Post-Brexit Trade and Developing countries:
Can the UK set the Gold Standard in Development-Friendly Trade Policy?

As the UK government prepares to trigger Article 50, a group of leading international development organisations have come together to draw attention to the needs of people who trade with us from some of the world's poorest countries, and the possible risks and opportunities presented by Britain's withdrawal from the EU.

Together these organisations are calling on the government to:

- **offer a non-reciprocal preference scheme for imports from economically vulnerable countries**
- **ensure a better deal for developing countries**
- **make sure free trade agreements with wealthier countries don't undermine developing country competitors**
- **ensure that UK trade and investment policies are compatible with international commitments on the environment, climate change, human rights and the Sustainable Development Goals**
- **ensure future trade negotiations are open, transparent and fully accountable to Parliament.**

Trade with the UK market has provided opportunities for many people in developing countries to earn an income, improve their skills and develop businesses. The UK currently imports around £34bn[1] worth of goods from developing countries each year. Some EU trade policies, such as preferential market access for the poorest developing countries, have helped drive this trade.

However, some other EU trade policies have protected the interests of European producers at the expense of very poor producers in other parts of the world. Many developing country producers have been unable to diversify out of primary commodities and many of the people who help put food on our tables or make the products we buy don't earn enough to look after their own families.

Brexit could mean significant change for people in the UK – but for many people from the poorest countries who trade with the UK, it could be make or break.

This briefing paper puts forward a range of measures which the government could implement to mitigate the risks and maximise the opportunities of Brexit for trade with developing countries. The UK could set the gold standard in development-friendly trade policy.

£34bn imports from developing countries

47% of imports could face additional tariffs

£1bn potential additional import taxes

As an MP, you can:

- write to the International Trade Secretary and ask him to provide information on how he will ensure that trade policy delivers a fair deal for poor farmers and workers in developing countries as well as for consumers in the UK
- ask the International Trade Secretary what specific actions he is taking to ensure that the UK will set the gold standard for development focused trade policy, including how he will guarantee non-reciprocal preferential market access for developing countries
- ask the International Development Secretary to champion the need to ensure that any future trade negotiations support sustainable development
- ask the government to uphold the highest democratic principles by making future trade negotiations open, transparent and fully accountable to Parliament

1. Based on average imports over last 3 years data taken from Eurostat COMEXT database http://epp.eurostat.ec.europa.eu/newxtweb/setupdimselection.do

How might Brexit affect developing countries?

The outcome of the EU referendum and the UK's prospective withdrawal has already created significant uncertainty for trading partners in developing countries. A reduction in the value of sterling has made their products more expensive in the UK and has reduced the value of aid, investment and remittances. When the UK officially leaves the EU, there are a number of further factors which could disrupt trade with developing countries and threaten the livelihoods and working conditions of farmers and workers dependent on exports. These include:

- an increase in the cost of trading with the UK
- reduced demand for their products
- increased bureaucracy to meet the demands of multiple markets

The UK is committed to the Sustainable Development Goals (SDGs) and has long championed the benefits of trade as a driver of better living standards worldwide. The impacts of Brexit on developing countries and the fulfilment of the SDGs must be considered as part of the planning process. The UK is a significant export destination for products from some of the world's poorest countries. As a result of EU measures to benefit the poorest developing countries,[2] many of these goods enter the UK tax-free. This helps their products remain competitive and supports decent livelihoods and working conditions, which are central to the SDGs.[3] If the UK leaves the EU customs union and does not immediately put in place equivalent provisions then developing countries could lose out. Approximately £1bn in additional taxes could be added to imports from developing countries.[4] This would significantly increase the costs of their products, potentially pushing farmers into poverty and increasing pressure on labour rights and wages.


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Don't rush into free trade agreements with developing countries

The government may be under pressure to conduct reciprocal trade agreement negotiations with developing countries as soon as the UK leaves the EU. Rapidly conducted free trade agreement negotiations will struggle to deliver outcomes that meet the developmental objectives of developing countries. Many developing countries want to prioritise regional integration, diversify their markets and reduce their vulnerability to global price volatility. The EU's efforts to negotiate reciprocal deals have been fraught with difficulties and pose a number of potential threats[5] for developing countries:

- EU demands for significant levels of liberalisation threaten to undermine developing country industries; local producers are not ready to compete with international imports
- despite resistance from developing countries, the EU has insisted on including issues that go beyond trade in goods into areas such as investment protection and regulatory harmonisation
- the EU has undermined regional integration by offering different arrangements to countries within existing customs unions leading to fragmentation and regional tensions

Given the current levels of public resistance to trade agreements and globalisation there are political risks associated with negotiating reciprocal deals with developing countries. The government may be considering replicating or continuing the EU's controversial Economic Partnership Agreements as a solution but these options also carry risks and would be a missed opportunity. The government would be advised to learn lessons from the EU's mistakes and avoid staking political capital on unpopular deals.

2. http://ec.europa.eu/trade/policy/countries-and-regions/development/generalised-scheme-of-preferences/index_en.htm
3. https://sustainabledevelopment.un.org/post2015/transformingourworld Goals 8, 10 and 17
4. Estimate of ad valorem duties based on UK continuing current EU tariff schedule
5. http://www.traidcraft.co.uk/media/588c24fc-4d53-4ec1-94fd-d0bdd1d20a9d

Offer a non-reciprocal preference scheme

There are alternatives to free trade agreements which would better serve the needs of developing countries whilst enabling UK businesses and consumers to retain access to competitively priced goods. Around one third of the imports entering the UK from developing countries do so on a reduced or zero tariff basis via the EU's non-reciprocal generalised scheme of preferences (GSP), GSP+ and 'Everything but Arms' (EBA) initiatives.

