After Brexit: 
New Opportunities for Global Good in the National Interest

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Please note: this is a draft of a forthcoming paper and has been peer reviewed internally.

Abstract

This paper considers new UK policy opportunities for global development that arise from Brexit. We look for the “triple win”: what policy opportunities, enabled or enhanced by Brexit, are good for the world, good for the UK, and also good for the UK process of negotiating out of the EU? In doing so, we find four clear winners and four runners-up. Namely, the winning opportunities are 1) better trade for development, 2) fighting modern slavery and people trafficking, 3) climate change leadership, and 4) better migration controls, while the runners-up are 1) UK agricultural subsidies, 2) a new UK Development Bank, 3) a UK-owned “Smart Sanctions” mechanism, and 4) more cost-effective humanitarian assistance.


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<td>AGOA</td>
<td>African Growth and Opportunity Act (US)</td>
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<td>CAP</td>
<td>Common Agricultural Policy</td>
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<td>CDC</td>
<td>CDC Group (formerly Commonwealth Development Corporation) (UK)</td>
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<td>DEVCO</td>
<td>EU Directorate-General for International Cooperation and Development</td>
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<td>DexEU</td>
<td>Department for Exiting the European Union (UK)</td>
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<td>DFID</td>
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<td>DIT</td>
<td>Department for International Trade (UK)</td>
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<td>EBA</td>
<td>Everything But Arms</td>
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<td>ECHO</td>
<td>European Civil Protection and Humanitarian Aid Operations</td>
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<td>EIB</td>
<td>European Investment Bank</td>
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<td>EPA</td>
<td>Economic Partnership Agreement</td>
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<td>EPUE</td>
<td>European Patent with Unitary Effect</td>
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<td>ETS</td>
<td>Emissions Trading System</td>
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<td>FTA</td>
<td>free trade area</td>
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<td>GSP</td>
<td>Generalized System of Preferences</td>
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<td>LDC</td>
<td>least developed countries</td>
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<td>NGO</td>
<td>nongovernmental organisation</td>
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<td>ODA</td>
<td>official development assistance</td>
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<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
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<td>SME</td>
<td>small and medium-sized enterprises</td>
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<td>WTO</td>
<td>World Trade Organisation</td>
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**Executive summary**

This paper considers new UK policy opportunities for global development that arise from Brexit. Which initiatives could promote the wider good while serving the enlightened UK national interest? How can the UK preserve and enhance its global reputation, within the political space and tactical considerations that Brexit negotiations may demand?

This national interest has no choice but to address the forces that create poverty and vulnerability at home and abroad. The UK is affected by international dynamics—including climate change, conflict, migration, corruption, and pandemic disease—which cannot be addressed through domestic action alone. Inequality at home is in part an outcome of those dynamics. Fighting injustice globally also entails investing in the global public goods that underpin UK prosperity.

Such an agenda will require both soft and hard power. The UK is an acknowledged thought leader and respected convenor for such international action, leveraging its diplomatic and defence capabilities, manufacturing and distribution networks, financial reach, and charitable, creative, and research strengths. There is an opportunity to build on this lead by forming a new geometry of coalitions as relationships evolve. The UK’s official financial support—its international aid budget and the statutory commitment to maintain the aid target of 0.7 percent of national income—remains a critical underpinning, but the initiatives needed now go far beyond aid.

This paper looks for the “triple win”: what policy opportunities, enabled or enhanced by Brexit, are good for the world, good for the UK, and also good for the UK process of negotiating out of the EU? We applied three tests to each policy idea:

- Does it work to protect the most vulnerable and poorest people in the world, with a positive impact on sustainable development?
- Is it in the UK’s long-term national interest, including the prosperity, health, security, and future well-being of UK citizens?
- How will it affect the UK’s bargaining position with the EU or other countries; will it be positive or at least neutral?

We found four clear winners and four runners-up. The winners:

1. Better trade for development. There is a risk that low-income countries will find themselves at the end of a long trade negotiations queue focussed, understandably, first on the EU and then other powerful partners such as the US and China. And yet there are major opportunities to seize in the following areas:
   (a) unilaterally continuing Everything But Arms (EBA), the generalized preferences of the EU for least developed countries;
   (b) improving the rules of origin of EBA, to enable much better take-up by those poorer countries (and better deals for UK consumers); and,
(c) replacing the current burdensome EU Partnership Agreements with other developing countries with simpler, nondiscriminatory trade preferences.

2. Fighting modern slavery and people trafficking. The idea is to build out internationally from the one-year-old world-leading UK Modern Slavery Act, which the new PM has just publicly supported, both with action in specific country contexts and with an international coalition to extend it to many other sponsoring countries, especially the international supply chains targeted in the Act. At the same time the UK should build up its antitrafficking enforcement and intelligence networks to compensate for exit from Europol and Eurojust.

3. Climate change leadership: new freedom to partner for carbon pricing. The UK has been a leader on climate policy for some years now, and has helped to push the EU to take more effective action. Outside of the EU, the UK could have a more independent voice. As a party to the Paris agreement, it can translate its international commitments as part of the EU into its own “nationally determined contribution.” Since the Fifth Carbon Budget tabled in Parliament on 30 June 2016 set a tone for ambitious carbon reductions to 2030, the policy basis for moving quickly is in place. The UK will be able to ratify international climate agreements according to its own timetable and be more proactive in joining international “coalitions of the willing.” It will also be able to push for more advanced and more widely applied carbon pricing systems, and provide greater certainty to UK and trading partner consumers and producers.

