



UK IN A  
CHANGING  
EUROPE

UK TRADE  
2024

# FOREWORD

Following the referendum of 2016, trade became a political issue in a way it simply had not been beforehand. Partly, of course, this was because leaving the EU would mean the UK had to devise its own trade policy for the first time since 1973. Partly, too, given the way the referendum campaign had panned out, and the claims made by some Leavers as to what the UK could achieve outside the European Union, trade policy became a metric of the progress of Brexit.

This report aims to provide a clear, evidence-based assessment of UK trade post-Brexit. As ever, I am extremely grateful to those members of our team – and others – who have contributed. Sarah Hall was the mastermind behind this project and was responsible for pulling it all together. Thanks too to Stephen Hunsaker and Jonathan Portes for all their work. For this report, we brought in a couple of ringers. I'd like to express my appreciation for the work done by Sam Lowe of Flint Global, and Sally Jones of EY. Finally, our wonderful communications team worked their usual magic when it came to checking the final text and sorting out the preparation of the final version.

As ever, I hope you find what follows both interesting and accessible. Do get in touch if you have any comments, or thoughts about other subjects we could or should be working on.

3 June 2024

**Professor Anand Menon**  
**Director, UK in a Changing Europe**

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# INTRODUCTION

UK trade has, since the 2016 referendum, become a hotly debated subject. Which is not to say that it is simply a Brexit story; the uncertainties currently shaping UK trade are far from unique to the UK. Supply chain disruption associated with international conflicts, and a geo-political environment that is generally less conducive to trade, are impacting trade globally.

In the immediate years following Brexit, trade data was complicated by the Covid-19 pandemic and a significant rise in global energy prices following Russia's invasion of Ukraine. 2023 data released by the Office for National Statistics provides one of the first opportunities to assess the UK's post-Brexit trade performance in detail. This report uses these data to set out the key recent trends in UK trade, outline where uncertainties lie and what the policy implications are.

It is logical to expect that increasing trade barriers with the EU would negatively impact UK trade, but UK trade with the EU has been more resilient post-Brexit than many [forecasts](#) suggested. The UK still imports more from the EU, especially goods, than anywhere else. Meanwhile, UK trade with the rest of the world has recently declined against a backdrop of more than a decade of relative weakness in UK goods trade.

Services make up an increasingly important component of UK trade and this shift has intensified compared to similar economies recently. Whilst the importance of financial services for UK services trade is well-documented, this boom in services trade has been driven by what the Office for National Statistics calls 'other business services', including legal services, management consultancy and accountancy.

Meanwhile, beyond Europe, questions are emerging concerning how geopolitical developments are leading to a less open world economy that is likely to make trading more difficult. Protectionism has increased markedly following the introduction of subsidies by major world economies, such as China and the US, aimed at supporting their domestic industries and reducing reliance on imports in sectors, such as automotive and steel.

Protectionism has also grown out of wider pressures to protect supply chains including Covid, the war in Ukraine and an increasingly fractious relationship with China. This less-than-propitious international trading environment makes it still more important that the UK develops an effective trade strategy.

Against this backdrop, we consider the range of issues likely to shape the future direction of UK trade from mobility, the Trade and Cooperation Agreement (TCA) review, free trade agreements and border checks in the second half of the report.

The world the UK now finds itself in is markedly different to the one in which the Brexit vote took place. The world economy is less open and there are more significant concerns about the future prospects of global trade more generally than there were back in 2016. Navigating this landscape will require a clear understanding of the current strengths and weaknesses of UK trade in order that policy can be best tailored to the opportunities and challenges the UK faces.

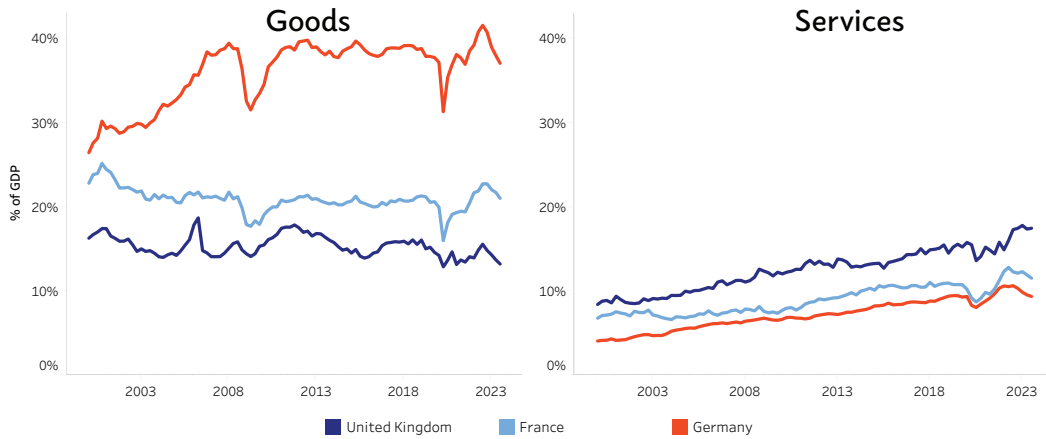
# RECENT TRENDS

The UK's post-Brexit trade performance marks a continuation of the trend of the last two decades, with services becoming increasingly important relative to goods. This has accelerated in recent years. Services trade as a proportion of GDP rebounded quickly post-pandemic and surpassed pre-pandemic levels by the latter half of 2022. Imports of services have [increased](#) 42% in nominal current price terms, while exports of services have increased nearly 29% compared to February 2020. While this partly reflects global trends, the UK has outperformed almost all other advanced economies in terms of the resilience of its services trade.

## The composition of UK exports differs substantially from France and Germany



Goods and services exports as % of GDP for the United Kingdom, France, and Germany from 2000 to Q3 2023

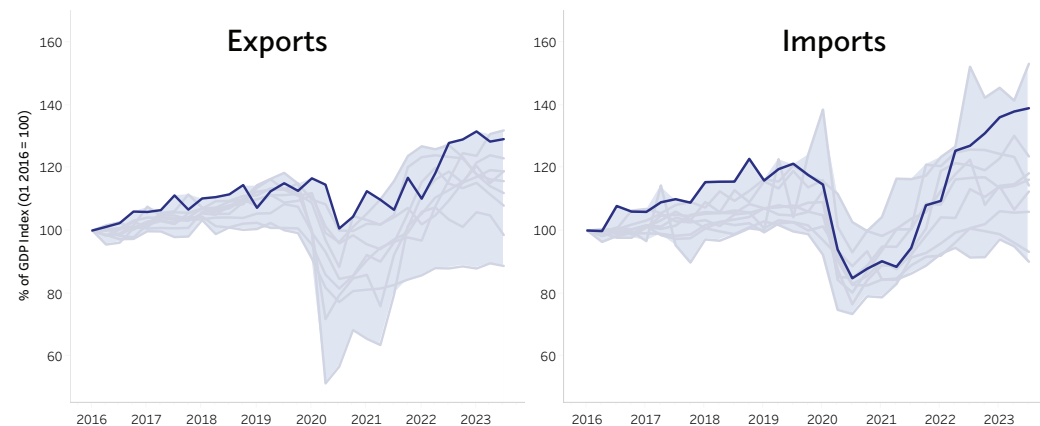


Source: OECD.Stats - balance of payments - Quarterly in national currency, seasonally adjusted. OECD.Stat - Quarterly national accounts. GDP - expenditure approach - QCRSA: national currency, current prices, seasonally adjusted.

