

## The UK-EU reset: more important than ever in the wider geopolitical situation.

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### *1.The background<sup>9</sup>.*

In the run up to the Brexit referendum in 2016 the external trade dimension was not central to the debate. There was a tension between Vote.Leave and Leave.EU:there were two threads to the pro-Brexit argument:

- a) Trump -like anti globalisation and anti immigrant sentiment
- b) pro globalisation free trade sentiment, seeking to control migration but not necessarily to reduce it.

It was essential to the pro-Brexit campaign that there should be ambiguity about the policies adopted post-Brexit since neither faction of the pro-Brexit camp by itself could have commanded a majority.<sup>10</sup>

The expression “Global Britain” came into use after the referendum. The House of Commons Foreign Affairs Committee observed in 2019:

“The most frequent complaint we have heard from several witnesses is that the only thing that is clear about Global Britain is that it is unclear what it means, what it stands for or how its success should be measured.”<sup>11</sup>

It came to mean attempts to negotiate free trade agreements with as many partners as possible, but in early 2020 the Johnson government also promised to be a world leader in promoting multilateral free trade. Johnson’s Greenwich speech (Feb.2020) acknowledged that there were pressures for protectionism but suggested that the UK could be “the supercharged champion, of the right of the populations of the earth to

\*This note solely reflects the views of the author.

<sup>9</sup> Ch 20 “Bilateral, Trilateral or - Quadrilateral? The UK-US Trade Relations in a Global Context” *Peter Holmes and Minako Morita-Jaeger in The Routledge Handbook of Transatlantic Relations*

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<sup>10</sup> Peter Holmes, Jim Rollo, 'EU-UK POST-BREXIT Trade Relations: Prosperity Versus Sovereignty?', (2020),European Foreign Affairs

<sup>11</sup> <https://publications.parliament.uk/pa/cm201719/cmselect/cmfa/780/78002.htm>

buy and sell freely among each other”<sup>12</sup> at the very moment when frontiers were closing and “friendshoring” was beginning.

The resilience of the world trade system to tariffs imposed by Trump after 2017 was surprising. There were predictions that we would see global protectionism and a return to the 1930s through multiplier effects and disappearance of the rules-based WTO. An alternative perspective saw the rest of the world uniting against Trump to keep the world trading. Somewhat surprisingly the optimistic view was probably mostly vindicated. Trade blocked by the US was largely diverted elsewhere. Global trade fell post Trump less than feared. US-China trade is actually only around 2% of total world trade important but even if it had gone to zero it was survivable it flowed elsewhere if 1929 type multiplier effects could be avoided. The COVID crisis was also surmounted. In retrospect the ability of the Multilateral Trade System to keep pharma value chains operating during the pandemic was remarkable.

Britain was of course especially badly hit before and after 2000 by Brexit, but even this was more of a slow puncture (and poison) than a car crash. Goods trade with the EU did not recover post covid as much as other countries’, though services did. The actual scale of the post Brexit fall in UK exports depends on the counterfactual employed and the years chosen. A tentative conclusion would be that Brexit hit the UK supply side and affected global competitiveness.

Overall during Trump 1 and COVID (and earlier the GFC) world trade just about held up, probably due to relatively little beggar-my-neighbour policies due to a lingering respect for the rules and realisation of the lessons of the 1930s. The Global Trade Alert<sup>13</sup> has highlighted many protectionist policies in recent years but there has so far been a recognition by most countries that everyone’s imports are someone else’s exports and every curb on imports cuts someone else’s ability to buy.

UK policies did not rescue the UK. The FTAs we signed had negligible impact and the fantasy of a trade deal with the US was no more than that. Despite the political affinity between Trump and the UK Brexiteers, the chances of a US-UK Free trade area were minimal.

In 2019 the Trump USTR published a list of negotiating objectives<sup>14</sup> for a potential UK-US FTA which made it clear that the US was seeking alignment of UK with US regulatory frameworks in a manner that would have been impossible for any UK government to agree tot. Accepting US food safety standards was one factor in killing TTIP before 2016 . The stated aims were perhaps simply honest in that they listed all the areas where the US wanted to open the UK market, whilst requiring that there would be derogations where the US wanted them.

<sup>12</sup> <https://www.gov.uk/government/speeches/pm-speech-in-greenwich-3-february-2020>

<sup>13</sup> <https://www.globaltradealert.org/>

<sup>14</sup> [https://ustr.gov/sites/default/files/Summary\\_of\\_U.S.-UK\\_Negotiating\\_Objectives.pdf](https://ustr.gov/sites/default/files/Summary_of_U.S.-UK_Negotiating_Objectives.pdf)

But even if a reciprocal deal on reducing trade barriers could have been achieved, the nature of the UK's commercial relations with the US does not offer much scope for mutually beneficial gains.

- UK commerce with the US (much more so than the EU) is overwhelmingly in FDI and services not goods trade that can be addressed by an FTA. Goods trade is overwhelmingly with the EU.
- Goods trade with the US is not focussed on integrated value chains, as with the EU, and it would be very hard to reorient the production networks.
- The barriers that could have been addressed were asymmetrical: US demanding UK adoption of US regulatory frameworks for goods but being unwilling and in many areas unable to negotiate from DC changes in state level regulatory rules, on services or Public Procurement.

