THE LONDON SCHOOL OF ECONOMICS AND POLITICAL SCIENCE

UK Economic Diplomacy in the 21st Century

The LSE Economic Diplomacy Commission Final Report

9 February 2021

The **LSE Economic Diplomacy Commission** was initiated in 2019 to examine the conduct of Britain's economic diplomacy and whether it suits the trends and challenges of the 21st century global economy. This is a task that the UK should undertake to ensure that its foreign economic policy centred on international trade and investment achieves prosperity for all its people and is consistent with the country's broader foreign and domestic policy aims. The Commission has interrogated the issues around the UK's foreign economic policy and the role of the UK in the world, including its position in the international system and its pursuit of objectives around the environment, technology and growth, among others. In brief, it explored the issues that will matter most when positioning the UK in terms of economic diplomacy in a dynamic 21st century global economy.

The Commissioners are a distinguished group of experts, long-standing practitioners and academics. The Commission held a total of nine evidence sessions to ascertain and refine how Britain should conduct its economic diplomacy, hearing evidence from experts both from across the United Kingdom and the world.

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LSE Ideas

Executive Summary

With its decision to leave the European Union, the United Kingdom has been tasked with setting its own trade policies for the first time since the 1970s. In light of this fundamental change, the LSE Economic Diplomacy Commission was convened in 2019 by LSE IDEAS, the London School of Economics' foreign policy centre, to establish a strategic direction for a new age of foreign economic policy, to understand the domestic ramifications of changes to the UK's trade agenda, and to present recommendations that may best advance the UK's priorities at home and abroad.

The UK finds itself on challenging global terrain, but the 21st century world economy also offers significant opportunities. The COVID-19 pandemic, the U.S.-China trade war, the new relationship with the European Union, the challenges to the multilateral system, and the broader economic trends of the fast growth of services and digital trade require a new and ambitious economic diplomacy agenda. This agenda should encompass a clearly defined and consistently applied framework that sets the UK's trade and investment policies in alignment with its foreign and domestic policies—and that takes particular care to mitigate the distributional consequences of its international economic policies to address the backlash against globalisation.

The LSE Economic Diplomacy Commission makes the below proposals. They are set in the context of the UK's support for an open multilateral trading system and a rules-based international order, which have contributed to prosperity and growth. The three broad themes of the Report encompass the setting of the UK's trade and investment policy which includes multilateral efforts (recommendations 1-3), its global role which includes promoting international cooperation (recommendations 4-6), and institutional reforms in the UK to support its refined economic diplomacy framework (recommendations 7-10).

1. Establish the UK as a global hub for services
2. Include non-economic tracks in trade negotiations
3. Designate and stress test systemically important supply chains
4. Partnerships for global rules and standards
5. Support global public goods
6. Leadership in climate diplomacy and green markets
7. Conduct impact assessment of trade and investment policy
8. Upgrade trade adjustment assistance
9. Decentralise policies around foreign direct investment (FDI)
10. Expand institutional capacity for the conduct of economic diplomacy

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Introduction

With its decision to leave the European Union, the United Kingdom has been tasked with setting its own trade policies for the first time since the 1970s. In light of this fundamental change, the LSE Economic Diplomacy Commission was convened in 2019 by LSE IDEAS, the London School of Economics' foreign policy centre, to establish a strategic direction for a new age of foreign economic policy, to understand the domestic ramifications of changes to the UK's trade agenda, and to present recommendations that may best advance the UK's priorities at home and abroad. To do so, the Commission spent the past year studying a wide range of economic, geo-political and other trends, and conducted evidence sessions featuring experts across a broad range of subjects. The aim of the project is to position the UK optimally in a changed 21st century global economy while maintaining the UK's support for an open, multilateral trade and rules-based international system.

The Commission consists of experienced practitioners and leading academics whose expertise span a wide range of subjects, including economics, international relations, foreign and security policy, environmental policy, and business. In evidence sessions held throughout 2020, the Commissioners examined the framework for setting trade and investment policy as well as the UK's global role—and aligned these with its domestic priorities and foreign policies. The Commission cannot cover every issue in this Report, but the Commissioners have focused on key actionable points of the UK's foreign economic priorities. These include re-positioning the UK for the continued rise of digital and services trade, contributing to a rules-based international trade and investment order, supporting coalitions to promote global rules and standards, facilitating progress on global public goods, managing the pressures from globalisation and digitalisation, and expanding institutional capacity for the UK's economic diplomacy.

The Commission's Final Report builds on the seven Interim Reports that followed those evidence sessions, which have been widely circulated for public comment.[1] The first set of evidence sessions included three panels which were conducted in London, Cardiff and Edinburgh as well as via written evidence from Belfast due to travel having been curtailed as a result of COVID-19. Unfortunately, further travel across the UK was not feasible, but the Commission heard from a broad and diverse set of perspectives in the nine sessions conducted over the course of 2020. The conclusions are those of the Commissioners and not the experts who appeared before it. The list of participants can be found at the end of this Report.

1 LSE Economic Diplomacy Commission Interim Reports. LSE IDEAS. https://www.lse.ac.uk/ideas/projects/economic-diplomacy-commission

Drawing on the Interim Reports, which provide further context for the below recommendations, this Final Report begins with the framework for "economic diplomacy" – which helps set the recommendations within the broader inter-linked dimensions of a nation's economic and political agendas. The ten key recommendations of the LSE Economic Diplomacy Commission are then presented. These recommendations fall under three categories: trade and investment policy both for the UK and where the UK can play a role in furthering international trade liberalisation; the UK's global role, which includes advancing global public goods and developing partnerships to promote global rules; and the institutional reforms needed to refine the UK's economic diplomacy framework.

The recommendations are as follows:

I. Trade and Investment Policy

1. Establish the UK as a global hub for services
2. Include non-economic tracks in trade negotiations
3. Designate and stress test systemically important supply chains

II. The UK's Global Role

4. Partnerships to promote global rules and standards
5. Support global public goods
6. Leadership in climate diplomacy and green markets

III. Institutional Changes

7. Conduct impact assessment of trade and investment policy
8. Upgrade trade adjustment assistance
9. Decentralise policies around foreign direct investment (FDI)
10. Expand institutional capacity for the conduct of economic diplomacy

Finally, this Report will conclude with some thoughts on how a refined UK economic diplomacy agenda can better suit the 21st century world.

The Economic Diplomacy Framework[2]

Economic diplomacy refers to the set of policies and institutions that help achieve certain economic and non-economic priorities. It can be both reactive in posture, responding or adapting to changes in the global economy, as well as proactive, influencing or guiding desired developments. Entailing a 'whole-of-government' approach that involves agencies and departments whose purview does not solely concern Britain's foreign economic policy, economic diplomacy touches the UK's foreign, domestic, commercial, and institutional policies and interests.

This section first sets out the definition of economic diplomacy and then the principles and challenges for a framework for the UK, as well as the broad themes that characterise a refined economic diplomacy agenda.

Economic diplomacy touches the UK's foreign, domestic, commercial, and institutional policies and interests.

I. Defining economic diplomacy

There are five key areas with which an economic diplomacy agenda should be concerned: commerce; norms and standards; bilateral, multilateral, and plurilateral agreements; international organisations; and economic statecraft.

