

## Transcript

### Will a UK-US FTA Make or Break ‘Global Britain’? Transatlantic Trade and Economic Cooperation through the Pandemic

The Strand Group

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Jon Davis: Good afternoon everyone, and welcome to the Strand Group of King’s College, London. My name’s Jon Davis and I’m its director.

This is very much a first for us: the first “webinar”; the first online offering. It’s not the first seminar; it’s actually the hundred-and-fiftieth since we started in 2004 over at Queen Mary in those halcyon days. And what a special session we’ve got in store today. We’ve got a galaxy of stars, and we will be talking about the new Harvard paper, *Will Prioritising A UK-US Free Trade Agreement Make Or Break Global Britain?* To introduce the paper we have the Harvard team of Nyasha Weinberg, Jessica Redmond, and Ed Balls, who are going to give us about twenty minutes talking around the topic, and then we’ve got a quite illustrious panel, with Meredith Crowley, Nick Macpherson, George Osborne, and Shanker Singham.

Without further ado I’d like to hand over to the Harvard team. Over to you.

Ed Balls: Thank you very much indeed Jon, and thank you to the Strand Group for hosting this webinar today. This is the fifth paper that we’ve done from the Mossavar-Rahmani Center for Business and Government over the last three years, looking at different aspects of Brexit and its aftermath, and in particular talking to business and government, as well as experts in the academic field, to analyse different issues. This is a paper which we’ve actually returned to for a second time; we produced a paper two years ago, almost exactly to the day, called *On the Rebound*, which looked at the prospects for a UK-US free trade agreement in the light of the Brexit decision, and we’ve gone back to that two years on. The paper’s published today on the Harvard/Mossavar-Rahmani Center website, and you can download the paper there, but we’re going to do a presentation today on PowerPoint.

I’m joined by two co-authors: Nyasha Weinberg, who’s actually been involved in all of the five papers; she is now a research fellow at the Bingham Centre for the Rule of Law – she did a degree at the Kennedy School, and graduated in 2017; and also by Jessica Redmond, who is in her first year at the Kennedy School having been an official at the Bank of England. We have a fourth co-author called Simon Borumand, who is currently in Vancouver, and elected not to join the panel because it’s really, really early in the morning there. And so I’m going to hand over to Nyasha to start

the presentation, then to Jessica, and I will finish off with the last three slides. Over to you Nyasha.

Nyasha Weinberg: Great. So, to begin: who is it that actually wants a UK-US trade deal? The deal was kicked off last week by trade minister Liz Truss, and the letter kicking it off essentially set out that free trade is essential to enable the UK to overcome the unprecedented economic challenge posed by Covid-19. This builds on a long history of Boris Johnson's interests in a deal, from a speech on 21<sup>st</sup> February this year, [in which] he said: "We will be looking for a UK-US trade deal that improves trade between our two countries, that will bring prosperity and growth". Donald Trump has given positive intimations about a deal over the course of the last couple of years, and you can see in his tweet on December 13<sup>th</sup> him saying "Congratulations to Boris Johnson on his Great WIN!", referring to his win in the December 12<sup>th</sup> election. "Britain and the United States will now be free to strike a massive new trade deal after BREXIT. This deal has the potential to be far more lucrative than any deal that can be made with the E.U. Celebrate Boris!"

So we wanted to cut through all of the political rhetoric to understand what the opportunities from, and the prospects of, such a deal would be. So we built on the findings from our first paper, which as Ed mentioned was launched two years ago, and to do that we conducted personal interviews with companies, with trade associations, with trade experts, economists and lawyers. We also spoke to those on the inside and those negotiating the deal, so senior UK, US, and EU government officials from across the different departments involved. While the majority of these sixty or so interviews were conducted before March, Covid-19 has transformed the landscape considerably. So we went back to re-interview a series of government and business players in recent weeks, to understand how coronavirus had changed things.

So obviously Covid-19 is an important part of the wider context, and it's utterly transformed the global trade landscape. Governments have introduced measures that have shut down businesses, and have restricted the travel and movement of people; it's too early to tell, but the WTO estimate world trade to fall [by] between thirteen and thirty-two per cent, and trade is going to fall more steeply in sectors with complex value chains. We've seen anti-globalisation sentiment emerging; pressure for the localisation of supply chains, and the repatriation of lost jobs; and a blame game between the US and China.

So what does the composition of the UK's trade look like? Well, for the UK, EU markets take up forty-three percent of exports, whereas the US only amounts to eighteen per cent. US export markets are much more diversified, and the UK is just six per cent of total US exports. The story looks very similar for imports. That therefore means that if the UK were to see a five per cent reduction in trade with the EU, that would need to be compensated for with a significant increase in trade with the US – fifteen percent or so.

The government's negotiation mandate set out the projections of gains from a UK-US trade deal over the course of fifteen years, and in a situation where the deal with the US manages to conclude with no tariffs and a fifty per cent reduction in non-tariff

barriers, that equates to an increase in GDP of 0.16 per cent over fifteen years, or £3.4bn in 2018 figures. That is utterly dwarfed by the losses from a UK-EU average FTA, which it was projected in 2018 would lead to losses of GDP over the same time horizon of £112bn. And that's if the UK actually strikes a deal.

