Briefing

Principles, constraints and elements of a UK trade policy for developing countries

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Key messages

- The new UK trade policy for developing countries should be based on principles of simplicity, transparency, realism, predictability, 'Do no harm' and modesty of expectations.
- The agreement with the EU after Brexit, WTO commitments and the existing preferences for developing countries will constrain policy design in the short run.
- We propose 15 different elements that will contribute to the design of a feasible trade policy for developing countries, based on the principles outlined.

Introduction

Brexit has fundamental implications for policy design and implementation in the United Kingdom (UK). It will lead to a new relationship with the European Union (EU), the UK's main economic partner. The UK will gain some freedom to design and negotiate its trade policy, including with developing countries.

This briefing has three aims. Firstly, it aims to identify a series of principles that should form the basis of trade policy. Some principles apply to UK trade policy generally, whilst others are targeted to special provisions that may be designed to support developing countries. Secondly, this paper discusses the constraints to trade policy in practice. Within a feasible space defined by the constraints, and based on the principles outlined, the UK will need to design its general trade policy and any specific actions towards developing countries.

Finally, this paper highlights a number of feasible trade policy options that are sound in design, based on principles and take into account specific political constraints. Some of these elements are specifically designed towards developing countries (for example preferences). Others are cross-cutting issues that will present themselves as additional constraints on policy design (for example Most Favourable Nation (MFN) tariffs).

The vote to leave the EU has already generated effects on developing countries through trade and other routes, particularly through the effects of the depreciation of the pound (Mendez-Parra et al., 2016). Despite the initial negative impacts, there are significant opportunities for the UK to make trade policy work better for the UK and to contribute to development in developing countries.

Six guiding principles for designing a new UK trade policy

A number of principles should guide the design of UK trade policy. Some of these may apply to general policy-making. For example, implementation of policies must be monitored and their outcomes should be evaluated. These principles should guide the design of the trade policy as well. Other general principles, such as predictability, need to be put in the context of trade policy design. In addition, there are other, more specific principles that apply to trade policy design with respect to developing countries.

1. *Simplicity:* Despite the complexity of the subject, trade policy should be simple. This should be reflected in the setting of tariffs (e.g. avoid *non advalorem* duties), preferences (e.g. a single preferential regime) and other policies. This will benefit both the UK and developing countries.

2. *Realism:* The UK will not be able to design its trade policy independently of the needs of its partners, including developing countries. Although Brexit provides an opportunity for the UK to design a new trade policy, many of its elements will need to be agreed with other partners. Therefore, there is a need for realism in terms of what can be achieved and delivered autonomously. For example, the UK cannot replace the Economic Partnership Agreements (EPAs) without the agreement of the African, Caribbean and Pacific (ACP) countries.

3. *Predictability:* Both the UK and its partners will benefit from predictable policies. This can be achieved by defining short- and long-run policies and sticking to them. The desire to 'take back control' should not be translated into discretion in policy-making. Mechanisms that lock in policy (e.g. Free Trade Agreements (FTAs)) can bring certainty to decision-making. Clear timetables should be given for any policy modification, even when they take time to be implemented.

4. *Transparency:* Trade policy should not be arbitrary and should avoid special treatment towards firms or sectors. Within the context of reciprocity of FTAs and preferences that may be provided in the short run, everyone should receive the same deal. For example, avoid protection of specific sectors.

5. *Do no harm:* In relation to developing countries, in the short run, it should be guaranteed that they will not be worse off than with the agreement under the EU. If developing countries are worse off because of a policy change, the UK should be able to use instruments to address the problems (for example through increased Aid for Trade (AFT)).

6. *Modesty of expectations of the likely influence of the UK elsewhere:* Despite the fact that the UK accounts for a large share of their trade, it is no longer the most important partner for most developing countries. The impact of UK trade policies on such countries is decreasing. Moreover, it is unlikely that developing countries will accept whatever trade provisions the UK might suggest, and they may prioritise their relationships with other partners.