(1) Commerce

Commercial economic diplomacy refers to the use of government and diplomatic resources to promote trade and investment. The commercial dimension of economic diplomacy relies on foreign investment and regulatory policies. Prior to the 2016 EU referendum, this fell under the purview of UK Trade and Investment. On leaving the EU, there has been a redoubling of efforts to enhance the UK's capabilities[3] under the responsibility of the Department for International

2 The Commission would like to acknowledge the work of Dr Steve Woolcock and Professor Linda Yueh on this topic. This section is drawn from Woolcock's paper, "Redefining a Role for British Economic Diplomacy" (April 2020) and Yueh's paper, "Economic Diplomacy in the 21st Century: Principles and Challenges" (August 2020). https://www.lse.ac.uk/ideas/publications/updates/economic-diplomacy-in-the-21st-century-principles-and-challenges

3 See DIT's new Export Strategy of August 2018 that seeks to strengthen the UK's position as a 21st century great trading nation: https://www.gov.uk/government/publications/export-strategy-supporting-and-connecting-businesses-to-grow-on-the-world-stage

Trade (DIT).[4] Commercial economic diplomacy is also conducted by entities in the devolved authorities, which have concurrent powers with the UK government on this matter. Policy is coordinated between DIT, Scotland Development International[5], This is Wales, Trade and Investment[6], and Invest NI[7], as well as the respective devolved administrations and governments.

(2) Norms and standards

The issue of 'norms and standards' range from long-established industrial and environmental standards set by the International Standards Organisation (ISO), to food and animal health standards, to standards shaping services such as financial services (coordinated by the Financial Stability Board) or those that will shape the digital economy. Standards-making occurs in formal international organisations such as the Organisation for Economic Co-operation and Development (OECD) (international investment, taxation, government procurement, competition policy, regulatory best practice, etc.); the World Customs Organization (WCO) (customs and trade facilitation); or the Basel Committee on Banking Supervision, where central banks set standards for prudential regulation. Private actors contribute to such standards-making such as in the various Technical Committees of the ISO or in the tripartite International Labour Organization (ILO). Participation in setting standards and the formulation of norms of behaviour promotes a rules-based economic order because the norms and standards created form the basis for international binding agreements and provide the models for national (and EU) regulation. Shaping standards and norms takes long-term commitment and engagement, with seldom any quick return on resources invested.

(3) Bilateral, multilateral, and plurilateral agreements

Negotiating agreements on trade, investment, development, finance or the environment is perhaps the most visible element of economic diplomacy. Indeed, since the 2016 EU referendum, negotiating the Trade and Cooperation Agreement with the EU and free trade agreements (FTAs) with the U.S. and other parties have been central components not only of the UK's economic diplomacy agenda but also of its broader national priorities. Trade and economic diplomacy are generally conducted on a number of levels and can be multilateral (e.g., the World Trade Organization (WTO) or the UN Framework Convention on Climate Change (UNFCCC), plurilateral (with like-minded states on discrete topics such as services trade), or bilateral (with another country or bloc).

Multilateralism best suits the UK's interests in a rules-based international order, but where multilateralism proves impracticable, plurilateral agreements offer opportunities to develop multi-stakeholder rules and treaties that may provide a foundation for further multilateral development. Bilateral agreements serve a necessary and familiar function in the UK's economic diplomacy agenda, capable of providing substantial commercial and political benefits despite their scope limitations. Agreements may create specific and legally binding obligations that are internationally agreed (e.g., 1997 Kyoto Protocol) but can also be based on a commitment to make voluntary pledges that

4 Three of the four aims of the DIT are fully or partly related to what is here termed commercial diplomacy. https://www.gov.uk/government/organisations/department-for-international-trade/about

5 https://www.sdi.co.uk

6 https://tradeandinvest.wales/about

7 https://www.investni.com/about-us

Table 1. Elements of Economic Diplomacy

Commercial diplomacy	Norms and standards	Negotiating agreements	Involvement in international institutions	Economic statecraft
Promoting exports or attracting investment	Shaping (mostly) non-binding standards and regulatory norms	Concluding, implementing and enforcing agreements with varying degrees of binding force	Representation in international organisations or institutions, both formal and informal, by government, regulators and other stakeholders	Seeking coherence between commercial, foreign policy and other policy aims such as human rights, sustainable development and greater equity

Source: Steve Woolcock. "Redefining a Role for British Economic Diplomacy." LSE IDEAS. April 2020.

are then reviewed internationally (e.g., 2015 Paris Agreement). Negotiating binding agreements will generally be a medium-term task, taking typically 5-8 years to negotiate. There may be shorter-term benefits from signalling (increased investment flows or political benefits), but generally trade and growth effects from trade agreements are measured over many decades and depend on committing adequate resources to enforcement.

(4) International organisations

The UK's role in the world economy is also shaped by its participation in, and contributions to, international organisations. The strain on international organisations is notable. A significant diplomatic effort will be required to strengthen cooperation in the World Health Organization (WHO), resolve the crisis in the World Trade Organization (WTO), coordinate greater stabilisation efforts in the International Monetary Fund (IMF), and strengthen forums such as the G20 group of major economies, among others. Organisational or institutional engagement additionally entails supporting the objectives and following the guidance of multilateral development banks, such as the World Bank, and other economic organisations, such as the OECD, by upholding foreign aid commitments.

Long-term British economic diplomacy will need to ensure the UK remains 'at the table' when all key decisions are taken, something that will require a continued commitment of resources.

(5) Economic statecraft

Economic statecraft constitutes the most ambitious form of a nation's economic diplomacy. It refers to efforts to shape states' behaviour and the international system, primarily through economic means. Mediating and navigating the U.S.-China trade war, reforming and strengthening global economic governance, arresting the global decline of democracies, encouraging cooperation on the environment, and promoting overseas development, among other priorities, will require concerted economic statecraft—the unilateral, bilateral, and multilateral commitment of the UK's efforts and resources. Important dimensions of the UK's economic statecraft currently include facilitating cooperation on climate change and technological standards, which will also affect many of the UK's core national interests.

II. The Economic Diplomacy Framework

Bringing these elements together, the framework for economic diplomacy should seek to balance commercial openness with strategic domestic and foreign policy aims, broadly defined. The UK's commitment to free and fair trade, and the promotion of a rules-based international system should underpin its global role. Economic diplomacy should also situate the UK within the 21st century world economy with its new drivers, aim to mitigate geo-economic tensions, and recognise that all foreign economic policy is ultimately also domestic.

There are several principles, each with their own challenges, that constitute such a framework.

> The framework for economic diplomacy should seek to balance commercial openness with strategic domestic and foreign policy aims, broadly defined.

First, the setting of trade and investment policy should position the UK optimally in a global economy in which trade in services and data are growing in prominence. These are trends which suit the UK's comparative advantage, i.e., its competitiveness on the global stage.

The growth in services and digital trade is part of the "invisible balance," a term that refers to the cross-border trade of intangibles which range from business services to e-books, and more. Under the World Trade Organization, tariffs on manufactured goods have dropped significantly and are fairly low for most goods, though there is still scope to reduce them and open up markets. The focus increasingly is on non-tariff measures, which may take the form of digital services taxes and other regulations and licenses. While many of these can prove to be necessary and helpful as matters of tax and privacy policy, they may also function as impediments to trade of all kinds if not properly coordinated. Indeed, the WTO has been advocating greater liberalisation of services trade in part to increase trade in goods.

For a services-based economy like the UK, in order to benefit from the growth in services trade and data flows, free trade agreements (FTAs) will need to encompass regulations and standards, which is challenging when the U.S. and China, as well as the EU and others, have diverging legal and regulatory systems. It raises the prospect of a fragmented global trading system. The world could potentially divide into blocs where different groupings of countries adhere to different technological and other standards. Thus, it would also require furthering the opening up of services markets globally.

