



UK Trade and Development Policy Report

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Ministerial foreword



Our ambition is to help create *global prosperity and security through open and fair markets*. Building on the creation of the Trade Policy Unit in 2007, the UK now pursues a joined-up and innovative trade and

development policy – one that maintains a dual focus: ensuring benefits for UK and European Union (EU) businesses and consumers; and maximising the contribution that trade can make to reducing poverty. In the longer term, the greatest benefits from trade result from the openness of all – best achieved if all share in the benefits.

This report is published during unprecedented times. The economic crisis has seen the World Trade Organization estimate a 9% fall in world trade in 2009. This fall could be further compounded by any increases in protectionist measures, such as anti-dumping, tariff and non-tariff barriers. The economic crisis makes simply maintaining current levels of openness a challenge. In addition to our longer-term work, our immediate focus is therefore to help UK businesses and developing countries to overcome new or increased barriers to trade and to position the UK, the EU and developing countries for the recovery.

The policies and priorities set out in this document demonstrate how the UK will deliver on its determination to make the case for open markets, and drive co-ordinated global action to prevent a slide into damaging protectionism.

In addition, this Trade and Development Policy Report also draws together, for the first time, the UK's research into trade policy. The Trade Policy Unit places great importance on the evidence base to underpin our policy making. Our research informs our policy positions on the benefits of open markets and on how to make the most of those benefits for people in both the UK and the developing world.

A handwritten signature in black ink that reads "Gareth Thomas".

Gareth Thomas MP
Minister of State for Trade, Development
and Consumer Affairs

UK Trade and Development Policy Report

1. Our aim is to help create *global prosperity and security through open and fair markets*. This document takes a five-year horizon, drawing out our dual focus: ensuring benefits for UK and European Union (EU) businesses and consumers; and maximising the contribution that trade can make to reducing poverty. Our approach recognises that UK and EU businesses do not operate in a vacuum. In the longer term, the greatest benefits from trade result from the openness of all – best achieved if all share in the benefits.
 2. The economic crisis has seen the World Trade Organization estimate an unprecedented 9% fall in world trade in 2009. The crisis could be further compounded by any increases in protectionist measures, such as subsidies, anti-dumping, tariff and non-tariff barriers. The economic crisis makes simply maintaining current levels of openness a challenge. In addition to our longer-term work, our immediate focus is therefore to help UK businesses and developing countries to overcome new or increased barriers to trade and to position the UK, the EU and developing countries for the recovery.
 3. We will work towards our longer-term aim against the backdrop of the current global economic crisis by:
 - promoting a global trade framework that fosters open and fair markets;
 - deploying the right trade policy tools to effectively secure and increase openness and fairness;
 - deriving the maximum benefits from trade for all; and
 - positively managing the interaction between trade policy and other priority issues such as climate change.
- ## Why open and fair global markets?
4. The UK economy is built on trade and openness. Open global markets are more important now than ever, with the potential to speed up economic recovery and, in the longer term, to bring the greatest benefits to the UK, the EU and the world. The recent economic shocks underline the need for more effective regulation of financial institutions, better international co-operation, greater flexibility to respond to economic interdependence and the need to bind in applied levels of economic openness and ensure that these work – *a successful Doha Development Round alone would insure against protectionist pressures that could cost the global economy as much as \$728 billion in lost trade*.¹
 5. For UK and EU business, economic openness is essential. It means access to global markets and, for individuals and business, access to a much wider range of goods and services at lower prices. According to the European Commission, *65% of extra-EU imports are inputs* for equipment, intermediate goods, parts and components. Being able to import at a competitive price is critical for EU competitiveness.

6. In addition, the growing prominence of emerging markets is an opportunity, provided that UK business can be flexible to identify and adapt to shifting demand. A Goldman Sachs estimate predicts that the global middle class will grow to 2 billion by 2030.² As incomes rise, the demand for goods and services produced to international standards will grow. According to the Office for National Statistics, UK exports of goods and services increased from £225 billion in 1996 to £368 billion in 2007,³ thanks in part to demand from new emerging markets like India and China. A core part of UK Trade and Investment's strategy has been to focus on and provide support to business in these markets.
7. The evidence demonstrated by long-term trends still stands – benefits accrue most to economies that open their own markets but, in the long-term, the full benefits can be realised only through the openness of all. Since 1945, average developed country industrial tariffs have fallen from nearly 40% to less than 5% according to the World Trade Organization; world exports have risen by 27 times; and world income by eight times.⁴
8. Openness to trade and investment is an important driver of growth and poverty reduction, not just in the UK and the EU, but everywhere – including in developing countries. A 10 percentage point increase in trade openness translates into a 4% increase in per capita income.⁵ In turn, growth accounts for approximately 80% of the poverty reduction that has, since 1995, lifted some 500 million people around the world above the poverty line.⁶ The economic crisis is likely to affect more recent figures, but the World Bank estimates that between 1990 and 2005, the number of people living in developing regions on less than a dollar a day dropped by 440 million,⁷ an improvement driven in part by globalisation.
9. Identifying and tackling new or increased barriers to trade that are emerging as a result of the global financial crisis – such as the shortage of export trade finance – will be critical. In addition to unilateral liberalisation, appropriate sequencing and complementary action to improve the investment climate, build capability and meet adjustment costs will be key to developing countries' ability to unlock the benefits of globalisation.