Four constraints on trade policy design

In addition to the typical pressures from interested domestic parties, as well as other non-trade or economic related considerations (i.e. politics), there are a number of constraints that make some policies more feasible than others. These constraints may enable the operation of certain instruments or limit their action. Some of these constraints could be removed by the UK, although with costs; others may require negotiation, or are completely outside the UK's influence.

1. The negotiation with the EU

The EU is, by far, the largest trade partner for the UK. Consequently, the UK will prioritise the negotiation on future agreements with the EU (Holmes et al., 2016), which will affect the design of trade policy with other countries. The customs union and the Single Market are likely to be the main elements to consider.

The customs union
If the UK remains part of the customs union with the EU, the UK will be restricted from changing its trade policy vis-à-vis third countries, at least with respect to tariffs and FTAs. However, it is far from clear whether the UK will stay in the customs union. Also, other customs unions (e.g. EU-Turkey or Mercosur) suggest that there may be certain flexibility in its provisions. Although there is some debate about the benefits and costs of remaining part of the customs union with the EU (*The Economist*, 2016), this paper assumes that the UK will leave the customs union. Moreover, considering the UK's interest in adopting an independent trade policy, a customs union is unlikely to be considered a feasible scenario (Gasiorek et al., 2016).

The EU Single Market
Non-participation in the European Single Market (ESM) by the UK may introduce the need to design a series of provisions to deal with issues associated with non-tariff barriers (NTBs). Although leaving the ESM may appear to relax some policy-making constraints, it introduces the requirement to design specific provisions and disciplines to deal with issues such as standards and the certification of their compliance by exporters.

2. Commitments to the World Trade Organization

Regardless of whether the process of taking commitments from the EU schedule is simple (Bartels, 2016) or complicated (Ungphakorn, 2016), the UK will be restricted in its actions. Leaving the customs union will not grant the UK complete freedom to design its trade policy. For example, the MFN tariff (i.e. the default tariff faced by any WTO member) binds the level of tariffs. In addition, although not currently binding, the General Agreement on Trade in Services schedules need to be considered.

3. Preferences for developing countries

Far from being ideal from trade and development perspectives, the existing preferences for developing countries will constitute another constraint on trade policy. The constraint arises from the complications associated with their removal in the short run. The UK should lower MFNs but this will also mean a lowering of preferences, and this will affect the beneficiaries of preferences. Therefore, at least in the short run, preferences will need to be maintained (without them developing countries will lose).

4. The long run

The constraints and their effect may change in the long run. Although agreement from other WTO members and compensation to some of them may be required, the WTO commitments, for example, can be modified. Moreover, developing countries may be in less need of preferences, allowing their removal. This means that in the long run, the UK may face a different set of constraints that could lead to a change in the policy design. There might be other constraints, impossible to conceive at this stage, that may restrict the policy space even further.

15 core elements of a UK trade policy for development

Taking into account the above principles and constraints, we list 15 issues that will affect the extent to which the UK's new trade policy will be pro-development.

1. Define a group of target developing countries

Developing countries differ greatly. Specific provisions for developing countries should target primarily the most vulnerable countries. This will help to focus the benefits of provisions on countries and people that need it the most. In order to target these policies better, certain, very competitive developing countries should be excluded.

The group of developing countries should be based on their level of development. It should include, at least, the group of low- and lower-middle-income countries. Other countries may be included, but they will need to be based on objective and WTO-compatible criteria. However, the line between this set of developing countries and the other countries is complex.

2. Avoid tariff peaks and simplify MFN tariffs in the short run

In the short run, the setting of MFN tariffs will depend on the WTO bound tariff that the UK is likely to inherit from the EU WTO schedule of commitments and on the preferences provided to developing countries. Low MFN tariffs will benefit the UK and global welfare but reduce the preference margins for those countries that receive preferences. There may also be British pressure groups (e.g. farmers) that affect the level of tariffs.

