

APRIL 2019

UNCTAD Research Paper No. 31
UNCTAD/SER.RP/2019/3/Rev.1**Alessandro
Nicita**Division on
International Trade
and Commodities,
UNCTADalessandro.nicita@unctad.org**Ksenia
Koloskova**Division on
International Trade
and Commodities,
UNCTADksenia.koloskova@un.org**Mesut
Saygili**Division on
International Trade
and Commodities,
UNCTADmesut.saygili@unctad.org

Brexit. Implications for Developing Countries.

Abstract

The United Kingdom (UK) market accounts for about 3.5% of world trade and represents an important trading partner for many developing countries. As the UK is set to exit the European Union, its trade policy will likely be adapted to better reflect its national priorities. This paper focuses on possible changes in the UK tariff structure that Brexit could bring. The findings of this paper indicate that changes in UK market access conditions could have important consequences for some developing countries. To minimize possible negative implications of Brexit on low income countries exports the UK needs to make sure that preferential access is maintained. Still, the analysis shows that maintaining preferences may not be enough in the event of MFN liberalization. It is of critical importance that UK retains substantial MFN tariffs on products of importance for low income countries exports.

Key words: Brexit, Tariffs, Market Access

UNITED NATIONS

The findings, interpretations, and conclusions expressed herein are those of the author(s) and do not necessarily reflect the views of the United Nations or its official Member States. The designations employed and the presentation of material on any map in this work do not imply the expression of any opinion whatsoever on the part of the United Nations concerning the legal status of any country, territory, city, or area or of its authorities, or concerning the delimitation of its frontiers and boundaries.

This paper represents the personal views of the author(s) only, not the views of the UNCTAD secretariat or member States. The author(s) accept sole responsibility for any errors. Any citation should refer to the author(s) and not the publisher. This paper has not been formally edited.

Contents

Acknowledgments	2
Introduction.....	3
1. No Deal-Brexit.....	4
2. Impact on developing countries	10
Appendix	13

Acknowledgements

This paper benefited from comments by Pamela Coke-Hamilton, Bonapas Onguglo, Carlos Razo and Samuel Rosenow. The paper represents the personal views of the authors only and not the views of the UNCTAD secretariat or its member States. The authors accept sole responsibility for any errors remaining.

Introduction

The main implication of Brexit for developing countries regards possible changes that it will bring to the trade policy of the United Kingdom of Great Britain and Northern Ireland. Since its accession in 1972, the United Kingdom's trade policy has been aligned to that of the European Union. As the United Kingdom is set to exit the European Union, its trade policy will likely be adapted to better reflect its national priorities. This change could have dramatic consequences for some developing countries.

The United Kingdom market accounts for about 3.5% of world trade and represents an important trading partner for many developing countries. In 2018, the United Kingdom imported almost US\$ 680 billion worth of goods from the rest of the world, of which about US\$ 360 billion came from other European Union countries. As of now, many developing countries' exports enjoy very favourable market access conditions to United Kingdom markets, largely because of bilateral trade agreements and because of European Union unilateral preferential schemes (e.g. the Generalized Scheme of Preferences (GSP), the "Everything But Arms" (EBA) initiative). Of immediate concern for these countries is whether these conditions would be carried over once Brexit is realised.

The United Kingdom government is aware of the problems that Brexit poses to trading partners and has repeatedly stated that it will seek to bring into force bilateral United Kingdom-third country agreements from exit day, or as soon as possible thereafter. Still, trade agreements are often not easy to replicate, and negotiations can carry on for a very long time. Indeed, in many cases United Kingdom-third countries agreements (continuity agreements) have not been signed, and there is substantial uncertainty as to whether many of these agreements will be concluded any time soon.¹ Overall, the European Union has about 70 trade agreements, and as of March 2019, the United Kingdom has signed continuity agreements only with relatively few countries.²

For the United Kingdom's trading partners there are two aspects to consider. First is the extent to which Brexit will change the United Kingdom market access conditions on their exports (the tariff). Higher tariffs would reduce demand in the United Kingdom and therefore reduce exports. The second aspect for United Kingdom trading partners to consider is the extent to which Brexit would change the market access conditions faced by their competitors relative to their own. This is generally referred to as the preferential margin (the difference between the tariff faced by a country and the tariff applied to competitors). A reduction in the preferential margins will divert trade to the advantage of foreign competitors. All things considered, it is most likely that Brexit would penalize some trading partners to the advantage of others.

