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Designing a new UK preferences regime post-Brexit

How Africa can benefit

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Key messages

- The preferential access of African countries to the UK market must be extended post-Brexit to avoid a damaging effect on trade and employment.
- African countries stand to lose up to €425 million in exports to the UK if current market access is not maintained post-Brexit.
- The design of a UK Generalised System of Preferences (GSP) must be prioritised over the renewal of existing trade agreements with developing countries, including Economic Partnership Agreements.
- The new UK GSP regime must be simple, must ensure that no country is worse-off after Brexit and must seek to improve benefits for the poorest and most vulnerable countries.
- The GSP presented in this paper will support developing countries, ensure that no African country will be worse-off and, in some cases, extend existing market access.
- The system presented provides a necessary transition towards a more sustainable and mutually beneficial relationship between Africa and the UK.

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Contents

Acknowledgements 3

1. Introduction 7

2. Why preferences? 8

3. The importance of preferential access to the UK for Africa 10

4. Review of other GSP regimes 15

5. A new UK preferential regime 18

   5.1. Who should the regime benefit and what should the eligibility requirement be? 18

   5.2. Into how many tiers or levels should the regime be organised? 20

   5.3. What products should be covered at each level and what should the depth of the preferences be? 21

   5.4. Other issues to consider 21

   5.5. Summary 22

6. Conclusion 23

References 24

List of tables

Table 1. African imports to the UK and the value of preferences 11

Table 2. Top 25 products heavily dependent on preferences in the UK 12

Table 3. Effect on UK imports from African countries 13

Table 4. Products most affected by an elimination of preferential access in the UK 14

Table 5. Product coverage of preferential regimes 15

Table 6. Preferential country coverage 16

Table 7. Country selection criteria 16

Table 8. Country coverage of proposed preferential regime 19

Acronyms

AGOA	African Growth and Opportunities Act
AVE	Ad valorem equivalent
EBA	Everything but Arms
EPA	Economic Partnership Agreement
EU	European Union
FTA	Free trade agreement
GATT	General Agreement on Tariffs and Trade
GSP	Generalised System of Preferences
HS	Harmonized System
LDC	Least-developed country
LIC	Low-income country
LMIC	Lower-middle-income country
MFN	Most-favoured nation
OECD	Organisation for Economic Co-operation and Development
SIDS	Small Island Developing State
SVE	Small, vulnerable economy
TDCA	Trade and Development Cooperation Agreement
UNCTAD	United Nations Conference on Trade and Development
WTO	World Trade Organization

1. Introduction

The UK's departure from the European Union (EU) ('Brexit') will trigger a series of critical policy decisions. Uppermost among these is that on how to define UK trade policy. Assuming the UK will leave the EU Customs Union, the country will need to modify its tariff policy as well as to design its own preferential scheme, the main objective of which must be to avoid damaging beneficiary countries that have to date relied on this enhanced market access to trade.

Beyond the opportunity to design a new trade policy, then, it is critical to reduce uncertainty and put in place policies that will avoid a rupture and that will maintain existing levels of market access to the UK market, at least for developing countries. This is crucial for African countries, as well for other developing countries, for which the UK, by virtue of its cultural and historical links, constitutes a key trade and development partner.

The UK Government has already made some announcements with respect to future trade policy with developing countries, including its intention to continue providing duty free access to least-developed countries (LDCs) and to explore options for non-LDCs. These announcements are welcome as they partially disperse the uncertainty that reigned with respect to market access for developing countries, but they reveal the extent of the work that will be required to form a fully-fledged trade policy. This paper aims to contribute to this policy-forming process.

African countries have benefited from preferential market access to the UK through two mechanisms: the EU Generalised System of Preferences (GSP) and Economic Partnership Agreements (EPAs). The first tends to benefit primarily LDCs through the Everything but Arms (EBA) initiative. The second are free trade agreements (FTAs) signed between the EU and non-least-developed African countries, such the Euro-Mediterranean Partnership Agreements.

The EPAs have been particularly problematic for Africa, having failed to deliver their intended outcomes as well as complicating regional integration initiatives. Attempting to renew these agreements will interfere with, for example, the Continental Free Trade Area, and will mean insisting on a widely rejected type of partnership. Moreover, the renewal process is likely to absorb a large amount of UK resources and time, at a time when the UK will be extremely busy sorting out Brexit and negotiating a new agreement with the EU.

Consequently, continuation of market access for African countries will need to be based on the provision of unilateral preferences. This new UK GSP regime must provide for full market access for African LDCs and non-LDCs. However, it is unlikely to be possible to limit such a regime to these countries, and indeed it should be open to other, non-African, developing countries. Nevertheless, there is nothing preventing the definition of a regime that, while also open to non-African countries, benefits African countries in particular. This means defining product and country coverage and depth of preferences in a way that is advantageous to the continent.

This paper aims to facilitate discussions on the design of a new UK GSP regime that works for Africa. It starts from the premise that, as preferences present a series of incentives to export for beneficiary countries, their removal could generate substantial damage. However, the discussion also highlights the distorting and the negative effect on efficiency of preferences. Therefore, preferences after Brexit should be extended based not only on their merits but also on the dependence that their many years of existence have generated in the beneficiary countries.

The discussion also assesses the importance of preferential access to the UK market for African countries. In addition to highlighting the need to extend preferences, it offers help in the design of the preferential regime by identifying the key African products depending on preferential access to the UK.

The analysis also reviews the experiences of other countries, to shed some light on the provisions and practices they have implemented in the design of their preferential regimes. This points to provisions that could be adapted for use in the UK preferential regime. This will also help the UK avoid designing *sui generis* provisions that may end up challenged at the World Trade Organization (WTO). The assessment in this paper will help to define the provisions of the UK GSP.

The paper focuses on the analysis and discussion of the new UK GSP regime from the African perspective, discussing examples and bringing issues of relevance for its countries. Nevertheless, many elements of the discussion apply to other developing countries. More importantly, the resulting GSP proposal will apply to all the countries that may qualify under its provisions.

Section 2 of the paper presents the main theoretical aspects of preferential access for developing countries and gives a general justification of the need to extend such preferences for these countries. Section 3 reviews the importance of preferential access for African countries, identifying the effect of a potential removal. Section 4 reviews the GSP regimes of other countries. Section 5, based on our analysis, presents a potential new UK GSP. Conclusions follow in Section 6.

2. Why preferences?

The rule-based preferential regime has its genesis in the United Nations Conference on Trade and Development (UNCTAD) I Conference of 1961. At that time, it was perceived that trade policy in developed countries was designed in a way that complicated the productive and trade development of the newly independent countries. Tariff peaks and an escalation in the amount of manufactured and processed products available made industrialisation and the addition of value added in developing countries difficult. Consequently, a series of measures were proposed to address this issue. Initially, for example, the definition of quotas for exports from developing countries was requested (VanGrasstek, 2013).

However, rather than quantitative measures, UNCTAD II negotiations in 1968 led to the GSP agreement. The main legal problem here was the incompatibility of this regime with Article I of the General Agreement on Tariffs and Trade (GATT), which requires most-favoured-nation (MFN) treatment across countries. This was initially addressed by means of a 10-year waiver in 1971; a permanent solution would come with the Enabling Clause of 1979.

