

International Trade Committee

Oral evidence: UK trade negotiations: trade strategy and scrutiny, HC 233

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Members present: Angus Brendan MacNeil (Chair); Robert Courts; Mark Garnier; Sir Mark Hendrick; Mark Menzies; Taiwo Owatemi; Martin Vickers; Matt Western.

Questions 1 - 24

Witnesses

I: Professor David Collins, Professor of International Economic Law, City University; Sam Lowe, Senior Researcher, Centre for European Reform; and Hosuk Lee-Makiyama, Director, European Centre for International Political Economy



Examination of witnesses

Witnesses: Professor David Collins, Sam Lowe and Hosuk Lee-Makiyama.

Q1 **Chair:** Good day and welcome to our evidence session on the UK trade strategy and scrutiny, as part of the Committee's inquiry into UK trade negotiations. Today we have two panels. The first panel will be for approximately an hour, and then we have a second panel on the parliamentary process for scrutinising trade agreements.

On the first panel, on Government trade strategy, we have three witnesses and I will ask them to introduce themselves. Some well-kent faces are coming back again, we are glad to say. Can I start with David? You have to unmute the microphone.

Professor Collins: Sorry about that.

Chair: It happens to the best of us. It is usually Mark Menzies.

Professor Collins: Yes, now you have me. My name is David Collins. I am a professor of international economic law at the City Law School of City, University of London, and I specialise in international trade and investment law.

Sam Lowe: Sam Lowe, I am a senior research fellow at the Centre for European Reform.

Chair: Welcome back again, Sam.

Hosuk Lee-Makiyama: Hosuk Lee-Makiyama. I am a director of a think tank in Brussels.

Q2 **Chair:** Thank you very much, all three, for coming to join the International Trade Committee this afternoon. It is much appreciated. I will ask the opening question to all, but to Hosuk Lee-Makiyama first. Could you briefly give us an outline—and an outline for those paying attention to our deliberations today—on the purpose and the key elements of a trade strategy?

Hosuk Lee-Makiyama: Trade strategy, as far as I am concerned, is more than a document. It answers the question of what the purpose of trade is. You can almost say that every sovereign sets a wider national policy, which does not have to be economic or necessarily strategic, but there is a line of strategic objectives that need to be fulfilled and the question is, of course, what purpose that trade policy fills in the bigger structure and architecture of policy direction.

I would say that trade strategy is more than a document. It is not a business plan for a nation, but it starts with that objective before it narrows down to a few critical decisions, which are usually priorities. These may be written down, or they may not be, but every country has a priority in terms of what kind of key critical decisions it needs to take to



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reach certain foreign policy objectives or economic objectives, based on the limitation it may have in terms of policy space.

Not all options are available to us; not all resources are available to us. Therefore, there must be some kind of prioritisation: which sectors are going to be benefitted, which regions are going to be emphasised, which stakeholders have most to gain from different—well, it could be trade policy reforms or it could be free trade agreements.

What is perhaps most important is that trade policy very often has played second fiddle. It is very often the second-order policy that supports maybe a much wider comprehensive national economic priority, as I talked about. It could be macro objectives, for example, by creating room for manoeuvre in terms of balance of payments for the central bank. It could also be dual economic. For many decades after the Second World War most trade agreements—and, to a certain extent, they are still—were dual economic by rewarding or beefing up partners who need to fill a strategic purpose that is important for Britain, countries that we usually cannot pay ODA to. More recently, it has been more about supply chain diversification, meaning minimising the risks that come with external dependencies, and that has been very apparent, for example, in the aftermath of Covid-19.

Perhaps the less important objective is mercantilist export-led growth to boost GDP. Exporting is not usually a strategic objective that is easily fulfilled through trade policy. To begin with, it is not a growth model that fits everyone—particularly not Britain—especially in a world where we are moving towards other models of growth.

I will conclude by also mentioning constraints, because I also mentioned that we do not have endless resources and we definitely do not have all options available to us. Some of these constraints, of course, are domestic and voluntary. Sustainability, labour or values are very often conditionalities that we need to do in order to regain public support, especially if you have weak Executive power; not to disregard also the limits that are set by the public, stakeholders and the various red lines from the counterpart. These all usually go into what we could roughly call a trade strategy.

Q3 Chair: Thank you very much. I will call on the other two witnesses, Sam and Professor Collins, to add what they might disagree with or build on.

Sam Lowe: If you approach it narrowly: what is a trade strategy? It is setting up and ensuring that, from an export point of view, your companies have a fair shot internationally. They can make a good run at it. From an import side, it is ensuring that your consumers have access to any products they want at a reasonable price. That is quite a narrow view of a trade strategy, but I agree with Hosuk that, in reality, it is much more than that and actually, if you are looking at what a trade strategy should do in the context of wider discussions around the economy and around diplomacy, the country should be able to identify what it wants to



achieve in these spaces, be it the economy or foreign policy more broadly, and then ask the question: how does trade policy help us get there? I will leave it there.

Professor Collins: I agree with the comments that have been made so far. I might add that whenever I think of any kind of strategy, whether it is trade or industrial strategy, or diplomacy for that matter, it is really about co-ordination and efficiency. It is so that various Departments within the Government, various segments within society—whether it is business or consumers—are not fighting against each other and resources are not wasted.

If the Government can lay out a strategy in a broad level of generality, they can fine tune the technical details more efficiently so that people are not working at cross purposes. I think that is why it is really about co-ordination and communication across sectors, across interest groups and, of course, with respect to an outward-facing agenda, the partners that you want to trade with, whether it is bilaterally or multilaterally.

Chair: Thank you very much. I will move on to one of our colleagues now. I think we have a colleague coming in from a place called Westminster, and Matt Western is in that vaguely familiar place.

Q4 **Matt Western:** Thank you, Chair, and can I thank the witnesses for their contributions so far? I really appreciated the first piece by Hosuk Lee-Makiyama and that very succinct description of what a trade strategy should be about.

Can I ask Sam Lowe and David Collins, in the context of the UK: does the UK have, in your view, an overarching trade strategy, and do you think it needs one?

Sam Lowe: The answer is no, it did not have one. If you look at the aftermath of the referendum, the decision to leave the EU and then what happened immediately afterwards, we essentially got a list of agreements that we wanted to have. There was no real reason or rhyme for it. Then we just got on with doing different things, talking about free trade in the abstract but then struggling to deal with the contradictions domestically, such as between agricultural policy and trade policy.

However, I do think, if we are being fair to the Government, we can now say that they have retrofitted a trade strategy on top of those initial decisions, in that you can break down the different things they are doing into different categories. If you focus first on continuity, you can see that that is obviously quite an important part of this trade strategy, ensuring that we are at least starting from a secure position. We can see that it has been fairly successful when it comes to replicating existing EU free trade agreements, with some notable exceptions, and they are quite big ones: Canada, Mexico, Turkey, which is a particularly difficult one, and then also Japan, which has now been pushed into a new agreement.