Maintaining the current MFN tariff structure could constitute a feasible solution in the short run. However, the existing tariff structure includes high tariff peaks, notably on agricultural, food and other products imported from developing countries. For example, 5.6% of the EU tariff lines are above three times the average duty, and 8.8% are above 15% (WTO, 2016).

The UK should aim to eliminate tariff peaks, which will help UK consumers. One way in which this could be done it by setting a maximum applied tariff and reducing all tariffs exceeding the limit accordingly. Alternatively, the Swiss Formula[1], with a coefficient to be defined, can be applied. This brings peaks under a defined level and reduces tariffs also in the rest of the tariff lines, providing an additional generalised reduction of tariff structure.

In addition, the current EU tariff structure is characterised by the presence of specific tariffs (i.e. duties paid by physical unit rather than value) in many products (particularly in agriculture and food)[2]. As the prices for these products tend to be very volatile, the incidence of the tariff increases when world prices are low. The UK should apply exclusively *ad valorem* duties.

3. Reduce MFN tariffs further in the long run

With many FTAs negotiated, and with developing countries less dependent on preferences, in the long run it will be possible to reduce the MFN tariff to zero. From the welfare point of view this would be ideal. Moreover, rules of origin (to be discussed later) will be irrelevant in this scenario. This suggests, in the long run, a very simple trade policy.

If the UK wants to continue raising tariff revenue, it should adopt a low but non-zero uniform tariff rate. However, assuming that the UK will inherit the EU's schedules at the WTO, and because approximately 23.9% of the tariff lines are bound at zero, it will not be possible to apply a uniform non-zero rate without a renegotiation of the concessions, and without compensating any affected supplier.

4. Target preferences to the low- and lower-middle-income countries

Although free trade delivers optimal results from the welfare point of view, some developing countries still rely on preferences (particularly preference margins). Kennan (2016) calculates that Least Developed Countries (LDCs) save €385 million, non-LDC ACPs exporters €205 million, whilst Commonwealth exporters save €715 million as a result of the preferences. Although preference margins are increasingly being eroded by the action of FTAs and a generalised reduction of tariffs in the last 25 years, they cannot be removed easily without damaging developing countries. Consequently, they will need to continue being considered as part of the trade policy towards developing countries in the short run.

The new UK preferential system should be simple and recognise that in order that preferences be effective, the country coverage must be limited. The system should address, primarily, a subset of developing countries (e.g. low- and lower-middle-income countries). The definition of the group receiving preferences, which will not be easy to define and not exempt from political scrutiny, will need to be based on objective criteria (i.e. level of income).

Full product coverage should be offered. This, together with a flatter MFN tariff structure, will provide benefits for developing countries more aligned to their respective comparative advantages; and will decrease the distortion that preferences introduce by reducing the excessive rents generated in certain sectors.

5. Design simple rules of origin

The decision criteria to determine origin (e.g. by requiring a minimum share of value addition generated in the beneficiary country of the total product value) can be stringent. Sometimes they can exclude firms in developing countries from receiving the benefit of preferences, particularly when firms are beginning to produce with low levels of in-house value added or when they specialise in stages of the value chain where value added is inherently low. Moreover, some rules may prevent inputs originating in third countries, which themselves receive preference, from counting as domestic.

Rules of origin should aim to be simple and, if possible, common to all FTAs and preferential regimes. Although regime-wide rules of origin (i.e. general across-the-board directives) can still be restrictive (Estevadeordal et al., 2009), they are less complex and easier to meet than the product-specific ones. Thresholds should be appropriate to developing country capabilities to integrate value added, even if this means that only some simple tasks are performed in the beneficiary country. Cumulation rules, on the other hand, allow inputs originating in other preferential countries to be considered as domestic to the beneficiary country in question. Moreover, this benefit should be extended to inputs originating in other countries with which the UK has an FTA.

