



Interim Report #3

30 June 2020

INTRODUCTION

On June 5th, the LSE Economic Diplomacy Commission conducted its third round of evidence sessions concerning the core political dimensions of the UK's economic diplomacy agenda. The discussion covered the concept and practice of "Global Britain," national security, the climate crisis, and human rights. The witnesses, who brought a diverse set of academic, political, and professional expertise to the session, received questions in advance and were invited to follow up afterwards with further thoughts. As the COVID-19 pandemic has come to define the future of the UK's economic diplomacy as much as Brexit has, the conversation naturally alternated between the two topics—with the connecting and overriding question being the alignment of the UK's foreign economic policies with other foreign, security, environmental, humanitarian, and development policy aims.

This Interim Report begins, as the prior ones have, with the witnesses' reflections on "Global Britain". It then explores new avenues for the UK's national security policies, relating to systemically important supply chains and the buttressing of bilateral partnerships. Turning to the climate crisis, it considers the domestic and foreign policies the UK may pursue to ensure a green recovery from the current economic crisis and to promote environmentally sustainable practices abroad. It concludes with reflections on the UK's human rights policies and how to strengthen them at home and overseas going forward.

GLOBAL BRITAIN: RHETORIC & REALITY

For many, the UK's departure from the European Union promised the realisation of "Global Britain", a United Kingdom which, having left the EU, would be able to play a greater role in international affairs. Proponents of the idea of Global Britain have cited not only their discontent with the UK's position within the EU, but also the opportunities that a rupture would perhaps provide to further the UK's relationships with the United States and China. However, as the foreign policies of Presidents Donald Trump and Xi Jinping have created a bipolar wedge in world affairs, and as the coronavirus has driven it deeper, achieving Global Britain may be easier said than done.

It is important for the UK's policymakers to be mindful of the challenges that "Global Britain" faces. This is particularly the case as it relates to London potentially serving as a bridge between Washington and Beijing and, in theory, to reap the benefits of strong relations with both. As one witness noted:

"I think it should be clear that the U.S. does not want the UK to play a mediating role between it and China anymore than it wanted them to do that between the U.S. and the Soviet Union during the Cold War. It's going to resist any UK efforts to do so, and that means that those efforts would have economic and geopolitical costs."

An illustration of such economic and geopolitical costs became clear earlier this year when it was announced that the UK government would continue to permit the use of Huawei's technology in the UK's 5G infrastructure, subject to limits on the percentage of Huawei content and its exclusion from the most security-sensitive parts of networks. The move upset U.S. officials who had pressured the UK to exclude Huawei, leading Washington to respond with threats to the [US-UK free trade agreement](#) as well as unprecedented grumblings about the [UK's involvement in the Five Eyes](#)

intelligence alliance. As the relationship between the United States and China deteriorates further, the witnesses expected, the UK's room for manoeuvre will continue to shrink.

The Huawei issue shows just how difficult it is for a medium power to steer a prudent and pragmatic course in its procurement policies in an era of growing strategic competition between the US and China. It is sometimes overlooked that Huawei's equipment is already incorporated in UK telecommunications networks and the possible security issues this may pose are not new. It is the deterioration in US-China relations that has given them much greater political salience together with the increasing expectation in the US government that its allies will do its bidding in seeking to constrain Chinese competition in advanced technologies. It is not, of course, self evident that US foreign policy, security and economic goals with respect to China are also in the UK national interest. But the leverage lies with the US because it is a crucial security partner for the UK and because a US-UK free trade agreement is a key goal of the post-Brexit project.