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If you look at the second category, the second pillar of this trade strategy—and I am superimposing this upon it myself to a degree—you can see the resilience element, which is where discussions particularly around agreements with New Zealand, Australia and Japan with the purpose of eventually joining the CPTPP come in. We have quite a difficult global environment now with the rules-based system under threat, and it doesn't show any sign of recovering any time soon. There is a need for the UK to cement new relationships with likeminded countries, if only to ensure that things do not get any worse. It is not necessarily about opening up new markets and the like. It is just locking in existing rules and protections so as to create a platform from which to take on these much bigger issues that are largely driven by much bigger powers—the US, China and the EU.

The third pillar is the proactive agenda, which is still pretty nascent, so identifying what it is the UK wants, where it can add value internationally and how it can do so. At the moment, we are seeing quite a lot of statements. I think there was an announcement today from the UK on a digital trade strategy. It is a bit ad hoc at the moment, a bit haphazard. It could all do with being tied together.

The piece that I think is really missing so far is the domestic piece, which is about just being honest with the public on what trade agreements and trade policy can and cannot do, and on the consequences of decisions, in that openness is generally a good thing. Obviously, some people lose out when you open up your economy to greater competition from elsewhere.

The big elephant in the room hanging over all of this is that, internationally, it is still a struggle for other countries to comprehend a British Government that talks about openness and liberalisation while going through a process in which it puts up barriers to trade with its most important trading partner.

Professor Collins: I agree with a lot of what Sam said. We were in a situation where there was no trade policy around the time of the referendum, and then moving towards the establishment of one in the months and years afterwards. I also think there are three prongs to the strategy that the UK is undertaking, and I would describe them generally along the lines of bilateral, multilateral and then domestic.

We have seen a very robust programme of free trade agreement negotiations being pursued, or at least anticipated. I agree that much of that is in the way of continuity, achieving what was lost through the departure from the EU. I am encouraged that we are seeing overtures with Japan and with the US, and so on. We have seen a number of the free trade agreements being rolled over that we had during the EU, although they tend to be the smaller countries. That is quite positive, and I am happy to see that it has been pursued, because we have been told all along that that was one of the advantages of leaving the EU.



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Secondly, on the multilateral front at the World Trade Organisation, I am happy to see that Julian Braithwaite seems to be asserting some degree of UK leadership. We have heard commentary about wanting to be champions of the free trading agenda at the global level. That is all excellent. I would like to see the UK adopt a stronger presence at the WTO. It is struggling now, and it is going through yet another period of change because the director-general has resigned and we will be having a new one, hopefully towards the end of the summer, so I am conscious that there definitely seems to be a multilateral agenda.

Then the last one, which I think Sam was also alluding to, is on the domestic front, so things like export promotion, assisting small businesses in their ability to internationalise, and—even more broadly than that—regulatory improvements domestically to make British businesses more fit to do business on the global stage. This was something else that we were told we would get from Brexit, an improved regulatory environment, an environment where there is less bureaucracy and where business can thrive. If that is the case, it needs to be pursued diligently and articulated clearly.

With those three, bilaterally, multilaterally and domestically—and I think we are seeing progress on all of them to a degree—you are beginning to see, very much so, a trade strategy.

Q5 **Matt Western:** Can I just add to that? An observation was made by the Institute for Government, warning a little while back that there was a risk of the approach degenerating into a shopping list, and this is something I think, Sam, you were alluding to in mentioning the digital trade strategy. Do you think it is fair to describe it as having become a sort of shopping list of deals for the sake of deals, or do you think it is reasonably coherent?

Hosuk Lee-Makiyama: If I may add to the previous comments, I would perhaps say that there has been a certain overemphasis on trade negotiation. Trade strategy is much broader than that, and I think Professor Collins made a very good point that the biggest determinants on trade are not policy induced. It is mostly about business environment. Some of the wish lists that we have seen basically seem to put all the effort into just one tool, which may not even be the most prominent tool. That is the first point.

The second point I would like to reiterate is the limit in terms of policy space. It is not endless, meaning that most countries have a serious constraint in what they can achieve in trade negotiations. We are currently in a context where not even global powers like the United States, China or the EU can actually get their agenda across in the trading environment. Thus, thinking that we might actually have trade-induced reforms, even in a large economy like the UK, is just too risky an approach, in my point of view.

Chair: If I can add one point, when we met some Australians and New



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Zealanders, they felt that the biggest aid to trade that we could bring would be an instrument from the Home Office enabling people to work for five years on a five-year visa rather than a two-year visa. That would be a huge thing to aid trade between the two countries. Sorry, Matt Western, for cutting across there.

Q6 Matt Western: No, that is fine. I want to come back to Sam. Do you have any other comments about that?

Sam Lowe: Is it true to say that the UK has a very long shopping list? Yes, it is, and some of that is out of necessity. If we are talking about the agreements that we have to replace, it is a long list, and if we want to ensure that we are treading water rather than sinking, we do need to engage with all of those.

Beyond that, as I said in my initial statement, I think the new countries—Australia, New Zealand, and we are adding Japan to that for some reason, despite it being a replication, and the US—these are all things that people think, “Well, that would be good. We like them. Let’s do it.” With hindsight, as I said, we have retrofitted a trade strategy on top of that, and a coherent one, in terms of trying to embed resilience in an increasingly fragmented world and working with likeminded powers to create a base from which to jump up from. But, yes, it started off as a shopping list, and we cannot really get away from that.

Matt Western: Thank you. David?

Sam Lowe: Sorry, just to go to the Chair’s point about five years, I think as an interesting note that the UK’s offer to the EU on Mode 4 services, particularly in relation to intra-corporate transferees, is for them to be able to stay for up to five years, which is some evidence that the UK is taking on board some of the criticism it has received in the past about movement of people and is trying to embed it in its future negotiations, in this case specifically with the EU.

Q7 Matt Western: David, is it a shopping list?

Professor Collins: Yes, it is, but I am not really happy with that term. I think there is a certain degree of cynicism in that. You would not call the EU’s agenda for free trade a shopping list. What is wrong with having a list of countries that you want to do trade agreements with? Why not? Let’s go for all the countries that we can, if it is in our interest to do so. I think the implication—I did not read the report, but I can imagine what it might have been implying by using a term like “shopping list”—is that it is wishful thinking, that the UK is not going to get these agreements because it is a weak country, because it is going to be overpowered or because it is going to get bullied into agreeing something that it does not want.

That is a risk, and that is something that we do not want to happen, but I think that is a very negative way of approaching it. We need to have a bit more confidence that our trade negotiators can achieve those things, with



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effort and the preparedness to make concessions. We perhaps need not to be so cynical when we hear of an aspiration of a country that is getting a chance to have a free trade policy for the first time in many years.

