HOUSE OF COMMONS

Foreign Affairs Committee

Oral evidence: Economic foreign policy, HC 2686

Tuesday 8 October 2019

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Watch the meeting

Members present: Tom Tugendhat (Chair); Chris Bryant; Ann Clwyd; Mr Bob Seely.

Questions 1-41

Witnesses

I: Marianne Schneider-Petsinger, Research Fellow, US and the Americas Programme, Chatham House, Dmitry Grozoubinski, Founder, ExplainTrade.com, Martin Wolf CBE, Chief Economics Commentator, Financial Times, and Lindsay Croisdale-Appleby, Director General, EU Exit, Foreign and Commonwealth Office.

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Examination of witnesses

Witnesses: Marianne Schneider-Petsinger, Dmitry Grozoubinski, Martin Wolf and Lindsay Croisdale-Appleby.

Q1 **Chair:** Good afternoon and welcome to this session of the Foreign Affairs Committee. Will each of you very briefly introduce yourselves with your name and occupation?

Dmitry Grozoubinski: My name is Dmitry Grozoubinski. I work for ExplainTrade.com, and I am a visiting professor at the University of Strathclyde.

Marianne Schneider-Petsinger: My name is Marianne Schneider-Petsinger. I am a research fellow in the US and Americas programme at Chatham House.

Martin Wolf: I am Martin Wolf, the chief economics commentator of the *Financial Times.*

Lindsay Croisdale-Appleby: I am Lindsay Appleby, director-general for EU exit in the Foreign Office.

Q2 **Chair:** Excellent. If I may go straight in, how coherent is the UK Government's approach to trade and foreign policy, and where do you see the main points of intersection? Perhaps Mr Grozoubinski would like to kick off.

Dmitry Grozoubinski: Sure. I think, at the moment, the UK's trade policy is still evolving, so it is hard to draw direct lines between what the FCO is doing and what that trade policy will be. I have been a diplomat in a trade post in the past, and the No. 1 thing your contacts are looking for in engaging with you is certainty about your regime, because that is what their Governments are looking for and what makes their reports readable and credible. At the moment, the UK is still very much determining what kind of trade posture it plans to adopt. I think the efficacy of its foreign service officers going forward will depend on how well they understand that policy and how connected they are to businesses back here and in the countries where they are posted, in order to connect all of that up and speak with a single voice.

Chair: Don't feel the need to double up if areas have been covered.

Martin Wolf: I have a couple of things to add. Very quickly, I promised not to mention it, but it obviously depends on how we leave, because that will define what sort of trade policy situation we have vis-à-vis the EU, which will affect the options we will have, both in theory and in practice, vis-à-vis all other countries, who will want to know how that relationship will unfold before they decide what they can do with us. That is going to be very important.

Also important are the decisions being made on the immediate trade policy that the UK will follow afterwards. Currently, there are already commitments on tariffs. Are they going to stick like this or be on a rolling one-year basis, or what? That is obviously going to be very important. Should we leave without a deal, there are obviously questions over how the old EU trade policy framework agreed in the WTO will carry over to us. These are big questions.

Finally, of course, there are huge strategic choices—since you are talking about foreign economic policy, not just trade policy—about the sort of world order we will fit into, particularly, as is perfectly obvious to anyone, because we are moving into a period of massive superpower competition and rivalry, which will create a whole slew of very difficult questions for us that we do not seem to be thinking much about. There are a very large number of questions that the Government face, but to be fair to them, most cannot currently be resolved.

Marianne Schneider-Petsinger: In terms of strategic choices, I think the sequencing of future trade agreements will be a key consideration. For example, to what extent are you looking towards a trade agreement with the United States happening before, in parallel or after a future trade agreement is sorted out with the European Union? That, in turn, has implications for potential trade-offs, particularly with regard to regulatory issues and standards.

Another thing I want to mention is questions around transparency and stakeholder engagement. Progress has been made, from what I have seen, but again, I think there is still room for improvement.

Q3 **Chris Bryant:** Following on, in a sense, from what Martin just said, will the UK will have to choose between the economic and regulatory superpowers, or do we have enough clout of our own, as a country, to be able to strike our own course? It feels as if we are in a world of receding free trade at the moment.

Martin Wolf: My answer is that there are areas in which the regulatory systems are mutually exclusive, and we will have to choose one. Agriculture is one, data protection is another. Finance will not be too problematic, even though obviously we are outside the single market, provided that the Basel process holds up—that is a question. There are some very specific issues in technology that are very important here, relating to the US and China, of which the current symptom is obviously Huawei. That is both a security issue and a regulatory standards issue. I do think we will have some real choices, but they are very complicated and will depend on different issues. That means they are related to the question: do we have a US-UK deal that puts us in the US regulatory framework for food and farmstuff? That puts us outside the EU framework. So, we will have choices.

To answer your question of whether we are big enough to go on our own without paying any attention to the regulatory rules of the three superpowers, the answer is, I’m afraid, of course not.

Dmitry Grozoubinski: As soon as you begin negotiating for improved market access with either the US or the EU, you'll say you are just talking about tariffs. If you provide market access to the US, you lower your tariffs for them as part of a deal. The first thing they are going to ask of you is to ensure that you commit that your regulations will not invalidate that access, by meaning that they can't come in.

Vis-à-vis the EU, on the flipside, if you make a deal with them and they lower their tariffs for you as part of a deal, the first thing they are going to say is, "If we are lowering our barriers, you can't then undercut us by undermining your regulations, to then flood our market with goods that are produced more cheaply through regulatory shortcuts," as they would see it.

As soon as you want above baseline—above WTO access—to either of those two of your major markets, you need to start making some choices. As Martin said, some of those choices are going to be directly contradictory.

Marianne Schneider-Petsinger: Again, trade agreements increasingly are not about tariffs. They are already, on average, quite low. There are some sectors, particularly agriculture, where there are still steep tariffs, but for the most part it is about rules and regulations.

Then the question is: is it a binary choice that the United Kingdom will face between the EU regulatory regime or the US regulatory regime? I don't think it is necessarily a straightforward answer. It is not necessarily binary. I think there is a range of options available that will depend very much on the sector.

On the one hand, you have full regulatory alignment with the EU; on the other hand, you have full regulatory alignment with the US. But in between there is also medium ground where again you could have something that is just regulatory dialogue. There is room for mutual recognition. There is also, finally, harmonisation.

Martin Wolf: Could I add one tiny point? We tend to focus a lot on trade in goods, which is what we are talking about, but of course, it is now already not the dominant part of our trade. It is very important, and we are a service economy. Service negotiations are essentially all about—or nearly all about—regulations, and that is why they are so difficult. What we said applies very forcibly to access to service markets.

