

RESEARCH

FOR THE WORLD

How should the UK reset its global role following Brexit?

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Having left the EU, the UK has the opportunity to refine its economic diplomacy in a changed global economy. **Linda Yueh**, Chair of the LSE Economic Diplomacy Commission, sets out how the country can reposition its place in the world.

With its decision to leave the European Union, the United Kingdom has been tasked with setting its own trade policies for the first time since the 1970s. In light of this fundamental change, the LSE Economic Diplomacy Commission was convened in 2019 by LSE IDEAS, LSE's foreign policy think tank.

Economic diplomacy refers to the set of policies and institutions that help achieve certain economic and non-economic priorities. It can be both reactive, responding to changes in the global economy, and proactive, influencing or guiding desired developments. Impactful economic diplomacy entails an approach that encompasses the UK's foreign, domestic, commercial, and institutional policies and interests. How these policies evolve over the coming months will be key as the UK seeks to establish its new global role.

Why do we need the LSE Economic Diplomacy Commission?

As Chair of the Commission, I worked with 17 distinguished Commissioners, a group of experienced practitioners and leading LSE academics whose expertise spans a wide range of subjects, including economics, international relations, foreign and security policy, environmental policy, and business.

The project sought to establish a strategic direction for a new age of foreign economic policy, to understand the domestic ramifications of changes to the UK's trade agenda, and to present recommendations that may best advance the UK's priorities at home and abroad.

To do so, the Commission spent the past year studying a wide range of economic, geo-political and other trends and conducted evidence sessions featuring experts across a broad range of subjects.



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Our aim was to position the UK optimally in a changed 21st century global economy while maintaining the UK's support for an open, multilateral trade and rules-based international system.

Why is economic diplomacy important?

The UK finds itself on challenging global terrain, but the 21st century world economy also offers significant opportunities. The COVID-19 pandemic, the US-China trade war, the new relationship with the EU, the challenges to the multilateral system, and the broader economic trends of the fast growth of services and digital trade require a new and ambitious economic diplomacy agenda.

This agenda should encompass a clearly defined and consistently applied framework that sets the UK's trade and investment policies in alignment with its foreign and domestic policies – and that takes particular care to mitigate the distributional consequences of its international economic policies to address the backlash against globalisation.

In evidence sessions held throughout 2020, the Commissioners examined the framework for setting trade and investment policy, as well as the UK's global role, and aligned these with its domestic priorities and foreign policies. As we cannot cover every issue, Commissioners have focused on key actionable points of the UK's foreign economic priorities. These include re-positioning the UK for the continued rise of digital and services trade, contributing to a rules-based international trade and investment order, supporting coalitions to promote global rules and standards, facilitating progress on global public goods, managing the pressures from globalisation and digitalisation, and expanding institutional capacity for the UK's economic diplomacy.



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Economic diplomacy for a 21st century world

The Commission's final report, published February 2021, builds on the seven *interim reports* that followed evidence sessions conducted over the course of 2020. It sets out a refined framework for the UK's economic diplomacy which helps set the recommendations within the broader inter-linked dimensions of a nation's economic and political agendas. Our recommendations fall under three categories:

I. Trade and Investment Policy: the UK can play a role in furthering international trade liberalisation

Our first set of recommendations relate to the management and navigation of major trends in the 21st century global economy: the rapid growth of services and digital trade as well as the stalling of multilateral trade liberalisation. These are matters of both commercial opportunity and geo-economic risk. Thus, there is a need for the alignment of the UK's foreign economic policies with its foreign and security policies.

The Commission therefore offers recommendations concerning the UK's role as a hub for, and multilateral champion of, services and digital trade, the development of parallel political and security tracks in trade negotiations, and greater oversight of the UK's supply chain vulnerabilities.

II. The UK's Global Role: supporting the international system

The second theme concerns precisely how the UK can do more to support the international system. Restoring the international system and multilateral progress are urgent and difficult tasks, not least in an era of heightened distrust. However, tending to the issues which benefit all will help to restore global norms and revive a global approach. The UK can play a leading role in promoting and coordinating these efforts.

We believe a natural starting point should concern the environment, and so our recommendations centre on the UK creating a secretariat within the G20, coordinating multilateral climate progress, and supporting coalitions to promote global rules and standards more broadly. Cooperative approaches are needed to work towards global solutions for an interconnected world. As a major economy, the UK can play a prominent role - particularly as US-China tensions are likely to persist – by working in partnership with other countries to promote a more effective international rules-based system.

III. Institutional Changes: refining the UK's economic diplomacy framework

Finally, the departure from the EU and the emergence of an independent trade and investment agenda have necessitated a recalibration of some of the UK's domestic institutions and practices, and so we focus on the institutional reforms needed to effectuate an ambitious and refined economic diplomacy framework for the UK.

As the country embarks on the negotiation of bilateral, plurilateral and multilateral agreements, it will be necessary to gauge and prepare for potential future trade shocks to society, to develop more efficient trade promotion policies, and to enhance the UK's economic diplomacy capabilities and policy procedures. Our recommendations cover improvements to impact assessment and trade adjustment assistance policies; a degree of decentralisation of foreign direct investment policy among the devolved administrations; and the implementation of consultative bodies, a cadre of economic diplomats, and a central economic diplomacy coordinating office in the Cabinet Office.



A strategic and thoughtful approach will help position the UK optimally in the 21st century world

The UK has had to re-examine its economic diplomacy since the EU referendum. At the same time, the global economy has been in a period of profound change. Geo-economic challenges exist, but opportunities also abound. We believe our recommendations will help to fortify the UK's economic diplomacy for the 21st century world.

By resetting its global role, the UK can make the most of the opportunities in a changed world. ■

*UK Economic Diplomacy in the
21st Century: The LSE Economic
Diplomacy Commission final report*

was published in February 2021.

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