Chair: I am being caught by the microphone issue myself. I am going now to Mark Menzies, who is waiting patiently in Fylde.

Mark Menzies: Absolutely. Thanks, Chair.

Chair: That was justice of the microphone, by the way.

Q8 **Mark Menzies:** I am not even going to reply to that, Chair.

First of all, to Sam Lowe and Professor Collins: can you briefly set out what, in your view, a UK trade strategy should focus on?

Sam Lowe: Broadly—and I think this goes to the crux of Hosuk’s point—if we are taking a look at what the UK is good at, we attract investment, we have really good people and we do services well. How do we go about ensuring that continues into the future? A lot of it is around education policy. It is ensuring that we continue to train people in the UK to a really high standard, ensuring that our universities remain bastions of excellence. It is also about movement of people. In terms of what the UK could do to ensure that its trade policies succeed in the future, it is having the most open immigration possible. That would be helpful. It is about remaining attractive.

Beyond that, if we are just going into the practical, trade agreement-type talks, I am thinking in terms of what the UK is currently looking at and negotiating. The negotiations with Japan are important in that, after the EU and the US, it is the third biggest investor in the UK. It is not particularly happy with the UK because we breached its trust with Brexit, in that a lot of their companies had invested here on the assumption of continued UK access to the single market.

In terms of where we sit internationally, Japan is quite a good benchmark for what we should hope to achieve. We are not the EU, we are not the US, we are not China, but how can we be effective and how can we leverage our just beneath that status? Working with Japan is going to be important. That is something that the Government are hopefully prioritising now and can hopefully conclude by the end of the year.

Professor Collins: I agree with Sam’s comments. Obviously, the UK’s strengths are in services. That is our comparative advantage and that is the sector that we need to be seeking to liberalise through our trade agreements. I would add digital to that. Digital trade is a phrase that we now hear quite regularly; we didn’t a few years ago. It is kind of like services, but it also encompasses trade in various kinds of goods if the transaction is done through e-commerce. I think the UK could be and will be poised to be a leader in that sector.

I also agree that we need an open immigration policy in terms of attracting the best talent. Japan is an excellent starting point. The US



should also be pursued diligently. I would add one additional comment. One of the strategies that you often hear about in trade negotiation is seeking the easy wins early, the low-hanging fruit, not necessarily because the economic impacts are in and of themselves enormous, but because they help set a momentum and help set a blueprint that can be used as a baseline for subsequent negotiations. There have been studies done on this. They call it stickiness of trade negotiations.

This might be a reason why we need to think very heavily about the Commonwealth, countries like Australia and New Zealand that would be fairly easy to get free trade agreements with, even though they might not, in terms of GDP, crystallise into what we would get from Japan or the US. Then you have a forward momentum, you have a text, you have precedent that you can refer to, and this could potentially assist the UK going forward, given that in those two negotiations—and you could add Canada to that—the UK would be in a strong position of leverage, which it isn't with the US or Japan.

Q9 Mark Menzies: That is great, thanks. Could I ask all of you, maybe starting with Hosuk: to what extent should a strategy prioritise free trade agreements as opposed to other ways of increasing and supporting trade?

Hosuk Lee-Makiyama: That is a very good question, and I think I alluded to it at the beginning. Maybe in the debate we have seen an overemphasis on trade negotiations at a time where, actually, trade negotiations are probably the least likely way to achieve growth. There is a very good reason for that, especially in this context of Covid-19, because the global trading system has basically collapsed. Global trade is going to shrink around 30%, mostly due to very serious demand contractions in the world, and it might end up much worse. We also need to bear in mind that we are now coming out of a trajectory where global trade has just recovered from the global financial crisis.

What I am basically trying to say is that if you are aiming for the traditional export-led trade, it is not going to be on the table for a very, very long time, especially given that one of our largest trading partners—namely, the EU—is going to be a zero-growth prospect for a very long time as well. Naturally, the UK is not prone to export-led growth to begin with, neither in goods nor in services. The export to GDP ratio in the UK is much lower than Germany and much lower than France. It is a relatively unnatural way for a diversified, consumption-driven and investment-driven economy like the UK to focus too much on offensive exporting interest.

This is perhaps the reason why I am looking at other factors, for example, like opening up new investment opportunities abroad as well as at home. These are not naturally the things that are negotiated in trade agreements, as Mr Lowe pointed out. These tend to be locked in, in trade negotiations to make sure that the counterparts, as well as ourselves, are bound to the mast in terms of the liberalisation we are offering on the



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table, the rule of law, the judicial redress, and the entire system of rules that we offer in written form. That is an enforceable guarantee that they provide in investment treaties as well as trade agreements, but they do not necessarily open up any new opportunities.

In other words, in order to follow business in terms of investment strategies, there are many other factors that we are looking at, if we are looking offensively, to make sure there is no duplication of costs. For example, several speakers have mentioned the cost of qualification as well as digitalisation. This is a main point, not just for IT businesses but also for multinationals, because every company has an IT system that is increasing at very high cost in multinational business. Intra-corporate transferees and moving competencies is a major point as well. In other words, securing and making sure that the UK has the means and mechanisms to reduce the transaction costs that occur in both goods and services when they operate abroad.

Perhaps the most important factor is on the defensive side, meaning tariffs for supplies as well as some other trade friction that has been raised in the debate, including Mode 4 and intra-corporate transferees, but also generally creating a competitive business environment. We are not just talking about the regulation. We are talking about the number one factor for why people invest in the UK. It is healthy return on investment. It is profit. Corporate income tax, the cost of doing business and the possibility to remit profits out of the UK as well as into the UK is going to be a major factor. Very little of what I describe is actually in trade policy, but they are an essential part of UK trade strategy going forward.

Professor Collins: I agree with Hosuk's comments. I just want to add a few points. Other than free trade agreements, what can you do? Well, multilaterally you can look at the WTO. That is going to be a tough sell right now because the WTO has struggled to make progress in trade liberalisation.

You could look at ways of liberalising certain sectors plurilaterally, and something that has been dropped off the agenda—and I think the UK should drive this forward—is the trade in services agreement, which has been moribund since about 2016. This is designed to open up services markets. It is like an investment agreement inasmuch as it protects existing investment, but it also opens up; it liberalises markets and opens them. I think there is a way that that can be achieved. It is not strictly bilateral; this is about 17 countries. I totally agree with Hosuk's point about domestic reforms and improving the business environment. That is so important. I will not say it again because it has been mentioned.

Another thing that can be achieved, other than bilateral agreements in the sense of formal free trade agreements, is these mutual recognition agreements that take place outside of FTAs. You can have them in FTAs; you can have them done through professional associations, for example.



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The Law Society, to mention the industry that I am most familiar with, is pursuing mutual recognition agreements with various law societies around the world. This facilitates the recognition of qualifications in that particular sector, legal services.

