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**Research Report**

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No. 07/2022

# What Does the UK's Trade Policy Report Card Look Like?

By **Stuart Harbinson**, *Senior Fellow at ECIPE*.

## INTRODUCTION

Three years ago, as the first cloud of ash began to settle after the Brexit eruption, there were grounds for thinking that the UK would emerge as a new and significant player on the international trade stage.

The UK had a lot going for it. It was ‘open for business’. It was a strong supporter of the rules-based trading system. It had a track record of playing a very constructive role in formulating EU trade policy. It also had considerable soft power through its substantial development assistance programme.

In short the UK had a high reputation. It was not unreasonable to hope that as an independent player it might have an even more positive impact – pragmatic, law abiding, open, and bridging to the developing world.

So, three years on, how has the UK fared?

## ENORMOUS GEOPOLITICAL CHALLENGES...

Any fair assessment would have to start with the enormous challenges the world trading system has faced in recent years – the pandemic disrupting supply chains, the US-China trade war, the real war in Ukraine, and the growing feeling throughout the West that trade and globalisation are to blame for growing inequality. ‘Global Britain’ emerged just at the time that the trading environment seemed to be fragmenting. The UK could not be immune from these trends.

### *Trade relationship with the EU*

Although one of the stated aims of Brexit was to widen and customise the UK’s trading relationships with the world, geography dictates that the relationship with the EU remains pivotal to its future economic success. Here, the record has been poor. Whatever the rights and wrongs in detail on both sides, the UK has signally failed to establish a cooperative relationship with the EU. Legislation to override the provisions of the Northern Ireland Protocol is working its way through Parliament, risking a trade war. Worse, this situation is undermining the UK’s reputation for abiding by treaties and playing by agreed rules. Other trading partners – including the US which is the UK’s main target for an FTA – have not been impressed.

It is also becoming clear that the EU trade policy is evolving in a number of significant areas which pose future challenges for the UK. There are ongoing initiatives in Brussels on a carbon border adjustment mechanism, mandatory supply chain due diligence, and imports of products associated with deforestation. A recent Commission proposal calls for more assertive enforcement (including through sanctions) of trade and sustainability chapters in FTAs. Other initiatives include a new international procurement instrument and more regulation of foreign subsidies distorting the internal market.

The EU's three-pillared “open, sustainable and assertive” trade policy launched in a 2021 seems to be evolving rapidly towards the last two of these adjectives. It focuses increasingly on enforcing and exporting its own rules and standards.

This creates a dilemma for the UK. Brexit was premised on free trade and deregulation – unleashing the economic potential that had allegedly been suppressed by EU membership. In reality the wider debate on trade within the UK is much more nuanced. Maintaining a cooperative relationship with its biggest trading partner is even more challenging now that the EU presents a rapidly moving regulatory target, potentially increasing the chances of yet more red tape and friction.

### *...and the United States*

The UK has run into a brick wall in its trading relationship with the United States. While there are some supporters of a US-UK FTA in Congress, the President does not currently have trade promotion authority (necessary for serious negotiations), and the administration is concerned about the UK's observance of the Northern Ireland Protocol. The UK lacks leverage and has been reduced to negotiating with individual US states.

Meanwhile, the US and EU have launched the Trade and Technology Council “to coordinate approaches to key global trade, economic, and technology issues and to deepen transatlantic trade and economic relations based on shared democratic values”.

### *Other free trade agreements*

Despite these difficulties, the UK has not lacked ambition in negotiating FTAs. Initial disparaging remarks about its lack of expertise were quickly given the lie. Not only did it swiftly replicate the older EU FTAs of which it was part, but it launched an ambitious set of successor agreements.

The UK has signed three new trade agreements since leaving the EU. A deal with Australia was concluded in December 2021 and with New Zealand in February 2022. While these agreements are not yet implemented, a digital trade agreement with Singapore entered into force in June 2022.

There is an impressive list of new or enhanced FTAs under negotiation – with the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), Canada, Mexico, the Gulf Cooperation Council and, recently, with India.

The UK has set great store by joining the CPTPP, which is a high standard ‘next generation’ agreement in a vibrant trading region. It hopes to conclude accession negotiations by the end of this year. There could yet be political complications since there is a growing list of other applicants, including China, also in the pipeline. While Asia-Pacific is certainly dynamic, there are lurking doubts about the extent to which, from such a distance, the UK can take advantage of the economic opportunities. And the overlay of the new Regional and Comprehensive Economic Partnership (RCEP) trade agreement, while indicating that there is still an appetite for economic integration within Asia, excludes the UK.

It’s worth noting in passing that the US pulled out of the Trans Pacific Partnership (the forerunner of the CPTPP) but has now launched an ‘Indo-Pacific Economic Framework’. The UK is also not part of IPEF - although how significant its trade component will be remains to be seen.