Q4 **Chair:** So, all of these choices that sound like they are economic are fundamentally about alignment with one or other of the major power blocs.

Lindsay Croisdale-Appleby: Perhaps I have one comment on that. To comment on what my colleagues have said, clearly in areas of trade policy, where we have not had trade policy competence so far, there is a lot of focus on capacity building within the UK Government.

There is also a lot of work going on on trade policy in areas where we are already working on issues like trade defence. In terms of how these choices play out, first of all it is pretty important to focus on the primary concern being what the impact is on your domestic industry and defensive and offensive interests, whether those are in services or trade.

Although one can characterise it as a choice between different regulatory systems, it is pretty important that it begins with a choice about what regulatory system you want in the UK. That is the kind of choice that the Government is seeking to ensure that it preserves for the next phase of negotiations, both with the EU and the rest of the world.

Q5 **Chris Bryant:** Sorry, can I just make sure I understand what you mean? We will go, "Right, we want to decide what kind of regulatory regime we want for ourselves, and then we will see where that aligns."

Lindsay Croisdale-Appleby: Yes; the point I am making is that building up trade policy is about deciding what is in the national interest in a particular sector, whether that is a goods sector or a services sector, and deciding how that matches up with the regulatory or trade offers that you get as you enter negotiations.

Q6 **Mr Seely:** Sorry I'm late—it's nice to meet you all, hello. Am I missing something here? If you sell to one country, you obey their regulations under whatever rules they have or are available, which is WTO unless there are specific national dynamics. If you then agree a trade deal, presumably to lower tariffs and to simplify regulations—that is probably the purpose of a trade deal, to increase trade, and that is how you do it—then you do that.

However, there is a shipyard in my constituency on the Isle of Wight that has just sold some catamarans to Mexico. It does not need the Government to help do that—or maybe the Government helped facilitate that in some way. All it needs to do is obey the regulations that exist in a country and it sells to those specs in that country. Am I missing something?

Martin Wolf: This applies in goods sectors and that can raise costs, obviously, because you might be producing for many different markets. In the case of services, again it depends on the service. For instance, if you are talking about providing banking services, people will be interested in whether you have sound banks. If you think of the service sector, much regulation is not of products; it is regulation of the soundness of institutions. The same applies to insurance companies and banks. It is the probity of the institution. So people are not concerned about the products; they are concerned about whether these people will disappear.

If we are trying to get our banks into China to provide offshore services, if they are domestic they will clearly have to meet Chinese standards, but if they then provide offshore services, they will want to be sure about whether the regulatory regime we are employing is one they are happy with. You cannot have five different regulatory regimes for one bank. In the end, when you are talking about services, you tend to end up having to agree on certain standards, and that is what we have done with banking through Basel. You cannot run banks in many different ways if they want to operate internationally. Services are somewhat different from goods.

Q7 **Mr Seely:** But remind me: Basel is not directly tied to the European Union.

Martin Wolf: No, no.

Mr Seely: So in fact, it is completely different to the European Union. Again, this comes down—

Chair: Sorry, we are not doing a Brexit inquiry; we are doing an economic foreign policy inquiry.

Dmitry Grozoubinski: On the catamaran question very specifically, when the shipyard on the Isle of Wight in your constituency sold to Mexico, they met those local Mexican regulations, as you said. In setting those regulations, as a WTO member the Mexican Government were bound by certain rules. They could not, for example, decide that a catamaran had to come from wood sourced from no further than 50km from the target, in order to prevent those regulations being used as a weapon against the exporters in your constituency. If you do a free trade agreement with another party that covers goods, often what they ask for is even more limits on the kind of regulations you can put in place. In this case, if Mexico were to do a deal with the United Kingdom, we might say we want even more limits to the kind of catamaran regulations you can have, so that you are even less able to use those regulations to keep our catamarans out.

If you do a deal with the European Union, the reason its regulations become relevant is that it would say that, in addition to its regulations on what a ship has to be to exist in the European Union consumer market, it would also probably want some commitments from the UK Government on how catamarans are made. You cannot, for example, allow the shipyard in your constituency to cut costs by dumping waste in the river and thus undercut the Europeans, who would no longer be able to keep you out of their market with a catamaran tariff. I hope that answers your question somewhat.

Q8 **Mr Seely:** It does, but the basic issue is that we seem to be in a panic about WTO rules when, if you want to sell to a country, you will find a way of doing so—because that is what human beings have done. Free trade deals are really important and the European Union as a free trade deal is very important. I just think we are in danger of overcomplicating this issue.

Dmitry Grozoubinski: I recognise that this is not a Brexit inquiry, so this is the last thing I will say on the matter. The issue is not whether trade is possible. I am sure the ship makers in your constituency are excellent, but they are competing with ship makers from all over the world.

The concern with reverting to WTO rules over a free trade agreement is that, by comparison, you make others who have those deals and who have more facilitated trade or who are inside the customs union and single market—and thus do not have to meet a lot of the costs associated with exporting into it, or who automatically meet or are considered to have met the regulations—become more competitive by comparison. That is why so much of the focus is on transitioning from being inside the single market and the customs union to being outside them. That is what we are trying to flag as an issue of concern for you to think about.

Q9 **Ann Clwyd:** May I ask whether you expect the UK's future trade deals to contain the same level of human rights protection as trade deals with the EU?

Marianne Schneider-Petsinger: From what I have seen so far, that would be the case. In general, trade agreements have a general reference to, for example, the Universal Declaration of Human Rights or the EU's agreement. If there is still a general reference to the UN universal declaration, that would be the case. I have not seen anything specific on that.

Lindsay Croisdale-Appleby: The evidence we have here is about the Government's work on continuity arrangements, where we have sought to preserve the human rights instruments. Each of those deals is rather different, and the mechanisms in many of them are rather different.

One of the issues we will be looking at is how to reflect our broad international objectives in trading agreements, including for human rights, the environment, labour rights and the battle against slavery. In the context of different FTAs, we will probably have slightly different arrangements because it will depend a bit on the negotiation with the country in question. The work we have done on continuity arrangements underlines the Government's commitment on human rights specifically, and that will remain a priority.

Q10 **Chris Bryant:** An easy one: is the WTO fit for purpose? Answers on a postcard, please.

Marianne Schneider-Petsinger: The WTO is under threat, in the sense that there is the impending crisis around the WTO Appellate Body. After 10 December, we will no longer have the three members necessary to hear cases. That is certainly a challenge. The larger issue is about the extent to which the WTO is still fit for purpose to deal with 21st-century trade issues. The key question there is around how best to deal with some of the challenges posed by China in respect of state-owned enterprises, intellectual property theft and technology transfer, for example. In general, there are also issues around trade and services and digital trade—e-commerce, for example.

