforts will need to be concentrated on the battles that are most worth fighting and that there is most chance of winning. Success therefore first requires economic and political analysis to identify those areas of trade policy where the largest gains for developing countries could be achieved with the smallest costs to opposed groups in the UK.

Notes

1 G. Parker, K. Allen and O. Ralph (2016) 'Joint chief of staff gives May her policy edge', *Financial Times*, 16 July.

3. How should developing countries respond to the break between the UK and EU?

Sheila Page, Overseas Development Institute

Abstract

The UK's trade objectives and future relations with the EU following Brexit are unclear. So too are the implications for developing countries. This essay argues that faced with this uncertainty, developing countries should focus instead on their relationships with the remaining EU members and the World Trade Organization.

Until the UK has clarified its trade objectives and its relations with the EU, it will be difficult for developing countries to assess either what they want or what they can get out of their own negotiations with the UK. Faced with this uncertainty, developing countries must decide how best to focus their efforts to protect their interests.

What do we know about the UK's intentions?

We don't yet know the UK's objectives in its negotiations with the EU or other countries. The Brexit objective to 'take back control' is hard to interpret, but some definition of it must be added to the normal objectives of policy before we can predict the UK's negotiating position. Then we can try to predict the answers to the three questions we normally advise a developing country to ask when setting its own trade policy.

What are the UK's national objectives? The answer here includes economic welfare plus 'control', but also, for example, national security. Security may influence which countries the UK will negotiate with first. Neighbours like the EU? China?

What are the roles of trade and trade policy in achieving the national objectives? At a time when inflation is already a risk because the pound has fallen, and is potentially a greater risk if the UK restricts low-skilled migration (imposing the type of minimum salary requirement that exists for non-EU migrants would raise costs), the UK may be unlikely to raise tariffs, but the interests of industrial policy could counter this.

What other policies will affect trade? Possible changes in regulation are an obvious example, but these are so entwined with the arrangement the UK negotiates with the EU that other countries will have to wait for the outcome of this.

One unfortunate characteristic of the UK approach that is emerging is the influence of what the Australian economist, Werner Max Corden, referred to as the 'conservative social welfare function' (Corden, 1974). 'Preserving access' for developing countries that currently have special preferences would benefit those countries, but at the expense of other developing countries – that is, it gives a very high weight to losses of welfare over gains. Similarly, if preserving the rights of existing EU migrants in the UK and UK migrants in the rest of the EU were the alternative to maintaining modest continuing flows, one would be implicitly assuming that the welfare of incumbents has a greater weight than that of intending and potential migrants

Another near certainty is that world trade is growing only slowly, if at all. This implies that protectionism will constrain all negotiations more than is usual. Negotiating simple adjustments to the UK's trade regime quickly depends on 'goodwill' – in a zero sum world, this may be scarce.

Negotiation priorities for developing countries

Most developing countries have special trade arrangements with the EU; some are intrinsic to the UK's EU membership. Unilateral arrangements will need to be reset (or not) by the UK. Arrangements that were negotiated between developing countries and the EU will need to be replaced (or not) with new arrangements negotiated with the UK, and countries will need to consider if they also want to renegotiate the existing ones with the EU.

Existing arrangements

The Cotonou Agreement and the European Development Fund (EDF) – commitments by the UK as part of their EU membership – will form part of the UK–EU negotiations. Developing countries benefiting from them need to find a way of having a voice in these negotiations. This has never been easy for countries affected by EU negotiations to which they are not parties, as evidenced by the erosion of preferences and existing free trade agreements (FTAs) by subsequent FTAs. While this is an important issue, there is little developing countries can do about it.

Existing FTAs signed with the EU will not apply automatically to the UK. For developing countries with a high proportion of trade with the UK, particularly in products subject to trade barriers, the expected net benefits of these FTAs with the remaining EU members may have changed. If the benefits of an agreement with the reduced EU are no longer greater than the costs, a renegotiation should be requested. Developing countries should also ask if they would benefit from a similar (or different) agreement with the UK.

New arrangements

The UK will need to decide whether to have its own Generalised System of Preferences (GSP), whether to allow any extra concessions for the least developed countries (LDCs) such as the EU has under Everything But Arms (EBA), and also whether to allow any special preferences for services.

The only World Trade Organization (WTO) constraints here are that the UK should offer duty-free, quota-free entry for goods from the LDCs and that any other differentiation should be for clear categories of countries. Geographic discrimination (such as the US offers to African countries) would require a waiver – something that would not be impossible for developing countries to negotiate, but would be one more addition to an already full negotiating agenda.

There are, however, negotiating constraints. Anything the UK offers to developing countries, just like anything it negotiates with the EU, will affect the value of the offers it can make in negotiations with other countries. As all these decisions will need to be made at once, the preferences offered by the UK could become issues when negotiating with India and Brazil, for example. Developing countries will therefore need to watch all negotiations carefully. Important, but little can be done.

The priority for developing countries: negotiations with the EU

Negotiation with the UK should not be a priority for developing countries at this time. The net benefits of any negotiation are uncertain until the UK has indicated what its most-favoured nation (MFN) and GSP trade policies will be, what it will agree with its principal trading partner (the EU), and with which other countries it will sign FTAs.

In contrast, developing countries can start their negotiations with the EU now because the EU's trading approach is known and because it has greater capacity to negotiate than the UK. This should therefore be a priority for all developing countries with agreements with the EU.

The role of the WTO

One outcome of all these actual and potential changes in trade access is that the role of the WTO will become more important. It has been side-lined recently because there have been no urgent market access issues; now there are. Informal management and soft rules for world trade are sufficient when the basic structure is there; now two of the principal traders, the EU and the UK, need to change their trade regimes. For the UK and for all its trading partners, the WTO will be the fall-back regime until or unless new agreements are negotiated. Small countries, at the back of the negotiating queue, are particularly unlikely to have an alternative ready within two years. Regular and informed participation at the WTO by these countries will be a priority.

References

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4. Scenarios for UK trade policy towards developing countries after the vote to leave the EU

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Abstract

Uncertainty surrounds almost every aspect of UK trade policy after the vote for Brexit. With potentially very large losses or gains from various different policy options, this essay considers the scenarios and the potential effects on developing countries.

Introduction

The vote by the UK to leave the EU has already affected developing countries. The effects of the devaluation of the pound are being felt by developing countries through reductions in the dollar value of trade, aid, investment and remittances (Mendez-Parra et al., 2016). Moreover, uncertainty exists around almost every aspect of UK trade policy after the vote for Brexit, including the Article 50 procedures to leave the EU, UK access to countries with which the EU has concluded FTAs, and continued access to the UK for developing country exporters. This combination of potentially large effects and heightened uncertainty lends itself to scenario-building.

Designing scenarios for UK trade policy

Possible scenarios for UK trade policy towards developing countries need to take various dimensions into account:

1. *The type and response of developing countries*, including Least Developed Countries (LDCs), non-LDC African, Caribbean and Pacific (ACP) countries, and large middle-income countries.
2. *The stance of UK trade policy*. The UK is long believed to be a strong supporter of free trade, but free trade is being challenged globally, including by supporters of Brexit. We need to consider whether the UK trade policy stance will be protectionist, or mercantilist based on negotiations or free trade.
3. *The outcome of UK–EU negotiations*. Whether the UK is in the Single Market, a customs union with the EU or a free trade agreement (FTA) with the EU will determine the options available for UK trade policy towards developing countries. A key deciding factor will be whether the UK remains part of the customs union.

Table 1 sets out strategic options for UK trade policy based on these dimensions.

Three possible outcomes

A full discussion of all the options and effects is beyond the scope of this essay, so we consider three options here.

First, suppose the UK turns more protectionist and/or offers fewer preferences, and does not stay in the customs union (bottom-right in Table 1). In this scenario, new UK trade arrangements have potentially large negative effects for developing countries exporting to the UK. Unpublished analysis by Stevens and Kennan for the Commonwealth Secretariat (and made available to us) suggests Commonwealth developing countries' goods could face €715 million in additional duties – which we estimate to be equivalent to 3.2% of their exports – if subjected to EU most-favoured nation (MFN) tariffs (this includes Bangladesh, India and Pakistan, which together face duties of up to €479 million). If LDCs get an Everything But Arms (EBA) agreement, the effects will be lower. For the non-LDC ACP countries as a group, the potential losses could be up to €205 million (see the essay by Kennan in this series).

There are both potentially large positive and negative effects for UK exporters from new FTAs if the UK leaves the Single Market and is not in a customs union with the EU (middle-right in Table 1). Among the 27 largest export partners outside the EU are eight countries with an existing EU FTA (Chile, Egypt, Israel, Korea, Mexico, Norway, South Africa and Turkey) which could levy a total of €1.2 billion more on UK goods if the UK were not party to a new FTAs with them. But the UK could gain \$7.3 billion from signing FTAs with Australia, Azerbaijan, Brazil, Canada, China, India, Japan, Malaysia, Nigeria, Qatar, Russia, Saudi Arabia, Taiwan, Thailand, the United Arab Emirates and the US (see

Table 1: Options for UK trade policy towards developing countries

UK trade policy stance	Scenarios for UK–EU relations		
	UK in Single Market and FTA with EU	UK in custom union with EU	World Trade Organization option, not in Single Market/customs union with EU
Open/free trade stance	Devise a UK GSP more liberal than the EU GSP in goods Introduce UK (and EU) GSP for services	EU trade policy reform (goods) UK liberal approach to services standards	Zero barriers (e.g. tariffs, quotas) for goods, including for non-LDC developing countries Preferential services access Ask for FTAs
Neutral/mercantilist stance	Follow EU offer and hope other countries agree to give UK same access as EU	Follow EU trade policy towards developing countries and hope other countries agree to give UK same access as EU	UK GSP between current EU trade policy and zero barriers to trade Negotiate FTAs (in return) worldwide
Protectionist stance	Reluctantly offer same access to developing countries as EU and minimise quotas in agriculture/services Hope other countries agree to give UK same access as EU	Follow EU trade policy towards developing countries and hope other countries agree to give UK same access as EU	Less than EU access for all developing countries (e.g. UK MFN access for non-LDC ACPs) Hope other countries agree to give UK same access as EU

Table 2). If realised – which is very doubtful given the time it would take and the interests of large countries such as Brazil and China (as discussed by Wignaraja and Mendez-Parra in this series) – this gain could be more than the UK would lose if the EU levied MFN taxes on UK exports (our own estimates suggests this is around \$6.6 billion). Developing

countries also gain through cheaper imports, assuming there is no trade diversion.

Finally, if the UK stays inside a customs union (first column in Table 1), there would be very little it could do to enable better (or indeed, worse) access for developing countries to its market, whatever its stance.

Table 2: Summary of duty payable on imports from the UK to the UK's main export markets

Market	Value of imports from the UK ^a (annual average 2013–2015, \$000) ^b	Duty payable ^c		Extra duty that would have been payable if the UK had not been eligible for EU preferences ^d
		\$000	Applicable regime for the EU	
China	20,435,551	2,663,673	MFN	
Egypt	1,629,800	1,227,339	FTA	39,753
US	50,959,672	1,172,823	MFN	
India	5,475,123	735,766	MFN	
Brazil	3,224,158	491,890	MFN	
Russia	6,524,742	329,938	MFN	
Nigeria	2,174,557	313,729	MFN	
United Arab Emirates	9,802,284	312,078	MFN	
Thailand	2,877,394	304,712	MFN	
Saudi Arabia	4,470,994	202,053	MFN	
Australia	5,577,499	192,115	MFN	
Malaysia	2,076,326	149,543	MFN	
Norway	5,447,951	126,774	FTA	11,246
Canada	7,721,355	118,177	MFN	
South Africa	2,888,279	116,919	FTA ^e	142,177
Azerbaijan	933,256	99,209	MFN	
Taiwan	1,746,807	82,447	MFN	
Qatar	1,619,601	73,276	MFN	
Japan	6,393,213	67,717	MFN	
Republic of Korea	6,817,505	38,883	FTA	447,053
Turkey	5,628,454	29,992	Customs union	277,501
Mexico	2,285,585	9,514	FTA	178,460
Israel	2,311,076	2,085	FTA	91,530
Chile	951,733	122	FTA	56,686
Hong Kong	10,753,695	- ^f	MFN	
Singapore	6,398,125	- ^f	MFN	
Switzerland	44,994,616	- ^f	FTA	
Total	222,199,351	8,860,773		1,244,406

Notes:

a) As reported by the UK's export partners.

b) For most markets, 2012–2014 where 2015 data not available. The figures for Republic of Korea are an annual average for 2012–2013 only, and those for Egypt for 2014 only.

c) The figures in this table are calculated on simple ad valorem tariffs only. The amounts are probably overstated because the maximum ad valorem rate applicable to any item within an HS 6-digit subhead has been used in the calculation, and definitely understated for all countries listed (except Brazil and Chile) because specific and compound duties are not taken into account and/or tariff rates are unavailable. The figures are therefore indicative only.

d) In other words, the difference between the duty calculated under the MFN and EU preferential rates.

e) The duty calculations are based on the rates applicable under the Trade, Development and Cooperation Agreement rather than the Southern African Development Community EPA, as tariff details of the latter are not yet available from the sources used.

f) In Hong Kong and Singapore, all imports enter duty free other than a very small number of items subject to a specific duty. The share of the value of imports from UK subject to these specific duties was maximum 1.6% for Hong Kong and 0.02% for Singapore. All Switzerland's imports are either duty free or (a large number) subject to specific duties. Under the EU preference, 99.8% of the value of imports from UK was duty free; under MFN, this percentage would have been 90%.

