



BRIEFING PAPER

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UK Trade and Investment Strategy

By Dominic Webb

1. Background

This short note has been prepared in advance of the Westminster Hall debate “UK Trade and investment strategy” which will take place on Tuesday 23 July 2019.

1.1 Trade White Paper 2017

The Department for International Trade published a White Paper on 9 October 2017. A White Paper on customs was published on the same day.¹

The Trade White Paper set out the Government’s approach to establishing the UK’s independent trade policy after Brexit. It described the Government’s aim for trade policy:

The United Kingdom has a long and proud history as a great trading nation and champion of free trade with all parts of the world. We want to maximise our trade opportunities globally and across all countries – both by boosting our trading relationships with old friends and new allies, and by seeking a deep and special partnership with the EU.²

The White Paper said:

This paper is an early step in identifying the key elements of that trade policy. In order to ensure continuity in relation to our trade around the world and avoid disruption for business and other stakeholders, the UK needs to prepare ahead of its exit from the EU for all possible outcomes of the negotiations, and ensure that we have the necessary legal powers and structures to enable us to operate a fully functioning trade policy and pursue new trade negotiations.³

The paper set out five components of the UK’s future trade policy:

- Transparency and inclusivity
- Support for a rules-based global trading environment
- Boosting the UK’s trade relationships

¹ Department for International Trade, [Preparing for our future UK trade policy](#), Cm 9470, October 2017. HM Treasury, [Customs Bill: legislating for the UK’s future customs, VAT and excise regimes](#), Cm 9502, October 2017.

² Department for International Trade, [Preparing for our future UK trade policy](#), Cm 9470, October 2017, p10

³ Department for International Trade, [Preparing for our future UK trade policy](#), Cm 9470, October 2017, p5

- Helping developing countries reduce poverty
- Ensuring a level playing field: trade remedies and trade disputes

1.2 Trade Strategy

In its report on UK-US trade relations, the International Trade Committee recommended that the Department for International Trade publish a trade strategy:

Before embarking on a formal trade negotiation with the US, the Government should publish a trade policy strategy which articulates its vision for the UK as an independent trading nation and outlines the UK's immediate and future trade priorities at the bilateral, plurilateral and multilateral levels, and in order to ensure clarity on the UK's trading environment it would be preferable for Parliament to resolve the 2018 EU (Withdrawal) Bill and Trade Bill as soon as possible.

The Government should set out in its trade strategy what key objectives, interests and priorities it has before entering into trade negotiations, including on a UK-US FTA. It must also be clear about the sectoral and regional implications of pursuing particular trade policy objectives. Given that trade agreements can take years to negotiate, it is vital that the UK political parties attempt to form some level of political consensus on the direction of travel of trade policy to ensure that changes of government do not result in years of wasted effort at the negotiating table. The extent to which the Government should detail its negotiating mandate in advance and the effect that may have on that negotiation should be the subject of further inquiry including, but not limited to, taking evidence from successful examples of the communication of the political economy of trade, such as New Zealand.⁴

Dr Liam Fox, the Secretary of State for International Trade, was asked about this when he appeared before the Committee on 3 July 2019:

Mr Fysh: We recommended in our report on the US that an overarching trade strategy should be produced by the Department. Where are we on that? Will we be able to have that examination of our offensive and defensive interests in trade strategy soon?

Dr Fox: We set out, for our wider consultations on future trade agreements, where we want to be on that and where we think there should be scrutiny by Parliament. Obviously this Committee will have a role to play in that. We finished our public consultation and we will publish our summary and response shortly, before Parliament goes up for the summer. We have our working groups with the United States, but all the time we are cognisant of the fact that we are under a legal obligation not to negotiate a new trade agreement with the United States while we are still members of the EU. We are very grateful to the USTR for setting out to Congress what their position would be. We will do the same in due course when we are in a position to be able to launch a negotiation, which we are not at the present time.⁵

Dr Fox was also asked about the lack of an investment strategy:

Julia Lopez: Just a quick one. Why have the Government not published an overarching investment strategy, and when do they intend to do so?

Dr Fox: In line with our export strategy. We have not had an overarching one, but we have set out our strategy in a number of different places. We have a clear strategy for outward direct investment; we have a clear strategy for inward direct investment. How we do that, and the aims and targets we have for that, are set out in our departmental accounts.⁶

⁴ International Trade Committee, [UK-US Trade Relations](#), HC 481, 1 May 2018, paras 22-23

⁵ International Trade Committee, [Work of the Department for International Trade](#), HC 436, 3 July 2019, Q942

⁶ International Trade Committee, [Work of the Department for International Trade](#), HC 436, 3 July 2019, Q962

2. Rolling over existing trade agreements

Dr Fox reiterated the Government's position on rolling over the EU's trade agreements into equivalent UK agreements in a letter to the Chair of the International Trade Committee.⁷ Ensuring continuity in these agreements was a top priority for DIT. The Government's view was that the best way of doing this was leaving the EU with a deal.