A lot of those WTO rules do not necessarily cover issues that were in existence in 1995 when the WTO was formally set up. The rule book has not necessarily been upgraded. At the same time, even though I said that the WTO is under challenge, there is some movement towards negotiations on, for example, an e-commerce agreement. So there is some momentum, but again the key question is to what extent that momentum will be maintained, and to what extent the WTO can really provide the basis for a rules-based international system that global Britain would like to focus on in a post-Brexit environment—particularly in this climate where we have a US Administration that is very much trying to undermine the WTO from within.

Martin Wolf: Let me add a bit. Most countries still trade on WTO terms; leaving aside all the free trade agreements, the WTO is still the framework. Among the major powers, US actions are unique. The framework still applies, and most companies around the world—in trading with countries where they are trading on WTO terms—continue to rely on them. So in that sense, it works.

What are the problems? It has not agreed a major international liberalisation since the 1990s. That is a long time. Negotiating within it has turned out to be difficult for a whole host of reasons. There are issues between the two superpowers—the US and China—that are profound. They are clearly being dealt with outside that framework, essentially.

The US wants a renegotiation, although it is not clear to me exactly what they want that to mean, so they think it is not fit for purpose. They are very, very unhappy about what they think of its law-making, which is why they are doing this. In my view, and I am also relying here on legal experts, it is easy to argue—but it will probably never be proved—that most of the actions taken by Mr Trump and the WTO are illegal. We could have a long discussion about that.

It is a system that still governs a large part of trade, but it has a lot of big problems. In my view, it is not a problem of the WTO system per se, although that is part of it—it needs to be updated, I agree completely. It is because the global environment within which it operates has changed in very profound ways in the last 20 years.

Lindsay Croisdale-Appleby: Just to add a few comments from the Government's perspective: it is a really important framework and it remains a really important framework or platform. That is why circulating our schedules on goods and services and signing up to the Government procurement agreement have been so important.

In addition, I would say there is a reform agenda. It is true that it is not progressing as rapidly as we would probably wish it to, but there are some pretty important elements in that. One is transparency; a second is the rules on industrial subsidies. Those are the kind of issues where the WTO keeps doing important work and, hopefully, it will get round to doing more on the high-profile issues like e-commerce.

Q11 **Chris Bryant:** Just on the industrial subsidies issue, obviously that has been a key part of the European Union's services of general economic interest, clauses in the treaties and DG competition, being able to regulate across the EU. Are we saying as the UK that we would prefer the

WTO to have a stronger appellate role in that?

Lindsay Croisdale-Appleby: Not specifically. We think the importance of updating the rules on industrial subsidy so that they keep pace with global trends is pretty important. There is always a challenge in the WTO where you are trying to keep pace with steps that people might be taking which are counter-liberal. That is the real priority; the undergrowth of updating the rules.

Q12 **Chair:** The question on the WTO is obviously the baseline that allows others to work off. This is now, publicly, at least, by the Foreign Secretary during his leadership bid—we have not yet had a chance to speak to him as Foreign Secretary—the economic basis for the UK's foreign policy.

The question the WTO raises is to do with its own structure and stability as an organisation—for example, the Appellate Body is soon to be not quorate in December. The challenges that it is undergoing, that Martin has already highlighted in terms of the United States and, as he could also have highlighted, in terms of China on intellectual property, are raising serious questions as to whether or not this organisation is going to continue to be a valid building block for the global economy. What challenges does that raise for the UK? What are the alternatives? How likely are existing agreements on, say, tariffs or, as you rightly pointed out, economic subsidies to industry, to endure following, for example, the withdrawal of US and Chinese support of the organisation?

Dmitry Grozoubinski: There is a lot to unpack there. First, it is important to understand what a withdrawal means. The WTO is effectively a series of tradings. There is a series of commitments by Governments not to do certain things that exists within the organisation, the Secretariat. For example, if we were to take a pure hypothetical, the US withdraws from active participation in the WTO. Does that mean they no longer consider themselves bound by, for example, their goods schedule, which sets their maximum tariffs? What are the other rules they no longer consider themselves bound by? That is question one.

Question two is, so they have taken those hand-cuffs off, that does not necessarily mean that the day after they leave the WTO they start raising tariffs on everybody willy-nilly, even though they are no longer bound by those rules. Some 99% of trade law and trade agreements is Governments agreeing not to do things that they could otherwise do. Those agreements no longer being there does not automatically mean that, for example, the US will begin breaching, and the US not being there does not mean that countries that could theoretically then levy higher taxes against the US will, because, frankly, I think I know how the US would react, and they would not enjoy it very much.

The WTO is weakening, for example by no longer being able to adjudicate cases. Does that automatically mean that everything becomes a free-for-all? You would infer from that that the only thing currently keeping countries in check is the threat of WTO adjudication. I do not know how the other panellists feel, but I do not think that that is necessarily what is preventing 99% of the rules from changing.

Chair: That is not quite the same question though. I say that because you make your point very clearly—that just because the trellis falls away, it does not mean that the rose falls down.

Dmitry Grozoubinski: Right.

Q13 **Chair:** But it does raise questions as to how stable future growth is on that basis. You are right, of course, that just because the US, for example, withdraws from some areas of the WTO, it does not necessarily mean that it will immediately change its tariffs. At the moment, we are seeing the reverse: the US is changing its tariffs despite being in the WTO.

I am not going to get into the argument that Martin proposed earlier, that the United States is in breach of the WTO; that is an argument that I think we can save for another day. However, let us assume that Martin is right—I am not agreeing—that the US's tariff violations put it in breach of the WTO; by the way, others are in breach in other areas. How many breaches can the WTO take before the structures underpinning it and the series of agreements that make it up cease to be valid?

If the UK is going to base its entire economic foreign policy on a series of agreements that are under serious threat, what alternatives should we be looking at? What bilateral or multilateral deals should we be looking at, to make sure that, should the breaches overwhelm the ship, we have alternative arrangements?

Marianne Schneider-Petsinger: Coming back to the breaches, there is the concern that the Trump Administration is undermining the WTO from within. To me, perhaps the larger concern is that the so-called champions of global trade—the EU, Canada and Japan—are taking steps that help the Trump Administration to undermine the WTO in one of the safety systems.

If you look, for example, at the EU's and Canada's responses to the US's imposition of tariffs on steel and aluminium, they raised the challenge at the WTO, but they did not wait for a ruling. Instead, they deemed the US measures to be a de facto safeguard measure, which made their rebalancing consistent with WTO rules. Essentially, they are taking trade justice into their own hands.