Sources: Based on analysis provided by Jane Kennan, calculated using data from UN Comtrade, the WTO Tariff Download Facility, UNCTAD TRAINS and FTA schedules.

Conclusion

This scenario analysis suggests that different developing country groups are likely to be affected differently. Large middle-income developing countries will increasingly be seen as export markets and therefore need to prepare for negotiations. Small non-LDC ACP countries will be vulnerable to UK policy options, depending on whether preferences are extended to them unilaterally (see the

essay by Kennan in this series). LDCs are likely to keep preferential access, but they (and other preference-dependent countries) may find that the competitive advantage of these preferences provide are eroded if UK MFN tariffs are low. This means that UK (regional) Aid for Trade will become more important than ever to compensate for the loss of preference erosion (see essay by Mendez-Parra and Te Velde in this series).

References

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5. A new UK trade policy towards developing countries: what sort of transition?

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Abstract

Renegotiating the UK's post-Brexit trade relations with the EU and with the rest of the world will be complex and time-consuming. The process may cause particular uncertainty among the UK's developing country trading partners. This essay examines these complexities and suggests some transitional arrangements to offer certainty to traders and governments of these countries.

Introduction

The trade relationship between developing countries and the UK is complex and has been largely governed by EU policy. The process of the UK exit from the EU will be similarly complex and of an as yet indeterminate duration. The uncertainty generated by this could have significant negative consequences for trade between developing countries and the UK. This essay explores some of the complexities and proposes that the UK offer developing countries a continuation of existing arrangements after Brexit until any alternatives can be negotiated.

Reinventing UK trade policy

UK trade policy is currently mainly made, directed and implemented at the EU level. As a result of its decision to leave the EU, the country will have to reinvent its trade policy. This could entail:

- continuing with essentially the same policy as now but with purely UK management and perhaps a resulting drift towards a somewhat different policy over time and in response to changing policy pressures
- a systematic and radical shift towards either a much more liberal or a much more protectionist trade policy or
- a shift towards a mosaic of explicitly differentiated trade policy strategies depending on market, sector and domestic political imperatives.

Whatever happens may not emerge quickly. The UK and the EU need to agree on the terms of the divorce under Article 50 of the Lisbon Treaty, which could take two years or more. The EU and the UK also need to agree how the schedule of commitments agreed by the EU on behalf of the UK (and other member states) in the World Trade Organization (WTO) should apply to the UK. This might take place as part of the Article 50 negotiations, or separately and later.

Finally, the UK and the EU need to agree on the terms of their trade relationship, which could range from one governed by WTO most-favoured nation (MFN) schedules and agreements, to differing variants on a free trade agreement (FTA) all with some form of rules of origin requirements, to some form of customs union (less likely).

Until it emerges from the Article 50 negotiations, the UK remains part of the EU and will implement any changes in trade policy agreed by the EU. It is possible, however, that there might be some form of ‘hard’ Brexit, which might entail an exit from the EU customs union before formally exiting the EU. This would mean that any products from third countries, and specifically developing countries, that have landed in the UK would no longer be in free circulation in the EU and might face the EU Common External Tariff and other trade policy rules and regulations reported to the EU27, depending on how origin is determined.

Implications for developing countries

All of these complexities suggest that it could take some time before the UK emerges from the EU and has full control of its own trade policy, and even longer before any changes to this inherited trade policy are agreed upon and then implemented. Developing countries face a varied set of trade regimes with the EU that any new UK trade policy might affect.

The UK will need to implement its own Generalised System of Preferences (GSP) for unilateral preferences. The system is composed of:

- the Everything But Arms (EBA) scheme with (UN-defined) Least Developed Countries (LDCs), which allows duty-free, quota-free access to the EU market for all imports (except weapons) from LDCs
- standard GSP status, which allows selected developing countries unilateral preferences
- GSP+, which grants more advantageous unilateral preferences to countries that meet selected human rights and other policy conditions.

There is also a set of regional relationships with members of the African, Caribbean and Pacific (ACP) group of countries. These Economic Partnership Agreements (EPAs) take the form of reciprocal FTAs (the ACP countries offer reciprocal preferences to EU countries). This is complicated because the regional structure of the ACP partners means that LDCs (which already get unreciprocated free trade with the EU) and non-LDCs with quite different interests are bundled together – notably in Africa. Despite long negotiations, not all of the EPAs have been completed, although they might be within the timeframe of the UK’s withdrawal negotiations.¹ However, it is not clear if the agreements will still apply on Brexit day even if the UK desires them to continue. Some or all of the ACP states may no longer wish to continue with the agreements as they currently apply to the UK.

The structure and form of these agreements with the ACP countries are widely criticised, and there is room for the UK to offer improved versions. In the longer term, the UK could offer LDCs better rules of origin on duty-free, quota-free terms to encourage value chain formation. It could move from a regional EPA structure to one with individual ACP countries, allowing LDCs to retain duty-free, quota-free terms. It could also offer more liberal rules of origin to remaining EPA states to encourage value chain formation.

The real problem is uncertainty: even with transitional arrangements to maintain current access, there remain uncertainties about the nature of the UK’s new arrangements with the EU, how long they will take to negotiate and what they might imply for developing countries when the UK finally negotiates with them. Such residual uncertainty is likely to affect trade and investment adversely in developing countries.

Conclusion

To reassure governments and traders, the UK should offer developing countries a transition period, starting immediately on the date of exit from the EU, during which trading conditions remain exactly the same as on the day before exit. This would continue until the UK, in negotiation with the relevant countries, agrees an alternative set of arrangements in exchange for equivalent

guarantees that any preferences given to the EU will continue to apply to imports from the UK after Brexit. This is not to argue that current EU trade policies towards developing countries are the best possible, but rather that, for developing country governments and traders, predictability is preferable to uncertainty over the timing or content of future British trade policy.

Notes

- 1 There are other EU agreements, notably with developing countries around the Mediterranean, which the UK will also potentially inherit where similar uncertainties might arise.

6. Beyond tariff preferences and trade deals

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Abstract

Following Brexit, the UK can shift the focus of trade and development initiatives away from tariff preferences – which have limited value in an era of very low duties – towards measures that promote lower trade costs within and between developing countries. This essay makes the case for the UK to adopt a policy of equal treatment of imports from developing countries.

Introduction

Acting as a member of the EU or unilaterally, the UK has employed a range of measures in the conviction that greater integration of developing countries into world markets fosters progress. Free from the constraints of collective European action, what, if anything, should the UK do differently?

Preferences or equal treatment?

A starting point is that the Brexit vote has not overturned the key underlying logic that greater integration fosters development. Those sceptical that the UK aid budget delivers value for money do appear to have gained in influence, but this important matter is distinct from the enduring logic relating to the integration of developing countries into the world economy.

How best to advance such integration? Preferences – of one type or another – have been a central part of the EU approach to promoting development through trade. It is curious, then, that the beneficiaries of such European largesse have not been that grateful, as the painful negotiations of the Economic Partnership Agreements have shown. Something else is clearly going on, and future UK policy should be informed by the travails of EU trade and development policy.

EU regional trade agreements became a Christmas tree that every influential development ministry and non-governmental organisation tried to adorn, often confusing ends and means, emoting over European values and frequently advancing proposals in the absence of supporting evidence. No wonder some governments in developing countries found this approach heavy-handed and not fit for purpose.

EU tariff preferences didn't just favour developing country imports over those from industrialised countries, they also discriminated between them. In practice, the EU Generalised System of Preferences ended up punishing successful exporters in some emerging markets and alienating their governments, required frequent adjustments that created uncertainty for businesses and muddled commercial and foreign policy goals. This is a classic example of the road to hell being paved with good intentions.

In light of this mixed record, UK policy-makers should reflect on how effective trade preferences are in integrating developing countries into the world economy. Or, put differently, should the principle of equal treatment in commercial policy be the foundation for UK trade and development policy?

One practical reason for adopting a principle of equal treatment is that a more open UK trade regime and lower import tariffs will result in smaller tariff preferences anyway. If tariff preferences are tiny, they generate little reward for developing country governments for complying with whatever conditions a UK government might demand of beneficiaries, limiting the value of preferences as a foreign policy tool as well. Discussions about pursuing free trade agreements with, or a UK system of tariff preferences for, developing countries could become moot if the current UK Government adopts a more open import tariff regime.

Some may wish to pursue trade deals with the large emerging markets to advance the UK's commercial interests. Leave aside the matter of whether doing so can be genuinely labelled 'trade and development policy', the number of years it takes to prepare and conclude such negotiations, let alone implement the results (assuming full implementation actually happens), raises the practical question of whether there are other powerful tools available to the UK Government that can be put to work sooner.

Other policy options

Fortunately, trade deals and tariff preferences aren't the only games in town as far as trade and development policy is concerned. The UK has been a leader in development policy-making circles in promoting the Aid for Trade initiative and, in light of implementation of the World Trade Organization Agreement on Trade Facilitation, there is still plenty of work to be done here.

More generally, the focus on lowering trade costs within developing countries and between those countries and potential export destinations – through improving transport infrastructure and encouraging governments to tackle market power and paperwork requirements that create pinch points – can provide the basis for sound policy. Supporting the development of supply-side capabilities in developing countries to meet standards of western buyers is another worthwhile goal.

Conclusion

Tariff preferences – whether unilateral or part of regional trade agreements are the *cul de sac* of UK trade and development policy. UK trade policy should treat imports from developing countries equally. There is plenty of good work to be done lowering trade costs and enhancing business capabilities in emerging markets – and the UK has the tools, experience and resources to deliver.

7. Brexit: opportunity or peril for trade with developing countries?¹

Emily Jones, University of Oxford

Abstract

Following Brexit, the UK will need to develop its own scheme of preferences and negotiate free trade agreements to replace those it currently has through the EU. This essay argues for a 'bridging arrangement' to avoid trade disruption for developing countries, and highlights the opportunity Brexit offers to make UK trade policy work for development.

Introduction

The UK is rethinking its position in global trade. Following the vote to leave the EU in the recent referendum, the Government has created a new Department for International Trade and is re-deploying several hundred civil servants to staff it. After more than 40 years, trade negotiations are seeing a revival in the UK. They are suddenly all the talk in town.

The UK Government is understandably preoccupied with reconfiguring trade relations with its major trading partners. Equally important for development, though, is how the UK will reconfigure trade relations with those developing countries for whom it is a major trade partner. For these countries, Brexit poses a real risk of substantial trade disruption. At the same time, Brexit offers a new opportunity to ensure UK trade works for development.

Brexit puts trade preferences at risk

Preferences that are key for developing country access to the UK market will expire if (or when) the UK leaves the EU. At present, nearly all developing countries have preferential access to the UK market under the EU's Generalised System of Preferences (GSP). By far the most valuable aspect of the EU's GSP is the Everything But Arms (EBA) programme, which has provided duty-free, quota-free access to the EU market to all Least Developed Countries (LDCs) since 2001. This scheme has been particularly important for cultivating new revenue streams in some of the world's poorest nations, including Bangladesh and Cambodia, which depend on the scheme to export garments. Many developing countries also have valuable preferential access to the UK market through EU free trade agreements (FTAs). At present, the EU has trade agreements with just over 50 countries, most of them developing.

Following Brexit, the EU's GSP and its FTAs would no longer apply to trade between the UK and developing countries. In the absence of new arrangements, developing country exporters would no longer have preferential access to the UK market.

Although in general the UK is not a major trading partner for developing countries,² some small developing countries rely heavily on the UK market. Belize, for instance, has sent nearly one quarter of its goods exports to the UK over the past five years. Other countries that rely heavily on the UK for their exports include Mauritius (20%), Fiji (15%), Gambia (14%), Sri Lanka (11%), Bangladesh (10%) and St Lucia (9%).

Many of these countries export a narrow range of products that rely on preferences. With no post-Brexit mechanism in place to safeguard these preferences, garments and textiles factories in Bangladesh, cane sugar producers in Mauritius, Fiji and Belize and smallholder banana farmers in St Lucia could go out of business.

How can preferential access be safeguarded?

