

SSISI Public Policy Brief:
International Trade and Investment Agreements: Fit for Future Purpose

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Keywords:

JELs:

1. INTRODUCTION

Good afternoon, and many thanks indeed to the Statistical and Social Inquiry Society of Ireland for laying on this event; to President Danny McCoy for chairing, to my fellow panellists, Dr Ailish Campbell and Professor Martina Lawless and to everyone listening. I am delighted to participate in this symposium today. My name is Chris Barton. I am currently acting Director General for Trade Negotiations in the UK's Department for International Trade. Last year I led the goods aspects of the UK-EU trade negotiations, and I have held a range of trade roles prior to that. I am going to comment on 4 key issues:

- The need to support free and fair trade
- The range of mechanisms we have to do so
- What FTAs can bring to the party
- How we can ensure they remain effective

2. THE NEED TO SUPPORT FREE AND FAIR TRADE

I should start with a health warning. As a representative of UK Government, and at a personal level, I am an avowed supporter of the benefits of free and fair trade. I believe that it is a force for good: the free trade drives economic growth, it creates better jobs, it increases consumer choice and value; the fair trade preserves our standards, protects our businesses from unfair competition, and promotes our environmental and wider policy goals. And in our current situation free and fair trade has a key role to play in increasing prosperity in all parts of our nations as part of our levelling up agenda; it can aid our post-Covid recovery; and it can encourage development of the green economy. So, I, and far more significantly the UK Government, are fans.

That case for trade needs constantly restating. It is not always an easy case to make. Some of the arguments against trade are as superficially compelling as they are fundamentally flawed.

And unfortunately, that shows. While the global economy has been on a long-run trend towards greater openness for many years, that growth has slowed in recent years. We have seen some significant declines in the world trade-to-GDP ratio. Where once global trade significantly outpaced global GDP in terms of growth, the two have converged over recent years.

The nature of trade barriers has also changed. Tariffs, once seen as the most important barrier to trade, have reduced substantially since the formation of the WTO. The average global MFN tariff rate was 25% in 1989 and fallen to below 10% since 2007. But progress has stalled, and new barriers are emerging – largely in the form of regulatory and other non-tariff barriers.

Data suggests that as a result the world has become more protectionist over the last decade. WTO reported that the stockpile of trade restrictive measures applied over the last decade has resulted in \$1.6 trillion of world imports being affected by restrictions, and that figure is rising. It is probably an underestimate too, as it records only those formally reported by the WTO members themselves.

So, you get the picture. Trade is marvellous, but it is under threat. How should we respond?

3. THE RANGE OF MECHANISMS TO SUPPORT FREE AND FAIR TRADE

Perhaps surprisingly given my job title, I suggest first that we should be humble about the role FTAs can play. They are a very important part of the solution as I will come on to, but only a part. And in an ideal world they would not be necessary at all.

Arguably the most important part of the solution is unilateral measures:

- It is in every country's power to lower its tariff, services and non-tariff barriers of its own accord. In the UK we have already set a simpler, lower tariff regime than the EU's Common External Tariff almost doubling the number of products that are tariff free to account for nearly 50% of the products we trade. This reflects our commitment to supporting global growth through trade and our determination to maintain an open and competitive UK market in the interests of our consumers.
- We can take unilateral measures beyond tariffs as well. For example, in the UK we are unilaterally pursuing customs facilitations – most notably through our *2025 Border Strategy*, through which we aim over the next 5 years to deliver the world's most effective border. This will include a Single Trade Window, providing a single portal through which all information required to import and export can be submitted to border agencies.
- We can unilaterally support developing countries too. For example, in UK we launched our own Generalised Scheme of Preferences in January. This provides the same level of access as the EU trade preference scheme by granting duty-free, quota-free access to around 47 Least Developed Countries and tariff reductions to over 20 others. As well as benefiting those countries – and hence some of the poorest people on this planet – it benefits UK consumers and increases UK supply chain diversity. We will shortly be consulting on ways to improve that GSP scheme to further support trade and development, ensuring fair trade internationally.
- Unilateral measures can also deliver fair trade domestically, for example by ensuring robust trade remedy provisions to protect our business from unfair competition. In the UK we are now running our independent trade remedies system with our soon-to-be Trade Remedies Authority. This will help protect domestic industries against injury caused by unfair trading practices such as dumping and subsidies, while minimising extra costs on consumers.