So briefly I'm going to give an overview of the snapshot from a UK perspective. The US, for the UK, is its second-largest trading partner, and the importance the government is placing on the US deal is shown by its decision to negotiate both [deals] in parallel. While the UK-EU negotiations are ongoing, Covid-19 has withdrawn considerable capacity, which means the timeline is tight, and capacity is limited. From a tariff perspective, the UK hasn't yet set its schedules at the WTO, and it's unclear what it has to give, but there is possible UK leverage from lowering agricultural tariffs on US imports. From the UK side, there's a clear interest in reducing non-tariff barriers, but this has interdependencies with the EU deal, and the EU is concerned about a race to the bottom. From a politics and negotiability perspective, the UK is still finding its feet outside Europe, and is working out what its offensive and defensive trade interests are. This is particularly difficult given that we don't actually know what the UK's sectoral composition will look like post-Covid, and what the response to and recovery from the virus [will require].

From a US perspective, there's less commercial interest in a UK-US trade deal; the UK is a relatively small trading partner. But Trump needs to show economic momentum post-Covid as he's standing on an "America-first" economic policy platform. Negotiations have started, but the presidential election which will take place in November this year might mean that what the US can do is strike a mini-deal, or a political declaration, before the summer – but nothing beyond that. The US focus is on the removal of TRQs and tariffs in agriculture, autos, chemicals and alcohol, which is very similar to the US stance in TTIP; and there's a US interest in removing non-tariff barriers to trade in agriculture and pharma. From a politics and negotiability perspective, Trump wants both "Buy America" protectionism and his new mercantilist approach to trade to be presidential election issues, and Covid-19 accentuates this mentality.

Handing over to Jess to present the findings.

Jessica Redmond: Thanks Nyasha. So as pointed out during the political snapshot, the incentives for the current government to pursue a deal are very clear. Firstly it would help to restore confidence in the UK's economic performance following the dual shock of an EU exit – which technically happened on 31<sup>st</sup> January, and we'll see whether it happens again at the end of this year – and the shock of Covid-19, which has massively dampened productivity. In many ways it also shows that the UK has options after leaving the EU, in terms of striking deals with its partners and allies. It has many times been lauded as a potential significant upside to Brexit, and a way to succeed where the EU failed in [respect of] signing a deal with the US during the TTIP negotiations. This incentive is clear given that the US-UK negotiations have been launched in the middle of the pandemic; and also in the Conservative manifesto, where the Conservative party committed to negotiating both the EU deal and any other FTAs, [including] with the US, in parallel.

We have also seen, at the same time, the UK promoting the “Global Britain” agenda through prioritising multilateral cooperation during the crisis, so for example increasing the amount of financial support for the WHO, and supporting access to fiscal support for emerging countries in the IMF. So one question we pose is whether this is also an opportunity for the UK to get the US on board with broader multilateral cooperation as part of a political declaration.

On the next slide you’ll see some of the quotes from our interviews that supported this finding. In particular I’d like to draw your attention to the fourth quote: “Having been on pause because of Covid-19, negotiations have now started – but the idea of making substantive progress is really quite difficult. It depends on the politics: both sides might want a quick and easy win, but we don’t know exactly what dynamic will emerge.”

Our second finding shows that the messages are a lot more mixed on the other side of the Atlantic. Compared to the importance of the US for UK exporters, the UK is really much less important for the US, and it’s questionable whether the trade gains are necessarily worth the effort of negotiating a bespoke deal. But Trump also has some political incentives to sign a free trade agreement with the UK. He has shown a lot of support for the UK leaving the EU, and he will also be seeking international support for his post-Covid positioning in terms of a worldview that is antagonistic to China.

We have already seen over the last few years the US moving away from multilateral organisations such as the WTO and towards bilaterally negotiated free trade agreements with smaller partners, where the US is better able to leverage its size, in terms of its economy, and also its expertise in trade negotiations. What we’ve seen out of a lot of those dealings is a kind of standardised template deal that has been used across multiple free trade agreements, based on chapters from the TPP and the USMCA – the deal that was signed with Canada and Mexico last year. However, if you were looking to sign a substantial free trade agreement this year, given both Covid-19 – a global pandemic – and the upcoming US elections, it would be absolutely impossible to expect something to be signed by the end of this year. The Trade Promotion Authority arrangement that the US administration has with Congress requires numerous consultations, notifications, all with their own mandated deadlines; it would be pretty much impossible to make it in time.

But what is possible this year is what we refer to as a political mini-deal, which was mentioned by Nyasha during her snapshot discussion. What a political mini-deal looks like is essentially a kind of declaration – perhaps a non-binding statement of intent – or some minor agreements on not unilaterally imposing tariffs, similar to the phase-one deals we saw between the US and Japan and the US and China earlier this year. And these are some of the interview quotes that support this finding – I’ll draw your attention in particular to my personal favourite, the one by John Van Reenen – “Look at the raw bargaining power: the UK is a very small country, whereas the EU and the US are similar sizes. It’s like asking for a date when the other person is five times better looking than you.”

