

## Written submission from the Centre for Inclusive Trade Policy and UK Trade Policy Observatory (ELG0019)

### Centre for Inclusive Trade Policy (CITP) and UK Trade Policy Observatory (UKTPO)<sup>1</sup>

#### About the Centre for Inclusive Trade Policy

The Centre for Inclusive Trade Policy, a centre of excellence for innovative trade policy research, is the first Centre dedicated to trade policy to be funded by the Economic and Social Research Council. The Centre is built on the precept that trade policy should be inclusive in both policy formulation and outcome. Our aim is to build permanent capacity by developing a community of scholars and practitioners with the knowledge, skills and mutual understanding to develop robust trade policy in a changing world.

Led by the University of Sussex, the Centre is comprised of universities from across the whole of the UK - including from the University of Nottingham, the University of Strathclyde, Queen's University Belfast, Cardiff University and the University of Cambridge - and beyond, along with non-academic partners working on trade. <https://citp.ac.uk/>

#### About the UK Trade Policy Observatory

The UK Trade Policy Observatory (UKTPO) is an independent expert group at the University of Sussex Business School that initiates, comments on, and analyses trade policy proposals for the UK, and trains British policymakers, negotiators and other interested parties through tailored training packages. The University of Sussex has the largest collection of academic expertise on the world trading system in the UK, with experts in trade policy, trade law and trade politics, and European law and economy. The UKTPO is a member of the Centre for Inclusive Trade Policy.

#### How can the UK's trade strategy better align with the government's new industrial policy, and the UK's known comparative advantages?

The UK's industrial strategy must navigate a complex geopolitical landscape, balancing trade relations with the EU, US, and resource-rich countries (like China). Aligning industrial and trade policies to ensure access to critical technologies, critical minerals and to support resilient supply chains is essential.

The alignment with the EU Open Strategic Autonomy can enhance economic security and competitiveness, addressing the trade-off between the increasing dependence on China for critical material and intermediates and the reliance on the EU Single Market as a major destination for UK exports.

Following the consultation about the UK government's industrial strategy, the trade strategy should prioritize strategic sectors, not only where innovation and growth potential are maximized, but also those that ensure global value chains resilience, and digital and green transitions. Diversification is essential, and trade policy must be flexible enough to sustain this approach—for example, by using sector-specific deals that allow for deeper and faster negotiations compared to traditional trade agreements. Political shocks may be the most difficult to address due to their unpredictability (e.g., election outcomes), but they also highlight the importance of maintaining a broad set of options. A sectoral approach could mitigate geopolitical tensions by focusing on economic complementarities rather than broad political alignments, providing greater flexibility in trade negotiations.

Trade policy should also place greater emphasis on supporting digital and service trade, as these sectors are expected to drive international flows in the coming years. Unlike traditional trade in goods,

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digital and services trade relies heavily on regulatory frameworks. Therefore, policy should also promote regulatory coherence in key areas such as data governance, financial technology, and intellectual property rights to enhance the UK's global leadership in high-value services.

Consistent with the industrial strategy, support for the government's transition toward net zero should be an overarching goal. Aligning tariff structures, subsidies, and trade facilitation measures with green technology goals can accelerate the UK's decarbonization efforts while strengthening its position as a global leader in clean energy innovation.

#### Recommendations:

1. Integrate Trade and Industrial Strategies:
  - the UK should explicitly align trade policy with industrial strategy to support strategic sectors, enhance competitiveness, and build resilience. This requires coordinated policymaking, where trade measures facilitate industrial growth and supply chain security.
2. Adopt a Sector-Specific Trade Negotiation Approach:
  - To enhance flexibility, the UK should consider adaptable options such as sector-specific trade agreements over broad deals. These agreements should focus on high-growth sectors, allowing for faster, targeted, results.
3. Expand and Strengthen Digital Trade Frameworks:
  - The UK should embed digital trade provisions in its agreements, ensuring regulatory coherence in data governance, fintech, and IP rights. Facilitating cross-border data flows and harmonizing standards with key partners will strengthen the UK's leadership in services trade.
4. Align with the EU:
  - Dynamic regulatory alignment and deeper cooperation with the EU, especially in emissions trading, standards, investment in digital infrastructures, and alignment with net-zero policies are crucial for maintaining competitiveness and market access.