Second, in an era of heightened tensions, the framework for economic diplomacy will need to be principled and transparent. To achieve this, the UK's commitment to commercial openness should be made consistent with foreign, security, environmental, and other relevant policy aims. Spelling out the ways in which foreign investment will be reviewed, for instance, to ensure that it does not contravene other objectives, would reduce uncertainty and not single out potential partners and foreign governments.

The challenge will be to reconcile certain policy aims, which at times may be competing, while situating the country optimally in the 21st century global economy. This requires consideration of the non-economic elements of trade agreements. For instance, to what degree should bilateral issues of national security be incorporated into trade and investment agreements? To what degree should allies be prioritised or favoured for such agreements?

Third, all foreign economic policies should incorporate domestic considerations, which should be reflected in the UK's economic diplomacy framework. There should be no distinction between foreign or domestic economic policies in terms of assessing the impact on society. One lesson from the backlash against globalisation, not just in the recent period but also in centuries prior, is that trade creates losers even while the country as a whole gains. Importantly, addressing negative distributional effects cannot just be done via trade agreements. Indeed, a level playing field which incorporates employment and environmental standards is increasingly part of trade agreements. Such measures will help but are not sufficient. Domestic fiscal policy—targeted investment, tax incentives, and upskilling—will also be needed to address the interrelated consequences of trade, de-industrialisation and automation, which have together squeezed middle income and mid-skilled workers.

Fourth, domestic aims should underpin trade and investment policy. For the UK, the need to raise productivity growth is of paramount importance to ensure that standards of living do not stagnate. The UK can improve its productivity to help shape its comparative advantage. Therefore, domestic policies that support innovation and skills, among other things, are needed.

Foreign economic policies should further those aims. The UK can deploy trade and investment policies to support its strategic growth goals. For example, a flourishing Information and Communication Technology (ICT) sector can be enhanced by, and also attract, investment from abroad as well as support trade. In this way, boosting inward investment and trade would require domestic policies that promote the ICT sector, such as spending on digital infrastructure, innovation and skill development. With a supportive eco-system, the sector can become a source of competitive strength that will be enhanced by international trade and investment.

Fifth, the appeal of a country as an international 'hub', or a good place to do business, has much to do with its governance and institutions as well as its culture and values. In a world in which the multilateral rules-based system is under strain, it is even more important to promote the values that define a society and make it somewhere that people want to visit, invest in, work in, and travel to. This can be described as the projection of "soft power," the hard-to-measure influence that a country possesses which can make a difference. Investment can be driven by John Maynard Keynes' "animal spirits," that is, decisions may not necessarily be based on conventional measures of risk but on perceptions and beliefs. The economic impact of soft power that can enhance a country's reputation should not be under-estimated.

This is where the diplomacy part of economic diplomacy can come into its own. It is not just negotiating trade or investment agreements, but also the projection of the values that characterise a society. By crafting an economic system that is rules-based and fair, as well as pragmatic, a country espousing the importance of adhering to rules and norms abroad would have greater credibility. This is not new, but how to integrate and incorporate "soft power" into a country's foreign economic policy is the challenge. Relying more on civil society, such as charities, non-governmental organisations, and cultural entities, which often operate abroad is one aspect. Including such stakeholders in the formation and operation of a country's foreign economic policy can help reinforce and promote soft power that emanates not just from the centre but also from the grassroots. Other stakeholder involvement from businesses, trade unions, consumer watchdogs, universities, the arts sector, etc. should be included in a similar manner.

Finally, the UK will also need to consider its larger global role. The stalling of multilateral trade talks and the importance of coordinated action on global public goods, such as health and the environment, indicate a pressing need. The UK can contribute to the reform of existing institutions such as the World Trade Organization, which has struggled to advance trade liberalisation, and also lead the formation of voluntary networks of countries to further shared aims. These can exist side-by-side. But for the UK to be an "honest broker" in a fractured world is not straightforward. The rules-based system is not itself neutral since the rules are fashioned by countries with their own objectives. A goal of economic diplomacy is to get as much buy-in as possible in order to agree international rules and promote actions around global public goods.

III. Key themes

It is not possible for one report to encompass all of the challenges and opportunities that define the UK's current economic diplomacy operating context. However, the Commission has set out to make actionable recommendations in three broad thematic areas.

The first theme relates to the managing and navigation of major trends in the 21st century global economy: the rapid growth of services and digital trade as well as the stalling of multilateral trade liberalisation. These are matters of both commercial opportunity and geo-economic risk. Prior to the emergence of COVID-19, services had come to account for 25% of the value of total global trade, comprising nearly 50% of the value-added for the world's exports, and averaging annual growth of 5.4% for much of the past decade—faster than the 4.6% annual growth of trade in goods.[8] For the UK, the services industries account for around 80% of GDP and 85% of employment.[9] The growth in services trade can offer significant benefits to the UK economy; however, the absence of an up-to-date global services trade framework is an impediment. The emergence of digital trade, including rules around data, has produced a similar predicament. While it offers a clear and promising direction for the future of the UK economy, there is an absence of multilateral digital trade rules, which has posed acute political and geopolitical concerns. Such costs and benefits are seen again in the deepening integration of the global economy, as the rise of global value chains—which are involved in 70% of global trade[10]—have contributed greatly to global productivity but have also generated higher levels of exposure for the UK's firms, economy, and national priorities.

For the UK, services account for around 80% of GDP and 85% of employment.

Realising the commercial opportunities of these trends will also require mitigating the geo-economic risks they bear. Thus, there is a need for the alignment of the UK's foreign economic policies with its foreign, domestic and security policies. The Commission therefore offers recommendations concerning the UK's role as a hub for, and multilateral champion of, services and digital trade, the development of parallel political and security tracks in trade negotiations, and greater

8 WTO, 2019. "World Trade Report." https://www.wto.org/english/res_e/publications_e/wtr19_e.htm; UNCTAD, 2020. "Total Trade in Services." *E-Handbook of Statistics*. https://stats.unctad.org/handbook/Services/Total.html

9 ONS. "Employees in the UK by industry": https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/employeesintheukbyindustry/2018

10 OECD. "The trade policy implications of global value chains." Global Value Chains & Trade. https://www.oecd.org/trade/topics/global-value-chains-and-trade/

oversight of the UK's supply chain vulnerabilities. These efforts are not to move away from a commercially open system, but rather to recognise that the conduct of trade and investment policies involve non-economic considerations. Indeed, the recommendations include cooperating with other countries to work plurilaterally towards a rules-based multilateral system.

The second theme concerns precisely how the UK can do more to support the international system. The fraying of global institutions and rules has been visible and tangible in ways too numerous to address in this Report. The damage to the quantity and quality of the world's democracies, the actors most responsible for upholding the international system, has been clear as well. This phenomenon, broadly referred to as the 'Democratic Recession', has now endured for 15 consecutive years, according to Freedom House, and the further fracturing of the international system has accelerated as a result of the COVID-19 pandemic.[11] With respect to global economic diplomacy, these challenges have most clearly been on display at the World Trade Organization, which has lacked a functioning Appellate Body due to the Trump administration's persistent vetoes and a Director-General due to the former holder's early resignation.

Restoring the international system and multilateral progress are urgent and difficult tasks – not least in an era of heightened distrust. However, tending to global public goods, the issues which benefit all, will help to restore global norms and revive global progress against the world's shared challenges. The UK can play a leading role in promoting and coordinating these efforts. The Commission advises that a natural, positive-sum starting point should concern the environment. The recommendations centre on the UK supporting coalitions to promote global rules and standards, promoting global public goods through creating a secretariat within the G20, and coordinating multilateral climate progress. The plurilateral and cooperative approaches in this section are a reflection of the stalled multilateral efforts and work towards global solutions for an interconnected world. The UK can play a prominent role particularly as U.S.-China tensions are likely to persist. As a major economy, the UK can work in partnership with other countries to promote a more effective international rules-based system.