Another example is the recent US-Japan trade deal. It is really a mini trade deal, so there is a question of whether that is consistent with the WTO requirement to cover substantially all of trade. A final example is perhaps also the EU and Canada's efforts to set up a workaround in the light of the impending crisis of the WTO Appellate Body. The EU and Canada have set up an interim alternative arrangement. They still say that they are very much committed to reforming the Appellate Body, but again, in my mind, that takes out some of the pressure to actually move forward with the reform efforts. If this alternative mechanism stays there for a longer time, that creates perhaps some fragmentation in the system. To me, those are also challenges that need to be taken into consideration.

In terms of potential alternatives, again, coming back to the issue we discussed already, the broader reform efforts needed for services and e-commerce are really the two areas where WTO needs reform, and those are also the key components that really matter for the UK post Brexit and currently. So it is really looking at services and e-commerce, and having an independent voice on those issues would be—from my perspective—quite critical for the UK in the future.

In terms of—again—alternative arrangements, to some extent there is movement away from multilateral arrangements under the WTO to more plurilateral or bilateral agreements. We have seen TiSA—the Trade in Services Agreement—that was launched in 2013, but it didn't really move anywhere post-2016. Perhaps, however, the UK could take a new leading role in moving the debate forward on that.

Another regional trade agreement is the CPTPP. Again, there has been talk about the UK joining that. Again, there are potential alternatives, but I would argue that none of them really have the benefits of the WTO and the multilateral system.

Martin Wolf: My colleagues have made some incredibly important points about where we are. I will just make some very quick comments.

The WTO is certainly in difficulty, partly for the reasons that I and others have mentioned, and I will be narrow about it. But the alternatives don't seem to be very healthy, either, if you mean deals that affect a lot of countries together.

The US may change, but it withdrew from the TPP. A successor, which we have talked about, exists, but is clearly much less significant without the US in it. China has its own regional agreement—the Regional Comprehensive Economic Partnership, or RCEP—that doesn't seem to be getting anywhere.

I think it would be fairer to say that the global trade scene, in terms of negotiations, has stalled, at the very best. World trade has, too, pretty well. I mean, the old situation—it wouldn't be fair to say that we are deglobalising dramatically, but I think that in most of the areas we can measure, it is stagnant or falling.

So the environment is not incredibly helpful in this way, both in terms of actual trade and in terms of the trade negotiating process, be it either the WTO or the alternatives. We may still be able to do bilateral deals with the important players, but the truth is that there are a very limited number of very important players with whom we can do bilateral deals that make a difference, and obviously the US is the most important.

The second big point is—I mean, I can go into this in detail, but I feel very strongly that pretty well everything the US is now involved in is violently illegal, including the new agreement with Japan, which clearly violates article XXIV. The use of the security exemption is outrageous. However, the crucial point is that you are absolutely right that most of the American rose is still standing upright, but nothing is supporting it and if there is a storm it will go down. There are other things that they are pursuing. Bilateral balancing, for example, is sure as hell—sorry—not part of the WTO.

China's trade policy is a mystery. What are they trying to do? It's really important—I mean, what is their vision? I have spent a lot of time talking to Chinese officials and it is very unclear to me. Therefore, are they serious about their regional arrangements? What is their plan for the WTO? And, finally, it has been incredibly difficult to agree large liberalisation programmes in new areas. Services is a classic example; we've had this for 40 years now.

So I think we have to be realistic. There are things that can be done; there are things we should try to do; but it's not going to be an incredibly easy environment on any of the various options. And I think the British Government will just have to do their best in all possible arenas.

Q14 **Mr Seely:** I would just like to probe a little bit more in a way that I hope is not repetitive—talking about China, but also liberalisation. And I completely agree that there is more that we could be doing. It would be nice for the UK to take a leadership role post-Brexit, because I think it's absolutely in our interests and the WTO needs saving.

So, on that point—Martin, you said earlier that we need more liberalisation. Can you give me some specific examples, or are we talking about services economy in general, and is there anything within that?

Martin Wolf: You mean in the services sector?

Mr Seely: Well, you said that we need a new round of liberalisation; we haven't had a round of liberalisation since the 1990s.

Martin Wolf: The things that have been mentioned are the areas in which people are interested: e-commerce is obviously an important example, as are banking services and financial services more broadly. They all raise some very big issues. The supply of services and consultancy, and all the other things in which we are very interested, raises issues about the movement of people.

There is a long list of services to which we would like our people to have access to be able to provide in markets around the world. At the global level, as far as I can see, little progress has been made. Public procurement has been mentioned. That has just been started. The liberalisation of the public procurement code in the WTO is, as I remember it, very limited.

Then there are some non-liberalisation issues—regulatory standard issues. The US, in its negotiations with China, has raised very important questions about intellectual property protection, which are also of great interest to us. There are plenty of areas where we would like greater discipline at a global level, which, of course, also raise regulatory issues.

Of course, we will find ourselves confronting some of the questions that we confronted in relation to the EU—that is to say, how much we want to compromise our regulatory standards in negotiations with others who have their own regulatory standards and would like ours to converge on theirs. There is then the whole question about how you deal with divergent regulatory standards. That is clearly the agenda for the future of trade policy worldwide, if it is going to move forward.

Q15 **Mr Seely:** Secondly, on China, I thought the idea of the WTO admitting China 20 years ago was that it would stop hand-over-fist IP theft and that it would become more like us—maybe that sounds wrong. That has not happened. Not only is it more authoritarian than 20 years ago, but allegedly, the IP theft has not really changed. In fact, China is now in an increasingly assertive position through the belt and road and its attempt to dominate 5G. It still has developing world status. What do we do about China in the next round of the WTO?

Martin Wolf: Does anyone want to talk about what to do about China?

Dmitry Grozoubinski: The first thing—perhaps this is an obvious or defeatist point—is that the one thing that international law and international diplomacy have never quite figured out how to do is how to make a superpower do something that it does not want to do. The UN Security Council has that problem; the WTO has that problem; the ILO has that problem—everyone has that problem. Right now, the real challenge for all international trade and all international diplomacy is that there are elements of the Chinese system that China finds quite attractive.

There are also areas that operate in ways that are more difficult to target with traditional policy instruments, including the ones in the WTO. So if some of the allegations against China are true, for example, it is very difficult through international trade law to attack a covert unit of the military breaking into a private sector company abroad and handing its blueprints under the table to a non-state-owned but heavily state-owned enterprise in China and allowing them to undercut IP costs that way. Simply, it is very difficult.