Post-Brexit, a new arrangement will need to be agreed for UK–EU trade relations, and trade relations between the UK and developing countries will also need to be reconfigured. The debate in the UK is focusing on the differences between the various scenarios, which range from the 'Norway model', where the UK stays part of the Single Market, to the 'WTO model', where the UK relies on World Trade Organization tariffs to access the EU market. Yet, as far as preferential access to the UK market is concerned, all the scenarios have similar implications for developing countries, as the UK would manage its own external trade relations.

The UK will need to take two steps to safeguard preferential access for developing countries. First, it will need to develop its own GSP. Norway, for instance, has its own scheme, modelled on that of the EU, which includes duty-free, quota-free access for LDCs (Norwegian Ministry of Foreign Affairs, 2013). Second, the UK will need to negotiate FTAs and economic partnerships to replace those it currently has through the EU, including the Economic Partnership Agreements (EPAs) it has with several groups of African, Caribbean and Pacific (ACP) countries.

The UK would also have discretion over the most-favoured nation (MFN) tariffs it sets, as it would no longer be party to the EU's Common External Tariff. The most extreme scenario, advocated by some Brexit supporters, is for the UK to eliminate all tariffs. This would create winners and losers among developing countries: while many would welcome increased market access, countries that currently enjoy high margins of preference into the UK market would face an erosion of the competitive advantage these preferences provide.

A bridging arrangement is needed

Devising a new GSP scheme and brokering new FTAs with developing countries will take time. To ensure trade is not disrupted, a creative 'bridging arrangement' will be needed. For instance, it may be possible for the UK to simply replicate the EU's GSP for a limited period, pending the development of its own. Similarly, the UK could offer temporary, unilateral preferential access to developing countries that currently have access to the UK market through FTAs and EPAs. While such a move would violate WTO rules, it can be done – the EU has provided such access since 2007 for ACP countries pending the conclusion of EPAs.³

Given how stretched the UK Government will be, any solution will need to be relatively simple and quick to implement. Developing countries have ready allies in the UK for this task, ranging from the UK's Department for International Development to non-profit groups that have championed fair trade and British businesses whose supply chains would be disrupted.

A silver lining for developing countries?

There may be a silver lining for small developing countries in all of this. The UK has a track record of pushing the EU to open up its markets to developing countries because, unlike for many southern European countries, imports from developing countries don't compete directly with

its own producers. Assuming that the UK doesn't declare unilateral free trade, developing countries, and particularly LDCs, should identify areas where greater access to the UK market would be valuable. In a post-Brexit world, they may be pushing on an open door.

Notes

- 1 A longer version of this essay appeared on the International Centre for Trade and Sustainable Development website (<http://www.ictsd.org/opinion/brexit-opportunity-or-peril-for-trade-with-small-and-poor-developing-economies>).
- 2 Over the past five years, the UK has accounted for just over 2% of exports of goods from developing countries. Trade data are sourced from <http://comtrade.un.org/> accessed via Comtrade on 14 July 2016. Calculations are the authors own. Data are averaged over the most recent five years for which data are available (2011–2015). Where data were missing, they were averaged for the available years.
- 3 Council Regulation (EC) No 1528/2007
(see <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2007:348:0001:0154:EN:PDF>).

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8. Keeping the UK open for business post-Brexit

Barbara Crowther, Fairtrade Foundation

Liz May, Traidcraft

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Abstract

UK businesses will be making decisions over the next few months with important implications for developing country suppliers. This essay argues that the UK should act quickly to address uncertainty following the vote for Brexit by committing to continued open market access for imports from the most economically vulnerable countries.

Introduction

Exporters, farmers and workers depend on international trade for their livelihoods, supported in the UK by initiatives such as Fairtrade.¹ Businesses will be making sourcing and investment decisions over the next few months that have important implications for developing country suppliers. To avoid trade disruption and higher costs for UK consumers, it is vital that the UK Government acts now to reassure these businesses that developing countries will continue to enjoy equivalent, or indeed improved, access to the UK market from day one of the post-Brexit arrangement. There is a real opportunity to take the lead internationally in building an outward-oriented, pro-development regime, as well as an immediate need to design viable transitional arrangements. This should be done in an open and transparent manner, with parliamentary scrutiny and in a spirit of collaboration with trading partners in the developing world.

A ‘gold standard’ open market access arrangement

The simplest way to ensure stability and signal the UK’s commitment to development is to set up a non-reciprocal Generalised System of Preferences (GSP) that improves on the EU’s Everything But Arms (EBA) and GSP² schemes. A duty-free, quota-free scheme covering a wide range of products with no tariff peaks or escalations would not require resource- and time-intensive negotiations, and would sit alongside similar GSP schemes operated by other Organisation for Economic Co-operation and Development (OECD) countries.

To ensure World Trade Organization (WTO) compatibility, such a scheme should incorporate a range of developing countries – both Least Developed Countries (LDCs) and selected non-LDCs – based on objective criteria regarding economic vulnerability or development classification. Simple and flexible rules of origin should be incorporated to allow the widest possible definition of originating products (maximum regional cumulation) and to support regional integration. This will enable countries to continue to enjoy market access as they develop capacity for value-added production. To ensure stability for commercial relationships and investment decisions, an initial period of at least 10 years seems sensible. Consideration would need to be given to minimising unintended preference erosion, whereby countries see an erosion in the effective size of their preferences and the competitive advantage they provide, if a wider group of countries becomes eligible for duty-free access.

To ensure successful uptake, comprehensive awareness-raising in collaboration with business associations and chambers of commerce should be launched, with particular emphasis on supporting small and medium-sized enterprises to take advantage of the new opportunities created.

Assessing the impact of free trade agreements on developing countries

The UK Government is keen to pursue free trade agreement (FTA) negotiations with developed and fast-growing economies such as Australia, Canada, China, India, Singapore and the US. While it is unlikely that developing countries will be prioritised, each deal – and particularly those with large agricultural or mineral commodity exporters – will have implications for competing LDCs and African, Caribbean and Pacific (ACP) partners. It will be important to conduct relevant impact assessments and incorporate strategies to minimise the negative effects of these deals on much more vulnerable economies, and also to analyse the implications of UK–EU negotiations for developing country economies in recognition of supply chains routing into the UK via other EU member states.

Reviewing UK investment policy

The UK is an important global investor, with 105 bilateral investment treaties (BITs) in place. However, UK investment policy has not kept pace with global reform trends, the introduction of the UN Guiding Principles on Business and Human Rights, the Sustainable Development Goals or the Paris Climate Accord. While countries such as South Africa and India are terminating existing BITs, UK treaties still include the outdated Investor–State Dispute Settlement Mechanism, which enables foreign investors to sue governments for policy decisions while imposing no enforceable responsibilities on investors. The UK, as it develops an independent trade policy framework, must take a new approach to investment that better balances investors’ rights with responsibilities to contribute to sustainable development in host countries.

Conclusions

The UK has an opportunity to develop a ‘gold standard’ open market access arrangement to enable the most economically vulnerable countries to increase their share of global trade and ensure stability for imports to the UK. Within this process, trade negotiations and policy must be transparent and consider the impacts on developing countries. They should also uphold national and international legislation and commitments on labour, human rights and the environment. As the UK reviews its approach to global trade, it should also review investment policy to ensure it supports the Government’s commitments to sustainable development.

Notes

- 1 Fairtrade works with over 1.6 million smallholder farmers and plantation workers in some of the world's poorest countries. In the UK, over 400 companies are involved in Fairtrade, and the UK retail market was worth over £1.6 billion in 2015. Traidcraft, an example of a medium-sized UK Fairtrade organisation with a turnover of £11 million, purchased grocery and homeware products worth £3 million in 2015 from over 70 producer groups in 30 countries across the developing world.
- 2 http://ec.europa.eu/trade/policy/countries-and-regions/development/generalised-scheme-of-preferences/index_en.htm

9. Brexit: a catalyst for EPA exit?

Christopher Stevens, Overseas Development Institute

Jane Kennan, Overseas Development Institute

Abstract

The UK's exit from the EU's trade agreements could alter their benefits for developing countries. Focusing on a group of countries for which Brexit may pose strong trade policy challenges, this essay asks whether Brexit will significantly reduce the costs of leaving their respective Economic Partnership Agreements.

Introduction

The most widespread and possibly most substantial impacts of Brexit will result from changes to trade and investment flows (Mendez-Parra et al., 2016). However, there may also be early effects via changes to trade policy. For example, the basis for calculating ‘product graduation’ in the EU’s Generalised System of Preferences (GSP) will change.¹

This essay provides an illustration of one potential development relating to the EU’s Economic Partnership Agreements (EPAs). Although some African, Caribbean and Pacific (ACP) signatories have embraced the required policy changes, for many the whole EPA process remains deeply contentious. The post-Brexit announcement by Tanzania² that it will not proceed with the East African EPA is merely the most recent example of delay and backtracking on implementation.

Could Brexit herald the unravelling of some EPAs? A preliminary analysis of trade direction statistics can provide insight into how the departure of the UK from EPAs will alter the cost–benefit calculation on goods for African, Caribbean and Pacific (ACP) signatories.

Analysis

Where countries have signed EPAs ‘under duress’ to avoid the imposition of barriers to significant exports, will the cost–benefit calculation alter following Brexit? And are ‘sensitive’ exports concentrated on the UK market (in which case, the cost of leaving might fall),³ or are they dispersed across several EU states? We offer a preliminary assessment for countries facing trade regimes outside of EU EPAs that would impose significant costs in terms of tariff increases on their goods exports (Stevens and Kennan, 2016).

Not all ACP countries have important exports that would necessarily be affected by Brexit. Seychelles’ sensitive exports, for example, are predominantly fish – for which the EPA is tangential to its fisheries agreement with the EU. For others, such as Mauritius, that appear to have embraced the required policy changes, EPA membership is relatively free of controversies. And Papua New Guinea’s EPA ‘liberalisation’ is less substantial than appears at first sight (Stevens et al., 2009).

But there are countries for which EPAs are contentious *and* where significant exports would face increased barriers under any other EU regime. For these states, we have identified the share of their ‘sensitive’ exports to the EU that are sent to the UK (Table 1).⁴ Although the UK absorbs a significant share of imports, it is not a dominant EU importer for most ACP countries.

Table 1: UK share of sensitive EU imports from selected EPA states

Country	UK’s share of EU imports
Swaziland	9.6%
Namibia	15.5%
Ghana	29.3%
Kenya	27.3%
Grenada	97.2%
Jamaica	76.6%
Guyana	63.5%

Source: authors’ calculations using data from Eurostat’s COMEXT and UNCTAD’s TRAINS databases.

Conclusion

In the broader context, the above analysis is good news.⁵ Exports are not as heavily concentrated on a single, traditional market as may once have been the case, and for most ACP countries, the effect of the UK leaving the EU on EPAs will not be significant. But this does not offer any clear way forward for Kenya, for example, which has recently graduated out of the GSP for floriculture, or for Ghana, with its stalled Economic Community of West African States EPA negotiations.

The exception is the Caribbean. Jamaica (which has increased rather than reduced some EPA tariffs) and Grenada export only a small share of sensitive exports to the EU27, and Guyana is not far behind. These sensitive exports are dominated by a small number of goods (sugar, rum, rice) for which the markets are changing fast, but in ways likely to diminish not increase the costs of EPA exit. And this analysis takes no account of services. But could it be that the region held up as the ‘EPA poster boy’ is the first to split?

Notes

- 1 Under the EU regime, a country's benefits are removed for a specific set of goods when the share of EU GSP imports exceeds 17.5% (or 14.5% for textiles). After Brexit, this calculation will be made in relation to EU27 imports.
- 2 Economy Watch (2016) 'Tanzania Walks Away from the Trade Table', 21 July, <http://www.economywatch.com/features/Tanzania-Walks-Away-from-the-Trade-Table0721.html>
- 3 Assuming that the UK does not become a separate EPA signatory (see Stevens and Kennan, 2016).
- 4 'Sensitive' goods have been defined as all goods where the rate under the EU's best available non-EPA regime is not a simple *ad valorem* tariff of 5% or less. This brings into the net all the EU's non-calculable complex tariffs (see the essay by Kennan in this series).
- 5 Although, as with all analysis of post-Brexit trade, the news will be only as 'good' as the underlying EU statistics on the national destination of imports transhipped from one member-state to another.

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10. Brexit and African, Caribbean and Pacific non-Least Developed Country trade with the UK

Jane Kennan, Overseas Development Institute

Abstract

Following Brexit, the EU's various preferential regimes will no longer apply to trade with the UK. This essay presents an analysis of UK imports from African, Caribbean and Pacific non-Least Developed Countries, and calculates that additional duties worth €205 million may be payable if no alternative arrangements with the UK are put in place.

Introduction

Other essays in this series have argued for the continuation of preferences by the UK to Least Developed Countries (LDCs). This essay examines the value of preferences to non-LDC African, Caribbean and Pacific (ACP) countries which also currently enjoy preferential access to the EU, and hence the UK, market.