6. Facilitate certification of compliance of rules of origin

Procedures to certify compliance with rules of origin tend to be cumbersome and costly. Normally, a different certificate needs to be presented for every shipment (Brenton, 2011). Moreover, exporters located in remote areas find it expensive to get the compliance certified. The UK can help by assisting the respective certification

1. See http://trade.ec.europa.eu/doclib/docs/2005/december/tradoc_126417.pdf

2. An *ad valorem* tariff is applied on the basis of the value of the product imported. Typically they are expressed as percentages of the value. A non-advalorem tariff is defined by "specific" rates where the base is defined in terms of physical units such as tonnes, litres, etc.

bodies (normally the local business associations) to reach most producers and exporters. Moreover, the UK may operate a system where trusted producers and exporters from developing countries can benefit from a simplified certification procedure performed once or periodically, independent of the consignments.

7. Avoid creating new standards that increase production and certification costs

If the UK leaves the ESM, existing value chains involving UK and EU firms may be affected. Exports from developing countries may need to meet current EU standards and any new standard that the UK may create, increasing production costs. Moreover, certification procedures would be duplicated, increasing trade costs and potentially breaking value chains.

Achieved through a 'harmonisation' agreement[3] with either the EU or unilaterally, the UK should, for the benefit of its own producers and exporters, aim to take over and follow EU standards. Given that the product destined for both the EU and the UK will be produced under the same quality standards, production costs in developing countries should not be affected.

Even when standards are equal, the UK and the EU could still require exclusive certification procedures. To avoid this duplication, the UK should negotiate with the EU, as part of its broad negotiation, a mutual recognition agreement of certification procedures. The UK certification body will be able to recognise compliance with EU standards and vice versa.

8. Do not expect full reciprocity in FTAs with developing countries

Providing it is in the interest of the involved countries, the UK may seek to prolong or replace existing FTAs with developing countries, including the existing EPAs with ACP countries. In contrast to unilateral preferences, Article 24 of the General Agreement on Tariffs and Trade (GATT) requests that FTAs must be reciprocal and liberalise substantially all trade among partners. However, the UK should bear the majority of the liberalisation effort. Following the approach taken by EPAs, this could be achieved by reductions in 80% and 100% of the tariff lines in the developing countries and the UK, respectively. However, considering that the UK is a substantially smaller partner, this split of commitments may need to be reconsidered.

9. Consider the effects of FTAs with developed and emerging economies on developing countries

The FTAs that the UK may seek to negotiate with developed countries and emerging economies may affect developing countries if the structure of the UK imports from the proposed FTA partner and the developing country are very similar.[4] Table 1 presents the Finger-Kreinin index of import similarity from some developing countries and from potential FTA partners (some of them developing countries as well).[5] Whilst an FTA with Canada or Japan will have minimum effects on developing countries, an FTA with the US may affect countries such as India.

Nevertheless, imports from some emerging and other developing countries may compete with the imports from some developing countries. For example, 21% and 19% of the value of UK imports from Bangladesh and Cambodia respectively are in products also imported from India. 24% of the value of imports from Cambodia are in products also imported from Vietnam, with which the EU has an FTA that the UK may seek to prolong. There are other pairs of countries with high similarity in their exports to the UK.

In case of serious preference erosion for (the poorest) developing countries, the UK could exclude the sensitive products in the liberalisation schedule with the proposed FTA partner. This will reserve the UK market for the products originated in the developing country. However, in the long run, the erosion of preferences may be unavoidable. Because the UK MFN tariffs may be further reduced in the long run, any exclusion in favour of maintaining the preference margins will become irrelevant

10. Negotiate development provisions in FTAs with developed and emerging economies

Although FTAs are designed to increase trade amongst partners, nothing prevents them from including provisions that benefit other developing countries. For example, an FTA between the UK and any other developed or large developing country may include rules of origin that allow the use of inputs from the smaller developing countries.

In addition, in agreements where mutual recognition of certification bodies is considered, this should be extended to the imports from LDCs. In this way, the UK certification body will be able to certify compliance with the FTA partner's standards for British products but also for products originated in developing countries. The benefit should also apply to the certification of the British standards by the partner's certification body.