In a context of generalised protectionism, the GSP constitutes a second-best outcome to secure market access into developed countries.[1] The competitive edge that preferences generate is translated into higher quantities demanded by importers or into higher prices for exporters. In both cases, this immediately generates a relative cost advantage and leads to the generation of economies of scale in the developing country. Preferences could increase economies of scale for products where countries already have a comparative advantage, increasing their competitiveness in the destination country as well as promoting industrial development in the beneficiary country. However, evidence suggests experience of this has been sporadic, and the creation and transfer of rents tend to prevail (Page and Kleen, 2004).

Preferences may also lead to the production of new products, contributing to diversification of exports. In empirical terms, research has suggested a positive effect of preferences in terms of increasing gross exports from beneficiary countries (Sapir, 1981; Seyoum, 2006; Gasiorek et al., 2010; Cooke, 2011, 2012; Gil-Pareja et al., 2014). The effects of preferences on the diversification of exports are more mixed (Collier and Venables, 2007; Gamberoni, 2007; Gasiorek et al., 2010).

Preferences assume that consumers in the importing country can and want to afford the trade diversion implied. This is a political rather than an economic discussion, but it does reflect the unilateral and charitable nature of preferences. It also presents an underlying conflict, given the trade diversion, between consumers and exporters in beneficiary countries (Johnson, 1967). Although preferences have a general legitimacy in developed countries, they clash with the aim of increasing the variety of goods available at lower prices in these countries. Moreover, their non-reciprocal nature may constitute a weak flank for stakeholders with a more mercantilist view in such countries to attack. In addition, they are not mandatory under the WTO, which has implications for their effectiveness: beneficiaries lose eligibility as soon as their exports increase (Hudec, 1987). This also reduces the reliance that investors place on them, which affects their investment decisions.

On the other hand, diversification has been generated at the expense of efficiency in the exporting economies. Preferences have often contributed to the allocation of resources into sectors where countries lack comparative advantage (Patterson, 1965). These products are normally exported only to the country that grants the preference, remaining uncompetitive elsewhere.

The unilateral nature of preferences and their inability to generate efficiency gains in exporting countries represent a dangerous mix. Any reduction in preference margins or the complete elimination of advantages may result in catastrophe for the exporting sectors. Either demand will switch to more efficient producers or prices paid to exporters will be severely hit, making the activities no longer profitable. Although value chains may reduce the risk of sudden switches of suppliers, the whole chain may require some adjustment in the medium and long run, which is likely to affect the weakest links more strongly. Even firms that do not export may be affected, through their connections with other firms that supply the UK.

The proliferation of FTAs since the end of the Uruguay Round and a general tariff reduction experienced in developed countries have manifested these fears. The benefits associated with preferences have reduced significantly. In fact, many developing countries are now in the odd position of opposing a widespread and deeper tariff reduction across the world that would ultimately

1 For a comprehensive literature review on preferences, see Hoekman and Ozden (2005).

be globally beneficial (Hudec, 1987). Nevertheless, research suggests most beneficiary countries will lose more through the erosion of preferences than they will gain from a general MFN liberalisation (Yeats, 1995; Page and Davenport, 2004). However, countries removed from the GSP tend to adopt more liberal and open trade policies (Ozden and Reinhardt, 2005). Only good general performance associated with beneficial commodity cycles and other policy actions taken in the developing world have prevented the manifestation of the problems.

Consequently, maintaining preferences for developing countries, and especially for Africa, should not be seen in terms of its merits but rather in terms of the costs that their removal could generate. Many sectors and a great deal of production and employment depend on maintaining the *status quo*. Preference removal will require serious and sometimes painful adjustments in these countries, even if in the long run they may benefit from an economic structure based on efficiency in the use of available resources. As long as economic transformation policies, actions modifying endowments (e.g. education) or policies offsetting the effects of preference erosion (e.g. Aid for Trade) are not properly implemented, the removal of preferences will generate serious damage to the beneficiary economies.

3. The importance of preferential access to the UK for Africa

The continuation of preferential access to the UK market for African countries should be seen through this lens. Many products originating in African countries rely on preferential access to the UK, and the UK should aim to minimise the effect of Brexit on developing countries.

Many African countries rely heavily on the UK market, and any African country that has the UK as an important destination can expect to be affected. For example, around 9% of Kenya's exports are destined for the UK (Mendez-Parra et al., 2016). Unfortunately, it is not easy to identify all countries for which the UK represents a sizable partner, given a lack of data on exports for many developing countries, and especially on trans-shipments.

Moreover, available data often fail to address the relevance of preferences in exports to the UK. Countries could be exporting products where the MFN tariffs the UK applies are at zero or are very small. Therefore, any assessment of the importance of preferences based exclusively on the importance of the UK as a destination will fail to highlight the relevance of preferences. For Botswana and Malawi, for example, the effect is distributed across a very small number of tariff lines.

The value of preferences, on the other hand, can provide an indication of the importance of preferences in trade with the UK. The value of preferences is the duty exporters and importers save as a result of preferences. It is calculated as the difference between the MFN duty applied and the preferential duty applied to the value of UK imports from each country. Table 1 presents the value of UK imports from African countries, the average MFN[2] tariff and the value of the preference calculated. This is calculated working at 6 digits of the Harmonized System (HS), identifying the applied MFN and preferential tariff in each tariff line.

In total, the value of the preferential access for African countries to the UK is €391 million. These are duties that either exporters or importers have avoided paying, making African products more competitive in the UK market. The list shows that most of the beneficiaries of preferences in Africa, based on the magnitude of the value of preferences, are non-LDCs. Mauritius, South Africa, Morocco and Egypt account for more than half of the value of preferences calculated. Malawi, Madagascar and Mozambique appear as the most affected LDCs.

We have also added the number of tariff lines (at HS 6 digits) that generated these figures. This is useful as it reveals the number of products generating these figures. For example, the effect in South Africa is distributed among a larger number of products than the effect in Mauritius.

However, the magnitude of the value of the preferences may be misleading in terms of the relevance of preferential access for African countries. The value of preferences, measured relative to UK imports from the origin countries, provides insights into the importance of preferences for individual countries. Note that, in this case, this is equal to the average calculated MFN tariff applied on the exports of each country. Based on this, Swaziland, Malawi, Namibia and Mauritius appear as the most affected countries; the value of their preferences makes up more than 25% of their exports to the UK. Considering all African countries, the value of the preferences represents is, on average, 2.4% of the exports to the UK. This measure likely underestimates the value of existing preferences to African economies, since they represent only the unpaid tariff and not the dynamic effects. When preferences constitute a key factor in determining the competitiveness of developing countries' exports, they can have significant effects on output, trade, investment and employment (Mendez-Parra et al., 2016).

Based on the value of the preferences, Table 2 identifies the country–product pairs that are the most heavily dependent on preferences. This helps us interpret the previous results by means of identifying the origins of the value of the preferences as well as highlighting the products with the largest effects. This selection represents

2 Includes ad valorem equivalents (AVEs) calculated using the average volume of UK imports from Extra-EU, 2013-15. It was not possible to calculate all elements of all specific duties (because of missing volume data, unknown additional levies, etc.). The AVEs were calculated at CN 8-digit level, and have been averaged here to HS6.

