BREXIT: AFRICA'S TRADE AND DEVELOPMENT IMPLICATIONS

Speaking Notes

Introduction

Kenya's central bank governor, Patrick Njoroge, warned that his country would "feel the shock wave" of Brexit. The Economist had a front page decrying "Anarchy in the UK". CNN remarked, "What just happened?" But beyond the headlines, which have dominated both British and world media alike, are the rapidly emerging nuances of Brexit, and importantly this includes that for which we are here: the Brexit implications for trade and development.

Brexit has thrown up uncertainties in many areas relevant to development; the most pertinent to Africa's trade and development cooperation that I would like to identify are:

1) The impact on the UK economy
2) The UK's formal trade arrangements
3) Brexit lessons for African integration, and
4) The UK's trade and development assistance

1. <u>The Impact on the UK Economy</u>

Highlighted in the slide behind me is a summary model, discussed last week in the UNECA, of the key channels through which Brexit can affect Africa as a result of the impact that it will have on the UK economy.

Brexit is a shock to this model: already Standard & Poor's has downgraded the UK's credit rating by two notches, Sterling has fallen by 12%, and the IMF predicts a UK recession. The principle channels through which this is likely to affect Africa, including its 18 Commonwealth countries, is Trade, Foreign Direct Investment, Official Development Assistance, Remittances and Tourism.

- In 2014 Africa exported 16 billion pounds to the UK: this amounts to roughly 14 percent of Africa's exports to the EU, and about 5 percent of Africa's total exports to the world.

- While bilateral tourism statistics are unavailable for the continent, 17.5 percent of South Africa's overseas tourists were from the UK in 2014.
- Between 2005 and 2014 the UK doubled its FDI investments in Africa from £21 billion to £43 billion.
- In 2014, the UK's ODA amounted to £12 billion, much of which went to Africa.
- And in 2012, according to ODI research, remittances to Africa from the UK were £5 billion.

While the immediate shock to the UK economy exerts a negative pressure through these channels in the short term, the full effect will depend on how the British government and Bank of England steer the economy thereafter.

The impact is likely to be felt more intensely in those countries and sectors which rely more heavily on the UK across these five channels. The African countries which export most to the UK, for instance, are South Africa, Nigeria, and Egypt, and the UK is especially important for African exporters of beef, wine, tea and fruit. In the example of South Africa, whose Rand notably fell 7 percent to its lowest level since 2008 following Brexit, the UK accounts for 37 percent of investment stock. In the case of Nigeria, which is already embattled with low oil prices, the UK is the largest source foreign direct investment and a critical source of remittances.

Not included in this slide is the European Union economy, which accounted for 36 percent of Africa's exports in 2014, and provided 141 billion euros in ODA between 2007 and 2013. The EU faces its own fallout from Brexit, with the Euro falling more than 2 percent alongside increased economic uncertainty and the prospect of falling growth.

Beyond Europe, Brexit is also predicted to have a dampening effect on broader world growth. Accompanying this is a global 'capital flight to safety' from emerging and frontier markets which has contributed to a shock fall in many currencies, such as the Rand.

The two channels into which I would now like to dive further, and which directly relate to the uncertainties of Brexit on Africa, are those of Trade and trade-related ODA.

2. <u>The UK's Formal Trade Relations</u>

When the UK joined the European Economic Community 43 years ago it transferred all authority for its trade agreements to the Community. In 2014, much of the UK's 1.1 trillion dollars in trade was channelled through these clear and predictable legal and institutional frameworks.

The EU has FTAs inforce with 96[1] countries representing more than a third of world GDP. Early WTO announcements have been made for FTAs with a further 35 countries, worth another 38% of world GDP. Once concluded the EU would have FTAs with 131 countries representing about 70% of world GDP. And at least another 20 countries are involved in EU trade negotiations which have not yet been given early WTO announcements.

The EU also offers its Everything But Arms (EBA) to Least Developed Countries and a Generalized System of Preferences (GSP) arrangement to further Developing Countries.

As for Africa, as well as the Caribbean and Pacific, the UK's formal trade relationships were set to have been secured within the Economic Partnership Agreements (EPAs) between the EU and regional country groupings, including West Africa, Central Africa, the East African Community, Eastern and Southern Africa, the South African Development Community, the Caribbean, and the Pacific.

Most of the EPAs, which the UK fought hard to conclude, are in the process of being signed following more than a decade of negotiations between the EU and the respective country blocs. They mark the evolution of trading arrangements between these countries which have developed from the Lome Conventions beginning in 1975 and the Cotonou Agreement in 2000.

