



Interim Report #5

18 July 2020

INTRODUCTION

On July 18th, the LSE Economic Diplomacy Commission conducted its fifth round of evidence sessions concerning the conduct of the UK's economic diplomacy. The discussion broadly covered advancing multilateralism, navigating US-China relations, reforming the relationship with the EU, and recognising growing domestic difficulties. After a brief reflection on the state of the 'Global Britain' agenda, this Interim Report proceeds with a range of policy proposals as well as several issues and concerns that the witnesses raised in terms of UK policymaking.

The witnesses, who brought a wide range of academic, political, and professional expertise, were provided a set of questions in advance and were invited to follow up afterwards with further thoughts. Given the degree to which COVID-19, the US-China trade war, and UK-EU negotiations remain dynamic issues, the opinions expressed here should not be taken as the final considerations of the Commission. As such, the Commission may wish to re-engage with these issues towards the end of the year.

GLOBAL BRITAIN UPDATE

Covid-19 has produced immense health, economic, geopolitical, and reputational consequences for the United Kingdom, and the emerging bifurcation of the international system between the US and China has added to the challenges. Some witnesses argued that these have weakened the United Kingdom at home and abroad—as the pound has weakened and discontent with the government has bolstered Scottish nationalism. Moreover, as the US presses its partners to reject Chinese technology and limit cooperation with Beijing, and as China's mounting authoritarian abuses from Xinjiang to Hong Kong further constrict opportunities for constructive engagement, the UK's room for manoeuvre in global politics is shrinking. For much the same reasons and in much the same way, key international institutions and organisations have been weakened in recent months, and their inability to provide leadership has deepened the world's woes.

In this environment, charting a course for 'Global Britain' that promotes the UK's commercial interests, safeguards its political interests, and strengthens a rules- and norms-based international system is difficult. Nevertheless, there remain important, actionable policies that the UK ought to consider and pursue in the conduct of its economic diplomacy agenda going forward.

COALITIONS OF THE WILLING

The advance of illiberal, anti-democratic forces in the international system presents a wide array of threats to the UK's normative and material interests. As a soft-power system that revolves around rules and norms is challenged by a hard-power one governed more by military might and the use of

force, the UK will find itself in a more perilous global landscape that requires increasingly costly attention to defence and deterrence.

There are immediate, material costs to the retreat of liberal internationalism and the erosion of global economic governance. Chief among them is the deterioration of US-China relations, which has posed challenges for the UK's commercial interests around the world. With respect to China, witnesses noted that the UK has begun to reverse course on two decades of intensive economic engagement. With respect to the US, witnesses worried that the long-sought US-UK Free Trade Agreement (FTA) might be jeopardised by Washington's insistence on a ['non-market economy clause'](#), a unilateral right to withdraw from the FTA should the UK sign a trade agreement with China, among others. At the same time, the US's displeasure has contributed to the stalemate in dispute resolution at the World Trade Organization (WTO), the primary international organisation capable of remedying aspects of the trade crisis.

Going forward, witnesses noted, it will be important to defend democratic norms; find ways to engage with China, the US and the wider international community; deepen ties with traditional partners; and re-build the international infrastructure. Four policy recommendations follow.

1. **D-10:** Early attempts to foster an international community revolved around protecting shared values and expanding them across the globe through, for example, NATO and international financial institutions such as the World Bank. There has been a shift in recent decades where some supra-national organisations were organised around specific aims. The G-20, for example, focuses primarily on economic coordination and stability, and its members is determined largely as a matter of economic weight. While the G-7 brings together much more like-minded states, its membership is limited and its utility to those involved is diminishing. This was evidenced by the cancellation of this summer's G-7 Summit.

Although witnesses noted member nations' enduring willingness to engage through the G-7, it was widely agreed that the G-7 requires rehabilitation. For this reason, witnesses expressed their support for the creation of a D-10, an annual gathering of the world's leading democracies. [Reports](#) surfaced in May that the UK government was considering creating such a body. The group ought to include the G-7 members—the United Kingdom, the United States, France, Germany, Japan, Canada, and Italy, as well as the European Union—plus South Korea, Australia, and India. While the initial proposal sets 10 members, witnesses noted that it is quite likely that more states should be included. Indeed, the D-10 will ideally encompass all of the world's advanced economy democracies to revitalise a rules-based multilateral system and work together on particular issues that require international coordination, such as 5G technology infrastructure.

2. **Non-aligned movement:** As the US-China trade war evolves into a broader political, economic, and technological standoff, there is a high risk of paralysis in the international community that would stall progress on even the most essential and unrelated issues. For this reason, witnesses discussed the possibility of a ‘non-aligned movement’ around certain global public goods, such as the pandemic and the climate crisis, which would carry three objectives. First, it would ensure that the most pressing issues of the day receive the attention they deserve. Second, it would allow for a functional international system that may operate independent of and undistracted by the United States and China. Third, it would build opportunities for constructive engagement with China, whose participation in a liberal international order must still be actively pursued.