If there is such a deal, the UK will continue to be bound by the obligations of the EU's trade agreements during the transition period. The EU will notify the third countries that the UK is to be treated as if it were a Member State during the transition period for the purposes of these agreements. It will be for the third countries to decide whether to do so. However, DIT would continue to work on these continuity agreements in case they were needed for a no-deal scenario in which the EU's agreements are no longer expected to apply to the UK.

The Government has provided an update on signed agreements on gov.uk. Agreements have been signed (or have been agreed in principle) with the countries listed below. In most cases, a Parliamentary report, Explanatory Memorandum and the text of the Agreement have been published. The links below take you to these documents.

- [Chile](#)
- [Faroe Islands](#)
[ESA](#) (Eastern and Southern African states - Madagascar, Mauritius, Seychelles and Zimbabwe. Madagascar has agreed in principle and is expected to sign shortly).⁸
- [Switzerland](#)⁹
- [Israel](#)
- [Palestinian Authority](#)
- [Fiji and Papua New Guinea](#)
- [Cariforum](#) (Antigua and Barbuda, Barbados, Belize, Dominica, Dominican Republic, Grenada, Guyana, Jamaica, St Kitts and Nevis, St Lucia, St Vincent and the Grenadines, Trinidad and Tobago).¹⁰ According to the Government, the other members of Cariforum (Bahamas and Suriname) have approved the agreement in principle and are expected to sign shortly.¹¹
- [Iceland and Norway](#)
- [Andean countries](#) (Colombia, Peru, Ecuador)
- South Korea (agreement reached in principle)¹²
- Central America (Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Panama).

Further information is available in a Commons Library Briefing Paper, [UK progress in rolling over EU trade agreements](#).

⁷ [Letter](#) from Dr Liam Fox MP to Angus Brendan MacNeil MP 17 June 2019

⁸ [Signed UK trade agreements transitioned from the EU](#)

⁹ The Government has also published details of an Additional Agreement extending certain provisions of the UK/Swiss Trade Agreement to Liechtenstein, see [here](#).

¹⁰ Department for International Trade Press Release, [UK signs trade continuity agreement with Caribbean countries](#), 22 March 2019

¹¹ [CARIFORUM-UK Economic Partnership Agreement](#)

¹² Department for International Trade Press Release, [UK and Korea sign joint statement for trade continuity](#), 10 June 2019. [South Korea agrees deal with UK for post-Brexit trade](#), Financial Times, 10 June 19

3. Future trade agreements

3.1 Introduction

Writing in *The Times* on 18 July 2019, Dr Fox said that DIT had been carefully planning and engaging trading partners over the last three years. The Department was more than ready to begin trade negotiations with the US. Dr Fox said:

We will end up with a free-trade agreement that represents a big statement on the strength of UK-US relations, intricately thought through, designed in every detail on both sides of the Atlantic, and to the benefit of all our peoples — who will have been included and consulted through a proper process.¹³

3.2 Government consultation

Last year, DIT launched consultations on trade with the US, Australia, New Zealand and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).¹⁴ In a debate in Westminster Hall, George Hollingbery, the Minister for Trade, explained why these trade partners had been chosen:

The patterns of world trade are shifting. We are entering a Pacific century after four Atlantic ones. The latest World Bank figures show China adding an economy the size of Portugal to its GDP ever four months—a pretty astonishing statistic. The UK will be one of the few developed countries to stay in the top 10. We can take advantage of that shift if we act now. That is why the Government have consulted on new trade agreements with the USA, Australia and New Zealand, and on potential accession to the catchily named Comprehensive and Progressive Agreement for Trans-Pacific Partnership, a cross-Pacific agreement that covers 11 nations and already 13% of the world's GDP, including many of the growing markets to which my hon. Friend referred in his speech.¹⁵

Summaries of the responses to these consultations were published on 18 July 2019: [US](#), [Australia](#), [New Zealand](#), and [CPTPP](#).

DIT said:

Many respondents said that new free trade agreements could create opportunities to cut red tape, advance digital trade, remove barriers for the services sector, increase mutual recognition of qualifications and allow greater movement of skilled workers.

Many respondents to the consultation on negotiations with the US commented that there is an opportunity for the UK's 'gold standard' intellectual property standards to be adopted by the US.

Through the consultation on negotiations with Australia, respondents identified increased opportunities for digital and financial services.

For New Zealand, various respondents prioritised opportunities in Services, including FinTech, while others recognised the potential in a UK-New Zealand FTA to boost investment, notably in construction and publishing.

Respondents said CPTPP could help facilitate the UK's trade and investment in important markets, expanding the UK's influence in fast growing Asia and Latin America economies. They highlighted CPTPP's value as a 'benchmark' modern trade agreement. Respondents also cited the role CPTPP accession could play in facilitating

¹³ Liam Fox, [Britain is all geared up for new trade deals after Brexit](#), *The Times* (Red Box), 18 July 2019

¹⁴ CPTPP is a trade agreement between 11 countries: Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore and Vietnam.