Table 1. African imports to the UK and the value of preferences

Country	Average annual UK imports (€'000s) 2013-2015	Average MFN tariff (%)	Extra duty if MFN rather than current preferences (€'000s)	Number of tariff lines
Mauritius	287,611	25.73	73,990	323
South Africa	4,672,603	1.41	65,952	1,612
Morocco	695,895	7.39	51,393	756
Egypt	882,184	5.04	44,459	886
Ghana	323,284	8.13	26,284	339
Namibia	67,575	27.37	18,493	117
Kenya	346,554	5.28	18,293	467
Tunisia	345,352	4.79	16,541	497
Botswana	961,725	1.30	12,494	29
Côte d'Ivoire	196,479	5.12	10,064	149
Malawi	31,802	27.95	8,887	29
Madagascar	50,683	14.27	7,231	119
Mozambique	101,086	7.03	7,108	70
Cameroon	146,804	3.83	5,623	245
Zambia	42,212	12.78	5,393	62
Swaziland	16,372	31.51	5,159	81
Algeria	3,515,567	0.10	3,679	122
Senegal	33,703	8.04	2,709	122
Tanzania	36,322	5.38	1,953	138
Zimbabwe	39,879	4.19	1,672	103
Nigeria	2,888,017	0.06	1,596	439
Uganda	19,764	6.67	1,318	147
Ethiopia	45,890	1.61	738	136
Angola	726,554	0.05	373	237
Rest of African countries	1,269,737	0.05	640	N/A
Total Africa	16,473,919	2.38	391,401	N/A

Note: LDCs in bold.
Source: Own elaboration based on EU Comext.

more than 50% of the estimated total value of preferences for Africa.

Several products exported from Mauritius (tuna, sugar, t-shirts) appear as particularly dependent on preferential access to the UK, with a combination of high tariffs and large volumes traded explaining the large figures. Given the magnitude of the MFN tariffs, sugar appears problematic for Malawi and Zambia also. High tariffs are responsible for the large value of preferences observed in beef exports from Botswana and Namibia. But products with lower tariffs (e.g. cut roses from Kenya) indicate a high dependence on preferences.

These estimations reveal the magnitude of the savings that preferences generate in specific goods and countries. However, the effect on the trade of the countries remains to be seen. Either a removal of preferences will be translated into a fall in the quantity demanded as a result of an increase in the landed price of the product in the UK, or exporters may need to reduce their prices in order to remain competitive in the UK market after the tariff has been increased. Whatever the adjustment mechanism, the value of exports to the UK of these products is expected to fall. The magnitude of this fall will depend on the elasticities of demand for imports.

Table 2. Top 25 products heavily dependent on preferences in the UK

Country	HS code	Description	Average UK imports (€'000s) 2013-2015	Extra duty if MFN rather than current pref. (€'000s)	Average MFN tariff (%)
Mauritius	160414	Prepared or preserved tunas	110,671	26,561	24.00
Ghana	160414	Prepared or preserved tunas	80,141	19,234	24.00
Mauritius	170199	Cane or beet sugar	27,507	17,792	64.68
Mauritius	170114	Raw cane sugar, in solid form	18,512	14,919	80.59
South Africa	080610	Fresh grapes	124,577	14,327	11.50
Namibia	020130	Fresh or chilled bovine meat, boneless	22,468	11,656	51.88
South Africa	080520	Fresh or dried mandarins	56,534	9,045	16.00
Malawi	170114	Raw cane sugar, in solid form	10,110	8,087	79.99
Botswana	020230	Frozen, boneless meat of bovine animals	8,374	6,397	76.39
Botswana	020130	Fresh or chilled bovine meat, boneless	11,744	6,093	51.88
Kenya	070820	Fresh or chilled beans	56,565	5,883	10.40
Cameroon	080390	Fresh or dried bananas (excl. plantains)	25,184	5,440	21.60
Côte d'Ivoire	080390	Fresh or dried bananas (excl. plantains)	25,152	5,433	21.60
South Africa	870332	Motor cars and other motor vehicles	53,095	5,310	10.00
Namibia	020230	Frozen, boneless meat of bovine animals	6,814	5,206	76.39
Egypt	080610	Fresh grapes	41,873	4,815	11.50
Egypt	620462	Women's or girls' trousers	38,972	4,677	12.00
Kenya	060311	Fresh cut roses and buds	53,012	4,506	8.50
Zambia	170114	Raw cane sugar, in solid form	5,803	4,466	76.95
Morocco	080520	Fresh or dried mandarins	27,230	4,357	16.00
Mozambique	170114	Raw cane sugar, in solid form	5,536	4,254	76.85
Mauritius	610910	T-shirts, singlets and other vests of cotton	27,840	3,341	12.00
Côte d'Ivoire	180400	Cocoa butter, fat and oil	42,684	3,287	7.70
Morocco	870331	Motor cars and other motor vehicles	32,779	3,278	10.00
Tunisia	871200	Bicycles and other cycles	23,081	3,233	14.01

Source: Own elaboration based on EU Comext.

We have calculated the effect of the increase in tariffs using UK import demand elasticities estimated at HS 6 digits by Kee at al. (2009).[3] Although we tried to ensure the closest match possible between the elasticities and the product tariff lines, for some products it was impossible to assign an elasticity. In these cases, we assume a unitary elasticity for that specific product. Moreover, we have replaced some outliers with elasticities that would generate at most reductions of 100%. This implies a complete reduction of the values imported for the affected product. However, the number of intervention products is very small; only 85 country–product pairs received this treatment out of a sample of around 8,000.[4] These adjustments generated an weighted average import demand elasticity of -1.12.

Table 3 presents an aggregation of the effects on different products in African countries. In general, a removal of preferences would reduce African exports by €425 million – a fall of 2.6% in the value of exports to the UK. This general result hides a wide dispersion of effects across countries. In general, the effect tends to follow closely the assessment performed above using the value of preferences. UK imports from Namibia, Swaziland and Mauritius may fall by more than 20% and those from Malawi and Madagascar by more

3 The effect of the increase in tariffs is obtained by multiplying the individual product value of the preference by the demand elasticity.

