Institute for Public Policy Research

TOWARDS A UK TRADE STRATEGY

Marley Morris

January 2025

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Registered charity no: 800065 (England and Wales),
SC046557 (Scotland)
This paper was first published in January 2025. © IPPR 2025

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ABOUT THIS REPORT

This report meets IPPR's charitable objectives by providing information and analysis about recent trends in trade flows, as well as by making recommendations for how trade policy can support green, inclusive growth, in order to relieve poverty and advance environmental protection.

ACKNOWLEDGEMENTS

My thanks go to Associated British Foods and Chivas Brothers Pernod Ricard, whose support made this project possible. I am also grateful for the contributions of Emily Lydgate, Allie Renison and all those who participated in IPPR's trade strategy roundtable in October 2024, which proved pivotal in shaping the thinking behind this report. At IPPR, I would like to thank Laura Chappell, Sarah Mulley, and Pranesh Narayanan for their feedback on earlier drafts, as well Richard Maclean for his work on copyediting and design. All errors and omissions remain my own.

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Citation
If you are using this document in your own writing, our preferred citation is:
Morris M (2025) *Towards a UK trade strategy*, IPPR.
http://www.ippr.org/articles/towards-a-uk-trade-strategy

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SUMMARY

The UK is facing a precarious and volatile period for global trade. The volume of global goods flows is back on the rise after a difficult 2023 caused by inflation and interest rate hikes. But with the return of President Trump to the White House, the outlook is deeply uncertain. Trade tensions are expected to escalate in the coming years, as economies become increasingly concerned over the risks of supply chain disruption. There has already been significant fragmentation in trade flows: the number of trade restrictions in 2022 was nearly 3,000, compared to under 300 a decade earlier, and from 2018 there has been a 'decoupling' of supply chains between the US and China.

The picture for UK trade has been lacklustre in recent years. The UK exercised its post-Brexit independent trade policy to rack up a series of roll-over deals and new trade agreements with countries such as Australia and New Zealand. But the new free trade agreements (FTAs) the government has negotiated have offered limited economic benefits, while larger deals with the US and India have proved elusive. At the same time, the change to the UK-EU relationship has reduced goods trade flows in both directions. The government's approach has translated into a disappointing picture for goods trade with both the EU and the rest of the world: by the end of 2023, there was a 10 per cent fall in UK goods exports from 2019 levels, compared with an average 5 per cent rise for other G7 countries by the third quarter of 2023. However, services trade has performed much better: trade in services increased by 12 per cent by the end of 2023 compared to 2019 levels and the UK ranks only behind the US as the world's largest services exporter.

The Department for Business and Trade is planning a new UK trade strategy. The trade strategy is integral to the government's growth mission and complementary to its proposed industrial strategy, which intends to develop a proactive approach to driving forward economic growth. This is an important opportunity to revitalise the government's approach to trade and adapt it to respond to the current geopolitical context.

The focus of the government's trade strategy should be green, inclusive growth, while meeting the UK's geopolitical objectives and securing economic resilience for critical sectors. Trade policy should be directed towards growth for all the UK's regions and nations; growth which benefits living standards and working conditions; and growth which supports the green transition. At the same time, this must be delivered within a framework of economic resilience: that is, for certain industries critical for our economic and national security – including energy, defence, food, communications, and healthcare and pharmaceuticals – the government should take a proactive approach to safeguard supply chains against the risk of future disruption. At a time of growing global instability, trade policy must also align with the government's agenda on foreign relations, security, migration, climate, development, and other geopolitical priorities.

The new trade strategy should identify priority sectors for exports. These priorities should be identified by looking at areas of existing or potential comparative advantage. Recent research suggests the UK has a revealed comparative advantage in a number of goods and services, including financial services, insurance and other business services; personal, cultural and recreational services; aircraft; art; beverages; and pharmaceuticals. The UK also has a specialisation in innovation in areas including life sciences and

clean technologies. Moreover, reflecting the focus of *green, inclusive* growth, the government should identify sectors where there are regional strengths outside London and the South East, as well as UK strengths in the green economy.

An effective strategy should be underpinned by a transparent approach to developing trade policy. Under the last government, trade stakeholders were often kept at arm's length, draft FTA texts were not shared externally, and Parliament had few opportunities for meaningful scrutiny of new agreements. A new approach to trade policy would reset the relationship with stakeholders. This should include revitalising the government's trade stakeholder forums and bringing back the Strategic Trade Advisory Group, engaging substantively on trade with the new Council of the Regions and Nations, and introducing legislation to expand parliamentary scrutiny of trade agreements.

The government should take a number of unilateral trade actions as part of its trade strategy, in order to promote priority exports for green, inclusive growth, support the smooth flow of imports – especially for inputs in sectors important to the UK's industrial strategy – while ensuring appropriate safeguards are in place to protect against economic and geopolitical risk. These measures should include the following.

- **Reviewing the UK Global Tariff in light of the government's current priorities for green inclusive growth and economic resilience**. This could involve the targeted reduction of tariffs for inputs for products which are important for the UK's industrial strategy or for products critical to economic security and where the UK does not have a strong defensive interest (eg certain food items that are not produced in the UK).
- **Providing bundled packages of trade advice, information, and coordination through a new cross-cutting, locally-driven programme of export support.** This should be delivered by local bodies such as Chambers of Commerce – and where they have the skills and capacity, combined authorities. For priority export sectors, government should support industry trade associations to provide specialist sectoral advice in coordination with local bodies. The Foreign, Commonwealth and Development Office (FCDO) should also secure trade and sector specialists seconded from the Department of Business and Trade (DBT) and from the private sector to support in-country trade promotion.
- **Strengthening the UK's trade defence regime.** In particular, the economic interest test applied by the Trade Remedies Authority should be reviewed, with a view to expanding it to consider as a key factor the implications of new trade measures on the UK's economic resilience. The UK should also consider introducing a new specific mechanism for imposing countermeasures – including import tariffs as well as other measures – in response to countries using economic coercion, similar to the EU's recent Anti-Coercion Instrument. This would give the UK a swift and structured deterrent to protect against future trade threats.

The UK should seek to deepen its trade relations with the EU, building on the Trade and Cooperation Agreement (TCA). As the UK's closest trading partner, addressing the current weaknesses in UK-EU trade relations will be critical for growth. In negotiations with the EU, the UK should do the following.

- **Seek a mutual recognition agreement (MRA) with the EU** to allow for the acceptance of the results of conformity assessments from each other's conformity assessment bodies. This would help to remove technical barriers to trade in goods, and there is a clear precedent with other MRAs the EU has with third countries.
- **Look to negotiate a veterinary agreement with the EU** to reduce checks on trade in agri-food products. According to a recent study, this could increase UK agri-food exports to the EU by up to 22.5 per cent. This may involve the UK

harmonising its food safety and animal and plant health rules with the EU's. A deal of this type would remove significant barriers to trade while maintaining high food safety standards, which command broad public support.

- **Urge the TCA Partnership Council to conduct a full investigation of UK-EU customs procedures and technical barriers to trade as part of the five-year TCA review**, with the intention of identifying areas to build on the TCA to facilitate the flow of trade. This would help to galvanise a wider effort to recognise and resolve some of the practical barriers to trade in goods which have emerged since the beginning of 2021.
- **Propose adding a mobility chapter to the TCA to give UK professionals greater flexibility to provide temporary services in EU member states and vice versa**. The UK and the EU should also coordinate a forum for their respective professional bodies to jointly agree recommendations on the mutual recognition of professional qualifications across a number of key professions, including architects and lawyers. Together, these deals would help to smooth trade in services. As a quid pro quo for any deal, the UK will likely need to engage seriously on the EU's proposal for a youth mobility deal. Provided it is capped and time limited, this would reflect similar deals between the UK and countries such as Australia and Canada.
- **Pursue a deal to link the UK and the EU's emissions trading systems,** in order to support more cost-effective decarbonisation and eliminate new barriers to trade resulting from the EU's carbon border adjustment mechanism.

The UK should modernise its approach to trade agreements with the rest of the world. In a tumultuous global context where protectionist measures are on the rise, the UK will have to navigate its trading relationships with care to support green inclusive growth while meeting its geopolitical objectives and securing economic resilience. This means pursuing agreements which go beyond the traditional coverage of FTAs – that is, market access for goods – and which include the following.

- **Supply chain resilience** – including commitments on identifying and monitoring supply chain risks in critical sectors, the development of action plans to strengthen resilience and manage the risk of disruption, and joint investments in improving transport infrastructure.
- **Regulatory cooperation for services trade** – including cooperation between regulatory bodies with the aim of anticipating and managing future regulatory changes which could impact on trade, as well as laying the groundwork for mutual recognition of regulations.
- **Digital trade** – including negotiating provisions on preventing data localisation requirements, upholding shared standards on data protection and online consumer protection, and supporting the use of electronic contracts and signatures.

The UK must also be pragmatic in navigating its trade relationships with key partners. In practice this means the following.

- **Signalling openness to an FTA with the US under the new Trump administration, provided it aligns with the objectives of the UK's trade strategy.** There are clear opportunities for the UK given the US is one of its largest trade partners. The UK also has an interest in engaging with the US early to avoid or mitigate future tariffs (even if this does not amount to a full FTA). At the same time, the UK will need to go into negotiations with clear red lines, including maintaining current food safety standards – especially given lowering these standards could jeopardise a veterinary deal with the EU.

- **Continuing to pursue a deal with India,** while recognising the challenges involved in securing a comprehensive deal. An offer on a social security agreement – a key point of contention in previous discussions – could help to move the negotiations forward.
- **Actively exploring opportunities for plurilateral agreements**, especially in the area of green trade. For instance, the UK should consider joining the Agreement on Climate Change, Trade and Sustainability (ACCTS), a trade agreement between New Zealand, Costa Rica, Iceland and Switzerland which is focused on environmental objectives. In the long run, the UK could explore the potential of joining 'climate clubs' with countries with equivalent carbon pricing systems.

1. INTRODUCTION – WHY A UK TRADE STRATEGY?

Over the past eight years, UK trade policy has been in a muddle.