Now, there’s not a very wide zone of possible agreement for the US and the UK in these detailed trade negotiations. Many of the demands raised in the US negotiating

objectives, which were published last year, are likely to present roadblocks to a substantive trade deal, and based on our interviews it seems there was little US appetite for large progress on the things that the UK might want to ask for – so, for example, better access to US financial markets. Our 2018 paper, the previous paper in this series, highlighted numerous controversial areas where the US and the UK were likely to come to blows, and we have already seen many of these issues play out in public: in discussions around food standards (chlorinated chicken is a classic example; beef hormones); in how the NHS sets pharmaceutical prices, and the potential access that US pharmaceutical firms might want to have to that mechanism; and the ability of the UK to [manage] public procurement tenders.

Since then, the controversial areas have only multiplied. Firstly, the digital tax imposed by the UK recently has played out to be very controversial for the US in the context of other countries, for example France. Huawei access to 5G infrastructure has also proven to be a very controversial decision by the UK, and has caused a lot of members of Congress in the US to speak out; and equally, geographic indications, which are essentially a kind of trademark for goods that come from a specific area, a specific geographic location, may also prove to be controversial, for things like whisky. In particular, what's really come through during the Covid-19 crisis is that Trump's anti-China foreign policy framing is going to make things particularly difficult for the UK, [whose government] more recently has been publicly advocating greater global cooperation to deal with the pandemic, in strict contrast to what the US has been promoting. And here another thing to draw out, from the Jeff Schott quote, is that the idea of a "special relationship" is often talked about as a way to smooth over some of these potential frictions, but we should really question whether US negotiators are still going to take into account the "special relationship" when they're seeking to cut a deal that they see as in the interests of the US.

Now, the clear view at the time of our 2018 paper, and the clear view, still, of UK businesses, is that a substantial UK-EU deal is the priority. The UK may be seeking to pursue a UK-US free trade agreement as part of that UK-EU negotiation – trying to play both sides off each other. Equally, though, that's quite a risky game to play; there's every risk that you will frustrate the EU by appearing to move closer to the US worldview; and that may well risk the currently mired negotiations between the UK and the EU, in which they still remain quite far apart on numerous key issues required to conclude a deal. We've seen that the UK government has not openly considered at this stage extending the transition period beyond the end of this year, despite the fact that the pandemic has massively reduced the capacity of both sides to actually negotiate.

As we outlined in our previous paper – and still applies now – in some ways giving greater market access to the US may mean that it's harder to get greater market access to the EU. The reason for this is that in many situations, greater market access requires a sharing of standards – a good example is food standards – and moving more towards the US way of seeing food standards may preclude being able to have a freer trade of agricultural goods with the EU. And here I'll draw your attention to the Senior USTR adviser's comments, which really emphasise this point that I just raised about a potential trade-off between becoming closer to Europe and becoming closer

to the US: “If you’re just going to live under EU rules, you don’t have a lot to trade with us. If you give the Europeans a level playing field, the UK will still be in the union from the US perspective. Americans are going to say, are you ready to do a deal with us where we have real access to your market?” And now for the next two findings, and the conclusion of our paper, I’ll hand over to Ed.

Ed Balls: Thanks Jess. So there were risks even before Covid-19 for the UK in attempting to pursue the FTA with the US, before an EU deal or in parallel, but in the paper we argue that events of the last couple of months, while they may have increased the pressure politically for an early mini-deal type agreement, they’ve also raised the opportunities and risks for the UK in seeking to get an agreement, and – if you like – mean that the government will face a choice in the coming months. From the UK point of view, over the last few weeks there has been a strong multilateral push – we saw Boris Johnson actively participating, chairing the international vaccines conference; the Treasury has been very active in the IMF and the World Bank, and has also been very supportive of the WHO. And in the paper, in Finding 5, we say that the Covid-19 pandemic reinforces the UK’s strong national interest in using its “Global Britain” agenda to strengthen multilateral economic – and health – cooperation.

This of course is happening at a rather difficult time; the G20 meeting in March was not exactly path-breaking – the UN Security Council has failed actually to reach agreement on a ceasefire over the last few weeks – but it’s interesting, talking to officials across Whitehall, how much the government is gearing up to use its forthcoming G7 presidency as an opportunity to champion the kind of multilateral initiatives, in economics, in trade, and in health policy, which are going to be needed: it’s a global pandemic, and in a number of these areas we will need global, coordinated solutions to get through it. Of course that is in contrast to what we have seen from the US over the last few weeks, where the US has withdrawn funding from the WHO, didn’t participate at the international vaccines conference, has doubled down on a more hostile anti-China, anti-global governance view of the world – the President’s going to be looking for allies for that agenda in the coming months; as we say here, now is not an easy time for the UK to start making the case for enhanced multilateralism. And there is a danger that the “Global Britain” strategy becomes trapped between a US that is no longer committed to that kind of multilateralism and an EU that is suspicious that the UK could be bilaterally trying to go it alone.