The third theme focuses on institutional changes to effectuate an ambitious and refined economic diplomacy framework for the UK. The departure from the European Union and the emergence of an independent trade and investment agenda have necessitated a recalibration of some of the UK's domestic institutions and practices. As the UK embarks on the negotiation of bilateral, plurilateral, and multilateral agreements, it will be necessary to gauge and prepare for potential future trade shocks to society, to develop more efficient trade promotion policies, and to enhance the UK's economic diplomacy capabilities and policy procedures. The recommendations thus cover improvements to impact assessment and trade adjustment assistance policies; a degree of decentralisation of foreign direct investment policy among the devolved administrations; and the implementation of consultative bodies, a cadre of economic diplomats, and a central economic diplomacy coordinating office in the Cabinet Office. Much more will be required in the process of refining the UK's new economic diplomacy framework, including procedures to ensure effective scrutiny. The Commissioners, a number of whom were long-standing civil servants, view these changes as important and feasible to ensure that economic diplomacy can be conducted in an effective manner for the UK.

11 Freedom House. Freedom in the World 2020. https://freedomhouse.org/report/freedom-world/2020/leaderless-struggle-democracy

Recommendations

The Commission offers ten actionable policy proposals to capitalise on key economic trends, mitigate developing geo-economic risks, insulate against potential economic shocks, and advance the national interest at home and abroad.

I. Trade and Investment Policy

(1) Hub for global services

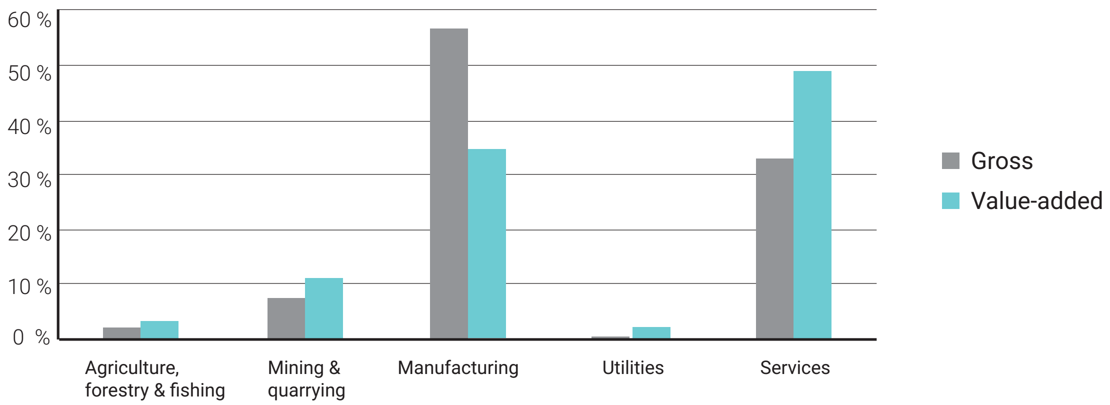
The fast growth of services and digital trade are among the key economic trends of the 21st century global economy. The UK is the world's second largest exporter of services (the top exporter of financial services led by the City of London and other financial centres such as Edinburgh) and is among the top 10 ICT economies in the world. Digital technologies enable services as well as goods trade. This is an area of competitiveness and comparative advantage for the UK.

Services comprise nearly 50% of the value-added in total exports.

Trade in services is not as open as goods trade globally under the WTO. The lack of an effective multilateral framework also means that there is a benefit for countries to negotiate bilateral or regional FTAs to increase access to each other's service markets. For the UK, becoming a trade hub would involve linking together countries and regions which do not have FTAs with each other. It means that trade would flow through the UK.

Canada and Switzerland provide examples of trade hubs. Given Canada's FTA (CUSMA or 'NAFTA 2.0') with the U.S. and Mexico, as well as its new FTA with the EU (CETA), Canada finds itself in a privileged trade position with respect to these two blocs—which do not yet have an agreement between each other. Similarly, Switzerland has agreements with the EU and China. In the Swiss case, the limited opening of the services sector

Figure 1. Structure of World Trade, 2015



Source: WTO World Trade Report 2019: The future of services trade. https://www.wto.org/english/res_e/booksp_e/03_wtr19_2_e.pdf in the China-Switzerland Free Trade Agreement (CSFTA) has reduced the potential benefits of being a hub.[12] By linking countries which do not have free trade agreements with each other, the UK can sit in the centre of overlapping FTAs and serve as the hub or conduit for the trade of services.

Focusing on the less-open services markets enables the UK's free trade agenda to pursue services trade liberalisation in line with its comparative advantage. It should be noted that this will not disadvantage or 'leave behind' the UK's goods exports or manufacturing industry. Compared with goods trade, services markets are much less open. In addition, services liberalisation allows for the proper functioning of global value chains and has been found to provide substantial trade-enhancing effects, boosting trade in goods as services represent over half of the value-added in total exports for major economies like the UK.[13]

Trade in services has grown by 5.4% annually on average since 2005, faster than the 4.6% growth in goods trade.

However, it is important to note that services liberalisation as a bilateral matter is no easy feat given the significant difficulties associated with harmonising standards and regulations. It is also preferable to have an upgraded multilateral system governing trade in services. For this reason, the Commission encourages the UK to approach services liberalisation plurilaterally by revamping and relaunching the stalled 'Trade in Services Agreement' (TiSA).

Launched in 2013, TiSA is the primary plurilateral initiative for services trade liberalisation.[14] It was intended to open up the global services market and upgrade the 1995 GATS (General Agreement on Trade in Services) of the WTO, which needs updating as it predates the widespread adoption of the Internet. The 22 economies and the EU that have elected to participate in TiSA represent 70% of the global services market.[15] By beginning plurilaterally, allowing countries to choose whether to opt in, the hope had been to liberalise sufficiently such that other countries might join and advance the agreement multilaterally within the WTO. However, the effort has stalled.

Competitiveness in services and the potential benefits it could glean from such a multilateral agreement should encourage the UK to take a leadership role in global services liberalisation. Given the composition of the TiSA-participating countries, which predominately includes the UK's partners, the UK's efforts will be supported by several pre-existing

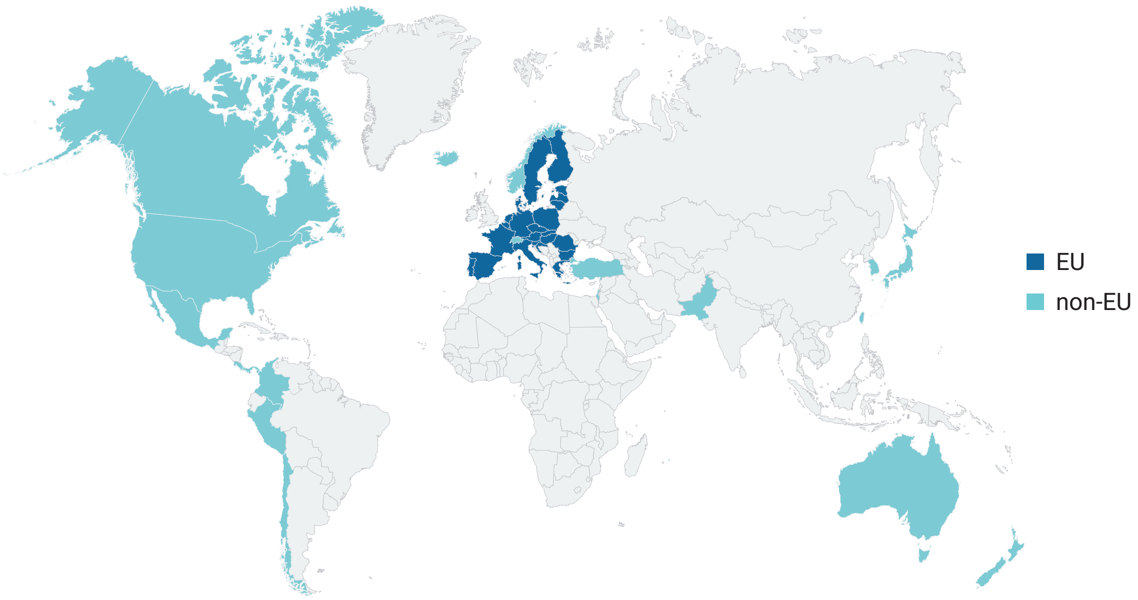
12 Uri Dadush, Marta Dominguez-Jimenez and Bruegel, 2020. "What can the EU learn from the China-Switzerland free trade agreement?" Bruegel blog: https://www.bruegel.org/2020/03/bern-after-reading-lessons-from-the-sino-swiss-trade-deal