Assumptions and methodology

Some assumptions are needed to assess how much extra duty will be payable on these countries' exports to the UK in the absence of the (mostly preferential) EU regimes under which they currently trade. The tariff regime(s) that will apply to UK imports post-Brexit is critical. The analysis undertaken considers two options: first, that the UK will adopt the EU's current most-favoured nation (MFN) tariffs only; and second, that it will adopt both the EU's MFN tariffs and its Generalised System of Preferences (GSP).

The EU's complex tariff structure makes quantification of the duty payable far from straightforward. Approximately one fifth of its 15,000+ tariff lines are duty free, but the rest are subject to various types of duty¹ all of which require further assumptions: (i) *Ad valorem*: a simple percentage of the import value, but because tariffs are set at a 10-digit level and trade data are available only

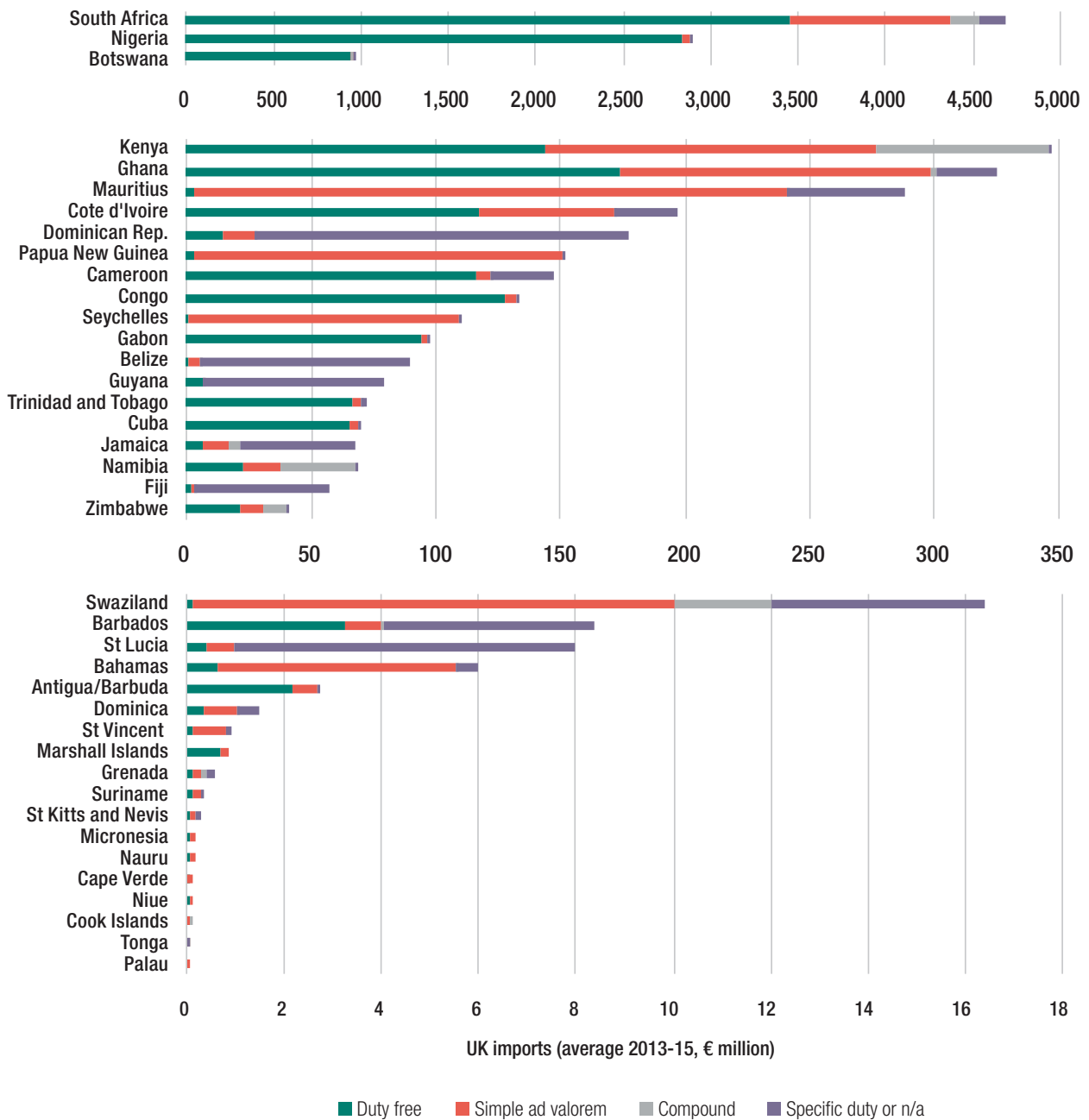
at a maximum of 8 digits, the analysis uses one rate: (ii) Compound: an *ad valorem* element plus a specific duty and in this analysis, only the *ad valorem* element of such duties is taken into account; and (iii) Specific: a charge related solely to quantity or content and in this analysis, no additional duty payable has been calculated.

The analysis here is thus only partial, and includes both possible overstatement and definite understatement² of additional duties.

Figure 1 shows the value of imports colour-coded by type of MFN duty, which gives an indication of the extent to which the limitations described above affect the results discussed in the next section. In each country's bar, grey indicates the imports that are duty free, pale green indicates *ad valorem* duty (which can be fully calculated but is potentially overstated), dark green indicates compound duty (which has been only partially calculated), and yellow indicates specific duties (which have not been calculated).

Although some countries' exports to the UK are mainly duty free (e.g. Botswana and Nigeria), for others the picture is very different. Over 90% of the value of imports from Belize, Fiji and Guyana is subject to specific duties which have not been calculated for this analysis, while for Barbados, Dominican Republic, Jamaica and St Lucia the proportion is over 50%. All these countries also export goods that are subject to compound duties.

Figure 1: UK imports from non-LDC ACP countries by MFN duty type



Sources: calculated using data from Eurostat's COMEXT and UNCTAD's TRAINS databases.

Results

Subject to the caveats above, Table 1 shows the additional duties that would be levied in case of a change in preferences. Three countries – Cuba, Gabon and Palau – are unaffected by either option because they currently trade on MFN terms. The remainder fall into three groups, namely, those for which the MFN+GSP option is either:

- no different from the MFN-only option (because they are not eligible for the GSP)³
- the same as the status quo (because they currently trade on GSP terms)⁴ or

- better than the MFN-only option but worse than the status quo (EPA states eligible for the GSP).⁵

For the first two of these groups, no amounts are shown in the MFN+GSP column but their additional duty under the MFN-only option is included in the MFN+GSP total.

To the extent that it has been possible to calculate extra duties, these amount to €205 million under the MFN-only option, and €186 million under the MFN+GSP option. In absolute terms, South Africa, Mauritius, Seychelles and Ghana would experience the greatest increases. Seychelles and Mauritius are also the most affected in relative terms, along with Swaziland and Namibia.

Conclusion

The results of the analysis here show that non-LDC ACP countries benefit greatly from preferential access to the UK

as part of EU trade agreements. It is essential that following Brexit, the UK maintains the value of these preferences.

Table 1. Scale of calculable additional duty payable under MFN-only and GSP+MFN options

Non-LDC ACP supplier	Value of UK imports (average 2013–2015, €'000)	Share of value for which extra duty not calculated	Calculated potential extra duty (€'000)		Calculated potential extra duty as share of total imports from country concerned	
			MFN-only	GSP+MFN ^a	MFN-only	GSP+MFN
Totals	11,098,195		204,626	185,503^b		
South Africa ^c	4,682,958	3.1%	63,822	n/a	1.4%	
Nigeria	2,892,049	0.1%	1,738	–	0.1%	–
Botswana	962,015	0.0%	2,582	n/a	0.3%	
Kenya	347,473	0.6%	18,337	13,812	5.3%	4.0%
Ghana	325,623	7.5%	22,468	18,004	6.9%	5.5%
Mauritius	287,978	16.3%	41,232	n/a	14.3%	
Côte d'Ivoire	194,670	12.9%	4,632	2,780	2.4%	1.4%
Dominican Rep.	177,836	84.4%	1,307	n/a	0.7%	
Papua New Guinea	151,261	0.4%	10,083	4,224	6.7%	2.8%
Cameroon	146,902	17.2%	202	40	0.1%	0.0%
Congo	131,928	0.0%	124	–	0.1%	–
Seychelles	109,780	0.1%	25,685	n/a	23.4%	
Gabon	96,622	0.0%	–		–	
Belize	89,341	93.5%	530	n/a	0.6%	
Guyana	78,807	91.1%	30	n/a	0.0%	
Trinidad and Tobago	72,011	2.9%	164	n/a	0.2%	
Cuba	69,676	0.4%	–		–	
Jamaica	68,176	68.3%	1,514	n/a	2.2%	
Namibia	67,659	0.1%	5,381	n/a	8.0%	
Fiji	57,332	94.3%	180	121	0.3%	0.2%
Zimbabwe	40,362	0.2%	2,314	n/a	5.7%	
Swaziland	16,382	26.6%	1,739	1,422	10.6%	8.7%
Barbados	8,358	51.2%	52	n/a	0.6%	
St Lucia	7,983	88.0%	48	n/a	0.6%	
Bahamas	5,955	6.9%	317	n/a	5.3%	
Antigua and Barbuda	2,698	1.4%	16	n/a	0.6%	
Dominica	1,516	31.1%	47	n/a	3.1%	
St Vincent/Grenadines	906	11.2%	22	n/a	2.4%	
Marshall Islands	861	0.0%	6	–	0.6%	–
Grenada	571	31.1%	24	n/a	4.1%	
Suriname	379	20.9%	10	n/a	2.5%	
St Kitts and Nevis	269	30.9%	3	n/a	1.3%	
Micronesia	183	0.0%	8	–	4.6%	–
Nauru	159	0.0%	2	–	1.3%	–
Cape Verde	142	0.0%	4	–	3.2%	–
Niue	64	0.0%	0	–	0.4%	–
Cook Islands	50	0.0%	1	–	1.3%	–
Tonga	33	5.1%	2	–	6.3%	–
Palau	7	0.0%	–		–	

Note:

(a) 'n/a' denotes that a country is not eligible for GSP treatment; '–' denotes that a country is currently benefiting from GSP treatment.

(b) This total includes the extra duty shown in the 'MFN-only' column for countries ineligible for the GSP or that already trade on GSP terms.

(c) Additional duties calculated in comparison with the Trade, Development and Cooperation Agreement, as South Africa's rates under the Southern African Development Community EPA are not yet available in UNCTAD's TRAINS database.

Sources: Calculated using data from Eurostat's COMEXT and UNCTAD's TRAINS databases.

Notes

- 1 Moreover, many imports are recorded in ‘special codes’ (relating to goods carried by post, confidential trade, etc.), for which no tariff data are available.
- 2 Other than for Cape Verde, Nauru, Niue, Marshall Islands, Micronesia and Palau, from which the UK did not import any goods subject to compound or specific duties in 2013–2015.
- 3 Antigua and Barbuda, Bahamas, Barbados, Belize, Botswana, Dominica, Dominican Republic, Grenada, Guyana, Jamaica, Mauritius, Namibia, Seychelles, South Africa, St Kitts and Nevis, St Lucia, St Vincent and the Grenadines, Suriname, Trinidad and Tobago, Zimbabwe.
- 4 Cape Verde, Congo Republic, Cook Islands, Marshall Islands, Micronesia, Nauru, Nigeria, Niue and Tonga.
- 5 Cameroon, Côte d’Ivoire, Fiji, Ghana, Kenya and Swaziland (see http://ec.europa.eu/taxation_customs/dds2/taric/taric_consultation.jsp?Lang=en&Screen=0&redirectionDate=20101026). In addition, the analysis assumes that Papua New Guinea would, as a lower-middle-income country, be eligible.

11. Foreign investment and UK trade policy post-Brexit

Stephen Gelb, Overseas Development Institute

Abstract

The process of defining the UK's post-referendum trade policy also offers the opportunity to renew its foreign direct investment (FDI) policy. This essay argues that the new FDI policy regime should include more open and transparent dispute settlement mechanisms, and should emphasise the promotion of investment and its development impact in the context of global value chains which closely link investment and trade.

Brexit is an opportunity

The discussion of UK trade policy post-Brexit, or at least since the 23 June referendum, has barely addressed the issue of foreign direct investment (FDI). This is not surprising, as trade and investment policy are rarely considered together, even though they are (increasingly) closely linked. However Brexit eventually unfolds, the new situation will require a rebooting of UK investment policy. Brexit offers a timely opportunity for this reboot, focusing on both investment regulation and protection and also investment promotion, as well as an opportunity to link investment and trade issues more closely.

The FDI environment has changed, but UK investment policy has not

The opportunity is timely because the policy context for FDI and its impact on developing countries has changed substantially over the past decade or more, in several respects. Investors from developing countries have become significant actors, not only along south–south paths, but also as south–north actors. The pertinence of global value chains (GVCs), involving not only trade but also investment in triangular or quadrangular networks and flows, has become better recognised by policy-makers. Social and environmental concerns have become central to our understanding of what development means, as encapsulated in the Sustainable Development Goals (SDGs). And these three trends have contributed to a fourth – the emerging global consensus that the bespoke international legal institutional framework for investment protection is in dire need of modernisation.