The quotes I’m going to highlight here are the first and the third. A senior UK trade official: “The G7 and G20 multilateral routes are being used a lot at the moment. There is a lot of respect for the role we can play, plus the UK has the upcoming G7 presidency.” And then the third quote, from a senior UK Whitehall official: “Now is a moment where we need global coordination. But there are big questions about the role that the US will play given US-China. Pursuit of UK-US bilateral negotiations could be seen as a diversion from the G7 and contrary to the need to coordinate efforts around the economy, health, and preventing the collapse of global supply chains.” I’m going to read the fourth one as well: “There is an opportunity for us to encourage a more internationalist approach from the US, propping up the multilateral system. How we play the reaction to China matters a lot.”

Finding 6: A UK-US mini-deal is possible this year, but is that a risk or an opportunity? To circumvent political roadblocks, to avoid a clash with the EU and deliver an initiative, it's possible to have a mini-deal as we've talked about. It wouldn't be like a traditional FTA; it would be a range of general commitments, tariff cuts – like the phase-one deals the US has agreed over the recent period. While Covid-19 increases the political imperative for a declaratory “deal”, there are risks if the price for that, for the US, is the UK being pulled towards an anti-China, anti-global governance view of the world; however, if the mini-deal broadens out beyond the US-UK bilateral trade relationship, it could be used as an opportunity to engage the US on multilateral cooperation to drive economic recovery.

I'm going to highlight the last three [quotes] here. A senior UK official: “The political statement could be an opportunity to move the US into a more sensible position. We don't yet know how the dynamics of these talks are going to develop, but the political leadership should be thinking about this strategic dilemma.” Then a senior USTR official: “Feelings against China are running much stronger than they were even a month ago. China-hawks are in the ascendancy and Americans are looking towards a more aggressive approach to China. The UK is going to have to decide where it stands.” And then Harvard trade professor, Robert Lawrence: “The Biden administration would be more interested in collaboration and more receptive to the kind of agreement that the UK might want. If I was the UK I wouldn't rush into signing a deal before the election.”

So, our conclusion – and I'm sorry we've gone through this quite quickly, but we wanted to make sure there was plenty of time for discussion, and there's an eighty-page paper where all these quotes, and very many more, [along with] analysis, are set out – but I'll just go through the conclusion: “With the UK out of the EU, a quick deal with the US offers an obvious launchpad for the ‘Global Britain’ agenda – and a way to show economic momentum as the lockdown restrictions lift. A UK-US FTA has always been ‘small beer’ for the US, and is fraught with roadblocks and risks for the UK. But President Trump needs to spur the economy back into action and generate international support for his post-Covid, anti-China worldview. The clear view of British business remains that a substantive UK-EU deal is the priority; a UK-US FTA risks pre-empting the relationship with the UK's current main trading partner – and some US business voices agree.” In fact, as we say in the paper, many people don't believe the US will finally agree a full FTA until it really knows what that UK-EU relationship is going to be.

“The forthcoming UK G7 presidency is an opportunity for Britain to champion a new multilateralism in economic, trade and health policy in the wake of the global pandemic, and start to rebuild international cooperation. Can a UK-US bilateral mini-deal this year help to encourage the US back into the global economic community? Or will it close the door on the ‘Global Britain’ agenda and draw the UK into an emerging US foreign and economic policy based on anti-China bilateralism?” That, we conclude, is the strategic challenge for the UK government as it begins its bilateral negotiations with the US on a UK-US FTA.

Thank you very much indeed, Jon, and over to you on the panel; and thank you to everybody for coming along today.

Jon Davis: Thank you very much indeed. Before I hand over to the panel for their reflections, can I say that I'm told we've got over 290 viewers at the moment; I'm sure that there's more than a few questions out there. If you do have questions, there is the question and answer functionality in this software; please use that and we'll try to get through as many as possible.

So can I now hand over to Shanker Singham for your thoughts. Shanker.

Shanker Singham: Thank you; thank you very much to all of you for putting it together, and thanks for the very good paper, from Harvard, and from Ed and his team. I'll make just a couple of threshold comments – and I'll do this first of all through a non-Covid lens, and then I'll apply a Covid lens to it. So just in terms of general treatment, I think it's clear the US absolutely wants to do this deal – US officials have prioritised the UK deal, now that it's been launched, over pretty much everything else that the US is doing in terms of trade deals. There's bipartisan congressional support for the deal. From the US perspective I'm not sure I would call it “small beer”; I think, from the US perspective, the opportunity to pull a major G7 economy out of the European regulatory orbit is a pretty large prize. And that is the key to all of this, I think. If the UK is too closely aligned to the European regulatory orbit, then it's going to be quite difficult for the US to do any kind of deal – certainly a deal of any kind of significance. TTIP obviously failed on agriculture, on SPS, on regulatory issues – some TBT issues as well – so if the UK is simply repeating those, it simply becomes a mini version of the EU, and that probably won't lead to much of any significance. Alan Oxley, a former GATT Council chairman, has said that if the UK simply follows a sort of precautionary-principle route on SPS for example, no one's going to want to do a deal with the UK.