**What should be the priorities for new free trade agreements and for trade diplomacy? What are the key barriers to trade in priority markets and how are these barriers best taken down?**

#### Maximising the benefits of existing FTAs

The UK has four types of FTAs: the EU-UK Trade and Cooperation Agreement (TCA), Continuity Agreements signed with countries the UK had an FTA with as a EU member, new bilateral FTAs with Japan, Australia, and New Zealand, and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). The role of these FTAs in terms of export-led growth differs.

EU-UK TCA: this is *de-facto* an economic disintegration agreement, as the UK left the EU single market. As the EU is the most important export market for UK firms, the TCA plays the most significant role for UK firms. The UK government should prioritise the role of the TCA over that of other FTAs.

Continuity Agreements (CAs): concerning these, the priority is their implementation and modernisation. Their effectiveness should be assessed both in terms of implementation (e.g., an FTA partner's market liberalisation and regulatory cooperation) and utilisation. The UK government should help firms, especially SMEs, to use the agreements, by ensuring products comply with the rules of origin and that firms are aware of the procedures needed to claim the preferential tariffs.

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Although some of these agreements (e.g., with South Korea) are currently under negotiation for updates, other CAs in which UK businesses show interest may require modernisation.

New bilateral agreements with Japan, Australia and New Zealand: while the UK-Japan CEPA is almost a replica of the EU-Japan FTA, the FTAs with Australia and with New Zealand are tailored-made FTAs in which UK's interests are directly reflected. These two FTAs are comprehensive and deep, and can be used as a model for UK's future FTAs. Their trade impact is limited, however, as Australia and New Zealand account for only 0.9% (Australia) and 0.1% (NZ) of the UK's total trade.<sup>2</sup>

CPTPP, which is a plurilateral FTA covering 11 countries, can play a relevant role for UK exports in the future. Currently, the UK has bilateral FTAs with 9 CPTPP members (except for Malaysia and Brunei), hence the scope of extra preferential market access is limited. The main benefit from CPTPP is the provision of a single integrated rule within the Asia-Pacific region: this is beneficial for UK exports, as the existing bilateral FTAs create segmented bilateral rules that do not fit well UK companies' activities and participation into global value chains (GVCs).

### **'Plurilateralise' bilateral FTAs in Latin America and Africa**

The current web of bilateral FTAs should be 'plurilateralised' to facilitate UK firms' involvement in GVCs. Next to CPTPP in the Asia-Pacific, the UK should strategically 'plurilateralise' its bilateral FTAs in other regions to accommodate current trade and investment practices and to promote exports in the future. In this context, new FTAs with the existing regional blocks in Latin America (e.g. MERCOSUR) and Africa (e.g. AfCFTA ) are worthy to consider as a next step. Since ASEAN is expected to be the world's fourth largest economic block by 2030, with a rapidly growing services sector, creating the UK-ASEAN FTA would provide new opportunities for UK firms.

### **Key barriers to trade**

Making exporting easier should be a priority for the UK Government. For instance, in a recent article Ayele, Gasiorek and Tong Koecklin (2023) quantify the restrictiveness of the Rules of Origin (RoOs)<sup>3</sup> in the UK-EU TCA and show that more restrictive RoOs are associated with a lower degree of utilization<sup>4</sup> of the TCA by UK firms.

For the UK it is imperative to lower costs for producers, by avoiding the duplication of conformity assessment procedures, reducing as much as possible divergence in product standards, minimizing inspections, delays and the risks of rejections at the border. These steps require negotiating mutual recognition agreements with trade partners, or unilaterally (and strategically) aligning regulations and standards to those of the most important trade partners in key industries.

UK standards are (still) closely aligned with the EU due to membership of pan-European standards bodies, but regulations and conformity assessment procedures differ. Unilateral alignment will improve the competitiveness of UK firms but not eliminate border barriers dependent on conformity assessment, where mutual recognition needs to be sought, but the obstacles to this need to be understood and faced up to.

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<sup>2</sup> DBT's Trade and investment factsheets for [Australia](#) and [New Zealand](#).

<sup>3</sup> These are rules that determine whether a product originates in a country and therefore qualifies for preferential treatment under an FTA.

<sup>4</sup> A lower share of trade is transacted under the preferential zero-duty terms of the TCA.