It also bears repeating that the UK is a long-standing ally and partner of the United States. As the "Special Relationship" already begins to fade from view in Washington, according to the witnesses, any further undermining of military, political, or economic ties with the US may be problematic within the UK government, amongst its political supporters, and for the military and intelligence communities with close links to their US partners. Moreover, the UK can have its own legitimate concerns about aspects of Chinese economic behaviour and its political relations with China are complicated by history and its legacy, in Hong Kong particularly, which may cloud UK-China relations unless carefully handled on both sides. Of course, the UK will be more closely aligned with the US than China and have sympathy for some aspects of US policy towards China. But looking ahead, as a witness suggested, there are likely to be substantial differences between the U.S. and Europe and the U.S. and the UK on China policy, including its economic dimension, and the UK national interest is likely to be closer to that of the EU on a number of the challenges that may arise.

A key issue in economic diplomacy, particularly with respect to China, will be how far such UK-EU alignment is pursued and delivered in the context of post-Brexit UK-EU relations. The same economic diplomatic craft will have to be applied to the UK's dealings in international organisations in order to earn and maintain the support of other, non-aligned nations in the international system who hold substantial voting power in international institutions.

Several steps can be taken as a multilateral and institutional matter to broaden the UK's global economic horizons and help achieve its global ambitions. One such proposal is that the UK ought to take a leading role in the [reform of key international organisations](#), such as the World Trade Organization (WTO), World Health Organization (WHO) and International Labour Organization (ILO). Another is the creation of a "[Global Trade Hub for Services](#)," for which the UK would champion the stalled Trade in Services Agreement (TiSA).

It is also important to acknowledge the world of diplomatic opportunities that lie beyond the U.S., China, and traditional multilateral affairs. As one witness argued, the UK ought to set its sights on the areas of the world that are growing the fastest, where new markets and security demands are emerging too. By this metric, the most promising places to start are sub-Saharan Africa, where the population is expected to double to [2.5 billion](#) by 2050, and the Asia Pacific, where nearly half the global population—[5 billion](#) people—will reside in the same amount of time. There are many cases for prioritising engagement there over other more familiar areas of the world, but the clearest reason

is the economic one. According to UNCTAD, while the average rate of return on investment in the developed world has been 6.0%, it has been 6.5% for sub-Saharan Africa and 8.5% for East and South East Asia. Encouraging and aiding investors to seek new opportunities there, as the UK took a promising first step at doing with its UK-Africa Summit in January, can further the “Global Britain” agenda and the UK’s global role. While it should be noted that Brexit was not a pre-requisite for pursuing these relationships, leaving the European Union has indeed made pursuing these relationships more urgent—as the UK must now work to (re-)strengthen its international standing and relationships. These recommendations reflect the conclusions of the Commission’s previous [Interim Reports](#) and so will not be delineated here.

NATIONAL SECURITY

The COVID-19 pandemic and the deterioration in U.S.-China relations have created new concerns about the United Kingdom’s security environment. While the UK has thus far been spared the worst of the potential supply chain disruptions that both phenomena have caused, the enduring potential for disruption—with all its consequences for the UK’s economy and, perhaps, stability—requires a reconsideration of what constitutes and compromises the defence of the homeland.

The problem, as one witness described the global threat environment, is the rise of “hybrid” or “grey zone” warfare, in which security challenges are covert, protracted, and involve non-traditional pressure points such as supply chains and cyber networks. Today, there is also the concern that practitioners of hybrid warfare may come to identify the COVID-19 pandemic as a “force multiplier.” The risks may be seen in the erosion of public trust that provide a greater opening for disinformation as well as the growing reliance on digital systems that concentrates societal vulnerabilities. However, above all, there is the exposed and exacerbated fragility of supply chains.