There is lots we can do bilaterally too, outside FTAs. We – as many other countries - have an extensive programme to identify and seek to resolve individual market access barriers for our exporters in other countries. We have developed new web-based services to support business in navigating those barriers that remain. And we have a broad and deep network of staff and programmes to promote our exports and attract inward investment.

Then of course there is the multilateral level. This is, in theory at least, the first best solution for opening trade. It allows us to do so in a consistent and holistic manner across the globe; to avoid all the complexities and bureaucracy of RoOs; and to ensure shared rules to ensure trade is fair as well as free. That is why in the UK we will work multilaterally to strengthen the international trading system; to reform the WTO to update the global trading rules in support of free and fair trade; and to progress further liberalisation. This is a key element for our agenda for the G7 Presidency.

So, FTAs are by no means the be-all-and-end-all of trade policy. There is a huge amount we can do to encourage trade through other levers. Indeed, a vast amount of trade occurs without any specific government involvement or any trade deals being in place. And in a perfect world we would not need bilateral FTAs at all.

4. WHAT FTAs CAN BRING TO THE PARTY?

But of course, the world is not perfect. A wholly unilateral approach does not reduce other countries' barriers, it risks putting domestic firms at a competitive disadvantage, and it reduces leverage to deliver access abroad. Informal bilateral engagement is not always effective, and the policies and practices of different countries mean that it's not always in our interest to be equally open to all: there are commitments we may wish to agree with some but not others. And the difficulties of delivering meaningful liberalisation at the multilateral level are all too obvious. And this is where FTAs can have a crucial role to play.

UK has been very active on this agenda already.

- Most obviously perhaps, we have agreed a high-quality FTA with our partners and friends in the EU. Of course, it doesn't replicate the single market or customs union, but it delivers significant economic value compared to a non-negotiated outcome, including elimination of all tariffs for trade in domestically produced goods.
- We have also agreed replacement FTAs with 67 non-EU countries with whom we no longer benefit from existing EU FTA deals now we have fully left. Those replacement agreements cover almost 99% of the trade that benefitted from FTAs when we were EU members. Together with the UK-EU deal they cover almost £900bn of trade in 2019.
- And we are now looking to go further. We want to improve some of the deals we have replicated. Our Japan deal was already an enhancement on the EU's one; we are well progressed with enhancing our deal with non-EU EFTA countries; we have committed to launch negotiations this year to improve our deals with Canada and Mexico, and next year with Switzerland, S Korea and Turkey. We are also negotiating entirely new deals with Aus, NZ and US, and seeking accession to CPTPP.

So why are we doing this? What do we think these deals can deliver?

- At macro level, they can deliver significant increases in trade and growth. For example, the UK-Japan deal could increase our bilateral trade by nearly £16 billion; an ambitious UK-US FTA could deliver do so by £15 billion, and with it a GDP increase of £3.4 billion; a UK-Australia deal could increase UK GDP by £500 million. These are significant sums.
- At a more specific level, FTAs can deliver a very broad range of benefits that go far beyond tariff liberalisation. That includes customs, technical barriers to trade, sanitary and phytosanitary standards, investment, IP, procurement and much more. For example, FTAs secure legal certainty and predictability for services exporters overseas. That is crucial for an economy such as the UK, in which services contribute nearly 80% of GDP and employ over 30 million people. The inclusion of ambitious commitments in FTAs will remove barriers to services trade, provide for greater choice, innovation and competition, and deliver meaningful benefits to businesses and consumers across the world. For example, the measures in the UK-Japan deal included improved mobility for businesspeople, securing more flexibility for Japanese and British companies to move talent into each country and covering a range of UK skilled workers to enter Japan, from computer services to construction.
- FTAs can provide benefits in terms of fair trade too. For example, in our outline approaches to FTAs with the US, New Zealand, and Australia, we have committed to seeking provisions on fair competition, transparency, and sustainability. The latter will help enable trade in low carbon goods and services, supporting innovation in sectors such as offshore wind, smart energy systems, low-carbon advisory services, and energy from waste.