A global trade framework that fosters open and fair markets

10. A global trade framework that fosters open and fair markets (and in the short term helps to maintain current levels of openness) requires commitment to economic openness and multilateralism among global players. It also requires the relevant international institutions to be effective in addressing the broad spectrum of challenges that the world faces today – ranging from economic recovery to climate change, which threatens the longer-term sustainability of our world.

European Union

11. The EU negotiates on the UK's behalf over many aspects of trade. This means that an effective European Commission is vital to ensuring an open Europe.

12. We are committed to engaging effectively with the European Trade Commissioner and Directorate General for Trade to this end. We will also continue to place great importance on working closely with member states, the European Parliament and other EU stakeholders if we are to generate and use opportunities effectively.

Multilateralism

13. We are committed to a rules-based multilateral system as the best route to securing open and fair markets. Multilateralism delivers and maintains wide-scale market opening, including in key emerging economy markets. It binds in unilateral liberalisation, providing a level of insurance against protectionist measures. It makes trade flows more efficient and leads to greater global benefits than preferential trade patterns. A more prosperous world, based on greater economic ties, will be a more stable, safe and secure world.

International institutions – World Trade Organization

14. The World Trade Organization, established in 1995 as the successor to the General Agreement on Tariffs and Trade, runs the multilateral trading system. It is responsible for promoting coherence in global economic policy making. It has delivered many successes since its inception, and countries are still pressing to join.

15. The World Trade Organization also provides coherence in efforts to build trade capacity in developing countries to enable them to participate more

fully in international trade, including through the Aid for Trade initiative. The 2005 World Trade Organization Ministerial Conference secured additional funding commitments and the World Trade Organization continues to monitor and evaluate Aid for Trade through an annual report and General Council debates. Most recently, it has stepped up its Trade Policy Review role to monitor protectionist trade measures.

16. The World Trade Organization should look to build on its strengths in maintaining and increasing economic openness, as well as being sensitive to the needs of poor countries. Any work to strengthen the World Trade Organization must have the conclusion to the Doha Development Round as a prerequisite. It must be informed by the wider institutional reform agenda and the remit of related organisations which include the World Bank, the International Monetary Fund, the United Nations, the Organisation for Economic Co-operation and Development, the International Labour Organization, and the World Intellectual Property Organization.

17. The World Trade Organization continues to provide an invaluable service to tackle trade barriers at the multilateral level with its dispute settlement process. This helps members to hold each other to account over World Trade Organization commitments and rules. Both developed and developing countries have been successful in challenges.

Delivering open and fair global markets – the challenge

18. The G20 commitments at the London Summit in April 2009 are essential for open trade, but need to be followed through with action. There are risks of protectionism and concerns over unequal distribution of the benefits of trade. To date, World Trade Organization and European Commission reports have not found evidence of a significant increase in new protectionist trade measures resulting from the financial crisis. However, it is clear that simply maintaining existing openness in markets is a more significant challenge than it might otherwise have been. The UK Government has co-financed Global Trade Alert, a global network of think tanks, to provide independent analysis of trade-distorting policies, identify their cost to other countries and provide evidence to discourage further protectionist interventions. It will also advise on the least distortionary ways of providing support.

19. We will:

- work in particular with the European Trade Commissioner and Directorate General for Trade, and with other parts of the EU, its member states, the Presidency and Parliament, to ensure that international trade policy and structures can fulfil the EU's future trade and development objectives;
- champion open and fair markets, including through our strategic communications work and through multilateral fora such as the G20; and
- push to strengthen the World Trade Organization where appropriate and in support of its key role in delivering agreement to the Doha Development Round.