4. Make new migration controls work for mutual benefit. There is a new political momentum to put in place a unified ‘points-based’ system for migration control that would span both EU and non-EU citizens. The aim would be to provide developing country migrants to the UK a positive preference element within such a new points-based system, and as a minimum to avoid any return to inadvertent discrimination against them. Alongside a modest direct preference element in the points system, the options include (a) a tiebreaker provision, giving an edge to equally qualified developing country nationals and (b) Global Skills Partnerships, in which a UK public-private partnership organizes professional qualification training in developing countries, against which a time-limited employment quota is offered with guarantees of return after this work experience (e.g. in the NHS).

The runners-up:

1. Restructure UK Agricultural Subsidies. Recent Common Agricultural Policy (CAP) reforms reduce the likely international development impact of further changes. Nonetheless imaginative new approaches, such as voluntary swaps of up-front investment finance today against surrendered entitlement to future acreage subsidies, could prove effective, if they can be designed fairly.

2. Create a new UK Development Bank, analogous to the European Investment Bank (EIB) or Germany’s KfW, operating both at home and abroad, that builds on the repatriated UK share of EIB equity and draws on EIB experience and skills. This policy options needs to be weighed against alternative support for other development banks in which the UK is shareholder.
3. Develop a UK-owned “Smart Sanctions” mechanism. The UK already has an adequate array of sanctions capabilities it can deploy in the UN, EU, and national contexts. It could add to that arsenal a new instrument which would block contract enforcement in UK law for named regimes, and work to extend this instrument internationally.

4. Lead the world in cost-effective humanitarian assistance. Brexit opens up opportunities to accelerate action on three fronts: integrating development and humanitarian assistance (separated institutionally in the EU); using new insurance instruments (not covered under the financial services passport) to fund disaster risk insurance and spur preparedness; and greater use of cash transfers.

Other areas well worth exploring further include environmental regulation; intellectual property rules; procurement rules; voluntary contracting of European delivery channels; new global initiatives on tax evasion, money laundering, and corruption; and boosting support for UK development research networks, in partnership with developing countries.
Introduction and scope

This paper considers some of the new UK policy opportunities for global development that arise from Brexit. It does not set out to reassess the entire body of UK aid policy, much less UK foreign policy. It is narrowly concerned with identifying a handful of the new initiatives that Brexit will make possible, which of them should be prioritised right now, and which should be explored further in the near future.

The Brexit vote of June 2016 threw up a large set of policy questions, not least for the UK’s position on global development issues. The referendum majority to leave the European Union was simply a start. There followed a change in Prime Minister and Cabinet, the creation of new government departments, and the launch of what is arguably the biggest renegotiation of the UK’s international role since 1945. Changes to the machinery of government are accompanied by the most fundamental questions about the futures of Scotland and Northern Ireland in the Union, and more broadly, about the nature of the European Union itself. Leaving aside economic uncertainties about the impact of Brexit on global and UK growth, it is difficult to think of a moment in recent history when so many UK policy questions were posed at once.

A “hard” Brexit outside the single market and the EU legislative framework will not only give the UK an independent voice. It will throw into question thousands of UK laws and regulatory instruments, as well as participation in EU-linked international arrangements with acknowledged beneficial elements, such as the Emission Trading Scheme, trading preferences for least developed countries, and the European Investment Bank. There will also be an opportunity—and a need—to reprogramme the £1.4 billion in UK official development assistance (ODA) currently channelled through the EU every year. Leaving the EU will pose substantial risks, but it will also open up new possibilities, especially in areas like environment and trade where the UK was previously bound by common EU positions. For politicians and officials, this is a once-in-a-lifetime chance to shape fresh policies.

How then can the UK make the best possible practical use of this transition and proactively seize opportunities? Which new initiatives could promote sustainable global development while serving enlightened UK national interest? How can the UK preserve and enhance its global reputation as a leader in international development, while still operating within the political space and tactical considerations that Brexit negotiations may demand? These questions frame this paper.

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1. As of early August 2016, some key aspects of development aid allocations were still in question since DFID had not yet released the Bilateral Aid Review, Multilateral Aid Review, and Civil Society Review.
3. Some say that the Brexit vote has triggered a political and institutional crisis. Even crises create opportunities: “You never want a serious crisis to go to waste. And what I mean by that is an opportunity to do things you think you could not do before” (Obama Chief of Staff Rahm Emanuel, quoted in ‘In Crisis, Opportunity for Obama’ by Gerald Seib, Wall Street Journal, 21 November 2008).
Our point of departure is, to follow Theresa May’s formulation, that “Brexit is Brexit.” There is clear political will to leave the EU even if the legal and practical difficulties will be significant. It will take years to clarify and negotiate what this will mean in practice, even if Article 50 of the Treaty on European Union is invoked in early 2017. There is a vital question about the future of the UK Union—and in particular whether the Scottish National Party will seek a second referendum on independence with a view to remaining inside the EU. But for the purposes of this paper, we will assume that the UK is acting as a single unified entity.