So as long as the UK can put clear water between itself and the EU on regulatory issues, and as long as it can offer some sort of agricultural liberalisation on the tariff side – which may be very gradual; I think the US would be reasonable on quite a gradual tariff liberalisation... but gradual means ten years; it doesn't mean twenty years – and if the UK is able to do that, then I think it will present itself in such a way that it will be a more attractive partner for the US. I think there is a geopolitical realignment going on, obviously, as a result of Covid, but it is a realignment that was going on before this, with respect to China in particular; the US has had problems with the Chinese state-led economic model for many years – probably going back twenty years – and China of course is different now than it was ten years ago; it's different than it was when it acceded to the WTO in 2001. So if the UK again can demonstrate that it's able to come up with a chapter, for example, in the free trade agreement, that deals more comprehensively with state-owned enterprises, government distortions, [and] market distortions that have anti-competitive effects, then I think the US would be quite responsive to that, and quite supportive of that.

The benefits of a US-UK deal, now we've seen all the numbers – the problem is, it's very, very difficult, when you get beyond tariffs, to actually really quantify the benefits of a free trade agreement. The USITC, for example, reported on the TPP when the US was part of that, and essentially concluded that while we understand tariff benefits, we really don't understand very well not just non-tariff barriers, but internal regulatory changes and elimination of market distortions. New Zealand,

also, when they entered into an agreement with China, underestimated the benefit of the agreement by about five hundred per cent. So treasury departments are famous for underestimating the benefits of these kinds of agreements. But those benefits will actually come from things like the major UK asks, which will be things like financial services, digital, defence; and that relates to creating wider regulatory spaces – wider regulatory areas. The US has always been very restrictive in terms of financial services, and unwilling to negotiate on financial services, but the UK may be the one party where there may be some potential for agreement because of the trusted nature of the two regulators.

It's pretty clear the US will offer USMCA, which was referred to earlier – that's the most recent US agreement with Mexico, Canada – that'll be the sort of base template; it'll be a "How much of this can you do?" – but I think it won't be a one-way street; the UK will also want improvements in financial services, digital, defence and so on. And even in government procurement, where one would assume it's going to be a pretty tough ask to ask the US to move away from "Buy America" in any way, there are waiver policies in Buy America that can be relaxed for trading partners, and were in fact relaxed for Mexico and Canada, because they were NAFTA members.

So what are the difficulties going to be? Obviously we've mentioned data, digital services, tax – data flow in general; and this is where seeking an adequacy agreement with the EU, in the context of the EU negotiation, and an adequacy agreement with the US, will be the way that we can cut that particular problem, that particular Gordian knot. Agriculture tariffs and SPS – and drug pricing in the NHS – will be significant US asks in this agreement. I think, because you've got parallel tracks now between the UK-EU and the UK-US agreements, it's very difficult to tell how those two parallel tracks will affect each other. You don't hear very much from US negotiators any more, "We have to wait and see what you're going to be like with the EU" – that was certainly the case during the May administration, because it looked like the UK was going to be in some form of customs union with the EU, with a high degree of regulatory alignment; that's not the case now. And the threshold issues on the EU side of the negotiation are level playing-field, and fisheries, and of course the Northern Ireland protocol; but particularly with respect to level playing-field and fisheries, it's really a question for the EU of whether you accept that the UK is an independent coastal state, in the case of fisheries, and whether you accept that the UK won't have part of its legal and economic order under European control, which is what the EU ask currently is. If the EU continues to maintain that, it's very difficult to see how the UK and the EU can come to a deal at all, given the fact that this government has prioritised its independence.

Now with respect to Covid, I think all this [means is that] governments are going to have very, very high levels of unsustainable debt; there's going to be a focus on private-sector economic growth, [on] pro-competitive regulation, creating a more entrepreneurial environment – that's true, I think, everywhere – and diversity and robustness of supply chains will be very, very important. Now, the final thing I'd say – and obviously we're also going to have to resist autarkic responses, and the embracement of self-sufficiency, and export bans, export restrictions... the kind of thing that we saw at the beginning of the Covid outbreak – and the UK, I think, and

the UK-US agreement, can play a role. It's certainly true that if anyone – and this is an if – if anyone can influence the Trump administration on some of those perhaps autarkic responses to the crisis, it probably is the duo of Johnson and Abe in Japan. It's pretty clear that the three of them seem to get on relatively well, and Trump does listen to Johnson, but he'll have to play that card fairly carefully.

And then finally on China, again I'd say that the Covid crisis has simply accelerated what was going on before in terms of the US approach to China – there is a very significant problem in the US-China relationship, related to the market distortions in China and their effect on global trade – and I think here the UK can play a very constructive role; because if the UK can, perhaps through the chapter in the trade agreement, have a more nuanced position with respect to China – where we are dealing properly with the distortions in the Chinese market from a competition and a trade standpoint, while at the same time essentially sending a signal to China that we welcome trade from China that is *not* distorted – that is more based on market principles – that does help the US in making the case domestically that they have disciplines to deal with China's distortions. This is the issue, really, on which Trump won the election in 2016. So this isn't going to go away, and this is going to be a significant common position that the UK and US can take. Remember in TTIP originally, the idea was that this was going to be a best-in-class agreement dealing with third-country issues as well. That proved not to be possible in the case of the EU, but I think it is possible in the case of the UK.