Trade policy tools that effectively secure and increase openness and fairness

20. According to the European Commission, the Doha Development Round would deliver over \$150 billion annually to the global economy, including to developing countries. It would also boost confidence in the multilateral system on which we all depend. Alongside this, a range of other trade policy tools need to supplement the multilateral trading system if we are to identify and address the barriers to trade most effectively. These include ambitious Free Trade Agreements, some of which can be agreed more quickly than multilateral agreements and

generate deeper levels of integration. Business and other key partners have a central role to play in helping to define our priorities and approach (geographic and sectoral) to improve UK and EU competitiveness, as well as sustainable economic growth and development.

Doha Development Round

21. We remain committed to securing a successful conclusion to the Doha Development Round. It is the top priority for the UK's trade policy, as the best means of securing open markets for the benefit of all. It would provide a safeguard against protectionism and send a powerful signal that countries are able to co-operate for the global economic good, boosting confidence in the multilateral system. Over a quarter of the total benefits would go to the EU. However, all countries would benefit from increased export opportunities, cheaper inputs and reductions in non-tariff barriers and trade bureaucracy.

Free Trade Agreements

22. The EU is currently negotiating Free Trade Agreements with a number of partners. Notably, negotiations between the EU and the Republic of Korea are at an advanced stage. The European Commission estimates that this Free Trade Agreement, when concluded, could immediately deliver €1.6 billion of duty savings for EU exporters. Good progress has also been made on the negotiations between the EU and Central America, and between the EU and the Community of Andean Nations.

The UK is working with the European Commission and key partners to push for completion of outstanding negotiations and to ensure that UK priorities are reflected in these and in the composition of future agreements.

23. In terms of EU competitiveness, our priorities are agreements with the most competitive suppliers and those delivering benefits to key sectors in the UK. Emerging markets are of particular interest because of their high growth rates. They also tend to have relatively high tariff and non-tariff barriers which can be addressed through Free Trade Agreements. Developed economies, where the barriers faced now tend to be mainly non-tariff and regulatory based, remain key, given that they still account for around four-fifths of UK trade.
24. An increasing 'spaghetti bowl' of Free Trade Agreements can risk undermining the multilateral system and cause trade diversion. It can also disadvantage developing countries, which are less likely to be included in such agreements. To address these issues, the UK advocates Free Trade Agreements that build towards multilateralism by ensuring, as a minimum, that they are consistent with and ideally exceed commitments made in the World Trade Organization. In particular, we support stronger commitment to World Trade Organization rules governing Free Trade Agreements, such as those which require members to notify the World Trade Organization of their agreements. Full adoption of the World Trade Organization's

transparency mechanism for regional trade agreements, which will happen through conclusion of the Doha Development Round, will also help to increase compliance.

25. Where possible, Free Trade Agreements should also promote greater regional integration to complement the multilateral agenda and for development reasons. For instance, it may be possible for an agreement between the EU and a key trading partner to be structured so as to allow other parties to join the agreement at a later date.

Economic Partnership Agreements

26. Economic Partnership Agreements are development-friendly trade agreements between the EU and African, Caribbean and Pacific countries. They provide access to EU markets free of duties and quotas (with the exception of sugar and rice) in a way that is compliant with international trade rules. In return for this immediate preferential access, African, Caribbean and Pacific countries that have signed an agreement will remove tariffs across around 80% of EU imports over a 15-year period. This will make the EU's trade relations with African, Caribbean and Pacific countries permanently compatible with World Trade Organization rules. Opening EU markets more quickly than our partners do in a trade agreement is important to ensure that less developed countries have time to make the economic adjustments required to prevent development considerations from being put at risk.

27. Regional Economic Partnership Agreements can go beyond goods-only agreements to cover investment, competition, public procurement and intellectual property rights, facilitating further benefits from market opening and helping to promote intra-regional trade and integration. The UK is committed to ensuring that Economic Partnership Agreement negotiations and implementation should proceed at a pace and scope with which African, Caribbean and Pacific countries are comfortable.

Bilateral Investment Treaties

28. Inward investment is key to economic growth in developing as well as developed economies. Bilateral Investment Treaties – known as Investment Promotion and Protection Agreements in the UK – boost investor confidence by prescribing minimum standards of protection to foreign investors against government interference, including the right to investor–state dispute settlement providing recourse to compensation. The UK is continuing to expand geographical coverage of Bilateral Investment Treaties to include Kuwait, Saudi Arabia, Qatar, Libya and Colombia. We hope that successfully concluded Investment Promotion and Protection Agreements will protect all UK investment in our partner countries; the agreements with Saudi Arabia and Colombia alone have the potential to protect around \$30 billion of UK investment.