4 It also affected products with very low trade. The largest affected product implied imports of just €1.5 million.

Table 3. Effect on UK imports from African countries

Country	Average UK imports (€'000s) 2013-2015	Change in import demand (€'000s)	Import effect (%)
Mauritius	287,611	-62,329	-21.67
South Africa	4,672,603	-85,136	-1.82
Morocco	695,895	-56,001	-8.05
Egypt	882,184	-54,502	-6.18
Ghana	323,284	-27,075	-8.38
Namibia	67,575	-18,589	-27.51
Kenya	346,554	-22,358	-6.45
Tunisia	345,352	-24,401	-7.07
Botswana	961,725	-12,538	-1.30
Côte d'Ivoire	196,479	-10,884	-5.54
Malawi	31,802	-5,610	-17.64
Madagascar	50,683	-7,946	-15.68
Mozambique	101,086	-7,283	-7.20
Cameroon	146,804	-6,190	-4.22
Zambia	42,212	-3,645	-8.63
Swaziland	16,372	-3,914	-23.91
Algeria	3,515,567	-4,216	-0.12
Senegal	33,703	-2,772	-8.22
Tanzania	36,322	-2,893	-7.97
Zimbabwe	39,879	-2,254	-5.65
Nigeria	2,888,017	-2,196	-0.08
Uganda	19,764	-1,619	-8.19
Ethiopia	45,890	-1,072	-2.34
Angola	726,554	-405	-0.06
Rest of African countries	1,269,737	-1,080	-0.09
Total Africa	16,473,919	-425,828	-2.58

Source: Own elaboration based on EU Comext.

than 15%. Considering how much the UK takes up of the exports of these countries (Mendez-Parra et al., 2016), a removal of UK preferences may reduce the total exports of Mauritius by almost 5%.

Table 4 shows, for each of the countries identified in Table 3, what products are most affected. In Mauritius and Ghana, tuna exports to the UK may experience a reduction of more than 24%. Imports of beef from Namibia and Botswana may experience reductions of more than 52% and 76%, respectively. Exports of sugar to the UK from Malawi, Zambia and Swaziland may fall by 45%. This suggests important individual effects on exports in a wide range of products.

This adjustment to imports has consequences beyond the figures presented here. As mentioned in the previous section, the competitiveness of many of these products depends on their preferences; they are not competitive in other markets. This means it will be extremely difficult for African exporters to find a substitute for the UK market. Consequently, production may need to be scaled down significantly, if not stopped altogether. Jobs are likely to be lost. For products where African countries remain competitive, although other markets may offset the UK, the elimination of preferences may result in significant reductions to farmers' and workers' income.

It is difficult to assess the effect on jobs and income associated with these changes. Data on sectoral employment are missing, making it impossible to calculate such effects accurately. However, it is possible to identify some cases of interest that can help us gauge the likely effect of not extending preferences to these countries. For example, the tuna canning industry in Mauritius employs 2,700 workers (Hamilton et al., 2011). There are, of course, other workers indirectly employed. The UK accounts for 18% of the total canned tuna exports of Mauritius. Although Mauritius seems to be globally competitive, if canneries cannot reorient their exports to other markets, they will need to make some adjustments to output and employment. In a small island like this one, an adjustment of this nature may have important effects.[5]

Sugar is another frequently cited case. A single company in Malawi directly employs 5,480 workers in the production of sugar.[6] It is difficult to identify, for this company, how much the UK takes up of its total exports. However, the UK accounted for a third of Malawian sugar exports in 2015. The elimination of preferences will imply a reduction of exports to the UK of 45%. Considering that there are other world players substantially more competitive than Malawi in sugar (e.g. Brazil), it will be very hard to avoid laying off workers to adjust to the change in market access in the UK.

These are just two cases illustrating potential damage to African countries' trade and economies. They also highlight, despite data weaknesses, the people affected. They show that the importance of UK preferences for these countries goes beyond the already high costs of trade. The UK can work to avoid this damage, but it can also improve what is already being doing under the EU. A review of what other countries do with their preferential regimes offers ideas as to what can be done.

5 A simple calculation using the number of people employed in Mauritius in 2016 (538,600) suggests that the preferential market access to the UK provides directly 0.1% of the employment, or almost 500 positions.

6 https://www.illovosugarafrica.com/About-us/Malawi

Table 4. Products most affected by an elimination of preferential access in the UK

Country	HS code	Description	Average UK imports (€'000s) 2013-2015	Change in imports (€'000s)	Change (%)
Mauritius	160414	Prepared or preserved tunas	110,671	-26,731	-24.2
Ghana	160414	Prepared or preserved tunas	80,141	-19,357	-24.2
South Africa	080610	Fresh grapes	124,577	-14,029	-11.3
Namibia	020130	Fresh or chilled bovine meat, boneless	22,468	-11,740	-52.3
Kenya	070820	Fresh or chilled beans	56,565	-9,708	-17.2
Tunisia	871200	Bicycles and other cycles	23,081	-8,507	-36.9
Botswana	020230	Frozen, boneless meat of bovine animals	8,374	-6,397	-76.4
Cameroon	080390	Fresh or dried bananas (excl. plantains)	25,184	-5,980	-23.7
Côte d'Ivoire	080390	Fresh or dried bananas (excl. plantains)	25,152	-5,972	-23.7
Morocco	870331	Motor cars and other motor vehicles	32,779	-4,677	-14.3
Malawi	170114	Raw cane sugar, in solid form	10,110	-4,553	-45.0
Mozambique	760110	Aluminium, not alloyed, unwrought	63,207	-3,710	-5.9
Madagascar	611011	Jerseys, pullovers, cardigans of wool	19,164	-2,545	-13.3
Zambia	170114	Raw cane sugar, in solid form	5,803	-2,514	-43.3
Algeria	310210	Urea	36,015	-2,341	-6.5
Swaziland	170114	Raw cane sugar, in solid form	3,636	-1,582	-43.5
Tanzania	240120	Tobacco, partly or wholly stemmed	12,086	-1,427	-11.8
Zimbabwe	240120	Tobacco, partly or wholly stemmed	7,274	-864	-11.9
Senegal	070310	Fresh or chilled onions and shallots	3,056	-842	-27.5
Nigeria	271019	Medium oils and preparations of petroleum	11,717	-603	-5.1
Uganda	240120	Tobacco, partly or wholly stemmed	4,336	-487	-11.2
Ethiopia	411200	Leather further prepared after tanning	1,729	-199	-11.5
Angola	901580	Instruments and appliances	1,897	-62	-3.3

Source: Own elaboration based on EU Comext.

4. Review of other GSP regimes

The Enabling Clause introduced exceptions to the non-discriminatory spirit of the GATT. Under this, developed WTO members can grant preferential access to developing countries. Moreover, 'Special treatment on the least developed among the developing countries' is also considered. This decision allowed for the creation of the GSP. A 1999 General Council Decision allowed developing countries to extend preferential treatment to LDCs.

The Enabling Clause did not specify the characteristics and details of preferential regimes. Each developed member is free to define the scope, the coverage and the type of benefits granted. This has led to the generation of a wide range of characteristics in the GSPs defined. The regimes vary in terms of the products, the depth of the preference and the countries covered.

However, some general elements could constrain definition of the system. The most important relates to discrimination between developing countries. The GSP allows for the exclusion of some developing countries based on 'objective criteria' (VanGrasstek, 2013). The Dispute Settlement Body in 2002, in a panel that India initiated against the EU, established that different preferences could be granted to products originating in different GSP beneficiaries when they respond to particular development, financial or trade needs and are made available on the basis of an objective standard to all countries that share that need. However, this suggests geographical discrimination will not be WTO-compatible. For this, it seems clear the only discrimination automatically allowed is a special regime for LDCs. Countries may either limit their preferential regimes exclusively to these countries or create more beneficial conditions in the use of the regime for these countries.

