Senior European Experts

British, EU and world trade policy in flux: The agenda for 2021

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Introduction

At a time when world trade policy is in flux, this paper sets out to clarify the key questions for debate as policymakers around the world grapple with the need to revive the global economy after the pandemic. The paper was prepared in part to provide the background to a webinar of the same title held jointly by the Senior European Experts and City, University of London webinar in April 2021 but it stands alone as a contribution to debate on the trade agenda in 2021.

Background

After the Second World War there was a concerted attempt to liberalise world trade after the era of protectionism in the 1930s. The General Agreement on Tariffs & Trade (GATT), adopted in 1947, laid the foundations for an unprecedented period of growth in trade. The Dillon and Kennedy rounds, as they were known, of trade talks in the 1950s and 1960s accelerated this trend by reducing further the levels of duty (often called "tariffs") on exports. Global trade increased 27-fold between 1950 and 2008, three times more than the growth in global GDP.[1] That is another way of saying that trade pulled economic growth, enabling the global economy to grow faster than it would otherwise have done.

But since the global financial crisis – merchandise trade peaked in 2008 – economists have been debating whether trade has passed its peak. Although trade has revived since its low point in 2009, trade growth has been far below the trend of the period 1990-2008.[2]

Furthermore, the World Trade Organisation (WTO) predicts that merchandise trade will have fallen by almost 10 per cent in 2020 and there are major uncertainties about how quickly it will recover as the pandemic eases.[3] With the urgent need to revive economies after the pandemic, and coming on top of other shocks to the global economy since 2008, the question of whether falling or stagnant trade can be revived, and if so how, is of crucial importance.

In truth, trade policy around the world is in a state of flux in 2021 because there are multiple challenges facing trade, not just an apparent decline in merchandise trade. The concept of free trade is being questioned with an intensity not seen since the Seattle WTO Ministerial Conference in 1999 was held to launch a new global trade round. Globalisation has become a term of political abuse in many countries. A range of new trade-related issues have emerged.

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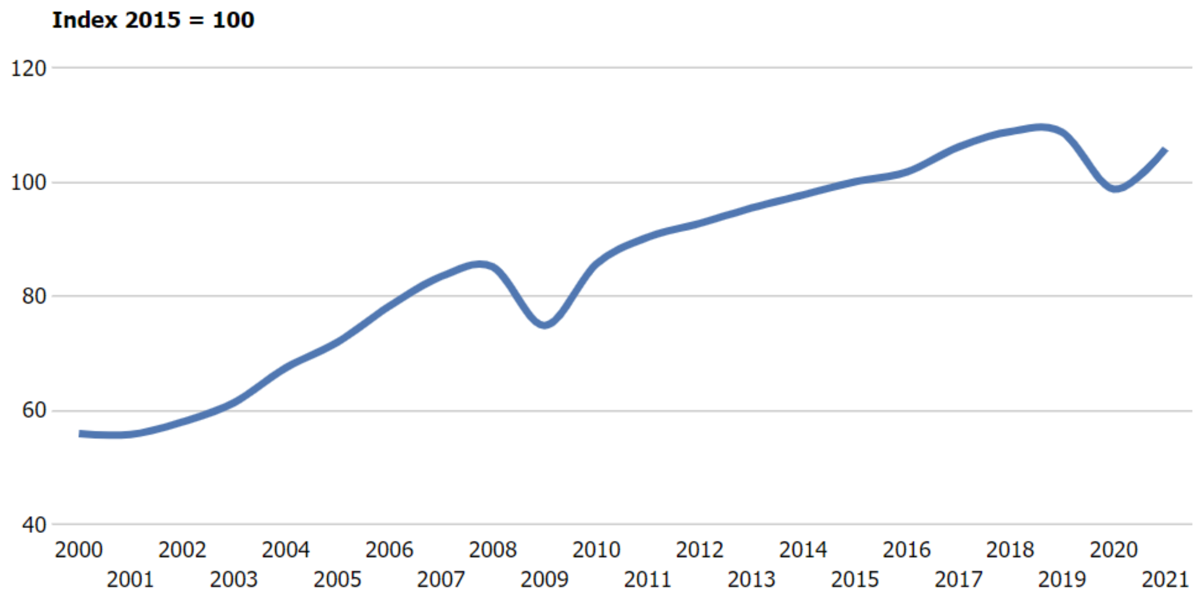
1 Cited in Professor Bernard Hoekman, 'Has global trade peaked?', World Economic Forum, 26 June 2015

