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## TRADE STRATEGIES BRITAIN MUST EMBRACE FOR THE WELFARE OF DEVELOPING COUNTRIES

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### ABSTRACT

*Rich world trade policy plays a vital role in shaping the opportunities available in poorer countries. After Brexit, the Britain is in power to make its own policies and rules that would foster growth of its economy. Few countries like Bangladesh, St. Lucia, Belize, Seychelles, Gambia, Sri Lanka, Fiji etc. are heavily dependent on the UK and export a very narrow range of consumption products to the UK. These countries were in trade relation with the UK, which was brokered by the EU through various arrangements like EPA, GSP, GSP + etc. Since, the UK is not part of the EU anymore, it creates sense of panic to these economic vulnerable countries. Through various arrangements like Non reciprocal market access scheme, Preferential access scheme, Eliminating or substantially cutting down tariffs, aid for trade and Simplify the red tape at the UK border, the UK can assure the stance of these countries with the UK. Adopting trade policies or not altering existing policies with these small states, which would otherwise worse off these states, will work in favor of the UK to become a global leader of trade in long run.*

### KEYWORDS

aid for trade, free trade agreements, non reciprocal market access scheme, preferential access scheme, tariffs.

### INTRODUCTION

Trade openness is a necessary condition for lasting economic development. In order to become the master of his own kingdom the Britain took a leave from the European Union to choose its own way for the economic development. After a long membership of 43 years, on 23 June 2016, the UK voted to leave the European Union (EU), popularly known as Brexit. When a country leaves a trade bloc, it regains control over trade and economic policies enabling to access opportunities lying outside the bloc, which could not have accessed without independence. However, it also faces repercussions. But the question is not just about the economy of the country leaving a trade bloc but of the developing and least developed countries who were benefitting through the various trade arrangements and were only able to trade because of the preferential treatment given to them by a trade bloc. Britain exit from the European Union has already left these pre-exit member countries in a series of doubt if they would be better off or worse off, as nothing constructive has been done to assure these countries even after nine month of the Britain exit. This paper discusses the actual and potential economic impact of Brexit on developing countries. How few developing and Least developed countries (LDCs) heavily dependent on exports to the UK, developing countries might be affected by the route in which the UK leaves. And how the UK can achieve sustainable economic growth by giving support to economic vulnerable countries.

### TRADE RELATION BETWEEN THE UK AND DEVELOPING COUNTRIES

Pre-exit, the developing countries access the UK market on preferential terms, through the myriad of agreement that have been brokered by the European Commission. With the departure of Britain, would these developing countries be in a same state?

Over the past five years, the UK accounted for 4% of export from least developed countries, 2% of exports of goods from the developing countries. However, the countries like India, China and Brazil, which are also the largest developing countries, accounts for just 3% or less of export on average. These largest developing countries do not face serious disruption in the event of Brexit, while, these countries can find new opportunities in deepening links with the UK.

However, there are some countries heavily counting on the UK market. These countries mainly export a very narrow range of products (box.1.) that would not go ahead on the UK market in the absence of preferential treatment. These countries could be substantially affected by the potential trade disruptions, if are not considered in the UK trade policy.

**BOX 1**

Countries	Export to the UK in %	Items
Belize	25	Sugar, banana, citrus, and clothing.
Seychelles	25	Agricultural crops, coconuts, vanilla, sweet potatoes, tuna, cassava.
Mauritius	20	Cane sugar.
Fiji	15	Cane sugar.
Gambia	14	Tropical fruits, ground nut oils, coconut, brazil nuts etc.
Sri Lanka	11	Tea and spices, toys, vegetable and animal fat etc.
Bangladesh	10	Garments and textile.
St. Lucia	9	Fruits and other consumer goods.
Kenya	8	Flower, fresh fruits and vegetables.
Pakistan	7	Textile, garments and rice.
Malawi	6	Tea, sugar and tobacco.

Source: <http://comtrade.un.org/>.

Belize and the Seychelles, for example, the UK accounts for more than 1/4th of total export value.

Bangladesh: exports 9% of its total exports to UK, which, were duty-free under the EBA preferential regime.

Kenya's total export to the UK is 8% of its entire exports. It was eligible for standard GSP preferences (with the exception of flowers, for which it has been graduated out of the GSP on market share grounds) and an interim EPA agreement in the EU.

Pakistan, 7% of total exports is directed to the UK. The main products are various textile items and garments, and rice, which is not covered by the GSP (aside from a separate EU-Pakistan agreement for long grained brown rice).

Malawi, exports 6% of the entire export to the UK. Which were duty-free under the EBA regime.

### THE UK AND THE COMMON WEALTH COUNTRIES

Considering only common wealth countries trade relation with the UK, it accounted \$120 billion, approximately over the past few years, however, it significantly declined to \$91 billion amid last year. The UK was the biggest importer in the EU. Around seven developing nations export more than 10% of their world export to only the UK, these countries are Botswana, Belize, Seychelles, Mauritius, St. Lucia, Sri Lanka and Bangladesh. And 24 countries export more than 30% of their total EU trade to the UK.

Many of the least developed countries, small states and sub Saharan countries aren't generating major revenues but tremendous future growth potential.

## EFFECT OF BREXIT ON DEVELOPING COUNTRIES

**Short term effect:** Devaluation of the UK currency and Stock market fluctuation can cause losses to these countries.

**Long term effect:** new trade deals, negotiations, changes to aid allocation, global collaborations, changes in the remittances and migrations are to be maintained and on financial markets.