13 Woori Lee, "Services liberalisation and global value chain participation: Heterogeneous effects by income level and provisions." VoxEU. 30 June 2018. https://voxeu.org/article/services-liberalisation-and-global-value-chain-participation

14 European Parliament. Plurilateral Trade in Services Agreement. https://www.europarl.europa.eu/legislative-train/theme-a-balanced-and-progressive-trade-policy-to-harness-globalisation/file-trade-in-services-agreement-(tisa)

15 Office of the United States Trade Representative. Trade in Services Agreement. https://ustr.gov/TiSA

Figure 2. Trade in Services Agreement (TiSA) Participating Economies



Source: European Parliament https://www.europarl.europa.eu/legislative-train/theme-a-balanced-and-progressive-trade-policy-to-harness-globalisation/file-trade-in-services-agreement-(tisa)

trade arrangements as well as by the relative absence of great-power politicking.

In order to achieve the aim of promoting the UK as a hub for services and digital trade, all potential level of negotiations—multilateral, plurilateral, regional and bilateral—will need to be explored.

(2) Include non-economic tracks in trade negotiations

As foreign threats spill into the economic domain and economic vulnerabilities invite foreign disturbances, the UK will need to allow for the greater integration of its trade and security agendas. To do so, the UK ought to establish a committed non-economic track within trade negotiations, which would encourage the discussion and incorporation of certain national security and other foreign policy considerations.

Recent disputes in and around international trade regimes have demonstrated the inherent intertwining of economic partnerships with political and security concerns. In addition to assessing the potential of their markets, trade talks should also reflect the importance of these countries for the UK's national security and other foreign policy aims.

Relevant national security considerations will include whether the UK has a close defence and security relationship or wishes to develop such a relationship. For instance, Japan, which had signed the UK's first post-Brexit trade agreement, is both an important trade and investment partner and an increasingly significant defence and security partner. The scope of individual trade agreements should also extend, where relevant and following consultation with industry, to technology that affects both economic and security aims. Examples could include advanced materials, artificial intelligence and other cyber technologies. By including these in a non-economic track, it strengthens the rationale for removing non-tariff measures or adopting mutual recognition of standards and qualifications in order to encourage foreign policy cooperation and strategic partnerships.

Establishing non-economic tracks in trade negotiations recognises the cross-cutting nature of trade and investment in the 21st century, and it enables the incorporation of a variety of foreign investment security issues. In addition, prioritising important partners and considering shared political interests will bolster the UK's bargaining position with key economies, including the U.S., which are acutely sensitive to the emerging political and security externalities of contemporary economic diplomacy.

(3) Systemically Important Supply Chains

The COVID-19 pandemic, the U.S.-China trade war and UK-EU trade negotiations have served as a reminder of the systemic importance of certain supply chains. At various points in the past few years, policymakers, the private sector, and the public have worried about continued access to certain essential goods—medicine, industrial inputs, and more. While most supply chains have proven substantially more resilient than initially feared or anticipated, various sectors have been hit by occasional bottlenecks, price shocks, and dents to business confidence.

Although the worst of supply chain disruptions have not yet come, the crisis is now more conceivable. To pre-empt it, the UK ought to consider formalising supply chain security in the same way it has for other areas of the economy by designating a status of 'systemic importance' and subjecting firms to annual 'stress tests' that can model resilience in the face of exogenous shocks.

Since 2011 in the aftermath of the global financial crisis, the Financial Stability Board (FSB), an international body established by the G20, has worked with national authorities around the world, such as the Bank of England, to identify systemically important financial institutions whose full or partial collapse would provide a significant disruption to the domestic and global economy. For those banks that are designated "Systemically Important Financial Institutions" (SIFIs) by the Bank of England, existing regulations are reinforced with more stringent macroprudential policies (e.g., higher capital requirements) in order to safeguard the financial stability of the economy. In addition, the UK's SIFIs are subjected to annual "stress tests" by the central bank in order to ensure that they would be able to endure a wide range of hypothetical shocks. The SIFI designation is decided by a framework that considers the institution's size, cross-border activity, and intra-border connectedness.

A similar SIFI process of designation and stress testing ought to be used to ensure supply chain stability and resilience. The guiding principle is straightforward: to ensure stability, resilience and oversight whilst still allowing for commercial openness and flexibility. Although supply chains tend to be efficiently arranged by companies, supply chains which concern core national interests, involving goods such as medicine (e.g., insulin), dual-use or defence technologies, and other key industrial imports, and whose disruptions would gravely impact the UK's health, security, and prosperity should receive the "Systemically Important Supply Chain" (SISC) designation and thus be subjected to greater oversight. Such designation would increase transparency, which helps to reduce uncertainty for firms. The stress tests would analyse firms' and their supply chains' capacity to absorb shocks, including pandemics, natural disasters, cyberattacks, trade wars, other border closures, and routine economic disruptions. Additionally, such an approach would support the UK's efforts to ensure compliance with other policies and priorities, e.g., the Modern Slavery Act and the 2050 net zero target under the Climate Change Act.

While the UK may begin to implement SISC policies on its own, the cross-border nature of SISCs will eventually be best served by greater international coordination, namely through a global forum modelled after the Financial Stability Board.

II. The UK's Global Role

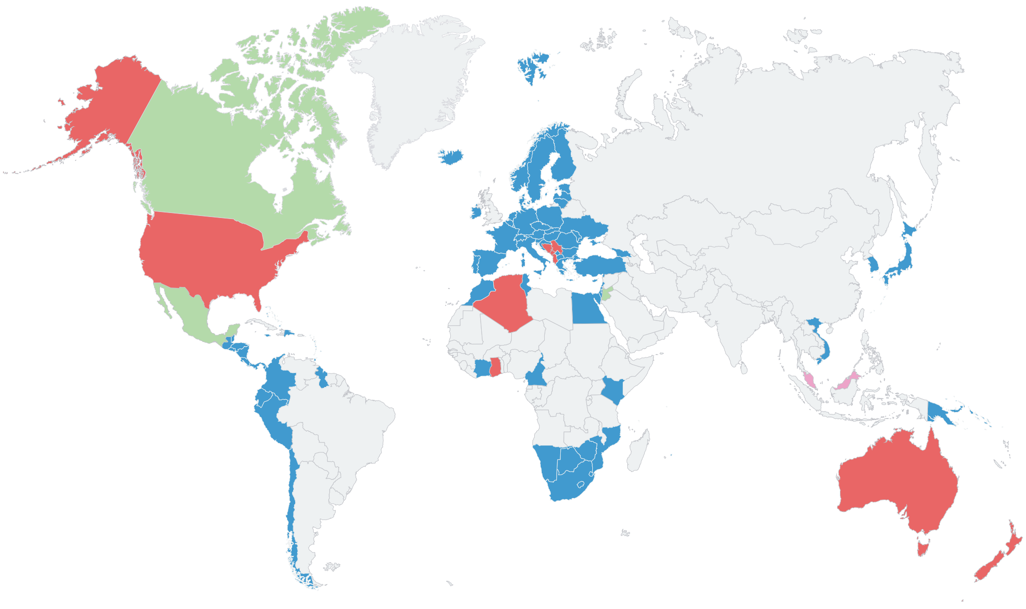
(4) Partnerships to promote global rules and standards

In large measure, the architecture of the international system is well equipped for the deliberation and mitigation of new and emerging challenges. Its organisations, rules, and norms—when upheld—offer solutions and pathways to progress on a range of global issues, from conflict to climate change and more. The central task, by and large, is not to add to the existing international system but to facilitate its proper functioning.