2 See World Trade Organisation, 'Trade shows signs of rebound from COVID-19, recovery still uncertain', 6 October 2020

3 *Ibid.*

These include climate change, which raises questions about the sustainability of trade, reliant as the trade of goods is on fossil fuels and a just in time philosophy. Questions of inequality have risen up the trade policy agenda, from wage levels in developing countries to increasing income inequalities in developed countries. Is trade encouraging a race to the bottom?

Chart 1: World merchandise trade volume, 2000-2021



Source: WTO Secretariat
Note: Figures for 2020 and 2021 are projections.

Then there are the complex consequences of digitisation and the expansion of services in the global economy where trade agreements are far less advanced than in goods trade. The separation of goods and services is also increasingly out of date; many goods are now sold alongside related services. From cars sold with a service contract and insurance included to aircraft and trains that transmit data back to their maintenance depots, this trend of goods bundled with services is likely to continue.

And there are ongoing concerns about trade in relation to labour standards, forced labour and human rights. It is clear that any trade negotiations with, for example, China will be bedevilled by all of these, particularly Chinese treatment of the country's Uighur minority.

The World Trade Organisation was bitterly attacked by Donald Trump and although it has appointed a respected and talented new director-general, Ngozi Okonjo-Iweala, it faces calls for reform that will not be easy to meet. In the US, the Biden presidency will restore respect for multilateralism and the rule of law after the turmoil of the Trump era. However, many of Biden's supporters are wary of free trade and the WTO and they also have particular concerns about US-Chinese trade that will not be easy to resolve.

In Europe, the EU is soon to adopt a new external trade policy. This must address the concerns of its Member States, and highlighted by the Covid-19 pandemic, about the impact on complex global supply chains on the supply of essential goods, including medicines and telecoms equipment. The call for "open strategic autonomy" for the EU countries (and similar calls in the UK and the US) reflects fears of vulnerability to future Chinese dominance. But is the quest for strategic autonomy an excuse to pursue statist and protectionist policies that would undermine the openness of the Single Market and the rigour of EU state aid controls?

The United Kingdom is at a crossroads too in terms of trade policy. It faces important bilateral trade issues. The most important of these relates to the EU. Having signed a Trade & Co-operation Agreement with the EU at the end of 2020 which prioritised autonomy over its economy, and which secured tariff-free trade in goods but without any similar access for services despite the latter forming 80 per cent of its economy, the UK has some hard decisions to make. The Northern Ireland Protocol creates new political challenges to the UK internally and externally and is proving difficult operationally.

Whilst the UK has secured rollover agreements with many of the countries that had a free trade agreement (FTA) with the EU these are standstill agreements that aim to secure existing trade; they do not add new markets. Should the UK focus on lowering standards and with it costs to attract business and inward investment or should it try to stay close to the EU and gradually improve its trading relationship with it? And how should it seek to influence multilateral trade discussions and policy given that its leverage is likely to have fallen as a consequence of leaving the far larger EU bloc of nations?

World trade and the WTO

The growth of trade nationalism and unilateralism in recent years was about more than just Trump. As mentioned, the concept of free trade has been increasingly challenged since Seattle in 1999. More recently, the stalemate in negotiations on the Doha development agenda was followed by a period of drift in terms of world trade cooperation. This drift into stasis of the WTO with no major global trade agreement on goods since the Uruguay Round came at a time when there was a growing need for greater co-operation on trade in services, especially digital services. The financial crash in 2008 increased protectionist rhetoric, not least in the US.

The Covid-19 pandemic has exposed the fragility of the world trade system, with an arguable over-reliance in some countries on complex global supply chains. It also highlighted the extent to which countries have become reliant on essential goods which are no longer manufactured in their own countries. These include many sensitive products such as medicines and vaccines which are vital to the pandemic response. This has helped to revive and encourage the debate about reshoring, that is, the practice of bringing back production and services from offshore locations.

