



Interim Report #1

April 2020

INTRODUCTION

In February, the LSE Economic Diplomacy Commission conducted its first round of evidence sessions—in London, Cardiff, and Edinburgh—on the current condition and forward-looking ambitions of the UK’s economic diplomacy. The witnesses spanned the political and policy spectrum, representing the devolved institutions, think tanks and academia, as well as business and trade unions. They had been provided a set of broad questions for the sessions and were invited to follow up with further thoughts.

The evidence sessions took place before the global consequences of the COVID-19 pandemic had become evident, and the virus was only fleetingly touched upon in terms of the impact on trade with China and East Asian supply chains. Given the far-reaching ramifications for the UK and the global economy, the Commission may wish to re-engage with some of the principal witnesses towards the end of the year in light of the changed circumstances in which the UK finds itself.

This Interim Report outlines the salient points discussed in our first three sessions, establishing a working definition of ‘economic diplomacy’ and reviewing the witnesses’ concerns and proposals on the matter. Its focus on the fundamentals of the UK’s economic diplomacy, governance and oversight, as well as the discussion of goods and services trade reflected the specific agenda points for these sessions. It should be noted that subsequent evidence sessions will discuss different subjects. With the world economy now undergoing profound changes, and with five of our sessions still to come, this should not be taken as the final positions of the Commission or the commissioners.

DEFINITION

There was broad agreement on the definition of economic diplomacy. It was understood as a set of policies that helps achieve the government’s economic and non-economic priorities. It could be both reactive in posture, responding or adapting to changes in the global economy, as well as proactive, influencing or guiding desired developments. It was also stressed that economic diplomacy should be seen as multi-phase and multi-level, whereby the UK regularly pursues and manages its economic diplomacy objectives through private sector engagement, bilateral agreements, and multilateral arrangements. In addition, there was an emphasis that economic diplomacy entails a ‘whole-of-government’ approach involving committees and departments whose purview does not solely concern Britain’s foreign economic policy.

The UK in a Global Context

Three broad themes emerged: Would the UK align with like-minded Western countries in support of a rules-based, multilateral system while developing its bilateral relationships and promoting its strongest sectors? In terms of the global regulatory system, would it follow the ‘emulate our model’ approach identified with China and the EU or would it revert to the more traditional system based on ‘equivalence and adequacy’ where outcomes determined access. There was general agreement that the UK’s strengths lay in its role as a positive influence on global governance and regulation.

Alongside this was the policy choice between alignment with a competition-based capitalist system

or a state-led economic system – a reference to the US v China debate. The question for the UK was where it wanted to be on the spectrum between the two.

The question of whether globalisation would be reversed by a trend toward de-globalisation was a critical one for the UK. Would its strong services-orientated economy be able to sustain and expand its soft power through retaining its influence or would non-tariff barriers remain an impediment to agreement on a further liberalisation of services (strengthening GATS) and other plurilateral agreements. Was the UK capable of being a ‘soft power catalytic player on the global stage’? Given that it is the only western European country to fulfil its commitment to both NATO and UN Development targets of 2% and 0.7% of GDP, respectively, panellists thought it had the potential to do more in that role.

There was broad agreement that it was impractical to segregate trade policy from broader foreign and security policy interests of the UK. An ongoing problem in this area was the siloed nature of Whitehall departments and the challenge of achieving a ‘whole of government’ approach to defining trade policy objectives and then getting departmental buy-in to push forward an integrated position.

CHALLENGES

1. **The One-Size-Fits-All Delusion:** A prominent worry among the witnesses in Wales and Scotland was that the government may chart a course in future trade deals—with the European Union, the United States, and others—that ignores the heterogeneity of the British economy. Some attention was given to this in London as well, where participants discussed the asymmetric impact on job creation and job losses from globalisation and automation. In both the devolved administrations, there was a sense that their national priorities (e.g. car manufacturing in Wales or financial services in Scotland) were liable to be a lower priority for Whitehall.
2. **De-Globalisation:** At each session, witnesses expressed concern about de-globalisation. Political misgivings aside, this on-going issue particularly relates to the impact on the UK’s services sector, which participants worried would be vulnerable to further dislocations in the global economy. The magnitude of such an eventuality for the British economy cannot be overstated: in 2018, services accounted for around [80%](#) of UK GDP.
3. **Brexiternity:** It remained difficult during the sessions to discuss the future of the UK’s economic diplomacy without returning to debates about the UK’s departure from the EU. As some participants noted, enduring dissatisfaction on both sides may threaten the credibility of the UK’s economic diplomacy, as potential partners may be rightfully uncertain about how long the UK’s international agreements may hold.
4. **Oversight:** Britain’s economic diplomacy touches both foreign and domestic policies, the negotiation and implementation of trade agreements, as well as issues of devolved and reserved powers. Its multifaceted nature therefore complicates proper oversight at the central government. The challenge is how to ensure a greater, more integrated, whole-of-government commitment to the subject.