11. Provide full access to services from selected developing countries

3. Considering that currently the UK and the EU apply mostly the same standards, the harmonisation has already occurred. Consequently, the agreement will be limited to the continuation of similar standards.

4. The height of the MFN tariff applied and the resulting preference margin is the other element to consider.

5. The effects of an FTA on third countries depend on how similar are the import structures from the partner and the excluded country (as identified by the Finger-Kreinin index), and on how high are the MFN tariffs applied.

Table 1. Similarity of UK imports with some developing countries and potential FTA partners (2015)

	Australia	Brazil	Canada	Chile	China	Costa Rica	European Union	India	Japan	Mexico	Korea	South Africa	United States	Viet Nam
Afghanistan	0.03	0.02	0.03	0.02	0.04	0.00	0.04	0.03	0.04	0.04	0.03	0.01	0.05	0.01
Bangladesh	0.00	0.01	0.00	0.00	0.12	0.00	0.03	0.21	0.00	0.01	0.00	0.00	0.01	0.13
Burundi	0.00	0.06	0.00	0.00	0.01	0.02	0.01	0.01	0.00	0.01	0.00	0.00	0.01	0.01
Cambodia	0.00	0.01	0.00	0.00	0.13	0.00	0.03	0.19	0.00	0.01	0.00	0.00	0.01	0.24
Cameroon	0.01	0.02	0.03	0.00	0.02	0.20	0.02	0.01	0.01	0.02	0.01	0.01	0.02	0.01
Egypt	0.04	0.06	0.04	0.07	0.09	0.02	0.08	0.12	0.04	0.06	0.03	0.06	0.07	0.07
Ethiopia	0.01	0.08	0.02	0.00	0.02	0.02	0.03	0.06	0.01	0.02	0.01	0.01	0.08	0.04
Ghana	0.02	0.04	0.04	0.00	0.01	0.11	0.03	0.03	0.02	0.02	0.01	0.01	0.02	0.01
India	0.09	0.08	0.09	0.01	0.28	0.01	0.29	N/A	0.17	0.16	0.16	0.05	0.24	0.20
Indonesia	0.04	0.10	0.06	0.01	0.27	0.02	0.13	0.23	0.09	0.08	0.09	0.03	0.09	0.36
Lao PDR	0.00	0.01	0.00	0.00	0.07	0.00	0.02	0.06	0.00	0.01	0.00	0.00	0.00	0.11
Lesotho	0.00	0.00	0.00	0.00	0.03	0.10	0.01	0.04	0.00	0.01	0.00	0.00	0.00	0.02
Madagascar	0.00	0.00	0.00	0.00	0.04	0.00	0.01	0.07	0.00	0.00	0.00	0.00	0.00	0.04
Malawi	0.00	0.02	0.00	0.00	0.00	0.05	0.00	0.01	0.00	0.01	0.00	0.00	0.00	0.01
Mali	0.01	0.02	0.02	0.00	0.03	0.01	0.02	0.02	0.01	0.03	0.05	0.01	0.05	0.02
Mauritania	0.02	0.00	0.02	0.00	0.04	0.00	0.03	0.06	0.03	0.08	0.01	0.01	0.05	0.00
Morocco	0.02	0.03	0.02	0.02	0.08	0.01	0.10	0.16	0.03	0.06	0.07	0.05	0.03	0.10
Myanmar	0.01	0.01	0.01	0.00	0.09	0.00	0.03	0.11	0.01	0.01	0.01	0.00	0.01	0.16
Nepal	0.02	0.01	0.01	0.00	0.11	0.00	0.05	0.14	0.01	0.02	0.01	0.01	0.03	0.09
Niger	0.02	0.01	0.01	0.00	0.02	0.00	0.02	0.02	0.02	0.03	0.04	0.00	0.08	0.00
Pakistan	0.02	0.02	0.01	0.00	0.12	0.01	0.06	0.19	0.03	0.04	0.02	0.02	0.04	0.09
Moldova	0.02	0.01	0.00	0.02	0.04	0.00	0.03	0.07	0.01	0.01	0.00	0.02	0.01	0.07
Rwanda	0.00	0.06	0.00	0.00	0.01	0.02	0.01	0.01	0.00	0.01	0.00	0.00	0.01	0.01
South Africa	0.19	0.25	0.45	0.10	0.05	0.01	0.11	0.05	0.12	0.17	0.06	N/A	0.14	0.02
Sri Lanka	0.02	0.01	0.01	0.00	0.13	0.01	0.05	0.22	0.02	0.02	0.01	0.01	0.02	0.13
Timor-Leste	0.01	0.06	0.01	0.00	0.03	0.02	0.05	0.04	0.02	0.07	0.01	0.00	0.04	0.01
Uganda	0.01	0.08	0.02	0.01	0.02	0.08	0.02	0.03	0.02	0.03	0.02	0.01	0.02	0.02
Tanzania	0.02	0.08	0.02	0.04	0.02	0.02	0.03	0.05	0.02	0.03	0.02	0.01	0.03	0.03
Vanuatu	0.03	0.00	0.02	0.00	0.02	0.00	0.06	0.04	0.03	0.02	0.01	0.01	0.04	0.00
Viet Nam	0.02	0.06	0.04	0.00	0.31	0.02	0.11	0.20	0.04	0.06	0.07	0.02	0.05	N/A
Zambia	0.10	0.02	0.04	0.02	0.00	0.00	0.01	0.01	0.00	0.01	0.00	0.00	0.01	0.00
Zimbabwe	0.10	0.03	0.04	0.02	0.01	0.00	0.01	0.02	0.00	0.01	0.00	0.04	0.01	0.00