However, on certain matters it has become clear that international progress or consensus will be challenging in the near term. Many of these setbacks can be attributed most directly to the bifurcation of the international system between the U.S. and China, and the divergence in rules and standards that this is beginning to impose. For these issues, it is pressing that the UK develop and strengthen partnerships to promote global rules and standards, starting with the area of new technologies and the economic, political, and geopolitical disturbances they carry.

Working with partners to mitigate technological threats and concerns will be crucial to the health of democracies and the proper functioning of their economies in the 21st century. Recent years

Figure 3. The UK's Trade Agreements



- Trade agreement in effect
- Trade agreement in discussion
- Signed trade agreement, not fully in effect
- CPTPP countries that do not have an FTA, actual or planned, with the UK

Note: The UK has applied to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) which includes 11 countries: Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore and Vietnam. All except for Brunei and Malaysia have a trade relationship with the UK.

Sources:
https://www.gov.uk/government/collections/the-uks-trade-agreements;
https://www.gov.uk/government/news/uk-applies-to-join-huge-pacific-free-trade-area-cptpp
https://www.gov.uk/guidance/uk-trade-agreements-with-non-eu-countries
https://www.gov.uk/government/news/ghana-uk-joint-statement-ghana-uk-trade-partnership-agreement
https://www.mfat.govt.nz/en/trade/free-trade-agreements/free-trade-agreements-in-force/cptpp

have been testament to two distinct problems in this area. First, there are the latent national security concerns about dual-use technologies, which have spurred debate about the acceptable extent of foreign involvement in a nation's technology infrastructure. Second, technological threats to democracy have come in the broader form of foreign propaganda, misinformation, and questions over the role of social media—thus potentially entailing the coordinated oversight and/or regulation of sensitive digital platforms. Both sets of concerns are transnational in nature and require substantial multi-stakeholder involvement to address properly.

The UK government and the Biden administration have both signalled their support for hosting a 'Summit for Democracies', alternatively billed a 'D-10', which will facilitate coordinated discussions and solutions to advanced democracies' shared threats. Others have advanced the idea a 'T-10' forum to focus most specifically on the common problems emanating from new technologies. The nomenclature matters less as the objectives of the two are the same: to strengthen partnerships and mount effective responses to emerging technological and economic challenges, namely through the establishment of shared rules, standards, and practices.

The UK can play a leading role by building coalitions of countries, including private sector expertise, to begin to develop widely agreed global rules and standards. By focusing on narrowly defined and specific technological topics, the UK can convene networks of countries and experts to work together on technical standards or specific norms. Such a collaborative approach would increase buy-in, which can begin to establish global rules and standards where they are most needed in a changed 21st century global economy.

(5) Support global public goods

The stresses on international institutions will not be reversed quickly or easily, but the UK can help to restore faith in the international governance architecture and provide leadership to repair recent damage to the WTO and WHO, among others. It should also seek to turn forums, such as the G7 and G20, into stronger pillars of international coordination that support the pursuit of global policy objectives. As a champion of an open and rules-based international system, the UK is well placed to support the necessary work on delivering global public goods—the urgent, positive-sum agenda points—that otherwise run the risk of being passed over.

By their nature, global public goods such as public health and climate progress do not need to be sticking points in international gridlock or conflict. All nations, no matter their outstanding military, political, economic, or ideological disputes, share an interest in shoring up global public goods. The COVID-19 pandemic most clearly demonstrates the need for greater international coordination unimpeded by political disputes. The global climate crisis similarly requires more collaborative leadership.

The international system already has many multilateral and minilateral forums at its disposal to focus on issues of global concern, but these often lack the institutional infrastructure to see through the implementation of internationally agreed objectives. The G7 and G20 are prime examples of forums that address global threats such as climate change and financial instability, but often fail to translate well-meaning communiques into action.

By establishing a Global Public Goods Secretariat, the UK can provide the necessary forum for discussing and enacting, as well as the oversight for enforcing and updating the international coordination required in the 21st century. Such a Secretariat could start out by serving within a particular international forum but could gradually expand to provide service functions for a wide range of global institutions. One option is for it to be established permanently at the G7 or G20. Another option would be to offer support to newly emerging institutions that seek to bring together the worlds of international finance and climate change. Leveraging London's status as a world-leading centre in climate finance, the UK would be ideally placed to offer secretarial functions to bodies such as The Coalition of Finance Ministers for Climate Action. While it will be necessary for the Secretariat to try to circumvent disputes in the international system, it should be noted that a Secretariat of this sort can also help to relieve multilateral congestion and rehabilitate trust in international institutions.

(6) Leadership in climate diplomacy and green markets

Keeping global warming below 2 degrees Celsius by the end of this century, which is the universally agreed target of the Paris Agreement, is in Britain's long-term environmental and economic interest. UK climate and economic diplomacy need to be joined up to achieve this aim, not least to limit any short-term harm to the country's prosperity and competitive position in the global economy. The best way forward is coordinated climate action by all major emitters of greenhouse gases within the multilateral framework of the UN Framework Convention on Climate Change (UNFCCC). The UK has already moved into an influential position in international climate diplomacy and is set to play a pivotal role in 2021 as the host of the 26th Conference of the Parties (COP26) to the UNFCCC. Its domestic record in reducing greenhouse gas emissions provides it with considerable soft power, which it should use to shape international behaviour.

> The UK should take a leading role in multilateral groupings that push for more ambitious climate targets.

Even if multilateral efforts fall short, the UK can still advance global climate objectives within smaller international settings. Working with other powers that seek to reduce their emissions and invest in low-carbon energy can help close the global emissions gap and promote new green technologies and industries. Effective climate policy requires strong alliances, and the UK would benefit from working closely with the EU to coordinate its international climate diplomacy. The election of U.S. President Joe Biden and Chinese President Xi Jinping's announcement of a national target of carbon neutrality by 2060 have also opened the door for closer collaboration with the U.S. and China, the world's two leading emitters.

The UK should take a leading role in minilateral groupings ('coalitions of the willing') that push for more ambitious climate targets. It should also work towards the creation of so-called 'climate clubs' that seek to entrench climate cooperation and strengthen compliance by providing 'club goods': by promoting investment in, and diffusion of, green technology, harmonising or integrating carbon pricing schemes, and reinforcing mitigation commitments with external carbon tariffs.[16]

The UK has a strong domestic basis on which to build international climate leadership. Its pioneering Climate Change Act of 2008 sets a firm legal framework for cutting emissions and has influenced the creation of other national climate laws, while its shift away from coal to renewable energy has created opportunities for a growing renewable energy sector. To avoid undermining the UK's economic position during the Net Zero transition, the UK should take measures to prevent 'carbon leakage', whereby polluting activities shift to other countries with lower environmental standards. Introducing a carbon border tax, which would raise the cost of imports from countries with less strict climate policies, would ensure that the UK's climate efforts do not undermine domestic industries and erode political support. Ideally, such a carbon border adjustment would be introduced in coordination with other leading climate powers.