The appointment of Ngozi Okonjo-Iweala, the first African, and the first woman, director-general of the WTO, heralds something of a new start. This may make it easier for her to negotiate effectively with non-Western countries, especially the large emerging markets such as Brazil, China, India and South Africa.

The WTO and its new director-general face four main issues in 2021. The first is the pressing need to restore its dispute settlement procedure to full working order after the disruption caused by President Trump's blocking of the appointment of new arbitration panel members. Restarting the dispute settlement procedure may require some modest changes to get it functioning quickly and effectively.[4]

Then there is a question of reform of the WTO as an institution. At present, changes to the WTO's main working procedures and agreement on any structural reform require unanimity amongst its members. Given the diversity of its current membership and tensions between, in particular, the US and other western countries and China, such agreement has proved difficult to reach in the past and looks no easier today. In any case, what form should reform take?

The third question for the WTO is about whether negotiations should be conducted on a multilateral or a plurilateral basis, that is, one committing all parties to the WTO or between some parties and not others. Multilateral negotiations have been the traditional method of operation within the WTO although in practice multilateral agreement has often followed agreement amongst groups of countries. But the WTO faces some difficult internal disputes, particularly those relating to China's breaches of WTO rules. Should China's breaches be handled entirely in a bilateral framework (between the US and China) or by a group of Western countries negotiating with China or through the multilateral framework of the WTO? In practice, it may be necessary to use combination of all three approaches in order to achieve a resolution.

Finally, there is the increasingly important question of how the WTO could develop global cooperation in the trade in services, building on the 1995 General Agreement on Trade in Services (GATS).[5] The obstacles to increasing trade in services are not tariffs but non-tariff and internal regulatory barriers.

A really ambitious international market in services would require an agreed regulatory approach covering market access, mobility of workers, recognition of relevant qualifications and legal redress. This approach can best be seen in the EU Single Market in services which, whatever its limitations, is more advanced than any other multilateral trade agreement in services. The second approach of legally enforceable mutual recognition of standards and qualifications plus limited movement of people, can be seen in the more limited US/EU sectoral agreements. Other approaches include a reliance on best endeavours concessions which can be unilaterally withdrawn (most other WTO service trade at present) or a tolerance of uncontrolled digital trade which has not formally been approved by countries' regulatory bodies (this is widespread today).

Reaching agreement on a replacement or updating of the 1994 GATS would be very difficult because of the issues of national autonomy involved. As a result, there have been efforts – unsuccessful so far – at plurilateral approaches alongside GATS, such as the negotiations for the Trade in Services Agreement (TiSA).[6] In addition, the burgeoning trade in digital services is coming under increasing scrutiny with the EU and many individual countries, including the US, looking at ways to regulate large international tech businesses including for cyber security purposes. There is a risk that unilateral action could choke off digital trade flows.

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4 The New Zealand Ambassador to the WTO, Dr David Walker, was appointed in 2018 to examine US concerns about the performance of the WTO Appellate Body. See his report, *Informal Process on Matters related to the Functioning of the Appellate Body*, World Trade Organisation, JOB/GC/217, 8 May 2019

5 For details of WTO trade in services rules, see World Trade Organisation, 'Services trade', 10 March 2021

6 There are also current plurilateral approaches, such as the WTO Joint Statement Initiative (JSI) on E-Commerce, aiming at agreed rules on digital trade.

The United States

<u>The new administration</u>

President Biden demonstrated his commitment to the multilateral approach to trade within a few weeks of coming into office by lifting Trump's objection to the appointment of the new WTO director-general. But Biden will not have an easy ride on trade policy in Washington. The concerns that President Trump raised about the impact of globalisation on people and their communities are widely shared in the United States (and, indeed, elsewhere), even if his unpredictable and transactional policy response commanded less support.