Although there is still a lot of uncertainty about the extent to which the United Kingdom would depart from current European Union tariff arrangements, it would not be surprising if United Kingdom trade policy were to

¹ It is important to emphasize that further complications in the negotiation of continuity agreements arise because market access conditions depend not only on tariffs but also on a wide array of non-tariff measures. For example, European Union market access conditions are regulated by complex arrangements of which preferential access is also granted with allocations of quotas, relaxed rules of origin requirements, mutually recognized conformity assessment procedures, and the ability to complete mandatory inspections and tests on products close to the place of production rather than at the border.

² These include Antigua and Barbuda, Bahamas, Barbados, Belize, Chile, Dominica, Dominican Republic, Fiji, Grenada, Guyana, Israel, Jamaica, Madagascar, Mauritius, Papua New Guinea, Seychelles, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Seychelles, Suriname, Switzerland, Trinidad and Tobago, Zimbabwe, Faroe Islands, and the State of Palestine. Moreover, SACU countries (Botswana, Eswatini, Lesotho, Namibia and South Africa) plus Mozambique are expected to finalize a continuity agreement shortly. Details are provided at: <https://www.gov.uk/government/publications/existing-trade-agreements-if-the-uk-leaves-the-eu-without-a-deal/existing-trade-agreements-if-the-uk-leaves-the-eu-without-a-deal>

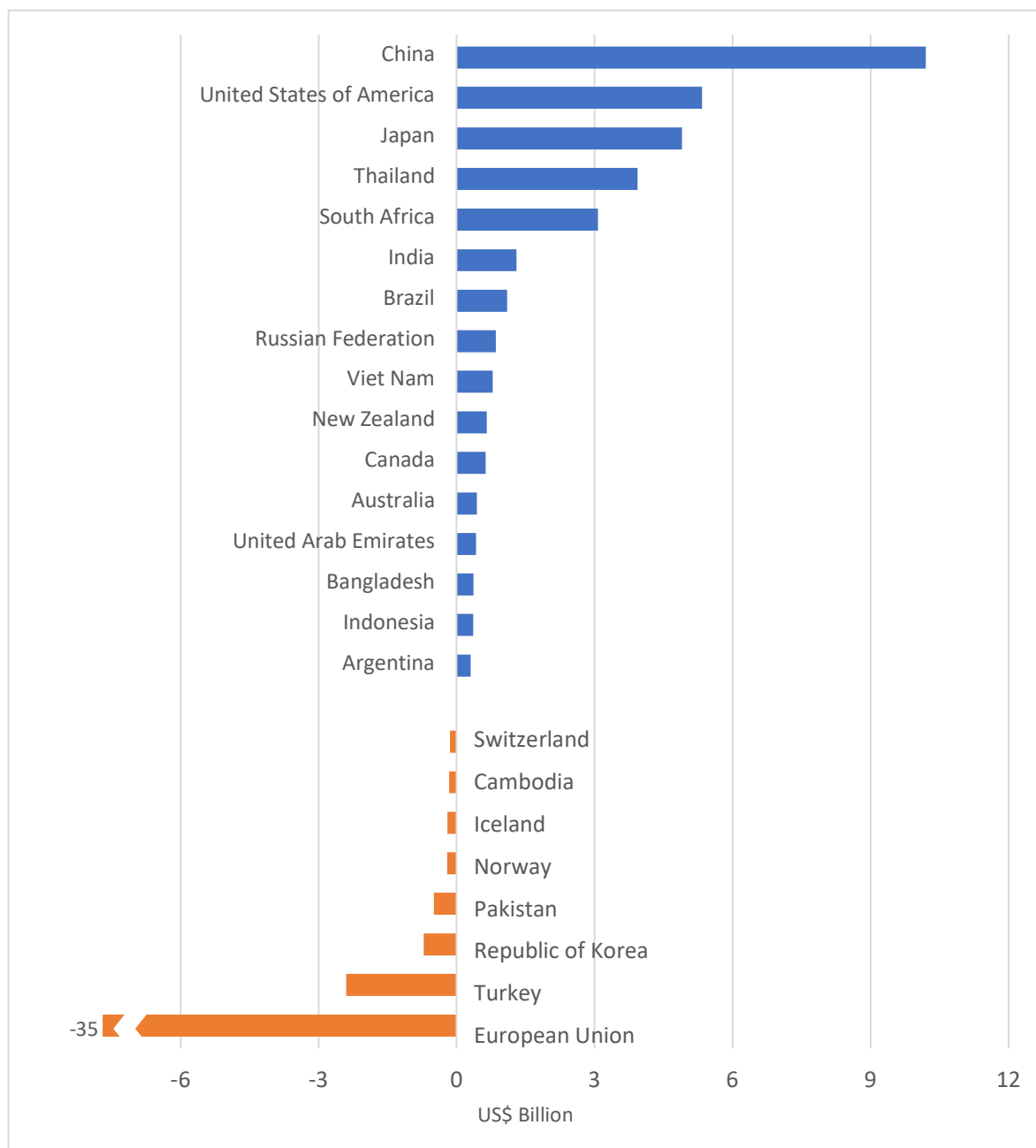
ultimately adjust to better suit national priorities. Indeed, the United Kingdom government has indicated the intention to redesign its trade regime to eliminate tariffs in areas where the United Kingdom has no production interest. This intent has already manifested in a recently published Most Favoured Nation (MFN)³ tariffs schedule that the United Kingdom has stated will be temporarily implemented in the case of a no-deal Brexit.⁴ The immediate rationale for lowering MFN tariffs is to reduce inflationary pressures, especially in the event of a no-deal Brexit as higher tariffs would also apply to a great deal of United Kingdom-European Union trade. However, while lower MFN tariffs would reduce inflationary pressure in the United Kingdom, such broad liberalization could also have disruptive effects for countries benefiting from current preferential margins.