There are four proposals for safeguarding the nexus of economic diplomacy and national security:

1. **Trade & Security:** As foreign threats spill into the economic domain and economic vulnerabilities invite foreign threats, the UK will need to allow for the greater integration of its trade and security agendas. To do so, the UK ought to establish a committed security track within trade negotiations, which would encourage the discussion and incorporation of pivotal national security considerations, such as identifying potential vulnerabilities that may arise and establishing integrated oversight channels.
2. **Systemically Important Supply Chains (SISCs):** With the COVID-19 pandemic and the U.S.-China trade disruptions serving as reminders of the systemic importance of supply chains, the government ought to consider formalising supply chains’ crucial status in the same way that it has for other areas of the UK’s economy. Since 2011, the [Financial Stability Board](#) (FSB), an international body established by the G20, has worked with national authorities around the world, such as the Bank of England, to identify systemically important financial institutions whose collapse would provide a significant disruption to the global economy. For those banks that are designated “Systemically Important Financial Institutions” (SIFIs) by the Bank of England, existing regulations are reinforced with more stringent macroprudential policies (e.g., higher capital requirements) in order to safeguard the financial stability of the economy. In addition, the UK’s SIFIs are subjected to annual “stress tests” by

the Bank of England in order to ensure that they would be able to endure a wide range of hypothetical shocks. The [SIFI designation](#) is decided by a framework that considers the institution's size, cross-border activity, and intra-border connectedness.

The same SIFI process of designation and stress testing ought to be used to ensure supply chain stability and resilience. The guiding principle is similar and straightforward: to balance commercial openness with greater scrutiny in order to ensure stability and resilience. Supply chains which concern the core national interest—involving goods such as medicine (e.g., [insulin](#)) or defence requirements—and whose collapse would gravely impact the UK's health and security will receive the "Systemically Important Supply Chain" (SISC) designation and thus be subjected to greater regulation, discussed below. They would also be subjected to annual stress testing that would better prepare them for shocks such as pandemics, natural disasters, trade wars, cyber attacks, and more. While the UK may begin to implement SISC policies on its own, the cross-border nature of SISCs will eventually be best served by greater international coordination, namely through a forum modelled after the multilateral Financial Stability Board.

3. **Illumination, Robustness, Resilience:** The new policy direction for the supply chains of certain key sectors, witnesses argued, must revolve around "illumination," "robustness" and "resilience". Illumination [refers](#) to the process of establishing greater awareness of a supply chain's dynamics, "establishing a list of critical components, determining the origin of supply, and identifying alternative sources." Such transparency would not only help to reveal potential vulnerabilities (and solutions) in the event of disruptions from a pandemic or trade war, it would also allow for greater and more regular oversight of the supply chain to protect against hostile or illegal infiltrations. While illumination has largely been left to the private sector in the past, the recommendation here is for an official focus on the illumination of Systemically Important Supply Chains. Second, the focus on robustness follows naturally from the crisis of "just-in-time" production that the world is experiencing today. To encourage greater robustness in supply chains is to advocate, or indeed require, building in more slack and buffer stock. Third, in the face of growing disruptions, it will be important for the private sector to be more mindful of—and for the government to provide more guidance towards—the resilience of their supply chains. This refers to both resistance to shocks and recovery from disruption over an acceptable period of time, as well as diversifying supply chains geographically. Such steps may include a greater degree of diversification of suppliers or partial re-shoring, in order to limit or contain exposure to external shocks, as part of designing value chains and assessing potential suppliers with the aim of managing risk within acceptable parameters.

Along with this focus on supply chains, it is important to note that the UK's economic diplomacy and national security overlap in more traditional domains as well. Building out security partnerships in tandem and in line with economic partnerships, as laid out in the first proposal above, ought to involve greater consideration of two further factors:

4. **Enhanced Security Cooperation:** The UK's expertise in areas such as intelligence, cyber-security, and counter-terrorism policing provides a considerable opportunity to broaden and deepen bilateral partnerships while serving mutual goals. As one witness noted, "There is far

more that could be done, for very little extra money, to disseminate people, expertise and some applied technology in these areas....” The potential benefits are particularly promising if the UK expands its economic diplomacy horizons into the areas mentioned above, the nations and economies growing most rapidly in sub-Saharan Africa and Asia Pacific, where (in some places) security concerns exist, too. Alongside cooperation in these areas, there is a case for looking to expand defence cooperation outside the NATO framework and beyond existing examples such as counter-piracy and counter-narcotics patrols on a bilateral and multilateral basis. As well as looking at the nature of such cooperation, the possibility of deeper defence cooperation with some of our key economic partners in, for example, East Asia should be examined in terms of both its security and potential economic benefits. Recognising that UK defence expenditure is likely to continue to be constrained, this is therefore a question of whether our defence effort can be better leveraged in support of economic diplomacy.