<u>Political cross-dressing on trade policy</u>

Traditionally, the Republican Party has been the pro-free trade party in Washington and the Democratic Party has been more protectionist. The effect of President Trump on the Republican Party has been to bring about a something of a reversal of these two established policy positions. Much of the Republican Party inside and outside Congress is now hostile to free trade and prefers a bilateral rather than a multilateral approach, while the Democratic Party (at least in Congress) has become more sympathetic to free trade having witnessed the disruption caused by Trump's policies.

<u>China</u>

Democrats and Republicans do share concerns about the growth of China both economically and militarily and both wish to see the current imbalance in trade between the two countries change. While there may be agreement in Washington that something needs to be done about China, achieving some sort of resolution of the issues that separate the two countries will be far more difficult to achieve.

The European Union

<u>Trade policy review 2020/21</u>

The European Union (EU) is currently undertaking a review of its external trade policy. This was announced in 2020 and is response to a number of pressures. These include the perception that trade nationalism is on the rise; tensions between major countries of the world which have impacted on trade; greater use of state aid by some countries; the use of trade policy by nation states to pursue political or economic objectives overseas; and difficulties in the global multilateral trade system including the WTO.

The EU's assessment of the likely policy changes that it needs to make focus around the need to achieve economic growth after the pandemic, the development of what it calls "open strategic autonomy", that is, maintaining open trade while bringing forward measures to tackle unfair trade by third countries, and reform of the WTO. The EU also wants to support small and medium-sized enterprises (SMEs) to trade more easily. The new EU policy is also intended to address the trade policy implications of climate change, the need for sustainable development and the impact of digitisation on the global economy.

Concerns have been expressed that the EU could become a more protectionist trading actor. The UK was widely regarded as having a major influence on EU trade policy as a Member State and of using its leverage to encourage the EU to adopt open trading policies.

Critics point to the advocacy by the French President, Emmanuel Macron, of policies to create what have often been called "the European champions", that is, businesses powerful enough to take on major international rivals including very large US and Chinese businesses. Britain had tended to regard the call for "European champions" as an excuse to create market dominant players in Europe or to increase state aid and to reduce competition in the private sector.

The tensions over future trade policy in the EU reflect the differing histories and geography of Member States. It is too simplistic to assert that there is a conflict in the EU between free traders and protectionists. Although not always popular, competition decisions taken by the Commission, such as that to block the merger of the large French and German railway businesses Alstom and Siemens in 2019, which the companies had sought to justify by arguing that without it there was a risk of the China Railway Rolling Stock Corporation becoming the dominant player in the EU market, have been still been made despite political objections and respected by the parties.[7]

The tensions over EU trade policy will continue and much will depend on the attitude of the new German government that emerges after the September elections.

<u>China</u>

The rapid economic growth of China has created considerable problems for the economies of the Western world, including those of the EU countries. There are many areas of concern within the EU about Chinese of trading practices.[8] Four of them are regarded as being particularly important at the present time. The first relates to alleged unfair competition. The EU has in the past adopted anti-dumping measures in response to what it regarded as the dumping of subsidised steel and heavily discounted clothing in EU markets.

Secondly, there is concern about the security aspects of trade with China, including its ability to potentially spy on Europe's citizens through the use of exported telecoms and other technology. This concern has crystallised in the last three years because of the important role of Huawei in the provision of equipment used in the mobile telecoms industry when the company has long-standing links to the Chinese government.

Third, there is growing concern in the EU about Chinese human rights standards. These have become of more importance as information has leaked out of China about the treatment of the minority Uighur community. There are also concerns about the recent security law that China adopted in respect of Hong Kong, which the EU, the US and the UK all consider breaks the longstanding Sino-British Joint Declaration on Hong Kong.[9] The first test of the impact of the issue of human rights in China on EU opinion could well come when the December 2020 EU-China Investment Treaty is brought forward for ratification by the European Parliament and by Member State parliaments.[10] If ratification is made conditional on China addressing human rights concerns, the treaty may well fall.

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[7] 'Brussels blocks Alstom-Siemens rail mega-merger', Thibault Larger, *Politico*, 6 February 2019

[8] Other issues would include breaches of intellectual property rights by Chinese businesses and the takeover of Western businesses by Chinese firms.