1.No-Deal Brexit

In the short term, United Kingdom market access conditions would depend on whether the United Kingdom and the European Union were to agree on an orderly Brexit. This would provide for an implementation period of almost two years during which the United Kingdom would be treated as an European Union member state for the purposes of international agreements. While maintaining United Kingdom-European Union trade free, this period would also give the United Kingdom and third countries substantial time to define new agreements. However, further complications would arise if the United Kingdom did not reach an agreement with the European Union. In the event of a no-deal Brexit, European Union preferential trade agreements with third countries will abruptly cease to apply. In such a case, United Kingdom market access conditions could take place on MFN terms.

³ Most Favoured Nation (MFN) is a WTO principle which means that the same tariffs must be applied to any trading partner, unless an exception applies, for example, that a trading agreement is in place.

⁴ Details on the new United Kingdom MFN tariffs are provided at: <https://www.gov.uk/government/publications/temporary-rates-of-customs-duty-on-imports-after-eu-exit?>, <https://static.rasset.ie/documents/news/2019/03/tariffs.pdf> and <https://www.gov.uk/government/publications/tax-information-and-impact-note-for-the-uk-tariff-2019/tax-information-and-impact-note-for-the-uk-tariff-2019--2>

Figure 1. Gainers and Losers from no-deal Brexit, selected countries

Source: Authors' calculations based on COMTRADE and UNCTAD TRAINS data.

A no-deal Brexit would significantly alter market access conditions in the United Kingdom both for developing and developed countries.⁵ In such a case, countries which were enjoying preferences because of agreements (including other European Union countries) will find themselves in a disadvantageous position as they would then face the MFN tariffs. On the other hand, countries that were facing relatively higher tariffs would benefit both because of possibly lower MFN tariffs and the fact that many competitors would be taxed at the same rate.

