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Global Trade Slowdown, Brexit and SDGs: Issues and Way Forward

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Background

The Sustainable Development Goals (SDGs) outlined in the *2030 Agenda for Sustainable Development*, adopted by the international community in September 2015, is a global framework of actions over the next 15 years to tackle critical socio-economic challenges faced by developing countries.[1] Through its 17 goals linked to 169 targets, the progress of which is to be measured by as many as 304 proposed indicators, the SDGs aim to eliminate extreme poverty, combat inequalities, promote prosperity and strengthen global partnerships while protecting the environment. Building on the Millennium Development Goals (MDGs) initiative implemented during 2000–15, this new global architecture seeks to finish what the MDGs started. However, the SDGs go much beyond in clearly identifying the tools, or 'means of implementation', for meeting the targets.

Unlike its predecessor, the 2030 Agenda provides an elaborate role – both direct as well as cross-cutting – for international trade for achieving many of the specific SDGs and targets (Table 1). Indeed, trade has been directly referenced nine times in the seventeen SDGs compared to just once in the MDGs. This heartening effort of mainstreaming trade in a global development strategy has, however, come at a rather inauspicious time. More than eight years after the global financial crisis of 2008, the world economy is still struggling to return to its pre-crisis growth trajectory. The growth of world trade has also been depressingly sluggish for several years now amid the feeble economic performance of the euro-zone, growth slowdown in China, lower commodity prices and a stronger US dollar – all having adverse implications for developing countries' trade expansion. The failure to conclude the long-running Doha Round of multilateral trade negotiations contributing to the proliferation of regional trading arrangements has also placed the global trading system at a crossroads. Furthermore, the decision of British voters in a referendum on 23 June 2016 to leave the European Union (EU), termed 'Brexit', presents an additional shock to the system. The uncertainties caused by Brexit[2] may weaken the prospects for world economic recovery,[3] with severe implications for developing countries and Least Developed Countries (LDCs). Since trade is to play a major role

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1 United Nations (2015) 'Transforming Our World: The 2030 Agenda for Sustainable Development'.

2 The UK will have a period of two years to negotiate its exit from the EU after formal notice to withdraw has been given under Article 50 of the Lisbon Treaty. Until the end of that two-year period, the EU's common commercial policy will apply to UK's international trade relations.

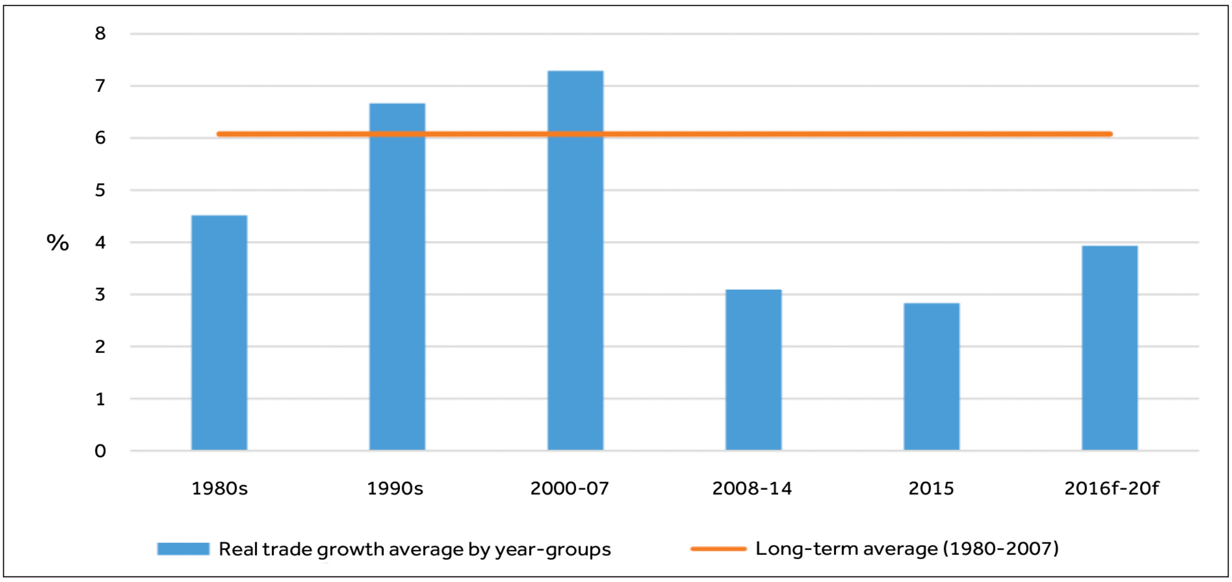
3 In its latest *World Economic Outlook Update* (July 2016), the International Monetary Fund (IMF) notes that Brexit has caused 'substantial' increase in economic, political and institutional uncertainty. The IMF has cut its global growth forecast for 2017 by 0.1 percentage point to 3.4 per cent. Growth of the UK economy for 2016 will slow by 0.2 percentage points to 1.7 per cent, while growth for 2017 has been cut from 2.2 per cent to 1.3 per cent.