[9] See *Joint Declaration on the question of Hong Kong*, 19 December 1984, 23391 UNTS 1399

[10] 'China's investment deal with the EU has raised 3 big concerns in Europe', Silvia Amaro, *CNBC*¸ 6 January 2021

The fourth area of concern about Chinese trade policy relates to China's use of its economic leverage to influence the policies and conduct of third countries. For example, China has been very willing to loan large sums of money to countries for infrastructure investment which many in the EU and elsewhere think are in practice conditional on support for Chinese policies in international bodies such as the UN and which create a debt burden on the country in question that it may struggle to meet. Much of this Chinese investment is intended to facilitate the transport of goods from China to market in Europe and elsewhere – a policy known as the Belt and Road initiative.

Digital trade

The EU risks being a mere bystander in the new industrial revolution based on information technologies, a consumer rather than an innovator and a producer. The push back against competition and liberalism reflects the argument of some French policymakers (and their supporters in academic circles) that competition policy is stuck in the past with laws built on precedents rooted in coal and steel; a new paradigm, it is claimed, is needed to deal with a world of digits. They also argue that the EU's rules are excessively strict compared to competition laws operating in the US and China.[11] More liberal Northern European countries, feeling the loss of UK leadership and influence on trade and competition policy in the EU, have yet to organise an effective coalition and Germany awaits new leadership.

The arguments over digital policy will be around whether to adopt policies designed to encourage "reshoring"; requiring or incentivising data storage within the EU; competition policy reform imposing advance requirements on tech "gatekeepers" rather than dealing with problems once they have occurred[12]; and the deliberate use of merger control to boost local champions and to keep overseas-based competition at bay. The challenge will be to balance concerns about privacy and security with the need to allow openness to innovation and competition. Too great a focus on privacy and security could slow or even squash growth in this critical sector; too little and consumer confidence might weaken.

Climate change

The EU is planning to bring forward new policies in mid-2021 to reduce carbon emissions to 55 percent below 1990 levels by the end of the decade. One aspect of these could be the introduction of a carbon border tax, which would be imposed on non-EU competitors in certain sectors (likely to be carbon-intensive industries such as cement, chemicals and steel) if they did not agree to lower their by emissions to the same level.[13] This is to avoid the perceived risk of businesses relocating to countries where emission standards are lower and therefore gaining a competitive advantage over businesses based in the EU.

The implications of this for international trade could be considerable. Many emerging economies, including China and India, resent the suggestion that they should meet the same standards on greenhouse gas emissions as Western countries because they started their industrial development later. It is also unlikely that the United States would accept such a levy being imposed on its exports to the EU and that it would regard such a policy as unfair. This could provoke a trade war between the EU and the US. On the other hand, the Biden

[11] 'French economy ministry wants to overhaul EU competition policies', Aline Robert, *Euractiv*, 3 June 2019
[12] Known as "ex ante" in EU internal discussions.
[13] See 'EU carbon border levy shaping up as "notional ETS"', Frédéric Simon, *Euractiv*, 25 January 2021

administration has made tackling climate change one of its central objectives and it is likely to work hard to avoid conflict with the EU in this area. If a border tax is adopted, countries closer to the EU such as the UK and Turkey will have to decide whether or not to adopt its approach.

The United Kingdom

Bilateral trading relations

In terms of its bilateral relationships, the UK's departure from the European Union means that new approaches are needed to try and maintain the volume of trade that the UK previously had with EU countries while in a trading relationship which has more friction and which largely excludes services (see below). The UK economy is likely to be four to five per cent smaller as a result of Brexit so it has some catching up to do, and the pandemic will only make that situation worse.[14]

The UK must also negotiate new free trade agreements with non-EU countries; the rollover agreements negotiated so far do little more than seek to maintain existing trade volumes with countries that have an agreement with the EU. Opportunities for bilateral agreements with other countries are uncertain and may well involve the UK having to make concessions it does not wish to make on food standards and agricultural goods. The UK Government has placed great store on achieving an FTA with the US but that looks hard to achieve under Biden, not least because of concerns in Congress about UK policy in Northern Ireland.