¹⁵ [HC Deb 1 May 2019 c177WH](#)

investment and harmonising regulation, all of which could be a positive driver for UK business growth.¹⁶

The Department noted that responses to the consultation had also highlighted concerns about the effect of free trade agreements on the NHS and on food standards.

DIT said:

These initial consultations will inform the government's overall approach to our future trade relationships. The government is committed to an open and transparent approach as we develop our independent trade policy for the first time in more than 40 years, and we will continue to engage on specific issues as negotiations progress.

The Department for International Trade has been laying the groundwork for these negotiations including through informal discussions with key trading partners, and is laying the groundwork to swiftly open trade negotiations after Brexit. Before negotiations start we will publish our own negotiating objectives and scoping assessment and will ensure that Parliament has the opportunity to consider them.¹⁷

4. Trade in services

George Hollingbery, the Minister for Trade, explained the importance of trade in services during a debate in Westminster Hall:

The nature of trade is also shifting. McKinsey estimates that digital trade flows contribute more to the world economy than the entire trade in goods. Services are becoming ever more international. The UK is well placed to take advantage of those trends, too. We have a flourishing digital sector, with Europe's largest e-commerce market. We are the second largest service exporter and, as my hon. Friend mentioned, we have particular strengths in areas such as insurance, where Lloyd's is the world leader in maritime risk and specialist insurance and reinsurance.

That is why, in December, we submitted our WTO service schedules, to give continuity for our service exporters, and why, once we represent ourselves at the World Trade Organisation, we will be pushing for further liberalisation and further reform within the rules-based, consent-based, multilateral framework it provides. That also means looking beyond traditional trade agreements, which is why my Department has secured market access for everything from energy trading in China, to beef and lamb in Japan.¹⁸

Services account for nearly 80% of UK economic output and 45% of UK exports, and this share has been growing over time. The UK is the world's second largest exporter of services by value and is generally viewed as a world leader in many service activities such as financial services. Taken as a single entity, the EU is the UK's largest export market for services, accounting for 41% of all service exports.

While the UK discusses its future relationship with the EU, the future of services trade has received less attention in the public debate than trade in goods. At the same time, it is clear that any potential change in the terms of trade with the EU will affect many sectors of the economy and will impact on many UK businesses. While large companies have capacity to adapt, small and medium sized enterprises might be less equipped to cope with those changes.

Trade in services is complex and different from trade in goods. Services can be traded in various ways – across the border (online or through other channels), in person (when a

¹⁶ DIT Press Release, [Summaries of consultations on future FTAs published](#), 18 July 2019

¹⁷ DIT Press Release, [Summaries of consultations on future FTAs published](#), 18 July 2019

¹⁸ [HC Deb 1 May 2019 c177WH](#)

consumer travels to the supplier or the supplier goes to the client), or through a subsidiary company abroad.

Unlike goods trade, services are not restricted by tariff barriers and border checks. Instead, national regulations - on licensing, quotas, professional qualifications and immigration - determine how foreign providers are allowed to enter a market. Non-tariff barriers are complex and hard to assess, and they vary by sector and by activity. Behind-the-border requirements and regulations can make selling services in another country difficult.

To facilitate trade in services, restrictions have to be removed or regulations harmonised. But that in many cases means that countries have to give up their right to regulate and that can be a politically difficult choice. Therefore, liberalisation of trade in services lags behind that of goods.

If the UK leaves the EU it will become a 'third country' to the EU. Without a deal trade with the EU will be based on the rules of the General Agreement on Trade in Services (GATS) of the World Trade Organisation (WTO). In addition, UK businesses will face rules set by individual EU Member States. For some, it will be a major shift.

The WTO trading system provides a broad global framework for continued liberalisation of trade in services rather than setting compulsory rules. The GATS sets the baseline for liberalisation of services trade: it prohibits discrimination between members, and mandates national treatment of foreign providers, as well as transparency and objectivity of national regulations. Members commit to opening markets in specific sectors. In fact, country policies are more liberal towards foreign service providers than their commitments under GATS would suggest, but countries can back down on such policies more easily if their commitments are not supported by a trade agreement.

There is more information in Commons Library Briefing Paper: [Trade in services and Brexit](#).

5. Parliament's role in trade agreements

Parliament's role in UK trade policy has been the subject of a number of select committee reports:

- International Trade Committee: [UK trade policy transparency and scrutiny](#), HC 1043, 28 December 2018. See also [Government response](#) and [Follow-up session](#)
- Lords Constitution Committee, [Parliamentary Scrutiny of Treaties](#), HL Paper 345, 30 April 2019
- House of Lords EU Committee, [Scrutiny of international agreements: lessons learned](#), 42nd report of 2017-19, HL Paper 387, 27 June 2019

The Government published proposals in [Processes for making free trade agreements after the European Union has left the European Union](#), February 2019, CP63.

6. Statistics

Please see Commons Library Briefing Paper, [Statistics on UK-EU trade](#).

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