

Dr Michael Plouffe, Lecturer (Assistant Professor) of International Political Economy at University College London's School of Public Policy – Written evidence

Dr Michael Plouffe's Background

I am Lecturer (Assistant Professor) of International Political Economy at University College London's School of Public Policy. My comments were solicited as much of my research examines issues surrounding trade policy, investment, and global supply chains, with a particular focus on the Asia-Pacific region.

I discuss the trade relationship between the United Kingdom (UK) and China. As part of the post-Brexit 'Global Britain' strategy, the UK would benefit economically from increasing trade with China, although growth in UK-China trade would not serve as a direct replacement for lost EU-UK trade. Similarly, the UK should continue to pursue closer economic relationships with other countries, both to ensure the success of a global Britain and to shield the UK economy from economic and political shocks that may afflict any of its trading partners.

A bilateral trade agreement would serve as a useful means for promoting trade between the UK and China. For simple negotiations, this agreement could be product-focused, and may benefit from reference to non-trade issues, with chapters addressing human rights and labour and environmental standards. Pursuing a comprehensive agreement would likely draw ire from the United States, and may further complicate the prospects of a UK-US trade deal. If the UK government pursues a trade agreement with China, it will need to pay careful attention to the potential effects on British producers, particularly those that may experience increased import competition, and be ready to provide targeted fiscal support to ease adjustment.

The Context of UK-China Trade

The economic relationship between the UK and China is one that is highly important to the British economy, and somewhat less so to the Chinese economy. As depicted in Table 1, China is the UK's third most important export destination after the European Union (EU) and US, and the second-most important importer after the EU. The UK is somewhat less important with China, whose trade flows are somewhat concentrated around the

Asia-Pacific region. The UK is China's 14th most important importer and ninth most important export destination. Within Europe, the UK is China's third most important export destination (behind Germany and the Netherlands) and third most important source of imports (behind Germany and Russia).

Table 1 – Some simple comparisons from 2019¹

<i>Trade Flow</i>	<i>Value</i>	<i>China's rank among UK partners</i>	<i>UK's rank among China's partners</i>	<i>Percent of UK's Flows</i>	<i>Percent of China's Flows</i>	<i>Comparisons for the UK²</i>	<i>Comparisons for China²</i>
UK Product Exports	\$30 billion	3	14	6.7%	1.9%	Germany, Netherlands	Thailand, Indonesia
UK Product Imports	\$60 billion	2	9	9.6%	2.5%	Germany, United States	Netherlands, Mexico

When these flows are disaggregated into broad industry categories, Chinese product exports to the UK predominantly fall into the categories of electronics and appliances, furniture, toys and games, and textiles and apparel. Meanwhile, British product exports to China are primarily driven by gold, crude petroleum, cars, and pharmaceuticals. In both cases, however, trade flows are diversified, and no single industry dominates.

Brexit and UK-China trade flows

Following Brexit, it is important to note that the composition of UK-China product trade is not a direct substitute for UK-EU trade. Should the UK successfully accede to CPTPP, trade with the lower- and middle-income members may be sufficiently similar in composition to UK-China flows to allow UK traders to diversify beyond Chinese partners, as a way of

¹ These figures are taken from 2019 flows between the two countries, the most recent full year for which data are readily available. Nice visualizations are provided by the [Observatory of Economic Complexity \(OEC\)](#).

² These are the two countries that bookend the UK's trade flows with China in terms of ranking. The higher-ranked country is listed first.

insulating against China-related geopolitical risk.

Services trade and foreign investment

Statistics for both trade in services and foreign direct investment (FDI) are somewhat less detailed. The 2017 figures for services trade add nearly \$5.5 billion in exports to the British account, concentrated in travel, business services, and transportation. At the time, China recorded no service exports to the UK. Chinese service providers face a wide range of legal and regulatory barriers to entering the British market, so the UK is likely to retain a net surplus in services trade with China. China's FDI stocks in the UK places the UK as its eighth most important investment host.³ The UK ranked as the 15th most important destination for Chinese FDI flows in 2019, but the value of these flows was half of 2017 levels. The National Security and Investment Bill, if passed, would likely further limit inflows.

Prospects and Issues in UK-China Trade

The success of a post-Brexit 'Global Britain' relies heavily on building strong bilateral economic relationships, especially with key trade partners. Where UK-China trade is concerned, efforts at trade liberalisation (see below) are likely to promote growth in the retail sector and the numerous industries that rely on the import of Chinese-produced components, while export growth is likely to be uneven across the British industries that export to the Chinese market. British consumers would be a key beneficiary of liberalisation as well, with lower costs on Chinese products reducing some of the effect of increased EU import prices due to the introduction of nontariff barriers to EU imports.

Options for increasing UK-China trade

Perhaps the most obvious option for increasing UK-China trade flows is some form of a bilateral trade agreement. The simplest form of bilateral agreement would focus exclusively on product trade; the agreement could either simply aim to reduce tariffs on a range of products or eventually eliminate them altogether. Such an agreement could focus solely on tariffs or could incorporate related nontariff measures, although greater ambition would entail more difficult and lengthier negotiations.

Focusing on products alone would simplify negotiations when compared with a more comprehensive agreement including services trade and/or

³ From 2019 data; Hong Kong, the Cayman Islands, British Virgin Islands, US, Singapore, Australia, and the Netherlands are more highly ranked, according to official Chinese statistics.

FDI. The latter two would require extensive discussions over complicated regulatory issues, and the UK's relatively weak bargaining position makes it unlikely that these would be resolved in a mutually beneficial manner.⁴

The Regional Comprehensive Economic Partnership (RCEP) may appear to offer an alternative route to the Chinese market should the UK and China fail to reach a bilateral deal. However, RCEP still requires ratification from several of its signatories before entering into force, and with a waiting period for additional members, it is likely to be several years before the UK could hope to join. It is also important to note that RCEP's aims are modest, and would not be expected to have a significant impact on UK-China trade.