Table 1: Trade-related aspects of SDGs

Goals	Trade-related aspects
Goal 2: End hunger, achieve food security and improved nutrition and promote sustainable agriculture	2.b: Correct and prevent trade restrictions and distortions in world agricultural markets, including through the parallel elimination of all forms of agricultural export subsidies and all export measures with equivalent effect, in accordance with the mandate of the Doha Development Round
Goal 3: Ensure healthy lives and promote well-being for all at all ages	3.b: Support the research and development of vaccines and medicines for communicable and non-communicable diseases that primarily affect developing countries, provide access to affordable essential medicines and vaccines, in accordance with the Doha Declaration on the Trade Related Aspects of Intellectual Property Rights (TRIPS) Agreement and Public Health, which affirms the right of developing countries to use to the full the provisions in the TRIPS agreement regarding flexibilities to protect public health, and, in particular, provide access to medicines for all
Goal 8: Promote sustained, inclusive and sustainable economic growth, full and productive employment, and decent work for all	8.a: Increase Aid for Trade support for developing countries, in particular least developed countries, including through the Enhanced Integrated Framework for Trade-related Technical Assistance to Least Developed Countries
Goal 9: Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation	9.3: Increase the access of small-scale industrial and other enterprises, in particular in developing countries, to financial services, including affordable credit, and their integration into value chains and markets
Goal 10: Reduce inequality within and among countries	10.a: Implement the principle of special and differential treatment for developing countries, in particular least developed countries, in accordance with World Trade Organization agreements
Goal 14: Conserve and sustainably use the oceans, seas and marine resources for sustainable development	14.6: By 2020, prohibit certain forms of fisheries subsidies which contribute to overcapacity and overfishing, eliminate subsidies that contribute to illegal, unreported and unregulated fishing and refrain from introducing new such subsidies, recognizing that appropriate and effective special and differential treatment for developing and least developed countries should be an integral part of the World Trade Organization fisheries subsidies negotiation
Goal 17: Strengthen the means of implementation and revitalize the Global Partnership for Sustainable Development	17.10: Promote a universal, rules-based, open, non-discriminatory and equitable multilateral trading system under the World Trade Organization, including through the conclusion of negotiations under its Doha Development Agenda (DDA) 17.11: Significantly increase the exports of developing countries, in particular with a view to doubling the least developed countries' share of global exports by 2020 17.12: Realize timely implementation of duty-free and quota-free market access on a lasting basis for all least developed countries, consistent with World Trade Organization decisions, including by ensuring that preferential rules of origin applicable to imports from least developed countries are transparent and simple, and contribute to facilitating market access

Source: United Nations (2015) 'Transforming Our World: The 2030 Agenda for Sustainable Development'.

Figure 1: Global trade volume of goods and services, average real percentage growth



Source: Authors' estimates using the data from IMF World Economic Outlook Database, April 2016.

in the SDG framework, the outlook for promoting trade-led economic growth and sustainable development may become more challenging.