An international agenda for the national interest

The UK faces a fundamental choice about its future: will it steer a protectionist and nationalist course with higher border walls and inward-looking policies, or will it rather embrace a more open and internationalist stance, showing leadership on global issues and embracing a freer flow of trade, people, and ideas? Some pragmatic balance of the two will probably be worked out in practice, but it is our core argument that now is the time for the UK to pursue its national self-interest through engaged international leadership. Prime Minister May has promised to fight injustice and “forge a bold new positive role for ourselves in the world.” In a recent letter to the Sunday Telegraph, our colleagues and two former Secretaries of State for International Development argue that fighting injustice at home is inseparably linked to fighting injustice globally:

The referendum threw into sharp relief the social costs of globalisation, and the need to shape an inclusive, open society where everyone shares the benefits of global collaboration. . . . The Prime Minister has called for Britain to be a country that works for everyone. Britain can also shape a world that works for everyone. A new government should take steps as soon as possible to demonstrate that we remain committed to this goal.

The vision behind the letter embraces the idea that enlightened national interest has no choice but to address the international forces that create poverty and vulnerability, both at home and abroad. This approach echoes the UK Aid Strategy of November 2015, which argued that the UK is affected by international dynamics, including conflict, migration, corruption, and pandemic disease, that cannot be addressed through domestic action alone.

So too an island economy, dependent on open flows of goods and investment, has a strong interest in promoting openness and transparency at the international level. The UK could be a stronger global leader in delivering transparency that gives people the tools to challenge illicit financial flows and unaccountable power. Inequality at home is in part an outcome of the international dynamics—including tax evasion, money

laundering, and anonymous shell companies—that facilitate the accumulation of illicit wealth, including within the UK. Fighting injustice globally would also entail investing in those global public goods that underpin UK prosperity. It would use all possible levers to prevent conflict and its terrorism spill-overs, to address extreme social and political grievance, and to preserve peace. In particular, this form of national interest recognises that climate change is the biggest single threat to our children’s generation, and that acting alone will not be adequate to protect the UK’s national interest.

**Far beyond aid: soft power**

To be clear, this national interest agenda is not just about aid; indeed, it is mostly not about aid at all. It touches on diplomacy, trade, security, movement of people, and financial regulation, as well as much else. Such an agenda will require a formidable combination of soft and hard power. The UK has long been an acknowledged thought leader and respected convenor for international action for the wider good, a unique intangible asset which also leverages its diplomatic and defence capabilities, its manufacturing and distribution networks and supply chains, its financial reach and innovation, and its charitable, creative, academic, and research strengths. We should consciously strive to build on this lead, forming a new geometry of coalitions as we go.

Policy responses will therefore need to be marshalled across the whole of government, including in departments and agencies whose “day jobs” are not today obviously focused on global challenges. Moreover, when some EU-generated legislation seems innocuous enough to be repatriated directly and in bulk, opportunities to recast some pieces of it à la carte for the greater good could easily be overlooked through sheer pressure of work. (No single human being, it is said plausibly, knows the entire 180,000-odd pages of the accumulated body of laws and obligations from 1958 to the present known as *acquis communautaire*, by which EU members are bound).

**Changes to UK aid flows**

In all of this the UK’s financial support for development—its international aid budget and the statutory commitment to maintain the aid target of 0.7 percent of national income—remains a critical underpinning and potential facilitator of many of the initiatives we discuss below. There will be scope to redeploy and reprioritise the £1.4bn in ODA funds that are currently channelled through the EU. So there will be calls to

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7. Roger Scruton, “Who are We?” Prospect, August 2016, 36. The size of the acquis has grown with increasing speed in recent years: http://www.aalep.eu/just-how-big-acquis-communautaire.

8. In keeping with the Conservative Party Manifesto of 2015, Prime Minister May retained an independent Department for International Development, and reaffirmed the commitment to spend 0.7 percent of GNI on overseas aid, noting to Ban Ki-Moon that she “was proud of the UK’s leading role on international development” (https://www.gov.uk/government/news/pm-phone-call-with-un-secretary-general-22-july-2016).

9. Of the roughly £1.4bn per year of UK ODA that goes through the EU (2016 budget projections subject to exchange-rate changes), roughly £890 million represents the general EU budget that is deemed to go to development and is counted as ODA, with budget attribution to the UK. Some $450 million is the annual UK contribution to the separate European Development Fund, which is off budget. Finally, €97 million of UK funds are channelled through the new EU trust funds to respond to migration, mainly for funding to Turkey.
use the funds differently, taking greater control over funding decisions to target countries of specific UK interest, including countries in conflict or fragile states. There will also be calls to structure the funding as returnable capital rather than as grants, which may dovetail with a push to do more to promote economic growth, especially by investing in small and medium-sized enterprises (SME) and in the economic empowerment of women.

So there is a clear opportunity to use a large portion of UK ODA (roughly 10 percent) differently after it no longer goes through the EU. There will be many ideas for using that money, but we will refrain for expressing a view, and focus instead on the opportunities that will arise across the whole of government, not just in the aid programme. While this is not the place to consider the overall allocation of UK aid, and how it is poised to meet the challenges of the coming decades,10 Brexit will clearly be a moment to consider how aid can be spent more effectively. The risk is that the challenges of development will be considered through an aid lens alone, when many of the most important policy questions for development will fall into the purview of departments other than DFID.

The structure of this paper

Below, we first suggest three key tests to help prioritise the new policy opportunities presented by Brexit (section 2).

We then set out four key policy areas, each with specific illustrations of possible action and impact, explaining how they meet each test. We consider these to be “triple wins” which should receive immediate priority (section 3).