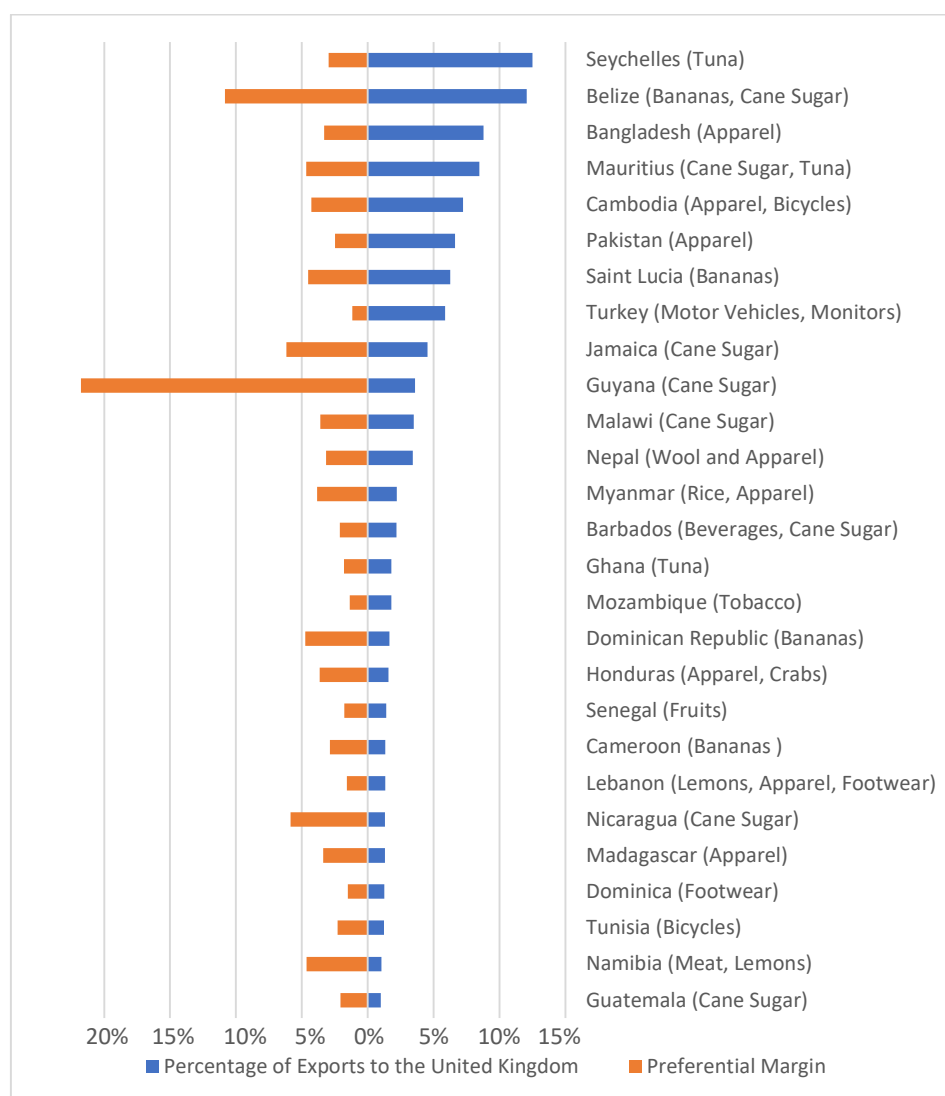
Figure 1⁶ illustrates the countries that would be most affected by Brexit in export values terms.⁷ A no-deal Brexit would bring the largest losses to the countries most integrated to the United Kingdom. The European Union is expected to lose about US\$ 35 billion worth of exports, a loss of about 10% from 2018 levels. Other countries also expected to significantly lose out are Turkey, the Republic of Korea, Pakistan, Norway, Iceland, Cambodia and Switzerland. Of interest is the case of Cambodia, a least developed country (LDC). Although it is expected that the United Kingdom will continue to provide duty free access to LDCs, one concern for such countries would be the retention of competitiveness in the event of lower MFN tariffs. United Kingdom's lower MFN tariffs would increase relative competitiveness of major exporting countries, such as China or the United States, thereby eroding market share away from less competitive countries. Indeed, according to our estimations the countries which would gain the most from a no-deal Brexit are those that are currently facing higher tariffs: China, the United States and Japan. A no-deal Brexit is also expected to result in increased imports from Thailand, South Africa, India, Brazil, the Russian Federation, Viet Nam and New Zealand among others.

Although low in value terms, the effect of Brexit for many developing countries would be large when measured as percentage of their exports. Overall, a no-deal Brexit would result in significant disruption and economic harm for developing countries whose exports are highly reliant on the United Kingdom market and/or are current beneficiaries of European Union preferences.