I am not a trade lawyer, but that is not the kind of thing that the WTO is really built to do, which was much more geared around the way we do policies in the west, where there is a distinct piece of legislation and a distinct effect at the border and you can point to de jure or de facto discrimination and attack it that way. Similarly, it is difficult to come up with tools, for example, when the Chinese Communist party encourages its firms to stop purchasing soy beans from US suppliers—not necessarily through tariffs but simply Government influence—and they do it. If something such as that happens, it is difficult to point to a distinct problematic ruling and challenge it.

How do you build structures around shutting that down? My incredibly defeatist view is that, basically, China, through other means—not through a WTO conversation—has to get to a point where it is ready to give some of those up. Once it has reached that point, the WTO can be the place where you agree the laws that bind its commitment to do that. It is not the other way around. Until it decides that it does not want to do what it is doing, the WTO is not going to be the method to make it change.

Marianne Schneider-Petsinger: One of the key issues that we are also seeing in the current US-China trade war is not so much about trade, but really is about the quest for technological leadership and those issues around forced technology transfer and IP theft. In the US-China context, there have been memorandums of understanding, but the key issue is enforceability, and that is very much where the Trump Administration are pushing.

In the international context, many of the US allies, including the EU and Japan, agree with the diagnosis of what the concerns are regarding China, but there is not necessarily a shared solution to get China to actually change its practices.

Q16 **Mr Seely:** I understand that the Chinese are not going to change until they are ready to change, and then you do it through the WTO. Until then, the WTO is not a big enough stick to try to get the Chinese to comply.

Marianne Schneider-Petsinger: Unless there could be a big challenge at the WTO brought by the US, the EU, Japan, etc. I think that could create a critical mass at the WTO level, to get the Chinese to change their practices. Again, because the Trump Administration is currently waging a number of trade wars, also covering traditional US allies, the ability and willingness of US allies to co-operate with the US, to address some of those short concerns with regard to China, is undermined.

I should mention that there are US-EU-Japan trilateral negotiations and efforts to address some of those challenges, again vis-à-vis China. Again, there is progress, but it is very slow. That may spill over into WTO reform efforts.

Q17 **Mr Seely:** Will the UK be part of that trilateral? Will it be a quadrilateral?

Martin Wolf: That is a very interesting question. I do not know the answer.

Q18 **Mr Seely:** I was looking more to Lindsay to answer.

Lindsay Croisdale-Appleby: I think it is a question that would genuinely arise after we leave the EU. Obviously, for the moment, we are bound by the Common Commercial Policy.

Q19 **Mr Seely:** Are we going to apply? Is that the plan?

Lindsay Croisdale-Appleby: I don’t think we have taken a view on that.

Martin Wolf: There was one small and quick point. I do not want to go into it at length, but I think that your description of what has happened with China since 2001, while widely held, is not correct. We followed this very closely at the time. China's economy and economic policy was changed in many quite important ways by WTO accession. Zhu Rongji, the Chinese premier at that time, who really promoted it, did so precisely in order to do this. What surprised us is how competitive it made China. People didn't realise that. That is what he hoped it would do—that it would make China much more competitive—and it did.

Of course, the changes—this is the second point—were much more limited in the economy and even more in politics than many hoped, because, as has been mentioned, trade policy, particularly the sort of commitments Zhu Rongji made in that accession, is a quite limited tool of total economic and political transformation.

That brings us to the big question. If we have our tripartite, quadripartite or even WTO process to change China, what is a realistic way to go about that? What is a realistic objective and what are realistic means? What do you do if you fail? That immediately raises questions that go vastly beyond trade policy, to the whole future of the relationship between the west and this rising power, which is clearly not western. The WTO is a terribly small part of that huge and compassing challenge. We shouldn't let the WTO tail wag this dog.

Q20 **Mr Seely:** One of the things you can do in this country is what the Australians have done and what the Americans are doing, and say no to Chinese tech and 5G, but you do so as much because of politics as because of security or because you don't like the way that China does business by undercutting and so on. So there are things that you can do.

Martin Wolf: There are things we can do, but that won't change China. It might protect us. You have to think that—this is obvious—from the Chinese point of view, the actions against Huawei are acts of war, and if that is where we want to go, which might be a perfectly reasonable thing to do, then that is fine. But we should understand the relationship that we are forming. All I am suggesting is that we should not look at this as a trade issue. It is not a trade issue. It is not even an economic policy issue. It is a fundamental strategic question of the future of our relationship with China.

Q21 **Mr Seely:** But that is precisely it: the Chinese are presenting this as an economic issue and for them it is not, because Huawei is the vehicle by which they will help to dominate 5G in the next 10, 20, 30, 40 or 50 years and Huawei is to all intents and purposes a Chinese state corporation behind the figleaf of being a private company. So you are doing this for reasons of politics, because you are drawing a line, as the Australians did.

Martin Wolf: China would say that being a dominant technological power is part of our future as the world's greatest power, which is what we are entitled to be. You can see it the way you do and you can see it the way they do—all we are suggesting here is that the clash between those two visions is a fundamental geostrategic clash. How we handle that is probably the most important political issue that western countries will face in the next generation.

Q22 **Chair:** Sorry; the very fact that you put it like that suggests that no purely rules-based organisation could possibly answer those questions. They are just not capable of it.

Martin Wolf: If our belief is that, because it is a communist country, for China to become a technological superpower is against our interests, it is clear there is no trade framework that will handle that clash.

Chair: Right.

Martin Wolf: Voluntarily; I was involved in these very discussions with the USTR in China and it is clear that the Chinese will never sign up to that.

Q23 **Chair:** The second point, then, is to say that economic foreign policy, like all other forms of foreign policy, is a choice as to which alliance, which structure and which friends you choose in order to influence which areas. Therefore in your economic choices, whether you are choosing US agricultural norms or European or Chinese or whatever, you are opting specifically into a very clear area. Is that correct?

Lindsay Croisdale-Appleby: I guess from a Government perspective, you make these choices at a number of levels. You make the choices at quite a micro level—you can work with countries on specific trade liberalisation measures that are not actually within trade law, you can build the kind of alliances that do create change at the WTO and you can create trade agreements. You have a variety of tools and some of those you do with some countries and some you do with the others. The Government have put a lot of money—£150 million—towards the micro level of that, which is looking at individual non-tariff barriers. There are quite a lot of different ways of getting at liberalisation.

Marianne Schneider-Petsinger: There is also a choice that potentially has to be made, particularly if we are looking at the United States. The Trump Administration has hinted at using Huawei potentially as an issue in future negotiations for a US-UK free trade deal. So there is that. Also, if you look at USMCA—the renegotiated NAFTA agreement—there is a poison pill in there, which essentially precludes the parties from concluding trade agreements with non-market economies. That raises the question of whether the United States would push for something similar in a future trade deal with the United Kingdom.