We then extend the analysis to four other possible policy areas that offer considerable potential but require further clarification or are not, as yet, clear-cut winners on at least one of the tests (section 4).

Finally, we identify some areas for further exploration and debate (section 5).

Three lenses used to prioritise policy opportunities

This paper is about looking for the triple win: what policy opportunities, enabled or enhanced by Brexit, are good for the world, good for the UK, and also good for the UK process of negotiating out of the EU? For this reason, we subject each of the policy proposals to three specific tests:

10. A thoughtful discussion of this wider question is made by Simon Maxwell, “Finding a Place of One’s Own: Development Agency Choices in a New Landscape,” 2016 Hopper Lecture, University of Guelph, 23 February 2016.
• Does it work to protect the most vulnerable and poorest people in the world, with a positive impact on sustainable development?
• Is it in the UK’s long-term national interest, including the prosperity, health, security, and future well-being of UK citizens?
• How will it affect the UK’s bargaining position with the EU or other countries; will it be positive or at least neutral?

For the first test we already have a large body of evidence on what policies work best and why such as the benefits for origin countries of migration or the averted costs of conflicts prevented in fragile states. In the post-Brexit environment where the UK administration will be stretched thin, there is the added requirement that policies be not only effective but relatively simple to implement.

The second test requires consideration of the economic and social interests at stake within the UK itself, as well as prevailing political opinion and reputational effects abroad. For example, the further restructuring of UK farm subsidies inevitably raises equity issues between large and small landowners at home.

The third test includes what may be tactically acceptable to UK Brexit negotiators striving to secure complex agreements within and across topics. We should not commit in haste to an otherwise sound outward-looking policy only to discover it could have been a major bargaining chip in the UK-EU negotiating context. Such tactical considerations should not, however, stop us planning our preferred post-Brexit approaches for the wider global stage.

Four top triple-win policy opportunities sparked by Brexit

We consider four policy areas to be “triple wins” that should receive immediate priority: trade for development, the fight against modern slavery and people trafficking, climate change leadership, and mutually beneficial migration controls.

Better trade for development

Recapturing control of UK trade policy was one of the main promises of the Leave campaign. The question is what to do with that control. The high profile choices will be about relations with the EU: will the UK be part of the single market or the customs union? Will it seek affiliation status or break away entirely? Each would have specific consequences for low-income trading partners, many of which will be highly vulnerable to shifts in the UK trading regime.11 With the new UK Department for International

11. Belize sent nearly 25 percent of its exports by value to the UK from 2011 to 2015. Other vulnerable countries include Mauritius (20%), Fiji (15%), and Bangladesh (10%). Emily Jones, “Brexit: Opportunity or Peril for Trade with Small or Poor Developing Economies?” International Centre for Trade and Sustainable
Trade (DIT) and the Department for Exiting the European Union (DExEU) are bound to focus on Europe as the top priority. Negotiations seeking free trade agreements with the US, China, and India will be a second time-consuming priority. So there is a real risk that arrangements for low-income countries will be at the back of the policy queue. Yet there is broad political support for the ambition that trade deals should be negotiated with the goal of improving welfare in developing countries as well as preserving or increasing UK jobs. Bearing these points in mind, there are significant opportunities to seize:

a. Unilaterally continue Everything But Arms. If, as is likely, the UK leaves the European customs union, it will also depart from the trade preferences offered by the EU under the Generalized System of Preferences (GSP), including the Everything But Arms scheme under which all imports from 49 least developed countries (LDCs) to the EU are duty-free and quota-free, with the exception of armaments. Since Everything But Arms exports to the EU in 2013 amounted to €14.1 billion,12 including a disproportionately large fraction directed to the UK where historical ties and business links prevail, the loss of the UK market would be a significant blow to some of the most vulnerable economies. Yet there is a broad political consensus across UK political parties that duty-free, quota-free access for the least developed countries is a good thing. So an early government statement signaling that the UK would continue to operate the Everything But Arms provisions under the GSP arrangements of the World Trade Organisation (WTO) should not prompt political opposition. Nor would it be a key bargaining chip in negotiations with the EU.

b. Improve rules of origin. There is a bold and practical move that the UK could announce as soon as it is free of EU external trading rules, and that is to simplify and liberalise the rules of origin which apply to trade preferences for LDCs. This change would benefit developing countries and deliver lower prices to UK consumers. And it would be politically achievable once the blocking interests from southern and eastern Europe are no longer in the decision mix.

Rules of origin exist to prevent manufacturers in nonbeneficiary countries from gaining preferential market access by transshipping goods through LDCs. But if the rules are too restrictive, then the trade benefits for the LDC are reduced or nullified. Restrictive rules of origin have been shown to lead to underutilization of preferences, and they tend to constrain diversification of exports in LDCs.13 EBA preferences are often not used by LDC exporters because the rules of origin make it costly or impossible to do so. In contrast, the US AGOA (African Growth and Opportunity Act) scheme, particularly in textiles, has seen much


higher rates of utilization than EBA because its more liberal rules of origin on goods allow LDC manufacturers flexibility in sourcing inputs.