The UK's investment regulation and protection regime was already in transition, as the Lisbon Treaty of 2009 shifted this competency from member states to the EU, which entered negotiations with the US on the Transatlantic Trade and Investment Partnership (TTIP) following those concluded with Canada on the Comprehensive Economic and Trade Agreement (CETA). The UK has 109 bilateral investment treaties (BITs) either in force or signed, and EU treaties would have replaced all of these eventually.¹ This will no longer happen, but the UK's treaties should be updated nonetheless.

The UK's investment treaties are old. Only 15 have been signed since 2000 and only six in the past decade, of which only the 2010 treaty with Colombia is still in force.² They are also old-fashioned in that they don't take account of the new realities of international investment. Key developing countries – including India, Indonesia and South Africa – have begun overhauling their investment treaties, and the UK will have to enter negotiations on investment with these countries, in which it is a major investor. In the wake of Brexit, the EU won't do this on the UK's behalf, and these trading partners will insist on investment being included in trade negotiations with the UK. Any investment treaty renegotiation exercise could,

and should, be broadened – trade negotiations with other developing countries should cover investment too, as is now the standard approach followed in the Trans-Pacific Partnership (TPP), TTIP and CETA.

A first step towards this would be a model investment chapter for future trade agreements, reflecting a new approach to investor–state dispute settlement. It is widely agreed that more transparency and an appeal mechanism are needed, but there is also strong popular opposition to access for foreign investors to a bespoke international process to sue host states, as underlined in the European debate over TTIP. This anxiety about the unequal impacts of globalisation reflects the impulse that contributed significantly to the Brexit vote. This is an important consideration for new UK investment policy, especially given the growing importance of the UK as a host for developing country inward investors.

For the same reason, and to address domestic concerns within the UK as much as developing country needs in relation to UK outward investors, a new model investment agreement also needs to explicitly address sustainability, which existing treaties ignore. There is a need for social and environmental 'policy space' in host economies to balance the needs of investors and those of domestic constituencies. For example, governments need to be able to shift policy without fear of being sued by inward investors for contravening their 'fair and equitable treatment' rights, as occurred in Germany twice, when the Hamburg city government and then the federal government planned to move away from nuclear energy and were sued by Vattenfall, a Swedish state-owned enterprise supplying nuclear-sourced electricity in Germany. Fiscal sustainability and tax obligations of investors are also relevant here, as the investment agreement regime should support governments' efforts to regulate corporate tax avoidance.

GVCs imply new approaches to investment and trade promotion are needed

Investment promotion should be emphasised more than in existing investment treaties, which focus on rights of investors and obligations of host countries, but not the reverse. Mechanisms must be introduced to enhance development impact on both sides – host and home countries. UK investment policy should also take explicit account of GVCs, which may involve a small capital flow from the UK into developing country host markets, but a central role for UK companies in market provision and, most crucially, in value chain leadership and coordination. The promotion of investment and of trade are closely connected in this context, and require some integration across national jurisdictions. The UK is already engaged in some early examples of this multilateral cooperative approach, such as the Partnership for Investment and Growth in Africa, involving government agencies in China

and four African countries, and the UN/World Trade Organization International Trade Centre.

Conclusion

The UK's international investment policy had entered into a transition phase well before the Brexit referendum, as the legal framework was in the process of 'migration' to the European Union, while investment promotion was

beginning to address new realities such as global value chains, where UK capital flows *per se* are not necessarily the central issue. The referendum result has had the positive if unintended consequence that investment policy renewal must be accelerated, and should be a central consideration as the trade policy debate unfolds.

Notes

- 1 Source: UNCTAD database. Some treaties are with other EU member states and would not be replaced; treaties with Romania and South Africa have been terminated.
- 2 The UK replaced its 1991 'model BIT' in 2008, but the new version barely differs from the earlier one.

12. Anti-dumping and gaps in the European Economic Area model: two neglected issues

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Abstract

This essay addresses two technical questions often overlooked in broader discussions about post-Brexit trade policy: What sort of anti-dumping regime might the UK have? And how could some of the ways that European Economic Area membership differs from full EU membership affect developing countries?

Introduction

There is a tendency to think about the openness of post-Brexit trade policy in terms of tariff levels and preferences. This essay covers two further issues that may affect developing countries: anti-dumping policies; and the side-effects of possible UK membership of the European Economic Area (EEA). The second could indirectly but significantly affect countries selling materials to the UK that are then incorporated into further exports to the EU.

Anti-dumping

Whether the UK will end up with a more or less open trade policy may have more than one dimension. It is possible that the UK will sign trade agreements that incorporate tighter contingent protection rules than we have now. We have seen a subtle example of this in the European Commission's proposals for Market Economy Status (MES) for China, with the Commission proposing to offer China MES while toughening the rules for all trading partners, preserving most of its ability to put anti-dumping duties on Chinese goods.

On the other hand, many supporters of Brexit have argued that a post-Brexit trade regime will be more open to the wider world, even if the arrangement with the EU is less close. The Brexit campaign had a clear anti-globalisation current, however. Although this was focused primarily on migration issues, the sense is that Brexit voters felt they had been losing out from import competition as well. Brexit supporters' hope for a free trade agreement (FTA) with the US would not really threaten jobs in declining industries, but a UK–China FTA would hardly be welcomed by those who see low-wage competition as having undermined unskilled jobs. It is an article of faith among economists that, even if jobs are lost as an economy undergoes trade liberalisation, the efficiency gains that result will be more than enough to compensate the losers. But in times of austerity, there has been little or no financial compensation for trade adjustment assistance. Recent research in the US, for example, suggests that in regions particularly affected by Chinese import competition, there has been no increase in other more productive activities as uncompetitive ones have declined (e.g. Autor et al., 2016).

For many economists, the implication is that there should have been more adjustment assistance, but there is political resistance to this. Moreover, anti-globalisation is a matter not simply of the financial costs of adjustment, but also of the loss of dignity associated with the disappearance of traditional jobs. Hence, in the case of the steel industry in Wales, many economists who are traditionally opposed to anti-dumping see no alternative to its use in the absence of adjustment assistance in regional or industrial policy. It is ironic that the UK Government, having opposed the use of anti-dumping, will inevitably face the choice of how best to develop an anti-dumping policy.

Theresa May's close adviser, Nick Timothy, recently wrote:

The EU could impose retaliatory tariffs on Chinese steel products, as the United States has done and other member states would like to do, but it is the policy of the British Government to oppose these measures.¹

A post-Brexit government might have other ideas.

Clearly, the starting point will be the World Trade Organization (WTO) anti-dumping rules, but there is a great deal of discretion in how these are implemented and used. The WTO rules contain considerable flexibility in how dumping and injury are calculated, what attention needs to be paid to consumers and how products are defined, as well as in institutional matters such as who can file anti-dumping complaints and who can challenge decisions. One fundamental choice will be whether the UK will seek to create institutional arrangements to protect politicians from protectionist pressures, as in the Australian system, or instead will facilitate the ability of politicians to appear to be hearing the voters' pain.

There is a certain built-in bias towards a more protectionist outcome, because if an anti-dumping suit is brought within the UK it will be easier to show injury has occurred, since the market concerned is smaller. And UK policy-makers, who are answerable to their own voters in a way that the European Commission is not, will make the ultimate decision. Perhaps the UK Government will attempt to build a wall around the process, but very liberal anti-dumping rules seem unlikely if they are written when the country is seeing its growth slow and its current account deficit at a historical high, and the population is wary of globalisation. The Least Developed Countries (LDCs) are largely outside the range of anti-dumping fire, but emerging markets such as Brazil, China, India and Pakistan need to watch closely. Tighter anti-dumping rules are a very likely corollary of Brexit.

The implications of EEA membership

A second issue that may affect LDCs relates to the nature of the EEA. It is customary to argue that the 'Norway model' would offer *full access* to the EU Single Market while allowing the UK to have its own FTAs with third countries, and indeed its own anti-dumping policy. But in fact, the EEA does not offer full access to the Single Market in the same way that EU membership does. The EEA is an FTA, not a customs union. While goods originating in the UK would have duty-free access to the rest of the EU, this is not the case for third-country goods imported into the UK and re-exported, including in some cases those incorporated into products made in the UK. The EEA has rules of origin, so products with a high share of imported components or materials in their content may be treated as third-country products and charged duty if they are not truly of 'UK origin'. This could apply to cars

or electronics made in Japanese-owned factories, and also to chocolate made with imported sugar and cocoa. The rules of origin are, in principle, laid down in detail in EEA agreements, but the paperwork needed to prove origin can be costly to obtain and, above all, a cantankerous customs official can insist on inspections.

A further dimension of this concerns the way harmonisation and mutual recognition work. If the UK were in the EEA, it would acquire full freedom to sign FTAs with whomever it wants, but not necessarily full freedom to negotiate modifications to non-tariff barriers. EEA countries must apply EU rules where they exist, and must accept mutual recognition where they don't, but the process of mutual recognition of conformity assessment that is required to prove that products satisfy EU norms is complex.

Some free traders and developing countries criticise EU food safety rules as being excessively cautious, and there might be a temptation to relax either product requirements or the testing and conformity assessment requirements with LDCs. Could the UK do this if it were in the EEA? Not necessarily. If the EU does not have mutual recognition for

conformity assessment with that LDC, the goods could not be sold on into the EU. But could the UK actually conclude a mutual recognition agreement (MRA) on conformity assessment with a country that the EU does not have such an agreement with? The European Free Trade Association website suggests that the EU discourages its EEA partners from signing MRAs with anyone the EU has not signed with. In fact, the UK would be constrained in its ability to include MRAs in any FTAs if it wants to maintain even the partial Single Market access that Norway has.

Conclusion

The impact of a post-Brexit UK trade policy will not simply depend on tariff levels; there may be a trade-off between tariff liberalisation and the risk of the application of contingent protection. Moreover, developing countries need to be aware that, if the UK is in an FTA relationship with the EU, access to the UK market will not automatically translate into access to the rest of the EU, and the UK will not necessarily have freedom to reduce non-tariff barriers.

Notes

- 1 N. Timothy (2016) 'Port Talbot, globalisation – and the governing class that gains from mass immigration while poorer people lose out', Conservative Home, <http://www.conservativehome.com/thecolumnists/2016/04/nick-timothy-port-talbot-should-make-us-question-the-unthinking-liberalism-of-our-governing-classes.html>

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13. Brexit and trade in services: securing future gains

Jodie Keane, Commonwealth Secretariat

Abstract

The Brexit shock has already had major implications for the services trade. This essay explores some of the implications of Brexit for the CARIFORUM region, whose Economic Partnership Agreement with the EU is the only comprehensive agreement in place that covers services, investment and e-commerce. It also discusses the challenges involved in such analyses.

Introduction

The EU's Economic Partnership Agreement (EPA) with the Caribbean Forum (CARIFORUM) is the only comprehensive agreement in place that covers services, investment and e-commerce. As the EU currently does not include services within its Generalised System of Preferences (GSP) regime, the CARIFORUM EPA is seen as a benchmark against which to measure any future trade agreements. However, obtaining accurate data on services trade and its respective barriers remains a major challenge for the international trade community. This is likely to be of major concern to UK negotiators in view of the overriding economic importance of this sector to the economy, as well as those within the CARIFORUM.

The UK's post-Brexit relations with CARIFORUM

The major potential areas for trade gains are likely to fall within the realm of services and the removal of non-tariff measures for both the UK and CARIFORUM. Such a process could help overcome restrictions on both outward as well as inward investment for both regions.

Since commitments made under the CARIFORUM EPA are more ambitious than those in the General Agreement on Trade in Services (GATS), a move by the UK towards the World Trade Organization (WTO) model – described in many analyses of the trade implications of Brexit – is likely to be disadvantageous. Major gains were secured under the EPA relative to GATS commitments, including in relation to Mode 4 and the temporary movement of people (among them, graduate trainees). The Protocol on Cultural Cooperation is innovative, and commitments undertaken in the entertainment services sector are viewed positively in relation to the emergence of the animation industry.

The UK could seek to maintain the status quo, or alternatively could pursue a more liberal stance compared with the EPA. However, the identification of areas where the UK could go further in terms of its liberalisation, as well as where additional concessions might be made towards the UK relative to the EU by the CARIFORUM, will need to bear in mind application of the most-favoured nation (MFN) clause.¹ In this regard, the relative importance of the UK and EU markets needs to be carefully assessed. The areas in which the EPA has already resulted in economic benefits, as well as the potential for these to increase, should be evaluated.

The challenges for future analysis

A more detailed evaluation of the trade-related effects of EPA implementation with a particular focus on trade in services is urgently required, and should build on previous efforts undertaken thus far (e.g. Greene, 2015). However, such an exercise will invariably confront major data

limitations as well as capacity constraints with regard to both obtaining and compiling the necessary data.