The Trump administration soon lost interest in the UK, partly because Trump is obsessed with countries that have a trade surplus with the US. US statistics in fact show a US trade surplus with the UK, (though UK data shows the opposite). There is no prospect of a return to such a deal.

## *2. Post 2020*

Under Biden the US kept its hostility to the WTO and tariffs against China but sought economic cooperation with the EU, though much less so with the UK.

With no deal possible under either US administration, the UK sought partnership with the Asia Pacific countries separately and together with CPTPP. Japan, the party which really matters has made it very clear that from an economic perspective its main interest is in the EU, and that the value of the UK to Japan depends on a close cooperative EU-UK relationship<sup>15</sup> with minimal disruption of supply chains. The UK's entry into an FTA, the TCA, with the EU instead of a customs union, inevitably created barriers due to rules of origin as of course did active and passive regulatory divergence. For Japan, the UK remained important diplomatically as another "Middle Power", even though UK economic interest was less.

A HoC library study confirmed the general decreasing relative attractiveness of the UK as a destination for FDI in recent years.<sup>16</sup>

The UK Integrated Review Strategic document for 2021 had indicated a refocus towards Asian Pacific<sup>17</sup>. Its 2023 successor recognised that after the Russian

<sup>15</sup> See letter September 2nd, 2016 <https://www.mofa.go.jp/files/000185466.pdf>

<sup>16</sup> <https://researchbriefings.files.parliament.uk/documents/CBP-8534/CBP-8534.pdf>

<sup>17</sup> <https://www.gov.uk/government/publications/global-britain-in-a-competitive-age-the-integrated-review-of-security-defence-development-and-foreign-policy>

invasion of Ukraine and the increased global focus on “friendshoring” and “strategic autonomy” the UK had to make Europe its central focus.<sup>18</sup>

### *3. Post 2025 options*

The basic conclusion of the impact of Brexit is that trade with third parties cannot replace the importance of the proximity and value chain integration we have with the EU and this must be a top priority for future trade policy.

Trump’s re-election does not change the position. It does not open new opportunities for productive trade deals. Trump is now far less sympathetic to the UK than in 2019 and would not offer anything worthwhile. Promises made by the Trump administration could not possibly be trusted.

Moreover any proposals to secure a deeper trade relationship with the US would jeopardise the prospect of a re-set with the EU.

The core priorities remain the same: securing deep regulatory alignment, which inevitably means some concession on regulatory sovereignty. Here the UK has to be ready to “give”, even though actually our ability to use post-Brexit “freedoms” has been minor.

Sincere 2022 defence and security cooperation is recognised as a mutual benefit but this would clearly be jeopardised by the UK seeming willing to sacrifice its links to the EU by appeasing Trump.

The one argument in favour of seeking a deal with Trump would be to seek exemption from tariffs he threatens to impose on others and in particular those who refuse to join his tariff war on China. Given the structure of UK-US trade the gains from giving in to Trump would be minor compared to the costs, even before the broader costs of damage to our relations with the EU. This conclusion has been arrived at with real numbers by Sam Lowe.<sup>19</sup> Some analysts have argued that<sup>20</sup> the UK could and should offer a Trump to take tougher action against China in exchange for exemption from US trade barriers but there is probably a consensus that Trump would demand a lot and not be bound by his promises. In any case there is likely to be concern about Chinese exports diverted away from the US to the EU and UK. Our big policy dilemma would then be how far to match EU barriers against China in fields where we produce little. Starmer has cautiously opted for an improvement with relations with China, a move that the PRC has declared “not only serves the interests of both nations, but also meets the expectations of the international community”<sup>21</sup> We will unquestionably be damaged if Trump’s threats

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[https://assets.publishing.service.gov.uk/media/641d72f45155a2000c6ad5d5/11857435\\_NS\\_IR\\_Refresh\\_2023\\_Supply\\_AllPages\\_Revision\\_7\\_WEB\\_PDF.pdf](https://assets.publishing.service.gov.uk/media/641d72f45155a2000c6ad5d5/11857435_NS_IR_Refresh_2023_Supply_AllPages_Revision_7_WEB_PDF.pdf)

<sup>19</sup> <https://substack.com/home/post/p-153978877>

<sup>20</sup> See Lucy Fisher and Peter Foster FT Nov 14th <https://www.ft.com/content/2c74f7be-5384-4af4-8910-39df561fc153>

<sup>21</sup> <https://www.chinadaily.com.cn/a/202501/12/WS6783decaa310f1265a1da50d.html>

to world trade materialise but they would not undermine the overwhelming need to repair our economic and political relations with Europe. They would however make it harder to manage.

If recent experience is any guide, - a very big if - the world will not descend rapidly into total chaos and the UK has an interest in maintaining our links with the leading players in the WTO, including the EU, China and Japan. The WTO remains a key forum for plurilateral dialogue even if its dispute settlement role is in a deep coma.<sup>22</sup> Global Britain cannot go it alone.

<sup>22</sup> <https://blogs.sussex.ac.uk/uktpo/2024/10/04/is-the-wto-really-a-dead-parrot/>