## UK services trade has grown relative to other OECD countries



OECD countries' services imports and exports as % of GDP indexed to Q1 2016 = 100. United Kingdom in dark blue.



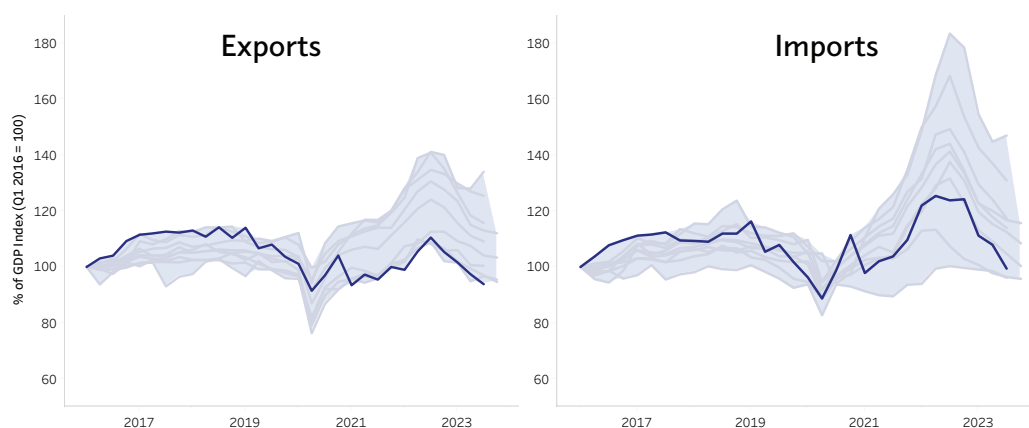
Source: OECD.Stats - balance of payments - Quarterly in national currency, seasonally adjusted. OECD.Stat - Quarterly national accounts. GDP - expenditure approach - QCRSA: national currency, current prices, seasonally adjusted. OECD countries included: Canada, France, Germany, Italy, Japan, Netherlands, Spain, UK, US, EU-27.

By contrast, UK goods trade has underperformed relative to other OECD countries, particularly since the introduction of the Trade and Cooperation Agreement (TCA) with the EU in January 2021. Whilst other advanced economies have seen a modest recovery in goods trade, the same has not happened in the UK.

### Growth in UK goods trade has been weak



OECD countries goods imports and exports as a percent of GDP indexed to Q1 2016 = 100. United Kingdom in dark blue.



Source: OECD Data Explorer - International merchandise trade statistics - Quarterly in national currency, calendar and seasonally adjusted. OECD.Stat - Quarterly national accounts. GDP - expenditure approach - CQRSA: national currency, current prices, seasonally adjusted. Canada, France, Germany, Italy, Japan, Netherlands, Spain, UK, US, EU-27.

The strength of UK services trade is commonly understood to be underpinned by financial services. There are good reasons for this, given London's place as one of two leading international financial centres globally alongside New York, a position that has not changed as a result of Brexit.

However, ONS data shows that it is not financial services that have driven the recent boom in services trade. Rather, ['other business services'](#) have become a more important component of services exports over the last ten years relative to financial services. This is a broad category of activity that includes management consulting, legal and professional services, architecture and research and development. Other business services have now overtaken machinery and transport equipment, historically the UK's largest export sector.

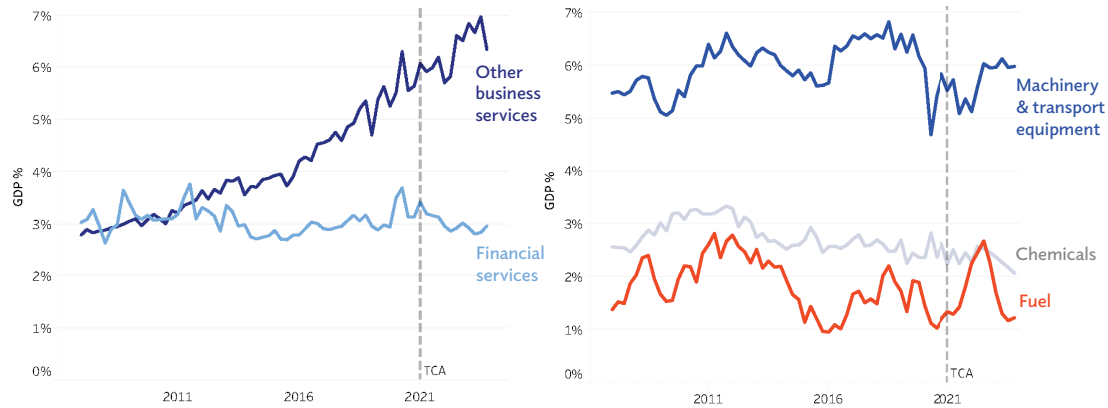
The reasons for the strength of UK business services trade are not clear. UK business services exports were less reliant on EU membership than financial services. As a result, Brexit imposed fewer additional costs. Business services are also less heavily regulated than financial services and hence the barriers to trade are typically lower. Furthermore, many activities in business services can be delivered remotely. The rise of homeworking during Covid accelerated the development of technology facilitating online delivery, which makes it easier to establish new trade opportunities without the cost of setting up a new office base. However, questions remain as to why the UK has performed disproportionately

well in this area, given that the rise of remote delivery is hardly unique to this country.

## 'Other business services' has surpassed machinery as the top export for the UK as percentage of GDP

UK exports of goods and services by sector in current prices as percentage of GDP from Q1 2007 to Q4 2023

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Source: Office for National Statistics - UK trade: goods and services publication tables. GDP data tables - A2 aggregates. Current prices. Trade in goods excludes precious metals.