The early approach post-Brexit – centred on locking in a series of new deals to demonstrate the UK's negotiating prowess – appears to have reached its limits. Businesses have struggled to get to grips with the new UK-EU arrangements under the Trade and Cooperation Agreement (TCA). Global supply chain disruptions since the Covid-19 pandemic have demonstrated the UK's vulnerability to trade shocks. And under the last government, the approach seemed increasingly out of step with key trade partners in Europe and North America, where the focus turned to a more active industrial strategy.

This has translated into a lacklustre picture for UK trade flows, as goods exports have struggled compared with other major economies. UK-EU goods trade flows have stagnated, estimated to be significantly lower in both directions compared to where they would have been as a result of UK withdrawal (Kren and Lawless 2024). Strikingly, however, EU and non-EU goods trade have both suffered over the past five years. UK trade openness – total imports and exports as a share of GDP – is below 2018 levels and the second lowest in the G7 (Hunsaker 2024).

The new government has therefore inherited a trade policy which appears rudderless amid a volatile and fragmented geopolitical backdrop. In response to these challenges, it has set out plans for an ambitious new trade strategy, aimed at supporting growth, strengthening economic security, and achieving its net zero objectives (DBT 2024a).

This strategy is a key pillar of the government's 'growth mission', aimed at securing the highest sustained growth in the G7 (Labour Manifesto 2024). The trade strategy is intended to complement the newly proposed industrial strategy, another key component of the government's agenda for growth. Both strategies are top priorities of the Department for Business and Trade.

A new trade strategy is the right priority for this government. Since powers were returned to the UK to determine its own trade policy, there has been a fundamental lack of clarity over its overarching priorities or offensive interests.[1] At the same time, engagement with key stakeholders – whether they be businesses, trade unions, or civil society groups – has been inadequate and haphazard. The end result has been a series of trade deals which have faced widespread criticism for not sufficiently advancing UK interests and an approach to trade which has appeared unfocused and directionless.

For a new trade strategy to be successful, it will need to be clear both about the UK's priorities and the policy direction for effecting meaningful change. In this report, we put forward an outline for how to deliver on a green, inclusive and pro-growth trade agenda. Our policy programme is split into three parts.

1 Offensive interests refer to the areas where the UK is seeking greater market access for its goods and/or services in trade negotiations.

1. The unilateral tools available to the UK to pursue its trade objectives.
2. The agenda for the UK's trade with the EU.
3. The wider approach for modernising the UK's other bilateral and plurilateral trading relationships.

To start with, we set the scene for the government's trade strategy, outlining the global and domestic context. This provides the foundations for understanding how the UK can develop a sophisticated trade strategy for the current geopolitical and economic moment.

2.
CONTEXT FOR THE NEW TRADE STRATEGY

THE GLOBAL PICTURE

2025 is a precarious time for global trade. After a decline in trade flows in 2023 caused by inflation and interest rate hikes, the volume of global trade in goods has been on the rise in 2024 and is forecasted to go up by 3 per cent in 2025 (WTO 2024). Trade in services has performed better: in value terms, goods trade barely increased year-on-year in the first half of 2024, while services trade experienced an 8 per cent increase in the first three months of the year (ibid). Yet over the course of the 2020-24 period, global trade has grown at a slower rate than any other half-decade since 1990 (Kose and Mulabdic 2024).

Moreover, the outlook is deeply uncertain. Geopolitical instability – not least the Russian invasion of Ukraine and the conflict in the Middle East – threaten to undermine and disturb trade flows in the coming months and years. The new Trump presidency in the US is expected to impose hefty tariffs globally and escalate the trade war with China, further fragmenting global trade.

It is no surprise that policymakers are nervous about future trends. The experience of the last few years has highlighted the vulnerability of global supply chains to disruption in various forms. The Covid-19 pandemic and the resulting containment measures imposed by governments both reshaped consumption patterns, sharply increasing demand for certain goods, while at the same time making it harder for businesses to operate as usual. As economies began to reopen, this precipitated a new surge in consumer demand, yet many businesses were caught off guard with limited inventories (Helper and Soltas 2021). Moreover, ongoing closures of factories in parts of Asia due to Covid-19 significantly disrupted supply (Bradsher 2022). The pandemic also caused a sharp rise in freight shipping costs due to shortages in shipping containers amid a variety of logistical challenges and port delays (LaRocca 2021). The result was a major strain on supply chains.

The Russian invasion of Ukraine in 2022 created further disruption for the global economy. Russia restricted its supply of gas to European countries over the course of 2022, forcing much of the European Union to swiftly reduce its dependence on Russian gas and find other sources of energy supply (Gross and Stelzenmüller 2024). At the same time, economic sanctions on Russia by the EU and the G7 have led it to reorient its trade towards countries such as China, Türkiye and India (Ioannou et al 2023).

Turning to the present, the conflict in the Middle East – beyond the extraordinary humanitarian toll – also poses challenges for trade flows. Most evidently, the Houthi attacks in the Red Sea have led to an abrupt decline in maritime trade via the Suez Canal as container ships have tried to avoid the route – by the first half of October 2024, canal traffic along the Suez Canal had fallen by 55 per cent compared to the same period a year before (UNCTAD 2024). Instead, ships have travelled around the Cape of Good Hope, increasing transportation costs and journey lengths. This has had a significant impact on freight rates (Notteboom et al 2024).

These events have taken place against the backdrop of a number of broader trends in trade policy. First, there has been a surge in policy debate often described as ‘trade plus’, where trade has intersected with other issues of international concern, including workers’ rights and sustainable development. Perhaps most prominently, there has been a growing interest in the intersection of trade and climate issues. For instance, the UK and the EU are both planning to implement carbon border adjustment mechanisms, which intend to impose costs on carbon-intensive imports equivalent to those paid by domestic producers.

Second, trade has become progressively digitised. On the one hand, technology has enabled a rapid growth in e-commerce – that is, goods and services which are ordered online. At the same time, there has been a rise in digitally deliverable services – ie services such as insurance, finance and consulting that have the potential to be delivered digitally – which in 2021 accounted for an estimated 63 per cent of global services exports (IMF et al 2023). Trade agreements are now increasingly focused on addressing digital trade barriers – for instance, data localisation requirements, which stipulate that data must be stored or processed within the country of origin’s jurisdiction.

Third, trade tensions are on the rise. Between 2017 and 2022, there was a sharp increase in trade restrictions imposed globally. The number of trade restrictions in 2022 was nearly 3,000, compared to under 300 a decade earlier (Bolhuis et al 2023). And since the early 2010s, the number of new regional trade agreements has declined (with the exception of 2021, which was artificially inflated by the UK’s post-Brexit rollover agreements with non-EU countries) (WTO no date). At the same time, the WTO appellate body – its key mechanism for legally resolving appeals to reports issued over member state disputes – has collapsed due to the US refusing to fill vacancies, leaving the organisation effectively toothless in the face of trade disagreements.

Tensions have been particularly high between the US and China since the Trump administration imposed a wave of new tariffs targeted at Chinese imports beginning in 2018, as well as a broader set of tariffs on steel and aluminium in response to a perceived national security threat (Fajgelbaum and Khandelwal 2022). This precipitated a tit-for-tat trade war which, despite stabilising somewhat in 2020, continued into the Biden presidency.

The trade war has led to a ‘decoupling’ of supply chains between the US and China. This decoupling took place in two stages: first, after the initial rise in trade tensions in 2018, when bilateral US-China trade declined until it rebounded during the Covid-19 pandemic; and then a second decline following the Russian invasion of Ukraine (WTO 2024). This has in part led to a shift towards the US importing goods from other countries, including Vietnam (ibid; Bown 2022). Analysts have expressed concern about a growing fragmentation of trade patterns and a polarisation around two economic blocs centred on the US and China.

The return of Donald Trump to the White House is set to intensify these patterns further while contributing new volatility to global trade policy. The incoming president has called for tariffs of 10-20 per cent on all imports and up to 60 per cent on goods from China. This is estimated to adversely affect global GDP growth by 2 per cent over five years (Bernard et al 2024).[2] More recently, president-elect Trump has proposed immediately imposing 25 per cent tariffs on goods from Canada and Mexico and an additional 10 per cent tariff on Chinese goods in an attempt to pressure them into stopping irregular migration and the smuggling of illegal drugs into the US (Hoskins 2024). There is no doubt that the next few years will be a rocky period for global trade.

2 This is based on a scenario where the US imposes 60 per cent tariffs on Chinese goods and 10 per cent tariffs on all other imports, followed by retaliatory tariffs.

THE UK'S TRADE PROFILE

In the midst of these complex global economic dynamics, the UK has over the past eight years set forward on its own independent trade journey. The vote to leave the EU in 2016 – culminating in the UK's official withdrawal in 2020 and exit from the single market and customs union in 2021 – has fundamentally altered the UK's relationship with its nearest trading partner and given it new powers to determine its own trade regime.

The UK's trade relations with the EU are now governed by the Trade and Cooperation Agreement (TCA), which removes all tariffs on imports and exports but no longer subscribes the UK to the EU's 'four freedoms' of movement in goods, services, capital and labour. This means the UK is now subject to a range of new non-tariff barriers with the EU, including new customs procedures, SPS (sanitary and phytosanitary) checks, conformity assessments, rules of origin, financial service requirements, and a lack of provisions for the mutual recognition of professional qualifications (MRPQs) (Morris 2020).

Alongside these changes in the UK-EU relationship, the UK has sought to develop an independent trade agenda. This first focused on securing 'roll-over' deals to replace the agreements the UK had with other countries as an EU member. The previous government then pursued a number of new agreements, partly in an attempt to demonstrate the value of its post-Brexit independent trade policy. This included free trade agreements (FTAs) with Australia, New Zealand, and Japan, as well as a digital economy agreement (DEA) with Singapore. The UK also acceded to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), an Asia-Pacific free trade agreement.

However, this approach has faced sustained criticism for lacking strategic nous. The Australia and New Zealand FTAs are forecast to increase GDP by only 0.08 per cent and 0.03 per cent respectively by 2035 (and the economic benefits of CPTPP accession are similarly marginal) (Webb 2023a; Webb 2023b). There were widespread concerns from British farmers about the impact of the deals on agrifood, given the risk of expanding access to the UK market undercutting domestic production (ibid). Reporting of the UK-Australia negotiations suggests that former prime minister Boris Johnson "conceded the whole kingdom", according to one Australian official, by yielding on a key Australian demand over beef trade (Lanktree 2023a).