Martin Wolf: It will, for sure.

Q24 **Mr Seely:** On Huawei, there are two points, to play devil's advocate. I took Martin Wolf's point to be almost defeatist—I am sure you weren't trying to be. Either we accept China bending the rules or effectively we have a de facto declaration of economic war against them.

Look at the Australian example. After a public debate, Australia said no to having Chinese one-party state tech as a primary contractor in their 5G network. According to you, to play devil's advocate, that was a declaration of war. It has not affected Chinese-Australian trade in any way, shape or form. As Kevin Rudd, who came before our Committee, said, you need to be consistent and stand up to the Chinese; otherwise they walk all over you.

One way is to say that we have to kowtow to China bending the rules or it will get worse because they will get even more threatening. The alternative—the path of the Australians; they are a smaller power than us and they do not have a seat on the UN Security Council—is to say, "No, you are not going to be part of our 5G for various political and security reasons, but we will continue to trade." China has accepted that. The model is there for defending yourself more assertively, and it actually being good for you.

Martin Wolf: There are a couple of differences. First, I have no idea whether China has accepted that. They have very long memories. In the present situation, Australia is not the centre of this; this is the relationship with the US, and they think that what the Americans are doing is not attacking Huawei as such, but attacking Huawei as the symbol of their technological prowess, and that the US is not trying to protect its security, but to stop Chinese technological advance. In that context, Australia is not very important. As I am sure you noticed, the Chinese have been retaliating quite fiercely in as many ways as they possibly can in their bilateral disputes with the United States, which include this issue.

You raise two quite different issues, which is important. Huawei is held to raise profound security issues—I have no expertise in this whatsoever, so I accept it. In that case you make a security decision, and the Chinese can probably live with that as it is a very specific issue. What the US has been after in its negotiations—nobody else has, but it is clear if you follow it—is to get rid of the state industrial complex and its link with the technological development of China. To do that, it wants to change the practices of China in respect of industrial subsidies, covert subsidies, intellectual property and all the rest of it. That, from the Chinese point of view, is a far bigger and more comprehensive challenge than the Huawei issue alone.

We can clearly decide not to allow Huawei into our country, but does that then apply to lots of other technology or internet companies? What do we feel about having Alibaba all over our country, hoovering up all our data? It is a much bigger set of questions than just Huawei. I agree completely that there are many levels of this, but we will face strategic questions on this issue, just as the Americans do.

Dmitry Grozoubinski: May I just say, as the token Australian on the panel, that Australian foreign entry policy is currently walking on a knife edge? If you want evidence of just how caught in the middle Australia feels, you have only to look at recent statements by Australian leaders about the Hong Kong protests, which involved some of the most cautious diplomacy you can see anywhere.

Australia lives in justified dread of a point where it can no longer carve a middle road and gets asked some really hard questions by either their allies to the north, or their allies across the Pacific. Yes, to an extent I agree with Martin that it is far too early to say that the Chinese smiled and rolled over and said, "That's fine". Some editorials in the official Government newspapers were to the tune of, "What do these Australians think they are doing? We should punish them", and that is the traditional way that the Chinese Government send shots across the bow of their allies.

It is not necessarily as stark as, "You have to keep every Chinese product out of the market tomorrow", but the Committee would be poorly advised if it believed that there is some middle path where you will never have to make a painful choice. I do not think that, in the long term, Australia is an example of a country that will not have to do that.

Q25 **Chair:** Is the UK's future some sort of repeat of the Australian tightrope walking exercise?

Dmitry Grozoubinski: Some 30% of Australian exports go to China, 10% to Japan, and everybody else is in the low single digits. The Australian trade balance depends so much on the price of iron ore and coal in China that our currency may as well be pegged to those two commodities. The Chinese do not hold anywhere near as large a sword of Damocles over the UK—

Q26 **Chair:** No, but the European Union does, and the United States does.

Dmitry Grozoubinski: With the greatest respect to the importance of the precautionary principle and SPS, and how you regulate dataflows, that is not the same kind of epochal geostrategic thing that we are seeing emerging between China and—

Q27 **Mr Seely:** They are also not a communist one-party state.

Dmitry Grozoubinski: Yes.

Martin Wolf: If it comes down to it—it seems likely, to me—well, I have always assumed we go with the west, if there is one. Of course, if we have a complete fracturing between the US and Europe, it gets more interesting, but let's leave that aside. We go with the west, and that is partly because all our interests are there.

We do far more trade with western countries. I have just been looking at these figures. I think 65% of our exports are sent to the EU or the US. That's goods. China is—five or six? I don't have the exact figure—I can't remember—but anyway, we are in the western system completely. Our financial sector depends on it. So it's absolutely clear to me that we would have to go with that part of the system for economic reasons, quite apart from the political reasons.

Q28 **Chair:** Obviously, we have focused on the WTO; we have focused on goods. Those are the obvious things. With Huawei, it's not quite goods, so we are already leaving the goods realm there. What is the possibility—

is there a possibility—of a sort of second-tier foreign policy based on intellectual property and on services rather than on goods? Is there a building block with Japan and South Korea? Is there a level at which you can recognise the service exchange that exists and deepen it?

Marianne Schneider-Petsinger: I would come back to the Trade in Services Agreement. Negotiations started in 2013 and didn't move anywhere. It's 23 parties, WTO members, even though the negotiations were conducted outside the WTO framework, albeit with the intention to then open it up to all WTO members. China did at one point express an interest in joining, but the United States didn't really let them in. I think that looking at that as a starting point and reviving it, at a time when that leadership is not coming from the United States, because of the focus on goods—

Chair: Right. Reviving it without the United States is actually what I was talking about.

Dmitry Grozoubinski: I was chapter lead on a couple of chapters of TiSA for a while, and certainly that is one avenue. There were some serious difficulties at the end. Actually, that was unrelated to the Trump Administration; it was around different approaches to data flows and localisation, which is a geeky topic for the trade Committee. But I would say that also, outside trade agreements themselves, a huge amount can be done regulator to regulator. I think it's really important not to overlook that, given how sexy FTAs are.

One example is finance. I know that in the finance sector, in the City, often a lot of the things that really make a difference to them are actually easiest to do when the UK regulator gets in the room with the US regulator. An FTA might be an MOU. It might be just co-operation. But they can then open doors or smooth the passage of services back and forth, without going through the full mechanism of a services liberalisation.

In truth, TiSA didn't make it over the line—if you don't look at TiSA and don't look at the single market, the actual services market access openings in FTAs throughout human history have been negligible. What they have generally done is lock in existing openness, or sometimes the best openness that that country has given anyone, but they have not gone significantly further than that for anything but investment, whereas the regulator-to-regulator stuff can really make a huge difference.