When it comes to goods, performance has generally been disappointing. Machinery and transport equipment, which includes the automotive sector, has recovered to close to pre-pandemic levels. However, chemicals and fuel have been on a steady downward trend as a proportion of GDP since the early 2010s, with the decline in chemical exports accelerating in recent years (short-term fluctuations in fuel exports by value are largely driven by changes in prices rather than volumes).

## CURRENT PRICES VS CHAINED VOLUME MEASURE

ONS reports two measures of trade flows, current (or nominal) prices (CP) and chained volume measure (CVM). Current prices is the amount paid for the goods and services sold in cash terms, while chained volume measure (CVM) measures the total amount (or volume) sold on a commodity-by-commodity basis, compared to some base period, so removing the impact of both absolute and relative price changes. (Note that it is not actually a measure of volume in tons or numbers - that would be meaningless - but of **changes** in total trade volumes overall).

Normally the two measures will trend in similar directions, with general inflation meaning that CP rises slightly faster than CVM. However, when **relative** prices change sharply - as with the dramatic increase in energy prices after the invasion of Ukraine in early 2022, the two measures can diverge considerably

Here CVM gives a less volatile picture that is a better reflection of underlying trends. As energy prices have returned to more 'normal' levels, the two measures have broadly converged again, but any comparisons referring to the period of very high energy prices in 2022 and early 2023 should be caveated appropriately.

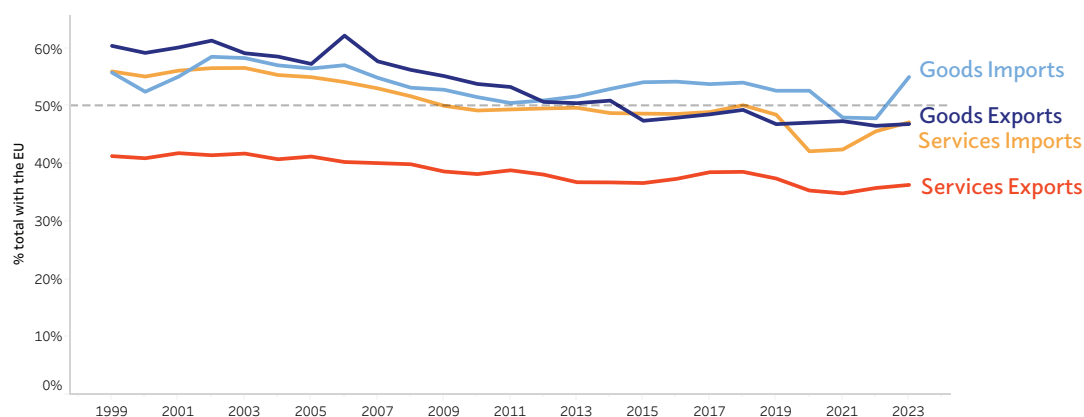
# TRADE WITH THE EU

While the shift from goods to services is a striking feature of recent UK trade, perhaps equally remarkable is the stability in the proportion of UK trade with the EU. This has been declining for at least 25 years – reflecting the EU’s shrinking share of the global economy. Yet, perhaps counterintuitively, levels of UK trade with the EU have been stable since the signing of the TCA.

## Over 50% of UK goods imports are from the EU

Annual average % of total UK trade in current prices with the EU compared to non-EU countries to its corresponding category from 1999-2023

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Source: Office for National Statistics, Balance of Payments - Table C. Current prices. Trade in goods excludes precious metals.

The EU remains the largest source of imports for the UK, especially goods imports. This may in part reflect the UK’s delay in implementing border checks on EU imports post-Brexit, meaning many of the trade frictions implied by the TCA have not yet fully come into effect. Nevertheless, the relative resilience of trade with the EU compared to that with the rest of the world – in the context of the overall weakness in goods trade described above – remains something of a puzzle.

## FINAL VERSUS INTERMEDIATE GOODS

An important distinction when it comes to trade is that between final and intermediate products. The former are goods ready for use or consumption. The latter are materials or components used in the manufacturing of final products and not intended for direct consumption. They are a particularly important element of UK trade.

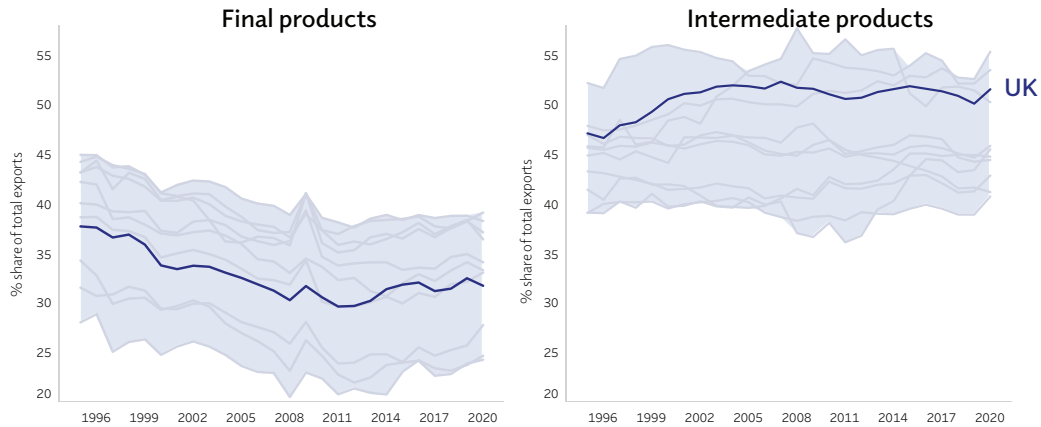
A car firm may import engines from Slovakia, assemble the cars in the UK, and export some of these vehicles. The engines are intermediate products, and are imports; the exported cars are final products. The ‘value-added’ in the UK is not the price of the car, but rather the difference between the price of the car and the price of the engine (and other intermediate inputs). The same is true for services; if a service is part of the production process for another product – for example, an advertising campaign for the cars described above – then it is an intermediate

product. The distinction is important for analysing a country's trade and is often called trade in value added. Unfortunately, data that distinguishes between intermediate and final products, and subtracts the value of the former from the latter in the case of exports, is currently only available to the end of 2020. Nevertheless, it sheds some further light on longer-term trends.

### Domestic value added for intermediate products as a share of total exports for the UK is strong compared to the OECD



Domestic value added in exports of final and intermediate products as a share of total gross exports with the rest of the world from 1995-2020.