Most strikingly, the UK has struggled to negotiate some of the larger trade deals it set its sights on in the aftermath of Brexit. Negotiations with India are ongoing but have become deadlocked over disagreements on issues including greater market access for UK firms and social security arrangements for Indian professional workers (Cyrill 2024). On the other hand, a trade deal with the US – originally touted as one of the biggest prizes of Brexit – has proved elusive, due to differences in areas such as agriculture under the Trump presidency and a general deprioritisation of FTAs under Biden.

Concerns have also been raised about the previous government's broader approach to trade policy. The Department for Business and Trade – and its predecessor the Department for International Trade – have been reluctant to engage with key stakeholders from business, trade unions and civil society and have tended towards secrecy over the course of trade negotiations (Henig 2023). There have been limited opportunities for effective parliamentary scrutiny of the new post-Brexit deals – under the Constitutional Reform and Governance (CRAG) Act 2010, there is no requirement for Parliament to vote on or debate new free trade agreements (Webb and Ward 2022).

The UK's efforts have translated into a disappointing picture for goods trade. By the end of 2023, there was a 10 per cent fall in goods trade from 2019 levels, compared with an average 5 per cent rise for other G7 countries by the third quarter of 2023 (OBR 2024). Both non-EU and EU exports have fared poorly, as the UK missed out on a post-pandemic boom compared with our main competitors (Webb and Ward 2024; Morris 2022).

On the other hand, the picture for services trade is much brighter. Trade in services increased by 12 per cent by the end of 2023 compared to 2019 levels and the UK ranks only behind the US as the world's largest services exporter (OBR 2024; Fry 2024). Despite the economic challenges for the UK in recent years, trade in services remains an enduring strength.

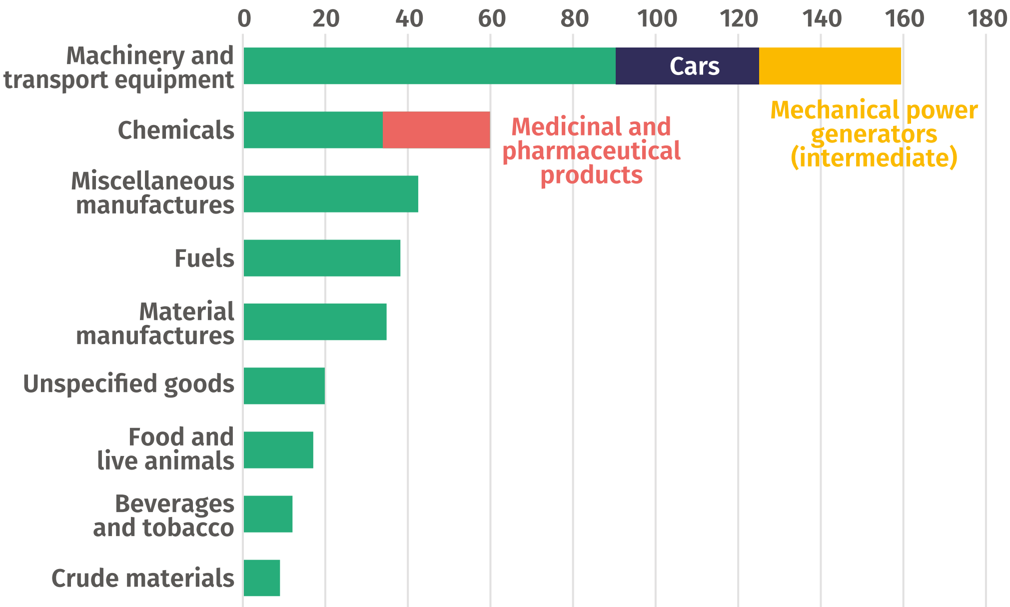
There is no doubt that Brexit has had a direct impact on the UK's trade position. After an immediate sharp fall in EU imports and exports following the UK's exit of the single market at the start of 2021, they subsequently rebounded, but trade levels are lower than they otherwise would have been if the UK had not left. One recent study suggests that, between 2021 and 2023, the introduction of the TCA reduced imports from the EU to the UK by an estimated 32 per cent and UK exports to the EU by an estimated 27 per cent (Du et al 2024a). There were falls in the variety of products exported to the EU by 33 per cent as a result of the new trading arrangements (ibid). While other studies show smaller effects, they point in the same direction (Kren and Lawless 2022; Freeman et al 2024). This corresponds to evidence pointing to particular challenges for SMEs, with an estimated 20,000 small businesses completely stopping their exports to the EU (Novy et al 2024). The Office for Budget Responsibility (OBR) estimates that in the long run Brexit will lower UK trade intensity (the combined total of import and exports as a percentage of GDP) by 15 per cent (OBR 2024).

The UK's export profile is explored in more detail in figures 2.1 and 2.2, which identifies the largest types of goods and services exports in 2023. For goods, these include cars, power generators, and pharmaceuticals, while for services, these include finance and business and management consulting.

FIGURE 2.1

Top UK goods exports include cars, power generators and pharmaceuticals

Goods exports by commodity, current prices £bn (2023)

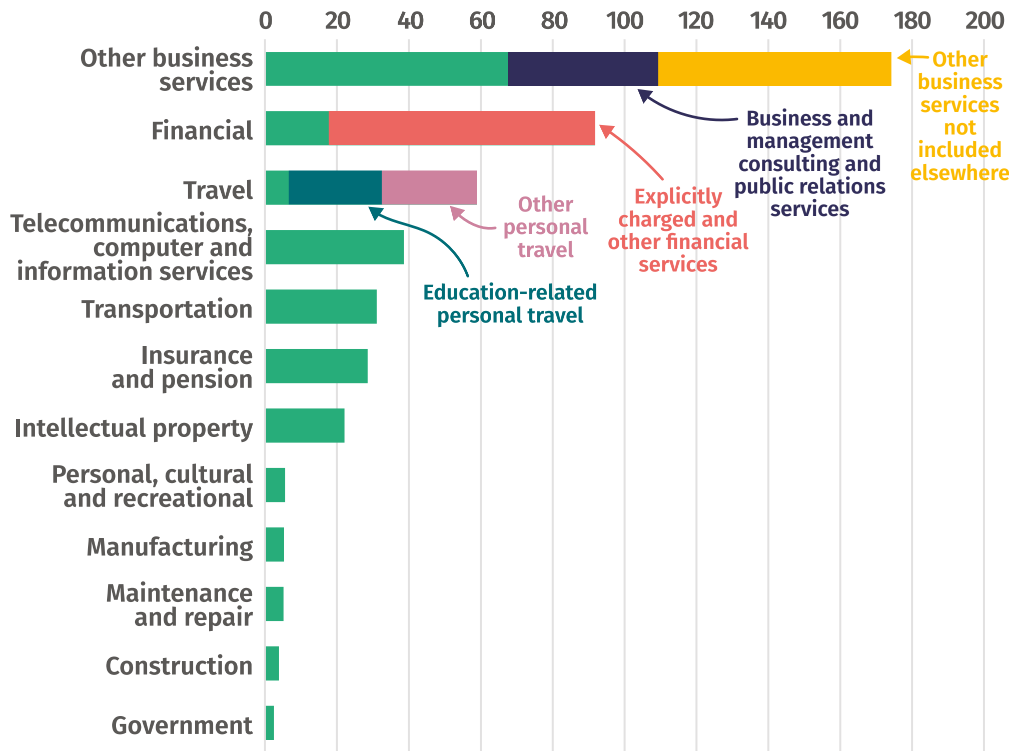


Source: ONS 2024a

FIGURE 2.2

Top UK services exports include financial services and business and management consulting

Service exports by service type, current prices £bn (2023)



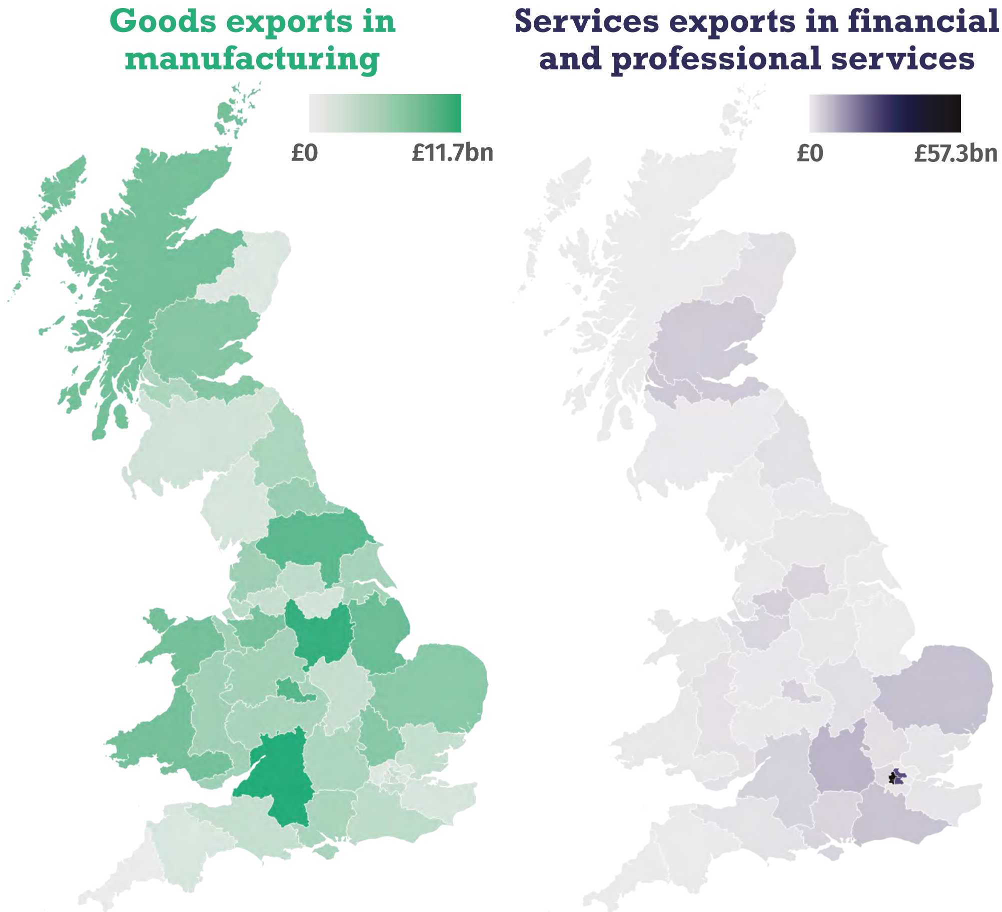
Source: ONS 2024b

A regional breakdown points to some striking patterns in the geographical distribution of exports. We focus on two key areas of exports: manufacturing goods exports and financial, insurance, real estate, professional, scientific and technical services exports (referred to as financial and professional services exports for clarity). In the case of the latter, exports are strongly concentrated in London. But for goods exports in the manufacturing sector, there is a much more dispersed export base: the strongest regions include parts of the South West, the Midlands, Wales, the North West and Scotland.

