Implications of Brexit to the Asia-Pacific region: with a focus on least developed countries

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Summary

Brexit might affect exports of some countries in the Asia-Pacific region disproportionately more than others. Simulation results, under different Brexit scenarios, show that the potential reduction in trade faced by least developed countries (LDCs) of the region can range from 16% to 50% of their current export value to the UK in key sectors such as fish, clothes, textiles and footwear. Simulations also show that it is the larger developing countries from the region that would benefit from any trade diversion that ensues in these sectors. Countries with higher exposure to Brexit induced risks need to engage in deeper analyses of the extent of such impacts and brace themselves for proactive discussions with the UK in order to limit negative impacts.

Highlights

- Brexit might affect trade of some countries in the region disproportionately more than others. Sri Lanka, Cambodia, Bangladesh, Turkey, Pakistan, French Polynesia, Fiji, Maldives, India, Hong Kong, China; are found to have higher chance of being exposed to direct trade disruption risk, owing to their relatively high proportion of exports to the UK.
- It is uncertain whether UK will continue to provide preferential access to LDCs and developing countries after the Brexit. The paper runs simulation exercise under two scenarios. First simulation changes all UK tariffs to current MFN applied tariffs of the EU. Under this scenario, LDCs in Asia and the Pacific might witness a reduction of their exports to the UK at the range of 30% to 50% in key sectors such as fish, clothes, textiles and footwear.
- Under the second scenario of UK removing all tariffs unilaterally to all countries, the LDCs in the region will face significant preference erosions. The simulation suggests that trade diversion from LDCs can still result in a potential reduction of 16 % to 48% of their current export value in key export sectors.
- Asia-Pacific LDCs, especially Bangladesh, Cambodia, Lao PDR, Myanmar and Nepal, who have a significant reliance on UK market for exports, will need to be wary of potential trade disruptions. Simulations also show that it is the larger developing countries from the region that would benefit from any trade diversion that ensues in these sectors. Countries with higher exposure to Brexit induced risks to engage in deeper analyses of the extent of such impacts and brace themselves for proactive discussions with the UK in order to limit negative impacts. LDCs may consider jointly negotiating for the continuation of their DFQF access to the UK.

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- Countries might want to think of ways to transform Brexit into an opportunity to renegotiate trade agreements with the UK that are mutually beneficial and integrates emerging issues in trade such as non-tariff measures, ecommerce and digital trade.
- The Asia-Pacific region should carefully analyze the political economy factors that led to the Brexit in order to avoid 'Brexit type' events in the region, which could potentially hamper the regional integration efforts.
- Investment and ODA could be other two channels through which the Brexit can impact the region. Countries that have significant investments in the UK might face some ripple effects of Brexit through the investment channel. At the same time, the top recipients in the region of UK FDI might see a fall in the investment if the UK investors cut down on their investment due to economic uncertainty. In terms of ODA contributions, Afghanistan, Bangladesh, Nepal, and Pakistan receive substantial ODA from the UK (as percentage of GDP) and any slow-down of the British economy can result in fall in these contributions.

Introduction

After the result of the referendum within the UK on European Union membership on July 23rd 2016, the UK seems all set to leave the European Union and possibly the European Single Market. The new British Prime Minister Theresa May announced that the formal negotiation process will begin in late March 2017, which means that the UK is likely to formally leave the EU in 2019[2]. Little is yet known about what shape or form the exit negotiations will take and whether Britain will retain access to the Single Market (a so-called 'soft Brexit') or have to leave completely and then attempt to negotiate new trade agreements with the EU and other countries ('hard Brexit'). The recent statement by the British Prime Minister has hinted at the prospect of a 'hard Brexit'[3].

These uncertainties have certainly rattled international markets, including a historic slide in British Pound exchange rate, and present significant threats to global markets in the future. Nevertheless, Brexit may also present opportunities for UK trading partners as it might open up ways to negotiate or renegotiate trade agreements. In this commentary, we will first provide a brief overview of the potential threats associated with Brexit and an analysis of UK trade relations with Asia-Pacific, emphasizing which countries have the highest exposure to the UK market. We conduct partial equilibrium simulations of selected sectors of significance to LDCs in the Asia- Pacific region to gauge the impact of removal of preferences given by UK to these countries. Together with comments on FDI and ODA flows, the commentary highlights some of the challenges and opportunities that Brexit potentially presents for the Asia-Pacific region, especially its LDCs.