Regulatory co-operation

29. Regulatory and economic co-operation is of increasing importance in tackling non-tariff barriers and regulatory barriers. The potential benefits are significant. For instance, the Organisation for Economic Co-operation and Development has estimated that if both the EU and the United States were to move to 'best practice' regulation, EU GDP per capita would be boosted by 2–3.5%. We are working to identify how best to achieve maximum effect through the EU's work with the United States through the Transatlantic Economic Council. The UK is also working to further the Economic and Financial Dialogue with China and, through UK Trade and Investment's Joint Economic and Trade Committees, with China and other major and emerging economies.

Review of UK borders

30. The UK is examining its own border procedures with a view to reducing border burdens on business. The review will publish an action plan to be implemented from later in 2009. This is a clear opportunity for the UK to demonstrate best practice and reap tangible benefits for business.

Market access – tackling the barriers to trade

31. The UK pursues many market access issues bilaterally with the country concerned through our extensive network of overseas posts. We do this through: Ministerial, Ambassador and senior official lobbying; Joint Economic and Trade Committees and Business

Councils; country-specific market access plans; and UK representatives on overseas EU market access teams.

32. For increased effectiveness, the UK also works in co-ordination with the EU to identify and tackle the barriers to trade. European-level tools include the early warning system afforded through the Technical Barriers to Trade and European-level work to identify the top 10 market access barriers in key markets under the EU Market Access Strategy. We are working to ensure that the EU Market Access Advisory Committee covers barriers to trade in services as well as goods, and further extends the opportunities to address barriers. We support objectives to promote open and transparent global markets in raw materials through the Raw Materials Strategy. We must also ensure that trade defence measures do not replace other barriers to trade, but we do recognise that they are appropriate in some circumstances.

33. Ensuring that the EU remains open to trade also includes working in other EU fora such as the Agriculture Council, which is responsible for the future policy direction of the Common Agricultural Policy. The UK will continue to pursue radical reform of the Common Agricultural Policy in line with its vision for open and fair agricultural markets. This includes the elimination of all trade-distorting subsidies (including export subsidies) and lowering agricultural import tariffs to match those of other goods and services.

Rules of Origin

34. We continue to press for EU Preferential Rules of Origin to be simplified, relaxed, more transparent and better able to facilitate trade. This will enable developing countries and some UK and EU businesses to better take advantage of existing levels of preferential market access. It would help to increase the benefits of Free Trade Agreements and the utilisation of preferential rules. However, progress to date has been slow. We will press for better quantification and analysis of potential impact in order to help drive progress.

Export trade finance

35. The economic crisis has led to a significant reduction in export trade finance. A World Bank estimate puts the gap at between \$100 billion and \$300 billion. A recent report from a survey by the International Monetary Fund/Bankers Association for Finance and Trade (published in May 2009) indicates that the situation is improving slightly in Asia and Latin America but is getting worse in Africa and the Middle East. This points to the urgent need to mobilise export trade finance, particularly in emerging markets and the developing world.
36. In response, G20 leaders agreed at the London Summit in April 2009 to make available at least \$250 billion for export trade finance over the next two years through export credit and investment agencies and multilateral development banks. Within this, G20 members agreed to provide \$3–4 billion to the International Finance

Corporation's Global Trade Liquidity Pool to specifically address the export trade finance shortage in emerging markets and developing countries. The Global Trade Liquidity Pool is expected to support up to \$50 billion of trade over three years. We have already seen some progress on delivery. For example 10 EU member states have increased their Export Finance and Investment Agencies' capacity by €36 billion since September 2008 (this includes both short-term and medium/long-term cover).

37. In the UK, the Export Credit Guarantee Department is consulting on an initiative to expand letters of credit for UK exporters to emerging markets. Consultation on this proposal started in May 2009 and will run until early July 2009. The UK is also reviewing what other support to provide.

Global rules, standards and guidance to support openness

38. As globalisation increases, rules and standards in areas not always recognised as being within the scope of traditional trade policy are increasingly important to ensure that openness works. These need to be robust, fair, transparent and enforced fairly. We also need to recognise and balance different interests.
39. In particular, intellectual property rights are vitally important to UK and European business, and increasingly to developing countries. Creating an environment that fosters innovation will be key to taking advantage of the opportunities that open markets present.

40. The UK is developing a strategy on intellectual property, prioritising intellectual property provisions to be pursued in international agreements and setting out how to influence the European Commission and key partners. The benefits of encouraging and protecting business investment are clear. We are also undertaking further analysis on the impact of including intellectual property rights in trade agreements (especially on developing countries). UK policy is that developing countries should not be required to make commitments on intellectual property beyond the current multilateral rules in the World Trade Organization.