There is a potential for each sector, each industry, to make some progress in terms of smoothing access for service suppliers that has notionally been granted in free trade agreements or under the WTO GATS, General Agreement on Trade in Services, for example. There are methods at the margins of the classic WTO negotiations and the classic FTA shopping list that we have talked about, and those are all worth pursuing.

Mark Menzies: Sam, briefly. I am just conscious of time.

Sam Lowe: I will be brief. I will just add industrial policy, and policy coherence to ensure that it all matches up.

To give an example of somewhere where I think the UK could do quite well, if you think about the green transition that is happening globally, the UK is well placed to be a big part of that, especially if it increases support and investment for forward-looking technologies like tidal, wind and the like. You build up a body of expertise around that, which can then be sold around the world, but I would—

Q10 **Mark Menzies:** Sam, could I just jump in there? Is there a best practice that the UK could learn from? Is there somebody doing this well at the moment?

Sam Lowe: Industrial policy, I think you can point to countries that do it fairly well but to different degrees. You can look at Germany to a degree, in terms of how its industrial policies support its outward-looking trade agenda, but I am conscious of Hosuk's point that the UK is never going to be an export-driven economy because of the nature of its composition.

One point that I would like to add is that the reason there needs to be coherence with industrial policy is it can also get quite tricky. In a post-Covid-19 world this is important, in that you can have contrary objectives that can add to confusion if you are looking at it from outside. Obviously, we are now seeing quite a big push for diversification and some talk of reshoring supply chains. We have also seen this from the UK, with the Prime Minister making announcements about wanting to get some vital supply chains out of China. This is a case where industrial policy and what you are saying about industrial policy can undermine talk of openness and liberalisation and the like, so you have to make sure that matches up.

I would also note that it is not in the UK's interest to get into an arms race on the forced on-shoring of vital supply chains because it will lose. It will lose to the US, it will lose to Japan and it will lose to the EU. When you are assessing industrial policy vis-à-vis trade policy, the talk of openness and continuing to allow goods to flow freely across borders is in



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the UK's interest. It should be making that case and emphasising that over talk of trying to force supply chains into its own territory.

Q11 **Mark Menzies:** Professor Collins, is there anything you want to add on that before I wrap up?

Professor Collins: I do not know if this is a relevant point—and it is perhaps drifting off topic—but I think you cannot have any kind of successful global engagement if you do not have the infrastructure. I really would recommend that the third runway at Heathrow be pursued. I think this idea that aviation has collapsed will prove to be wrong and we will see aviation levels returning to where they were within a few years. I struggle to see how the UK can remain competitive internationally without increasing its airport and port infrastructure.

Q12 **Sir Mark Hendrick:** As we know, many trading blocs and countries have overarching trade strategies. We can think about the EU, Canada, India, New Zealand, Norway and the US. Can the panel tell me what they see as the best practice examples that the UK could learn from in the way they have approached this? As we have heard, following Brexit we did not have much in the way of a trade strategy. It has moved on a bit since then, and we have talked about it, but what do the panel see as the best elements of a trade strategy and which countries have it?

Hosuk Lee-Makiyama: First, I have a slightly different view on whether the UK actually had or did not have a strategy. It entails that the UK did not have any priorities. Some of these priorities may have been domestic, mostly about public diplomacy. It is none the less a priority, so I would like to slightly dispute that the UK did not have a trade strategy. It perhaps did not have a trade strategy document but, obviously, it was operating under a certain list of priorities that was Government-wide.

Sir Mark Hendrick: Well, it published a White Paper in 2017, and I think little of that has been kept to.

Hosuk Lee-Makiyama: Going to the question about best practice, the first question I would ask myself is: who has similar priorities and similar objectives to the UK, and perhaps a policy context that is relevant for the UK to compare with? One country that struck me, listening to the conversation here, is perhaps Japan, which is not an export-led country—export to GDP is even lower than the UK—and which has very good co-ordination between industrial policy and trade policy. It is even in the same Department, the Ministry of Economy, Trade and Industry. It is actually facing a similar set of challenges in terms of diversifying away from a regional giant, looking at the growth pockets everywhere in the world, and also trying to support its multinationals into the fully operational network of global value chains.

One thing that also strikes me when I bring up this example is the fact that Japan is one of the countries, along with the United States, that has graduated from the export-led model that is so unsuitable for the UK. To be frank, the UK will never again be an export-led country. It is really not



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desirable for the UK economy. Therefore, we are looking at investment-led growth, and Japan and other countries like that are the ones who have set the benchmark in terms of making that transition. Of course, in terms of tariffs and let's say alignment with the free trade credo, it is very similar to the one that you are hearing in the UK debate right now. It has one of the lowest tariff rates in the world. Of course, there are some slight differences, but you will never find an economy that has an industrial structure and a geopolitical framework that is identical to the UK, but it is probably the closest you will find in the G7.

I will also add another caveat, which is that Japan—and you also mentioned Canada—has a fiscal policy space that is currently not available to the UK. The UK is also running a current account that is limiting its policy space vis-à-vis several partners in the world. Therefore, we need to bear in mind that we need to scale the ambitions according to what we can actually afford to do.

Sam Lowe: That was a very articulate explanation, to which I would only add in terms of looking at models that are worth drawing on from elsewhere. In terms of the UK debate, one thing that we are struggling with is the discussion with the public about trade-offs, what trade policy can and cannot do and what it should achieve. Some of that is down to the fact that the UK Government have not clearly articulated why they want to do things. They have only articulated what they want to do. It is also because it is difficult.

If you look at New Zealand, New Zealand is obviously not a comparable economy to the UK, but at least in the space of public discussions it has made quite a conscious effort to engage with the public on the different issues of trade policy and to discuss it with them via different community outreach-type forums and the like. That is important, because one of the areas where the UK will struggle is the discussion—and we have not really come on to it yet—on agriculture.

This is a difficulty Japan faces as well. It has generally low tariffs, but it does have quite high protection for its farmers. It has managed to liberalise its agriculture sector quite a lot recently, but it is hitting the limits of what it can do, which is going to feed into its discussions with the UK.

There will be trade-offs. What is it the US wants from the UK? It wants us to liberalise our agriculture sector. That is what it wants. It is not a contentious thing to say, but obviously that is a difficult domestic discussion, especially when you consider the UK's political framework and the fact that we have MPs in specific constituencies. The line I use is: "If you are in England and you look out of your window and see a cow, you are probably in a Conservative constituency." The Lib Dems could maybe have claimed some once upon a time, but that is important and unless we have a proper discussion about that—

Chair: Have you checked out the window there?



Sam Lowe: Out of my window I can just see rain at the moment. That is important, and we need to have a discussion about it because trade policy, if you look at the economic modelling, delivers aggregate benefits largely, at least initially, in the form of reduced consumer prices. Over time you hope for increased productivity due to increased competition and the like, but there are pockets of industry that lose out. Of course they do. Subject to competition, they cannot compete anymore and they have to change and they have to adjust, and some places can take a long time. Unless we are honest about that and discuss it, we are just left shouting back and forth across the island about chlorinated chicken.