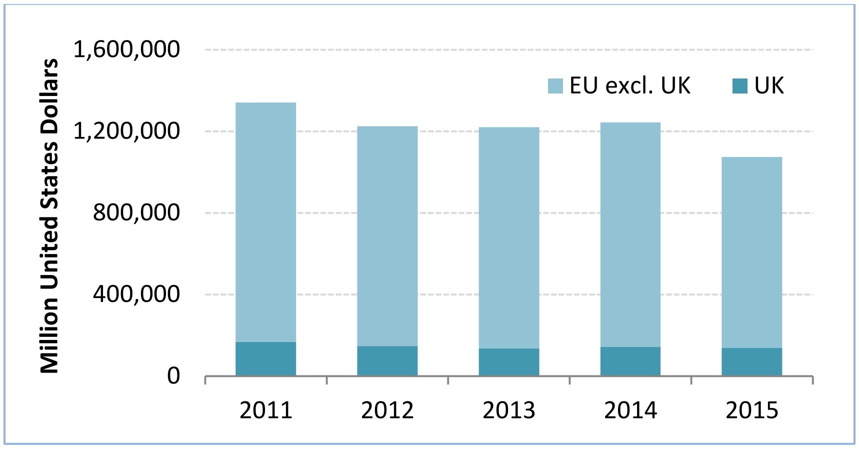
1. Impact of Brexit on Trade

Europe and the UK are important trading partners for the Asia-Pacific region. In 2015, the EU accounted for 19.2% of total exports from the Asia-Pacific region, while the UK by itself accounted for 2.2%. Some of the region's biggest bilateral trading partners with the UK include Sri Lanka, Cambodia, Bangladesh, and the Solomon Islands (in terms of exports to the UK). However, uncertainty remains over what trade relation the UK will maintain with the EU, and indeed whether it will adopt the EU's bilateral and multilateral trade agreements or revert to MFN status under the WTO. As Thirlwell (2016) points out,

[2] Source: BBC News (2016).
[3] http://www.thetimes.co.uk/article/pm-gives-clearest-hint-uk-is-heading-for-hard-brexit-nqzhvrp7m

political uncertainty alone may cause slower UK and EU growth in the short-term which will lower imports from trading partners.

Figure 1.1: Value of Asia-Pacific exports to the UK and EU (2011-2015) in USD millions

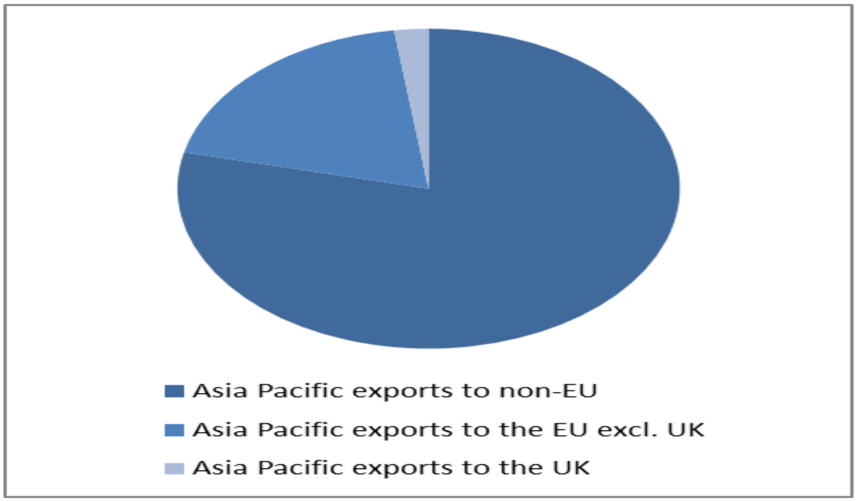


Source: UN COMMTRADE DATA accessed through WITS. *Note:* Calculated using mirror data

Some analysts argue that the Asia-Pacific region as a whole is unlikely to be affected much in the short run due to its relatively low reliance on exports to the UK[4]. However, there are concerns that even if Brexit does not immediately impact regional economies, it may further reduce global trade growth which has already been slowing down in recent years (Iskyan, 2016a)[5]. First, trade disruptions may slow down economic growth in the rest of the EU which would slacken demand for imports from European trade partners. Second, a British exit from the EU – which is the largest trading block in the world – may reflect (and reinforce) a general increase of protectionist and anti-globalization attitudes. In turn, this may pose challenges for future trade integration efforts.. A gradual slowdown in globalization would not only harm economies that are highly dependent on global trade, such as Malaysia, Singapore and Hong Kong, China (where trade accounts for 138%, 351% and 439% of GDP, respectively)[6], but also – in turn – reduce long-term growth prospects for the region. A further uncertainty lies in whether the UK will adopt the same preferential access to developing and LDC countries. Mendez-Parra et al (2016) estimate that the combined effect of a devalued GBP and lower GDP growth can result in a reduction of 500 million GBP worth of imports from LDCs.