It is notable that a centrepiece of the Brexit campaign was to reassert stronger trading relationships with its Commonwealth countries. Yet even if the UK can prioritise such negotiations, the UK will be unable to secure arrangements preferable to the EU due to an EPA clause which requires the EPA countries to also share with the EU any preferable conditions granted in other agreements.

[1] These figures can vary depending on what is considered a country / territory

The UK will now need to re-consider the post-Brexit alternatives to the approximately 151 countries with which the EU now has, or is currently negotiating, trade agreements, including the EPAs, as well as its place within the WTO.

Continental Approach to a Comprehensive African Trade Agreement

The UK should consider a continental approach to Africa. The goal should be for a comprehensive single trade agreement with all 54 countries that incorporates limited reciprocity, immediate access to the UK market, and phased-in access to the African market. This would be similar to the EU's EPAs, which would likely form the basis for discussions.

A single continental approach would reduce the multiplicity of new arrangements the UK would have to negotiate while also being aligned with Africa's plans for continental regional integration plan as per Africa's Agenda 2063.

Such an Agreement could learn from the best practices of other development-oriented trade agreements as well as the experience of the EPA negotiations. It should, for instance, consider aspects such as:

1) The environment and climate change, and in particular facilitating green technology transfer;
2) Removing subsidies to ensure that Britain competes fairly with the African agriculture sector;
3) Include partnerships in services to help African countries learn from the UK and build capacity.

Such an agreement could potentially form the model for how the US engages with Africa after AGOA, and even for the rapidly developing emerging markets with increasing interest in Africa.

The UK has the opportunity to set a high standard for developed-oriented trade agreement with Africa.

African Initiative

African governments should themselves be proactive in approaching the UK re-negotiations. Indeed Mauritius has already set up a Ministerial Committee to look into the repercussions of Brexit. That the UK does not yet have its own plans in this respect leaves a gap for African initiative. This is especially pressing given the amount of urgent negotiating priorities which Britain faces; Africa will not be at the top of the list, and African countries will need to press for their place. As such African countries should take the initiative and start developing proposals for early talks with London.

The same will certainly apply to the Caribbean countries, who while notionally trading with the EU, actually send most of their exports to the UK. Yet as a collection of especially small markets will need to fight for a place amongst British negotiating priorities.

Taking the initiative can help these countries press for more development-friendly opportunities including:

- The UK's withdrawal from the EU's Common Agricultural Policy, which subsidizes European farmers at the detriment of Africa's agricultural output.
- And opportunities will be present to relax technical-barriers to trade, which protect some in the EU market, and especially southern European producers, from products in which Africa has a comparative advantage, such as tropical fruits and vegetables, and meats.

Indeed, the South African Citrus Growers Association has already suggested that revised UK plant health regulations on citrus imports could be easier to comply with than present EU regulations.

Similar benefits could be arranged for beef, of which African exports to the EU have fallen following compulsory and expensive regulations, such as those to prevent Mad Cow, which are applied to African countries in which Mad Cow has never been diagnosed.

Transitional Trade Arrangements

Transitional trade arrangements will however be required while such a continental agreement is arranged. The UK will have many negotiating priorities during Brexit and such transitional arrangements must bridge the gap to a more comprehensive and progressive trade agreement, which is likely to take more time.

One suggestion is for the UK to ratify and begin implementing concluded EPA agreements prior to activating Article 50 of the Lisbon Treaty, which will start the stopwatch on the 2 year process through which the UK leaves the EU. Up until the final moment, the UK remains part of the EU and is bound by EU law.

Another is that the UK works through the scope of Article 50 to incorporate transitional arrangements itself for leaving EU Agreements such as the EPAs. Article 50 does not define the scope and content of the withdrawal arrangements, and so it is feasible that the UK could negotiate to retain transitional membership of certain Agreements in some way.

Alternatively, a standstill may be necessary on EPA implementation with the EU more broadly. This may be required pending clarification of EU and UK future trade relations with third countries.

3. Brexit Lessons for African Integration

Trade models predict there to be winners and losers from free trade, especially in the short run, but gains to the winners outweigh the costs to the losers. Brexit has clearly highlighted that insufficient consideration has been given to the losers of integration.

This provides a strong lesson for the agenda of regional integration in Africa. Sufficient attention must be given to recognising sections of society which may face economic risks from integration, and to addressing these risks.