FIGURE 2.3

While key services exports are concentrated in London, manufacturing goods exports are more evenly spread across the country

Goods exports in manufacturing (left) and services exports in financial and professional services (right) by region, current prices £bn (2021)



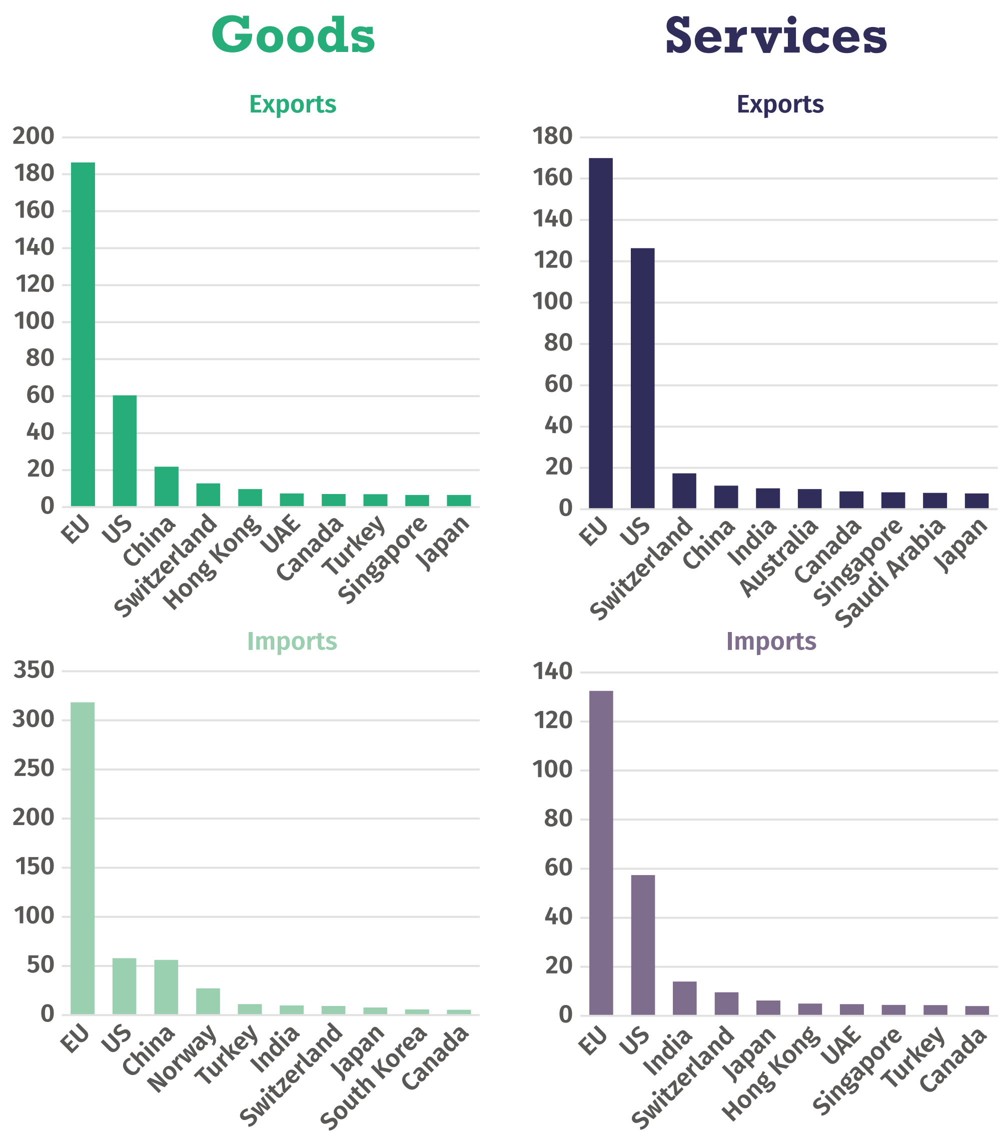
Source: ONS 2023

The UK's current exports and imports are heavily tilted towards the EU, as the following charts illustrate. With respect to goods, in 2023 47 per cent of total exports went to the EU while 55 per cent of total imports came from the EU. In the case of services, in 2023 36 per cent of exports went to the EU and 45 per cent of imports came from the EU. The lower share of EU services exports was compensated by a higher share of services exports to the US (27 per cent of total exports). Total exports to the EU have fallen slowly over the past decade, while exports to the US have increased. Overall, however, the EU is by far the largest UK trade partner, followed by the US and – with respect to goods – China (ONS 2024c).

FIGURE 2.4

The EU is the UK's largest trade partner for both goods and services

Goods and services imports and exports in 2023 by top 10 trade partners, current prices £bn



Source: ONS 2024c

Note: The figures for the US include Puerto Rico.

A NEW TRADE STRATEGY

Reflecting on the challenges of the past eight years, the newly elected UK government has sought to outline a fresh approach to international trade, based on a new trade strategy. The Department for Business and Trade has said it will publish a trade strategy that "aligns with our industrial strategy, enhances our economic security and supports our net zero ambitions" (DBT 2024a).

The trade strategy is integral to the government growth mission and intended to be complementary to the proposed industrial strategy, which aims to develop a proactive approach to driving forward economic growth. The government's green paper on its new industrial strategy has identified eight key sectors central to growth (DBT 2024b). These include:

- advanced manufacturing
- clean energy industries
- creative industries
- defence
- digital and technologies
- financial services
- life sciences
- professional and business services.

There are a number of policy areas which the industrial strategy will speak to – including people and skills, innovation, energy and infrastructure, regulation, crowding in investment, and international partnerships and trade. In its industrial strategy green paper, the government has spoken of its commitment to 'free and fair trade' and highlighted the importance of addressing trade barriers, facilitating digital trade, securing agreement on mutual recognition of professional qualifications, streamlining customs processes, and strengthening UK-EU trade relations (ibid).

The trade strategy is also relevant for the government's broader economic approach, often termed 'securonomics'. As set out in the chancellor's 2024 Mais lecture, securonomics foregrounds the idea of economic security on the basis that long-term stability provides a platform for economic growth (Reeves 2024). In her lecture, the chancellor recognised the multiple economic benefits of openness to trade and highlighted the importance of strengthening international trade partnerships; but at the same time, she reflected that this needed to be balanced with the need for resilience to economic shocks. In her words, 'there must be red lines' which trade policy should not cross – specifically, those situations where the UK is reliant on other countries with conflicting interests for the supply of certain key products (ibid). Both growth and resilience are likely to be central pillars of the government's forthcoming trade strategy.

3.
WHAT SHOULD BE THE FOCUS OF A NEW TRADE STRATEGY?

THE OVERALL APPROACH

The starting point for the UK's trade strategy must be a clear articulation of objectives. The government's guiding mission is economic growth, and so this will no doubt be at the centre of its trade strategy as well as its industrial strategy. Moreover, there is a clear case for directing a trade strategy towards green, inclusive growth – or, in other words:

- growth across all of the UK's nations and regions
- growth which benefits the living standards and employment conditions of working people
- growth which supports the transition towards an environmentally sustainable, low-carbon economy.

There is also an imperative for securing economic resilience, particularly in light of the multiple supply chain disruptions of recent years and ongoing global trade tensions, which are likely to escalate further under the second Trump presidency. This means that for certain industries critical for our economic and national security – including energy, defence, food, communications, and healthcare and pharmaceuticals – there is a potentially competing objective to safeguard economic resilience.

Some measures to support economic resilience may reinforce the UK's growth objectives. For instance, where critical goods need to be imported, the government could focus on how to smooth the logistics of the importing process to minimise delays and safeguard against bottlenecks. This might involve investment in port infrastructure or advice for businesses importing goods.

But other measures aimed at strengthening economic resilience involve reshaping supply chains to protect against the risk of future disruption, for instance by:

- onshoring, where supply chains are shifted back to the UK
- friendshoring, where supply chains are shifted to allies or countries with similar values
- diversification – where supply chains are spread out more evenly between countries to avoid too much concentration on potentially unreliable trade partners.