Multilateral trading relationships

Outside the EU the UK is a far smaller player and therefore at risk of being marginalised in global trade talks at the WTO. Global trade discussions had been dominated in recent decades by the US, the EU and more recently, China. In addition, large growing economies outside of Europe are rapidly becoming more influential as they expand, notably Brazil, India, Mexico, South Africa and Indonesia. While the UK is now the sixth largest economy in the world it will struggle to maintain that position as other countries' economies expand over the next 20 years. Depending on the method of calculation used, studies suggest that it is likely to fall to ninth place as soon as 2024 and fall to 10th place by 2050. This will further limit British influence.[15]

Trade with the EU

After six decades of seeking to secure better trading terms with other European countries, the UK has taken a step back with the signing of the EU-UK Trade & Co-operation Agreement (TCA). Having focused since the 1980s on making the most of UK membership of the Single Market to attract trade and inward investment, the UK has abandoned that policy with no clear alternative as yet in place.

The impact of the Brexit decision is only now beginning to be understood. The level of friction seen in UK-EU trade today has not been seen for several decades. Some critics have suggested that the TCA takes the UK back several decades in terms of its trading

[14] There are many studies of the economic impact of Brexit: for a graph illustrating the various scenarios, see Gemma Tetlow & Alex Stojanovic, *Understanding the economic impact of Brexit*, Institute for Government, 19 October 2018, p. 22

[15] PwC Global, *The World in 2050 – The long view: how will the global economic order change by 2050?*, February 2017 [10th place, purchasing power parity]; Katherina Buchholz, 'China could overtake the US as the world's largest economy by 2024', World Economic Forum, 20 July 2020 [9th place, GDP basis]

arrangements with other European countries because the TCA does not provide as good trading terms as the UK had with other EFTA countries in the 1960s (most EFTA countries are now in the EU).[16] Whatever the truth of that, it is clear is that the TCA was about trade in goods and *not* trade in services and that represents a significant issue for an economy which is over 80 per cent services. While the UK had a deficit in trade in goods with the EU (and indeed with the world as a whole), it had a surplus in trade in services.

In the short to medium term for the UK faces some important issues in terms of its trading relationship with EU. The first of these is equivalence for financial services, that is, the recognition by the European Union that the UK's financial services regulatory system is broadly comparable to that of the EU. The UK also needs to address broader services trade which as mentioned was not included in the TCA. One important goal is acceptance by the EU that the UK's rules on data are adequate to allow data transfer to continue between the UK and the EU; preliminary indications are that this will be granted.

There are a however many other aspects of services trade that remain to be negotiated with the EU. They include the mutual recognition of professional qualifications, easier movement of workers between businesses in the UK and EU (and vice versa), and access to work in both jurisdictions for those in the creative industries, including musicians and actors. One of the difficulties with the UK and the EU reaching an agreement on services is that it will have a read across to existing EU FTAs with third countries (for example, Canada and Japan). This means that any concessions made to the UK by the EU would potentially have to be offered to those countries.

In the short-term (but perhaps longer), it is likely that UK businesses will have to continue to establish operations inside the EU in order to be able to export services there. One tracker service had by last autumn identified 24 financial services businesses who had transferred (or were going to before 31.12.20) assets worth £1.2 trillion to the EU because of Brexit. A far larger number of businesses have transferred staff or opened new operations in the EU over the same timescale to enable them to continue to trade in the Single Market.[17]

<u>The Northern Ireland Protocol</u>

The Northern Ireland Protocol to the Withdrawal Agreement provides for a unique trading arrangement for that part of the United Kingdom after Brexit. Northern Ireland remains in the EU's Single Market for the purposes of trade in goods in order to ensure that the border between the Republic of Ireland and Northern Ireland remains open in accordance with the Good Friday/Belfast agreement of 1998. Goods and people continue to flow freely within the island of Ireland as a result of the protocol.