Guidelines for UK businesses operating in weak governance zones

41. The UK is working to provide and promote guidance for UK businesses operating in weak governance zones, such as the voluntary Organisation for Economic Co-operation and Development Guidelines for Multinational Enterprises provided through the National Contact Point. This will improve outcomes for businesses and for the countries within which they operate and help to mitigate the reputational risk to the UK.

42. We will:

- continue to push for a conclusion to the Doha Development Round and ensure that multilateral negotiations in the World Trade Organization remain effective in consolidating and increasing openness;
- work with the EU to identify and tackle barriers to trade;
- push for completion of outstanding Free Trade Agreements and for UK priorities in future Free Trade Agreements;
- push for completion of interim Economic Partnership Agreements and regional agreements covering a broader scope of issues at a pace acceptable to African, Caribbean and Pacific partners;
- make progress in regulatory co-operation negotiations;
- develop an action plan to reduce regulatory burdens on business and make trade easier at UK borders;
- work to increase the availability of trade finance, principally by encouraging the establishment of a Global Trade Liquidity Pool of more than \$15 billion by the International Finance Corporation;
- complete outstanding Bilateral Investment Treaty negotiations;

- promote responsible rules and standards in areas such as intellectual property; and
- promote and implement guidelines for businesses operating overseas, for example the voluntary Organisation for Economic Co-operation and Development Guidelines for Multinational Enterprises.

Derive the maximum benefits for all from trade

43. Making the most of existing levels of market access will be critical to contribute to economic recovery as well as poverty reduction and the Millennium Development Goals. Open markets and improved non-discriminatory market access are essential, but not sufficient on their own to guarantee concrete gains for developing countries. In order to enhance the benefits of trade for these countries, expanded, dedicated and predictable funding is required to address national competitiveness constraints, regulatory weaknesses, capacity constraints and other supply-side barriers.

Aid for Trade – sharing the benefits of trade

44. Aid for Trade is a key element of the UK's effort to ensure that the benefits of trade reach the poorest people and countries. The World Bank estimates that a 1% increase in total Aid for Trade can result in a \$13 billion increase in trade by developing countries.⁸

45. Aid for Trade is an umbrella framework that helps poor countries to dismantle barriers to trade. It assists poor countries with building the capacity to trade more effectively and competitively and to integrate further into regional and global markets. Aid for Trade can also support countries to build more effective governance structures around trade, and assist them in addressing adjustment costs that might arise from open markets.

46. The UK is stepping up support at all levels, including at the regional level, where the UK is embarking on a series of major programmes to promote growth, trade and regional integration in Africa and the Caribbean. Programmes are centred around regional bodies like the East African Community, and help foster, for example:

- harmonised trade and investment policies;
- single customs documents and joint standards;
- effective border crossings, including One-Stop Border Posts;
- upgraded regional infrastructure, including roads, power and ports; and
- more active private–public sector dialogue and links around trade.

47. Work to date includes the recently launched North–South Corridor Programme – a flagship programme to improve the conditions of trade along one of Africa's busiest and oldest

trading routes covering eight countries in east and southern Africa. Donors, including the UK, have agreed to invest over \$1.2 billion.

48. At the global level, the UK is working closely with organisations like the World Bank, the European Commission, think tanks, international agencies and delivery partners to improve delivery and increase aid. We are also investing in analysis, expertise, good practice and partnerships that will help the poorest countries and producers benefit from the global economy.

Trade facilitation

49. Trade facilitation involves streamlining customs and other administrative border procedures to reduce the transaction costs of trade. Recent research found that ambitious improvements in trade facilitation around the world could generate \$330 billion in annual gains to the global economy.⁹ Further research suggests that improving the time taken for goods to reach markets in the 75 countries where it takes the longest could increase global trade by \$377 billion a year.¹⁰ The UK is actively supporting the establishment of a new World Bank Trade Facilitation Facility and the creation of One-Stop Border Posts in east and southern Africa.

Enhanced Integrated Framework – delivering Aid for Trade

50. The UK provides important support to the Enhanced Integrated Framework – a partnership between the 49 least developed countries, 22 donor

countries and six agencies including the World Trade Organization, the International Monetary Fund and the World Bank. It is a multidonor trust fund that helps the world's poorest countries to put trade at the heart of their economic development plans.