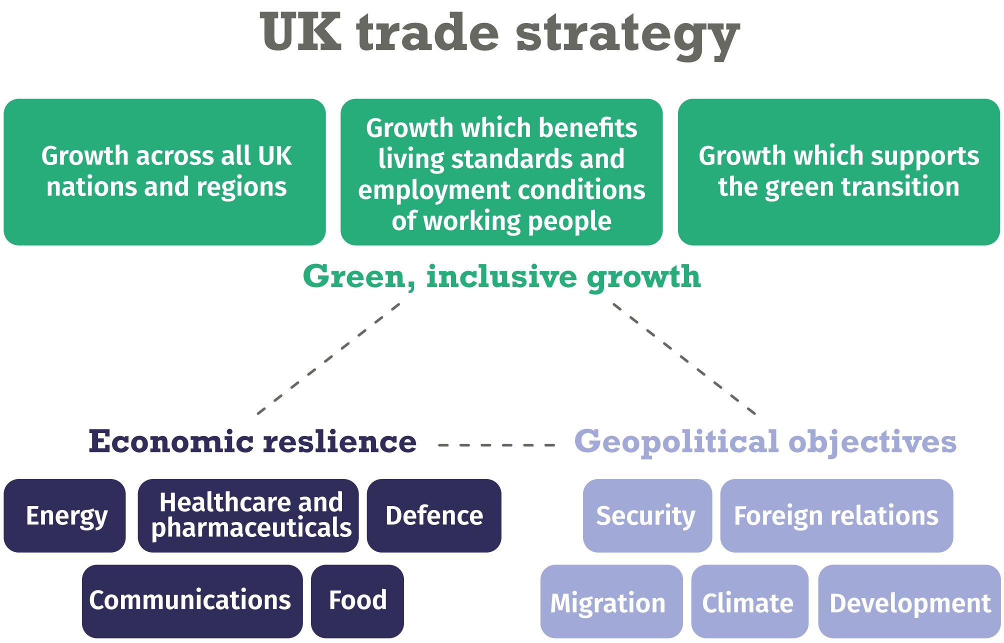
In the short run, these measures could come at a cost of lower economic efficiency and thereby come into tension with the government's overarching growth objective. In the event of a future economic shock, however, they could help to safeguard against potential disruption and thereby support economic growth. A subtle balance needs to be struck between short-run economic growth and measures such as these to boost resilience, depending on the costs of implementing them, their expected efficacy, and the risk level and potential scale of future supply chain disruption.

Finally, the third key objective for the government's trade strategy relates to the global context. Trade is inherently tied up with other major geopolitical questions, and the last few years has brought this reality home. On the one hand, the US under Trump is expected to link trade matters to other areas of policy, potentially in an attempt to pressure the UK to align with its priorities on, for instance, China. On the other hand, the EU reset will inevitably bring together trade relations with issues including security and defence, migration, and climate action. When setting its trade strategy, the UK will therefore need to consider the wider geopolitical implications of its decisions. This means ensuring alignment with objectives on foreign relations, security, migration, climate, development, and so on.

We suggest that the government's overall trade approach should therefore be aimed at green, inclusive growth, while at the same time meeting our geopolitical objectives and maintaining economic resilience for critical sectors (see figure 3.1 below).

FIGURE 3.1

The government's overall approach should be focused on green, inclusive growth, while also supporting the UK's geopolitical objectives and economic resilience



Source: Author's analysis

AREAS OF EXISTING AND POTENTIAL COMPARATIVE ADVANTAGE

To pursue its objective of green, inclusive growth, the new trade strategy will need to identify priority industries and goods/services. The strategy should focus on boosting its exports in areas of comparative advantage – that is, goods or services that the UK can produce at a lower opportunity cost than other countries – as well as areas of potential comparative advantage – that is, areas where the UK can over time develop a comparative advantage based on its existing capabilities and the opportunity for productivity growth. This broadly aligns with the approach suggested in the government's industrial strategy green paper, which uses a multi-indicator assessment to identify the UK's current and emerging strengths (DBT 2024b).

Moreover, reflecting the focus of *green, inclusive* growth, the government should identify sectors where there are regional strengths outside London and the South East, as well as UK strengths in the green economy. The UK has a well-known comparative advantage in certain services such as finance, insurance, and professional services, but as illustrated in the previous chapter, this is highly concentrated in London. A truly inclusive trade strategy will therefore need to look at areas of strengths in goods trade – including manufacturing – as well as services.

Where precisely might the UK want to focus? We will not try to identify the precise industries in this paper, but the available evidence points to some areas of existing and potential comparative advantage. One recent study indicates that the UK has a revealed comparative advantage in goods including aircraft, art, beverages, and pharmaceuticals, as well as services including financial services, insurance and other business services, and personal, cultural and recreational services (De Lyon et al 2022).[3] It also finds that the UK has a specialisation in innovation in areas including life sciences and clean technologies (ibid). As noted above, the industrial strategy green paper identifies a similar list of eight priority areas, based in part on an analysis of comparative advantages: these are very broadly defined and include advanced manufacturing, clean energy industries, creative industries, defence, digital and technologies, financial services, life sciences, and professional and business services (ibid).

Looking specifically at the green economy, IPPR has found that the UK has a revealed comparative advantage in a number of areas of green manufacturing, including heat pump components, electric rail locomotives, and turbines that can be used in geothermal or hydroelectric energy generation, as well as strong green potential based on its current manufacturing capabilities (Narayanan et al 2024). This analysis suggests that the UK should prioritise wind manufacturing, heat pumps and green transport – sectors which parts of the UK outside London and the South East are well-positioned to develop (ibid).

The UK government's priority industries will likely be determined by the outcome of its industrial strategy white paper, to be published in the spring. To maximise its effectiveness, the trade strategy will need to be guided by the priority industries identified by the government.

TRANSPARENCY AND ACCOUNTABILITY

The new strategy should be underpinned by a reformed approach to making trade policy. Under the previous government, the Department for Business and Trade (formerly the Department for International Trade) kept its cards close to its chest: stakeholders were often held at arm's length, FTA negotiating texts were largely kept secret, and Parliament was given little opportunity to properly scrutinise new agreements.

A more transparent, inclusive approach to trade would not only be healthy for democracy. It would also benefit the quality of the UK's trade policy measures by allowing for greater expert input from businesses, trade unions, academics, parliamentarians and civil society organisations. A focus on growth which is green and inclusive would especially benefit from engagement with stakeholders in green industries and with local and regional businesses forums. Furthermore, a more central role for Parliament would allow the government to point to parliamentary pressure as an important factor limiting its room for manoeuvre in trade negotiations. This would strengthen the government's negotiating hand in promoting UK interests (Jones and Sands 2020).

We therefore suggest that the government revitalises its trade stakeholder forums, including reintroducing the Strategic Trade Advisory Group alongside sector-specific groups, made up of an appropriate balance of business, trade union and civil society voices from across the UK. These forums should be given

3 Revealed comparative advantage is calculated by comparing the UK's exports of a specific good/service as a share of total UK exports with world exports of the good/service as a share of total world exports.

regular updates on trade negotiations, including the sharing of draft texts, so they can meaningfully inform and contribute to the government's approach.

New legislation should also be introduced to expand parliamentary scrutiny of trade agreements. The legislation should reform CRAG to ensure that Parliament can debate and scrutinise the government's negotiating objectives and is regularly updated over the course of negotiations. Moreover, there should be a statutory requirement for Parliament to vote on a trade deal before it can be ratified.

Finally, there must also be meaningful engagement with the devolved nations and regions. The new Council of the Regions and Nations should be used as a forum for discussing and engaging regularly with devolved administrations and mayoral combined authorities on the development of trade policy and FTA negotiations. There will need to be particularly close engagement with the Northern Ireland Executive, given the unique trading arrangements in place in Northern Ireland under the Windsor Framework.

This chapter has set out our proposed overall approach to trade strategy: focused on green, inclusive growth, while meeting our geopolitical objectives and safeguarding economic resilience in critical sectors; directed at identifying and exploiting areas of existing and potential comparative advantage; and underpinned by a transparent and accountable approach to policymaking. Trade policy affords the government a range of tools for pursuing this approach. Some of these tools are unilateral, while others involve engagement with the EU and other trade partners. The following chapters explore some of the available trade tools for meeting the government's strategic objectives.

4. WHAT CAN THE UK DO UNILATERALLY?

Much of the focus of trade policy under the previous government was on securing FTAs. Its success was often seen through the prism of the amount of trade negotiations it had begun or the number of deals which had been signed. But while agreements with partners are vital for a successful trade agenda, they are not the sum total of trade policy. Crucially, there are many trade levers which can be pulled unilaterally, without any deals with others.

In this chapter we explore the potential for these unilateral measures to support the government's strategic trade objectives. The focus of these measures should be twofold. On the one hand, they should do everything to promote exports in industries which the government has identified as priorities for green, inclusive growth (as discussed in the previous chapter). On the other hand, they should support the smooth flow of imports – especially for inputs in sectors important to the UK's industrial strategy – while ensuring appropriate safeguards are in place to protect against economic and geopolitical risk. The following recommendations are geared towards these goals for exports and imports.

THE UK GLOBAL TARIFF

The UK Global Tariff (UKGT) is the tariff regime introduced in January 2021 for imports to the UK, replacing the EU's Common External Tariff. It sets default duties which must be paid on imports from countries which do not have an FTA with the UK, which are not from developing countries under the Developing Countries Trading Scheme (DCTS), and where some other exemption does not apply.

The UKGT liberalised tariffs compared with the EU's tariff schedule, nearly doubling the number of products with zero duties (Winters et al 2020). In particular, there were reductions for environmental goods, where tariffs were removed on 133 product categories and reduced on a further 57 (Steenblik et al 2020).[4] But there are opportunities for further reform. We recommend that **the UKGT is reviewed in light of the government's current priorities** for green inclusive growth and economic resilience. This could involve the targeted reduction of tariffs for inputs for products which are important for the UK's industrial strategy or for products critical to economic security, in cases where the UK does not have a strong defensive interest (eg certain food items that are not produced in the UK). Where there might be concerns that this could undermine the UK's negotiating leverage in future free trade agreements, the government could introduce tariff reductions on a temporary basis, thereby allowing it to offer the extension of these reductions as a bargaining tool in trade talks.

4 Environmental goods are roughly defined as goods which have benefits for environmental protection. Precise definitions vary. The OECD states that environmental goods and services are "broadly defined as those that measure, prevent, limit, minimise or correct environmental damage to water, air and soil, as well as manage waste, noise and ecosystems" (Kennett and Steenblik 2005).

EXPORT PROMOTION

One priority area for the new trade strategy should be supporting exports in areas of existing or potential comparative advantage. As set out in the UK's 2021 export strategy, the government plays a role in export promotion by providing advice and guidance to businesses through its International Trade Advisers and Export Support Service; offering export finance; and promoting and facilitating networking opportunities for UK businesses abroad (eg through international tradeshows) (DIT 2021). Research commissioned by the Department for Business and Trade (DBT) suggests that support from DBT has a positive impact on a businesses' likelihood of exporting goods (DBT 2023).