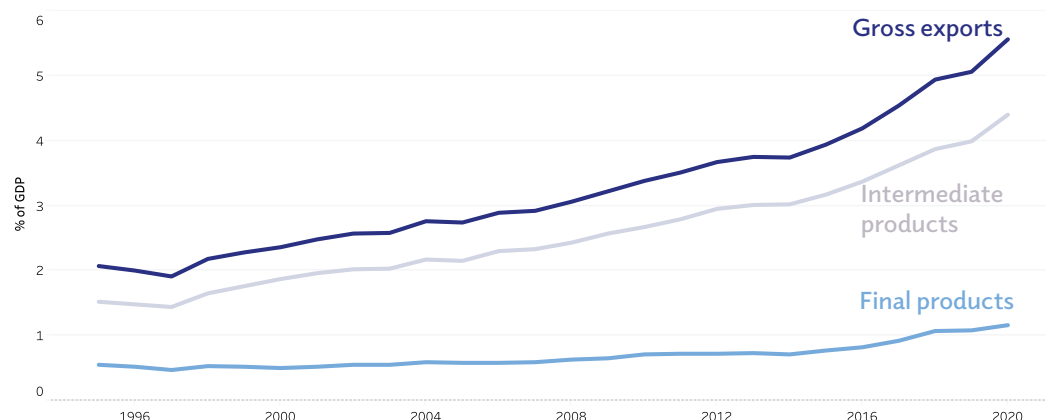
Source: OECD.stat - TIVA 2022: Principal Indicators. Note: OECD countries included - Canada, China, EU-27, France, Germany, Italy, Japan, Korea, Netherlands, UK, US. Percent does not equal 100% since it is only the domestic value added of total exports.

Relative to most OECD countries, a high proportion of UK exports are intermediate products. In 2020, intermediate products represented 51.5% of total gross exports; only the US and Japan have a higher share. This is in large part due to services being primarily categorised as intermediate products. Other business services, like legal services and consultancy, in particular, are generally (as the name suggests) purchased by businesses rather than consumers, as part of their overall production and sales process. In the years preceding the pandemic, the UK's strength in other business services was driven by intermediate products. While detailed data is not available, it seems reasonable to assume that the UK's dependence on intermediate products has increased further since 2020.

### UK 'other business services' has seen consistently strong growth



UK trade in value added with breakdowns of final and intermediate product and domestic value added for 'other business services' from 1995-2020



Source: OECD.stat - TIVA 2022: Principal Indicators

# BREXIT AND TRADE

The most obvious and direct impact of Brexit was to introduce significant barriers to trade between the UK and the EU, which remains its largest trading partner. The TCA imposes no tariffs on goods, but this does not remove the need for border checks. Nor has the UK diverged in any significant respect from EU regulations on food products or manufactured goods. However, without formal mutual recognition of this equivalence, time-consuming and sometimes costly border formalities, such as health and safety checks on food and agricultural products, are inevitable.

Controls were introduced by EU member states on imports from the UK immediately upon the introduction of the TCA. In contrast, they have been implemented in stages on UK imports from the EU, with the full panoply of controls still not in place. Other provisions of the TCA result in additional barriers and costs. 'Rules of origin' mean that exporters have to meet provisions relating to the local content of their products to qualify for tariff-free access. For small shipments, there are new VAT rules which did not apply when the UK was in the EU.

[Models](#) estimating the impact of these new trade barriers predicted that UK trade would fall significantly. They also suggested that, while new free trade agreements with third countries might have some positive impact, these would be quite small, at least in the short to medium term. The overall conclusion therefore was that Brexit would lead to a substantial deterioration in the UK's trade performance. Both imports and exports would fall compared to a no-Brexit counterfactual, with trade with the EU most affected.

Of course, we cannot observe what would have happened without Brexit. But, despite the data issues described above, there is no doubt that recent UK trade performance has been poor, particularly in goods trade, compared both to historic trends and to other advanced economies. This has led the Office for Budget Responsibility to [conclude](#) that the data is 'broadly consistent with our assumption that Brexit will reduce the UK's trade intensity (exports plus imports as a share of GDP) by 15 % in the long term.'

But this raises an obvious question. The [models](#) on which the OBR based its assumption of a fall in trade intensity of 15% almost universally predicted that the vast bulk of this reduction would be felt in UK-EU trade. Moreover, some [models](#) at least predicted that in the event of a UK-EU Free Trade Agreement (FTA) that provided for no tariffs on goods - which is indeed the case for the

TCA - services would be worse hit, as a result of non-tariff barriers. These were expected to hit the UK's financial services sector particularly hard. Was the OBR's 15% right for the wrong reasons and were the real reasons perhaps unrelated, at least directly, to Brexit?

Some analysts have [argued](#) that, because in relative terms EU trade does not seem to have underperformed hugely compared to non-EU trade, Brexit has not had any identifiable impact on UK trade. They also point to the relatively strong performance of services trade. On the face of it, this sounds plausible. There are, however, several counters to this:

- Since Brexit, intra-EU trade has [grown more strongly](#) than global trade. If the UK's total exports to the EU had grown at the same rate as intra-EU, they would have been 27% higher in August 2023. For example, from December 2020 to August 2023, UK exports to the EU rose 1%, and by 9% with the rest of the world. Compare that to intra-EU exports which were up 27%, while exports to the rest of the world grew by 13%. It is therefore possible that, without Brexit, the UK's trade with the EU would have grown more strongly than trade with the rest of the world.
- Consistent with this, both [top-down](#) and more detailed [firm-level](#) analysis suggests that there has been a significant impact specifically on UK goods exports to the EU. The [latter](#) suggests this impact has been particularly large for small firms, with the largest firms hardly affected at all. This would not be surprising. The new customs and trade barriers are not ad valorem (percentage) tariffs, but new procedures, forms and regulatory requirements. They represent 'fixed costs' which add much more proportionally to the costs faced by small firms. In other words, the new border procedures are a regressive tax that will affect smaller firms who are exporting less but paying the same as larger firms exporting more.
- As set out above, the increase in UK service exports has been driven by other business services, where non-tariff barriers are often not present or easy to overcome. There is, for example, almost no regulation of management consultancy services either domestically or cross-border. Financial services, which are highly regulated, have performed much less well. Transport services, which are highly regulated, have also been weak. By contrast, less regulated services have not been impacted by new Brexit barriers and have been able to grow.
- A further potential explanation is that Brexit has led to the UK being cut out of global supply chains, reducing exports (and imports) both to the UK and the rest of the world. So, contrary to the prediction of the models,

Brexit has hurt both our trade with the EU and with the rest of the world. It is clear from the above analysis of trade in value-added that the UK is indeed vulnerable on this score; however, with data only running to the end of 2020, there is no strong evidence yet as to whether this is indeed a factor, and what role Brexit has played.