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## **How can the UK best support the WTO in addressing its challenges, such as resolving trade disputes effectively, advancing trade liberalization, and ensuring a fair and rules-based trading system?**

The WTO underpins a stable, rules-based trading system, reducing uncertainty and improving trust among trade partners. These features are essential for promoting exports and economic growth. A strong and functioning WTO resolves trade disputes, facilitates market access, and integrates economies into global supply chains. However, the WTO's governance structure and, in particular, its dispute resolution mechanism are unlikely to remain as set out in the original framework established in 1995 by the Uruguay Round. The WTO currently faces existential challenges in a rapidly evolving geopolitical landscape marked by Trump's trade tariffs and the resulting retaliatory measures by other countries. Such measures violate WTO rules and undermine its authority. As global power dynamics put further strain on the multilateral trading system, the coming years will be critical for the WTO. In this context, the UK's collaboration with global partners within the WTO framework is increasingly vital to uphold a rules-based system. The UK can and should harness the strength of multilateral cooperation to uphold the rule of law, preventing a downward spiral of trade actions. To that end, it should (collectively with other WTO members) ensure that the WTO's essential functions, including dispute settlement, are not only maintained (or restored) but also strengthened.

The UK can support the WTO in addressing its challenges in many ways, including:

### 1. Dispute Settlement

- The UK should continue to support ongoing dispute settlement reform talks by participating actively across each of the three pillars.
- On appeals, the UK can support a position that addresses [extant U.S. concerns](#) while appreciating the need for a two-tier review mechanism as expressed by other countries. For instance, it could support and submit interesting proposals, such as the [idea of non liquet](#) which could address the reform idea of reducing a perception of lawmaking by WTO adjudicators. This could give the UK a leadership position and a role as a mediator in finding common grounds.
- While reform is underway, the UK should join the Multi-Party Interim Appeal Arbitration Arrangement (MPIA).

### 2. Rulemaking function

- The UK can continue supporting [informal negotiating processes](#), such as the joint statements initiatives. These alternatives enable progress given the challenges posed by the consensus and single undertaking rules in an organisation comprising 166 members. Since the WTO's creation in 1995, only one new multilateral agreement, the Trade Facilitation Agreement (TFA), entered into force. This shows that if countries wish to move forward to regulate pressing issues in the WTO, such as e-commerce and green trade, they should promote informal processes.
- The UK can [use WTO committees and deliberation](#) to advance shared understandings and promote relevant discussions that can push for new and updated rules in areas such as services, where the UK has a competitive advantage and expertise. The UK can also support sector-specific discussions across committees to improve global standards and regulatory coherence and prevent fragmentation. This highlights the importance of the day-to-day activities of the WTO in delivering outcomes and promoting convergence.
- The UK can take a leadership role in the WTO as a middle power to promote a more flexible, interactive and freer exchange of ideas among like-minded countries. For example, the UK can sponsor retreats to engage members in issue-specific discussions as an exercise to find innovative responses to long-standing challenges.

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- The UK must also support introducing discussions on economic security and industrial policy at the WTO, and effective ways to apply WTO rules to such issues without compromising the overarching goal of preventing protectionism and beggar-thy-neighbour policies.

### 3. Sustainability

- The UK has a unique opportunity to reinforce its commitment to fair competition and sustainability by ensuring the WTO Agreement on Fisheries Subsidies comes into force. The UK should work to finalise disciplines on overcapacity and overfishing at the 2026 Ministerial Conference.
- The UK is in a good position to push for the agreement's full implementation because of its strong stake in the fishing industry—economically, environmentally, and recreationally.
- By leading these efforts, the UK can solidify its role as a key advocate for responsible fishing, protect the livelihoods of its coastal communities, and help preserve marine ecosystems for future generations.

### 4. Development and inclusivity

- The UK can support trust and transparency in the WTO to improve the participation of developing countries in the organisation and the implementation of multilateral rules.
- The UK can support technical assistance and capacity-building programmes to help developing countries implement WTO rules effectively, for example, to put into practice the Trade Facilitation Agreement. The UK can also assist with improving local practices and infrastructure to enable them to meet import criteria.

## **How should the UK Government deliver trade support services - directly, or through existing business support organisations?**

Export promotion policies (EPPs) are the set of policies and practices aimed at affecting, directly or indirectly, the exports of a country, and countries around the world have extensively used EPPs to increase their exports. For example, EPP agencies in developed countries such as Australia (AUSTRADE), Japan (JETRO), and Italy (ICE) have budgets of several hundred million pounds at their disposal and employ hundreds or even thousands of employees (Volpe Martincus, 2010). But similar levels of public investment can also be found in many developing and emerging economies. For example, PROMEXICO (Mexico) and APEX (Brazil) have annual budgets close to or exceeding US\$100 million. Empirical evidence suggests that by and large, EPPs are effective in increasing exports (see, for example, Carballo and Volpe Martincus, 2008).