These general constraints notwithstanding, regimes tend to differ notably even in this regard. Some countries have managed to introduce tiers and levels between developing countries. Others have managed to extend LDC treatment to other non-LDCs. WTO compatibility is not enforced unless a panel, initiated by an affected member, decides to the contrary.

Table 5 shows product coverage and depth for some existing preferential regimes. Regimes tend to differ notably in terms of product coverage. All products

Table 5. Product coverage of preferential regimes

Regime	Product coverage	Depth of preferences
Australia	All products	Total for LDCs
Canada	• Limited coverage in the general regime. Many agricultural products and industrial goods (apparel, footwear, chemical products) either excluded or have limited preferences. • All products (except dairy, poultry and egg products) from LDCs.	Total for LDCs
China	• 97% of tariff lines. Excluded tariff lines mostly concern automobile, paper and timber products. Products subject to global quotas are also excluded.	Total
EU	• All products (except arms) for LDCs. • GSP+: 66% of tariff lines (total reduction). • Standard GSP: 66% of tariff lines (partial reduction).	Standard GSP: partial GSP+: total EBA: total
Japan	• Only for selected agricultural and fishery products in 337 items, and for selected industrial products in 3,141 items. • LDCs receive duty-free quota-free access in additional products.	Partial
Switzerland	• Limited coverage in the general regime. Many agricultural products, textiles and clothing are either excluded or have limited preferences. Safeguards may be applied in certain chapters. • All products for LDCs.	Total for LDCs
US	• Most dutiable manufactures and semi-manufactures, as well as selected agricultural, fishery and primary industrial products. • List of products for least developed beneficiary developing countries is wider.	Total

Source: Own elaboration based on UNCTAD.

have either full (in the case of LDCs) or partial (in the Australian GSP) preferences. Japan's GSP offers the most limited regime, with only a limited set of products eligible, even for LDCs. However, LDCs in all regimes tend to receive total or full preferences. For other developing countries the depth of preferences received varies by regime.

Except for China, limited by the 1999 General Council Decision, countries organise their preferential regimes in at least two tiers. A general regime is available to some or all developing countries, and a special regime applies only to LDCs. The EU, on the other hand, offers a three-tier system: a general regime, a limited special regime for some non-LDCs (the GSP+) and the EBA, available to LDCs.

Table 6 shows country coverage of the preferential regimes analysed. However, there are significant variations in terms of country eligibility. The Enabling Clause makes it possible to offer better preferences to LDCs. However, countries have been able to introduce additional requirements or features that vary the beneficiaries of this special treatment. The US, for example, does not offer preferences to Lao PDR, Myanmar or Sudan. These countries are not eligible for the whole US GSP because they do not meet some of its mandatory criteria. For example, the US GSP excludes communist countries or those that do not operate under normal trade relations.

The EU manages to introduce discrimination within developing countries beyond the usual LDC and non-LDC dichotomy. In the GSP+, eligible countries must not only have approved and adopted a series of international conventions on human and labour rights, good governance and the environment, but also have a non-diversified economy as well as being not overly competitive in the EU market. These criteria are established to ensure the GSP+ primarily benefits small and medium-sized non-LDCs.

Table 6. Preferential country coverage

US	61 developing countries for the general regime. 44 least-developed beneficiary developing countries. Special regime for African (African Growth and Opportunity Act) and Caribbean countries (Caribbean Basin Economy Recovery Act).
EU	Standard GSP: 18 countries.
	GSP+: 9 countries.
	EBA: 49 countries.
Switzerland	All developing countries, with exception of members of Organisation for Economic Co-operation and Development.
Japan	All developing countries.
Australia	All developing countries; additional benefits for LDCs and specified South Pacific island territories.
China	40 LDCs having diplomatic relations with China are eligible.
Canada	Developing countries.

Source: Own elaboration based on UNCTAD.

Table 7. Country selection criteria

Australia	No exclusions for developing countries.
Canada	Unclear.
China	Only LDCs. Beneficiaries are required to exchange letters of agreement with the Chinese government.
EU	• Country must not be classified as high- or upper-middle-income to classify as GSP beneficiary. Countries that have concluded FTAs with the EU are also excluded. • GSP+ beneficiaries must meet vulnerability (non-diversified economy) and competitiveness criteria (i.e. GSP-covered imports to the EU represent less than 2% of total value of GSP imports). GSP+ must have ratified and comply with a series of conventions on labour rights, governance and the environment. • EBA available to all LDCs.
Japan	No exclusions for developing countries.
Switzerland	All developing countries, with exception of members of Organisation for Economic Co-operation and Development.
US	There is a set of mandatory criteria. However, the beneficiary country can be graduated from the programme on discretion of the president. The president may withdraw, limit or suspend the GSP treatment if 'the country is determined to be sufficiently competitive or developed'.

Source: Own elaboration based on UNCTAD.

Australia, on the other hand, has managed to expand the treatment given to LDCs to a group of South Pacific countries, including non-LDCs. The Forum Island Country preferences allow these countries to access the Australian market under conditions similar to those available to LDCs. Interestingly, unlike in the standard GSP, Australia is not able to modify these preferences unilaterally, as they were agreed as part of the South Pacific Regional Trade and Economic Co-operation Agreement. In this sense, this regime is better than the general GSP regime, which Australia could scrap unilaterally. Although these preferences have been established through an agreement, they remain non-reciprocal.

General GSP eligibility also presents important variations. Table 7 shows the country selection criteria for each regime. In general, the general regime includes all developing countries, except China. However, the US, the EU and Switzerland limit country coverage to a smaller set of developing countries. Moreover, as they use different criteria to select them, they tend to generate different lists of beneficiaries.

Switzerland presents the simplest criterion by excluding all developing countries that are members of the Organisation for Economic Co-operation and Development (OECD) or that have an FTA in place. This criterion has left countries such as Mexico, Korea and Chile, for example, uncovered. The EU GSP also excludes countries that have concluded FTAs. This omits the same

countries but also leaves African countries, such as Ghana and Kenya, uncovered, as well as many other developing countries. In addition, developing countries that have achieved high- or upper-middle-income status are excluded (Argentina, Brazil, Russia, among others).

The US applies a high degree of discretion as to countries that will benefit from its GSP. The mandatory criteria exclude countries that are classified as communist, that manipulate markets to alter international prices or that have seized US citizens/corporations without retribution, or where the preference may have a significant adverse effect on US commerce. It will not grant preferences if the country has not adopted minimum human and working rights. This has left Lao PDR, Myanmar and Sudan uncovered.

More interesting, however, is the discretionary power the US president has to withdraw or limit preferences. Although the president must consider some criteria in designating countries for inclusion, these are wide enough to grant him or her large room for discretion. For example, Argentina in 1997 and Ukraine in 2001 had some of their benefits suspended because of disputes with the US on intellectual property rights. Moreover, the general guidelines suggest the president can remove benefits to countries that have achieved a certain level of economic development. This led to the graduation of Korea, for example, officially a developing country and covered by the Canadian GSP regime.