All these explanations are consistent with the overall weakness of UK trade, despite the strong performance in some service sectors. Accordingly, the evidence suggests that Brexit, as expected, has reduced UK trade overall, with the burden falling mostly on EU trade and on smaller firms, but the impact has been partially obscured by wider trends. However, the adjustment process - how business, both in the UK and elsewhere, adapts to the new rules - is likely far from complete. The analysis above suggests that the impacts should grow and become more obvious over time, since intra-EU trade will not continue to outpace global trade indefinitely, and the effect of Brexit on the participation of UK-based firms in global supply chains is likely to grow over time. Moreover, the adverse effects on small firms will, by restricting their growth, become progressively more damaging to the wider economy. How to mitigate and, perhaps, reverse this damage is the topic of the next section.

# UK TRADE AND FREE TRADE AGREEMENTS

Brexit meant that the UK had to develop and implement a national trade strategy for the first time since it joined the European Community in 1973. In response, Theresa May established the Department for International Trade (DIT) in July 2016. The number of civil servants identifying as trade professionals has [grown](#) rapidly from tens to thousands.

Initially, the UK's post-Brexit trade policy predominantly focused on delivering free trade agreements with the largest number of trade partners possible. These were mostly in the form of rollover deals. This is a form of trade deal that essentially replaces the deals that the UK had with other countries prior to Brexit because it benefitted from EU FTAs with those countries. In order to provide as much continuity as possible for UK traders, whilst also managing the often fraught politics of implementing Brexit, the government stressed the importance of delivering these FTA rollover deals at pace. Over 70 trade agreements are in [place](#) but the overwhelming majority of these are rollover deals which has allowed the UK to continue trading with key countries with minimal disruption.

The emphasis on maximising the geographical coverage of trade deals was reflected in the 2019 Conservative Party [manifesto](#). This set out a target of signing free trade deals with 80% of the UK's trading partners by 2022. The most recent information shows that the figure was [63%](#), with little prospect of reaching 80% [without](#) a free trade deal with the US.

Moreover, official estimates suggest that these new deals are likely to have only a minimal impact on UK trade and GDP, and do not offset the impact of leaving the EU single market and customs union. For example, DIT estimates that the UK-Australia deal will increase bilateral trade by £2.3 billion ([53%](#)) and will increase UK GDP by 0.08% by 2035. The New Zealand deal will have an even smaller impact. These figures show that having a relatively large number of trade deals in place does not necessarily equate to trade deals that deliver significant benefits in terms of GDP.

Beyond these comparatively small economic benefits, there are three further issues and limitations when it comes to relying on FTAs within UK trade policy.

First, with the exception of the deals with Australia, New Zealand and to a small extent a tweaked new deal with Japan, the FTAs that the UK has agreed to essentially replicate the agreements those countries have with the EU. Therefore,

whilst more or less protecting the status quo, the new FTA deals do little to drive future economic growth. One problem is that areas of comparative advantage for the UK, such as digital services, do not tend to benefit much from traditional FTAs.

There are also a limited number of possible countries with which the UK could agree an FTA. Negotiations are ongoing with India but have proven difficult, with issues such as post-study work visas difficult to resolve. An FTA with China is not currently possible given geopolitical tensions. The UK's initial post-Brexit aim of concluding an FTA with the US has also not been achieved and does not look likely to be in the short term.

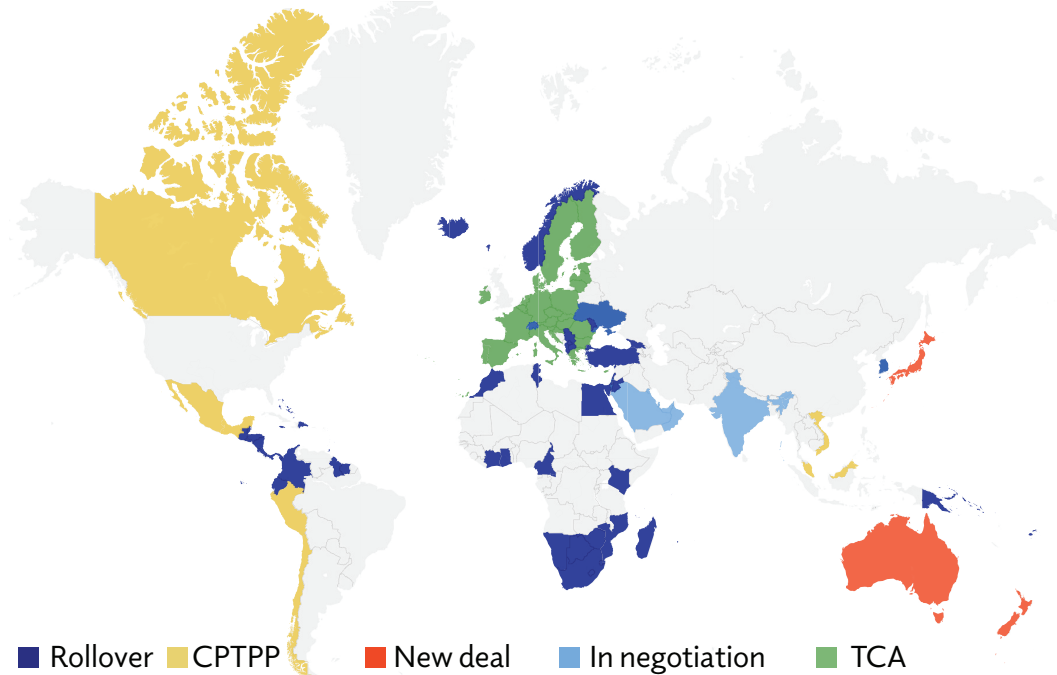
Second, because conventional FTAs do not liberalise services trade (a strength of the UK's economy) in the same way they do for goods, their likely economic benefits are more modest for the UK than for countries more focused on the manufacturing and goods sectors. The barriers to trade in services are not tariff barriers, which are the focus of FTAs for goods. Rather, they concern regulation. This includes issues such as the qualifications that are recognised in order, for example, to practice as an architect in any particular jurisdiction. Countries are often hesitant about aligning on these types of regulations because it limits their flexibility to make regulatory changes in the future.

Third, geography matters. Countries tend to trade more with those near to them. This is especially true in an era of growing protectionism as shortening and even domesticating supply chains is seen as a way of ensuring the security of trade, particularly in areas of critical infrastructure such as energy. While the UK has been keen to diversify its trade beyond the EU post-Brexit, the terms on which the UK trades with its nearest trading partner clearly still matter.