Solutions may include providing a stronger platform for CSOs to air trade and integration concerns and policies to help individuals transition into fast growing sectors which gain from trade liberalisation.

The EU was the very model for the African Union. In learning now from some of the challenges with this model Africa must now ensure inclusive regional integration and a broad-based pro-poor growth imperative.

4. Trade and Development Cooperation

A New Regional Approach to UK's Reach and Influence

As discussed, Brexit will have implications for the UK's Official Development Assistance. Within the EU, the UK could also provide leadership on issues such as European aid mobilisation and efficiency, and leverage a pan-European pooled fund. In particular the UK provided leadership for the EU's aid to Anglophone Africa and Commonwealth countries.

The UK's trade and development reach and influence will likely be somewhat diminished from that which is was within EU.

In moving forwards a regional model may become more important for the UK in which it targets regions, such as East Africa and West Africa, rather than individual countries. This would help the UK to economize on a smaller trade and development footprint as well as feeding into Africa's regional integration framework.

TradeMark East Africa, which in auditing assessments has been exemplary, provides a strong template for this. TradeMark East Africa focusses on increasing physical access to markets, enhancing the trade environment and improving business competitiveness.

UK's Aid for Trade

The empirical literature tends to confirm that Aid for Trade has been effective in raising exports and improving the investment climate, and thereby economic performance.

Every pound invested in Aid for Trade is estimated to produce between eight and 20 pounds in additional exports from developing countries.

The UK is the leader in this area and should strive to keep this up, despite potential headwinds to Official Development Assistance.

Maintaining UK Aid Cooperation with the EU

Finally, despite Brexit, the UK should strive to maintain cooperation with the EU in development assistance. It should furthermore seek to influence better disbursement of EU funds, which can often be consumed by bureaucracy, and strive to ensure that different European sources of aid continue to be well coordinated.

Conclusion

Brexit will present the UK with many challenges and it is clear that these will spill-over into impacting Africa and beyond. Such challenges may manifest through different channels: those which I have focussed on here are trade and trade-related development assistance. These are significant points of the relationship between the UK and Africa, and going forward we must ensure that all opportunities to set a development-friendly and conducive trading environment between these partners are sought. Key amongst this will be the development of a comprehensive continental trade arrangement between Africa and the UK, as well as continuing the UK's excellent support in Aid for Trade.

Data Annex

	UK's Agriculture Imports from Africa		
No.	**Product**	**Value 2014 $**	**Share of EU imports**
1	Fruit	813m	22%
2	Vegetables	394m	17%
3	Fish	329m	8%
4	Cocoa	289m	5%
5	Wine	167m	31%
6	Tea and spices	166m	41%
7	Fresh cut flowers	128m	11%
8	Sugar	126m	10%
9	Beef	66m	67%
10	Banana	61m	10%
11	Tobacco	59m	6%
12	Coffee	46m	5%
13	Seeds and nuts	41m	7%
14	Edible oils	15m	3%
	Other	99m	11%
	Total	**2,802m**	**11%**

	UK's Non-Agriculture Imports from Africa		
No.	**Product**	**Value 2014 $**	**Share of EU imports**
1	Mineral Products[2]	14,018m	13%
2	Stone / Glass[3]	3,649m	50%
3	Transportation	1,776m	26%
4	Machinery / Electrical	1,540m	15%
5	Textiles	1,035m	10%
6	Chemicals & Allied Industries	443m	7%
7	Metals	434m	5%
8	Wood & Wood Products	236m	18%
9	Plastics / Rubbers	167m	8%
	Other	172m	15%
	Total	**23.5bn**	**14%**

History of UK's ACP Trade Agreements

Lomé Convention (1975) Membership of the UK to the then EEC in 1973 led to the signing of the wider reaching Lomé I agreement, which built on the preceding Yaoundé accord to incorporate the former British colonies and special trading preferences for bananas, beef and sugar.

Generalised System of Preferences (1995) Moderate market access into the EU for broader range of developing countries.

[2] Includes petroleum oils
[3] Includes gold and diamonds

Cotonou Agreement (2000) Broader in scope than Lomé. Set up procedure of non-reciprocal trade preferences binge replaced with reciprocal EPAs.

Everything But Arms (2001) DFQF access to the EU market for all products from LDCs, except arms.

EPAs (2008 onwards) With 66 ACP countries to open up 75-90% of their markets to EU trade in goods over 10-25 years. Provides sufficient space for Africa CFTA, but provisions are not consistent across regions.

Background Slide