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What is the role of trade policy in a growth strategy?

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This year, the LSE building where the Centre for Economic Performance is located was officially named the [Sir Arthur Lewis](#) building. In his Nobel-winning work in the 1970s, Arthur Lewis examined how trade can be part of a strategy to drive economic growth ([Riedel 1984](#)). And, since his work in the 1970s, now for the first time in half a century the UK is tasked with setting its own trade strategy ([LSE 2021](#)). My response to the two and a half years of research of the Economy 2030 Inquiry is about what a trade strategy that delivers economic growth would need to look like.

Such a strategy shapes what families and firms buy from abroad and what gets produced domestically; how it influences our jobs, productivity and, ultimately, the level and distribution of living standards; and how it constitutes a major plank of Britain's international policy at a time of heightened geopolitical tensions ([Bhalotia et al. 2023](#)).

After Brexit, the UK's trade policy response was prompt. Trade agreements were signed or rolled over with more than 90 countries that make up 60% of trade. Further substantial liberalisation through Free Trade Agreements (FTAs) means seeking an agreement with the US or China, a more challenging task in the current environment ([Bhalotia et al. 2023](#)).

The emphasis on the speed of negotiations after Brexit necessitated relying on tools that were readily available – FTAs. FTAs are focussed on goods and as such they don't cater to Britain's strengths as a services 'superpower'. The UK is the second largest exporter of services in the world, with services exports valued at over £400bn in 2022, and growing faster than goods exports for over a decade. Standard templates of trade agreements have far less to offer in delivering material liberalisation in services, which instead requires deeper regulatory cooperation that takes much longer to accomplish ([Bhalotia et al. 2023](#)).

Even in our new deep agreement with the EU, cross-border restrictions on trade and investment have been applied to many services and consequently, UK exports to the EU of these services have seen a 7 percent drop relative to exports to non-EU countries (updated from [Bhalotia et al. 2023](#)). Some policy improvements can be pursued to address this. But big gains would require the EU and new trade partners to engage beyond the boiler-plate access covered in standard arrangements ([Dhingra 2019](#)).

As a global leader in services, the UK is well-placed to innovate on the content and method of services trade agreements. The Inquiry Trading Up Report contains a number of concrete ideas, and dives into examples including the prototype digital services agreement with Singapore and the long-standing regulatory cooperation council in the Canada-US relationship. Overall, the main message is that a regulatory framework for international cooperation in services should be a priority for our future trade strategy ([Bhalotia et al. 2023](#)). And because of its regulatory nature, it needs joined-up policymaking across government departments to be internally consistent and to fit with the overall economic strategy.

On goods trade, we need to recognise this is where the initial impact of Brexit has been most visible ([Bhalotia et al. 2023](#)). The longer-term impact of goods-trade frictions with the EU could be a reduction of some of the UK's historically high value added manufacturing like chemicals and transport, reliant in many cases on being part of European supply chains, while boosting traditional low-productivity manufacturing in the face of reduced domestic competitive pressures ([Dhingra et al. 2022](#)). From what we have learned so far about the barriers that UK businesses are faced with, even fairly significant tweaks to trade frictions with the EU are unlikely to prevent this structural shift. One ambitious option would be to expand the Northern Ireland Protocol to a UK Protocol ([Bhalotia et al. 2023](#)). While this for sure would take time to negotiate, the leakages it could plug through a harmonised UK-wide policy make it more likely to reach the EU's negotiating agenda. It could also magnify growth impacts from industrial policy and interlinkages like securing easier access to systemically important supply chains, for example microchips and certain food products ([LSE 2021](#)).

To sum up, developments in geopolitics and industrial policies across the world make a coherent trade strategy vital to enhancing economic growth and boosting living standards. As a small open economy that does not have the deep pockets of large trading blocs, the UK can punch above its weight in the world economy through policy design offering a regulatory comparative advantage to businesses, investors and trade partners.