5. HOW CAN WE ENSURE FTAS REMAIN EFFECTIVE?

This brings me to my fourth and final point: how can we ensure that FTAs remain effective? Perhaps the most obvious way to keep them effective is to update their content. For example, the UK-Japan deal is one of the world's most forward-leaning FTAs with respect to digital trade and data. It includes commitments to the free flow of trusted data across borders – giving businesses the confidence that they can collect, process and transfer data without unnecessary red tape; commitments to maintain legal frameworks for personal data protection – giving consumers confidence that the UK's high standards of data protection will be supported and exported through our international trade programme; protections for source code and cryptography, commitments to protection for consumers engaged in online commerce; and steps towards 'digital by default' trading systems through supporting the use of e-contracts and e-signatures.

In parallel to these improvements in content, it is equally important to consider the process of FTAs too. This is hugely important for maintaining confidence and support for our FTA agendas. That is why in the UK we have put in place suite of enhanced transparency and scrutiny arrangements that go well beyond our statutory obligations. We need to engage at multiple levels:

- We need to engage the public. That is why in the UK we have run a public consultation in advance of FTA negotiations, supported by the publication of detailed economic scoping assessments and objectives upfront, to allow informed debate. We communicate regularly on progress. And at the end of negotiations, the treaty text will be made publicly available, accompanied by explanatory documents and an independently scrutinised impact assessment. This will include a report on the FTA's consistency with our protection for human, animal or plant life or health, animal welfare, and the environment – informed by advice from a new independent Trade and Agriculture Commission. To engage the public, we need to be transparent and show that we are respecting key sensitivities.
- We need to engage key stakeholders with specific interests too. That is why in the UK we have set up mechanisms for more targeted engagement, such as through strategic and sector-specific Trade Advisory Groups alongside regular briefings, bilateral engagement and roundtables with business, civil society and think tanks. This helps to ensure we are devising a trade policy that works for the whole of the UK and provides new opportunities.
- In the UK, we also engage actively with our Devolved Administrations in Scotland, Wales and Northern Ireland. The UK Government is responsible for negotiating international trade agreements on behalf of all the nations and regions in the UK, but modern trade agreements increasingly intersect with areas of devolved competence and implementation. We therefore work closely with them to deliver policy that reflects the interests of all the nations within the UK. We have both informal and formal arrangements to enable this, including regular ministerial and official meetings including at chapter-specific and negotiation level.
- Then of course there is Parliament. In most countries engagement here is key for both legal reasons and legitimacy reasons. So, in the UK we provide regular updates and confidential briefings to relevant Parliamentary Select Committees so that they have the information to provide effective scrutiny at all stages of the negotiations. Those Committees will be able to report on the final deal, and Parliament has the opportunity to prevent ratification of it. This approach aligns with levels of transparency and Parliamentary scrutiny seen in other major democracies such as Canada, Australia and New Zealand.

Finally, and most briefly, we need to get FTAs right in terms of implementation. If we don't ensure that FTAs are put into practice and used by business, then they are nothing more than pages on a shelf. Most FTAs contain a range of implementation measures such as committee structures, dialogues, and dispute resolution mechanisms. These matter because they provide a framework for monitoring and enhancing our bilateral trade agreements, including through identifying and tackling persistent market access barriers between the UK and partner countries. They also enable discussion and information sharing to avoid any compliance breaches and mitigate against disputes being raised in the framework of our trade agreements.

In parallel we need to ensure the opportunities of trade agreements are implemented by business. So, in the UK we are regularly considering how we can better promote the benefits of trade agreements to businesses, including SMEs, and simplify the processes that UK businesses are required to follow to utilise and benefit from UK bilateral trade agreements. We are also monitoring the uptake of preferential trading arrangements by businesses, to ensure our FTAs are having a real impact for real businesses.

6. CONCLUSION

So let me conclude:

- There is a hugely compelling case for free and fair trade – but we need to keep making it;
- We have a wide range of mechanisms to enable free and fair trade – of which FTAs are just one;
- FTAs delivered significant economic value – and can be improved to deliver much more;
- The content of FTAs matters – but their process and implementation matter just as much.

As an independent trading nation, the UK is determined to be at the forefront on all these aspects. We look forward to working further with our partners domestically and internationally to do so. Thank you.

References

Manley, Patrick. 'The trade statistics of the Irish Free State in 1924'. - Dublin: *Journal of the Statistical and Social Inquiry Society of Ireland*, Vol. XIV No. 3, 1923-1925, pp122-129