In this context it is promising that the European Commission's Green New Deal package envisages a carbon border adjustment mechanism and that U.S. President Biden' electoral campaign manifesto included a carbon enforcement mechanism. Despite uncertainty about the feasibility of these proposals, the chances of establishing internationally coordinated carbon pricing and tariffs, possibly as part of a climate club with the EU and/or U.S., have improved significantly.

It should be noted that the ambition of the carbon border adjustment is not to harm competitors or raise revenue, but to prevent carbon leakage and encourage other countries and firms to raise their environmental standards. As a non-discriminatory tax to which both domestic and foreign producers will be subject, a carbon border adjustment is not in violation of WTO rules.[17] Realising such a policy will require alignment with the UK's domestic carbon pricing and taxation schemes. Expert analysis suggests that domestic carbon prices consistent with a Net Zero target should start at £50 per tonne of carbon and reach ca. £160 per tonne in 2050.[18] The Department for Business, Energy, and Industrial Strategy (BEIS) set a 2030 target of £80.83 per tonne.[19] To avoid a competitive disadvantage, the UK must consider ways to coordinate its own carbon pricing plans with the policies or plans of other major emitters.

16 Robert Falkner. "A minilateral solution for global climate change? On bargaining efficiency, club benefits, and international legitimacy." *Perspectives on Politics*, 14(01), 87-101, 2016.

17 Jennifer Hillman. "Changing climate for carbon taxes: Who's afraid of the WTO?" Georgetown University Law Center. July 2013. https://scholarship.law.georgetown.edu/facpub/2030/

18 Joshua Burke, Rebecca Byrnes and Sam Fankhauser. "How to price carbon to reach net-zero emissions in the UK." Grantham Research Institute on Climate Change and the Environment. LSE. https://www.lse.ac.uk/granthaminstitute/wp-content/uploads/2019/05/GRI_POLICY-REPORT_How-to-price-carbon-to-reach-net-zero-emissions-in-the-UK.pdf

19 Department for Business, Energy, and Industrial Strategy. "Updated short-term traded carbon values." April 2019. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/794186/2018-short-term-traded-carbon-values-for-appraisal-purposes.pdf

III. Institutional Changes

(7) Conduct impact assessment of trade and investment policy

New trade and investment agreements will create opportunities for some and aggravate vulnerabilities for others. Trade and investment may foster the growth and development of one sector or region but pass over or possibly disadvantage another. The reality of "left behind" sectors, regions, and people creates uncertainty for the UK's economic diplomacy and the possibility for broad political backlash. Favourable domestic conditions are required to conduct economic diplomacy and to maintain the confidence of other nations. To support this effort, trade and investment agreements should include an impact assessment by region, sector, and income strata that would inform and strengthen the decision-making and scrutiny processes. It would help provide the basis for setting trade adjustment assistance measures, which form the next recommendation.

> Trade and investment agreements should include an impact assessment by region, sector, and income strata.

The UK Budget has in the past included the distributional consequences for different income levels, which in turn help to assess the impact of domestic economic policies. By adopting a similar approach to foreign economic policy, the government would be in a better position to identify certain disruptions or inequalities which may emanate from new trade agreements, and to pre-empt such shocks with more targeted fiscal policies. In other words, domestic policies, which include well-established mechanisms for redistribution, can be coordinated and deployed to address the distributional impact from trade and investment policies. Such a coordinated approach would link foreign and domestic economic policies and better mitigate and redress negative impact from new agreements. Including rigorous impact assessment into the Budget will also allow for greater attention to the more confounding issue of how technological change interacts with globalisation to produce wage stagnation.

Distributional analyses will enable the necessary and effective policies to be undertaken in a comprehensive manner that takes into account the impact of trade and investment agreements.

(8) Upgrade trade adjustment assistance

In addition to requiring greater analysis, the asymmetries engendered by certain policies, trade agreements, and broader economic trends require upgraded policy responses. As the UK embarks on its own trade agenda, it is important for the country to establish a strong and rehabilitative programme of trade adjustment assistance which can help absorb future trade shocks and re-employ affected workers.

Recent assessments indicate that the UK's spending on trade adjustment greatly lags that of the U.S. Whereas the U.S. spends $450 million per year on its Trade Adjustment Assistance programme, the UK spends just £2.5 million on its Rapid Response Service (RRS). Each of these programmes is small relative to the size of the problem they seek to redress. In addition, the RRS does not offer special assistance or expanded unemployment benefits to offset trade shocks. Instead, the programme is limited to providing generalised career advice, support for re-drafting CVs, and links to external career courses. The RRS covers only England and Northern Ireland. Scotland has a separate initiative, "Skills Development Scotland," which has a £193 million annual budget for unemployment assistance and guidance, apprenticeship programmes, and STEM training.[20] Wales' "ReACT Programme" similarly provides more comprehensive redundancy assistance—grants for vocational training, travel expenses for job interviews, and childcare cost subsidies for 26 weeks.[21] While both Skills Development Scotland and ReACT are classified by the UK government as trade assistance programmes, neither they nor the RRS provide sufficient targeted trade assistance. Targeted trade assistance is necessary because of the distinction between job losses due to trade and job losses due to other cyclical or structural events. As such, the government has a particular responsibility to remedy the situation since job losses can generate a backlash to globalisation efforts.

As the UK negotiates an increasing number of FTAs, and as the economic trends of automation and the growth of services progress, it will be necessary for the UK to commit to a comprehensive trade adjustment assistance initiative. This could include support for displaced workers and tailored help, such as schemes to facilitate re-employment including supporting vocational training. However, in addition to redistributive policies, this initiative must also prioritise 'upskilling' and 'pre-distribution'.

Upskilling refers to the process of direct training for the next generation of work, which requires flexibility as technological change is not easy to predict. UK firms report broad concerns with the labour market's readiness for changes within the advanced manufacturing (industries with high levels of R&D) and industrial landscape with respect to digitalization and technical skills. Upskilling in the context of trade assistance would support laid-off workers to move up the value chain by developing flexible, advanced industrial skillsets.

Policies of 'pre-distribution' may similarly provide targeted assistance prior to the emergence of trade-induced job losses as a complement to the existing redistributive policies. These policies could include human capital and other tax credits. As the UK looks to develop a labour force with greater technical skills, a human capital tax credit would correct an imbalance in current tax policy—where firms are incentivised to invest in

20 Scottish Government Budget: 2018-2019. https://www.gov.scot/publications/scottish-budget-draft-budget-2018-19/pages/7

21 Careers Wales. ReAct Programme. https://careerswales.gov.wales/sites/default/files/images/react-guidelines.pdf

research & development (physical capital) through the provision of tax relief measures, but are not similarly incentivised to invest in training their employees (human capital).[22] By equalising the preferential treatment of physical and human capital development, a policy priority in its own right, the UK can also help drive investment in education and training to under-skilled swathes of the UK's labour force.

Another 'pre-distributive' tax credit policy would concern trade shock adjustments. For firms that have been displaced or anticipate displacements due to new trade and investment agreements, the government may allow firms to petition for tax credits that would free up capital to be redeployed to more productive, less impacted activities—subject to conditions on maintaining payroll and remaining in situ.