Such a ‘non-aligned movement’ could take the form of a Global Public Goods Secretariat, as advocated in previous [Interim Reports](#). The importance of its ‘non-aligned’ nature is that it will be able to both avoid and mitigate what some witnesses called the “Cold War 2.0” between the United States and China. However, it was also noted that the term ‘non-aligned’ should not be taken at face value. Despite the missteps and overreaches of the United States in recent years, the UK’s interests remain aligned with those of the United States. In this way, the ‘movement’ or the Global Public Goods Secretariat would only be ‘non-aligned’ insofar as it refuses to subordinate certain issues to the United States and China’s geopolitical dispute. To that end, it will also pledge to work with all nations no matter their political stripe or stigma.

3. **EU Foreign & Defence Cooperation:** While witnesses noted the need to build new bodies to meet the challenges of the 21st century, they also stressed the need to recommit to the existing international infrastructure wherever possible. Witnesses discussed the enduring importance of the European Union and the United Nations system, which is owed both to their formal authorities and to nations’ continuing preference to operate through such familiar organisations. Despite the decision to leave the European Union, the United Kingdom still has ways and reasons to engage constructively with the EU. To do so would conflict neither with Brexit nor the Global Britain project.

One new form of constructive engagement with the EU ought to be around foreign and defence policy. Witnesses noted a misjudgement in the UK’s approach to negotiations with the EU—which may still be corrected—in that the UK has thus far opted to keep a structured arrangement around foreign and defence policy off the table in negotiating the immediate post-Brexit relationship. The inclusion of potential cooperation around foreign and defence policy in negotiations would not only build substantial leverage that favours the UK in the broader EU negotiations, it would also deepen ties with the bloc that most shares the UK’s geopolitical and geo-economic interests. As one witness put it:

“Our fundamental interests in the UK are very closely aligned with those in the EU. Look at China. The EU is rapidly moving towards a tougher position on China for all sorts of reasons. Particularly on the economic side, and then on the security side—and so is the UK. But we’re doing it without talking to each other very much about what we’re doing. On climate change, on Russia, on Iran, on multilateralism as a general concept, on the World Trade Organization. We have a very similar approach to the EU; much more similar than the approach of the US.”

Leveraging and establishing a formal foreign and defence policy relationship with the EU would serve to multiply the UK’s ability to pursue its interests—namely those that do not necessarily align with the United States. To do so would not be inconsistent with Brexit, which had far more to do with EU regulatory, migration, and trade issues. In certain respects, witnesses noted, a new foreign and defence arrangement would constitute a logical extension of Brexit’s ambition to redefine the UK-EU relationship in a way that would better serve the interests of the UK. Introducing foreign and defence cooperation into negotiations with the EU would thus strengthen the UK’s bargaining position, produce a more harmonious post-Brexit relationship, and strengthen the Global Britain vision.

4. **WTO Reform:** The need for committing to and firming up pre-existing institutions also extends to the World Trade Organisation (WTO), which has been unable to further trade liberalisation and smooth trade tensions in recent years, much to the detriment of the global economy and international order. The most immediate problem, and the one that the UK ought to work to solve, lies with the WTO’s Appellate Body. In 2018, the United States indicated it would veto the appointment of any new judges to the Appellate Body, the senior most trade court that is tasked with assessing and resolving alleged breaches of the WTO’s rules and help avert trade wars. The Appellate Body is unable to operate effectively and help resolve trade disputes.

Pushing the United States to drop its veto will not be easy. 117 of the WTO’s 164 members have already protested the move, and Washington has refused to budge as the US would like to see reforms of the WTO. Thus, the path forward will require greater reform of the WTO, which the UK ought to take a role in leading. The first step will be to honour Washington’s concerns with the Appellate Body, namely, that it does not abide by its 90-day deadline for issuing rulings, that it too often ‘legislates from the bench’, and that it affords China certain unfair advantages. As the UK seeks to reform the WTO, it ought to re-establish the Appellate Body’s 90-day deadline, work to provide clarity and potential restraint on its perceived judicial activism, and reform the ability of countries to self-designate as developing, among others. To achieve this, the UK can fully engage with the trilateral talks between the US, the EU, and Japan in order to shepherd a mutually agreeable resolution that resolves Washington’s concerns and, at the same time, puts added pressure on Washington.