Q13 **Chair:** That is quite an important point because, at the beginning, people will say, "We can have fiscal transfers to offset the benefit we have given to, say, the south-east of England or the north-west, or whatever," but as time goes on. people then start to resent what they see as a subsidy, which has actually been built in because of a certain chosen path by the Government at a certain point.

Sam Lowe: On that note, I would also say that if you look at specific programmes around the world, if you look at the US or the EU where there are specific globalisation funds—pockets of money that are allocated to communities that are displaced by globalisation, so they have been subject to trade competition—they do not work very well. The money comes too late. People have already moved on. The training doesn't quite work because the new jobs are not in the same region and they want to stay there.

There is no substitute for an effective social safety net. Either you have a good one or you don't. If you don't, you have a problem. Thankfully the UK's one is not bad, but it probably could be improved.

Professor Collins: In terms of best practice and analogising to other countries, the natural one that I would point to is Canada, and not just because it is the country that I am most familiar with. You can see a number of parallels between what Canada has done with its international trade strategy and what the UK is seeking. First of all, with Canada, you have a country that is tied very heavily to one particular market on its doorstep where a good chunk of its trade comes from. That is what the UK had and, presumably, will hopefully have going forward with the EU to some degree.

Canada went through the painful process of renegotiating NAFTA, which in essence is simply just a free trade agreement. If it had not been concluded, it would have been devastating for the Canadian economy and would have been quite hard, I would say, for the American economy as well, so there are some immediate parallels there: how to retain a relationship with your nearest neighbour that you rely on, yet at the same time pursue a global agenda, which Canada has done quite well. I would note, in particular, the Trans-Pacific Partnership, where Canada is one of the partners. I know the UK has some plan of joining on to that.



Another obvious reason why it would be worth looking at Canada is that it signed one of the most recent successful free trade agreements with the EU. We have heard so much about the Canada model, and it might be worth looking at how Canada was able to extract these things from the EU that it now seems the UK will not be able to extract. Why is that? Is it just political or are there other issues at play?

Another interesting parallel with Canada, which Sam was alluding to with respect to the UK, is the very strong presence of an agricultural lobby. Canada has been very much a political slave to the agricultural lobby for a long time. In the NAFTA renegotiations, the USMCA, some of the tariffs on dairy in particular—such a political sector, such a sensitive sector in Canada—had to be relinquished. That was very difficult domestically. I think the UK is going to have to go through some of these trade-offs with its agricultural lobby and how that will play out politically.

The final point on Canada, and it is not just because of similar GDP—obviously Canada has a smaller GDP. It is more reliant on natural resources for its economy than Britain is, although Canada is very much seeking to diversify towards services, especially financial services and I would also say education. The other point I want to make about Canada is leadership at the WTO, which I keep coming back to. Canada has punched way above its weight at the WTO. I can think of the recent initiative for reforms to the appellate body. I would like to see the UK take on that kind of a role, and I think the UK could exceed what Canada has done and drive the free trade agenda for the WTO and bring about these needed reforms to the appellate body and so on.

Q14 **Sir Mark Hendrick:** Do you think, the way things are going, that the UK's approach to negotiations with Europe is going to put itself in a position similar to that between Canada and the US?

Professor Collins: I am not sure what you mean by that. Perhaps you are suggesting that Canada made more concessions than it wished. I think there has been a trade-off. Canada wanted a particular dispute settlement mechanism to be retained—the chapter 19—and it got it, but then it relinquished on dairy and then there were issues about Government procurement. There is always going to be that dance.

I would venture to say—the numbers would bear me out, although I could not quote them to you exactly—that Canada is infinitely more dependent on the US than Britain is on the EU. In that sense, the no-deal scenario, which none of us wants but we are concerned about, would not be as harmful for this country as it would have been for Canada to have been trading on WTO terms with the US, especially in eastern Canada, Ontario. I am not sure the analogy is going to take us much further at that point.

Q15 **Chair:** Canadian trade with the States is something like 66% of its exports, or something like that.



Professor Collins: That sounds about right, yes.

Q16 **Chair:** The UK is about 40%-odd with the European Union. I was struck by a comment earlier by Hosuk, I think, that trade negotiations and trade agreements are not the way to go to achieve growth. When we look at the situation we have, the average that I keep hearing for the United States trade agreement is 0.2% on their GDP, but it is a tenth again for Australia and New Zealand, 0.02%. I am not sure what CPTPP could potentially give us, but against the backdrop of a 6% to 8% drop from Brexit, it is hard to achieve a lot from trade agreements to make that up, so there are going to have to be some other areas of growth found.

My first question is going to be: what would be the replacement areas of growth to make up what trade agreements are not going to make up from Brexit? The second point I want to ask—I am trying to run through this quite quickly—is there was a shopping list mentioned of FTAs, and I think it was Sam Lowe who said it sounds nice to have a trade agreement with them and then they retrofit it or whatever. If you were to have trade agreements with somebody, who would you go for and why? That is the second point I would try to drive at.

The one thing I will not allow you to do, if you are suggesting anything, is to say, “Reverse Brexit” because, while that might be economically practical, it is not politically going to happen. I can see heads falling there. Your hand is tied behind your back economically. You deal with the political world as it is now. I will go to Hosuk because his head dropped first on that one.

Hosuk Lee-Makiyama: I do appreciate the sense of humour, but I also appreciate the outcome of a democratic vote, and so with Brexit as a fait accompli. I am not going to say that exports are meaningless, although it may have sounded so. I am just saying that growing the economy using exports as an instrument is not going to be out there for anyone, and absolutely not for the UK. I did not mean to be diminutive to the task of actually transitioning the existing agreement in order to minimise the cost. To be fair, the Covid impact has shown us pretty much what a complete disruption looks like, and Brexit—

Q17 **Chair:** I am sorry, are you saying that Brexit is a disruption on the scale of Covid?

Hosuk Lee-Makiyama: Brexit is permanent but, if you are looking at the scale of the impact, certainly for the period of time we are looking at, it is going to be much less because basically what we experienced during Covid is a total shutdown of the economy. Obviously, if we introduce trade friction, there is going to be not just deallocation of trade and export revenues but some deallocation of investments. People are going to invest less in the UK unless we do something.

I have seen some of the reports pointing to very, very high estimates as in the impact of Brexit. I find it very difficult to understand what kind of assumptions have gone into them. I will maybe stop at that and say that



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the de facto outcome numbers of Covid tell us a little bit about what a total shutdown of the supply chain looks like, and what we are basically talking about in Brexit is a transitional cost. Replicating trade agreements is a very worthwhile objective, and that is something that absolutely needs to be done, but basically my point is that that is really not where growth is going to happen for the UK in the coming years.