Nevertheless, it has been controversial from the outset. The protocol was originally negotiated by Theresa May's government in 2018. It was rejected by the largest unionist party in Northern Ireland, the DUP, and lacking a majority in the House of Commons without DUP support, Mrs May agreed not to proceed with it. But the government of Boris Johnson did agree to a revised version of the protocol being adopted. The DUP has never accepted

[16] André Sapir, 'The double irony of the new UK-EU trade relationship', Bruegel, 12 January 2021, Table 1

[17] EY, 'EY Financial Services Brexit Tracker: Financial Services Firms continue moving staff ahead of Brexit deadline, with total jobs relocating from London to Europe now over 7,500', 1 October 2020

this outcome, complicating the situation because shares power in the devolved administration in Northern Ireland with other parties.

In practical terms, the protocol means that goods that are sent from Great Britain to Northern Ireland must comply with EU Single Market rules. To do this they must meet EU standards (for example, in terms of food and plant safety) and traders need to show they do with the appropriate paperwork. In the first few weeks of this arrangement there have been considerable problems for exporters and importers alike. Only time will tell whether these are teething troubles with what is a novel system or whether some substantive changes are required.

The protocol has remained politically contentious even though the UK and the EU have subsequently negotiated a trade and cooperation agreement. Examples includes the UK Government's October 2020 Internal Market Bill, to regulate trade within the UK after Brexit, which unexpectedly included clauses enabling the UK to override parts of the protocol. The Northern Ireland Secretary admitted that these clauses broke international law and the EU began enforcement provisions against the UK as a result. In the event, the UK and EU agreed ways forward which led to the UK setting aside the relevant clauses.

The disputes have continued in 2021. First, the European Commission suggested that it was going to invoke the safeguards clause in the protocol, Article 16, in order to enable it to block the export of vaccines from the EU to Great Britain via Northern Ireland. The EU did not follow the procedure in Annex 7 of the Protocol, which would have led to discussions between the two parties to try to resolve the matter first. The threat was quickly withdrawn but the damage to relations was done.

Tensions were further increased when a DUP minister in the assembly claimed that checks were being withdrawn at Northern Ireland ports on goods from Great Britain because of intimidation of port officials despite police finding no evidence of such threats.

The UK Government announced in March that it would extend the transitional period for certain checks on goods arriving in Northern Ireland and Great Britain from their intended start date in April to later in 2021. The EU regarded this as a breach of the protocol's provisions and has initiated infringement action against the UK. The European parliament also delayed the ratification of the Trade & Co-operation Agreement with the UK.

These tensions over the protocol matter in several ways. First, because the protocol is subject to a review procedure after four years. For it to continue after that date the explicit consent of the Northern Ireland Assembly is required.[18] Given the opposition of the DUP that could prove problematic and it will make it an important issue in 2022 elections to the Northern Ireland Assembly. Second, the impression in the EU that the UK has not stuck to its obligations under the Withdrawal Agreement threatens to undermine the wider EU-UK relationship. This matters in many different ways, including the UK's need for an EU determination on data adequacy, to achieve financial services regulation equivalence and the ratification of the UK-EU Treaty on Gibraltar. Third, the political consequences within

[18] The procedure is complex and controversial as it is not necessary for there to be a Unionist majority for the Protocol to remain in force; the UK Government has promised an independent review if that happens. See *Agreement on the withdrawal of the United Kingdom of Great Britain and Northern Ireland from the European Union and the European Atomic Energy Community*, 2020 OJ L 29/7, Article 18; and HM Government, *Declaration by Her Majesty's Government of the United Kingdom of Great Britain and Northern Ireland concerning the operation of the 'Democratic consent in Northern Ireland' provision of the Protocol on Ireland/Northern Ireland*, 19 October 2019

Northern Ireland, including in respect of the Good Friday/Belfast Agreement, cannot be ignored. The IRA ceasefire and the peace achieved over the last 20 years remains fragile, some terrorist groups remain active and tensions between communities remain evident in the devolved administration. Finally, there is a risk of a negative impact on UK-US relations.