This issue of *Commonwealth Trade Hot Topics* provides some perspectives on how the current global economic environment, including the possible impact of Brexit, bear upon the effectiveness of trade in achieving the SDGs, and what can be done to address this challenge.

The continuing global trade slowdown

In 2015, world trade[4] grew by 2.8 per cent, compared to an average of more than 7 per cent per annum in the decade immediately preceding the crisis. In fact, since 2011 for five consecutive years, global trade growth has been hovering around 3 per cent, which is less than half the average long-run (i.e. 1980–2000) growth and, given its nature of sustained sluggishness over such a prolonged period, is unprecedented. Available projection exercises seem to suggest continuation of subdued activities over the next several years ahead as well (Figure 1).

While the global financial crisis of 2008 acted as the main trigger, a combination of cyclical and structural factors has resulted in the persistence of this slowdown. Cyclical factors include post-crisis recession and faltering economic performance of large developing countries especially China and Brazil, weakening prices for energy and other commodities and so on. Among structural factors, China's rebalancing of economic activities away from investment and manufacturing towards consumption and services (i.e. away from the external sector towards domestic-driven demand) is thought to have had a depressing impact on trade and investment flows.

Consolidation of value chain activities in production and trade, particularly in China and the USA, leading to preference for domestic inputs rather than imported inputs, has also been cited as another prominent structural factor.[5] Global value chains (GVCs) played an important role in the rise of trade in the 1990s, triggered by increasing cross-border fragmentation of production processes of final goods. Since then, GVCs have matured to a point where domestic value-added has stabilised.

Trade expansion in the 1990s was supported by increasing trade liberalisation. In contrast, a stalemate in multilateral trade negotiations among World Trade Organization (WTO) members has failed to secure significant global trade opening at least since the launch of the Doha Round in 2001. Unilateral trade liberalisation drivers have also greatly slowed down, partly because the most ambitious reform measures were implemented by the 1990s. Many countries now also wait for further opening to be carried out under reciprocal measures for which trade negotiations (either regional or multilateral) take a very long time. In some cases, desire to achieve industrialisation and structural transformation in the domestic economy has also resulted in maintaining 'policy space' by not undertaking proactive tariff rationalisation initiatives.

4 Defined here as global trade volume of goods and services (IMF).
5 World Bank (2015) 'Global Economic Prospects: Having Fiscal Space and Using It', January . Washington, DC.

Table 2: Share of UK's total goods trade with different country groups, 1995-2014

	1995	2000	2005	2010	2014
EU-27 (European Union 27)	55.8%	53.0%	54.4%	49.8%	51.4%
OECD	79.2%	81.4%	78.9%	75.3%	74.8%
Developing economies	15.8%	18.6%	20.8%	24.0%	24.5%
China	0.8%	2.7%	4.5%	7.0%	7.5%
India	0.9%	1.0%	1.2%	1.5%	1.4%
ACP Countries	2.2%	2.3%	2.6%	2.7%	2.4%
Sub-Saharan Africa (SSA)	1.8%	2.0%	2.4%	2.5%	2.2%
LDCs	0.4%	0.4%	0.5%	0.7%	1.0%
CARICOM	0.3%	0.2%	0.2%	0.1%	0.1%

Note: Pacific SIDS are not included due to insufficient data.
Source: Authors' calculations using UNCTADStat.

All this has contributed to the weakening of the relationship between trade and GDP for the global economy as a whole. It has been estimated that during 1986–2000 a 1 per cent increase in global GDP was associated with a 2.2 per cent increase in the volume of trade. This elasticity for the period since 2001 has fallen to just 1.3 per cent.

The global economic crisis also fuelled a rise in protectionism with various trade-restrictive measures being implemented, many of which remain in place. This has had a detrimental impact on trade flows, particularly in the world's poorest countries. According to one estimate, LDCs have incurred a loss of US$264 billion of exports, as a result of these protectionist measures.[6] In other words, the value of LDC exports could have been 31 per cent higher if post-crisis protectionism had been avoided.