Martin Wolf: I don't want this to be seen as a Brexit point, but regulation is so central to services that you end up with the sorts of negotiations whose consequences we hated so much in the single market. Let me give you one example—the provision of legal services. If you want to provide legal services, you have to be able to send lawyers somewhere—people—and they have to be allowed to practise; no doubt in some limited areas, it depends on commercial courts and so forth. That's difficult. Lots of countries do not allow people who are not qualified in their own system—

Q29 **Chair:** The United States barely allows it within the United States.

Martin Wolf: Exactly. It's very difficult within the US. These sorts of questions have been very, very difficult inside Europe. And if you wanted to take a very, very large English-language market of law, India, they would say, "We won't do it." Then if you say, "Well, we would really like you to," they will say, "Okay, will you accept all the Indian lawyers and Indian consultants coming and supplying services?", because that often requires movement. That is just one aspect of services—there are many others—that requires movement of people. That is a very controversial and difficult issue. Those are the sorts of reasons, when all services are very heterogeneous—data has been mentioned—that make services negotiations so difficult.

We have discussed finance. Fortunately, in some areas—not so in insurance but in banking—we have an international framework that has worked pretty well informally, though there are some difficulties. It is always sector-specific. But there are reasons why liberalising services is so hard because it gets to national sovereignty and identity to a very significant degree.

Q30 **Ann Clwyd:** I want to ask Lindsay, in particular, if you could tell us what kind of cross-Whitehall discussions are taking place to co-ordinate economic policy with other UK interests. Specifically, what human rights clauses are being considered in the UK's future trade deals?

Lindsay Croisdale-Appleby: Specifically, there is a series of Whitehall mechanisms that are co-ordinating our economic policy. They start with the Cabinet Committees. There are obviously the Exit Cabinet Committees and there is one that relates to industrial policy. I can't recall the name, but we can get it to you.

There is a load of senior officials groups that meet regularly. They look at these issues that we have been talking about such as trade-offs across different regulatory systems, and how you mesh those with your national priorities. It is pretty extensive.

It obviously involves a central leadership role for the Department for International Trade on the international trade angles. DExEU leads on the co-ordination of the European Union negotiation, both current and future negotiation. Those two are brought together through the Cabinet Committee structure that the Prime Minister has set up, particularly the EU Exit Strategy Committee, which straddles all those issues.

In terms of consideration of human rights clauses, or promoting human rights, that has been the subject of quite a lot of cross-departmental co-ordination. In the case of trade agreements, that is led by DIT, as the Department in charge of those trade agreements. In the case of the broader Government human rights policy, that is co-ordinated by the FCO, as in charge of our international human rights policy.

It isn't the only issue that we have looked at. As I was saying, we have also looked at modern slavery, environment, social standards, labour standards and all the other standards you would expect us to be looking at, as we decide on what basis we would want to negotiate FTAs. At the point that the Government puts forward mandates for FTA negotiations, then I expect those issues will be very clear. There has been a very strong commitment to transparency on all of that.

Q31 **Ann Clwyd:** Is there a lead Department?

Lindsay Croisdale-Appleby: For international human rights policy, it is the FCO. For the policy on the international obligations or priorities that you would have as you negotiate trade agreements, it would be the Department for International Trade. Obviously, the Cabinet Office exists to co-ordinate across Government.

Q32 **Chair:** Forgive me, I realise the role of the Cabinet Office and the Foreign Office has moved around here. It strikes me as slightly odd that the Cabinet Office's role, which is after all to co-ordinate across the whole of Government, should also now seemingly be to co-ordinate the entire foreign policy of the United Kingdom, which I thought was the Foreign Office's job.

Lindsay Croisdale-Appleby: The Foreign Office does lead on foreign policy. Exactly as you say, what the Cabinet Office does is co-ordinate where there is a gap or issue that needs to be looked at specifically. You could take an issue that we were looking at a couple of years ago—Hinkley Point—where you have got both an international dimension, on how you bring together Japanese perspectives, Chinese perspectives and what their interests are, and you have domestic policy considerations. That is often where the Cabinet Office gets directly involved.

Q33 **Chair:** Can you name a single aspect of foreign policy that does not have national policy implications?

Lindsay Croisdale-Appleby: As a point of principle, foreign policy derives from your national policies.

Q34 **Chair:** Given that foreign policy is what we do in order to achieve our national ambition, in order to satisfy the British people and further their prosperity and happiness, I am slightly confused as to what the Foreign Office's role is if it is not to co-ordinate across Government for overseas—I know that is not the purpose of this inquiry. I am not entirely sure what the Foreign Office is doing if it is not co-ordinating between trade, aid, home, energy and—

Lindsay Croisdale-Appleby: To take a set of issues where we are co-ordinating, if you have a policy towards Yemen, it clearly pulls together your policies on counter-terrorism and stability. That is a very good example of an area where the FCO would be co-ordinating.

Q35 **Chair:** Sure, but is that not just being done by the FCO because it is so unimportant in national Government terms?

Lindsay Croisdale-Appleby: No. Another example that is very important in national Government terms would be all the work we have done on the western Balkans, which is a big area of threat to the UK and obviously a big set of issues around stability. It goes across all the range of international issues, and not just issues about countries but big thematic issues such as how we have influence in the OECD, what our policy is on regulatory diplomacy and how we use multilateral institutions. The FCO co-ordinates that across a whole range of issues, both thematic and geographical. It is true that there are some issues where the Cabinet Office has a particular co-ordinating role, but we do not feel that is to the detriment of the Foreign Office on foreign policy.

Chair: Forgive me; that was unfair, because it is not the purpose of the inquiry.

Mr Seely: I was just going to build on that point. I am a big fan of the Foreign Office, but over the past 10 or 20 years you have continually lost power to other organisations, both to DFID—which was set up almost to be separate from the UK national interest, but we slowly learned that that was a pretty daft thing to do, so it has been slowly reined in—and the Cabinet Office, which has taken some of your powers as well.

The problem is that we do not actually have an integrated enough foreign policy that covers Departments, because we have too many Departments doing overseas stuff and, arguably, they are not integrated enough. That is certainly my understanding from talking to your colleagues in different Government Departments. There is a bit of strategic co-operation at the top and there is some at the bottom, but even ambassadors do not have control over everyone who is in their embassy if they are from different Government Departments, so that is a problem as well. Sorry; I know that is not much of a question, but it is just to follow up that point. I do, however, have a question, if I am allowed.