5. **BRI-Alternative:** A long-term security challenge for the UK and NATO more broadly is the relationship of dependence that is likely to be created by China’s Belt & Road Initiative (BRI). While countering Beijing’s largesse is not quite feasible, it is also not necessary. As sovereign debt crises loom in the developing world, partially a result of BRI lending practices, the consequences of broader BRI engagement are now coming into focus. This creates an opportunity for the expansion of the UK’s security partnerships. Even though some nations may well find the BRI to be their only viable economic recourse, it should not be the case that those nations see China to be their only military recourse as well.

CLIMATE CRISIS

Since the COVID-19 pandemic emerged, its relationship with the global climate crisis—how it may help or hurt, and what it may teach—has not been far from view. Six months later, it has been made abundantly clear that natural disasters, be it pandemics or extreme weather events, do not respect national borders and can pose existential threats to societies and economies around the world. While facing up to the climate crisis is undoubtedly a difficult and costly task, the failure to do so would be substantially worse.

Despite the teaching moment of COVID-19, it was noted in the evidence session that environmental progress may well be impeded as a result. There are many reasons why this might be the case. The first is likely to be the apparent costs of reduced consumption. While citizens of the world may celebrate clearer skies and seas, they may have also made the (false) association of this environmental progress with the concurrent rise in unemployment and the global economic contraction. Second, there is the crisis of a false sense of victory. Despite the broadly publicised reduction in emissions, the net decline for 2020 is not as great as one would hope. While the Paris Agreement stipulates an annual reduction in global emissions of 7.6%, COVID-19 and the resulting economic downturn are expected to lead to an energy demand contraction of just 6%, according to the [International Energy Agency](#). Third, witnesses worried that the previous patterns of behaviour would reassert themselves in the post-COVID-19 economic recovery, thereby nullifying both the immediate environmental gains from the pandemic as well as the growing support for green policies. Fourth, as has been previously discussed, the pandemic has accelerated the disintegration of the

international system and therefore reduced the likelihood that meaningful international agreements may be achieved, let alone implemented.

Recognising these obstacles is a necessary first step to overcoming them. And although the obstacles are indeed tall, support for more robust environmental policies is growing, too. In a recent poll conducted by [Opinium](#), 58% of respondents said the government had done too little to address the climate crisis and some 63% of respondents voiced their support for a UK equivalent to the U.S.'s "Green New Deal," a radically ambitious climate proposal. Among young voters, aged 25 and under, 75% had also said that climate policy is a guiding factor in their voting decisions. These figures and more should be reassuring as they buttress the self-evident environmental and economic necessity of green policy reform with a clear political rationale for taking action.

As for the obstacles themselves, the solutions may indeed be self-evident, too. The false association of environmental progress and economic contraction, as well as the harmful regression to fossil fuel-intensive growth, may be offset by a re-emphasis on and commitment to a "green recovery". The challenge of achieving the aims of the Paris Agreement, and the further fracturing of the international system speak to the need to create more muscular foreign environmental policies as well as the importance of strengthening international institutions and multilateralism.