One premise underlying the existence of Export Promotion Programs (EPPs) is that successful exporting necessitates more than just the production of competitive products and the provision of high-quality services. UK businesses can tap into their export potential by engaging in competition with imports within the domestic market, leveraging the relatively open and fiercely competitive nature of the UK market. However, while the UK market may offer insights into the export potential of UK businesses, achieving success in exporting extends beyond mere domestic performance. Exporting entails the adaptation of products to diverse markets, an understanding of varying demand idiosyncrasies across countries, the identification of reliable distributors, investment in marketing endeavours, and the meticulous management of timing and distribution continuity. Essentially, exporting represents an ongoing process of continuous learning and adaptation, enabling businesses to navigate and respond effectively to a multitude of market shocks across different regions.

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Exporting is not a skill confined to individual companies alone. Rather, firms commonly acquire export knowledge through mutual learning, and since the benefits of collective learning are not entirely internalized, EPPs play a crucial role in bolstering export activities.

UK businesses can benefit from UK Export Finance (UKEF), a strong export credit agency that provided £6.5 billion in financial support, benefiting 532 businesses, and safeguarding 55,000 jobs in 2022. This underscores the provision of credit assistance to exporters, solidifying the UK's strong international standing in this domain.

However, effective Export Promotion Programs (EPPs) encompass additional dimensions that are crucial, where the UK has the opportunity to demonstrate greater leadership and innovation. Recognizing that firms benefit from learning from the export experiences of other domestic companies (e.g., de Loecker, 2007; Clarides, Lach, and Tybout, 1998), an optimal EPP should strive to **maximize these learning effects by encouraging gradual and incremental entry into export markets**. For instance, if firms can **gauge their export potential through initial operations** (Albornoz, Calvo, Corcos, and Ornelas, 2012), providing a modest one-time subsidy to explore foreign markets could foster experimentation and enhance the learning process. By incorporating such measures, the UK can cultivate a supportive ecosystem that promotes learning and experimentation among businesses seeking to expand internationally.

EPPs can also include taking the lead in **diffusing information** about successful export trajectories and experiences that could be assimilated by potential new exporters. Finally, with global competition placing increasing emphasis on product quality, it becomes crucial for firms to ensure the **quality of their inputs**. This raises the question of which organizational structure enables them to achieve this objective most effectively. Extensive research has consistently demonstrated that firms that prioritize higher quality are more inclined to integrate with their suppliers. Therefore, another area where UK businesses could receive enhanced support in their export preparations is in **identifying reliable suppliers within global value chains**. As highlighted by Albornoz and Garcia-Lembergman (2023) and Antras (2015), finding trustworthy suppliers is a challenging task, and employing smart EPPs could greatly facilitate this process.

#### Recommendation:

- Optimal Export Promotion Programs should aim at maximizing learning effects, by encouraging gradual and incremental entry of firms into export markets. If firms can gauge their export potential through initial operations, providing a modest one-time subsidy to explore foreign markets could foster experimentation and enhance the learning process. With such measures, the UK can cultivate a supportive ecosystem that promotes learning and experimentation among businesses seeking to expand internationally.

#### **How does Government best de-risk critical supply-chains and protect UK jobs from international trade vulnerabilities, and what metric could be used to determine whether the UK economy is secure?**

The government can approach the question of de-risking supply chains by first identifying the supply chains that are at risk of different situations, including geopolitics, wars, climate change, and global health crises.

Assuming that the affected goods are important to the UK economy, it must identify whether the UK can create self-sufficiency in the manufacturing or production of such goods. However, this will not be possible in all situations, such as those concerning critical minerals. Critical minerals are sparsely

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located, and find a variety of applications in dual use goods such as semiconductors. Thus, after identifying that semiconductor supply chains are at risk, the UK must assess whether it must have a long-term strategy of building self-reliance in semiconductor capacity, or whether there are strong allies that can serve the same purpose.