Preference regime	Total annual UK imports from 116 developing countries (2013-15 average)
Zero tariff applied via Most Favoured Nation	£17.9 billion
All GSP	**£10.6 billion**
Standard GSP	*£6.8 billion*
GSP+	*£1.1 billion*
EBA	*£2.7 billion*
Free Trade Agreements	£4.3 billion
Economic Partnership Agreements	£1.2 billion
Total	**£34 billion**

Imports from preference eligible countries by regime adapted from Kennan and Stevens (2016)

Upon leaving the EU, instead of negotiating free trade agreements, the UK could immediately put in place a non-reciprocal, tariff-free market access scheme for economically vulnerable countries including least developed countries (LDCs) and vulnerable non LDCs. By enabling imports from the most vulnerable countries to enter the UK without imposing import taxes the government could ease some of the pressures listed above and ensure much needed stability for developing country producers and for UK businesses. A bespoke UK scheme could have a greater positive developmental impact than existing EU initiatives by:

- waiving tariffs and quotas on all products except arms in a single scheme
- extending eligibility to the most economically vulnerable countries based on objective criteria
- improving on existing EU provisions by incorporating flexible rules of origin to allow countries to increase their share of export of higher-value processed goods
- supporting developing country regional integration goals
- ensuring stability for commercial relationships and investment decisions by committing to offer this for at least 10 years

Given the challenges faced by the government, offering this non-reciprocal access would be a politically attractive option. It would not require extensive negotiations or government resources and would ensure continuity for developing country exporters and UK consumers. It would comply with WTO rules[6] and the UK would be joining a host of other leading economies including the USA, Japan, Australia, New Zealand and Norway which operate similar schemes. **This is an opportunity for the UK to improve on existing schemes and set the gold standard in development-friendly trade policy.**

Make sure free trade agreements with wealthier countries don't undermine developing country competitors

The government has signalled that it wants to negotiate a range of free trade agreements with countries such as the US, Canada, China, Australia, India and Singapore. These deals are likely to have implications for developing countries, particularly where countries export similar products. For example, a trade deal with Australia would have significant implications for beef exporters in countries such as Namibia.

Negative impacts could be avoided by undertaking an impact assessment of each new free trade agreement to ensure that it does not undermine developing countries' economies and the achievement of the Sustainable Development Goals. These impact assessments must be conducted at an early stage, be publicly available and highlight the consequences in relation to gender equality, human rights, environmental protection, climate action and the economic and social implications for developing countries.

Trade negotiations must ensure that harmful impacts are avoided.

6. https://www.wto.org/english/docs_e/legal_e/enabling1979_e.htm

Ensure that investment policies are compatible with international commitments

Before the formal process of exiting the EU is finalised, the UK is unable to undertake substantive negotiations on new trade agreements. However the UK already has competency for over 100 investment agreements currently in place. Most of these agreements are with developing countries with the aim of increasing investment flows. There is evidence that these agreements are not effective tools to drive investment into developing countries[7] and in some instances actually hinder development. These agreements are problematic because:

- they undermine democratic processes
- they cede jurisdiction to unaccountable tribunals, allowing investors to sue governments for changes in policy that may reduce the profitability of their investments. Investors have bypassed established courts to challenge policies on health protection, minimum wages, environmental protection and more
- they impose no enforceable responsibilities on investors regarding their impact in host countries, whether in terms of their economic contribution or human rights, environmental and climate obligations
- the costs of defending claims diverts scarce government resources and creates a chilling effect. It costs approximately $8 million to defend a claim over and above potential pay outs if a case is lost
- they expose developing countries to claims even where policies were introduced to promote social development
- they have 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

Government ministers have indicated that they would like to see the UK become a hub for investment in developing countries. For this to be effective the government must prioritise investments that contribute to development objectives and provide inclusive jobs for the poorest. In order to do this, the government should review and reform its investment policy and existing investment agreements.

Ensure future trade negotiations are open, transparent and fully accountable to Parliament

If Brexit results in trade responsibility being returned to the UK, then parliamentarians will have an important responsibility to scrutinise negotiations. Parliamentarians should ensure that any future trade policies align with the UK's commitment to the Sustainable Development Goals, human rights, environmental protection and action to tackle climate change, and modern slavery. In order for this scrutiny to be effective the current democratic process could be improved by:

- requiring parliamentary approval of a negotiating mandate before starting the process of formal negotiations with potential partners
- ensuring full public consultation on proposed negotiations including with civil society groups[8]
- making impact assessments and negotiating texts publicly available
- requiring full parliamentary debate and approval of agreements before they come into force

Citizens and taxpayers expect nothing less than the highest standards of transparency and accountability. These changes would enable greater scrutiny of trade negotiations and ensure collective parliamentary responsibility for the ratification of trade agreements.

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7. UNCTAD 2014: Trade and Development Report 2014: Global governance and policy space for development, New York/Geneva, p. 159

8. Including providing ODA to build the capacity of developing country stakeholders and civil society to engage with negotiations and represent their views