One of the impacts of UK membership of the EU has been that the regulatory framework of the UK has been very, very similar to the continent. It has not been able to compete using regulations and fiscal policy to offer a more competitive investment environment compared with the continent. In other words, what we have seen in the last two decades is that the FDI from other countries has dropped into the UK, simply because the UK has become too similar to other economies on the continent.

Therefore, it goes without saying that if you regain that regulatory freedom and discretion, it can be used to offer a more competitive environment for investment and, of course, better profits for investors in the UK. That goes not just for foreign investors but also for domestic. It must be worthwhile to do business in what the UK is, which is one of the largest consumer economies in the world.

Q18 Chair: I do not want to be controversial, knowing Martin Vickers is coming up shortly. I could say that the controversial headline there is that Brexit is a lesser but longer Covid. We will see what Martin has to say about that, but I will leave him for a second. I will come to Sam and David, and then we will go to Martin. Unmute, Sam.

Sam Lowe: Sorry, I had to mute because my neighbour started playing heavy metal and I did not want the Committee to—

Chair: AC/DC joins the International Trade Committee.

Sam Lowe: With their own vocals, which is the main problem.

In terms of trade agreements and their potential to deliver growth, we know trade agreements do not do very much for aggregate GDP, but in the current global economic context they have quite a lot of value if they can lock in existing levels of liberalisation. There is a benefit to that when you assume, say, the multinational legal order might be fragmenting slightly and, also, we might be going to more of a power bloc-based system with everyone shouting at each other. There is a benefit there if you can say, "Well, at least it is not going to get any worse than that with you, you and you."

In terms of who to prioritise, I mentioned Japan earlier. I think that should be the priority. In terms of the US—we have not really discussed the US too much here—it is important for the UK to engage with the US because to not do so could see Trump lash out at the UK, but we need to drop a lot of the naivety. The US knows what it wants from trade agreements and how to get it, and if the UK wants to have a trade



agreement with the US there is a clear path towards getting there. It will involve upsetting a lot of people in the UK, and the Government need to decide if they are prepared to do that. If not, the charade must continue because, as I said, we should not upset Trump because it is not really worth it—we can wait and see what happens to him—but it should not necessarily be as high up the agenda as it appears to be.

Q19 Chair: I am reminded of the Nash equilibrium, which came up in the film *A Beautiful Mind*. You have to adjust when you know what your opponent or competitor is doing. Professor Collins, do you want to add anything?

Professor Collins: The points that have been made already are quite strong, and I agree with them. I just want to add or perhaps re-emphasise that when you are looking at gains to be made from the CPTPP in terms of GDP or what you will get from a free trade agreement with Japan or with the US, they are going to be small individually. Even in aggregate they are probably not going to be massive, but you need to look at this as a long-term process.

We have a tendency to look at trade with the EU in a snapshot of what it was in 2017 or something. We know that it was declining every year and, in terms of the way that the global economy has been changing, it looks to me as if it would have continued to decline anyway, even had we not left the EU. Instruments like the CPTPP would be able to leverage growth in other areas. Let's look at a much longer timeframe. Let's look at 10 years or 20 years. Then I think you would start to see a meaningful change, especially as not just geographical patterns of global commerce change but also ways of doing global commerce. I would say again that the emphasis on digital and trade in services will only increase in importance, in my view, relative to trade in goods, I would imagine.

Q20 Chair: Do we have any figure for CPTPP for the UK economy? I gave the US, Australia and New Zealand ones roughly.

Professor Collins: I did not bring my figures with me, unfortunately.

Chair: That is okay. Maybe you could write to the Committee later or something; that would be useful.

Professor Collins: Yes, sure, absolutely. The last point I want to make is to reiterate what Hosuk said, and I could not agree more: efficiency gains in terms of being able to depart from what the EU has done. The problem with this—and we have heard so much about these amazing enhancements we can make by having our own regulatory agenda that is not beholden to EU regulations—is I think this argument has been very poorly made. That may touch on the last subject we were going to look at, stakeholders and so on.

The argument for Brexit, in terms of improving the regulatory environment, was never clearly made. What are these improvements that are going to be made? Who are they going to impact positively? Who are they going to impact adversely? What are the regulations that we are



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going to eliminate and streamline? I would put it to the Government to start to think about not only doing that but communicating how that is going to be done more effectively.

Chair: It is probably music to Martin Vickers's ears to have some positive stuff on Brexit.

Martin Vickers: Thank you, Angus. I am glad you acknowledge that Scotland is now free and out of the EU.

Chair: I am working on the freedom bit, don't worry about that.

Q21 **Martin Vickers:** My question focuses on the timescale for reaching agreement. I would like to ask the witnesses how quickly they feel the UK should aim to reach agreements with its priority partners, and what opportunities and risks are involved in reaching agreements quickly. Perhaps I could go to Professor Collins first, because I note that he has commented that the average length of an FTA negotiation is about two years.

Professor Collins: Yes, I agree. Thanks for noticing something I said earlier. You can expect them to be quite a bit longer than that if they are comprehensive, especially with the EU. To get a comprehensive free trade agreement with the US is going to take years. We are not going to have it by the US election in November or by January, but you could have a simple—and we are hearing the phrase “quick and dirty”—FTA covering things like tariffs quite a bit sooner. You are not going to get services, not any time quickly.

The risks of, let's say, doing a goods, tariffs and quotas agreement on its own without incorporating services? I do not know that there are many risks. There is a political gain to be had, which is a positive thing, and that can be valuable for both parties, whether it is the US, the EU, Japan or whatever. Maybe one of the risks is that the momentum and the goodwill that has gone into the agreement dissipates when you have something being signed, and it is hard to pick up the pieces again afterwards. It is also going to be hard if there are trade-offs between services and goods.

For example, if the UK wants to relinquish access to its agricultural markets to the US in exchange for access to the US services markets, then you cannot really have a services or a goods-only agreement because they are necessarily combined. It could end up making the negotiations more complicated in the long term. In the short term, I do not think it is very realistic to have anything comprehensive with any country at this point.

Hosuk Lee-Makiyama: I am not sure if I fully agree with the last two remarks by Mr Lowe and Mr Collins. I do understand in terms of the internal domestic urgency around the US relationship, but I would like to ask you the following questions. What are the market openings that the UK believes it can get vis-à-vis the US that the US has never offered to



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anyone before? What are the assumptions behind the belief that the UK would somehow increase the export surplus it already enjoys? If I understand correctly, at least if you look at the data from the US side, the UK's biggest trade surplus is actually with the US. What is the room for improvement? I understand the strategic objective, but doesn't the UK have enough strategic partnerships and instruments for alliances and trust with the US? Do they need to be fulfilled and consumed through trade agreements? If one believes that the biggest interest vis-à-vis US is in more FDI, we do not have to negotiate with the United States to include those terms, if that is the objective.