Therefore, countries (i.e. Bangladesh, Cambodia and Kenya) that export price and income sensitive goods to the UK, e.g. coffee, garments, fruits, flowers, durable consumer goods such as toys and other light manufacturing goods exposed to decline in exports both in terms of quantity and value.

Also, orientation of the UK's economy is heavily towards the production of high tech intermediate to regional value chains and the provision of service. Major imports from LDCs are final or consumer goods, which accounts nearly 70% of the total imports from LDCs. Which, increases possibility of neglecting these countries in order to achieve growth in a short span of time.

If these Economic partnership agreements (EPAs) would be concluded with the EU and rolled over to UK free trade agreements (FTAs), many LDCs would face a negative impact: Afghanistan, Bangladesh, Bhutan, Cambodia, Haiti, Laos, Myanmar, Nepal, Somalia, South Sudan, Timor-Leste and Yemen. These countries would, together, lose £288 million annually due to increase in tariffs and duties. While Generalised System of Preferences (GSP+) beneficiaries – Armenia, Bolivia, Kyrgyzstan, Mongolia and Pakistan – would lose £89 million in payable duties annually. While, many developing countries would be left out if the UK will only provide market access as part of the bilateral FTAs.

## THE UK STANCE ON TRADE WITH DEVELOPING COUNTRIES

In recently published "Economic Development Strategy" by the UK Department for International Development, first of the two strategies are focusing on trade as an engine for poverty reduction and stimulating investment to spur economic growth in developing countries. It also confirms the 'aid for trade' dealing with in-country trade infrastructure. Thereby, reassuring small states, Brexit will only benefit these countries and will lead to sustainable growth of the British economy with simultaneous growth in developing countries, which are heavily reliant on trade with the UK.

## HOW THE UK CAN ACHIEVE THE DEVELOPMENT OBJECTIVES?

When the UK was part of the EU Single Market and Customs Union, the UK had a little or no control over its trade policy and arrangements with developing countries. The UK now has power in his hand, being the UK important market to many developing countries. The UK can design its policy that can accomplish a twin objective of; spur the growth of developing economies and to become a global leader for trade.

1. **Non reciprocal market access scheme:** various countries such as Canada, New Zealand, Japan, the US and Norway have similar scheme consistent with the WTO, which require the UK to allow imports from developing countries without compelling the trading partner to open up them to the US in return. Such scheme provides stability for the people in developing countries.
2. **Preferential access scheme can provide market access to many economically vulnerable countries in a one go arrangement:** Preferential treatment should be given to the countries, which were getting preferential treatment when the UK was the part of the EU, this will not distort trade between the UK and developing countries. More countries could be added on the basis of an index of their level of income, human development indicators, economic vulnerability and economic potential for growth if aid is given. In 2010, the EU extended duty-free access to Pakistan (one of the largest lower-middle-income countries) as a flood relief measure. Researchers found that this move boosted exports from Pakistan (by more than US\$800 million, or 0.36 per cent of Pakistan's GDP) and had no effect on the exports of other LDCs. This approach must cover preferences to all LDCs (who currently receive duty free access) plus the countries that currently receive duty-free access as part of EPAs and other developing economies. Rules of origin should be as flexible as possible and promote development through allowing a low requirement on local content by the exporting country as well as a high level of "cumulation," whereby exporters can count as "domestic" those inputs sourced from other countries that have the same preferential access.
3. **Eliminating or substantially cutting down tariffs:** the EU has 12,651 different tariffs, which all vary by country group and also there is a huge variation in level of different products. This enhances the complexity in doing trade with the EU. Countries with duty-free access for all products still need to worry about rules of origin and standards. Since, the UK is no more a part of the EU, now can reduce this complexity by reducing tariffs consistently for nearly all products of developing countries. Cutting down tariffs to zero (or near to zero on few items) for all the countries would simplify the UK's trade arrangement, enabling future trade negotiations to focus on the type of trade in service that is so vital in the UK trade production.
4. **Enhancing the effectiveness of and satisfactory implementation of the UK "aid for trade" i.e. aid to boost trade in developing countries:** Innovative policy approaches like cash on delivery, targeted at reducing the time or cost for trade, could help ensure results.
5. **Simplify the red tape at the UK border:** other than tariff barriers there are a lot of non tariff barriers that restrict the trade between the countries by increasing the complexity both for exporter and importer. One such non tariff barrier is check at border, which are also essential for ensuring quality and safety of products coming in a country. The UK should avoid any policy or scheme that would lower the standards for developing countries nor should raise standards, making it difficult for developing countries. Instead, the UK should focus on simplify the cumbersome and time consuming process at custom. This will save time and cost at custom and would make the UK attractive destination for trade not only to developing countries but also to rest of the world.

Apart from the measure that should be taken by the UK, developing countries should themselves be proactive in approaching the UK for the re-negotiation. Especially small markets will need to fight place in British negotiating priorities

## CONCLUSION

In DFID (2017), Economic development strategy, the Prime Minister has underlined, "it is time for Britain to rediscover its role as a great, global, trading nation. This includes helping developing countries to harness the formidable power of trade for reducing poverty. We will help build productive, open and dynamic economies and create the millions of jobs needed to defeat poverty for good". Since Brexit, the UK has always come up with the statement of free and open global trade with the rest of the world and has also given priority to economic vulnerable, developing and least developing countries by stating "Focusing on trade as an engine for poverty reduction" on top of the list of economic development strategy, how much and till what extent is still a question mark, being the UK's economy orientation is mainly towards the production of high tech intermediate to regional value chains and the provision of service. If these small states do not take a proactive role and seek opportunity lying at the front, may left behind.

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