However, there are clear limitations with the current approach to export promotion. According to the 2023 National Survey of Registered Businesses (NSRB) – a DBT-commissioned survey of UK businesses focused on those with annual turnover of at least £500,000 – only 18 per cent of businesses have a high level of knowledge of how to export and 34 per cent are aware of the government's International Trade Advisers (including only those businesses who export or could export). Just 23 per cent of businesses said they felt confident in knowing how to trade using FTAs (DBT 2024c).

A renewed approach to export promotion is therefore vital. The evidence suggests that 'bundling' different services together – including providing information and advice, support with business networking and negotiations, and help with trade fairs and missions – can be a more effective form of support (Makioka 2019).

We therefore **suggest providing bundled packages of trade advice, information, and coordination through a new cross-cutting, locally-driven programme of export support**. This support should be available to all potential exporters but should be especially focused on those priority export industries identified by government. It should encompass three dimensions.

1. DBT should engage directly with local bodies – including Chambers of Commerce and, where they have the skills and capacity, combined authorities – to provide an appropriate package of face-to-face, localised support to businesses in their areas looking to export.
2. For specialist sectoral advice in areas where the UK has a particular interest in boosting exports, government should provide appropriate support for industry trade associations and other experts to coordinate with the above local bodies and engage with business queries.
3. FCDO should secure trade and sector specialists seconded from DBT and from the private sector to support in-country trade promotion, prioritising those countries identified as most important for future exports.

CUSTOMS AND OTHER ADMINISTRATIVE PROCEDURES

In practical terms, for businesses it is the day-to-day administration of imports and exports which is essential for the efficient facilitation of trade. The NSRB highlights that the most common barrier for businesses exporting goods is customs procedures (DBT 2024c).[5] The administrative requirements associated with exporting and importing goods have become particularly pertinent in light of the UK's exit from the EU's single market and customs union, given new procedures now apply to goods being traded between the UK and the EU.

5 This includes only those businesses who exported goods and who had exported or considered exporting to a core market (including the EU, USA, Gulf States, Australia and India). Respondents were asked about barriers to exporting to the core market in question. (If more than one core market was mentioned this was chosen at random.)

When it comes to exports, the UK needs to engage bilaterally and multilaterally with partners to streamline access for businesses. In the next chapter, we discuss how this the government could navigate these issues in negotiations with the EU.

For imports, on the other hand, the UK can take action unilaterally. The government has begun the roll-out of the Border Target Operation Model (BTOM), a new model for managing the process of importing goods to Great Britain aimed at adapting the system in light of Brexit while streamlining existing processes (Cabinet Office 2023). In broad terms, the process for importing goods to the UK once BTOM has been fully implemented will be roughly as follows.

- Ahead of departure, the importer should agree international commercial terms and make sure the product meets marketing and labelling standards.
- A safety and security declaration must be lodged before arrival at the GB border. A customs declaration must also be submitted to HMRC as part of the import process. For certain animals, animal products, plants and plant products, depending on risk level, a health or phytosanitary certificate is required. For most of these products (excluding low-risk plants and plant products), a pre-notification must also be submitted. Under the BTOM, much of this is expected to be done through a unified portal called the Single Trade Window.
- Animals, animal products, plants and plant products may undergo documentary checks (remotely) and identity and physical checks (at the border or inland). Check rates will depend on risk level.
- The importer must pay any duties before goods are released, via the Single Trade Window.

The government has recently announced that the introduction of the Single Trade Window will now be delayed until April 2026 or later. **The government should use this time to consult with businesses on the most effective ways of smoothing the process for importing goods, while committing to rolling out a revised Single Trade Window in 2026 without further delay**. The government should in particular prioritise engaging with sectors critical to national and economic security, where the smooth facilitation of imports is essential for the UK's economic resilience.

TRADE REMEDIES

Since leaving the EU, the UK has been responsible for its own trade defence policy – that is, its approach to investigating and responding to instances of dumping and subsidies which are unfairly detrimental to UK businesses or instances of unexpected surges in imports. (Dumping is where goods and exported at a lower price than in the home market of the exporting country.) Typically the response involves imposing tariffs on imports to offset the adverse impacts of unfair trade practices.

In 2021, the government established the arms-length Trade Remedies Authority (TRA) to investigate unfair and harmful trade practices and make recommendations on trade defence instruments. The TRA makes its recommendations using an orthodox cost-benefit approach, involving an economic interest test (EIT) to assess whether introducing a trade remedy is in the UK's economic interest (Serwicka et al 2023). This has led to tensions between government and the TRA, resulting in reforms in 2023 which give ministers more flexibility to depart from the TRA's advice (HMRC 2023).

Some experts have warned that the UK's trade defence options are relatively limited compared to the EU's (Watson et al 2024.) With the incoming Trump presidency and further geopolitical volatility highly likely in the coming years, we propose that the **UK strengthens its trade defence regime**. In particular, we suggest that the economic interest test is reviewed with the intention of considering, as an important factor, the implications of new trade measures on the UK's economic resilience. This would help to protect the UK from unfair trade practices that make the UK overly dependent on specific overseas markets for goods critical to economic security.

We also suggest that the government considers a more flexible mechanism to respond to potential future threats to trade and investment. The EU has recently introduced a new Anti-Coercion Instrument (ACI), giving it the power to impose countermeasures to enable it to respond to and deter economic coercion (EC 2023). Economic coercion generally refers to the use or threat of punitive economic measures in order to compel countries to change policy direction – for instance, trade restrictions imposed by China on Lithuania after it allowed a Taiwan Representative Office to be opened in Vilnius (Andrijauskas 2022). The UK could similarly legislate for a new specific mechanism for imposing countermeasures – including import tariffs as well as other measures – in response to countries using economic coercion to influence the UK's sovereign choices and thereby potentially breaching international law. This would give the UK a swift and structured deterrent to protect against future trade threats, including those which intend to exploit economic dependencies.

This chapter has set out the unilateral trade measures the UK can take to promote green, inclusive growth while meeting geopolitical objectives and maintaining economic resilience in critical sectors. But unilateral actions are only part of the trade picture. An effective trade strategy will need to involve negotiation – with both the EU and wider trade partners. The next two chapters will explore the negotiating approach the UK should adopt.

5.
WHAT CAN THE UK DO TO REBUILD TRADE RELATIONS WITH THE EU?

The UK-EU relationship is central to the UK's trade agenda. The EU is the UK's closest and largest trading partner. In the year ending June 2024, exports to EU countries made up 41 per cent of total UK exports, while imports from EU countries made up 51 per cent of total imports (ONS 2024c). As set out in chapter 1, the UK's withdrawal from the EU and its single market has had a significant impact on UK-EU trade, creating new barriers which have reduced the flow of imports and exports.

The new government has called for a 'reset' with Europe and the EU (FCDO 2024a). Crucial to this reset will be strengthening the UK-EU trading relationship and building on the Trade and Cooperation Agreement (TCA) signed at the end of 2020, while maintaining the government's commitment to stay outside the EU's single market and customs union. In this chapter we explore how the UK should focus its negotiations.

TRADE IN GOODS

Outside the EU, UK businesses must now navigate EU customs controls and a host of regulatory checks in order to export goods into EU markets. Some of these checks are here to stay: they are a necessary consequence of the UK leaving the EU and single market. But there are some areas where checks can be eased or removed, given there is a precedent for this with other third countries.

First, **we suggest that the UK proposes a mutual recognition agreement (MRA) with the EU** to allow for the acceptance of the results of conformity assessments from each other's conformity assessment bodies. Conformity assessments are checks made to ensure that a product meets relevant requirements, while conformity assessment bodies are organisations which perform these checks and certify products as appropriate. An MRA does not require harmonisation of product rules, but for certain products it would allow approved UK conformity assessment bodies to perform conformity assessments for the purposes of meeting EU requirements without the need for additional EU checks (and vice versa). This would reduce duplication of conformity assessments and make it easier for UK products to be placed on to EU markets.

The EU already has MRAs with Australia, Canada, Israel, Japan, New Zealand, Switzerland and the US (EC, no date, a). The Canada MRA, for instance, is fairly comprehensive, covering products such as electronic equipment, toys, construction products, machinery, measuring instruments, and hot-water boilers, alongside a separate MRA on good manufacturing practices for pharmaceutical products (EU 2017). A UK-EU MRA should aim for at least the same level as coverage as the EU-Canada agreement. The government should especially push for an MRA for pharmaceutical products (including ending the duplication of batch testing for medicines exported to the EU), given pharmaceuticals are an area of comparative advantage for the UK.

Second, **we recommend the UK seeks to negotiate a veterinary agreement with the EU** (otherwise known as a sanitary and phytosanitary or SPS agreement). This was a commitment in the Labour party's general election manifesto. A veterinary agreement would help to ease or remove existing documentary, identity, and/or physical SPS checks on GB exports to the EU, which have coincided with a 16 per cent fall in food, feed and drink exports to the EU following the introduction of the TCA (Lydgate and Carson-Taylor 2024).[6] A recent economic analysis suggests that a UK-EU veterinary agreement could boost UK agri-food exports to the EU by up to 22.5 per cent (Du et al 2024). A deal would also strengthen food security by facilitating agri-food supply chains, supporting the UK's broader objective of economic resilience.

The exact form and scope of the veterinary agreement is expected to be subject to negotiation. The EU has negotiated a number of similar agreements, including with Andorra, Canada, Central America, Chile, Columbia and Peru, EFTA, the Faroe Islands, Liechtenstein, Mexico, New Zealand, San Marino, Switzerland, and the US (EC, no date, b). In general, agreements with more distant countries such as Canada and New Zealand are based on recognising 'equivalence' of different SPS (ie food safety and animal/plant health) measures and allow for the reduction in physical checks and the simplification of paperwork. The agreement with Switzerland, on the other hand, requires extensive harmonisation of SPS rules and allows for the wholesale elimination of documentary, identity and physical checks (Wachowiak 2024).

Given the UK's size and proximity to the EU, it might be expected that any veterinary agreement would require alignment with SPS rules. It would be wise for the government to begin negotiations by not committing to harmonisation. To do so would risk undermining its negotiating leverage in any discussions with the US in the early part of the Trump administration, given alignment with EU rules would make any trade agreement with the US more difficult, as discussed further in the next chapter. Ultimately, however, there are clear advantages to harmonisation, given the economic benefits of removing SPS checks and the value of maintaining high food safety standards, which command broad public support (Morris 2018; Clay 2022; Ipsos 2024).

