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More global poverty?

The impact of Brexit for developing countries

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The impact of Brexit for developing countries

Bonn, 15 January 2019. Today, the British Parliament is to vote once and for all on the Withdrawal Agreement negotiated between the UK and the European Union (EU). Nobody can say which way the vote will go at the moment. Recognising her slim chance of success, Prime Minister Theresa May had pushed it back to the New Year from its original slot in late 2018. The vote of no confidence in the PM tabled by her own party in December and her resulting narrow margin of victory illustrate just how divided Parliament is on the issue of Brexit.

Whether the country ultimately leaves in an orderly fashion or crashes out without a deal, the economic and political ramifications of different scenarios for the UK and Europe are the subject of constant debate at present. Yet we also need to consider Brexit's global impact.

Not enough attention is being paid to the fact that countries outside the UK and the EU will also be affected by Brexit and by the changes in trade relations that it will bring. Advocates of a "hard Brexit" often point out that the UK could simply fall back on World Trade Organization (WTO) rules in the event of no deal. However, this does not fully reflect reality. The new market access conditions between the UK and the WTO's non-EU members still need to be negotiated, with no sign of a successful outcome any time soon. This means that, in the event of no deal, the country would most likely have to trade with the rest of the world on the terms agreed for the EU by the WTO after March 2019 – even though these would actually no longer apply to the UK.

Brexit could well have drastic consequences, particularly for poorer countries. Developing countries will be adversely affected by Britain's departure regardless of what it ultimately agrees with the EU. One key reason is that they will lose the preferential access to the UK market that they currently enjoy under various EU agreements. These include the Generalised Scheme of Preferences, the "Everything But Arms" (EBA) initiative and the Economic Partnership Agreements.

If developing countries no longer enjoy preferential tariffs on the UK market after Brexit, they will become less competitive in the country. The least-developed countries would be hit by higher tariffs

and other non-tariff barriers to trade, especially in the event of a hard Brexit without a deal. Current simulations suggest that this would, for instance, cause Ethiopia's exports to the UK to drop by 20 percent and Malawi's by as much as 60 percent.

In particular, poor countries such as Cambodia and Malawi, which are strongly dependent on the British market because of high export shares to the UK, will suffer a fall in GDP according to the latest evaluations. There are also fears of a rise in poverty in the least-developed countries, which currently benefit from the EU's trade preferences. New microsimulations show that Brexit could cause the number of people living in extreme poverty in these countries to rise by up to 1.7 million. These figures are conservative estimates that only account for changes in the trade regime and do not incorporate any other negative factors such as a depreciation of the pound sterling, lower British direct investment and less development aid.

As negotiations over new trade agreements between the UK and developing countries are bound to drag on, the British government needs to put transitional arrangements in place to prevent poor nations from suffering the consequences. Trade-related development assistance can also help to mitigate the challenges facing poor countries. At the same time, the future reshaping of British trade policy will present an opportunity to make trade relations with these countries more development-friendly, for example by granting them more generous preferences that enable greater value creation across several countries and thus promote regional value chains.

Brexit poses an extraordinary challenge to both the UK and the EU. Even if the British Parliament backs the Withdrawal Agreement, the risk of a hard, no-deal Brexit will not go away, because getting the UK and the EU to agree a new trade and investment agreement by the end of the agreed transition period will not be easy. Either way, the persistent uncertainty and host of unresolved issues generate spiralling costs that are hurting not only businesses but consumers as well. Both sides should seek a solution that achieves the best possible outcome without ignoring the losses facing the poorest amongst the developing countries.