Note: Finger-Kreinin index on the UK imports. In bold are countries with which the EU has FTAs and the UK may renegotiate. Cells highlighted in red presents index values greater than 0.05. Countries for which in all its intersections, the value of the FK index was lower than 0.05 were excluded.
Source: UN Comtrade using TradeSift.

The barriers to trade are different for services. Whether the UK belongs to the customs union will not affect the design of services trade policy oriented towards developing countries. In fact, services provision towards non-EU members currently varies between EU member states (Borchert, 2016). Whilst some caution is necessary with preference margins in the case of goods, the UK will be in the position to offer a liberal MFN service regime immediately. Although the services regime is already quite liberal in sectors such as retail, finance and telecommunications, the UK is very restrictive in professional services, particularly those provided under mode 4 (i.e. movement of natural persons). UK firms, consumers and providers in the rest of the world could benefit by the removal of these restrictions.

The general liberal regime suggests that, rather than preferences for developing countries, the UK should focus on the reduction of restrictions on these specific services and provision modes. Although exports of services have grown faster than exports of goods in developing countries in the last two decades (Balchin et al., 2016), it is likely that preferences will have limited effects on developing countries as they will only benefit certain niches (i.e. lawyers and accountants under mode 4).

12. Facilitate trade

Despite the fact that border procedures are simple and times at UK customs are short, exporting to the UK may still be costly for developing countries. Firstly, there are low *de minimis* thresholds that trigger duty payments (every import above €150 must pay duties). Secondly, imports of more than €22 incur VAT (Pope et al., 2014). Such low values are also inefficient from the tax collection point of view (Hintsa et al., 2014).

It will be beneficial for developing countries, and tax-efficient for the UK, to raise these thresholds immediately after Brexit. To avoid losing revenue and unfair competition to domestic suppliers, these benefits should be limited to imports from developing countries, on a strictly business-to-consumer basis, and only for consignments of single or small amounts of units. VAT on these transactions could also be forfeited.