Figure 1.2: Share of Asia-Pacific exports to the UK and the EU, 2015

[4] Source: Moody's (2016).
[5] Iskyan (2016a).
[6] Iskyan (2016b).



Source: UN COMMTRADE DATA accessed through WITS. *Note:* Calculated using mirror data

Under the EU's Generalised Scheme of Preferences (GSP) system, developing countries are granted greater access to EU markets where – in effect – approximately two-thirds of all product categories have their tariffs lowered or abolished for developing-country exporters. An additional system, the "Everything but Arms" (EBA) arrangement, grants duty-free and quota-free (DFQF) access on all goods except arms and ammunitions to LDCs[7]. The issue, then, is whether or not the UK will extend the GSP allowances to developing countries and DFQF preferences to LDC countries, as its absence may severely compromise existing trade. Therefore, whether or not the UK replicates EU trade regulations (including the GSP and EBA system) is the biggest risk associated with Brexit from a trade perspective.

If EU regulations and trade agreements are not "grandfathered in," the UK might have to trade under WTO MFN rules while negotiating new trade deals[8]. It is moreover uncertain whether it is even possible for the UK to take over existing EU trade agreements, even on a temporary basis[9]. This presents significant economic risk to nations which rely heavily on exports to the UK, as reverting to MFN standards during negotiations will lead to higher tariffs and NTMs applied to goods previously liberalized under EU trade deals and (thus) result in significant trade disruptions.

Some analysts have predicted a relatively mild impact on Asian economies, arguing that "even a 25 percent decline in U.K. imports would knock less than 0.2 percent off from regional GDP" (Simpson, 2016). In China, for example, UK exports only amount to some 0.5% of GDP and so an anticipated 25% reduction in UK imports would only shave off around 1.25% in GDP of China. However, economies like Cambodia, Viet Nam and Hong Kong, China have strong trade ties with the UK stand to see a higher impact on economic growth. It is also speculated that the impact of exporters to the UK "may be more immediate if an anticipated slowdown in the UK economy materializes" (Cohen and Gumede, 2016).

The top 10 countries with the highest UK export exposure in the Asia-Pacific region (in terms of exports as a percentage of their total exports) are summarized in the table 1. These are the economies at highest risk of being impacted by restricted trade with the UK, as a significant proportion of their global exports are sold in British markets. The table also summarizes the main components of their exports, based on

[7] Source: European Commission (2016)
[8] Provided UK's GATT status is recognized and it doesn't have to negotiate separate accession to the WTO.
[9] Walker (2016).

standard product grouping consisting of 1-14 HS categories at the 2-digit level. Six countries rely primarily on exporting textile and cloth products, while others also export large amount of e.g. footwear, transportation goods, and mechanical and electrical machinery. On the converse, negotiating new trade deals with the UK that improves trade relations and make them more favourable to developing nations may also present a window of opportunity to boost exports and economic growth. In particular, developing countries may wish to identify specific industries where value may be gained from greater access to UK markets. One such example is agricultural goods, which faces relatively high tariffs in the EU by developed country standards.

Table 1: Top ten UK trade partners in Asia-Pacific by export share in 2015

Country	**Exports to the UK as % of total exports**	**Top exports to the UK**
Sri Lanka	10.75%	Textile and cloth (84.09%), Plastic and rubber products (4.18%), and vegetables (4.01%)
Cambodia*	10.26%	Textile and cloth (75.96%), and Footwear (17.52%)
Bangladesh*	9.99%	Textile and cloth (93.52%), and Animal products (2.78%)
Turkey	9.11%	Textile and cloth (24.46%), transportation goods (24.01%), mechanical and electrical machinery (19.68%), and stone and class products (12.14%).
Pakistan	7.83%	Textile and cloth (80.29%), Vegetables (5.77%), hide & skin products (2.79%), and misc. goods including toys, optical equipment, furniture and other manufactured items (6.17%)
French Polynesia	7.58%	Paintings, drawings etc. (97.99%), stone and glass products (0.85%)
Fiji	6.73%	Food products (93.15%), textile and cloth (1.96%).
Maldives	5.72%	Animal Products (78.60%), food products (19.51%).
India	4.54%	Textile and cloth (26.06%), mechanical and electrical machinery (13.04%), chemicals (10.86%), stone and glass products (7.81%) and metals (6.06%).
Hong Kong, China	4.08%	Mechanical and electrical machinery (25.19%), Stone and glass products (18.91%), textile and cloth (8.46%), wood products (7.66%), misc. goods including toys, clocks and watches, optical equipment, art, and furniture (24.96%).