Chair: I am slightly conscious that Lindsay has not been invited to defend the foreign policy of—

Mr Seely: I would like you to be defending our foreign policy much more, because I am, but we need an integrated foreign policy and sadly we have not had one for the best part of 20 years. Anyway, do you want me to ask a question?

Chair: Ask your question.

Q36 **Mr Seely:** Going back a little bit on FTAs, is their primary value that they open up markets and our markets are opened up to foreign goods as well, or because of the WTO is their primary use in a sort of secondary way—that it helps our influence with various nations, and helps focus our traders and our commerce on various nations? Is that their primary purpose, which is still incredibly valuable? I am only asking this because of the debate in the UK about FTAs. I wonder how useful it is, because it is like, "We've got to have Government permission to sell to this country or that."

Dmitry Grozoubinski: I would probably class them in three different groups, because the answer is that there's a little bit of each. The first one is your bilateral free trade agreement with somebody, say, across an ocean. Something like the deal with Korea is certainly primarily about providing more market access for UK firms in exchange for better market access for Korean firms, and locking in some of those conditions of trade and encouraging investment. That is point one.

Point two is that there are regional agreements, such as the European Union's single market or the African CFTA, that are a bit of that but are also about trying to make it easier to build something in a broader area, so you can pull together the various competitive advantages of a couple of countries and thus have the final product be more competitive globally. That is your regional agreement, which mixes in some of that but also spreads a little bit of your ideology and your approach to regulation and trade.

The third one is things like preferential trade agreements, or economic partnership agreements, which are not necessarily as much about providing opportunities for UK firms in the first instance, though sometimes they do that. They are about offering opportunities for developing countries to grow by exporting on preferential terms to the United Kingdom, the European Union or whoever. They are also about shoring up the system by, I suppose, creating a stronger latticework of law that binds more parties together in trade. It is a kind of layer cake. That is how I would approach it.

Martin Wolf: What Dmitry said is very helpful. I would like to approach it in a slightly different way. There are so many fascinating questions. It is something that I have been thinking about for about 40 years. I was very against FTAs; I was a WTO purist. There are economic and political, and almost value, aspects to them, and a discussion of the value aspects. That is a very important set of separations that we have to make.

I also want to introduce the horizontal one: from an economic point of view, they matter most to us economically—they clearly do other things—if the partner with whom we are having an agreement is economically potentially important. The truth is that about 170 of the countries in the world are never going to matter very much—that is just a reality—or they will not matter at least in our lifetimes, and in our children's lifetimes. There are only a limited number of countries' economies of the scale, scope and potential complementarity to matter. From that point of view, there is a limited number of deals that will really make a difference. I would say, for us, it is three or four.

Q37 **Mr Seely:** How many countries do you think overall? Are we talking about a dozen?

Martin Wolf: Yes, roughly. I am going to give a list, but obviously we are counting the EU as one. The EU is the most important, then the US. Everybody else is way below that, but then you are getting to China, India, Brazil, Korea, Japan—

Q38 **Mr Seely:** I was going to ask about Korea. You would include Korea?

Martin Wolf: Yes, I would. It is quite an important one. The other economic aspect is that it makes a difference if getting rid of the residual barriers—tariffs, the customs regulations and all other regulations that might be covered by the agreement—turn out to be extremely favourable to the trade that you are interested in. That depends on the specific complementarities of the economies and the nature of the deal that you can reach.

Obviously, the EU is an exceptional deal, but it is pretty clear to me that NAFTA—and its successor—has been a very significant deal for Mexico and Canada, because it was with their most important partner and the commitments made were very great. For the UK, it is pretty clear that most FTAs will have to really be justified on their political and social value, but there are a limited number of FTAs from which we could gain enormously economically, and they are going to be quite difficult because they are with really powerful people. That would be my answer. The priorities, if we are looking economically, are pretty clear.

Lindsay Croisdale-Appleby: Just to chip in on this, and then I'm afraid I will have to catch a flight, as I think we notified you in advance, I think it is at least both the political and the economic and, as you say, underpinned by the value. Clearly, there are countries with whom it would be quite surprising if the UK did a quick FTA after we left, particularly on values issues, for example. In other words, I think one way of looking at that question is: who would you expect us not to do a very quick FTA with? There are probably some countries in those categories, which tells you that quite a lot of partnership signalling goes on. It is therefore quite important in your foreign policy posture.

Q39 **Ann Clwyd:** If there is no deal, are there alternatives to the WTO that we should be looking at?

Lindsay Croisdale-Appleby: This goes back in part to the question of how good a platform the WTO is. What I would say is that it is a very deep platform, in terms of putting our schedules, and giving us a basis from which to trade with all the countries in the world. I do not think there is an alternative to the WTO that takes you into that very deep set of market liberalising measures globally that provides a basis for international trading.

Martin Wolf: That would be the first thing that you would do in this very unhappy circumstance.

Q40 **Mr Seely:** That is a follow-up to what you were saying about being a WTO purist before. It seems our policy post-Brexit is going to be to do whatever we can. Some of that is going to be WTO, where we should rightly put a lot of our eggs because it is a really important basket. If we can lead and try to influence a new round, that is great. At the same time, we will also be doing free trade deals and Korea seems to be quite a good example of a country which has an important economy. It is obviously not on the scale of the European Union, but you are not going to be overwhelmed by immigration for various cultural reasons, but also because they are very rich. The Koreans who come here have probably been working for banks and in sectors that we would like to encourage. Korea is one of the easier deals that we are going to do. Would you agree with that?

Martin Wolf: I have not been involved in these, but it will not be terribly important to us because we already have pretty good trade relations with them. But, if we can't do a free trade deal with Korea, we can't do it with anyone, I would have thought.

Dmitry Grozoubinski: To my understanding, the UK has rolled over the existing EU FTA in South Korea. That was three-quarters of the way done.

Martin Wolf: We should be able to do one—well, we are doing one with Japan, aren't we?

Marianne Schneider-Petsinger: That is not going to be rolled over. As part of discussions about the UK potentially joining CPTPP, that would involve Japan and then there is a separate consultation, as far as I am aware, currently going on about a separate agreement with Japan.

Q41 **Chair:** How serious do you think it is that Canada has not agreed to roll over?

Marianne Schneider-Petsinger: I think they were very willing to do it, but when the temporary no-deal tariff schedule was published, it signalled to the Canadians that they could essentially get a better deal by not rolling over the agreement. I think that point is quite significant.

Martin Wolf: They are all going to be tough, even our friends—that's life.

Chair: They are legal agreements. Playing with lawyers is always hard work—says I, married to one.

Thank you all very much. I put on the record that Lindsay came at very short notice and we knew he was only here for a brief window, so we are exceptionally grateful to him as well.