What should replace the complex and bureaucratic EU rules of origin? There are various models and recommendations, but there is a lot to be said for a very simple rule stipulating a minimum level of local value expressed as a percentage of value added. A bold reform setting out UK rules of origin for LDCs to provide a value-added requirement of 10 or 20 percent across all products under Everything But Arms would simplify compliance, boost LDC exports, and send a signal that the UK is genuinely open global trade.

c. Replace EU Economic Partnership Agreements with simple nondiscriminatory trade preferences for countries ineligible for Everything But Arms. Much ink has been spilt on the promises and problems of the EU Economic Partnership Agreements (EPAs), the trade and development agreements that have been negotiated, or are still being negotiated, with African, Caribbean, and Pacific countries engaged in regional integration processes. In theory, EPAs should help integrate trade with development and promote regional integration. Critics of EPAs say that in practice they have taken many years to negotiate, have cumbersome reciprocity requirements, and will be difficult to implement. The EU introduced EPAs at least in part to answer WTO criticisms of special treatment for the slightly idiosyncratic African, Caribbean, and Pacific (ACP) country grouping, which includes a few middle-income countries.

After Brexit, the UK will need some transitional arrangements to protect developing-country access while it establishes its own set of WTO-compliant trade preferences. There will be a push to establish bespoke bilateral free trade areas (FTAs) with countries such as China, India, and Vietnam. Beyond these FTAs, the UK could seize the opportunity to offer GSP preferences (beyond LDCs) that are genuinely nondiscriminatory and generalized in application. Starting with a clean slate, the UK could offer a unified regime marked by simplicity, openness, and nondiscrimination.

Step up global leadership on fighting modern slavery, including people trafficking

One way for the UK government to demonstrate its continued outward engagement with the world following Brexit is to lead a global campaign on the issue of modern slavery. The UK has a strong abolitionist heritage, and arguably one of the world’s strongest laws in the form of the Modern Slavery Act (2015), which also requires

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15. An alternative is to have a higher value-added threshold, but with a cumulation scheme to account for value added in multiple LDCs. This has attractions, but would be more complex and costly to implement. See Kimberly Ann Elliott, “Changing Rules of Origin to Improve Market Access for Least Developed Countries” (CGD Note, Center for Global Development, Washington DC, 2010), http://www.cgdev.org/publication/changing-rules-origin-improve-market-access-least-developed-countries.
businesses with an annual turnover above £36 million to disclose what actions they are taking to eliminate modern slavery from their supply chains. The Act goes well beyond the requirements of the 2011 EU Directive on Preventing and Combatting Traffic in Human Beings, and its innovative requirement on supply chains gives it a potential for global impact.

On 31 July 2016 Prime Minister May marked the first anniversary of the Act with a commitment of £5 million in ODA to support antislavery efforts in high-risk countries. This is a welcome move, but there is more scope for global leadership.

There is now an opportunity for the UK government to press for the exacting standards of the UK Modern Slavery Act to be adopted more widely, starting with all Organisation for Economic Co-operation and Development (OECD) countries. There was a similar trajectory in the fight against corruption when the main elements of the US Foreign Corrupt Practices Act of 1977 were progressively adopted by other countries, culminating in the OECD Anti-Bribery Convention of 1997. The UK has set a high standard on combatting slavery, and it has the moral authority to call other governments to join in a common higher standard. Since the Act imposes burdens on UK companies, an effort to internationalise its provisions can also help create a level playing field for UK-based businesses. Protecting marginalized men, women, and children from extreme exploitation is a worthy objective in itself. It is also important from a UK perspective to ensure that some goods which compete with UK-manufactured goods do not benefit from excessively low input costs due to slave-labour use.

Outside of the EU, the UK can push for greater ambition on the global stage. After Brexit, the UK will almost certainly leave Europol and Eurojust, so it will need to find new ways to enable direct collaboration with foreign law enforcement in Europe. But this also opens up opportunities to strengthen UK ties for mutual legal assistance against slavery across the world.

**Climate change: the drive for carbon pricing beyond Europe**

Climate change poses arguably the single biggest threat to our national interest over the next century. The UK has been a leader on climate policy for some years now and has helped to push the EU to take more effective action. Outside of the EU, the UK could have a more independent voice. Although Brexit raises a host of questions about how the UK’s climate commitments will be carried forward, the UK, as a party to the Paris agreement, can translate its international commitments as part of the EU into its own “nationally determined contribution.” Since the Fifth Carbon Budget tabled in

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Parliament on 30 June 2016 set a tone for ambitious carbon reductions to 2030, the policy basis for moving quickly is in place.

Once outside the EU, the UK will be able to ratify international climate agreements according to its own timetable, rather than waiting for EU implementation agreements among 28 Members to be negotiated. So too the UK could be much more proactive in joining international “coalitions of the willing,” rather than being bound to follow the consensus of 27 predetermined countries. For example, the UK could be more proactive in joining with like-minded partners in groups such as the High Ambition Coalition and the Cartagena Dialogue.

The UK has been one of the most ambitious carbon reducers in the EU, and many have asked if the UK should opt to stay in the EU Emissions Trading System (ETS), where the UK floor price for carbon has uniquely helped to hold up prices. Staying in the ETS is certainly a possibility, but there is a bigger prize. After Brexit the UK could also work in a broader coalition of the willing to push for more widely applied carbon pricing systems. The UK is already a member of the Carbon Pricing Leadership Coalition, and there are opportunities to develop voluntary agreements—bilaterally and multilaterally—that involve both businesses and governments.

Overall then, the UK’s expanded policy options for climate change, and especially leadership on carbon pricing, offers a double win: it will promote international action needed to guarantee national security in the future, and it will give businesses and consumers in the UK a clear steer on policy directions to guide their actions. Greater international ambition on climate change will not prejudice negotiations with the EU.