Source: WITS
* = LDC

Another measure reflecting on trade dependency is the share of export in countries GDP. From this perspective, Bangladesh is for example relatively less dependent on trading with the UK than Cambodia, Vietnam and the Solomon Islands (which together with Papua New Guinea make up the top five).

Table 2: Top ten UK trade partners in Asia-Pacific by export (as a % of partner GDP)

Partner	Exports to the UK (as % of country's GDP)
Cambodia	8.63%
Vietnam	3.16%
Solomon Islands	2.35%
Bangladesh	2.26%
Papua New Guinea*	1.60%
Sri Lanka	1.42%
Turkey	1.22%
Fiji	1.22%
Hong Kong, China	1.10%
Thailand	0.92%

Source: WITS and ESCAP calculations
*Based on 2014 data
Note: excludes Cook Islands, French Polynesia, Guam and New Caledonia due to lack of data

A further trade concern is the implication of Brexit to existing trade between Asia-Pacific economies and the EU as a whole. The UK has been a vocal promoter of creating free trade agreements between the EU and other economies, and there is a concern that the EU could become more trade restrictive after their exit (Panda, 2016). This could potentially influence some of the 16 FTAs between the EU and the different Asian economies that are currently in various stages of implementation[10]. Moreover, the political uncertainty surrounding the future of the block creates risk of further destabilization in the Single Market which, in turn, may disrupt EU trade[11]. Cambodia, Vietnam, Bangladesh and the Solomon Islands are also among the largest EU trading partners in Asia-Pacific region (in terms of exports as a % of their GDP), but the top ten also include several central-European economies while the Marshall Islands tops the list with nearly 228% of GDP, suggesting a very large dependency on exports to the EU. These countries thus face significant risk of being affected by any potential changes in EU trade policies.

1.1 Impact on LDCs: A simulation exercise

LDCs are of particular interest since trade (and, hence, economic growth) plays a vital function in their national development, and it is often harder for them to diversify into new markets and products easily. The exports to the UK constitute approximately 2% of the total combined GDP of the Asia-Pacific LDCs,

[10] Source: ADB (2016: pg. 6).
[11] Thirlwell (2016).

with this share reaching approximately 9% in Cambodia and 2% in Bangladesh[12]. Most of them rely heavily on textile and clothes exports (HS code 50-63), which account for between 66% and 94% of the country's exports to UK (see table 3). The current MFN tariffs of EU in Textile and cloth sector, footwear sector, animal product sector and wood product sectors stands at 5.96, 11.06, 06 and 2.23 % respectively. So these might be the levels of tariffs that can potentially get imposed on these sectors, if the preferential access to LDCs is discontinued by the UK. Some of these tariff rates, especially in textile and cloth and footwear sectors, can significantly erode the competitiveness of exports from LDCs. The partial equilibrium simulation exercise in the next section provides further evidence on the magnitude of trade disruptions.

Table 3: Top LDC trade partners in Asia-Pacific by export share and top two export industries

Country	Exports of the country to the UK as % of its global exports	Top two export industries	Current EU MFN rates (simple average)
Cambodia	10.26%	Textile and cloth (75.96%)	5.96
		Footwear (17.52%)	11.06
Bangladesh	9.99%	Textile and cloth (93.52%)	5.96
		Animal products (2.78%)	0.06
Nepal	3.39%	Textile and cloth (75.96%)	5.96
		Wood products (5.08%)	2.23
Lao PDR	1.48%	Textile and cloth (75.96%)	5.96
		Footwear (9.73%)	11.06
Myanmar	1.26%	Textile and cloth (75.96%)	5.96
		Animal products (18.57%)	0.06

Source: WITS

1.1.1 Methodology and Data

The paper conducts simulations using a single market partial equilibrium model implemented by the SMART software. SMART looks at one market (in this case UK) and one product at a time. Using import demand elasticity, export supply elasticity and the Armington elasticity (which governs the substitutability between different varieties of product coming from different countries), SMART simulates the impact of a variation in tariff on bilateral trade flows. The paper estimates the impact of a removal of tariff preferences given to LDCs by the UK under two scenarios. First scenario assumes that the UK will employ the current MFN applied rates of the EU to all countries including LDCs. The second scenario assumes that UK will unilaterally reduce all its tariffs to zero for all products to all its trade partners. We use the SMART simulation methodology that allows use of user's own data to conduct this analysis[13].