Forward-looking impact analyses of trade proposals can help steer such pre-distributive remedies.

(9) Decentralising foreign direct investment (FDI)

A priority of the current government is to 'level up' communities that have been 'left behind'. Given the long-term difficulties many of these communities have faced and the new problems posed by the pandemic, it will be difficult to achieve meaningful and lasting economic recoveries in some of these communities. However, success stories in other locations—from Boston to Leipzig to Chongqing—provided a measure of optimism. For this reason, it is worth studying and, where advisable, emulating the institutions created and policies pursued by countries that have been able to regenerate growth where it has been lost.

One common thread through many cases of recovered growth is some degree of decentralisation of foreign direct investment policies and responsibilities. Although attracting investment, securing export markets, and developing stronger commercial and people-to-people ties are national priorities, they have pronounced regional dimensions. The devolved nations, regions, and local communities have diverse economic profiles and interests, and know their strengths as well as weaknesses. However, their operating space is at times unnecessarily constrained by the government's overarching infrastructure.

The 2013 Devolution Memorandum of Understanding affords "concurrent powers to promote international trade and inward investment" for the devolved authorities and the UK government.[23] However, in practice, national and regional officials report that this is not always the case. There has been some centralisation of FDI oversight since 2012 when England's nine Regional Development Agencies were dissolved and replaced by voluntary Local Enterprise Partnerships.[24] While the Department for International Trade has coordinated with devolved authorities—publishing investment portfolios on their behalf, working with some of them to develop "High-Potential Opportunities" (HPOs), among other shared roles—more can be done.

22 Rui Costa, Nikhil Datta, Stephen Machin and Sandra McNally. "Investing in people: The case for human capital tax credits." Centre for Economic Performance. LSE. February 2018.

23 House of Commons. "Devolution: Memorandum of Understanding and Supplementary Agreements. Between the United Kingdom Government, the Scottish Ministers, the Welsh Ministers, and the Northern Ireland Executive Committee." UK Parliament. October 2013.

24 House of Commons. International Trade Committee. "UK Investment Policy." Seventh Report of Session 2017–19. UK Parliament. July 2019.

By working with local authorities and encouraging appropriate levels of regional competition for inward FDI, localities which know their markets best can showcase their strengths and improve their weaknesses. Such healthy competition would enrich the choices of a multinational corporation seeking to invest in the UK. After all, companies do not invest in a country per se; they select a city or region in which to locate.

(10) Expanding institutional capacity

The departure from the European Union has required some institutional change on the part of the UK. The establishment of the Department for International Trade has led the UK's internal reorganisation efforts to best pursue its economic diplomacy agenda. However, more institutional work is needed to ready the UK, the devolved nations, and their civil servants for the post-Brexit era. Three particular policies should be considered.

First, the government should consider refreshing and embedding the various advisory groups that work with the Foreign, Commonwealth and Development Office, HM Treasury, the Department for Business, Energy and Industrial Strategy, Department for Environment, Food and Rural Affairs (DEFRA), and other government departments. Given the cross-cutting nature of the UK's economic diplomacy agenda, it is helpful to have these groups which engage regularly with stakeholders. As seen in the Department for International Trade's Strategic Trade Advisory Group[25] and Trade Advisory Groups,[26] the membership of these groups ought to encompass the private sector, civil society, consumer groups, trade unions, and devolved nationwide business representatives.

Second, the Foreign, Commonwealth and Development Office, DIT, HM Treasury, BEIS and DEFRA should explore the development of a civil service career path in economic diplomacy. Civil servants already working on the core issues of economic diplomacy (trade promotion, investment attraction, development policy, bilateral economic negotiations, and multilateral engagement) should be integrated as a more formal cadre of economic diplomats. This cadre can encompass different departments and involve more departmental interchange and structured secondments. These secondments, e.g., to the IMF, World Bank, WTO, ILO, and OECD, are important for both versing public servants in the operations of international institutions and expanding the UK's footprint in these organisations.

Third, the multidimensional nature of economic diplomacy, as outlined throughout this Report, requires a whole-of-government approach to develop forward-thinking, consistent, and effective policies. This, in turn, requires a central coordinating body to navigate and manage the economic, security, foreign policy, environmental, and domestic distributional impact of trade and investment agreements. The government should thus consider establishing such a body to sit in the Cabinet Office— both to help drive and coordinate cross-departmental decision-making in both the international and domestic policy dimensions of economic diplomacy and to liaise with devolved governments and regional authorities on trade and investment planning and implementation.

25 Strategic Trade Advisory Group. Department for International Trade. https://www.gov.uk/government/groups/strategic-trade-advisory-group

26 Trade Advisory Groups. Department for International Trade. https://www.gov.uk/government/publications/trade-advisory-groups-tags/trade-advisory-groups-membership

Conclusion

There is a clear need for new modes of global engagement.

The UK has had to re-examine its economic diplomacy since the EU referendum. At the same time, the global economy has been in a period of profound change. Geo-economic challenges exist, but opportunities also abound. This Report has assessed the components of what a refined economic diplomacy framework for the UK would consist of, and it makes ten recommendations that would help to fortify the UK's economic diplomacy for the 21st century world. One report cannot cover all of the areas of course; much more work will be needed. The Commission would also like to stress that these recommendations are meant to provide broad yet actionable strategic guidance—more work on process and implementation necessarily remains.

The diplomacy element of 'economic diplomacy' does not receive as much recognition as the more material 'economic' aspects of the term, such as FTAs or investment treaties. However, in an era of U.S.-China tensions and a fractured global system, "soft power" diplomacy may hold the key to not only effective policies for individual countries, but also to the rejuvenation of the global economic system as a whole.

In this era, in which economic antagonisms are growing, security vulnerabilities are proliferating, environmental damage is accelerating, and trust in democracy is declining, there is a clear need for new modes of global engagement. The economic diplomacy agenda outlined in this Report recognises the urgency of this work and strives to commit the UK to addressing them to the fullest extent possible.

As the line between foreign and domestic policies becomes vanishingly thin, and as the distinction between foreign and economic policies does too, the Commission's recommendations have espoused an all-of-government approach to the pursuit of the UK's national and international priorities in the coming years. With a necessarily expansive understanding of 'economic diplomacy' and a refined framework for the conduct of it, the UK can be prepared to realise the opportunities that abound in, and mitigate the risks of, a fast changing global economy. ■

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Professor Alan Winters, Professor of Economics and Founding Director of the UK Trade Policy Observatory, University of Sussex

Session 4

Charles Grant, Director, Centre of European Reform

John Micklethwait, Editor-in-Chief, Bloomberg News

Dame Karen Pierce, British Ambassador to the United States of America, Foreign, Commonwealth and Development Office

Dame Minouche Shafik, Director, The London School of Economics and Political Science

Scott Wightman, Director for External Affairs, Scottish Government

Session 5

Patrick Horgan OBE, Director of Global Government Relations, Rolls-Royce

Lord Jim O'Neill of Gatley, Honorary Professor of Economics at the University of Manchester, Chairman of the Council of Chatham House, Vice Chair of the Northern Powerhouse Partnership

Professor Henry Overman, Professor of Economic Geography and Deputy Head, Department of Geography and Environment, The London School of Economics and Political Science

Session 6

Pascal Lamy, Senior Advisor, Brunswick Group, and former Director-General of the World Trade Organization

George Osborne, Editor-in-Chief, *London Evening Standard*, and former Chancellor of the Exchequer

Robert Zoellick, Senior Counsellor, Brunswick Group, and the Eleventh President of the World Bank

Respondent:
Jonathan Black, UK G7/G20 Sherpa, Director General, Cabinet Office, UK Government

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