In policy terms, focusing on UK-EU trade in the short term means focusing on the Trade and Cooperation Agreement. The EU has been clear that its key provisions are not up for debate in the review of the TCA that will take place in 2026. However, there are decisions to be made about how best to remove barriers to trade between the UK and the EU in the future.

# There are a limited number of possible countries with which the UK could agree a new free trade agreement

Status of trade agreements the UK has signed or is currently negotiating



© 2024 Mapbox © OpenStreetMap  
Source: Department of International Trade. CPTPP stands for the Comprehensive and Progressive Agreement for Trans-Pacific Partnership.

# TRADE WITH THE EU AND THE TCA

Given the importance of the EU for UK trade, any future trade strategy will need to consider the policy frameworks that shape UK-EU trade. The TCA was signed in December 2020 and contains a clause requiring its implementation to be reviewed after five years - the first review will be in 2026 although its precise terms have yet to be agreed.

However, there is scope to improve the terms of UK-EU trade outside the parameters of the TCA. One of the most important relates to what are termed 'sanitary' and 'phytosanitary' (SPS) checks on agricultural and animal-derived food (agri-food) exports between the UK and the EU. These are important because these goods are perishable and hence any time saved at the border is likely to reduce costs in terms of damaged goods.

SPS checks include a range of procedures, inspections and certifications that must be carried out before a product can be traded. They add time and hence costs to trade but protect consumers from potential health risks associated with contaminated foods. They also prevent the spread of pests and diseases that could harm plants, animals and the wider environment. The EU introduced full controls on SPS imports from the UK on 1 January 2021. The UK, in contrast, adopted a phased approach with full SPS check on imports from the EU being introduced in April 2024, and Safety and Security declarations on EU imports being required from October 2024.

These checks impact the UK's agri-food sector, which has [exports](#) worth £25 billion and employs around 4.2 million people. Exports to the EU contracted in this sector by 5% between 2019 and 2022, leading several trade bodies to call for a UK-EU SPS agreement. Such an agreement is particularly important for the small businesses that make up a [significant](#) part of the UK's agri-food sector because the costs of additional checks are harder for smaller firms to absorb.

The EU has a range of existing SPS agreements with other third countries which contain a variety of access rights and associated obligations. Its agreement with New Zealand does not require New Zealand to implement EU SPS rules, and, equally, does not fully remove the requirement for its products to face physical inspection when entering the EU. However, it reduces the frequency of inspection and simplifies the documentation. The EU's SPS deal with Switzerland removes all requirements for documentary, identity and physical checks. However

Switzerland is required to align its SPS rules with the EU and apply them to both domestically produced products and imports from third countries.

During the TCA negotiations, the UK recognised the value of reaching an SPS agreement with the EU and proposed an arrangement similar to New Zealand's. However, this was rejected by the EU. The EU would probably require some sort of dynamic alignment/harmonisation, similar to Switzerland, to countenance an SPS deal with the UK. This is a clear reminder that there are trade-offs involved in negotiations surrounding trade with any partner, including the EU, and that geography matters. The EU is more willing to make concessions to a more distant trading partner where the trade-offs fall more in the EU's favour. Indeed, it is important not to assume that any agreement with the EU would necessarily be easy or indeed possible.

Recent research [found](#) that an SPS deal would increase UK agrifood exports to the EU by 22.5%. Harmonisation, however, would reduce the UK's scope for divergence from EU rules limiting, for instance, its ability to change its approach to gene editing - which has been identified by some as a major Brexit benefit. Regulations have been relaxed in England since Brexit to allow certain precision genetic edits to a plant's DNA to speed up breeding processes (as distinct from genetic modification, which modifies a plant's DNA in ways which could not occur naturally) and enhance production. An example of such editing would include boosting a crop's nutritional content, or reducing a crop's reliance on fertiliser. The scope to continue this deregulatory approach would though need to be traded off against the value of an SPS deal if the UK were to seek greater alignment on SPS checks.

However, it is not necessarily true that UK harmonisation with EU SPS rules would constrain the UK's independent FTA agenda. The UK has concluded FTAs with New Zealand and Australia and acceded to Comprehensive and Progressive Agreement for Trans-Pacific Partnership, without changing its EU-originating SPS rules. This is despite some significant pressure to do so from countries such as Canada. Continued alignment with EU SPS rules would probably cause problems in any negotiations with the US, were these to take place.

As well as minimising existing frictions, any UK strategy for EU trade will also need to think about upcoming challenges. Most notably, the EU's [Carbon Border Adjustment Mechanism](#) (CBAM) will also have major implications for UK-EU trade. The EU CBAM ensures that imports of cement, iron and steel, aluminium, fertilisers, electricity, and hydrogen products from third countries pay the same tariffs on their embedded carbon emissions as if they had been produced in the EU. The aim is to stop 'carbon leakage' where EU-based companies seek to cut costs by importing goods from countries with weaker emissions regulations.

The EU CBAM will take full effect from January 2026, potentially adding [hundreds of millions](#) of pounds a year to the cost of UK exports to the EU, depending on the difference in ‘carbon price’ in the UK and EU under their respective emissions trading schemes. If the UK price is lower, exports from the UK to the EU will have to pay the difference at the border. The EU CBAM is already creating new administrative costs for UK exporters as, even in the transition phase which began last October, they must monitor and report on embedded emissions in their goods.

For UK exports to be exempt from the EU CBAM, the UK and EU would need to link their emissions trading systems. Their respective systems are similar in design and the potential for linkage is foreseen in the TCA, but any agreement would require detailed negotiation and [require the UK](#) to sacrifice a degree of sovereignty over its own regime.

The UK is also [working on](#) its own CBAM, set to begin in 2027. This is likely to be similar in scope to the EU regime, and - though it would not exempt the UK from the EU CBAM - guards against the risk of emission-intensive goods being ‘dumped’ in the UK to avoid the EU CBAM. The UK steel industry has, however, already [raised concerns](#) about the one-year gap between the full implementation of the EU CBAM and the proposed start of the UK CBAM, and the likelihood of steel from third-party countries being diverted to the UK as a result. Such is the reality of life on the doorstep of a regulatory behemoth. The UK may no longer be formally subject to the EU’s trade policy, but it continues to feel the impact in significant ways.

# SUPPORTING UK TRADE THROUGH MOBILITY AGREEMENTS

Given that services make up around 80% of the UK economy but are not well supported by FTAs, other policies to support services trade are a key part of UK trade policy.

One of the most important ways in which services are delivered and consumed is through the movement of people, either to deliver services (such as a UK-based management consultant selling services to a German-based client) or via consumer services (such as international tourists visiting the UK).