Make new migration controls work for mutual benefit.

Possibly the most pervasive argument made for leaving the EU was that the UK would secure control of its borders and reduce uncontrolled migration from EU countries. There is a new political momentum to put in place a unified “points-based” system for migration control that would span both EU and non-EU citizens. Points-based systems such as those used in Canada, Australia, and New Zealand admit migrants based on their characteristics, such as educational qualifications, occupational skills, and work experiences.

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20. Formed as a lobbying block at the Paris talks, the High Ambition Coalition consists of 79 African, Caribbean, and Pacific countries, the US, and all EU member states. Notable exceptions include major developing countries such as China and India. The Cartagena Dialogue came together in April 2015 and included ministers and CEOs from Chile, Colombia, Mexico, and Peru, with additional participation from Panama, the Inter-American Development Bank, and the IMF together with Brazil, China, Germany, Indonesia, Japan, Korea, Malaysia, Philippines, Singapore, the UK, and the United States. Further government and private-sector participants came from Argentina, Australia, Bahrain, Costa Rica, Ecuador, France, Honduras, India, the Netherlands, New Zealand, Russia, and Spain.

experience. The aim would be to provide developing-country migrants to the UK a positive preference element within such a new points-based system and, as a minimum, to avoid any return to inadvertent discrimination against them. There are at least two variants that could be implemented:

a. Preferential points for citizens of least developed countries. Imagine two pathology lab technicians of equal qualification and work experience who apply for visas to work in the National Health Service. One is from a high-income country, such as Croatia or Kuwait, the other is from a least developed country such as Uganda or Gambia. Where there is only one visa to award, extra preference points could be awarded to the citizen of the least developed country. Just as the UK secures much-needed skills that will help to grow the economy and deliver critical services in the national interest, so too the arrangement would boost employment and promote remittances for a citizenry in greater need. As long as the UK need for a critical skill is met, there is a clear policy argument to fill the post with the person whose employment will most contribute to global development, and thereby reduce long-term costs on the UK while promoting prosperity in the places of greatest need.

This simple scheme could be generalized more broadly by awarding a small margin of preferential points to the citizens of least developed countries across the board. Just as trade preferences apply only where the national need for imports is served, an employment preference would only apply where there is a clear need for skills in the UK.

b. Global Skills Partnerships. CGD senior fellow Michael Clemens has proposed a practical initiative to increase the supply of technically skilled labour to fill critical skills gaps like those which are likely to arise in the UK when free movement from the EU comes to an end. The Global Skills Partnership would take the form of a public-private partnership involving the UK and training organisations operating in a low income country. To take an example, UK aid could be used to help fund a high-quality training scheme for senior nurses in Malawi. A prearranged number of the nurses who meet accreditation standards are granted fixed-term contracts (say, five years) in the National Health Service, on the basis of a time-limited visa with an undertaking to return to Malawi. There are advantages on both sides: the cost of training each nurse is lower than in the UK, the total skilled labour force in Malawi is increased rather than

22. Purely points-based systems are often criticised for being based on government perceptions of skill gaps rather than employer perceptions. There is evidence from Canada and elsewhere that skilled migrants without a job offer were less likely to find work than those selected by employers, and this was indeed one of the reasons cited by the UK for closing its previous Tier 1 [General] points system in 2010. See "Immigration Limit Changes: Oral Statement by Theresa May,” 23 November 2010, https://www.gov.uk/government/speeches/immigration-limit-changes-oral-statement-by-theresa-may.

23. Only a few years ago under UK non-EU immigrant rules, nominal salaries in the country of origin were used as an administrative proxy for skill levels, meaning that a doctor from a poor country could be judged less “valuable” than a semi-skilled worker from a rich one.

depleted, and the nurses and their communities benefit from both remittances and international experience. A bespoke scheme would also give employers such as the National Health Service better control over the skills and precise qualifications of new recruits—a potential improvement on the EU free movement regime where the UK has been required to apply the European lowest common denominator in language testing and patient safety regulation.25

**Four other promising opportunities**

In this category, we examine policy changes which might yet meet the three tests, subject to some uncertainty on one or more counts, including whether the opportunity is genuinely Brexit-related, not just a longstanding lobbying agenda with previously known pros and cons largely unrelated to the EU. In each case we consider why it does not (yet) make the “triple win” cut, in our judgement.

**Reform agriculture subsidies**

Recently reformed EU Common Agricultural Policy (CAP) fixed support rates per hectare, distorting national, EU, and global prices far less than before.26 Real producer prices have risen globally at the same time. The CAP delivers funds in the UK in two tracks: Pillar 1 is direct payments to farmers; Pillar 2 is a fund to invest in rural development and environmental schemes at the regional level. The UK was already increasing the share of its funds allocated to pillar 2 to 15 percent from 2018. The accepted direction of future change, not necessarily affected by Brexit, is that pillar 1 payments will be reduced further and eventually be phased out. To that extent, there is neither a large payoff domestically, nor globally, from the likely policy space afforded by Brexit. Rules have already moved a long way from volume-based support to paying subsidies on the basis of acreage and land and animal husbandry standards, allowing farmers flexibility on the mix of crops and livestock.