The following assumptions are used in these simulations. The import demand elasticities of the EU are estimated and used for the UK for each of the product categories. The Armington Elasticity for each product is obtained from Global Trade Analysis Project (GTAP) version 5[14]. The trade import values of

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[12] Author's calculations using data from WITS and WDI data set.

[13] The ready to use SMART online version does not allow to conduct simulations on a tariff increase by the UK as it is part of the EU. Hence, we use the offline version of the SMART tool that allows use of user-provided data. The simulation tool is available at : http://wits.worldbank.org/simulationtool.html.

[14] https://www.gtap.agecon.purdue.edu/

the UK for 2015 are used as the baseline case (or the counterfactual) and the simulation derives the percentage change in trade value from this baseline. For each of the exporter country-product pair the simulations provide the total trade effect that comprises of trade creation and trade diversion effects. Hence, for a tariff increase scenario, we can estimate how much trade gets reduced due to the overall increase in prices due to the tariff (the trade creation). Also, the model estimates how much of the existing trade from a specific exporter, whose exports face tariff increase, gets diverted to other exporters (trade diversion). We conduct simulation exercise for 5 HS2 digit product categories (namely, Fish; Apparel And Clothing Accessories-Knitted; Apparel And Clothing Accessories-Not-Knitted; Textile Articles ; and Footwear) that comprises of 95% of Asia –Pacific LDCs' exports to the UK in 2015.

1.1.2 Results

Table 5 and 6 summarizes the simulation results from SMART. The table 5 provides the total trade impact of the potential tariff increase following Brexit for the LDCs in the Asia-Pacific region[15]. This scenario assumes that UK imposes the current MFN applied rates of the EU to all countries (defined as scenario 1). Hence, the LDCs lose the DFQF preferences and developing countries lose their GSP tariff preferences and all other countries also lose any preferential access that they receive currently to the UK market. This means that all countries need to separately renegotiate trade deals with the UK under this scenario. Hence, this scenario is useful to measure the potential impact for the interim period when UK will be negotiating trade deals with countries. Scenario 2 assumes that UK will unilaterally reduce all tariffs to all countries. While this would have a high trade creation effect worldwide, it can lead to a high degree of trade diversion from LDCs due to ensuing erosion of preferences.

The simulation results show that selected sectors that matters the most to the Asia-Pacific LDCs will be hard hit by a removal of preferential access to the UK market. Under scenario 1 (see table 4), the fish sector can see a reduction of 38% of the current export value, while various sub-sectors under textile and clothe categories may see a reduction of export value of the range from 30% to 52%. Under scenario 2 (see table 5), fish sector in Asia-Pacific LDCs might experience a reduction of about 25 % in their current export values. While in the other top export categories, the reduction in export value can range from 17 % to 49 %. For example, a 50% reduction in value of exports to the UK from Cambodia and Bangladesh translates to approximately 4% and 1% reduction in their current GDP. Many of these sectors are very labour intensive and a contraction in these sectors can have high impact on employment. Hence these disruptions can be quite significant in these countries.

Table 4. : Scenario 1 : Potential trade disruptions in Asia Pacific LDCs (APLDCSs) due to UK raising all tariffs to EU MFN rates

HS code (Item)	Total Trade Effect	Trade Creation	Trade Diversion	Trade Value (2015) in 1000 USD	Potential percentage change in export value to

[15] Annex tables A1 and A2 provides country level breakdown of trade disruptions. Further detailed country level simulation results are available on request from authors. Please contact jacoba@un.org

					the UK due to Brexit
3 (Fish)	-49122	-17586	-31533	127719.05	-38.46
61 (Apparel And Clothing Accessories-Knitted)	-934287.62	-266760.81	-667501.75	2417640	-38.64
62 (Apparel And Clothing Accessories-Not-Knitted)	-900823.18	-247878.31	-652944.87	2012436.62	-44.76
63 (Textile Articles)	-22455	-9840	-12595	76743.27	-29.25
64 (Footwear)	-138831.78	-23911.74	-114920.03	265229.75	-52.34