Post-Brexit trade and development implications

The UK is the world's fifth largest economy generating trade flows of US$1.6 trillion (almost 4 per cent of total world trade in goods and services in 2015). While the UK's total goods trade within the EU has remained relatively unchanged over two decades, the UK has steadily diversified its trade with developing economies, especially China. Developing countries now account for about 25 per cent of the UK's total goods trade – approximately US$300 billion (Table 2).

Owing to strong historical ties, the UK is an important export destination for many African, Caribbean and Pacific (ACP) countries. However, these countries have not been able to substantially grow their exports to the UK due to various capacity constraints. This is most evident in the case of CARICOM, where the share of total trade with the UK has contracted, notwithstanding the implementation of the EU-CARIFORUM Economic Partnership Agreement (EPA).[7] There is, however, a bright side as well. Sub-Saharan African (SSA) countries have almost doubled their merchandise exports to the UK over the period 2000–14, from US$8 billion to approximately US$16 billion, while LDC exports have grown about fivefold over the same period, from US$1.58 billion to about US$7.84 billion. Almost 70 per cent of UK goods imports from LDCs are consumer goods, such as textiles and garments, supporting industrial capacity in these poorest nations.[8] Although the information on services trade is not readily available, it is a matter of fact that the UK has been one of the most important drivers of services exports for many tourism-dependent ACP countries. Remittances from the UK are also quite high for several ACP countries.

Given the UK's significant participation in world trade, the economic fallout from Brexit will have major implications for developing countries. The transmission channels whereby developing countries will be impacted include trade, investment, remittances, aid and development finance, the performance of the UK economy, and the UK's global influence on trade and development issues (Box 1). For example, as the pound depreciates by more than 10 per cent, ACP

6 Evenett, S. J. and Fritz, J. (2015) 'Throwing Sand in the Wheels: How Protectionism Slowed Export-Led Growth for the World's Poorest Countries'. Report prepared for the Government of Sweden (revised version).
7 In 2014, around 20 per cent of CARICOM goods exports were destined for the UK, with the rest going to the EU-27. However, the UK may absorb a higher proportion of CARICOM services exports. More detailed analysis is required.
8 Mendez-Parra, M. et al. (2016) 'Brexit and Development: How Will Developing Countries be Affected?' ODI Briefing Paper, July. London: ODI (https://www.odi.org/sites/odi.org.uk/files/resource-documents/10685.pdf).

Box 1: Snapshot of UK's economic relations with developing countries

Trade:

- Total goods trade (i.e. the UK's exports to plus imports from) with developing countries in 2014: US$295.5 billion.
- The UK accounts for 3.1 per cent of ACP goods exports.
- Since 2000, UK imports from African LDCs have increased 6.5 times from US$486.6 million to US$ 3.161 billion.

Remittances:

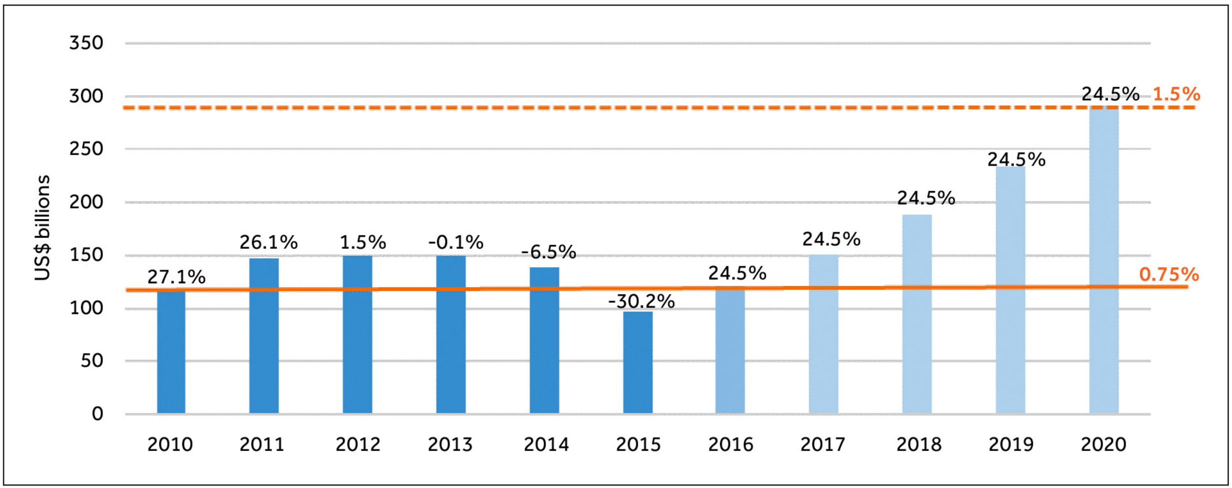
- Out of US$24.8 billion remittances from the UK to the rest of the world, US$16.4 (65 per cent) went to developing countries.
- Nigeria, India and Pakistan together account for half of developing country remittances from the UK.
- Remittances to SSA is estimated to be US$5.239 billion (one-third of total UK remittances to developing countries).