Mobility agreements that make it easier for certain groups, such as schoolchildren or individuals with particular qualifications, to move between countries are clearly an important mechanism for supporting UK services trade.

There has been particular interest in the potential for the UK to agree to one or several mobility agreements with the EU. However, it is important to note that none of these would replace the ease of mobility between the UK and the EU when the UK was a member of the single market. Single market membership involves a commitment to free movement which, as the name suggests, means that individuals can travel between member states as frequently and for as long as they would like, and for any purpose.

Youth mobility is one area where there appears to be interest from both the UK and the EU. A youth mobility scheme could simplify the rules for people under a certain age travelling between the UK and EU, for example by [waiving the salary and skills requirements](#) needed to obtain a visa. This would be of particular benefit to sectors like food and accommodation, which are historically reliant on EU workers and which have seen some of the highest worker shortages post-pandemic and TCA.

The European Commission put forward a [proposal](#) to negotiate a youth mobility treaty between the EU and the UK in April 2024. The plans would allow those aged between 18 and 30 to stay for up to four years in the destination country. There would not need to be a specific purpose for such a stay which could include working, studying, training or leisure. UK nationals could use the scheme to stay in any member state for up to four years but the scheme would not support intra-EU mobility rights - so individuals could not split a stay between different member states. The Commission also proposed the re-introduction of the equal

treatment of EU and UK nationals in relation to university tuition fees; this would be costly and is unlikely to be acceptable to any UK government.

Another important kind of mobility agreement is the mutual recognition of professional qualifications (MRPQs). These mean that - in simple terms - it is valid to practice in the signatory countries using an individual's home country qualification without filling in reams of paperwork or having to requalify in another country. This is relevant for, among others, doctors, lawyers, accountants, architects and engineers. British nationals who want to work in the EU currently have to seek formal recognition of their qualification in whichever EU country they want to work (and vice-versa). This system makes life more complicated for services firms when moving staff between the UK and EU, as it does for individuals seeking to move for work.

The Trade and Cooperation Agreement (TCA) contains provisions allowing the UK and EU to agree to sector-specific MRPQ deals. Sectoral bodies from both sides are also able to submit a joint recommendation for an agreement to the Partnership Council which governs the TCA. The UK can also conclude bilateral agreements with individual member states outside the TCA framework. However, although there may be a mutual interest in making it easier to recognise professional qualifications, securing an agreement may not be straightforward.

For example, in October 2022 the European Commission [received](#) a Joint Recommendation by the Architects Council of Europe and the Architects Registration Board in the UK setting out proposals for the mutual recognition of professional architecture qualifications. This would have liberalised trade by allowing architects qualified in one country to practice in the other without the need for further authorisation. However, the Commission turned down the proposals, arguing that they were 'unbalanced and prejudicial to EU architects' because, under the proposals, UK architects would have a 'level of recognition similar to that which they enjoyed when the United Kingdom was a Member State.'

Moreover, there is little rationale for the UK to seek a more wide-ranging agreement on MRPQs (like Switzerland's) because it does not have free movement of people. This means that whilst qualifications may be recognised, the individuals would still be constrained on the amount of time they could spend in the country they are selling their services into.

Beyond UK-EU trade, an MRPQ between the UK and India is seen as potentially highly valuable. It might allow a range of professionals such as lawyers, accountants and architects to practice in India. However, any such agreement would be based around reciprocity: Indian-qualified professionals would also be

able to sell their services in the UK, without the need to undertake additional qualifications. Historically, the difference in size between the two economies has made it hard to reach an agreement for the UK services sector to be granted access to the Indian market. Meanwhile, India is focusing on liberalising visa travel to the UK for Indian nationals, an area that has become politically contentious in the UK. The fourteenth round of trade negotiations closed in March 2024 without agreement, with negotiations due to resume after the Indian and UK elections later this year.

# TRADE AGREEMENTS BEYOND FTAS

Given the limitations of using FTAs to support services trade, the UK has taken tentative steps to explore other forms of trade policy support by developing innovative forms of trade agreements, targeting key sectors of the UK economy, particularly in relation to digital and financial services trade.

In October 2020, the UK and Japan signed a Comprehensive Economic Partnership Agreement (CEPA). This goes further in supporting digital trade than the EU-Japan agreement. For example, it bans unjustified data localisation. This should reduce costs for firms with requirements to store data within national borders. The agreement has also liberalised the flow of data between the UK and Japan

Similarly, in June 2022 the UK-Singapore Digital Economy Agreement (DEA) came into force. This is an innovative form of trade agreement that, by enabling easier cross-border data flows, aims to make trade for any businesses sharing data easier, cheaper and faster. It includes provisions to advance the digitisation of administration through technologies such as electronic contracts and electronic signatures that will enable firms in both the goods and services sectors to sign contracts more quickly. Customs checks are also removed on the sharing of digital content between the UK and Singapore.

Meanwhile, in December 2023, the UK and Switzerland signed the Berne Financial Services Agreement. This novel agreement enhances cross-border market access to financial services. The agreement adopts a different approach to typical FTAs, with each party recognising the domestic laws and regulations of the other in order to facilitate market access. Such deals, however, take significant time to negotiate and are not easily replicable with other potential partners, as they require a degree of similarity in regulatory approach.

In July 2023, the UK agreed to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) - a free trade agreement between 11 high-growth countries concentrated in the Asia Pacific. Members include Malaysia, Mexico and Singapore. This clearly indicates the UK's ambitions to increase trade and economic relations with partners beyond Europe. However, the UK already has FTAs with nine members. Therefore, the impact on UK GDP is [estimated](#) at only [0.08%](#) by 2035, similar to that of the FTA with Australia.

# THE CHANGING GLOBAL TRADE POLICY LANDSCAPE

Eight years ago, it was clear that it would never be easy to replicate the economic benefits of being a member of the EU's single market and customs union through a full-throated embrace of free trade. However, recent trade tensions and a more uncertain geopolitical context have made this even harder.

[Research](#) shows that geopolitical tensions started to impact global trade from 2018 onwards significantly. This timing reflects the impacts of the tariff war between the US and China and the Russian invasion of Ukraine. This trend is being driven by a desire to increase the security and resilience of domestic supply chains, particularly in key strategic industries. This includes policies such as economic sanctions in the case of Russia and the growing use of import substitution in industrial policy that aims to promote the growth of domestic industries both in sectors associated with the green transition - seen as important sources of future growth - and in sectors seen as important from a security point of view, such as steel production. This means that the UK is developing its trade policy at a time when the nature of global trade is becoming more protectionist.