⁵ In this assessment we assume that a no-deal Brexit will result in the United Kingdom applying the new MFN tariffs but maintaining the preferences provided under GSP, GSP+ and EBA arrangements. We also assume that countries that have already signed continuity agreements will face the current tariffs, generally zero.

⁶ Figure 1 depicts only the most affected countries in value terms, but a no-deal Brexit would have some repercussions for all countries.

⁷ This assessment of Brexit relies on a partial equilibrium approach at the HS 6-digits product level. Import demand elasticities (from Kee, Nicita and Olarreaga: Import Demand Elasticities and Trade Distortions, The Review of Economics and Statistics, Volume 9, Issue 4, 2008) measure the impact of the tariffs on United Kingdom imports. Substitution elasticities (from Broda and Weinstein: Globalization and the gains from variety, Quarterly Journal of Economics, Volume 121, Issue 2, 2006) are used to measure trade diversion effects on each developing country's exports due to changes in preferential margins.

Figure 2. Exposure to United Kingdom Market , selected countries

Source: Authors' calculations based on COMTRADE and UNCTAD TRAINS data. The countries reported in the figure are only those for which their exports to the United Kingdom is more than one percent of total exports and their relative preferential margin is above 1 percent.

The United Kingdom is an important export market for Bangladesh, Belize, Cambodia, Mauritius, Pakistan, Seychelles, Saint Lucia and Turkey. For these countries more than 5 percent of their exports is to the United Kingdom. In terms of preferences, the current European Union system of preferences and bilateral agreements particularly favours Belize, Guyana, Jamaica and Nicaragua, as their competitors are charged much higher tariffs in entering United Kingdom markets. Figure 2 also reports the most exposed products for each country. For many countries, cane sugar, bananas, and apparel are important export sectors in which the current system of preferences provides substantial margins.

Figure 2 summarizes country exposures to the United Kingdom market and the extent to which the current system of European Union preferences favours each country's exports: the preferential margin.⁸ Countries most exposed to the United Kingdom markets include many in Central America, the Caribbean, and some countries in Sub-Saharan Africa and Asia. As discussed above, a no-deal Brexit would result in a lower MFN and a loss of preferential access for many countries, at least temporarily. This implies that countries which currently enjoy lower tariffs because of preferential agreements would be the ones mostly affected. The effects of a no-deal Brexit on market access conditions are summarized in Table 1 along with the percentage change in exports to the United Kingdom. Market access conditions would deteriorate significantly for Cameroon, Guatemala, Ghana, Honduras, Nicaragua, Pakistan, Tunisia and Turkey.

Tariffs applied on many low-income countries (e.g. Cambodia) are unlikely to rise in the event of a no-deal Brexit as it is expected that the United Kingdom will continue to apply unilateral preferential schemes as in the GSP, GSP+ and EBA. Preferential Margins are to increase for countries that have already signed a continuity agreement with the United Kingdom, while decreasing for countries that have not yet signed continuity agreements. For example, Nicaragua preferential margin will decline by about 16 percentage point in a no-deal Brexit, significantly reducing Nicaragua's export competitiveness in the United Kingdom market.

In terms of impact on exports, Table 1 suggests some interesting findings. First, countries which have not yet signed a continuity agreement are expected to significantly lose from a no-deal Brexit. This is most evident in the case of Honduras, Ghana and Nicaragua which are expected to lose about 40 percent of their exports to United Kingdom. Such large loss implies that the current system of preferences is instrumental for these countries to access United Kingdom markets. Once these preferences are lost, their export will not be able to compete with other foreign competitors. This argument is valid also for many other countries, even if the effects are of a lower magnitude.

Second, many of the countries that are beneficiaries of unilateral preferences (e.g. Bangladesh) and have already signed continuity agreements with the United Kingdom (e.g. Mauritius) are the ones which will benefit the most from a no-deal Brexit. The rationale is straightforward. These countries will benefit from the higher tariffs applied to competitors in countries which have not yet signed continuity agreements.

预览已结束，完整报告链接和二维码如下：

https://www.yunbaogao.cn/report/index/report?reportId=5_8922