### *Agriculture*

One of the features of the UK’s FTA agenda is that it targets a number of agricultural powerhouses – for example Australia, New Zealand, Canada and the United States. Earlier talk of a possible FTA with Mercosur (Brazil, Argentina, Uruguay and Paraguay) has for the time being faded into the background.

The agricultural market access granted by the UK to New Zealand and Australia significantly exceeds that granted by the EU to New Zealand in their recently announced agreement in principle. Almost certainly the same will apply to the EU-Australia FTA currently being negotiated. Without doubt the UK will not be able to strike an FTA with the US unless it makes significant concessions on agricultural market access and compromises on food standards.

The UK farm lobby is acutely aware of the likelihood (already translated into action in some cases) of their interests being traded off in FTA negotiations, and has reacted strongly. There are

some signs of sympathy in a general public increasingly concerned about the need for more self-sufficiency and food security. The UK has not so far articulated a coherent policy in this area.

### *World Trade Organization*

Starry-eyed (or let's just say optimistic) observers such as this author thought there was a big opportunity for the UK to stake a claim to thought leadership on trade policy, and in the process play a significant role in reviving the WTO. A strong commitment to the rules-based international trading system combined with a development-friendly approach gave grounds for hoping that the UK had a unique offer.

In 2020, former international trade secretary Liam Fox stood as a candidate to head the WTO. Regarded at the time as an ill-judged manoeuvre, his (and the UK's) commitment to open and fair trade nevertheless impressed many. He surprised onlookers with a credible campaign which attracted broad support, even if it was inevitably unsuccessful in the end.

These early hopes have not yet been realised. A series of controversies has partially undermined the UK's credentials. First, the argument with the EU over the Northern Ireland Protocol has tarnished the UK's reputation for observing international agreements. Secondly, in late 2020 the UK announced swingeing cuts to its development assistance programme, undercutting its former leadership in this area. Thirdly, there has been suspicion and unhappiness in some quarters about the way the UK split its tariff rate quotas when it left the EU; about its failure to date to implement border controls on imports from the EU; and about its approach to trade remedies. Finally, when the Trump administration took trade action to undermine Hong Kong's status in the WTO, the UK failed to register that this contradicted its internationally-recognised agreement with China in relation to Hong Kong.

One of the most resonating issues at the WTO in recent times has been the clash, in the context of the pandemic, between developed country proponents of intellectual property rights and a large number of developing countries proposing a waiver from those rights for the prevention, containment and treatment of COVID-19. In time-honoured GATT/WTO fashion, the final stages of the negotiation took place in a "quad" format between the EU, US, India and South Africa.

The UK was not included, vividly illustrating the difficulty it faces on the global stage of living in the EU's shadow. The name of the game, if you want to be included with the big players in the WTO, is to demonstrate either that you bring something extra to the table in terms of expertise and being able to construct a consensus, or that you have a credible veto. Not only did the UK

not bring anything constructive to the table, it took a hawkish stand against the waiver. Since no one believed that in the final analysis it would block a deal, its exclusion was almost guaranteed.

Having said that, the UK is a member of the informal ‘Ottawa Group’, a Canadian-led representative group of WTO member countries supporting the multilateral trading system and promoting WTO reform.

## **SO WHAT’S THE SCORE?**

Several realities have struck home on the newly ‘independent’ UK trade policy: in particular the reality of a completely changed geopolitical environment; the reality that international trade policy is a sensitive domestic political issue; and the reality that - particularly when you live next door to a behemoth like the EU - you have no right to a place at the top table but have to earn it. There is arguably not so much that the UK can do in terms of the first of these except adapt to changing circumstances.

As for the others, it is not clear that the UK has yet squared the circle in articulating a comprehensive and sustainable trade policy which can both be acceptable to trading partners and garner inclusive support at home.

There are still many questions on a settled trade policy towards the EU. Does the UK want cooperation or confrontation and if the former how far is it prepared to compromise, especially now that the EU is rapidly developing in new policy directions?

As far as other trade agreements are concerned, where will the UK find the balance between self-sufficiency, protection and liberalisation? Agriculture is a key example. What balance should be struck more broadly in trade agreements between liberalisation and rule-making, and between political and economic considerations? What meaningful commercial advantages will ensue to UK businesses from FTAs?

On the multilateral front, the UK is ably served in Geneva and further opportunities will come along. However it will be difficult to make progress at the WTO without a well-grounded, holistic and consistent policy approach at home and abroad. At present the UK’s rhetoric and practice seem too often to diverge and there is confusion as to where it really stands.

In my view the UK’s trade policy score, even allowing for an inhospitable environment, is below average. It can and must do better.