A comprehensive SPS deal – likely involving some degree of regulatory harmonisation – is expected to take time to conclude. Given this, in the short-to-medium term, the UK should also explore whether there are any incremental steps which can be taken to smooth trade flows for agri-food goods, before a full agreement can be negotiated.

Third, we suggest that **the UK pushes for the TCA Partnership Council to conduct a full investigation of UK-EU customs procedures and technical barriers to trade as part of the five-year TCA review**, with the intention of identifying areas to build on the TCA to facilitate the flow of trade. This should involve commissioning a comprehensive survey of UK and EU businesses engaged in using the TCA. This would help to galvanise a wider effort to recognise and resolve some of the practical barriers to trade in goods which have emerged since the introduction of the TCA in 2021.

TRADE IN SERVICES

Services exports to the EU have held up relatively well compared to goods since Brexit – in 2023, they were higher in real terms than their levels in 2019 (Webb and Ward 2024). But businesses have still faced a series of regulatory and mobility

6 The analysis finds that the average annual value of food, feed and drink exports to the EU in the 2021-2023 period fell by around 16 per cent compared to the three-year period before Brexit (at 2023 prices). Note that this analysis simply charts trends in exports and does not isolate the impacts of the TCA.

barriers in exporting to the EU and have urged the government to pursue a number of improvements to the current arrangements.

A common priority for the UK-EU relationship reported by businesses is making it easier for professionals to have their UK qualifications recognised in EU member states (BCC 2024; House of Lords 2021). The current lack of mutual recognition of professional qualifications affects some key professional services where the UK has a comparative advantage. The TCA includes provisions allowing for sector-specific agreements for the mutual recognition of qualifications, which are negotiated at the TCA Partnership Council after an initial joint proposal by UK and EU professional bodies (TCA 2021: article 158). But no agreement has yet been reached – the only proposal discussed so far has been an agreement concerning architects, which was dismissed by the European Commission (Reland 2024).

While some have criticised the framework for the mutual recognition of professional qualifications in the TCA as ineffective, given it is already in place it is the most sensible starting point for making progress on this issue. We therefore suggest that **the UK and EU coordinate a forum for their respective professional bodies to jointly agree recommendations on the mutual recognition of professional qualifications across a number of key professions**, including architects and lawyers. These proposals would then be reviewed and negotiated by the TCA Partnership Council. Crucially, the proposals would need to be appropriately balanced and come as part of a broader package of improvements to the UK-EU relationships in order to ensure buy-in from the European Commission (see further details below).

Business mobility has also been another key challenge for services trade under the new UK-EU trade relationship. The TCA has very limited provisions for business mobility, which makes it difficult for professionals to temporarily travel to the EU to provide paid services. While the TCA includes provisions for short-term business visitors, including permitting them to participate in activities such as meetings, training seminars, marketing research, trade fairs and sales negotiations without a work permit, it does not allow them to supply services to the general public or to receive payment on their own behalf (TCA 2021: article 142). Moreover, there are a list of further country- and activity- specific exceptions (TCA 2021: annex 21).[7] We therefore propose that **the UK and the EU agree to add a mobility chapter to the TCA to give UK professionals greater flexibility to provide temporary services in EU member states and vice versa**.

We recognise that this negotiation will require give and take on both sides. An unbalanced offer from the UK is unlikely to secure agreement. Given this, **it is important that the UK government engages seriously with the EU's proposal for a youth mobility agreement**. A youth mobility arrangement – whereby a capped number of UK/EU young people would be able live and work in each other's territories for a time-limited period – would provide opportunities for UK citizens and strengthen UK-EU ties. Provided the scheme was capped and time-limited, it would reflect youth mobility deals the UK has with other countries, including Australia, Canada, New Zealand and South Korea. And if the UK were open to such an arrangement, it would be a powerful negotiating chip in discussions with the EU on deepening trade ties more broadly.

7 There are also provisions for contractual service suppliers and independent professionals to provide services in the host territory, but they are subject to strict rules and reservations and do not exempt the need for a visa.

ENERGY AND CLIMATE

Another clear opportunity for closer trade relations between the UK and the EU is on energy and climate. The UK and the EU currently operate separate emissions trading systems (ETS), which are 'cap and trade' schemes for limiting greenhouse gas emissions. They require businesses in certain high-emitting industries to obtain allowances – primarily from government auctions or through trading – and surrender an allowance for every unit of greenhouse gases they emit (ie 1 tonne of carbon dioxide equivalent) (EC, no date, c). The market for allowances places a price on greenhouse gas emissions (ie the carbon price). The cap on allowances decreases over time, bringing down overall emissions.

The TCA suggests that the UK and EU should 'give serious consideration' to linking each other's emissions trading systems (TCA 2021: article 392), in effect combining the UK's and the EU's carbon markets. A larger carbon market would reduce volatility in the carbon price and make it easier for firms to manage risk (Roberts et al 2024).

Moreover, linking would allow the UK to circumvent the EU's carbon border adjustment mechanism (CBAM). This is a new measure which is designed to impose costs on carbon-intensive imports which are equivalent to the costs for domestically produced goods under the ETS. Businesses receive deductions if they can demonstrate they have already paid the UK carbon price, but currently this is lower than the EU's carbon price and so these deductions are not expected to cancel out all costs. Without linking, in 2026-30 UK businesses will be required to pay into the EU's budget up to around £0.2-£0.8 billion due to the CBAM (depending on the gap between the UK and EU carbon price) (ibid). Even if UK and EU carbon prices converge, there are still significant administrative burdens for business which can only be avoided by linking.

We therefore recommend that **the UK pursues an ETS linking agreement with the EU** to allow for more cost-effective decarbonisation and reduce the burden of CBAM on UK businesses. The UK could also potentially align its plans for its own CBAM with the EU's, though this may not be necessary under the terms of the linking agreement.

Any linking agreement will come with certain conditions attached. In particular, as with the linking agreement between the EU and Switzerland, the UK is likely to be expected to ensure its ETS is sufficiently similar to the EU's. A large gap in the carbon price could prove a barrier to linking. However, detailed analysis of the two systems suggests any differences can be bridged (Low and Lowe 2023). Moreover, an increased UK carbon price would support decarbonisation and create additional revenue for the exchequer.

This chapter has explored the UK's trade relationship with the EU – without doubt the UK's most important trade partner given its size and proximity. The proposals here outline the first steps which can be taken to deepen the UK-EU trade partnership and which can be further built on in future. But there are a number of other crucial opportunities and risks for the UK in its wider trading relationships. The next chapter explores where the UK should focus its efforts in trade with the rest of the world.

6. WHAT SHOULD THE UK PRIORITISE IN ITS TRADE RELATIONSHIPS WITH THE REST OF THE WORLD?

World trade is likely to enter a further period of tumult. Under a Trump presidency, the US is expected to impose new tariffs on imported goods and ramp up its trade war with China. The chances of any progress in facilitating trade flows at the WTO are slim, given agreements operate according to consensus. New free trade agreements are likely to be rare, while trade-restrictive measures may become the order of the day.

In this context, the UK will have to navigate its international relationships with extreme care in order to achieve its trade objectives. As we argued earlier in the report, the UK should be focused on green inclusive growth – including expanding exports in a number of priority sectors – while also strengthening its economic resilience. The government must also keep in mind a number of geopolitical sensitivities and complex diplomatic relationships. This will require a nuanced approach to negotiating new trade partnerships.

MODERNISED TRADE AGREEMENTS

While the circumstances are challenging, the UK nevertheless has opportunities to build new trade partnerships globally. But **this will require a modernised approach to negotiating agreements which looks beyond the traditional mechanisms of trade policy and seeks more dynamic forms of cooperation**, reflecting the nature of the current global economy. The following elements should be up for consideration in any future trade negotiation, particularly for new FTAs.

- **Market access for goods**: this is the traditional area of focus for FTAs and should continue to be in scope for any new trade agreement the UK pursues. The UK has particular proactive interests in clean technologies, pharmaceuticals and advanced manufacturing. Areas of negotiation typically include tariff reductions or elimination, rules of origin, technical barriers to trade, customs facilitation, and sanitary and phytosanitary measures.
- **Supply chain resilience:** as this report has argued, economic resilience is now a critical issue for the global economy and so should be a major priority for trade negotiations, particularly with countries where the UK is reliant on imports for key industries. This could involve collaboration on identifying and monitoring supply chain risks in critical sectors (including sharing of relevant data), the development of action plans to strengthen resilience and manage the risk of disruption and bottlenecks, and joint investments in improving transport infrastructure (see eg DOC 2024 for this type of approach).
- **Regulatory cooperation:** with respect to services – particularly financial and business services, where the UK has a strong comparative advantage – the UK should seek trade agreements which facilitate cooperation between regulatory bodies, with the aim of anticipating and managing future changes in regulations

which could impact trade flows. Where possible, the UK should go beyond traditional trade agreements and secure mutual recognition of relevant regulations in financial, insurance and professional services to reduce barriers to trade. This could be modelled on the recent Berne Financial Services Agreement between the UK and Switzerland (HMT 2023).

- **Digital trade:** given the growing importance of e-commerce and services which can be delivered digitally, the UK should incorporate digital trade as a central plank of its future trade agreements (as well as negotiate separate digital economy agreements with like-minded trade partners). This should involve deepening digital market integration beyond traditional free trade agreements – including negotiating provisions on preventing data localisation requirements, upholding shared standards on data protection and online consumer protection, prohibiting trade partners from requiring the transfer of source code as a condition of accessing their market, and supporting the use of electronic contracts and signatures. Examples of digital economy agreements include the UK-Singapore and UK-Ukrainian agreements (FCDO 2022; FCDO 2023).
- **Environmental and worker protections:** as part of its ambition for green, inclusive growth, the UK government should build on previous deals to uphold strong protections for workers' rights and environmental and climate standards within new trade agreements. These provisions are important both for promoting high standards globally and for ensuring a 'level playing field' for businesses in the UK and its trading partners. The UK should look for these provisions to be subject to meaningful enforcement mechanisms, advancing on previous agreements made by the EU (Harrison et al 2018). The exact scope of any provision should be tailored to the particular trade relationship, but could include a mix of upholding international obligations (eg ILO conventions or UNFCCC commitments), non-regression clauses, and/or specific commitments on live issues such as forced labour, deforestation and carbon pricing.