The USA has led the way by focusing on [strengthening](#) the resilience and security of its supply chains in key industries. Its Inflation Reduction Act (IRA) notably provides around \$400 billion in subsidies and tax credits to clean energy technologies.

In response, the EU has refreshed its own green industrial strategy. The Chips and Science Act supports the domestic semiconductor sector similarly, banning outsourcing to China and other 'countries of concern'.

At the same time, there is evidence that the geography of trade may be changing. There is growing interest in developing stronger trade ties with geopolitically aligned countries, rather than a prioritising geographically proximate trade partners as is typically predicted by trade models. For example, WTO figures [show](#) that trade flows within blocs of geopolitically aligned countries have been growing 4% faster than trade flows between these blocs following the Russian invasion of Ukraine. The impact on trade between the US and China is particularly marked with the WTO reporting that, from 2019 onwards, trade between the US and China has grown 30% less than their trade with the rest of the world. This trend of what is [termed](#) 'friend-shoring' can already be seen in UK trade policy through its fostering of closer trade ties with Australia and New Zealand post-Brexit, as discussed above.

However, the challenge for the UK is that whilst it can, and indeed has, developed closer trading links with geopolitically aligned countries, the economic benefits of this are smaller than those which could be developed through closer trade links with the EU and the US. The challenge remains that both the EU and the US are increasingly making decisions on trade and industrial policy as a function of their own economic and security interests. The dilemma for the UK is that it has to recognise this when negotiating its own trading relationship with them. In particular it suggests that questions of geopolitical alignment are increasingly at the forefront of forces shaping global trade, rather than focusing on profit-orientated strategies.

# PRACTICALITIES OF TRADE POLICY

One of the key stakeholders in trade policy is the business community which needs to navigate, in practical terms, changes in policy and approach. Clearly many businesses are domestically focused and hence are not concerned with trade policy. However, for those business that do trade internationally, they often have an acute understanding of current barriers to trade and ways that these could be mitigated in order to allow them to expand.

There are some practical measures the government might take that could improve the environment in which these businesses operate:

- 1. Embed trade policy making across Whitehall.** Trade does not operate in a vacuum; trade policymaking should not do so either. Fiscal, foreign, education, science and innovation, mobility, and even environmental policy should all feed into trade policy and *vice versa* - but there are currently no formal mechanisms allowing a cross-fertilisation of policy to occur. Streamlining access to export finance (DBT and HMT), upskilling officials in the UK's overseas posts to better recognise and support commercial opportunities for UK firms (FCDO) or making available a (small) number of visas to facilitate FDI expansion are all examples of how policymaking could be better joined up.
- 2. Fully implement trade agreements after signing.** Some measures in a trade deal take effect automatically - tariff reductions, for example - but others need to be pursued actively. The UK/EU Trade & Cooperation Agreement includes provision for more than twenty specialist committees to ensure that the terms have been implemented as intended. Most meet once per year, which does not create much momentum towards resolving the inevitable problems that arise, and some took almost a year after signing to schedule their first meeting.
- 3. Help companies make use of trade agreements.** An agreement only has any value if it is used. Surveys show that a third of companies that could make use of agreements fail to do so. Government support - whether through training, detailed online guides, or otherwise - could allow more businesses to export efficiently.

Businesses can also help themselves to navigate international trade better.

For example:

- **Map and analyse geographical presence and supply chains** to determine which operations are party to existing trade agreements, and the potential associated benefits for those activities which are in scope.
- **Monitor ongoing trade policy developments.** Compliance with trade rules can change as the FTA landscape develops. For example, new trade agreements can be negotiated by the UK or other parties which may change eligibility or tariff rates in apparently unrelated agreements. These can have cumulative effects on supply chains and market access.
- **International trade preparedness.** Useful areas to consider include adapting supply chains, building internal trade capabilities, and identifying opportunities to invest. An analysis of gaps and opportunities, facilitated by assessment earlier, can highlight and prioritise what changes are needed within a business to prepare it for trade. This can include recruiting customs or trade managers or investing in upskilling existing staff through courses on trade policy and trade tools, or trade technology to help manage trade processes.
- **Raise concerns about a trade barrier/dispute.** Feeding issues into government is critical to change taking place. Dispute resolution mechanisms in trade agreements are usually the place to start for significant 'disputes' to be resolved between agreement partners.

# CONCLUSION

UK trade is in a period of adaptation as it adjusts to long-term changes such as the rise of services, alongside more recent developments following Brexit and the shifting international environment.

The recent strength of UK services trade compared with goods trade shows no sign of slowing. However, more research is needed to understand its composition, particularly the stronger growth of a range of business services compared with the UK's historic strengths in financial services trade.

The UK is in the early stages of trading under the TCA, particularly regarding operating the UK border for EU imports - for which the latest checks only came into force in April 2024. To date, trade with the EU has remained relatively resilient, although this is in the context of reducing UK trade intensity. Headline figures conceal the differential impacts of the TCA on different types of firms, with small firms less able to absorb the additional costs than their larger counterparts.

Meanwhile, the geopolitical environment is changing. Several large economies, notably the US and China, have implemented significant stimulus and support packages for their domestic industries. We do not yet know what the implications of these policies will be for global trade.

UK trade policy has evolved since the UK left the EU. The initial focus was on delivering the largest coverage of FTAs as rapidly as possible to minimise post-Brexit disruption for UK traders. However, this policy has largely run its course. There are only a small number of plausible future FTAs available - the negotiations with India are particularly important to follow in this respect. Moreover, because FTAs do relatively little to liberalise services trade, their efficacy for a services-led economy such as the UK is likely to be limited.

In the future, the UK will need to articulate a clear trade strategy that includes its strengths in services but also acknowledges and is realistic about the more protectionist global environment it now finds itself in. Such a strategy will need to be attuned to the opportunities surrounding the green transition and trade, as well as the trade issues that newer sectors of the economy such as AI and digital bring for trade policy and trade agreements. Engaging with businesses throughout

the policy development process will be important in understanding the challenges and opportunities they want addressed in UK trade policy.

Whoever is in government after the next general election will find that, whilst there are clear opportunities for UK trade, given the geopolitical tensions currently unfolding in the world economy, it is more important than ever to have a clear and realistic trade strategy that acknowledges both the opportunities and limitations of the UK's current approach to global trade.

UK in a Changing Europe promotes rigorous, high-quality and independent research into the complex and ever changing relationship between the UK and the EU. It is funded by the Economic and Social Research Council and based at King's College London.

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How to cite this publication:

UK in a Changing Europe. (2024) UK trade 2024.  
London: UK in a Changing Europe.  
<https://ukandeu.ac.uk/reports/uk-trade-2024/>

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