Source: Author's calculation using SMART simulation tool

Table 5 : Scenario 2 : Potential trade disruptions in Asia Pacific LDCs (APLDCSs) due to UK unilaterally reducing all tariffs to zero

HS code (Item)	**Total Trade Effect**	**Trade Creation**	**Trade Diversion**	**Trade Value (2015) in 1000 USD**	**Potential percentage change in export value to the UK due to Brexit**
3 (Fish)	-31536	8	-31545	127719.1	-24.6917
61 (Apparel And Clothing Accessories-Knitted)	-670441	0	-670441	2417640	-27.7312
62 (Apparel And Clothing Accessories-Not-Knitted)	-653207	0	-653207	2012437	-32.4585
63 (Textile Articles)	-12778	0	-12778	76743.27	-16.6503
64 (Footwear)	-128966	192.5844	-129159	265229.8	-48.6243

Source: Author's calculation using SMART simulation tool

The simulation also shows who benefits from the potential reduction of preferences to the Asia-Pacific LDCs from the associated trade diversion from these countries. As shown in table 6 and 7, it is mostly the larger developing countries from the Asia and Pacific region that might stand to gain the most from the preference erosion of LDCs under both scenarios.

Table 6. Top 5 countries that stand to gain the most from trade diversion in specific sectors under scenario 1

3 (Fish)	**61 (Apparel And Clothing Accessories-Knitted)**	**62 (Apparel And Clothing Accessories-Not-Knitted)**	**63 (Textile Articles)**	**64 (Footwear)**

China	China	China	China	China
India	India	India	India	India
Russian Federation	Sri Lanka	Vietnam	United States	Indonesia
Indonesia	Vietnam	Sri Lanka	Hong Kong, China	Vietnam
Thailand	Indonesia	Indonesia	Other Asia, nes	Thailand

Source: Author's calculation using SMART simulation tool

Table 7. Top 5 countries that stand to gain the most from trade diversion in specific sectors under scenario 2

3 (Fish)	61 (Apparel And Clothing Accessories-Knitted)	62 (Apparel And Clothing Accessories-Not-Knitted)	63 (Textile Articles)	64 (Footwear)
Russian Federation	China	China	China	China
China	India	India	India	India
India	Sri Lanka	Vietnam	United States	Indonesia
Faeroe Islands	Vietnam	Sri Lanka	Hong Kong, China	Vietnam
Indonesia	Indonesia	Indonesia	Vietnam	Thailand

Source: Author's calculation using SMART simulation tool

Simulation results show significant trade diversions from the Asia-Pacific LDCs in their main export product categories. It is important that these countries be mindful of these potential trade disruptions and its subsequent impact on their economies. Some of the LDCs are already initiating talks with the UK on potential post-Brexit bilateral FTA[16]. It is important that LDCs jointly try to push for continued concessions to the UK market. In any case, LDCs should conduct further research on the implications of trade disruptions in specific sectors following the Brexit and prepare contingency plans in case of such disruptions.

2. Other channels of impact : FDI and ODA

Brexit would affect the Asia-Pacific region through other channels like Foreign Direct Investment (FDI) and Official Development Assistance (ODA). These should be carefully monitored and responded to by policy makers.

Similar to the uncertainty surrounding the future of UK trade regulations, it is unknown under what regulatory standards the UK will continue to engage in global investment. This is likely to lower both

[16] The prime-minister of Cambodia has made statements signaling such talks. Source : http://www.khmertimeskh.com/news/30503/pm-to-discuss-post-brexit-uk-trade/

inwards and outwards FDI in the short-run due to the uncertainties surrounding Brexit. This would affect large Asia-pacific economies like China, India and Australia, but also smaller developing countries like Pakistan and Kazakhstan. For some of these countries, UK is an important source of FDI and the impact of Brexit through the FDI channel can be quite significant. In the short run, market uncertainties can cause most investors to hold off on capital investments while awaiting the outcome of formal Brexit negotiations.