From the evidence session, there are four foreign and domestic policy action items for the UK that may begin the work of promoting the necessary structural change:

- 1. Green Recovery:** As the pandemic and downturn endure, and companies face threats of bankruptcy, the UK could attach environmentally sustainable conditions to relief and bailout measures and channel investments into sectors and industries that promote green technologies. France and Germany have demonstrated such initiatives to green their own economies. In order for Air France to access the government's €7 billion loan, it must agree to a number of reforms, including cutting the number of domestic flights. Germany is advocating "[green recovery roadmaps](#)" that would need to be followed in order to receive EU recovery funds.
- 2. Border Carbon Adjustment:** One challenge to establishing strong climate policies in a globalised world is "carbon leakage." This refers to the practice whereby corporations shift their pollution to unregulated nations instead of taking the steps to reduce their pollution in the original country. Therefore, many country-specific environmental victories may be misleading if leakage remains possible. Worse, bold environmental regulations may end up serving the sole purpose of weakening the domestic industries that are forced to incur additional regulatory or alternative energy costs, thus driving down local support for the initial environmental policies. The solution to prevent leakage, neutralise the consequences of domestic regulations, and force positive environmental action by foreign polluters comes in the form of a "[Border Carbon Adjustment](#)." Functioning as a tax on imported CO₂, a Border Carbon Adjustment would make nations' and companies' access to the UK's home market contingent on strengthening their corporate or domestic environmental policies. Further consideration of this topic would explore navigating the EU's proposed Border Carbon Adjustment, managing potential WTO hurdles, and determining appropriate CO₂ pricing.

3. **Coalition of the Willing:** While the Border Carbon Adjustment will likely succeed in compelling some actors to adopt desirable environmental policies, broader and longer-term solutions will require more multilateral and institutional leadership. An important responsibility of the UK, witnesses argued, is thus to organise the international community behind existing environmental treaties, such as the Paris Agreement, as well as to help architect more ambitious measures. In addition to the clear environmental benefits that will come from such an effort, it is also important to note the economic and political gains to be reaped, which include the advantageous global transition to higher tech, low carbon economies (in which the UK is an early leader) and the strengthening of the international institutions that reinforce the UK's global standing. An important avenue through which the UK may lead such a coalition of the willing is the "Group of Friends of Adaptation and Resilience," a new platform of the UN intended to further COP26 goals, of which the UK became a co-chair on June 12th.

4. **Global Public Goods Secretariat:** Lastly, it may be worth considering establishing a permanent secretariat for the G7/G20 in the UK that is tasked with creating largely online platforms for global public goods generally, including climate and other joint goals. Centralised support for international leadership of this sort, with tasks that may include knowledge sharing and policy harmonisation on global issues, could facilitate both international progress and strengthen the multilateral system. Although the current condition of the international system will make it difficult to create such a secretariat with meaningful multilateral buy-in, it is nonetheless an important project to pursue, and indeed one that may help in its own ways to rehabilitate trust in the international system.

HUMAN RIGHTS

The final issue discussed in the evidence session was human rights: its challenges in the world's changing security and economic landscape, and its role in the UK's economic diplomacy agenda. Where it concerns the UK's foreign economic policies, it is important, witnesses argued, to appreciate and protect a broad definition of human rights that focuses on access to health care, food, adequate standards of living, and socio-economic rights writ large.

It is necessary, as well, to recognise where the UK has failed to live up to the defence of its values. From headline actions such as the inadvisable vote against the UN Declaration of the Rights of Peasants to inefficient domestic subsidies and trade barriers that impede industrialisation in developing countries, there is room for progress on the United Kingdom's human rights agenda.

As a result, there are three positive steps in particular that the UK may take:

1. **Human Rights Partnerships:** As presented in the National Security section above, the UK will be well served by expanding its economic and security partnerships in the developing world. The rapidly growing nations and economies of sub-Saharan Africa may be particularly attractive as a matter of traditional economic diplomacy. The endurance of certain security challenges, there and elsewhere, may also create a mutually beneficial opening for the UK to provide military hardware and expertise. However, in the new era of "Global Britain," in which the UK's international leadership rests more on institutional strength and soft power status

than it does on material strength and hard power deployments, it will be necessary for the UK to honour and entrench human rights protections in its partnerships. At times, as with relationships, for example, with Saudi Arabia and the Gulf states, this can lead to tensions between economic goals and other goals of the British government. However, it is important to recognise that the weight to be placed on the human rights dimension comes not only from a place of abstract morals and values, but also from the knowledge that the UK can and will thrive—economically, politically, and militarily—in a world in which rules, norms, and the institutions that promote them are respected.