A more ambitious policy option would be for the UK to capitalize, say, 10 years of future pillar 1 payments and offer this to farmland owners as a lump sum in exchange for rendering their land ineligible for future payments. This lump-sum would finance investments to render farms viable without subsidies, or provide their owners with capital and skills for new ventures should they wish to leave agriculture. Depending on the (entirely voluntary) levels of take-up, the overhang of future subsidies on UK budgets and international trade, including developing-country producers, would be considerably reduced, and the UK rural economy potentially boosted and made more

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26. How the UK may subsidize agriculture on exit is also constrained by the WTO’s Uruguay Round Agricultural Agreement (1995) in which trade-distorting support of certain kinds and above certain levels must be negotiated and a “schedule” of allowed measures agreed. To continue to support UK farmers on exit at levels they are likely to accept, some negotiation with WTO will most likely be necessary. There will be pressure on the UK in this process to adopt methods of support that do not distort trade, which is also good from a development perspective.
efficient. At today’s exceptionally low government borrowing costs, such a one-time swap of up-front investment for future subsidy makes even better public sense.

Verdict: The area of post-CAP reforms does not make our triple-win list, as yet, mainly because (a) the wider development benefits of further CAP or post-CAP reform waves have already fallen considerably from past peaks (though they remain significant) and (b) there are serious domestic UK issues of equity, especially between large- and small-holders, which come into play in implementing and changing acreage-based subsidy schemes—even ones, as above, ultimately aimed at phasing out future dependence on them.

**Establish a UK Development Bank**

The European Investment Bank (EIB), with a balance sheet significantly larger than that of the World Bank, is a quiet financial juggernaut with relatively low visibility in the UK and globally. The EIB provides finance to a wide range of projects around Europe, with a particular focus on infrastructure, social housing, renewable energy, and training. It invested £5.6bn (6.7bn euros) in the UK in 2015 and £42bn (50bn euros) into the country over the last decade.

Its EU operations are mainly concentrated in infrastructure, green energy and enterprise development within the EU, with the UK both a major shareholder (16 percent) and project beneficiary (for example, historic funding of the Channel Tunnel, Crossrail, and the Nissan plant in Sunderland and current funding of an automotive parts business in County Durham, Swansea University, housing associations in Northern Ireland, and an offshore wind farm in Scotland). Less well known generally is that some 12–15 percent of EIB lending (roughly the same proportion as that invested in the UK) already goes to developing and emerging economies outside the EU, mostly under cover of guarantee arrangements, and sometimes interest subsidies, allocated within the EU budget framework. EIB has a significant portfolio on African infrastructure in particular and is active in most other regions.

Within the overall likely financial settlements on Brexit, we may expect a gradual repatriation of the UK equity share over several years. There had been significant parallel discussion prior to the referendum, including in the International Development Committee of the UK parliament, on whether and how to establish a national development bank that supplies credit in both the UK and developing countries. This could be along the lines of the German KfW bank, which like EIB operates both at home and overseas. There have also been recent proposals for a UK bank to promote climate-smart infrastructure investments, for a UK domestic Business Bank, and for an expansion of CDC (formerly the Commonwealth Development Corporation), the existing government-owned vehicle for private-sector projects in developing countries.

Obviously, in severing our link with EIB (which now appears unavoidable as its articles only allow EU members), there is a one-time opportunity to use both UK repatriated equity share and the accumulated experience in EIB to boost these processes, possibly
under a single “UK Development Bank” institutional roof which could link UK investments and know-how with overseas investments, in appropriate proportions.

Verdict: Apart from the serendipity of this potential new injection of capital, and the one-time opportunity to leverage EIB-UK expertise before it dissolves, the prospect of any UK Development Bank needs to be looked at on its merits. These include whether setting up any new international development bank-like structure in the UK is as effective an option as expanding the CDC or supporting an array of other, non-EU existing alternative channels, like the World Bank Group, the Green Climate Fund, and the Asian Infrastructure Investment Bank, among others of which the UK is already a shareholder. We do not think that debate is fully settled yet, which is why we do not give this idea immediate triple-win status.

**Develop a UK-owned “smart sanctions” mechanism, which also blocks future contract enforcement by targeted regimes**

The UK has an array of domestic sanctions instruments, antiterrorist provisions mainly, which enable it to implement a wide range of sanctions measures, including those determined at the EU and the UN today. This capacity will endure after the UK ceases to be a formal part of EU foreign-affairs decision-making.

Given also the global reach of English law and contract dispute settlement mechanisms, the UK could boost its sanctions toolkit in the area of “preventing odious obligations,” a new form of preemptive sanctions. This involves adopting a new legal instrument by which the UK could declare that successor governments to a (named) illegitimate regime would not be bound by contracts the predecessor regime signs after such a naming declaration. The UK could unilaterally adopt this policy at home, perhaps extending it in the first instance to regimes upon whom sanctions are imposed by the UN. The UK could then work to encourage other OECD nations to enact similar legislation and work towards a UN framework.

Verdict: We think this kind of extension of our sanctions arsenal meets the test of (at least) not cutting across Brexit negotiations. It could also have positive effects on development, via reducing the ability of “odious” regimes to secure, through enforceable international contracts with respectable firms, future rights owned by their citizens. We cannot readily assess this impact: such regimes could switch to less scrupulous contractors beyond the reach of UK law, at least until our approach was widely adopted internationally. In terms of our UK financial and legal services’ interests in the short...