Official Development Assistance (ODA):

- The UK provides US$19.3 billion in ODA.
- The UK is the fourth largest donor for developing countries after the USA, EU Institutions and Germany.
- Largest recipients of the UK's ODA: Ethiopia (US$529.72 million), India (US$459.43 million), Pakistan (US$438.47 million), Sierra Leone (US$391.42 million) and Nigeria (US$389.75 million).

Source: Authors' compilation using UNCTADStat, World Bank Bilateral Remittance Matrix 2015 and OECDStat.

Figure 2: Can African LDCs double their export share by 2020?



Source: Authors' calculations using UNCTADStat.

countries stand to lose purchasing power of their export receipts, remittances and aid resources close to US$2 billion. Over the medium to long term the repercussions through these channels will be determined by the nature of trade deals the UK can secure with the EU and trading arrangements with ACP countries.

Therefore, along with prolonged subdued global trade and growth, Brexit-related uncertainties can further weaken global economic prospects, undermining the achievement of the SDGs. To illustrate with one specific example, consider SDG 17, target 11: doubling the share of LDC exports by 2020 (first agreed in the Istanbul Programme of Action and since adopted as SDG 17.11).[9]

The total exports from African LDCs in 2010 were US$116.7 billion, accounting for 0.76 per cent of global exports. While these economies recorded strong export growth until 2011, export performance has since been dismal owing to falling commodity prices and other reasons mentioned above. By 2015, African LDC exports had contracted to US$97.5 billion, with their combined share in global exports shrinking to 0.59 per cent.

9 United Nations (2011) 'Programme of Action for the Least Developed Countries for the Decade 2011–2020'.

Even under the current weak state of trading activities, if the global trade continues to grow at 3 per cent per annum, African LDCs will have to record annual export growth of about 25 per cent to meet this SDG target. This appears to be a bleak prospect given these countries' recent export performance (Figure 2).

Way forward

As countries start taking SDG-related actions, they confront a challenging external environment. The 2030 Agenda specifically highlights that international trade is 'an engine for inclusive economic growth and poverty reduction' that contributes to the promotion of sustainable development. The Addis Ababa Action Agenda furthermore encourages countries to 'integrate sustainable development in trade policy at all levels'. Despite the direct and cross-cutting role of trade in this new global development compact, world trade growth remains sluggish and this trade slowdown may be further exacerbated by post-Brexit economic fallout. The latter can weaken the prospects for world economic recovery and thereby the achievement of the SDGs. We propose the following principles and measures to ensure that trade continues to support SDG implementation.

First, the UK and EU should work together constructively to mitigate post-Brexit risks and manage the related economic uncertainties. They should ensure a stable and secure transition process for Britain's withdrawal as a precursor to establishing a new productive relationship with the EU. At the same time, it is important to stabilise the global trading system. High-income countries and advanced developing countries, as well as international financial institutions, should undertake the necessary measures to minimise the short-term uncertainties caused by Brexit. Among others, exchange rate volatilities can have a detrimental impact on trade flows and investment decisions. Closer and more effective international cooperation, such as the recent 'G20 Strategy for Global Trade Growth', is also important to boost global economic and trade activities. As mentioned earlier, removing all remaining trade restrictions against LDCs will also help these poorest countries move closer to achieving SDG 17.11.