2. **Tax Havens:** Given the significance of socio-economic inequalities in the global human rights landscape, witnesses argued that taking leadership on tax havens would also help further the UK's values. According to the [IME](#), \$600 billion is forfeited each year in lost corporate tax revenues. Supporting the OECD's efforts to stamp out the world's tax havens and clamp down on practices such as profit shifting will yield not only a freer and fairer international system, but also a more prosperous one. Creating legislation for greater transparency in offshore and/or tax-exempt companies, as well as mandating full disclosure of country-by-country revenue sources, are necessary first steps to undermine tax havens and fraudulent practices.
3. **DFID-FCO:** As COVID-19 is now making its way through much of the developing world, causing great harm to healthcare systems and debt burdens alike, it is likely that the greatest priority in the years to come will be re-centring the UK's development agenda within its broader foreign policies. The decision to merge the FCO and DFID in a new Foreign, Commonwealth and Development Office (FCDO) has the potential to facilitate the better integration of the UK's foreign policy, development, and economic diplomacy policies, particularly if it is accompanied by closer work with the Department for International Trade. At the same time, the announcement of the DFID-FCO merger has rekindled two significant concerns. First, that it will reduce the UK's soft power that was based on an influential and independent DFID. Second, that there may be a diversion of aid to support UK trade or other goals in programmes and projects that are of doubtful benefit for recipient countries and, moreover, of doubtful value to the UK's broader interests. Such a diversion could also entail the UK eventually failing to meet its goal of allocating 0.7% of Gross National Income (GNI) to development assistance. It will be important for the credibility of the new FCDO that there is genuine transparency over the allocation of its budget and its implications for the development assistance target. The new department will come into being with the aim of more coherent relationships with partner countries at a time when many of them will be seeking to recover from the multi-faceted health, economic, and stability shocks arising from the COVID-19 pandemic. As it relates to aid policy in particular, the challenge of the immediate future—in which the [IME](#) estimates that up to 100 million people may be pushed into "extreme poverty" by the end of the year—will be to set the UK's sights on the global rise in poverty. For this reason, the UK's aid policy ought to be primarily focused on poverty reduction.

PARTICIPANTS

Professor Linda Yueh - Chair, LSE Economic Diplomacy Commission

Professor Michael Cox – Head Commissioner, LSE Economic Diplomacy Commission

Professor Robert Falkner - Lead Commissioner, LSE Economic Diplomacy Commission

Sir Richard Mottram - Lead Commissioner, LSE Economic Diplomacy Commission

Tim Benton – Head of Energy and Environment, Chatham House

Michael Clarke – Distinguished Fellow (former Director General), RUSI

Dr Margot Salomon – Associate Professor, Department of Law, LSE; Director, Laboratory for Advanced Research on the Global Economy, LSE Human Rights

Jeremy Shapiro, Research Director, European Council for Foreign Relations

Professor Saul Estrin – Commissioner, LSE Economic Diplomacy Commission

Baroness Kishwer Falkner – Commissioner, LSE Economic Diplomacy Commission

Lord Nick Macpherson – Commissioner, LSE Economic Diplomacy Commission

Guy Monson – Commissioner, LSE Economic Diplomacy Commission

Lord Charles Powell – Commissioner, LSE Economic Diplomacy Commission

Susan Scholefield – Commissioner, LSE Economic Diplomacy Commission

Peter Watkins – Visiting Senior Fellow, LSE IDEAS

Gidon Gautel – Project Manager, LSE Economic Diplomacy Commission

Jess Keating – Communications Officer, LSE IDEAS

Stephen Paduano – Executive Director, LSE Economic Diplomacy Commission

Inga Runarsdottir – Research Assistant, LSE Economic Diplomacy Commission