OBSTACLES ON THE HORIZON

Although witnesses expressed optimism about the above proposals, which will both strengthen the UK's standing in global affairs and achieve a more agreeable international system, witnesses also expressed disappointment and worry with the direction of travel of four key issues: UK-China trade, the FCO-DFID merger, the erosion of the UK's soft power, and rising nationalist separatism. If not managed correctly, witnesses said, these challenges are liable to hollow out many of the UK's domestic and foreign priorities. Going forward, policymakers must strive to ensure some degree of continuity and stability in the UK's commercial ties to China, they should not allow the FCO to marginalise DFID's outcome-oriented development priorities, they must be mindful of the damage that has been done to the UK's global reputation in light of COVID-19 and work to staunch such soft power bleeding, and they must become increasingly attentive to the concerns of Scottish nationalists.

- 1. UK-China Trade:** Witnesses encouraged taking decisive action against such violations of international law as the detention camps in Xinjiang, the crackdown in Hong Kong, and the use of state-backed technology firms to engage in espionage or the theft of intellectual property. However, they also noted the importance of ensuring that these areas of disagreement do not corrupt or crowd out other areas of agreement. To the contrary, the UK ought to maintain and entrench its commercial interests with China, its seventh-largest [export market](#). Witnesses urged continued, delicate attention to UK-China trade ties not only because of the UK's economic interests, which are well served by China's purchase UK goods per year, but also from the knowledge that common commercial interests may serve as a springboard for achieving broader understanding and alignment.
- 2. FCO-DFID Merger:** As has been discussed in prior Interim Reports, the FCO-DFID merger carries promise but also peril. Bringing together the deep, local knowledge and centralised decision-making of the FCO with the technical expertise and outcome-oriented nature of DFID may help to further the UK's foreign and development goals beyond what could be realised when the two departments operated in isolation. However, a risk exists that reintegrating DFID into the FCO would side-line the UK's development capabilities, which could be detrimental to the health and welfare of the UK's development partners as well as the UK's standing in the developing world. As one witness noted, the importance of investing in public health on the frontlines of where infectious diseases first emerge is the best—and cheapest—defence against the recurrence of pandemics such as the one we are currently enduring. COVID-19's consequences for the developing world, the collapse in commodity prices, and the damage to global value chains have made many of the traditional recipients of the UK's

overseas development assistance (ODA) much more in need of it. Unfortunately, due to the economic damage from Covid, the UK's 0.7% of GNI commitment translates into a reduction in its aid budget. It remains of the utmost importance that development, and poverty reduction more specifically, be at the centre of the UK's foreign economic policies. The failure to ensure this would betray not only the UK's normative and humanitarian interests but also its geopolitical, commercial, and reputational interests.

3. **UK Soft Power:** One of the bleaker comments from this session was the damage that has been done to the UK's soft power around the world, largely as a result of the handling of COVID-19. Witnesses say it has damaged the UK's soft power, particularly its governance model, as the UK proved no more capable of combatting COVID-19 than others around the world, in the view of some witnesses. In light of this, policymakers ought to consider the rebuilding of the UK's brand overseas a primary objective in the years ahead. To do so, the UK ought to fashion an economic diplomacy strategy of soft power projection that furthers the UK's longstanding reputation as an effective and pragmatic nation.

4. **Nationalism Question:** Witnesses also raised concerns about COVID-19's implications for Scotland's push for independence. Prior [Interim Reports](#) have noted the difficulties posed by Brexit to the integrity of the UK and the need for UK policymakers to conduct its foreign economic policy in line with the interests (and actors) of Scotland, Wales, and Northern Ireland. In the intervening months, some witnesses argued, the nationalism question has been compounded by Scotland's comparatively stronger management of COVID-19. Should [opinion polls](#) hold for next year's Holyrood election, a decisive SNP victory will push a second independence referendum to the forefront of British politics. UK policymakers ought to get ahead of the rising tide of Scottish nationalism and demonstrate capable and inclusive leadership, which will not only help mitigate the case for independence but also achieve the sort of effective, collective governance that the UK aspires to hold.

PARTICIPANTS

Professor Linda Yueh, Chair, LSE Economic Diplomacy Commission

Professor Michael Cox, Head Commissioner, LSE Economic Diplomacy Commission

Sir Martin Donnelly, Lead Commissioner, LSE Economic Diplomacy Commission

Susan Scholefield, Lead Commissioner, LSE Economic Diplomacy Commission

Charles Grant, Director, Centre of European Reform

John Micklethwait, Editor-in-Chief, Bloomberg

Dame Karen Pierce, UK Ambassador to the United States

Dame Minouche Shafik, Director, LSE

Scott Wightman, Director for External Affairs, Scottish Government

Guy Monson, Commissioner, LSE Economic Diplomacy Commission

Lord Charles Powell, Commissioner, LSE Economic Diplomacy Commission

Dr Steve Woolcock, Commissioner, LSE Economic Diplomacy Commission

Stephen Paduano, Executive Director, LSE Economic Diplomacy Commission

Gidon Gautel, Project Manager, LSE Economic Diplomacy Commission

Inga Runarsdottir – Research Assistant, LSE Economic Diplomacy Commission