Fair and ethical trade

51. Fair trade could help developing countries to increase their share of global trade, especially if linked directly to work to increase consumer awareness. It brings more small producers from poor countries to export markets on better terms, using 'fair prices' and a 'community premium' for social investment. It is also a positive way of making the link for consumers between trade and development. The UK is supporting the global Fairtrade Labelling Organizations International in scaling up its work with poor producers and is funding a range of innovations working with African food exporters.
52. The UK helps fund the Ethical Trading Initiative, a collaboration between business, trade unions and civil society to drive better working conditions along the entire supply chains of goods imported to the UK. In the garment sector, we support related efforts through the global Multi-Fiber Arrangement Forum. The UK is also designing the Responsible and Accountable Garment Sector, a new ethical garment sector initiative that aims to increase the development impact of garment production and trade.

53. We will:

- deliver innovative Aid for Trade programmes at country, regional and global level, exceeding our current pledge to spend some £400 million per year by 2010;
- call for more and better Aid for Trade by the international donor community and support programmes and global partnerships such as the Enhanced Integrated Framework and the World Bank Trade Facilitation Facility, to deliver effective Aid for Trade; and
- help more poor producers benefit from fair and ethical trade.

Positively manage the interaction between trade policy and other key issues such as climate change

54. Increasing globalisation has led to calls to include a number of related issues in trade agreements and trade measures. These issues include climate change and environmental standards, labour standards, gender equality, human rights and health.
55. The extent to which trade policy can make a contribution in ways that achieve positive outcomes in these areas is limited and often involves trade-offs. Where trade policy can provide a positive contribution, we will seek to distort trade as little as possible.

Climate change and environment

56. Climate change is one of the most significant challenges we face in the world this century. Building on progress made in Bali in 2007, we want to ensure that trade policy contributes positively to the development and implementation of a post-Kyoto framework, by reducing trade barriers to the diffusion of climate-friendly technologies. We support action to liberalise trade in green goods and services, including through the Environmental Goods and Services element of the Doha Development Round.
57. We believe that open markets and free trade are compatible with ambitious emissions reductions and are seeking to ensure that the more stringent emissions targets needed globally do not result in protectionist measures that impact on trade flows.

58. Constructive engagement with both the developing world and business is vital on this agenda. One concept with real potential is the Low Carbon Zone pilot project being led by China, which has already begun in Jilin City and has received UK support. This type of clustered low-carbon development brings advantages for citizens in China and beyond, and for EU businesses seeking low-carbon opportunities.

Labour standards

59. The UK is committed to supporting the International Labour Organization's efforts to promote opportunities for women and men to obtain decent and productive work, in conditions of freedom, equity, security and dignity. The UK is undertaking further work on the extent to which labour standards and other issues such as human rights can and should be addressed through trade policy. This includes the Decent Work and Labour Standards Forum, where we will work alongside the Trades Union Congress, the private sector, the academic community and others to strengthen UK policy in support of the International Labour Organization's Decent Work agenda.

60. We will:

- ensure that trade policy makes a positive contribution to our climate change objectives and:
 - support action to liberalise trade in green goods and services and seek to prevent green protectionism that might impact on trade flows;
 - secure strong business engagement in the agenda and support the development of solutions; and
 - build capacity and interest in the developing world on the climate change agenda;
- develop rigorous evidence and analysis of the links between trade and related issues such as gender, human rights and labour standards, and show leadership to ensure that 'non-trade' issues are introduced into trade agreements when, but only when, this is effective for both the non-trade and trade policy objectives;
- oppose vigorously the use of 'trade-related' issues for protectionist purposes; and
- support the Decent Work agenda in the UK and developing countries, including through the Decent Work and Labour Standards Forum.

Annex 1:

Building our evidence base

This annex draws together the UK's externally commissioned research on trade policy. Our research informs our policy positions on the benefits of open markets and how to make the most of those benefits for people in both the UK and the developing world. As well as carrying out a wide range of research in house and being involved in international organisations such as the Organisation for Economic Co-operation and Development, the Trade Policy Unit (TPU) commissions (and works with others to commission) substantial research from internationally renowned institutions and academics, which is summarised in this annex.

While some of our evidence is directed specifically at the policy decisions we make day to day, other research is primarily produced as a global public good. Public goods are underprovided by the market: all countries benefit from a good understanding of how trade works but, individually, countries have little incentive to invest in this knowledge. Additionally, the poorest countries have limited resources to develop their evidence bases.

Our focus is to ensure that our research makes a significant impact on trade policy and practice. We want to use research not only to improve the knowledge and choices available to our partners across the world, but also to strengthen our own decisions and to make sure that they are based on sound evidence.