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27. These include the following: the Terrorist Asset Freezing etc. Act 2010—Part 1 allows the Treasury to designate individuals and legal persons connected to those individuals, and Part 2 imposes a wide-ranging prohibition on economic interaction with such persons; the Counter Terrorism Act 2008—Schedule 7 allows the Treasury to implement sanctions against a country; and the Anti-Terrorism, Crime and Security Act 2001—Part 2 provides for asset freezing not just in cases of terrorism (including a famous use against an Icelandic bank during the financial crisis).

term, there may be understandable resistance to potentially restrictive legislation, given also Brexit-related uncertainties on invisibles exports. There are may also be unforeseen legal consequences, including unintended harm to third parties, that would need to be explored in greater depth. For both these reasons, we have not yet put this option on the triple-win list.

**Lead the world in cost-effective humanitarian assistance**

On leaving the EU, the UK will no longer be under any obligation to contribute to the EU’s pooled humanitarian fund, ECHO (European Civil Protection and Humanitarian Aid Operations). Using the funds that will no longer be assigned to ECHO, DFID will be able to increase spending on its own humanitarian interventions and contributions to other pooled funds. More importantly, outside of ECHO, the UK will be free to further increase the effectiveness of its humanitarian spending. By accelerating the adoption of three key policy insights in humanitarian assistance, DFID can cement its place as the world’s most effective bilateral development agency and lead global humanitarian best practice.

a. Catastrophe insurance. The current ad-hoc and ex-post response to disasters is increasingly insufficient for growing needs. It also does little to incentivize investments in resilience, as the international community is implicitly on the hook to pick up the bill for any disaster. This situation could be radically improved by employing the tools of the UK’s world-leading insurance sector, which will maintain its competitive advantage even if other financial services lose their financial passporting access to the EU single market. The UK should become the world leader in insuring states against catastrophes. This would ensure timely, effective payouts based on clear quantified trigger conditions and align incentives to increase investment in disaster preparedness, massively reducing costs.29

b. Cash transfers. Humanitarian agencies around the world are waking up to the effectiveness of cash transfers in many humanitarian situations.30 In 2015, ECHO itself acknowledged that “we need to always ask the question ‘Why not cash?’” DFID should also bind itself to this principle, and should go further, encouraging developing countries in which it works to build cash response infrastructure, with pre-identified beneficiaries, that is ready to be activated in the case of an emergency.

c. Integrate humanitarian and development support. The timing is perfect for bold new thinking, as DFID is currently rewriting its Humanitarian Policy, last updated in 2011. The new policy should help to bridge the humanitarian-
development divide. At the EU level, development and humanitarian functions are separately siloed in DEVCO (the EU Directorate-General for International Cooperation and Development) and ECHO, respectively. This reflects a global tendency to view humanitarian action and development interventions as fundamentally different. DFID unites these functions under one roof, but should go further, integrating thinking about potential disasters into its interactions with developing-country partners during calmer times. In particular, this can be achieved by aggressively pursuing insurance-based preparedness and building national cash-based infrastructure.

Verdict: The path is clear for UK initiatives even during the transition out of ECHO and the EU, with no major negotiations entanglement (including for the insurance sector, as above). The potential development impact of these three prongs is large, but there will need to be considerable further work on the insurance nexus. The UK cross-party support for “smart” humanitarianism should be very strong, combining our traditional generosity of spirit with new rigour in method. Our main reason for not recommending this package unreservedly in the immediate triple-wins category is that the reform of UK humanitarian approaches is relatively disconnected from Brexit as such, which at best provides an added stimulus. The fact that, for example, sensible policies like integration or the use of modern cash handling technology have taken hold relatively slowly in the UK is more a matter of our lingering reluctance to embrace change than an EU-driven constraint.

Topics for further exploration

The previous two sections outlined practical policies that are either unambiguous triple-wins or nearly so. Here we touch on some more uncertain but potentially promising policy ideas. They give a sense of the further possibilities open to a United Kingdom that continues to aspire to lead the world in protecting its most vulnerable citizens. To be fully workable, these ideas require careful specification to a degree that is outside the scope of this note. Nevertheless, they are presented here as a partial list indicative of the direction in which the UK should move to help shape a better world in which we can also prosper.

a. Environmental regulation, including biodiversity. Is there room for a stronger independent voice for the UK in international negotiations?

b. Intellectual property. The UK may leave EU arrangements including the European Patent with Unitary Effect (EPUE)—what new arrangements will be put in place, and could they be harnessed for global development?

c. Competition law. As the UK leaves the EU regime, are there other competition law models (e.g., Australia’s) that could be used to offer advantages for global development?

d. Procurement. No longer bound by EU procurement rules that privilege EU individuals and companies, could the UK adopt a new system that is nimble and which also offers opportunities for developing countries?
e. Voluntary contracting into European delivery channels. After Brexit, should or
could the UK voluntarily opt to use certain delivery facilities, outside of the EU
budget proper, which it has helped design or reform, such as the European
Development Fund or the Facility for Refugees in Turkey?

f. New global initiatives on tax evasion, money laundering, and corruption. With a
pivot to working through more global bodies such as the OECD, could the UK
find ways to drive even stronger international action on illicit financial flows?

g. Boosting UK–international development research networks. Post-Brexit, the
UK should ensure that its research funding, boosted to help compensate for
loss of EU support, consciously builds up new developing-country partnerships
and academic exchanges, to safeguard and extend our thought leadership and
convening power.
References