In the long-run, foreign firms – particularly in financial services – may also wish to divest or invest outside of UK due to the increased supply-side costs associated with the UK potentially losing access to the European single market (also known as a 'hard Brexit'[17]). Leading investors from India and China[18] are expected to scale down or relocate in case they lose that access. Similarly, Japan (which is the top investor in the UK) has warned that unless the UK pursues a 'soft Brexit' (where the UK remains part of the European Single Market), Japanese firms may pull out[19]. This has led some researchers to estimate that FDI inflows to the UK will fall by at least 22% in the next decade[20]. The immediately future is therefore likely to see a slow-down in outward FDI to the UK from top investor countries in Asia-Pacific (namely, Japan; India; Australia; China; Republic of Korea; Malaysia; Hong Kong, China; Singapore; Iran, Islamic Republic of; and the Russian Federation[21]).

ODA is another area of possible concern for developing countries in the wake of the post-Brexit world. In relative terms, the UK is one of the most generous bilateral donors, annually spending 0.7% of GDP on ODA[22] and a generous contributor to Aid for Trade[23]. This includes development assistance implemented by the EU on behalf of member states, which would likely be re-directed after Britain withdraws from the EU. Afghanistan and Nepal are the largest dependents on British ODA [24](as a percentage of GDP). As UK shifts towards providing ODA independently of the EU, these countries may stand to gain further. However, Afghanistan, India and Myanmar rely significantly on EU aid and will therefore need to be aware of possible contraction in ODA if the loss in UK funding via the EU is not made up for through direct funding. Similarly, direct recipient of British ODA stand to gain less if the UK economy slows down or lapses into recession post-Brexit.

3. Lessons from Brexit and concluding thoughts

There are many potential reasons for the shock outcome of Brexit, which will no doubt be the source of much debate in the years ahead. The significance of this for regional integration efforts in Asia-Pacific may be that they should be cautious while proceeding with deeper integration efforts. Regional organizations such as South Asian Association for Regional Cooperation (SAARC) and Association of Southeast Asian Nations (ASEAN) have until now primarily focused on regional cooperation and economic integration, agreements such as free movement of skilled labour within the ASEAN Economic Community (AEC) and other future initiatives may face an electoral backlash if the political or economic environment of the region changes dramatically. Hence, the reasons of Brexit need to be further analyzed

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[17] Thirlwell (2016) and Cadman (2016).
[18] See Simpson (2016).
[19] Merrick (2016).
[20] Dhingra et al. (2016).
[21] Source: fdimarkets.com
[22] Source: DfID (2015).
[23] https://www.wto.org/english/news_e/pres15_e/Brochure_UK_Aidtfa28915_e.pdf
[24] Source: DfID Statistics on international development 2015; World Bank WDI database

by regional integration efforts in the region and identify ways to mitigate risks of Brexit type events in the region[25].

Many analysts have speculated that Brexit will have limited overall impact on markets in Asia and the Asia-Pacific as a whole. However, countries with stronger export dependencies on the UK such as Sri Lanka, Cambodia, Bangladesh, Turkey, Pakistan, and French Polynesia will require pro-active policy making to either negotiate new trade agreements with Britain or look to develop new markets in the rest of the EU and beyond. Future trade relations will be of particular importance to LDCs with significant exports to UK (Cambodia, Bangladesh, Nepal, Lao and Myanmar), which may need to diversify their export industries and destinations. The simulations under different scenarios clearly showed that the LDCs can potentially face huge disruptions to their trade with UK, if they lose preferential access or face erosion of preferences. These trade disruptions can be of the order of 16%-50 % of current trade value to the UK in key sectors such as fish, textiles, clothing and footwear. The larger developing countries of the region stand to gain most from ensuing trade diversions.

In addition to short-term uncertainty and potential long-term impacts, countries and companies doing business with the UK should "brace themselves for a bureaucratic nightmare" as new regulations will be enacted and modified while the regulatory landscape evolves (Cohen and Gumede 2016). This may for example require renegotiating contracts and dealing with new visa regulations. Regional impacts from Brexit appear muted for now, and the UK will remain a member of the EU for at least another two years while their future relationship is negotiated; however, there is considerable concern for future volatility which may prove difficult to weather given the continued fragility of global market recovery[26].