Evidence on the future of global trade

Global Trade and Financial Architecture project

The TPU's largest external research partnership is the Global Trade and

Financial Architecture (GTFA) project. The GTFA project both officiates as a forum for exchanging ideas and pulling together or instigating research in areas of relevance to the global trade and finance agenda and aims to translate the results of this process into concrete policy recommendations and actions that contribute to international dialogue and the reform agenda in global trade and finance. Outputs from this project, which have included papers on World Trade Organization dispute settlement, services trade liberalisation and preference erosion, can be found at: <http://go.worldbank.org/X0U1QSW5S0>

The collapse of global trade, murky protectionism, and the crisis: Recommendations for the G20

The publication of this e-book, by the Centre for Economic Policy Research, was partly supported by the TPU.¹¹ This book helped to inform the debate over practical measures to address the problem of protectionism leading up to the London Summit in April 2009 and beyond.

Global Trade Alert

This global network of think tanks, co-financed by the TPU, will provide independent analysis of trade-distorting policies, identify their cost to other countries and provide evidence to discourage further interventions. It will also advise on the least distortionary ways of providing support.

Climate change and technology

This two-year research project being undertaken by Chatham House will analyse trade, investment and financing mechanisms that could enable diffusion of low-carbon and adaptation technologies in developing countries, including

issues such as carbon leakage and competitiveness standards and intellectual property rights. It will also facilitate debate and build constituencies from developing country stakeholders, planners, policy makers and multinationals. The project will look at options to assist developing countries in moving towards low-carbon economies through a better understanding of technology needs and policy options.

Impact of energy subsidies on trade

This programme, carried out by the International Institute for Sustainable Development, is undertaking analysis of energy subsidies. Unlike other sectors where subsidies are known to affect trade flows (agriculture, for example), there is a lack of international evidence, analysis and understanding of energy subsidies, which could be having a significant effect on the climate change debate and in turn innovation and take-up of alternative energy technologies. The implications for developing countries could be significant.

Trade impact of border carbon adjustments

This study, being carried out by the University of Sussex, will review the issue of carbon leakage and will consider the potential consequences of any implementation of border carbon adjustments internationally. It will include a brief review of the quantitative literature, a discussion of the different methods that could be applied to account for the carbon embedded in imports and a survey of existing proposals for such measures. There will also be a focus on the frictions that could arise, including the problems of identifying the carbon footprint of specific goods and the potential for using carbon adjustments in a protectionist manner.

Evidence on how the UK can get the greatest benefits from trade

This section includes research by UK Trade and Investment into the firm-level effects of trade, as well as TPU research into the wider impact of trade and trade policy on the UK.

Analysis of the impact on the UK of the EU–Korea Free Trade Agreement

This project, carried out by the Centre for the Analysis of Regional Integration at the University of Sussex, constructed a non-tariff barrier database of barriers affecting the UK producers that export goods and services to Korea; analysed which barriers to UK services exports are priorities for removal and how this might be achieved in the EU–Korea Free Trade Agreement negotiations; and analysed certain sub-sectors of goods trade between the UK and Korea and the implications of a Free Trade Agreement for UK producers of these goods.

Analysis of the World Bank’s Doing Business Report: Trading Across Borders Survey

As part of a work programme looking at the cost to business of complying with international trade regulation, this project is investigating further a World Bank survey that ranks the UK 28th in the world in terms of the ease and cost of importing and exporting, well behind a number of other key EU countries. Middlesex University is undertaking further research to gain a clearer picture of the issues covered by the survey as they relate to the UK. Middlesex will attempt to validate the results of the most recent survey by replicating the World Bank’s methodology and using the same questionnaire but with a larger sample of UK traders.

This will improve our understanding of the regulatory burden on traders and possible ways of reducing unnecessary costs.

The strengths and the potential of sectors supported by the UK Trade and Investment Sector Group

This project will analyse where UK capability lies and where opportunities exist in 17 sectors across 11 overseas markets. The research will develop an understanding of UK export performance in each of these sectors to be complemented by an analysis of the import needs of each of the destination countries. This analysis will aid in opening markets for UK business by providing direction as to which destination markets provide the best export opportunities for their sector.

Analysis of UK services trade at firm level

This is a future project to gain further insights into services exports by UK firms by carrying out analysis at the firm level. The project will focus on emerging markets and EU member states as destination markets. The focus on EU member states is in order to gain more understanding of UK services exports to these markets in the context of the implementation of the EU Services Directive at the end of 2009. This work will aid in opening markets for UK business in service sectors by providing direction as to where the strengths of the UK lie in these sectors.