THE UK-US RELATIONSHIP

Managing the trade relationship with the US is likely to be one of the major trade policy challenges for the UK in the coming months and years. President Trump is an unpredictable leader with a mercantilist approach to world trade. He has threatened to impose hefty tariffs on imports across the board, including from the UK. At the same time, President Trump prides himself on being a deal-maker, and his first administration illustrated he was willing to negotiate exemptions where he saw a case for doing so. The UK government therefore clearly has an interest in negotiating with the US to avoid or mitigate future import tariffs.

But there are also proactive reasons for seeking a deal with the US. Under the previous Trump administration, a post-Brexit free trade agreement was under negotiation, but disputes (over agriculture in particular) meant that a deal was not concluded, and discussions were deprioritised under President Biden. The return of President Trump could see discussions over a full FTA reopen in earnest.

Given the US is the largest trade partner of the UK outside the EU, there are clear opportunities here. Specifically, the UK exports high levels of financial and other business services to the US (ONS 2024b), as well as significant volumes of mechanical machinery, medicinal and pharmaceutical products, and cars (ONS 2024a). Increasing market access in these industries in particular could support economic growth. **The UK should therefore be open to negotiations over a UK-US FTA,** provided it aligns with the objectives of the UK's trade strategy – in particular on green, inclusive growth and economic resilience, as well as its geopolitical priorities.

There are, however, challenges with trade negotiations with the US – perhaps most significantly, in the area of agriculture, where the US has long wanted the UK to liberalise its regulations to allow for imports of chlorine-washed chicken, hormone-treated beef, and pork produced with ractopamine, alongside other agri-food regulations (Coleman 2022).

The UK government will therefore have to adopt clear red lines as it goes into any discussions with the Trump administration, whether on a limited deal to exempt it from incoming tariffs or on a full FTA. This includes red lines on protecting environmental and food standards, as well as standards for online safety. In the case of agriculture, there is strong public support for maintaining current food safety standards over a trade deal with the US (Morris 2018; Ipsos 2024). Moreover, there is a risk that allowing US imports of products which are currently prohibited in the EU could make a veterinary agreement with the EU much harder to negotiate, particularly if the EU agreement requires harmonisation of SPS regulations. The government will therefore need to take a firm position on agriculture in trade negotiations, given the overarching importance of the UK-EU relationship for the UK's growth prospects.

At the same time, the UK is also likely to come under pressure from the US to align its policy on China. The Trump administration has said it would like to impose tariffs of up to 60 per cent on Chinese imports. While the UK may not be expected to match this, it will likely be encouraged to impose trade measures targeted at China. This may involve an investigation of Chinese electric vehicles (EVs), which benefit from major subsidies. The European Commission has recently concluded an anti-subsidy investigation into Chinese EVs and has consequently imposed countervailing duties of up to around 35 per cent on imports from Chinese producers (EC 2024). The UK has not yet followed suit, but it might face pressure from the US to request the TRA to instigate a similar investigation. However, if pressured to impose significant tariffs on Chinese imports, the UK will need to balance the effects of President Trump's tariffs against the economic consequences of imposing tariffs on Chinese goods, along with the inevitable Chinese retaliation.

There may also be other levers the UK can pull to navigate a trade negotiation with the US. For instance, it could consider offering to exempt US products from charges under the proposed future CBAM (though this should not be given up lightly given it could threaten the integrity of the CBAM). Ultimately, the negotiations are likely to be highly transactional: the UK will have to weigh up the opportunities and costs carefully and be prepared to walk away if its red lines are crossed.

TRADE WITH INDIA AND OTHER PRIORITY PARTNERS

There are a number of trade negotiations which the new government inherits from its predecessors. Of these, one of the most significant is the discussion over a UK-India FTA. The government is relaunching the negotiations this year. However, the level of ambition is likely to be limited given India is well-known to be a tough negotiator. The UK is seeking reduced tariffs on goods such as electric vehicles and alcoholic beverages, as well as greater market access for financial and professional services (Cyrill 2024). On the other hand, India has pushed for greater visa liberalisation and a deal to exempt temporary Indian professionals in the UK from making national insurance contributions (Parker and Reed 2024).[8] It has also asked for a carve-out for Indian exports from the UK's planned CBAM (Courea 2024). In addition, India has been resistant to robust commitments to uphold labour and environmental standards (Lanktree 2023b).

8 There is currently an exemption from national insurance contributions for seconded employees from abroad which lasts for 52 weeks, but the UK has negotiated social security agreements with other countries with more generous arrangements (Moore Kingston Smith and CII 2020).

Given these challenges, the **UK should continue to pursue a deal with India but be realistic about the prospects of negotiating a comprehensive agreement**. While greater market access for services is important for the UK, it might prove hard to make headway. At the same time, the UK should be willing to make concessions to move the negotiations forward – for instance, it should consider a social security agreement to expand exemptions from national insurance contributions for Indian professionals temporarily seconded to the UK. The UK already has similar social security agreements with a number of other countries. While there will be a fiscal cost to a social security agreement, it is a key sticking point in the negotiations and likely to be valuable for securing a deal in the UK's overall interests.

The UK should also identify other priorities for trade negotiations. Alongside ongoing negotiations, this could include exploring options for trade deals with Mercosur (a South American trade bloc), Indonesia, and Thailand.[9]

PLURILATERALS

With progress at the WTO highly unlikely in the coming years, the UK should pivot its efforts towards plurilateral agreements. These are coalitions of like-minded countries working together on issues of shared interest without requiring the agreement of all WTO members. There may be particular opportunities for green plurilateral agreements, which seek to progress environmental and climate agendas through trade policy.

In this vein, **the UK should consider joining the Agreement on Climate Change, Trade and Sustainability (ACCTS).** The ACCTS is a trade agreement between New Zealand, Costa Rica, Iceland and Switzerland which is focused on environmental objectives (previously discussed by IPPR in Clements and Chappell 2024). It includes provisions on promoting trade in environmental goods and services, restricting fossil fuel subsidies, and developing guidelines for voluntary ecolabelling schemes (NZMFAT 2024). The ACCTS is open to all WTO members to join and, while membership would not deliver additional market access – because those countries party to the ACCTS reduce their trade barriers for all WTO members – it would send a strong signal to the world that the UK is committed to green trade and encourage others to join in turn (see Voituriez and Cremers 2023 for a similar argument). Neither would it prevent the UK from introducing countervailing tariffs in response to dumped or subsidised imports of environmental goods (eg electric vehicles or solar panels).

The government should also seek partnerships with allies on sourcing critical raw materials, including minerals such as cobalt, graphite, lithium and rare earth elements which are essential for new technologies and the green transition. Current supply and processing are heavily concentrated (in particular in China) and therefore pose a supply chain risk. The government has announced a plan for a global clean power alliance, one of whose intended aims is to diversify the supply and processing of critical minerals (FCDO 2024b). The UK is also part of the US-led Minerals Security Partnership, which aims to stimulate investment in projects to support secure and sustainable critical mineral supply chains (DOS, no date). The UK could go further by offering to work with the EU and other partners on a Critical Raw Materials Club to collectively develop strategies for securing critical minerals, as proposed in the recent Draghi report on EU competitiveness (Draghi 2024).[10]

In the longer term, there may also be opportunities to negotiate 'climate clubs' with countries with equivalent carbon pricing systems. These clubs would allow member countries to exempt each other from their carbon border adjustments on

9 In the case of the latter, the UK and Thailand recently signed an Enhanced Trade Partnership and committed to exploring the potential of an FTA (DBT 2024d).

10 This may be particularly important if the Minerals Security Partnership becomes deprioritised by the US under President Trump.

the basis that they all have comparable levels of climate regulations. While in the short term this will not be feasible – given countries are moving at very different paces in their decarbonisation efforts – the UK could for now participate in efforts with like-minded countries to coordinate more actively and share information on approaches to carbon pricing, measuring embedded carbon emissions, and developing carbon border adjustment mechanisms. This could help to lay the groundwork for deeper arrangements for ‘climate clubs’ in future.

7. CONCLUSION

The UK's new trade strategy is being developed at a particularly perilous moment for the global economic order. A second Trump administration is expected to upend international norms and accelerate geopolitical tensions and economic fragmentation.

In this context, the UK will need to have a clear-headed approach to trade policy. In this report, we have argued that the focus of its trade strategy should be on green, inclusive growth, while also meeting the UK's geopolitical objectives and maintaining economic resilience for critical sectors. This means seeking to boost exports and expand market access in areas of existing or potential comparative advantage, while at the same time reshaping supply chains to protect against the risk of future disruption in sectors such as energy, food and communications.

We suggest that a three-pronged approach is necessary to prosecute this strategy.

- First, the UK should take unilateral measures to boost trade while protecting economic resilience. This includes developing a new locally driven programme of export support, reviewing the UK global tariff, and strengthening the UK's trade defence regime.
- Second, the UK should build on the Trade and Cooperation Agreement to strengthen its trading relationship with the EU. This includes proposing a mutual recognition agreement and veterinary deal, suggesting the addition of a new mobility chapter to the TCA, and pursuing an agreement to link the UK and EU emissions trading systems.
- Third, the UK should modernise its approach to trade deals with the rest of the world, seeking agreements which combine market access for goods with provisions on supply chain resilience, regulatory cooperation, digital trade, and labour and environmental standards. It should continue to pursue deals with countries such as India, signal openness to an FTA with the US, while exploring potential plurilateral alliances on issues such as green trade.

While the global economic circumstances are challenging and the policy trade-offs are difficult, trade is a crucial part of the government's growth mission. But the lesson from the previous government is simply securing FTAs does not in and of itself make for a successful trade agenda. If the UK wants a trade policy that delivers, it will need to take a strategic approach grounded in green, inclusive growth – one that supports businesses to export in priority sectors, strengthens our trade defences, reengages with the EU as our largest trading partner, and modernises our approach to trade negotiations.

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