And the last thing I would say is that it's not really a question of the UK deciding whether it's going to be in the EU's regulatory sphere or the US's regulatory sphere. The choice is really between the EU approach to regulation now – which is to focus on harmonisation and the export of the European regulatory system – versus a regulatory recognition, adequacy/equivalence type approach, which is favoured by, for example, the CPTPP countries, and is favoured by the US; and if that kind of approach can be adopted, then I think that will also help the global trading system. So I'll leave it there, and look forward to hearing from the other panellists.

Jon Davis: Shanker, thank you very much indeed. George Osborne, great to have you with us: over to you, please.

George Osborne: Thanks very much, and I'll keep my remarks brief so that people can take part in this discussion. And let me congratulate Nyasha and Jessica, Simon, and Ed, indeed, on putting this all together, which is very impressive.

I'll make three observations. First of all, this whole "Global Britain" stuff was bolted on after the referendum result. I took part in the referendum, on the losing side; no one ever talked to me in any TV debate, or press conference, about a trade deal with the United States. Brexit was, and is, an act of protectionism; it's an act of retreating from globalisation – and of course the reverse is true of what Shanker says: trade deals can be underestimated in terms of their economic impact, and the intensity that they create, and the benefits that flow from that; therefore the reverse is true: that as you dis-integrate, or as you disentangle, the economic benefits can be underestimated. So I think you've got to keep in mind that Brexit was not a bid for "Global Britain"; and indeed it's quite interesting that everything that's been said

subsequently, when it comes to specifics – we’re not going to export live animals; we’re not going to have US companies involved in NHS procurement; we’re not going to import hormone-injected beef – whatever you think about these issues – and you may support them, or you may not – they’re all acts of protectionism. They’re either acts of protectionism and regulation from where we are now, or they’re putting constraints on future free trade.

Second, the whole world has changed since Covid, and the concerns pre-Covid – around Brexit, and trade deals – have been washed away, very sadly, by the harsh reality that the UK, US, and the rest of the West are in a deep recession; and the politics of the UK, for the foreseeable future, are all going to be about unemployment, deficit, debt, and with the added spice of a presentable opposition, which we’ve not had in Britain for five years. And you can already see, in the space of about two weeks, what a massive change that has made to the shape of the British political debate. So in that context, I think the UK is basically going to try and preserve its trading relationship with the EU. You could argue that this is what the UK always wanted, which was [to be] part of the Common Market and not part of the political arrangements of the EU, and we will seek to essentially preserve that; and we’re not, in my view – and I respectfully disagree here with Shanker – we’re not going to depart from the EU’s regulatory orbit, because that is where the vast majority, or the largest share, rather, of our goods and services are exported. And what we’re actually going to have to do is rebuild, and find new, clever ways of influencing the regulation and standard-setting that at least we previously were in the room for; and I have every confidence in the ingenuity of the British Civil Service and political community to at least come up with some kind of solution to that.

The final thing is that I think there probably will be a US trade deal; I don’t think it will be done before the presidential election – and again, there’s an interesting tension here. Shanker says, quite rightly, that Boris Johnson has a good relationship with Donald Trump, and Donald Trump sees Brexit and Johnson as [with]in the movement that he has led – even if of course Brexiteers, and Boris Johnson, would disagree with some of the things that Donald Trump has said and done; I don’t therefore see why we assume that a Biden administration is also going to be more pro- working with this UK government; both can’t be true, and we don’t know what the US administration is [going to be]. I think Covid is so overwhelming – we can see from the last couple of days how complicated this public-policy challenge is, and economic challenge is – that the capacity, the mental space, the political space for concluding a US trade deal is going to be very limited. I’m not saying it’s impossible to do it before the election in the US, but personally I think it’s unlikely.

I think afterwards, under either administration, it will be doable, but it will be quite minimal – and the UK does have some leverage. One way of thinking about the digital tax, or 5G infrastructure, is that those are also cards you can play in a negotiation; they’re not necessarily obstacles to a trade deal – they’re actually potentially a bit of leverage that the UK has, to give things that the US wants. And I think a deal will be done – and when I was in politics I was one of the most pro-American MPs, and one of the greatest believers in free trade – but don’t underestimate how generally suspicious the British political system is, much as it

loves the United States, of the US commercial imperative. And you just see that in the way that often, in the NHS, the political debate centres around whether we want US-style healthcare, or US companies coming in. So I don't assume that a British parliament – particularly a much more competitive British parliament than we've had, with a serious opposition – is going to rubber-stamp some US-UK trade deal. I think it will be tough; I think one will be done; but all of this is going to pale, frankly, into insignificance in terms of the central task, particularly in a recession, of maintaining the economic relationship with the EU.

Jon Davis: George, thank you very much indeed. Dr Meredith Crowley: you're very welcome.