PROPOSALS

- 1. Devolved Implementation Mechanism:** Although the relevant powers for the negotiation and ratification of trade deals are reserved for Westminster, there is some uncertainty around implementation in Wales and Scotland. This suggests that upstream implementation and downstream impact assessments should guide coordination through which national authorities can establish regulatory guidelines and channel national priorities and problems back to Britain's foreign economic policy makers.
- 2. Liberalising Services Exports:** In outlining the priorities of Britain's economic diplomacy, participants in London and Edinburgh stressed their determination to see a greater government focus on the liberalisation of services exports and further reductions in non-tariff barriers. Equally, there was an emphasis on shoring up the status and reach of the UK's financial services in the global economy, where the UK is and ought to remain a global leader. The UK's role in and membership of global multilateral institutions was seen as key to leveraging its networks and soft power relations in support of these priorities.
- 3. Distributional Analysis:** The asymmetries that accompany domestic policy making and global economic change suggest that HM Treasury ought to be more mindful of and forthright with the varying impacts of particular policies. One proposal to address this is to include a distributional analysis that could capture and communicate a policy's effect on job creation and wage growth across all regions, sectors, and demographics of the United Kingdom.
- 4. Safety Net:** The asymmetric impact of globalisation and de-globalisation, as well as individual trade agreements, also necessitate a greater focus on the UK's social safety net. While this may involve a broader and more fundamental re-evaluation of traditional benefits programmes—universal credit, jobseekers' allowance, tax credits, etc.—a more targeted approach towards 'trade adjustment assistance' may also be in order. By the most recent assessment, the UK's initiatives on trade adjustment greatly lag those of the U.S. and the EU. Whereas the U.S. spends \$450 million per year on its Trade Adjustment Assistance programme and the EU €150 million on its Globalisation Adjustment Fund, the UK would appear to spend just £6 million on its 'Rapid Response Service'. Although witnesses did show enthusiasm for a reinvigorated programme, some also noted that the U.S.'s and the EU's have not proven themselves to work no matter their additional funding. Further exploration of the topic is required as it may be necessary to alter the RRS' traditional focus on retraining and reemployment services.

PARTICIPANTS

London – 24.02.2020

Professor Linda Yueh, Chair - LSE Economic Diplomacy Commission

Professor Michael Cox, Head Commissioner - LSE Economic Diplomacy Commission

Baroness Kishwer Falkner, Lead Commissioner - LSE Economic Diplomacy Commission

Professor Stephen Woolcock, Lead Commissioner - LSE Economic Diplomacy Commission

Adam Bennett, Associate Fellow - Chatham House

Sam Lowe, Senior Research Fellow - Centre For European Reform

Gerard Lyons, Chief Economic Strategist - Netwealth Investments

Stephen Pickford, Senior Consulting Fellow - Global Economy and Finance Programme, Chatham House

Shanker Singham, Director - International Trade and Competition Unit (ITCU) of the Institute of Economic Affairs

Cardiff – 27.02.2020

Professor Michael Cox, Head Commissioner - LSE Economic Diplomacy Commission

Baroness Kishwer Falkner, Lead Commissioner - LSE Economic Diplomacy Commission

Professor Stephen Woolcock, Lead Commissioner - LSE Economic Diplomacy Commission

Professor Leighton Andrews, Professor of Practice in Public Service Leadership and Innovation - Cardiff Business School

Professor Gerald Holtham, Hodge Professor of Regional Economy - Cardiff Metropolitan University

Leighton Jenkins, Policy Advisor - CBI Wales

Helen Mary Jones, Plaid Cymru AM, Shadow Minister for Economy, Tackling poverty, and Transport - Welsh Assembly

Jeremy Miles, Welsh Labour AM, Counsel General for Wales and Brexit Minister - Welsh Assembly

Ian Price, Director - CBI Wales

David Rees, Welsh Labour AM, Chair of the External Affairs and Additional Legislation Committee - Welsh Assembly

Dr Andreas Tsopanakis, Lecturer in Economics - Cardiff Business School

Edinburgh – 28.02.2020

Professor Linda Yueh, Chair - LSE Economic Diplomacy Commission

Professor Michael Cox, Head Commissioner - LSE Economic Diplomacy Commission

Baroness Kishwer Falkner, Lead Commissioner - LSE Economic Diplomacy Commission

Professor Stephen Woolcock, Lead Commissioner - LSE Economic Diplomacy Commission

Reuben Aitken, Deputy Director, Trade Policy - Directorate for International Trade and Investment

Miriam Brett, Director of Policy & Advocacy - Common Wealth

Helen Martin, Assistant General Secretary - Scottish Trade Unions Congress

Scott Strain, Head of Trade Promotion - Directorate for International Trade and Investment

Janette Webb, Professor of Sociology of Organisations - University of Edinburgh