The African Growth and Opportunities Act (AGOA) constitutes a special case for analysis. This is an enhanced regime available to sub-Saharan African beneficiaries of the GSP. The regime is time-bound (it expires in 2025). Beneficiaries must have established or be in the process of establishing a market-based economy and private property rights, eliminating any restrictions to trade and investment from the US and working towards the reduction of poverty, among other conditions.

AGOA is not the only geographically based preferential regime in the US. The Caribbean Basin Economy Recovery Act and the now expired Andean Trade Preferences Act aimed to provide improved preferential access to GSP beneficiaries located in specific regions.

However, these regimes have not been established in the expectation that they will not be challenged by any affected member. The US has been requesting waivers from the WTO General Council in order to ensure the correct implementation of these regimes. This has introduced an additional source of uncertainty for beneficiaries, as waivers require the consensus of all WTO members. However, it is not possible to challenge waivers once granted.

Although the Enabling Clause and Appellate Body decisions tend to be particularly clear, the wide range of treatments and the different departures with respect to provisions suggest a WTO-compatible GSP regime is far from being unique. A preferential regime will remain WTO-compatible as long as no affected member challenges it and a panel determines its unsuitability. Nevertheless, our review suggests there is a large amount of room for manoeuvre. Even without a waiver, it is possible to define a regime with provisions focusing its benefits on a specific set of countries. Consequently, defining a regime that benefits primarily African countries, albeit not limiting these benefits to these countries, may be possible.

5. A new UK preferential regime

Although African countries must be key beneficiaries of any new preferential regime, it is key to understand that, in order to ensure the system is operational and politically viable, the regime should not be limited to them. The system will need to be open and available to countries outside Africa. Although, as we have seen, there are cases of regimes that are limited to particular regions (e.g. AGOA), these tend to be based on requesting waivers from the WTO. This would thus mean the UK making a formal request to the General Council of the WTO.

Doing this presents a series of problems. On the one hand, the UK is expected to be under severe stress in the coming years to negotiate and renew trade agreements. Although the UK is a full member of the WTO, some work will be necessary to regain the complete exercise of this membership. Technical resources in the UK will be in heavy demand. Adding a negotiation (e.g. the waiver) to the UK's already busy schedule will be counterproductive. Part of any success in securing a frictionless transition for Africa will lie in simplifying the work necessary for the UK.

On the other hand, other WTO members are unlikely to agree to a waiver that would exclude them. Bangladesh, for example, with 10% of its exports going to the UK (Mendez-Parra et al., 2017), is likely to object to such a regime, either rejecting it outright or similarly requesting a tailored regime.

Moreover, it is unlikely that the UK will agree to limit preferences to Africa, considering its historical and political links with other regions.

This does not prevent the design of a general regime that, while open to many developing countries, is defined in a way that benefits primarily African countries. This will require the answering of key questions:

- Who should the regime benefit and what should the eligibility criteria be?
- Into how many tiers/levels should the regime be organised?
- What products should be covered at each level and what should be the depth of the preferences?
- What other issues should be considered?

5.1. Who should the regime benefit and what should the eligibility requirement be?

Based on our analysis of the importance of existing UK preferences, a wide range of countries in Africa should benefit from a new regime. Most LDCs are located in Africa, and these should be among the beneficiaries. However, those benefiting most from current preferential access are non-LDCs, such as Kenya, Ghana and Egypt. Mauritius, an upper-middle-income country, would also be severely affected.

Defining country coverage implies identifying a line between minimum coverage (i.e. LDCs) and maximum coverage (i.e. all developing countries). Given that the majority of LDCs are in Africa, and based on their level of income, African countries will be located in the lower part of this distribution. Even when the line is defined towards the lower end, most African countries will be covered. However, the question is not to draw a line to include all African countries and exclude others. At the end of the day, preferences for everyone are preferences for no one. A very wide regime in terms of country coverage would reduce the benefits associated with preferences for all, damaging particularly the most vulnerable countries.

Other preferential regimes have used the exclusion of countries, through objective criteria, to increase the benefits of the incumbents. The EU and Switzerland have managed to exclude large and relatively wealthy developing countries such as Argentina, Brazil, China, Korea, Mexico and Russia, among others. Switzerland bases its criterion on OECD membership, whereas the EU excludes all developing countries classified as high- or upper-middle-income countries by the World Bank.

An exclusion based on the EU criterion would present a series of problems. For example, it would exclude Mauritius and South Africa. The case of South Africa may be potentially less problematic. Although severe pockets of poverty remain in the country, the economy has achieved a certain degree of complexity and development that makes it more compatible with the UK economy. This suggests South Africa is potentially among the countries with which the UK will want to quickly renew the existing Trade and Development Cooperation Agreement (TDCA), maintaining for South Africa (indeed, the Southern African

Table 8. Country coverage of proposed preferential regime

Country	Criterion	Country	Criterion	Country	Criterion
Afghanistan	LIC	Haiti	LIC/SIDS	Philippines	LMIC
Armenia	LMIC	Honduras	LMIC	Rwanda	LIC
Bangladesh	LMIC	India	LMIC	Samoa	SIDS
Belize	SIDS	Indonesia	LMIC	São Tomé	LMIC/SIDS
Benin	LIC	Jamaica	SIDS	Senegal	LIC
Bhutan	LMIC	Jordan	LMIC	Sierra Leone	LIC
Bolivia	LMIC	Kenya	LMIC	Solomon Islands	LMIC
Burkina Faso	LIC	Kiribati	LMIC/SIDS	Somalia	LIC
Burundi	LIC	Korea, Dem. Rep.	LIC	South Sudan	LIC
Cape Verde	LMIC/SIDS	Kosovo	LMIC	Sri Lanka	LMIC
Cambodia	LMIC	Kyrgyz Republic	LMIC	St Lucia	SIDS
Cameroon	LMIC	Lao PDR	LMIC	St Vincent	SIDS
Central African Republic	LIC	Lesotho	LMIC	Sudan	LMIC
Chad	LIC	Liberia	LIC	Suriname	SIDS
Comoros	LIC/SIDS	Madagascar	LIC	Swaziland	LMIC
Congo, Dem. Rep	LIC	Malawi	LIC	Syrian Arab Republic	LMIC
Congo, Rep.	LMIC	Maldives	SIDS	Tajikistan	LMIC
Côte d'Ivoire	LMIC	Mali	LIC	Tanzania	LIC
Cuba	SIDS	Marshall Is	SIDS	Timor-Leste	LMIC/SIDS
Djibouti	LMIC	Mauritania	LMIC	Togo	LIC
Dominica	SIDS	Mauritius	SIDS	Tonga	SIDS
Dominican Rep.	SIDS	Micronesia	LMIC	Tunisia	LMIC
Egypt, Arab Rep.	LMIC	Moldova	LMIC	Tuvalu	SIDS
El Salvador	LMIC	Mongolia	LMIC	Uganda	LIC
Eritrea	LIC	Morocco	LMIC	Ukraine	LMIC
Ethiopia	LIC	Mozambique	LIC	Uzbekistan	LMIC
Fiji	SIDS	Myanmar	LMIC	Vanuatu	LMIC
Gambia, The	LIC	Nauru	SIDS	Vietnam	LMIC/SIDS
Georgia	LMIC	Nepal	LIC	West Bank and Gaza	LMIC
Ghana	LMIC	Nicaragua	LMIC	Yemen, Rep.	LMIC
Grenada	SIDS	Niger	LIC	Zambia	LMIC
Guatemala	LMIC	Nigeria	LMIC	Zimbabwe	LIC
Guinea	LIC	Pakistan	LMIC		
Guyana	SIDS	Papua New Guinea	LMIC/SIDS		

Source: Own elaboration based on World Bank and UN.