As discussed by Low (2016), while all WTO signatories have schedules of market access and national treatment (non-discriminatory treatment between domestic and foreign services and service providers) commitments, many of these fail to capture the actual level of access granted to services of foreign provenance. Only recently has it become feasible to measure trade in the same way as gross domestic product (GDP), leaving behind the uncomfortable juxtaposition of value-added estimates of GDP and gross numbers for trade.

Major challenges persist, however, and it is generally recognised that advances in statistics by enterprise characteristics and by mode of supply, which take account of the movement of both labour and capital, are required (Lanz and Maurer, 2015). Securing new concessions within the realm of services trade for the UK in CARIFORUM, and vice versa, will require painstaking analysis and demand the skills of the private sector. These includes the ability to effectively trace company ownership structures, their transactions, as well as the main constraints they face in relation to expansion and sustainable investment practices.

Conclusion

Assuming Article 50 is triggered, the sequencing of the hierarchy of new trade regimes negotiated by the UK, as well as depth and breadth of concessions, will require careful monitoring by all African, Caribbean and Pacific (ACP) group members, but the CARIFORUM will need to pay particular attention to commitments made on services trade. Unlike in the CARIFORUM EPA, the investment and services component in the African EPAs remains on the negotiating table. These are areas where the European Commission has only recently gained exclusive competence under the Common EU Investment Policy.

One future possibility is the inclusion of services within the UK's own autonomous GSP regime. This could address the differentiation issue more effectively and broaden an Everything But Arms (EBA)-type regime, inclusive of services, to small vulnerable economies and Small Island Developing States, as well as to the Least developed Countries.

How the UK's future trade regimes will be designed to reflect its own commercial policy and new trade strategy remains to be seen. Nevertheless, the UK could seek to redress some of the criticisms of the EU's common approach to international investment, which include the lack of a definition of foreign direct investment and thus the scope of EU exclusive competence, as well as the main elements which could be defined in relation to sustainable investment policy.

Any shortcomings and/or views expressed in this paper are the author's own and are not attributable to the Commonwealth Secretariat.

Notes

- 1 Controversy has arisen over Article 70 (1) b, which allows established firms and investors in the EU to benefit unconditionally, via the EPA's MFN provision, from any more favourable treatment that the CARIFORUM states may provide to any industrialised country or major trading economy (e.g. the US, Canada, the BRICS and now, potentially, the UK). As discussed by Sauve and Ward (2015), paragraph 5 of Article 70 states that, when a CARIFORUM state becomes a party to such an economic integration agreement, the EC and the CARIFORUM states shall enter into consultations to decide whether the CARIFORUM state may deny the more favourable treatment to the EC party.

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14. Aid for Trade as a complement to a new UK trade policy

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Abstract

The UK is a major provider of Aid for Trade (AfT) through bilateral, EU and multilateral channels, bringing benefits to both developing countries and the UK. In the context of an independent UK trade policy, AfT will continue to play a key role in stimulating development. It will also take on new roles in complementing UK trade and investment agreements to reduce trade costs and compensate vulnerable countries.

Introduction

Much has been written about the motivation and effects of Aid for Trade (AfT) (te Velde et al, 2013). AfT includes aid funds spent on improving infrastructure and building productive capacities in developing countries. It has also been used to develop and modernise institutions dealing with trade in developing countries, such as customs, to make their procedures more efficient. The origin of AfT dates back to the 2005 Hong Kong World Trade Organization (WTO) declaration, which calls for assistance to help countries implement trade agreements – including compensating countries whose preferences are less valuable in the presence of lower tariffs (so that countries suffering preference erosion have something to gain from a multilateral trade deal) – and adjust to new trade realities. AfT has become an integral part of the recent WTO Trade Facilitation Agreement, with the aim of reducing trade costs by addressing inadequate transport and logistics infrastructure and inefficient institutions.

AfT was originally not meant to be aid in the traditional sense, but in recent years it has become accepted to count specific parts of aid (trade policy, economic infrastructure, productive capacity, trade-related adjustment) as AfT. Based on this definition, the Organisation for Economic Co-operation and Development (OECD) and WTO report that the UK provided \$1.4 billion in AfT in 2013 out of a global total of \$41.6 billion (OECD and WTO, 2015). In comparison, the US and Germany provided \$3.4 billion each, France provided \$1.9 billion, and \$7.1 billion was provided by EU institutions such as the European Commission.

The UK's Aid for Trade programmes

The UK has been active in designing AfT programmes. One example is the creation in East Africa (through TradeMark East Africa) of UK aid-financed one-stop border posts, which harmonise customs checks at borders and reduced the time to transport cargo from the port of Mombasa in Kenya to Kampala, Uganda, from 18 to 4 days between 2013 and 2014 (TradeMark East Africa, 2015). The UK

has also assisted developing countries to negotiate trade agreements through its Trade Advocacy Fund.

AfT confers a mutual benefit to recipient and sending countries. A reduction in trade costs helps recipients grow and increase their international competitiveness, expanding the quantity, quality and complexity of their exports, which helps transform economies. At the same, this helps countries that send AfT, since they benefit from cheaper imports and stronger exports. One estimate shows that EU aid pays for itself in this way (Carreras et al., 2016). Another econometric study estimated that, for each British pound spent on aid, the UK exports 22 pence worth of goods and services (Mendez-Parra, M. and te Velde, 2016).¹ This translates into around 12,000 jobs in the UK. Notably, these effects are generated without tying British aid to the interest of exporters, as the OECD recommends (OECD, 2014).

Aid for Trade in the context of a new UK trade policy

AfT will become even more important in the context of a new UK trade policy for two reasons. First, the UK will be able to reduce tariffs further than the EU,² which would imply a further reduction in the current value of preferences to Least Developed Countries (LDCs) and other preference-dependent countries such as non-LDC African, Caribbean and Pacific (ACP) countries.³ Additional UK AfT would be required to compensate the most vulnerable countries.

Second, if the UK negotiates new trade and investment agreements, it can use AfT as a complement to stimulate two-way trade and investment and help countries implement these new agreements. Risks here include AfT being diverted from the poorest countries and being used as a bargaining chip (Devex, 2016). The first risk calls for an increase in the overall volume of AfT (which is a highly targeted and effective way of using aid), whereas the second calls for an increase in non-aid financial transfers. Both are justified in the interests of UK and developing country objectives.

Notes

- 1 Calculations are available upon request.
- 2 See the essay by te Velde in this series.
- 3 See the essays by Stevens and Kennan and by Kennan in this series.

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15. Options for UK preferential trade relations amid shifting contexts

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Abstract

This essay explores some possibilities for the UK's preferential trade relations with a range of developing countries outside of the EU customs union. The possibilities take into account the shifting trade and development landscape – including new opportunities, challenges and players – as well as the role of international commerce in achieving the UN's Sustainable Development Goals.

Introduction

Trade policy is centre of attention in the UK following the vote to leave the EU in late June. Under most conceivable Brexit models, the UK and the EU would each need to decide how to address obligations under the EU's existing preferential trade arrangements, many of which involve a variety of deals with a wide range of developing economies.¹ This raises a veritable deluge of questions. From the UK's perspective, all kinds of possibilities can be considered for all manner of different partners. A key challenge will be seizing opportunities to mutually improve such relations.

Potential options for the UK

The EU's Generalised System of Preferences (GSP) includes the Everything But Arms (EBA) non-reciprocal arrangement granting duty-free, quota-free (DFQF) access to all products from Least Developed Countries (LDCs), except arms and ammunitions. For some of the world's poorest nations, these preferences can be critical to improving international competitiveness and thus boosting incomes at home. The UN's Sustainable Development Goals (SDGs) have identified DFQF market access for LDCs as a systemic means of achieving their vision.

The UK, which accounted for around 4% of merchandise exports from LDCs over the past five years (Jones, 2016), could maintain and improve its EBA preferences once outside the EU. Assuming it exits the customs union – which requires members to impose a common external tariff – it could consider strategic changes to the EU rules of origin that determine how much of an imported product must be sourced from a country in order for it to receive the relevant preferences. For example, the UK could follow the Canadian model² and implement full cumulation for preferential rules of origin for LDCs (Arcand, 2016), thus allowing these countries to use a wide range of inputs from other developing economies.³ Based on experiences of similar changes, this could help stimulate exports among LDCs or regional groups (De Melo and Portugal Perez, 2016). It should be noted that some poorer nations that are not LDCs also benefit from non-reciprocal tariff reductions or removals through other aspects of the EU GSP. This includes Sri Lanka, which has sent 11% of its goods exports to the UK over the past five years.

The EU also grants reciprocal tariff preferences to certain developing countries through free trade agreements (FTAs) or other preferential arrangements. Some 25% of exports from Belize destined for the UK over the past five years, for example, have benefited from arrangements under the EU's Economic Partnership Agreement (EPA) with the Caribbean Forum (CARIFORUM) group.

One option for the UK to shape trade relations with African, Caribbean and Pacific (ACP) economies in particular would be to simply assume its share of liabilities

and reaffirm its participation in the EU EPAs currently in place with 49 of these countries. However, with the exception of CARIFORUM, these deals have not ventured beyond goods trade, and there is uncertainty over talks further down the line on services, investment, competition, data flows and other sustainability and trade-related rules. It is now a well-versed reality that trade policy and accompanying capacity-building should concern themselves with much more than just tariffs in order to advance sustainable development. Moreover, some EPAs also reflect regional configurations that no longer exist or have transformed.

The UK could alternatively forge arrangements with ACP countries that address new trade contexts and support regional integration efforts. For example, 26 southern and eastern African states have signed a Tripartite Free Trade Agreement (TFTA) aiming at tariff liberalisation, trade facilitation and disciplines on non-tariff barriers, among other areas. While there are hurdles to implementation, the participants have envisaged a second phase of talks on services, competition policy and intellectual property rights. The TFTA is also seen as a building block for the creation of a pan-African Continental Free Trade Area (CFTA) for goods and services. The UK could act simultaneously as an external catalyser of this regional integration whilst also using the CFTA as a reference for further integration with African economies.

Elsewhere, the UK is already an observer country to the Pacific Alliance between Chile,⁴ Colombia, Peru⁵ and Mexico⁶ (Villareal, 2016), which is moving progressively towards the free movement of goods, services, resources and people and creating more sophisticated markets in the process. Also on the horizon is the signed Trans-Pacific Partnership (TPP), involving 12 nations ranging in economic might from the US and Japan to Vietnam, and covering a host of disciplines. Could the UK eventually consider using such new initiatives as integration platforms?

Bridging approaches (Rollo and Winters, 2016) to maintain current bilateral arrangements with developing and emerging economies secured through EU FTAs could also be pursued with countries such as Korea. Long-term strategies could then be considered for more formalised bilateral and regional trade integration with other important players across the globe – some of which are in various stages of talks with the EU – ranging from Mercosur⁷ countries to Indonesia,⁸ India⁹ and China.¹⁰

Conclusion

The landscape of global trade has shifted significantly in the past two decades (E15Initiative, 2016). Trade policies need to adapt to keep up with new opportunities, players and realities – to look to the future and not to the past. The UK has experience as a bilateral donor in capacity-building to make trade work for sustainable development.

Building on this could form a key pillar of relations with poorer economies and of enhancing shared prosperity. The UK should remain open to multifaceted possibilities for engagement, reflecting partner capabilities, needs

and potential. It is in a good position not only to benefit from staying engaged on trade with a full spectrum of developing economies, but also to advance sustainable development by so doing (Anderson et al., 2016).

Notes

- 1 See the European Commission's map of Free Trade Agreements at http://trade.ec.europa.eu/doclib/docs/2012/june/tradoc_149622.pdf.
- 2 See http://unctad.org/meetings/en/Presentation/aldc2015_05-agenda5_wto_en.pdf
- 3 See <http://www.cbsa-asfc.gc.ca/trade-commerce/tariff-tarif/ldct-tpmd-eng.html>
- 4 The EU and Chile concluded an Association Agreement in 2002, which included a comprehensive FTA that entered into force in February 2003 (see <http://ec.europa.eu/trade/policy/countries-and-regions/countries/chile/>).
- 5 In June 2012, the EU signed a comprehensive Trade Agreement with Colombia and Peru. The agreement has provisionally applied with Peru since 1 March 2013 and with Colombia since 1 August 2013 (see <http://ec.europa.eu/trade/policy/countries-and-regions/regions/andean-community>).
- 6 The EU and Mexico are in the process of modernising an FTA that first entered into force in October 2000 (see <http://ec.europa.eu/trade/policy/countries-and-regions/countries/mexico>).
- 7 Negotiations between the EU and Mercosur for a trade agreement launched in May 2010 (see <http://ec.europa.eu/trade/policy/countries-and-regions/regions/mercosur/>).
- 8 Negotiations for an EU-Indonesia FTA were launched in July 2016 (see European Commission: <http://ec.europa.eu/trade/policy/countries-and-regions/countries/indonesia/>).
- 9 Negotiations for an EU-India FTA were launched in 2007 (see <http://ec.europa.eu/trade/policy/countries-and-regions/countries/india/>).
- 10 The EU and China launched negotiations on an investment agreement in November 2013 (see <http://ec.europa.eu/trade/policy/countries-and-regions/countries/china/>).