Nevertheless, as highlighted in this paper, Brexit may also turn out to have a significant silver lining. The exit from the European Union may require the UK to quickly renegotiate existing FTAs and will most certainly require them to request deals with new partners. This would present a moment of opportunity for Asia-Pacific – particularly for economies with a heavy reliance on trade – to negotiate and renegotiate more favourable trade terms. These trade deals can be deeper than existing EU agreements and can include emerging issues such as non-tariff measures and ecommerce. Similarly, the potential slow-down in FDI inflows and outflows from the UK may pave the way for FTAs that allow for easier flow of capital and labour, but the desirability of the UK as an investment market will be highly dependent on whether they maintain access to the European Single Market. Lastly, developing countries with ODA-relations to the UK may wish to explore options in the wake of likely disruptions to development aid flow.

[25] See discussion in Moeller (2017) on some relevant lessons to south-east asia.
[26] Source: ADB (2016).

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Annex

Table A.1: Detailed Simulation Results : Potential trade disruptions in the Asia-Pacific LDCs (APLDC) due to UK raising all tariffs to EU MFN rates (Scenario 1)

HS2 Product	Exporter	Value of exports in 2015 to the UK (1000s of USD)	Potential percentage change in export value to the UK due to Brexit
3	**APLDC**	**127719.05**	**-38.46**
(Fish)	Bangladesh	98434.89	-44.14
	Myanmar	29152.03	-19.51
	World	2568938.50	-9.70
61	**APLDC**	**2417640.00**	**-38.64**
(Apparel And Clothing Accessories-Knitted)	Bangladesh	1684334.63	-37.10
	Cambodia	676942.81	-42.41
	Lao PDR	17995.54	-43.40
	Myanmar	31069.78	-37.85
	Nepal	7297.23	-36.93
	World	13392727.00	-7.52
62 (Apparel	**APLDC**	**2012436.63**	**-44.76**

And Clothing Accessories-Not-Knitted)	Afghanistan	5.57	-34.57
	Bangladesh	1549896.88	-44.03
	Cambodia	357700.53	-45.95
	Lao PDR	25689.72	-49.09
	Myanmar	72542.30	-52.65
	Nepal	6601.67	-48.01
	World	13128625.00	-6.85
63 (Textile Articles)	**APLDC**	**76743.27**	**-29.26**
	Bangladesh	69050.34	-28.18
	Cambodia	7153.87	-39.11
	Nepal	537.66	-36.64
	World	2552987.50	-9.88
64(Footwear)	**APLDC**	**265229.75**	**-52.34**
	Bangladesh	21228.54	-39.28
	Cambodia	236497.84	-53.13
	Lao PDR	4939.77	-79.19
	Myanmar	2472.84	-37.06
	Nepal	90.75	-3.46
	World	7321574.50	-4.12

Source: Author’s calculation using SMART simulation tool

Table A.2: Detailed Simulation Results: Potential trade disruptions in Asia Pacific LDCs (APLDC) due to UK unilaterally reducing all tariffs to zero (Scenario 2)

HS2 Product	Exporter	Value of exports in 2015 to the UK (1000s of USD)	Potential percentage change in export value to the UK due to Brexit
3 (Fish)	**APLDC**	**127719.1**	**-24.6917**
	Bangladesh	98434.89	-28.4035
	Myanmar	29152.03	-12.3525
	Vanuatu	132.137	18.16297
	World	2568939	6.48845
61 (Apparel And Clothing Accessories-Knitted)	**APLDC**	2417640	-27.7312
	Bangladesh	1684335	-26.7833
	Cambodia	676942.8	-30.1175
	Lao PDR	31069.78	-24.8033
	Myanmar	17995.54	-33.4035
	Nepal	7297.227	-23.6348
	World	13392727	7.092813
62 (Apparel And Clothing Accessories-Not-Knitted)	**APLDC**	**2012437**	**-32.4585**
	Afghanistan	5.568	-30.8741
	Bangladesh	1549897	-31.6124
	Cambodia	357700.5	-33.605
	Lao PDR	72542.3	-42.0489
	Myanmar	25689.72	-39.2306
	Nepal	6601.673	-37.2442
	World	13128625	4.544949
63 (Textile Articles)	**APLDC**	**76743.27**	**-16.6503**
	Bangladesh	69050.34	-15.6567
	Cambodia	7153.869	-25.6644
	Nepal	537.659	-24.3649
	World	2552988	17.66012
64(Footwear)	**APLDC**	**265229.8**	**-48.6243**
	Bangladesh	21228.54	-33.6434
	Cambodia	236497.8	-49.5098

	Lao PDR	4939.765	-80.8247
	Myanmar	2472.842	-30.0878
	World	7321575	4.790539

Source: Author’s calculation using SMART simulation tool