Two possibilities emerge. First, if it desires to build self-reliance in a product that requires imported, “at-risk” inputs, such as critical minerals, then it must create a strategy to ensure access to such inputs. Such a strategy could include a range of options (some of which are listed here below). Second, the necessity of international collaboration and partnership is critical to attaining secure supply chains.

#### For critical minerals:

In particular, supply chain risks of critical minerals are predominant with respect to China. However, the UK must also take precautionary actions to not become collateral damage in the US - China trade war and consequent export controls imposed by China.<sup>5</sup> As a result, the supply chains that the UK chooses to be a part of must steer clear of foreseeable third-party crises, and the UK must accordingly seek out alternatives.

Through international collaboration, the UK must:

- Secure deals with mining and processing companies e.g. in resource-rich economies, preferably those that are already vertically integrated. Entering into joint ventures with local companies have benefits of crossing unexpected or latent entry barriers and building long-term trust.
- Engage with resource-rich partners to understand how UK government and government-backed firms can respond to economic development and sustainability concerns. If value-addition is not viable due to absence of supportive mechanisms, identify other forms of support.
- Engage with resource-rich partners to participate in setting and adopting ESG standards that are crucial for responsible supply chains.
- Engage with other resource-hungry countries to assess joint investment opportunities, especially in saturated markets.

To support international collaboration, the UK must:

- Support funding for UK companies to boost investment in resource-rich countries, with a strong focus on ensuring mutually beneficial agreements.
- To attain this objective, the UK can create a fund to incentivise mining-related investments by UK investors in resource-rich countries, with financing conditional upon ESG compliance and environmental and social impact disclosures, and to provide technical assistance in exploration activities.
- Encourage circularity of minerals to reduce reliance on sourcing.

### **How can trade policies be designed to support the UK’s transition to net-zero and support economic growth?**

It is likely impossible to achieve net zero emissions without including trade and trade policy as elements of domestic strategy. The UK has the largest domestic emissions reduction among major

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<sup>5</sup> China is by far the main actor concerning export controls of critical minerals. Other countries apply export controls too, but they generally apply them to other goods (e.g., the US on high-tech goods).

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economies, but as a services-led economy, per-capita imports of emissions account for nearly half of its overall consumption emissions. Even if the UK does not foreground climate change as a strategic objective, it is having, and will continue to have, an enormous influence on trade patterns, preferences and supply chains. UKTPO and CITP researchers have argued for a shift toward a more integrated approach to trade and climate policymaking. This is particularly important as the UK Climate Change Act focuses on territorial emissions reduction.

More specifically, these recommendations aim to support both the net zero transition and economic growth:

- **Policy consistency.** The UK cannot compete with US low carbon incentives. But simply maintaining consistent market signals will make it better able to compete in the low-carbon economy. UK targets and schemes supporting phase out gas boilers, installation of solar panels, heat pumps, insulation, and electric vehicles have been introduced but then withdrawn, redesigned, or communicated unclearly to households and industry. The corrective for this is straightforward: renewable energy incentives that are consistent and communicated clearly, and based in a longer-term strategy.
- **Be careful about introducing local content requirements.** The UK's broader economic interests are served by open trade and an effective rules-based system.
- **CBAM.** CBAM entails a complex set of requirements, and due to the UK's smaller market size, introducing an approach to CBAM that differs from the EU's approach risks creating significant burdens for industry. Linking the UK and EU ETS will prevent the UK from bearing costs and administrative requirements of CBAM, and resolve problems with CBAM administration in Northern Ireland. The UK should introduce a phase-in reporting period for its CBAM starting in 2026, to bring it closer in line with the EU timescale. The UK should phase out free allowances gradually with phase-in CBAM. The UK should adopt the same methods for calculating emissions and default values as the EU. The UK should seek to 'piggyback' on EU third-party certification: its system should be similar enough so that the same certifiers can assess compliance with UK CBAM requirements. The UK should also leverage its position as a knowledge economy or mainly comprising services-based industries, in order to provide necessary technical and technological support to poorer countries to comply with CBAM requirements. Doing so will help the UK manage future risks of legal challenges to the measure.
- **Play a strong role in international fora.** The UK should continue to play a strong role in the WTO, including through pushing for greater cooperation on environmental services, supporting re-launch of Environmental Goods Agreement talks, and getting involved with the Work Programme on Sustainable Procurement. It should towards reform of customs nomenclature to make it clearer when goods are produced in environmentally preferable ways, and join the Agreement on Climate Change, Trade and Sustainability (ACCTS).

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