Customs Union) existing market access. In fact, some initial steps have been taken to continue the TDCA after Brexit. This should also address market access for Namibia and Botswana – both upper-middle-income countries. In fact, a recent joint declaration between the UK and the Southern Africa Development Community aims to work to renew the existing EPA with the UK.

The exclusion of Mauritius requires careful analysis. Although it is an upper-middle-income country, it is also a Small Island Developing State (SIDS) recognised by the UN and a small, vulnerable economy (SVE) recognised by the WTO as needing enhanced special and differential treatment. Moreover, the Commonwealth has been advocating for special attention to the problems of these states. This suggests it will be possible to include these countries as beneficiaries of the agreement, in the same way that Australia has included Small Pacific Islands.

Consequently, a new UK GSP regime should provide preferential access to countries that, although not among the poorest, require special consideration by virtue of their disadvantageous location and their limited resources given their size. Moreover, their vulnerability and capability to respond to natural shocks should also be considered.

The identification of income-related objective criteria is relatively straightforward. The lists of low-income countries (LICs) and lower-middle-income countries (LMICs) defined by the World Bank provide the countries that would qualify for the GSP based on their level of income per capita. This would leave Algeria and Gabon out of coverage. However, they are not beneficiaries of the EU GSP, which means they will not be affected by a change in the coverage of the UK GSP.

Objective criteria that address the vulnerability and/or the capacity to respond to natural shocks are more complicated to find. This is because the nature of the challenges that these countries may face are too diverse to be captured by a single variable. However, whatever the criteria chosen, the regime should aim to include, in addition to the LICs and LMICs, all those non-high-income (as defined by the World Bank) SIDS.[7]

Table 8 presents the country coverage and the criterion used for selecting each country in the proposed regime. It includes all the countries that would be eligible for the general regime. Countries such as Argentina and Brazil, to name two, are not included as they are classified as upper-middle-income by the World Bank. The income criterion selects most of the countries, and only a few are selected exclusively by virtue of being vulnerable, represented here by the SIDS membership.

This positive list, nevertheless, would leave some large developing countries such as India, Indonesia and Vietnam still benefiting from the regime, reducing the benefits of the incumbents. Although these countries still have significant segments of their populations with low levels of income, they have reached levels of economic development that make them globally competitive in multiple sectors. This suggests they may not be very dependent on preferences for the survival of their industries.

Although it may be possible to exclude these countries using objective criteria similar to those used to define eligibility for the EU GSP+ (i.e. the competitiveness criteria), there is a possibility that they will challenge a regime that excludes them. Although the GSP+ has never been challenged, India reserved the right to request consultations with the EU after the GSP+ was established (VanGrasstek, 2013). Consequently, the system should, for the sake of simplicity in its eligibility criteria and to avoid potential challenges, maintain the status quo with respect to these countries. However, it is possible to maximise the benefits for a group of countries by using a tiered system.

5.2. Into how many tiers or levels should the regime be organised?

Simplicity should be a principle behind trade policy and general policy design (Mendez-Parra, 2017). Simple and transparent policies facilitate their implementation and limit arbitrariness. These general principles must apply to the design of the UK preferential regime, to benefit the target countries in the process.

A single-tiered regime would be ideal in this sense. The same level of market access for all beneficiaries would be very easy to implement and monitor. For example, although it has been affected by WTO regulations, the single-tiered Chinese GSP regime is simple (but not necessarily transparent).

However, a single-tiered preferential regime may present a series of issues. Looking at the country coverage presented above, it would give large and competitive developing countries a similar level of market access to that given to LDCs. This would reduce the benefits of the regime for the poorest countries. Moreover, it may imply an improvement of market access for these large countries. Based on our discussion on the negative effects of preferences on exporting economies, this would constitute a step in the wrong direction. Moreover, it would interfere with the UK's trade strategy on engagement with these large developing countries.

On the other hand, a multiple-tiered preferential regime could assign different levels of preferential access to different countries. This is what lies behind the EU GSP regime and its three levels: general GSP, GSP+ and EBA. This system is attractive in the sense that it tailors market access to the level of income of the beneficiary. It is, however, complex to manage. Beneficiaries need to be monitored with respect to the eligibility conditions. Again, the more complex the system, the higher the chance of arbitrariness.

The regime thus needs to be defined in such a way that it is balanced between simplicity and benefits. As such, a two-tiered system should be considered. First, a general regime with limited preferential access should be available to all beneficiary countries as defined above. Assuming that the UK will maintain the same level of MFN tariffs after leaving the EU, the preferential regime should follow the same lines as the standard EU GSP regime.

A second tier, providing full preferences in all products, would be available for a group of countries that meet a series of vulnerability and competitive criteria. We discuss later the product coverage of each tier. This tier should be defined in such a way that LDCs, non-high-income SIDS and many of the non-LDCs qualify. In fact, the EU GSP+ vulnerability and competitive criteria are likely to be suitable here. However, whatever the criteria, they should be strictly economic- and trade-related.

7 This is to avoid a very high-income country such as Singapore benefiting from the regime and being used as an export platform by other countries.

This tiered system is designed to provide all African countries covered by the regime with similar market access. Moreover, it would maintain at least the *status quo* of all the current EU GSP beneficiaries. This minimises the grounds for challenges to the system, as no country would be left worse-off in comparison to existing preferential access.

5.3. What products should be covered at each level and what should the depth of the preferences be?

The two levels should differ in terms of product coverage. The general regime should offer preferential access that is less advantageous than that in the targeted regime. In this way, the LDCs, non-high-income SIDSs and small non-LDCs will benefit more from the targeted regime compared to the beneficiaries of the general regime.

Assuming that the UK's MFN tariffs remain at the same levels, the general regime should offer similar preferential access to the EU standard GSP. This means preferential access in roughly 50% of products. In a third of products, the MFN tariff is already at zero. In the rest, no preferences will be offered.

In terms of depth of preferences at the general level, a combination of duty-free and partial preferences should be offered for the products covered. A potential approach, similar to that applied by Australia, would be to reduce all those tariffs of 5% or less to zero. Tariffs above this threshold could receive a partial preference, at a 50% reduction on the existing duty.

The targeted level, on the other hand, should offer preferences across the universe of products. All beneficiary countries should be offered the same preferential access in all products. This approach will constitute an improvement of market access for the current GSP+ beneficiaries. Although this will benefit non-African countries, it is expected that the preference erosion effects on African exports will be minimum. Moreover, this coverage will provide improved market access for almost all African non-LDCs.