This brings me back to my previous point in regard to priorities. If you enter into a negotiation or a strategy overall, you need to be very clear about what you want, what you are offering in place, when you are going to walk away from the table and when you are ready to flip the table. It is not a game of, "Let's pick our favourite countries and let's look at who we are currently trading with." It is a much bigger calculation than that.

I would like to laud the Committee for the questions that have been raised with us so far. You have not asked us which country we should negotiate with, because that is almost secondary. Let's start once again with objectives and what we are willing to pay in order to get what we want. Unless we are clear about that, it is very difficult to say for how long this strategy is going to be implemented. My answer would be never, because it is going to be a dynamic global landscape where external factors are changing every day, and they are currently extremely volatile given the aftermath of not just Covid-19 but also the overall breakdown of the system.

I repeat once again, trade negotiation under the WTO is not a major element of a trade strategy. We are currently looking at alternatives. Alternatives look like, for example, supply chain questions: how can we secure our industries so that they can keep going? That is the number one question that most G7 countries are struggling with at the moment. The second question, which is also related to Covid, is the emergence of China. This is not strictly within the prism of geopolitics but is also due to the fact that China was the first one to go into the Covid-19 tunnel and will be the first country to get out of it. It is going to be the only country to demonstrate some kind of growth, and actually it is not ready to open up. If it opens up, it is going to follow the very close template that has been followed by the US-China phase one negotiations.

I am not saying that we need to negotiate with China, the US or any country, we just need to have a coherent answer to how all this fits together in order to make sure the UK comes out on top as this wave is sweeping across our economy.

Martin Vickers: I am tempted to say there were more questions than answers there. I take your point, and they are interesting points that we will, I guess, want to raise with the Trade Secretary in a week or two's



time when we have her as a witness.

Sam Lowe: I agree with Hosuk. My point on the US was that the UK needed to engage with Trump to prevent him from lashing out at the UK now, not that the UK should rush into a trade agreement with Trump. Essentially, the UK should string him along and hope that he leaves to avoid trade war tariffs being applied to the UK; for example, car tariffs, which could come at some point soon or could not.

In terms of the time taken to negotiate trade agreements, my opinion on this is that there is no technical reason why trade agreements take a long time to negotiate. It is entirely political. It is about finding the political moment where you can make the concessions necessary to get the agreement over the line, and it is usually the domestic timetable that dictates that. However, you also have to take into consideration who wants it more. If the UK wants to negotiate things quickly, then it is the UK that will be pushed into making the concessions necessary to get it over the line because the other partner can take it or leave it.

In terms of what can be done quickly, I think Japan could be done this year. On the US agreement, you could potentially see a phase 1 deal, a piece of paper just to keep the politicians happy, but nothing of substance before then. A US deal should take a long time, but we do come to Hosuk's point of why. The US is not going to open up its state-level procurement to the UK where it has not for other countries in the past. Mutual recognition of professional qualifications, something the UK wants, is going to be very difficult because they do not have a functioning system within the US that deals with this. These are all problems that it is going to take a long while to resolve. Of course, sometimes time—especially in the UK at the moment—seems to be something that we ignore and we say, "Quicker is better," and I certainly would not agree with that.

Chair: Yes, I think there has been the warning against wanting trade deals in our time coming off an aeroplane. I think that is the point.

Q22 **Taiwo Owatemi:** My first question is to Hosuk. How important is the sequencing of trade negotiations?

Hosuk Lee-Makiyama: Sequencing of trade agreements, as well as sequencing within trade agreements, is very important, especially for an economy like the UK. I have drawn a parallel to a couple of countries that have been thrown into the bilateral order by necessity. There are very few examples that come close to the UK but one of them is, for example, Korea. After the collapse of the WTO system, it was forced to negotiate bilaterals. The conventional wisdom is to follow that example by negotiating with sufficiently open economies that have a long history of negotiating trade agreements, which are likely to say yes to everything. It is a little bit like how some people choose a spouse. In short, countries like Singapore, New Zealand and Chile very often come as first countries,



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but that is not really sequencing. For me that is a learning curve, which is something different.

I would say, looking at the current situation of the UK, transitioning the current order in order not to lose anything rather than going on the offensive is something completely different. That needs to be taken care of, and also because of the fact that several countries will not enter into demandeurship vis-à-vis the UK unless they know what baseline the UK will be negotiating from. For many of them, the UK will still be an extension of the EU single market, and therefore they need to see the terms between the single market and the UK before they make a serious offer to the UK. As we were saying before, they want to know what the alternatives are. They want to know how the quota system is split. Of course, most of all, they want to know what they can get for free by determining what the EU will be able to negotiate with the UK, and there is no reason for paying for the camel twice, so to speak.

What follows after is basically coming back to my first question: what does the UK want to achieve with its trade policy? I have been sufficiently clear, and I repeated over and over again, what it should not be focusing on. Therefore, what I would perhaps look at is where the biggest investment opportunities are and who the potential investors into the UK economy are. That would perhaps be one of my top priorities in terms of what trade agreements should be negotiated. Many of them have been mentioned in this conversation. Of course, one thing we need to bear in mind is that some of these relationships we have now with the EU, in terms of a direct trading relationship, will be transforming into an investment relationship. This has already happened in the area of services, which by and large will be unaffected by Brexit in many areas by sheer trading effect. Most of the effects we will see are actually investment effects. That will be one key factor if you are looking at it simply on economic terms.

Then what I am a little worried about is the domestic concern in terms of public communication and public diplomacy around trade, which is going to be extremely important for the UK. That might even override what is actually sound wisdom in terms of which trade agreements we should negotiate.

The third question I would add is the point that Sam made: with which relationship do we need to enter demandeurship? Whose doors are we going to knock on? As I said, I draw the parallel to knowing what you want and knowing what you are willing to pay. Where there is a very strong imbalance in terms of what we want and what we can actually pay, those are the ones we really need to start looking at where the vital economic interests are. Bearing in mind I know there is a conversation around geopolitics and partnership history, that has very little to do with business. In the end, we are negotiating trade agreements for business so that we can create growth opportunities at home and create jobs at home as well as abroad. It may work in a public policy context of showing



that we have friends around the world, but that is not the reason why we do trade agreements. There are foreign policy partnerships and there are strategic and defence partnerships for that purpose.

Q23 Taiwo Owatemi: Briefly, I would like to ask Sam and Professor Collins how successful the Government have been so far in respect of sequencing their FTA negotiation and how, if at all, should they address issues of sequencing going forward?

Sam Lowe: I am not sure they have attempted sequencing yet. They have just identified what they need to get done and tried to do it very quickly, which in the case of the rollovers was forced upon them; in the case of other agreements less so.