Meredith Crowley: Thanks very much for inviting me today, and thank you to the writers for what I thought was a very interesting and stimulating report on the future of the UK-US relationship. So I actually will be brief in my remarks. The first thing I want to point out is there's a little bit of rhetoric around the idea of a UK-US deal in the post-Covid world, that says something like: "This could actually help us overcome the Covid recession." It can't; there's no trade deal anyone could ever write that can overcome the economic horror that is this recession we're now facing around the world. So in Figure 7 in the report, there was a nice table summarising the expected gains from different types of trade agreements, and under the various best-case scenario agreements between the US and UK, we're looking at an improvement in UK GDP in the order of one tenth of one per cent. So the best-case scenario here is positive; free trade increases economic activity; it would be better than the status quo. But we're not really talking about much gain in the best-case scenario. What we're facing right now, with the massive Covid recession, is a very, very serious problem that's going to take a lot of concerted activity to try to help get the economy going, but a trade deal in and of itself does not create nearly enough economic activity to overcome the damage of such a severe recession. It's just implausible.

During 2008-2009, British GDP – real GDP – fell a little bit more than five per cent; trade for the UK fell about fifteen per cent over that same period. Trade collapses are much more severe than corresponding GDP falls; you can't solve a GDP problem with freer trade. It is the case that bad trade policy can make a recession worse; good trade policy can help a recovery, but it can't *push* a recovery. It's just not massive enough. And the thing I want to highlight in the report that I thought was most interesting and important, that I'm thinking about now as it relates to Covid, is this tension between bilateralism and multilateralism, and where different approaches are appropriate. And if I think about what's going on now with the negotiations and the different problems the UK is facing, I think one of the big pre-Covid issues for the UK in this negotiation with the US was the future of the Digital Services Tax, because I think that as the UK goes forward, and digital services and imported digital services become more and more important, the inability to tax those digital services that the US wants the UK to negotiate to would be very damaging for UK public finances.

So the taxation of digital services is a problem that goes beyond the UK-US relationship; it relates to the status of tax havens, and low-tax environments like Ireland and the Netherlands; it requires a coordinated new approach to thinking about how to tax digital services flows around the world; and it really calls for a

multilateral response. And so I think a very risky thing for the UK would be to constrain their future ability to establish a sound multilateral public finance approach to digital services. That's got to be – really, it would be a mistake to constrain the UK's discretion in that area.

The other thing that's come up recently is the US has turned inward; it's become much more mercantilist; with Covid there's been this alarming rise of export restrictions, not just in the US but also in continental Europe – it's very surprising and damaging to global wellbeing. But there's also this issue that the UK is taking a leading role in trying to coordinate global vaccine development; and you can't have a healthy economy if you can't control things like pandemics. So I think it's quite important again for the UK to make sure that as they go through and negotiate rules on medication, on pharmaceuticals, on medical devices, that they keep a really open sphere of global cooperation over areas like research and development for things that save millions and millions of lives. So my big worry about this is on the upside, a deeper trade agreement – better; more trade, more competition – however there are some real pitfalls, and if you try to bilaterally negotiate something like rules over vaccines, or rules over digital services taxes, the UK could really end up in a disadvantaged position.

Jon Davis: Meredith, thank you very much indeed. Lord Macpherson, I wonder if you'd like to share your thoughts?

Nick Macpherson: Thank you. Well, astonishingly, I agree... I should actually first say, what a good paper: really good, raises absolutely the right issues, the right trade-offs and so on. And I rather agree with Meredith on multilateralism. I hope the United Kingdom won't give up on multilateralism; it's actually been something which Britain has benefited from hugely, and it has driven much of our prosperity in the post-war era, whether it's been on trade policy, the IMF, the G7 and so on. We do need to be a bit careful in our approach to the United States. The United States is the biggest economy in the world; historically it's talked free trade but it has always been mercantilist; it's used trade policy as an arm of US hegemony; and as someone who has had quite a lot of experience of negotiating with big countries, but occasionally rather small countries like Iceland, the sad fact is that when it comes to international negotiations, might is right. And if we *do* do a deal with the United States, it will be very much on the United States' terms.

Now, I've always believed in free trade; the one thing which actually I can see some advantage on when it comes to the United States, in terms of a trade deal, is food. I'm all for cheap food, and if it means that we've got to have our chicken chlorinated, or our beef infused with hormones, that's fine by me. But the worrying thing, though, is can we achieve that? The Tory party, for which I have the highest regard, has always had a very strong alliance with farming interests, and until the decline of the Liberal Party, the Tory party has always had a protectionist tendency. And I fear, with the likes of George Osborne and Ken Clarke no longer actively involved in it, that protectionist tendency will be stronger still. So what worries me is that in the end, are British farmers going to tolerate the reduction in regulation, the reduction in tariffs, which a trade deal with the US will entail? And although I'm pleased that Shanker is optimistic – and maybe he's right – the real preference of the United States when it

comes to trade policy – especially when it comes to Congress – is that agricultural interests are very strong indeed.