Non-trade issues in the Bilateral UK-China Relationship

One challenge to increasing trade with China, particularly through a bilateral agreement, is the extent to which non-trade considerations colour the relationship. Some of these issues are directly related to economic engagement. For example, weaknesses in Chinese enforcement of intellectual property (IP) protections, despite reforms to improve China's policies in this area, pose a threat to the expansion of outward British trade and investment flows toward China. This is not a novel observation; British government guidance for businesses seeking to do business in China has long discussed IP-related difficulties for British businesses involved in the Chinese market.⁵ When combined with restrictions on inbound foreign investments, engaging in the Asia Pacific solely through China can be a daunting prospect for British firms.

Human rights

Human rights present a significant concern. From the crackdown on the pro-democracy movement in Hong Kong, to the treatment of Uyghurs in Xinjiang, the Chinese government's performance in this area has come under substantial western criticism. Other issues, such as labour conditions and limitations on freedom of expression, have also received attention. The UK does not have the economic or political status with China to effect change in these concerns; any concerted attempt to do so would run the risk of being viewed as meddling with China's sovereign matters.

Human rights standards have been included in trade agreements before, but the costs of negotiation and the fact that enforcement involves the

⁴ I leave more parsimonious discussion of services trade and FDI to other commentators who have dealt more extensively with the legal and regulatory aspects of those flows

⁵ Ming and Plouffe (2021) discuss this in greater detail.

introduction of trade barriers mean that soft-law conditions – agreement on general principles – are most likely where there is any threat of violations.⁶ If the UK pursues a trade deal with China, it may be possible to come to agreement over general human-rights principles. While such a chapter would not be expected to bring about immediate change in policy or practice, it could form the basis for future discussions.

Concerns about labour practices could be dealt with in a similar manner, although the UK could work toward offering preferential tariff access for producers that can certify compliance with specific labour standards, which could be drawn from existing voluntary standards (such as SA8000) or crafted specifically for a bilateral UK-China agreement.

These issues are not specific to China; other developing economies have similar problems with labour protections and human rights. Different trading partners, however, will require different solutions. If the UK seeks to assert some kind of moral or ethical leadership in its approach to post-Brexit trade, it will need to take leadership on these issues as they relate to trade and trade deals.

Environmental considerations

An additional issue relating to trade with China is that of environmental pollution. Production-driven pollution is a concern across the developing world, and it may be possible to fight this in the context of UK-China trade by incentivising adoption of private standards like the ISO 14000 family.⁷

Likewise, the environmental effects of transporting products between the UK and China will increase with a growth in trade flows. This problem is not confined to UK-China trade, but will affect all of the UK's other trading relationships as it seeks to further diversify its trading partners beyond the EU.

Third-Party Questions: International Relations and the Bilateral Relationship

⁶ [Spilker and Böhmelt \(2013\)](#) cover this.

⁷ [Prakash and Potoski \(2014\)](#) find that this improves emissions in the presence of weak regulations. [Potoski and Prakash \(2005\)](#) find that this also improves these certified firms' regulatory compliance.

China's growing assertiveness in international politics has rekindled concerns about its status as a revisionist power. At the same time, it has recently faced a barrage of criticisms over a broad range of issues, from those discussed in the previous section, to a wide range of normative complaints about the appropriate role for the state in the economy.⁸ The US has been at the forefront of confrontation with China on these issues. Because of the special relationship and its pursuit of a trade deal with the US, the UK may find itself in a difficult position when it comes to engaging China. The Biden administration has taken a more muted approach in its dealings with China than did its openly Sinophobic predecessor, but the bilateral trade restrictions put into place during the Trump administration remain, and issues at the core of the US-China trade war appear unlikely to be resolved in the near future. This approach has bipartisan support in Congress. The UK should be wary of a right-wing Republican surge in the 2022 US midterm elections,⁹ which would likely lead to calls for greater hawkishness toward China and could lead to pressures on American allies to take similar stances. The UK will need to maintain and, as necessary, assert its independence from American politics.

Other interested parties lie within the Asia Pacific region, several of which are members of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), to which the UK aims to accede. Joining CPTPP should assuage fears that the UK might seek to shift the region's balance of power. Likewise, member countries may welcome British capital as a relatively neutral alternative to US and Chinese funding. Increased access to CPTPP economies should enable diversification of UK trade flows, particularly where imports from Chinese suppliers are concerned, shielding the British economy from China-specific economic or political shocks. To this end, increasing trade with middle-income countries elsewhere would also benefit the UK. As a final note on the CPTPP – China has expressed interest in joining, although this is unlikely to happen swiftly; the UK's economic interests would be better served through direct engagement.

Increasing Trade and the Domestic Economy

Increasing trade between China and the UK would serve to offset some of

⁸ Ironically, the constituents of some of the loudest American critics of Chinese state involvement in economic production depend heavily on US agricultural subsidies and import barriers.

⁹ This is not a partisan characterisation, but an empirical one based on spatial voting models, as reported by [Hare and Poole \(2014\)](#). These results have been covered in [538](#) and [NPR](#) for general audiences.

the consumer and producer price growth experienced in the UK as a result of Brexit and pandemic-induced supply-chain disruption. This could be addressed through a bilateral trade deal, although a range of non-trade issues could potentially complicate the negotiation and reception of such an agreement. As is also the case with other trade deals being pursued or considered by the British government, attention needs to be paid to the likely domestic effects. Efforts should be taken, particularly through fiscal-policy interventions, to minimise adverse distributional effects on import-competing producers, particularly those established in regions that were already struggling economically prior to Brexit.

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