I would not have started with the US, personally. I think that is a very big beast to try to cut your teeth on. Japan, Australia and New Zealand would have been far better in terms of priorities, what you can do quickly and what you can do quickly well. Japan, because it is largely a rollover, we just need to make some concessions in a few spaces to get it done again, and for Australia and New Zealand because, even if we screw it up, nothing bad happens because they are small and far away. I think that is good training and it is good practice. The US is hard. The EU is hard, but we have to deal with it because we are on our way out. The US is just as hard and it is not going to get any easier, even if Trump goes, from a trade negotiation point of view. I would not have started there.

Professor Collins: I agree with some of the points that were just made. It seems to me that, in terms of sequencing, the UK seems to be doing everything at once. There is a strong point to be made that the UK needs to pursue trade negotiations at the same time as getting Brexit resolved with the EU FTA, because some people have said this would place pressure on the EU to see that there are other interested parties. I am not sure I agree with that, but I think it has been encouraging that the UK has shown a willingness to engage with all these partners.

I agree with Sam that the Commonwealth would have been where I would have started. I made this point earlier. There have been studies looking into this notion of stickiness of trade negotiations. If you can make gains and achieve free trade agreements with easier partners first, you have established text, you train your negotiators and you can point to precedent. That would have potentially been effective in later pursuing negotiations with the US.

I suspect one of the reasons why the US has been prioritised is because of the US political issues and the evident willingness of President Trump to go ahead with an FTA in a way that perhaps a Democratic President would not have done, so I think there may have been some urgency there. It will be interesting, if there is a different President next year, how that will play out and whether the same enthusiasm will be pursued.



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In terms of whether the UK is able to handle all these negotiations simultaneously, as an outsider I cannot tell. It looks to me like they can. I was also encouraged that we saw the hiring of all these negotiators and so on.

The other point to keep in mind is that the MFN WTO-level tariffs were released recently. That was a difficult test because you had to, in one sense, show that there is going to be liberalisation and that the tariffs outside the EU will be lower, but in the same way you are giving away bargaining chips that could have been used with other partners. Interestingly, I think Canada, in particular, quite cynically stood back and waited to see what they would get on an MFN basis before committing to taking anything further on an FTA level, so you have that interesting dance as well at the multilateral level.

Chair: To bring this panel to a close we will move now to Mark Garnier, a great man who waits.

Q24 **Mark Garnier:** Thank you very much. As I am very conscious of the time, can I address my question first of all to Hosuk? Carrying on this sequencing point, the reality is that we find ourselves negotiating with two 800-pound gorillas at the same time, in terms of the EU and the US. What I really want to hear from you, Hosuk, is whether you think this is an insanely stupid idea or a very good idea. To what extent are you going to have non-complementary negotiating positions? You could have issues in terms of sanitary and phytosanitary restrictions, the proverbial chlorinated chicken issue—if we allow US imports of chlorinated chicken, does that prohibit us with the EU?—and therefore it becomes very complicated.

The third point I really want to pick up on is that we have the Department for International Trade, which is the Department that is meant to be doing all of these trade negotiations, yet the Cabinet Office is leading on the EU trade negotiations. The fact we have two Departments doing these two massive trade deals at the same time, is that administratively a not very bright idea?

Hosuk Lee-Makiyama: On the first question as to whether it is insane or not, I would like to remind the honourable MP that my expertise is in economics and law and not in pathological psychology, so I would like to abstain from that question.

Going to the question around negotiating two FTAs, I feel some of that complexity has perhaps been inflated in the public debate because, after all, the list of countries that have negotiated with the EU as well as the United States is very, very long. Obviously, every major power is interested in spreading the gospel of its own template; that is certainly for sure. That comes out every time in the negotiations; for example, in sensitive areas around SPS. Data privacy is another area that has become fairly common, and also in very simple things like the fundamental philosophy around technical barriers.



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What I would like to say here is that perhaps it is possible to combine both, and it has been done over and over again. The key question is: what is going to be the UK's model? At some point, the UK is going to have its own template and that is perhaps not best developed with a major power. I used the example of Korea before. They had a couple of practice rounds in order to make sure they had their own template and to figure out what their core interests were. One of the things that becomes obvious in the first set of FTAs you negotiate is that the channels between the stakeholders, the Government, the negotiators and the different administrative bodies within the Government become clearer. That basically means that, once you go through the process of defining your interests and then pushing it through the ratification procedure, your internal boundaries in terms of what you can negotiate, what your negotiating space is, become extremely clear. Therefore, that was a necessary procedure before you enter into negotiation with, for example, a major entity, the United States or Europe, which usually do not budge at all for anyone, not even for countries that they deem as even more likeminded than the UK. It is just the way it operates. It has nothing to do with how much they love the UK; it is just a question of the definition of domestic limitations, what they can do within the realms of trade policy. You can do other things with the UK outside of trade policy, which is what I was pointing to.

Please remind me, what was the third question?

Mark Garnier: It was to do with the different Departments. The Department for International Trade has all the trade negotiators, yet the Cabinet Office is leading on the EU trade negotiations. Is that brilliantly clever, given the fact we have two separate bodies of knowledge doing these negotiations?

Hosuk Lee-Makiyama: I would say there are a couple of different schools. The United States usually only negotiates one agreement at a time. If you look at the US Trade Representative, it is a very slimmed-down organisation. I think in total, including secretaries, we are looking at 200 people. Obviously, if you can rule the trading system for quite a few decades with that slimmed-down manpower, it really means that you have done a number of iterations, you know exactly what to give, when to give it, how to give it and what you can do.

The EU operates from a template-based negotiation. You can almost hold an EU free trade agreement, especially on the rules part, against a window and basically see that almost everything, including the page numbers, actually overlaps. It is a standing joke among EU trading counterparts that they have compared the requests and offers they have received from Brussels and found that they have been copied and pasted. There is a very strong rationale for doing that because you want to create your own rules-based system. This is the Brussels effect that some economists talk of. Basically, it is about creating a coherent market space on the same rules, where the rules are predictable, but also it creates a



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massive advantage in terms of economy of scale in negotiating these agreements.

Here is where we should also perhaps bear in mind that the EU went into the bilateral race to try to catch up with the United States. If you look at the list of negotiations that the EU has undertaken, it is quite similar to the UK's position right now because we are trailing behind a larger entity that has gone a few years ahead of us. What I am trying to say is that the EU did exactly the same thing. The EU did not go into the Korea agreement because it was so fond of Hyundai cars and kimchi. No, it was about the sheer fact that Korea was enabling the opening up of new doors vis-à-vis other Asian countries, and Korea was going to be the country that offered the most to the EU. In the same way, the UK would obviously form a natural progression of going to the country that is going to give the UK the best offer, where we are facing competitive disadvantage vis-à-vis other countries that have negotiated with that counterpart and so forth.

Mark Garnier: Very helpful. I think we have run out of time, haven't we, Chairman?

Chair: Thanks for that, Mark Garnier. Our viewer in deepest Wiltshire was wishing this was two hours, and I think the subject matter will always merit that. I thank the first panel very much for their expertise, their patience and their time in giving us part of the knowledge they have and helping us along.