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16. Post-Brexit UK trade policy for international development: issues and way forward

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Abstract

The UK is an important trade partner for many African, Caribbean and Pacific countries, so it is imperative that Brexit does not result in trade disruptions or unfavourable outcomes for these countries. This essay offers some guidelines for shaping future trade arrangements. The UK should start regular consultations now to ensure the trade interests of the world's poorest countries are secured and advanced.

Introduction

The prospect of the UK leaving the EU and formulating its own trade policy raises important concerns about the implications for future trading arrangements with the African, Caribbean and Pacific (ACP) countries, especially the Least Developed Countries (LDCs) within this group. This essay offers some broad guidelines for making the new UK trade policy a genuinely development-friendly one.

The UK is an important trade partner for many ACP states. Various capacity constraints mean these countries have not been able to grow their exports substantially. Nevertheless, sub-Saharan African countries almost doubled their merchandise exports to the UK over the period 2000–2014 from \$8 billion to about \$16 billion, while exports by LDCs (including non-ACP LDCs) grew roughly fivefold over the same period (from \$1.6 billion to about \$8 billion). Although information on bilateral services trade is not readily available, it is clear that the UK has also been one of the most important drivers of services exports for many tourism-dependent ACP countries. Remittances from the UK are also quite high for several ACP countries.

Shaping the UK's future trade arrangements

Given the importance of the UK market for many ACP and LDC exporters, it is imperative that Brexit does not result in trade disruptions or unfavourable outcomes for these countries. There are various possibilities for framing and shaping the UK's future trading arrangements with the ACP countries.

For the LDCs, perhaps the best option would be for the UK to devise its own Generalised System of Preferences (GSP) that builds upon and improves current arrangements for the world's poorest countries. Under the EU's Everything But-Arms (EBA) scheme, the EU (including the UK) provides duty-free, quota-free market access for all goods (except arms and ammunition) originating in LDCs. Post-Brexit, the UK Government should at least maintain this level of market access for LDCs. However, it can go even further by offering more favourable terms. Improvements can be made in at least two areas.

First, the rules of origin requirements for meeting the eligibility criteria for EU trade preferences are in many cases quite stringent and complex. The UK should consider using simpler origin determination criteria. The rules of origin provisions offered by Australia and Canada, for example, whereby recipient countries are required to add 25% local value before being able to access preferential tariff margins, are widely considered to be much better practices. It may be possible to allow for further relaxation of value addition requirements by considering regional cumulation of origin (that is, allowing LDCs to source raw materials from other LDCs and ACP countries).

Second, the UK's offer of trade preferences should be extended to services, in line with the agreed LDC

Services Waiver under the World Trade Organization (WTO). There is an opportunity here to set an example by offering preferences in services that will be commercially meaningful to LDCs. Of course, defining such a preference regime in services is challenging. But this is an area where gains for LDCs could be quite substantial.

Turning to the ACP countries, future arrangements might be quite complex. Whereas EBA-type unilateral trade preferences for LDCs (including the 40 ACP LDCs) are likely to be relatively straightforward, given exceptions related to the WTO's provisions for applying the most-favoured nation (MFN) principle, similar provisions for other ACP countries will require non-reciprocal trade agreements. Since the EU's Economic Partnership Agreements (EPAs) confer duty-free, quota-free access to the EU for all signatories, post-Brexit UK policies will need to provide equivalent market access for non-LDC ACP countries to avoid any trade disruptions.

One key issue is whether the UK can install replica EPAs for ACP countries that have already signed deals with the EU. While the existing EPAs could provide a framework, this would reopen negotiations on many (possibly contentious) issues. As the UK would not be in the same powerful bargaining position as the EU, this could prolong the process for years. In addition, the question of why LDCs should offer reciprocal treatment when they can access EBA preferences – something never fully addressed in the EPA negotiations – could add to the complexity. There is also a view that, rather than strengthening regional integration in Africa, the EPAs have actually fragmented the existing regional economic communities (RECs) by establishing five different reciprocal trading regimes with Europe. The UK will need to consider whether replication of EPAs is possible and should be pursued.

To avoid any immediate adverse outcomes, one way forward for the UK would be to request WTO waivers for its ACP partners, allowing it to offer unilateral trade preferences. There are precedents for such arrangements, including the African Growth and Opportunity Act for the US and the Caribbean Basin Initiative. This option could avoid having to enter into difficult negotiations with ACP countries at this stage, while ensuring continuity of preferential treatment for them.

In the medium to longer term, the UK could consider negotiating development-friendly, WTO-compatible trade agreements with ACP regions. Under the African Union's formal integration plan, member states aim to launch an African Customs Union by 2019. While this is an extremely ambitious target with many challenges, such an arrangement could provide an opportunity for post-Brexit UK and Africa to negotiate a single free trade agreement that reinforces African continental integration.

Finally, UK policy-makers should reassure LDCs and ACP countries that their market access to the UK after the two years (or more) of withdrawal negotiations from the EU will be just as favourable as existing arrangements.

Given Brexit-related uncertainties, such reassurances of trade continuity are imperative for investment decisions and future planning. There will be many competing demands on its post-Brexit negotiating capacity, so the UK should start regular consultations now to ensure the trade interests of the world's poorest countries are secured and advanced. It will also be important to ensure that trade-related standards, such as sanitary and phyto-sanitary measures and technical barriers to trade, do not unnecessarily restrict trade.

Conclusion

The UK's commitment to promoting trade-led development has been laudable. It has consistently recognised the challenges facing, and championed the special needs of, country groups such as the LDCs,

sub-Saharan Africa and the small states. It is also one of the few high-income countries that meets the UN target of providing 0.7% of gross national income as overseas development assistance. It is in this spirit that, with its newfound trade policy sovereignty, the UK should seek improvements over the currently existing trade preferences for ACP states and LDCs.

The views expressed are those of the authors and do not necessarily represent those of the Commonwealth Secretariat.

17. Options for the UK's offer to developing countries on international trade: a perspective from Africa

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Abstract

Africa, as a historically linked, rapidly developing and continually important trading partner for the UK, should be a priority for the UK's new post-Brexit trading arrangements. This essay argues that the new UK trade policy towards the continent should reinforce Africa's regional integration initiatives; should be pro-poor and pro-development; and should ensure continuity and certainty for Africa's exports.

Introduction

Beyond the headlines in reaction to the vote to leave the EU – which have dominated both the UK and world media alike – are the emerging nuances of Brexit. Most importantly, these include development-friendly options for the UK's post-Brexit trading arrangements with Africa. From an African perspective, we highlight, the three principles that should underline the UK's trading engagements with the continent: support for Africa's regional integration priorities, pro-poor and pro-development trade arrangements, and market access continuity.

Anglo–African Trade

When the UK joined the European Economic Community (EEC) 43 years ago, it transferred all authority for its trading arrangements to the EEC. In 2014, the UK's \$1.1 trillion in trade was channelled through these clear and predictable legal and institutional frameworks.

For Africa, this included the Cotonou Agreement, which expanded preferential access to the EU market while setting up the Economic Partnership Agreements (EPAs) through which Africa is poised to gradually open up 75-80% of its own market to the EU.

Once outside the EU, the UK must design and build its own replacement trade policy for Africa, drawing lessons (where applicable) from the EPA experiences, recognising Africa's policy priorities, being an ally to Africa at the World Trade Organization (WTO) and ensuring continuity and certainty for African businesses and countries reliant on the UK market.

Supporting Africa's regional integration priorities

The UK must consider foremost a continental approach to a comprehensive trade agreement with all 54 African countries. This would align with Africa's plans for continental regional integration as proposed by the African Union's Agenda 2063, in particular the Continental Free Trade Area (currently under negotiation) and an eventual Continental Customs Union. Complementary to this would be the scaling-up of the UK's investment in support of Africa's integration efforts. Doing so will help realise the development of Africa's intra-regional value chains and markets for industrialisation.

A single continental approach would also reduce the multiplicity of new arrangements facing UK negotiators, easing the post-Brexit negotiating burden. The US has proposed such an approach as the successor arrangement to its Africa Growth and Opportunity Act, which is scheduled to be phased out after 2025.

Pro-poor, pro-development

A continent-wide trade agreement with Africa should incorporate limited reciprocity, immediate access to the UK market, flexible rules of origin that allow for cross-cumulation and phased-in access to the African market.

Indeed, these are core elements of the EPAs that would likely form the basis for discussions.

But the UK should aspire to a truly development-oriented trade agreement that includes references to the environment and climate change, and in particular green technology transfer; that removes subsidies that unfairly disadvantage African agriculture, fostering a rural poverty trap; and that creates partnerships in services to help African countries learn from the UK's strengths.

The UK should also address EU technical barriers to trade, which restrict the UK market for products in which Africa has a comparative advantage, such as tropical fruits and vegetables, fish products and bovine meats. The Citrus Growers' Association of Southern Africa has suggested that revised UK plant health regulations on citrus imports could be easier to comply with than present EU regulations¹. Similar improvements could be arranged for fish and beef, of which African exports to the EU have fallen following compulsory and expensive regulations. An example is provided by the regulations to prevent bovine spongiform encephalopathy (BSE), which are applied to African countries in which BSE has never been diagnosed. In realising these advantages, the UK could continue to recognise EU standards so as not to duplicate regulations where unnecessary.

Beyond trade agreements, the UK should prove itself an ally to Africa at the WTO, championing African priorities such as special and differential treatment and eliminating agriculture subsidies.

Market access continuity

Transitional trading arrangements will be required while any continental agreement is determined. The UK will have many negotiating priorities during Brexit, and these transitional arrangements must bridge the gap to a more comprehensive and progressive trade agreement, which is likely to take more time.

The preferable option is for the UK to incorporate transitional arrangements into its EU leaving conditions such that it temporarily continues to participate in EU–Africa trade arrangements. Article 50 does not define the scope and content of the withdrawal arrangements, so it is feasible that the UK could negotiate to retain transitional membership of certain agreements. This would provide legal certainty and assurance for African exporters and investors, and continuity for African businesses.

Conclusion

The UK faces a considerable range of negotiating priorities. Africa, as a rapidly developing and historically linked trading partner, should not be overlooked in these. In crafting its trade policy approach to Africa, the UK must reinforce the continent's regional integration initiatives; it must ensure market access continuity and certainty; and it should base its agreements on a pro-poor and pro-development principle.

Notes

1. <http://www.fruitnet.com/eurofruit/article/169211/rsa-citrus-trade-sees-brex-it-opportunities>

18. Why trade with Asia is vital to the UK economy

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Abstract

Trade between the UK and Asia presents an opportunity for shared economic prosperity in a fragile world economy. This essay discusses how a coherent and focused post-Brexit UK trade policy with an emphasis on Asia will help realise these opportunities. It also mentions key risks to trade outcomes.

Introduction

The UK is rethinking its approach to trade with developing countries in Asia following the vote to leave the EU. This essay discusses Asia–UK trade relations, opportunities, policy priorities and risks.

Trade between the UK and developing Asia

The UK is not a major trading partner for developing Asia. Exports to the UK from developing Asia made up only 0.6% of developing Asia's gross domestic product annually from 2013 to 2015, and imports from the UK to developing Asia made up just 0.3%.¹ Only a few economies – Hong Kong, China, Viet Nam, Cambodia, Bangladesh and Sri Lanka – have strong trade ties with the UK. With these exceptions, developing Asia is therefore relatively insulated from any potential economic shock from Brexit transmitted through a fall in trade. This also means that trade between developing Asia and the UK seems to be below potential. Developing Asia is a bright spot in a fragile world economy, with growth of about 6% projected in the next two years and a growing consumer-oriented middle class estimated to number over 2 billion by 2030.² In the future, China, India and the Association of Southeast Asian Nations (ASEAN) could become important trading partners for the UK.

Notable trade complementarity exists with the UK. Sophisticated global value chains (GVCs) centred on east Asia have driven exports of labour-intensive and medium-technology manufacturing,³ in return for imports of services and high-end manufacturing from the UK. GVCs also offer opportunities for two-way foreign direct investment (FDI) in manufacturing and energy and transport infrastructure. More trade and FDI with developing Asia would stimulate key sectors in the UK, including financial and professional services, green technology and services, creative services (e.g. music, literature and film) and manufacturing (agri-food, automobiles, aerospace, chemicals and pharmaceuticals).