13. Provide more and better targeted Aid for Trade

The UK, on its own and through the EU aid budget, has assisted developing countries to overcome barriers to trade, such as high trade and logistics costs and poor productive capabilities. The UK is a major provider of AfT through bilateral, EU and multilateral channels (Mendez-Parra and Te Velde, 2016a). In 2013 it provided $1.4 billion (out of $41.6 billion) of AfT directly and it has contributed through the EU budget (OECD and WTO, 2015).

In addition, AfT should be used to provide trade finance to overcome the high fixed costs associated with trade and funding infrastructure projects in the transport and logistics areas, especially when they can be clustered with other public and private investments to increase production capacities. Interventions can be coordinated with other donors (see below) and development finance institutions (DFIs) such as the CDC (see below). Moreover, AfT can be used to provide some temporary support to countries that might have been affected by either a reduction in the UK MFN tariffs that erodes preferences or by the FTAs that the UK may negotiate.

Finally, in a context of questioning of globalisation and its benefits, particularly in developed countries, the positive effects of aid for donor countries needs to be highlighted (Mendez-Parra and Te Velde, 2016b). Although British exporters may benefit from certain initiatives (e.g. aid on trade facilitation), aid must be completely free of any tying. Aid should not be used to promote or support British products or services in beneficiary countries.

14. Cooperate with the EU

The UK and the EU have long cooperated on trade and development policies. This has involved differences but also consensus. This cooperation and the relationship built over many years should be maintained. The benefits for developing countries will be higher if the UK and the EU coordinate.

Although some cooperation mechanisms have already been highlighted (e.g. mutual recognition), there are other areas where cooperation should continue. The UK could propose the creation of a permanent consultation mechanism on trade and development with the EU. Moreover, the possibility of continuing to fund some effective AfT programmes under the EU aid budget should not be discarded. Assuming that the UK will target much of its AfT towards developing countries with which it maintains historical and cultural links, the UK should coordinate with the EU to assure that other developing countries are covered by EU efforts.

15. Combine trade and investment policy

Brexit also provides an opportunity to update the foreign direct investment policy and to make it work in synchronisation with the trade policy. This should work in two main areas. Firstly, the UK should seek to update existing bilateral investment treaties (BITs), providing its counterparts are interested. Secondly, the UK can be a valuable partner in many investments through the action of its DFI, the CDC.

The new UK BITs should move from strictly protecting investor rights to accommodate the existing organisation of production in value chains, as they involve inseparable networks of investment and trade flows (Gelb, 2016).

Moreover, social and environmental concerns are shaping trade and investment relationships. These concerns, of major interest within the UK and with repercussions in developing countries, should be included in the new BITs. At the same time, the existence of tailored processes to sue host states generates anxiety, considering the unequal resources between investors and states. The new UK BITs should be transparent and have appeal mechanisms to balance out the power between actors.

On the other hand, there is space for direct action from the UK in the facilitation of investments in developing countries. Recent evidence suggests that aid, FDI and DFIs work better together in providing bespoke solutions for different levels of development (Massa et al., 2016). In particular, the articulation of investments on trade and logistics financed with AfT and investments made by the CDC, for example in energy production (CDC and ODI, 2016) can give a major boost to trade and productivity in the regions.

Conclusions

Brexit will mean important policy changes and, consequently, economic effects for both the UK and any other countries with which the UK trades. Brexit is expected to have serious negative effects on both the UK and the world economy. However, within this context, there is scope for some policy instruments to reduce the damage and, in some areas, actually improve policy and outcomes.

Trade policy needs to be guided through a series of principles and take into account the constraints that will affect policy design. The principles should guide the policy-maker towards the objectives defined by Brexit (i.e. being an open economy) and ensure that developing countries can benefit from this. In the short run, constraints will be given by the relationship between the UK and the EU after Brexit, the schedule of WTO commitments and the current preferences provided to developing countries.

Guided by these principles and within the set of feasible solutions, we have suggested 15 ways in which the UK can design an open and simple trade policy, seeking to maximise benefits for the UK and developing countries.

Notes

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