Preferences under the targeted regime must be full. All tariffs for exports originating in the beneficiaries of the targeted regime should be at zero. In this way, all African countries will see their level of market access at least remain unaffected. In some cases, such as Cape Verde and Nigeria, this will constitute an improvement to their existing market access.

The remaining critical distinction between the general and the targeted regime relates to the products to be covered. This is complicated to assess, as each African country exports different products. However, based on analysis of total African exports to the UK, the system should exclude from the general regime agricultural products such as fresh fruits and vegetables, sugar, coffee, cocoa, tea, sugar, spices and their processed products. It should also exclude unprocessed and processed meats and fish. Other agricultural products (e.g. leather) may also need to be excluded.

This is a non-exhaustive list; other products may need to be excluded from the general regime in order to maximise the benefits of the target. The list will also depend on the structure of the MFN tariff the UK will adopt. Although the level of the MFN tariffs may remain unchanged in the short run, in the unlikely event that tariffs are raised on important African products (e.g. minerals), these products should be also excluded from the general regime.

5.4. Other issues to consider

The effectiveness of a preferential regime goes beyond its design; other aspects related to its implementation can be key in delivering its benefits. The way in which rules of origin and procedures to certify compliance with these are designed can act as an enhancer of the effects of preferences or as a stumbling block in their use.

These aspects require an in-depth analysis and discussion that goes beyond the scope of this paper. Such an analysis must identify the main type of rules of origin and highlight the most adequate for the types of product exported from Africa. This will not be a simple task, considering the wide range of such products. Some products may benefit from value added-based rules, whereas others may find product description changes more appropriate.

Product- or sector-specific rules of origin are also possible. This could allow for the combination of different type of rules of origin in a single regime. Although it seems that this would address the issue of tailoring rules of origin to the products exported from Africa, it introduces an additional complication to the regime. Moreover, regime-wide rules of origin (i.e. general across-the-board directives) can still be restrictive (Estevadeordal et al., 2009). However, they are less complex and easier to meet than the product-specific ones.

In addition, to allow for any type of cumulation rule, the compatibility of types of rules of origin across regimes and trade agreements is crucial. In this, our regime has a clear advantage, as it provides the possibility to cumulate origin between all beneficiaries of the regime. If full cumulation is allowed, beneficiaries will be able to consider as domestic the intermediate products sourced in other beneficiaries and used in the production of the exported product. This will be extremely helpful for the formation of regional value chains in Africa.

Moreover, if these rules of origin are compatible with those that will be defined in the FTAs that the UK may negotiate with third countries, further cumulation will be possible with these partners. This will expand value chain integration for African countries and may help in the development of export platforms based in Africa using inputs originated in multiple origins.

In addition, in light of the low use of preferences in some African countries associated with the certification of compliance (Gasiorek et al., 2010), such a study should analyse how to streamline the system. This will require the analysis of international experiences, highlighting the role of Aid for Trade in facilitating compliance.

Such a discussion on rules of origin will require time and effort dedicated to researching the existing literature and international practices. The importance of this issue should not be downplayed, as the effectiveness of the preferential regime would be based on how such rules are defined and implemented.

5.5. Summary

The following points summarise the proposed preferential regime:

- It should be a two-tiered regime: a general and a targeted regime.
- LICs, LMICs and other vulnerable countries should be eligible.
- The targeted regime should be available only to those beneficiaries of the general regime that meet a vulnerability criterion (e.g. a high concentration of exports to the UK) and/or that are not very competitive in the UK (e.g. a low share of imports from that country among beneficiary countries).
- The targeted regime should offer duty-free and quota-free access across the universe of products.
- The coverage of the general regime should be limited to half of the universe of products.
- The general regime should offer duty-free access for all those products where the MFN tariff is 5% or less and a 50% reduction in duty on the rest of the products covered in this regime
- Key agricultural products (fruits, vegetables, coffee, tea, sugar, fish), textiles, clothing, footwear and light manufactures should be excluded from the general regime, to be reserved for the targeted regime.
- The regime should allow the definition of common rules of origin for all its beneficiaries, facilitating origin cumulation. This may be potentially be extended, providing rules of origin are compatible with the FTAs that the UK may negotiate with other countries.

6. Conclusion

Brexit presents serious policy-making challenges. Minimising disruption to existing market access to the UK for developing countries, and African economies in particular, after Brexit should constitute one of the most urgent actions. This paper has proposed a preferential regime for these countries that will provide at least the same level of market access to the UK economy as they have currently.

The proposal aims to guarantee market access for LDCs and non-LDC African countries, avoiding the renewal of their EPAs. Not only are most African countries rejecting EPAs, but also their renewal after Brexit may require more than just replacing the EU with the UK in the paperwork. African countries may take the opportunity to request modifications to the EPAs; considering that such EPAs were negotiated more than 10 years ago, they may want to introduce changes that speak to their interests, such as continental coverage.

A unilateral GSP regime will avoid disruption to market access for African countries and will be simpler to design and implement. Moreover, the regime presented in this paper may also represent an improvement with respect to the existing regime. The proposed regime is simpler and targeted to the most vulnerable countries.

A review of existing GSP regimes identified the main and best practices in the design of preferential regimes. This resulted in our production of a regime that is at minimum risk of being challenged by virtue of its non-WTO compatibility. Special care was taken to ensure none of the existing beneficiaries of the EU GSP regime would be worse off in the new regime.

The definition of a two-tiered regime makes it possible to target benefits to the most vulnerable countries, a group that includes almost all African countries. This guarantees that African countries will have at least the same level of market access as they had before Brexit. In fact, there will be improvements in market access for some of them.

The general regime, available to eligible non-vulnerable developing countries, would provide partial preferences in many products, excluding those that are key to the targeted regime: agricultural products, textiles, clothing, footwear and light manufacturing. These products are vital for Africa in terms of its trade and its economic transformation policies. Some key details, such as the thresholds that will determine inclusion in the target regime further research.

The proposal does not discuss key aspects related to rules of origin and certification of compliance with these. However, we do not downplay their importance. In fact, the effectiveness of the regime will depend to a large extent on how rules of origin are defined and implemented. More in-depth research and analysis are required to identify the different aspects of rules of origin that benefit African countries the most.

This paper contends that the merits of the extension of preferences are based on the need to avoid serious damage to developing countries, and African countries in particular. Preferences remain a controversial tool due to their negative incentives, particularly related to the inefficient allocation of resources in non-competitive sectors. Dependence on preferences in many sectors in Africa puts countries at risk of the preference erosion that is expected to prevail as the UK negotiates FTAs with third countries such as Brazil and India, where competitors to African exporters are based.

This suggests that this UK GSP needs to be seen as a transitional tool in the process toward creating a more effective and sustainable tool for trade engagement with Africa. Although at this stage is hard to assess how long this transition period should last, the ultimate objective should not be lost from sight. The UK can facilitate achievement of African industrialisation and integration objectives and can offer more in the form of long-term partnership with Africa. In this sense, consideration should be given to a comprehensive and development-oriented FTA to effectively support Africa's integration, industrialisation and development agendas. Such an agreement will take time to negotiate – which is why this UK GSP is crucial to maintain current levels of market access in the meantime.

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