Trade barriers have held back the expansion of trade between developing Asia and the UK. In 2014, average tariffs on all goods fell to historic lows of 8.7% in developing Asia and 5.3% in the EU, but tariff peaks for sensitive sectors like agriculture remain quite high.⁴ In addition, rising non-tariff measures (NTMs) and restrictions on the services trade have followed concerns over jobs since the global financial crisis.

Priorities for fostering trade

Many uncertainties prevail over the timing of the UK triggering Article 50 of the EU Treaty and the shape of a new trade deal between the UK and the EU. Accordingly, trade between the UK and developing Asia will be governed by EU trade policy for the foreseeable future, including the Generalised System of Preferences (GSP) for developing countries, a solitary EU–Korea free trade

agreement (FTA) and most-favoured nation treatment under the World Trade Organization (WTO). In addition, an EU–India FTA has been under negotiation since 2007 and an EU–Japan FTA since 2013.

Assuming that the UK ends up with an independent national trade policy, given the country's scarce trade negotiating capacity, a limited trade policy agenda makes sense. The following priorities will help foster trade between developing Asia and the UK.

Forge an FTA with China

China, Asia's largest economy, is continuing the gradual shift in its growth model from relying on exports and investment towards domestic consumption and the services sector, so as to achieve more balanced and sustainable growth.⁵ The UK would be an attractive FTA partner given its close trade complementarity with China based on the UK's strengths (in financial services, green technology and services, and high-end manufacturing, for example), its close political ties with China and its geographical proximity to Europe.

A UK–China FTA should strive to be comprehensive and of a high standard. It should cover rules on goods, services, investment, trade facilitation, intellectual property and dispute settlement. It should also have a built-in agenda for deepening liberalisation over time. Challenging issues in China's business environment may arise during negotiations, such as NTMs against imports, industrial subsidies for state-owned enterprises and insufficient intellectual property enforcement. Likewise, the UK's strict visa rules for business people and tough environmental standards may come up. However, China's 2008 FTA with New Zealand and its 2015 FTA with Australia offer templates for an FTA with the UK.

Extending the UK–China FTA negotiations to include Hong Kong should be explored, as much of China's trade takes place through it. FTAs with Korea and Japan should also be considered, using EU FTAs with these countries as templates.

Engage in plurilateral trade agreements

Covering trade rules in specific sectors for like-minded countries on a voluntary basis, plurilateral trade agreements are increasingly being negotiated among WTO members. Ongoing negotiations on environmental goods and trade in services could be concluded in 2016–2017, while earlier plurilateral deals include the Information Technology Agreement and the Government Procurement Agreement. When feasible, the UK should become a member of plurilateral agreements that include middle-income southeast Asian economies, such as China and India.

Consider creating a GSP scheme for Least Developed Countries

The UK's GSP could emulate the EU's Everything But Arms arrangement and allow Least Developed Countries (LDCs) duty-free, quota-free access to the UK for all their goods

(except arms and ammunition). Afghanistan, Bangladesh, Cambodia, Nepal, Myanmar and Timor-Leste are the likely Asian LDC beneficiaries.

Use the WTO's Dispute Settlement Mechanism to resolve trade quarrels, enforce trade rules and facilitate smooth trade flows with developing Asia

The UK should re-establish its credentials in the WTO and invest in independent international trade law capabilities to use the WTO's Dispute Settlement Mechanism effectively. Although it is a founding WTO member, the UK is presently represented by the EU and included in EU dispute settlement cases.

There are risks that trade outcomes will be dampened.⁶ Trade agreements typically take longer to negotiate than expected, particularly those involving services and new trade issues. China's FTA with New Zealand took three years; the FTA with Australia took a decade. Furthermore, rising anti-globalisation sentiments mean such agreements may face difficulties in getting legislative ratification and exhibit more limited depth than expected. Providing adjustment assistance to losing sectors, retraining for

workers and ensuring social safety nets can be useful to maintain public support for trade liberalisation. Finally, as the use of FTA preferences may be less than optimal, it is vital to strengthen trade promotion services and business support for small and medium enterprises.

Conclusion

A stronger focus on Asia in the UK's independent trade policy is vital for opening trade and for mutual economic prosperity. To ensure success, the policy should focus on a limited agenda, and do it well. This should involve an FTA with China and the exploration of FTAs with Japan and Korea, plurilateral trade agreements, a GSP scheme for LDCs and using the WTO's Dispute Settlement Mechanism. Mitigating key risks relating to sectoral adjustment, depth of FTAs and sub-optimal use of FTA preferences will likely enhance the effectiveness of the UK's independent trade policy.

The views expressed here are solely those of the author and should not be attributed to the Asian Development Bank.

Notes

1. Estimated from the IMF Direction of Trade Statistics and the IMF World Economic Outlook.
2. See ADB (2016) for short-term GDP forecasts for Asia and ADB and ADBI (2014) for economic scenarios to 2030.
3. See Wignaraja (2016 eds) for detailed of patterns and drivers of GVCs and production networks in East Asia.
4. Estimated from the World Trade Organization Tariff Profile and Integrated Trade Intelligence Portal.
5. Wignaraja (2012) examines the role of trade policy in supporting China's rise in global trade and emerging policy challenges. ADB and ADBI (2014) assess the future economic implications of the structural transformation in China for Asia and the global economy.
6. See Kawai and Wignaraja (2014) for an assessment of these risks in the context of Asian FTAs.

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19. Brexit and Latin America

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Abstract

The effect of Brexit on trade with Latin America will be small, but the potential benefits of stronger links between the UK and the region are large for both. This essay argues that while a free trade agreement with Brazil is difficult to foresee, quick positive results could be realised with other countries in the region.

Introduction

Although it has global significance, Brexit is seen in Latin America as a distant and curious event. In fact, Latin America sees the UK as a politically and economically distant partner. This essay analyses the effects of Brexit in the region and discusses the potential opportunities for further engagement. In particular, it assesses the potential for a free trade agreement (FTA) between the UK and Brazil.

How will Brexit affect Latin America?

The effect of Brexit on trade between the UK and Latin America is expected to be minimal. Table 1 presents the trade between the UK and Latin America in 2015. On average, the UK accounts for less than 1% of total Latin American exports, and Latin America absorbs just 1.93% of the UK's total exports. Exports of services to Latin America represent just 1.4% of total exports, and imports of services from Latin America represent 1.3% of total UK imports.¹ Consequently, any change in UK trade policy towards Latin American countries will have minimal effects on these countries. At the same time, the effects on the UK of the reversion to most-favoured nation (MFN) status (as the EU's FTAs with many of these countries will not apply to the UK after Brexit) will be limited to just 1% of UK exports. Exports to the Common Market of the South (Mercosur) will not be affected.²

For many Latin American countries, it has been a long time since the UK represented their main trade partner or their main source of foreign direct investment. For example, in 1962, the UK captured 17% of Argentina's exports.³ The decline in the relationship between the UK and Latin America is also political in nature. David Cameron visited Asia 23 times between 2010 and 2014, and Latin America only twice over the same period.⁴

Brexit may affect current FTA negotiations between the EU and Latin American countries, however. Once the UK leaves the EU, its agricultural protectionist lobby will gain weight in decision-making. This will further complicate the EU–Mercosur FTA, as well as encouraging the EU to take a more rigid position in World Trade Organization negotiations on agriculture, which is a key issue for Latin America.

More economic engagement with Latin America: challenges and opportunities

There is major interest (and impatience)⁵ among many supporters of Brexit in projecting the UK beyond Europe. Among Latin American countries, Brazil has been targeted as a major future signatory of an FTA with the UK. The UK has a lot to gain from such an FTA – its exports attract an average tariff of almost 12% in Brazil.

However, a potential FTA with Brazil presents a series of issues. The first complication is associated with the fact that Brazil is part of the Mercosur customs union, with

Argentina, Paraguay, Uruguay and Venezuela. The UK will need to negotiate the agreement with the entire group, not just Brazil. Although the current government in Argentina may be willing to engage in an enhanced economic relationship, an FTA with the UK alone will be not very easy to present to the Argentine people, with the memory of the Falklands War still present. Although the failures of Mercosur are plain to see to its members, there is no indication at present that a 'Braxit' is on the horizon that might help circumvent this issue.

Mercosur is extremely protectionist. In addition to high tariffs, Brazil (along with Argentina) is among the countries that apply the highest number of discriminatory measures in the G20 (Evenett and Fritz, 2015). Moreover, no developed country has signed an FTA with Brazil. The FTA of the Americas (which included the US and Canada) capsized in 2005 without major concern from Brazil, while the EU–Mercosur FTA has been under negotiation since 1999. Although the EU is resistant to opening up markets in agricultural products, Brazil (again, along with Argentina) has a similar resistance to non-agricultural products. FTAs negotiated by Mercosur tend to be extremely shallow and limited in scope. The Mercosur–India FTA, for example, excludes key agricultural and industrial products.

The UK has not expressed any interest in the rest of Latin America. Interestingly, however, it is likely that it will find some low-hanging fruit if it looks to expand its relationship with the rest of the continent. After Brexit, the UK will find very little resistance from Chile, Colombia, Mexico, Peru and Central American countries to renewing coverage of their trade through an FTA. In fact, the EU is currently in the process of 'modernising' and amplifying existing FTAs with Chile and Mexico. Renegotiating these agreements will take some time,⁶ and the UK could reap faster results by engaging with these countries.

Conclusion

Brexit will have minimal effects on Latin America. In turn, the non-application of current FTAs between Latin American and the EU will have limited effects on the UK. However, replacements for these agreements with some countries are likely to be easy and quick to negotiate, and the UK could obtain quick results by engaging with these countries.

Negotiating an FTA with Brazil in the short to medium term, however, would be very unlikely. It is politically complicated and not a priority for Brazil. And although it would be extremely beneficial for Mercosur to open up, it is unlikely that this will happen in the near future.

The UK will need to find smarter ways of becoming a protagonist in Latin America. With millions of the region's population still in poverty, more Aid for Trade, for example, may be a valuable tactic. Over time, such tactics will open up the region to the UK.

Table 1: UK–Latin America trade in 2015

Exports of Latin American countries to the UK				
	Value (\$ millions)	Share in total exports (%)	EU tariffs (weighted by Latin American exports to UK)	EU tariffs (weighted by Latin American total exports)*
Mercosur	3,783	1.08	2.1	2.1
Brazil	2,883	1.53	2.4	1.9
Argentina	719	1.29	1.4	2.9
Rest of Mercosur	180	0.17	0.9	1.7
Mexico	1,935	0.51	3.2	2.7
Colombia	1,090	1.99	0.2	1.0
Chile	673	1.06	3.6	1.7
Peru	478	1.44	5.0	0.8
Costa Rica	177	1.85	2.9	3.2
Rest of Latin American	637	1.00	2.0	3.6
Total (Cuba not included)	8,775	0.92	2.4	2.1
Exports of the UK to Latin American countries				
	Value (\$ millions)	Share in total exports (%)	Partner tariffs (weighted by UK bilateral exports)	Partner tariffs (weighted by UK total exports)
Mercosur	4,321	0.96	8.2	11.9
Brazil	3,198	0.71	8.4	11.9
Argentina	437	0.10	8.7	11.9
Venezuela	318	0.07	8.5	11.9
Rest of Mercosur	367	0.08	5.6	11.9
Mexico	1,948	0.43	3.3	6.1
Chile	680	0.15	5.8	5.6
Colombia	547	0.12	3.8	7.1
Peru	279	0.06	2.7	2.4
Rest of Latin America	942	0.21	3.8	6.3
Total	8,719	1.93	6.0	8.9

Notes: * Non-ad valorem tariffs on many agricultural products in the EU are not transformed into ad valorem equivalents. Consequently, the effective average applied tariffs to many Latin American countries will be substantially higher.

Trade data for Colombia, Dominican Republic, Honduras, Nicaragua and Uruguay are for 2014. Data for Venezuela are for 2013.

Matching between trade and tariffs is not perfect and figures underestimate the true weighted average.

Bolivia, Costa Rica, El Salvador, Guatemala, Panama, Paraguay and Peru are Generalized System of Preferences (GSP)+ beneficiaries. Colombia, Honduras and Nicaragua are GSP (standard) beneficiaries. The rest of the partners attract MFN tariffs in the EU.

Countries marked in bold have a FTA with the EU. In addition, the EU has FTAs with Honduras, Nicaragua, Guatemala, Costa Rica, El Salvador and Panama.

Source: UN Comtrade and TRAINS.

Notes

- 1 Author's calculations based on the Organisation for Economic Co-operation and Development (OECD) database.
- 2 The full members of Mercosur are Argentina, Brazil, Paraguay, Uruguay and Venezuela.
- 3 Author's calculations based on UN Comtrade.
- 4 <https://www.theguardian.com/news/datablog/2015/mar/11/david-camerons-trips-overseas-where-has-he-visited>.
- 5 <http://www.ft.com/cms/s/0/e87614da-533a-11e6-befd-2fc0c26b3c60.html#axzz4G1GDBrjV>.
- 6 Even the EU–Chile FTA took around six years to be negotiated.

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