The effect of foreign mergers and acquisitions on UK productivity and employment

This research will investigate the effects of foreign mergers and acquisitions on UK

productivity, employment, profitability and competition. In addition, it will investigate how these effects vary by the country/region of origin of the acquiring firm and by sector. The work covers both the manufacturing and services sectors. This evidence will increase understanding of the effects of foreign mergers and acquisitions of UK plants and will be used to inform UK Trade and Investment policy with regard to this form of foreign direct investment.

Evidence to help the poorest countries benefit from trade

World Bank Multi-donor Trust Fund for Trade and Development

This fund supports trade-related activities that contribute to growth and poverty reduction at the country, regional and global levels. The programme currently has four contributing donors: Sweden, the UK, Norway and Finland, who have pledged a budget of approximately \$30 million over three years. The fund supports the World Bank's international trade strategy, which focuses on helping developing countries benefit from their integration into the global economies and on making the world trading system more supportive of development.

Climate change, trade and development

This programme, carried out by the International Centre for Trade and Sustainable Development, is focused on analysis and debate in the build up to the UN Climate Change Conference in Copenhagen in December 2009. This programme aims both to develop the research base and to provide opportunities for discussion and debate on issues including innovation, trade and diffusion of

new technologies, adaptation and trade, and biofuels and sustainable energy.

Agriculture, trade and development policy

The Food and Agriculture Organization, in a two-year project through to late 2009, is carrying out work focusing on identifying appropriate agricultural trade policies for developing countries, given national development priorities and commitments to multilateral and regional trade agreements, and how these could best be mainstreamed into national development plans. The project picks up on the indications from the Department for International Development (DFID) consultation on the development of the Aid for Trade strategy, where agriculture has been highlighted as an area of interest for countries.

Development of software to analyse the impact of changes in tariffs

The TPU supported the development of this tool by economists at the University of Sussex which provides analysts, particularly those in developing countries, with a tool to allow a rapid analysis of tariff-reducing trade agreements. It enables quick analysis to provide an assessment of tariff changes using far less analyst time than in the past. This product should enable governments to better understand the implication of liberalisation. It will help to ensure that all parties are better informed in tariff reduction discussions and that they are working with a common analytical framework.

Aid for Trade: promoting inclusive growth and poverty reduction

This research by the Overseas Development Institute, supported by the

UK and Sweden, is designed to strengthen the poverty focus and quality of the EU Aid for Trade Strategy roll-out. The research will set out the conceptual linkages between Aid for Trade, trade-related assistance, poverty reduction and inclusive growth; provide a set of good practice case studies and lessons learnt; and develop toolkits to support pro-poor Aid for Trade programming.

Gender impacts of Economic Partnership Agreements

As part of a gender and trade capacity-building programme, research by the Commonwealth Secretariat and One World Action explored the gender impacts of Economic Partnership Agreements. Country case studies were undertaken in Jamaica, Mozambique and Tanzania based on the current Economic Partnership Agreement schedules. The research highlights both the potential gains and the potential losses for male and female producers, consumers and workers, providing concrete and useful examples of the linkages between gender and trade policy. Country case study reports and a synthesis report of key findings are available.

Impact of fair and ethical trade initiatives

The Natural Resources Institute is carrying out a three-year study into how voluntary labelling schemes in agriculture, such as Fairtrade and Rainforest Alliance, affect incomes and poverty of producing households in developing countries. This will look at the effectiveness of voluntary standards in tackling poverty and whether they have an influence beyond their specific certified value chains – which in turn have implications for poverty

reduction. Another study is being designed by the School of Oriental and African Studies of how agricultural certification schemes are in practice affecting rural labour markets in developing countries. This is likely to study coffee production in Ethiopia, Uganda and Vietnam; to focus particularly on impacts on female workers; and to use mixed-method analysis, including quantitative panel data.

Trade research at the International Growth Centre

DFID (through DFID Research) funds the International Growth Centre (IGC). The overarching goal of the IGC is to leverage frontier research on economic growth into concrete policies to promote and sustain growth in the developing world. It aims to provide independent, neutral, evidence-based research and policy advice to the world's poorest countries.

The trade component of the IGC will focus on the following sub-themes.

Agricultural trade policy in developing countries

This theme will analyse policy (and the consequences of policy) towards agricultural goods in developing countries.

Prospects for a free trade area in South Asia and East Africa

This will examine the potential for a free trade area between India and Pakistan and in the East Africa region, and the role of Free Trade Agreements as a commitment device for domestic reforms.

Effect of trade on labour markets and growth

This will address questions on the effect of trade and outsourcing on the relative demand for skilled versus unskilled workers in developing countries and on the importance of access to foreign markets for economic growth. In addition, it will aim to measure the effect of increased imports (especially from China) on firms in developing countries.

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Ref: 296152/06/09