A new trade policy

Longer-term UK trade policy is at a crossroads: whether to shadow European regulatory practice or to strike out in a different direction? This is often summarised in simplistic terms as "Singapore on Thames" versus "levelling up". The first approach implies a radical reduction in government regulation of the economy (especially of the labour market) and the other implies greater government intervention. While this analysis is superficial it does highlight a genuine philosophical divide in the Conservative Party. In practice it would not be possible for the United Kingdom with a population of around 68 million people to adopt the economic policies of a small city state like Singapore. Not only would that be extremely difficult in terms of economic policy, it is unlikely to be politically achievable either.

Nor does the UK face a simple choice between less regulation and more government intervention. In a modern, complex, post-industrial economy public policy is likely to have to sometimes increase regulation in various sectors, to reduce it in others and to intervene in other ways, for example to support areas of deprivation. This can be seen in recent UK domestic economic policy. There has been an increase in the regulation of the construction sector following the dreadful Grenfell fire while in other areas (such as free ports) the government is seeking to reduce other regulation in order to encourage economic growth in targeted areas. It is this sort of more nuanced approach that is likely to be the outcome of the current policy debates on post-Brexit policy in the UK government.

In terms of its trade policy towards non-EU partners, the UK will have to find a way to achieve better free trade agreements with third countries than it has is so far achieved during the Brexit process. Negotiating such FTAs with third countries will face difficulties, particularly in relation to two of the largest non-EU economies – the US and India. In respect of the US, the UK will come under heavy pressure to make concessions on standards in food and farming (something it has already promised not to do). It will also have to address concerns about its handling of the Northern Ireland Protocol and about the possibility that it might face opposition if the UK adopts a policy of tax breaks and/or sectoral subsidies, especially where that would compete with the US.

In the case of India, there has never been much appetite on the India side for an FTA and the issue of labour mobility will be hard to manage.

As regards China, the UK faces the problem of combining workable trade relations whilst addressing the disputes between the two countries over Hong Kong, concern in the UK about Chinese intelligence gathering activities including the security of telecoms, and growing concern about China's broader human rights record. In addition, there are also concerns over Chinese investment in sensitive assets such as power stations and ports.

There are other emerging markets the UK could target; the question is whether the UK has the agility to devise bilateral trade agreements without fracturing further its already difficult relationship with the EU. To do so the UK will have to overcome the disadvantage of its relative size compared to many of the world's leading markets – not just the US and China but countries such as Brazil, India, Mexico and Indonesia which have large and growing populations. It will also have to overcome the reluctance of many countries to allow increased competition from UK exports of services. The UK application to join the Comprehensive & Progressive Agreement for Trans-Pacific Partnership (CPTPP) is significant in this respect: the UK already has trade agreements with seven of the CPTPP's eleven members, and the progress of the application will be followed attentively by trade partners.

There is a further difficulty for the UK – the issue of proximity. Countries tend to trade more with their neighbours and less with those further away. Many of the emerging markets are a long way from the UK, in South America and Asia, as are some traditional UK allies such as Australia, Canada and New Zealand. Overcoming the disadvantage of distance may be difficult with goods trade but can the UK find a way to sell its digital services, where distance matters less and the universality of the English language gives the UK (along with its vibrant tech sector) something of an advantage?

Conclusion

How will all these issues play out in 2021 and beyond? There must be some hope that the combination of a new administration in Washington combined with fresh leadership in the WTO can at least restore a degree of normality to international trade diplomacy. Biden may not be able to achieve as much as he would like because of differing views in Congress but the turmoil of the recent past should ease.

Whether the WTO will be able to move forward more substantially at the November 2021 ministerial meeting is doubtful. But the terrible economic impact of the pandemic may have the effect of unblocking some paths towards greater trade co-operation, perhaps on a plurilateral basis. Continuing arguments over how to manage Chinese trade and investment between the EU and US, and between each of them and China, may upset things though.

In addition, tensions between the EU and the US over the taxation and regulation of the tech sector are likely to continue.

The UK faces the twin economic challenges of Brexit and the pandemic while it tries to reposition itself as global trading hub without the advantages that the Single Market gave it in the past and a with a loss of influence in the WTO after leaving the EU. The UK's relative success in rolling out the Covid-19 vaccines may boost its economic recovery but whether it can be as successful in achieving substantive FTAs with new markets seems less likely.

March 2021

Senior European Experts

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