Second, the upcoming trade negotiations between the UK and the EU, and the development of trading arrangements between the UK and capacity-constrained developing countries must ensure that Brexit does not result in unfavourable outcomes for the latter. The UK's newfound trade policy sovereignty should result in improvements over the currently existing trade deals for ACP states and LDCs. For example, the UK could consider offering more liberal access to LDCs as part of its commitment to the LDC Services Waiver agreed under the WTO; providing more favourable rules of origin for LDCs; or exploring innovative ways to promote international trade and investment as tools to achieve the SDGs.

Third, Brexit-related new trade negotiations and discussions should not distract from the attention that is needed to revitalise and strengthen the multilateral trading system. In the aftermath of the WTO's Nairobi Ministerial Conference and not least the fact that the Doha Round has now been running for about fifteen years, identifying concrete solutions to the current stalemate is one of the most pressing challenges for multilateral cooperation. Without a vibrant multilateral trading system, it will be very difficult to promote and protect the trade and development interests of vulnerable countries. This is particularly so when a number of trade-related development goals in the SDGs are linked to Doha Round related issues (see Table 1).

Fourth, the global trade slowdown should not be used as a pretext for reduced support for trade capacity-building in developing countries. International trade remains and will continue to be vital for developing countries and LDCs for promoting their economic development and achieving structural transformation. African countries have embarked upon an ambitious trade agenda with the aim of promoting continent-wide integration and industrialisation. This effort must be supported to secure dividends that will also help realise the SDGs. Small states' trade challenges need to be addressed effectively to promote their international competitiveness and to help them tackle other vulnerabilities, including those arising from climate change related issues.

Fifth, implementing national, regional and multilateral trade facilitation measures, such as the WTO's Trade Facilitation Agreement (TFA), will contribute to enhanced trade flows by reducing costs. Ratification of the TFA by the outstanding parties will imply renewed commitment to trade multilateralism. Given that tariffs have come down quite significantly, most trade and welfare gains are to be associated with tackling non-tariff barriers and improving trade facilitation measures. In this respect, the implementation of the TFA can provide a genuine boost to global trade flows and multilateral trade cooperation. According to the WTO, implementation of the TFA has the potential to increase global merchandise exports by up to US$1 trillion per annum, which can help bolster the role of trade as an effective means of achieving SDGs. [10]

Finally, the UK's role in promoting development must continue. The country's commitment to trade-led economic development has been laudable and globally influential. It has always recognised and championed the special needs and challenges faced particularly by SSA and small states. It is one of the few high-income countries that fulfils the UN target of providing 0.7 per cent of gross national income as overseas development assistance (ODA). In 2014, the UK disbursed more than US$19 billion as international aid, of which more than US$4 billion or 22.5 per cent went to Africa. The UK has also played a critical role in advocating for Aid for Trade (AfT) as a means for helping developing countries with supply-side capacity building.[11]

There has been a serious concern about whether withdrawal from the EU will lead to its reduced global clout. Some analysts are also of the view that Brexit could mean reduced efforts by the EU on the development issues in the absence of a bigger push from the UK. In a post-Brexit world, the UK's strong advocacy and lobbying role in ensuring development-friendly outcomes in such areas as global trade, climate change and governance, among others, will remain important and need to be leveraged through enhanced cooperation with such organisations as the ACP Group and the Commonwealth. While devising its own policy regime, the UK must set examples for other developed countries and exert influence through such forums as the OECD, G7 and G20.

10 WTO (2015) 'World Trade Report 2015. Speeding Up Trade: Benefits and Challenges of Implementing the WTO Trade Facilitation Agreement'.
11 It is found that a doubling of AfT decreases the costs of importing by 5 per cent. It can be made even more effective by increasing allocations to trade-related economic infrastructure and trade facilitation measures, for the objective of increased productivity. See: Calì, M. and te Velde, D. W. (2011) 'Does Aid for Trade Really Improve Trade Performance?' World Development 39(5): 725–40.

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