My final point – because I don't think other people have mentioned it particularly – I think it's just worth giving China a mention. I know it's very fashionable, and increasingly [so] in the Conservative Party, to blame China for most things which are wrong in the world, but the fact is China has an increasingly large economy; it's a very dynamic economy; and it will continue to grow. When the debate on EU membership was going on, from time to time I could see some advantage in being outside the European Union, but it did involve getting benefits from trade deals with countries like China; and I just worry that if we prioritise the United States, and we are forced into a stronger anti-China position, we will basically lose out when it comes to trade policy in the Far East. So I think we've got to be quite careful; I'm quite sure there will be some sort of political agreement to help Mr Trump's re-election, in terms of declaration – but quite frankly it won't be worth the paper it's written on, because the actual deeper trade agreement, which will have to go through Congress, will probably be a lot tougher, and maybe, in the end, unacceptable to the UK.

Jon Davis: Thank you very much indeed. We've got lots of questions coming through; what I propose to do is to give you three, ask for a couple of responses – then another three, and you can answer whatever you fancy. OK.

So first: The UK Prime Minister has set out an agenda for the revival of multilateralism. The panel has talked about the UK-US position. What constituency is there elsewhere in the world for a revival of multilateral negotiations; how strong is it; and how realistic is [the idea of] the UK's leadership of a global coalition given the US-China relationship?

Second: Do you think that Covid-19 will encourage more countries to take an isolationist and protectionist approach, and perhaps small side-deals, like, for example, the UK-France agreement on quarantine?

And one of the report's contributors, Ignatio Garcia Bercero, asks: It is clear that the US's main interest in a mini-deal will be agricultural tariffs and agriculture. The deals with China and Japan illustrate that the US can offer little in a mini-deal [which is] not subject to congressional approval. What can the US expect to get from a mini-deal?

Ed, would you like to kick off?

Ed Balls: I'll just answer the first two and leave others to the latter one. I think if you actually look, over the last few weeks, at the number of countries which participated in the vaccines conference; if you look at the number of countries which have applied to the IMF for bilateral financial balance-of-payments support; if you think of the global positive interest in finding a vaccine which can then be used internationally; and if, on the other hand, you think of the potential collapse in trade, aviation, tourism and travel if countries take uncoordinated approaches to controlling their borders over the next six months, I think you can see there are a number of countries who have an interest in multilateral institutions, multilateral cooperation. I think,

over the last few weeks, that the US has looked rather an outlier; and it was the US which took the blocking decision in the UN recently. So the pandemic is global; it's a global virus; its spread can't be controlled by armies or easily, simply, by border police; and the pace at which we emerge from this, and the extent to which there is short and long-term damage done, has a very important multilateral dimension. So I'm optimistic that there is growing support for multilateralism; but what we know in the world is that if the US doesn't engage, then translating that into institutions which function, and activity which can really work, is very hard indeed.

So I don't think it's obvious that this agenda will succeed; but I think the UK government is right to be thinking hard about how to use its G7 presidency to pursue that agenda, and I'm kind of hopeful – and in a way, listening to Shanker, I think Shanker's rather hopeful as well – that we can use some of our leverage to draw the US back into a slightly more cooperative mindset; and however much we worry about what's happening to US politics more widely, it feels as though at the moment we are in a particularly difficult place when it comes to cooperation outside borders. So maybe there is a prospect for improvement.

Jon Davis: Shanker, would you like to offer some thoughts there?

Shanker Singham: Yes, I think there is some hope that we don't all retreat away from the multilateral system, and I think that the fact that the US is somewhat in retreat from the multilateral system means that other G7 countries have a bigger responsibility, and I think that's where the UK, certainly, will come into play. And in terms of where your other support might come from, I think obviously the CPTPP countries – Japan, Australia, New Zealand, Singapore, etc – they play a role as well. And the UK is in the interesting position of trying to negotiate simultaneously with the EU and the US, and there's a role for obviously the EU, and EU member states with respect to trying to ensure that the world doesn't retreat into – as I said – an autarkic kind of response. But we should not underestimate the enormous pressure that there will be on systems to give in to the siren voices of protectionism and so on, and I think it's quite important that the UK remains very robust on this. And I don't see any indication, frankly, that it's not intending to do that.

Just to take Ignatio's extremely good question – I'm not so sure about the phased nature of the deal between the UK and the US. Certainly US private-sector interests, and US congressional interests, want to see a comprehensive deal; I think some sort of declaration, some sort of statement, before the election or before the summer, probably is needed for political purposes; but I think that the support for a UK-US deal is bipartisan. Even if Biden were to win the election, I don't think you're going to see massive change from that overall approach; they would certainly want to continue to do a deal with the EU, in a way that the Trump administration probably sees as less valuable from an opportunity standpoint, but they're going to want to do a deal with both the UK and the EU. And in terms of congressional approval – [it's] obviously not needed for some sort of declarative statement, or executive order action along the lines of the China phase-one deal, but there are things that can be done in a "lame duck" congressional session before the end of the year, so I don't think that necessarily needs to hold anything up.

The bigger hold-up – or the bigger deadline – is April 2021, which is when the TPA, the Trade Promotion Authority in the US, expires; and so we're really looking at significant progress having to be made by that date. But this is a world of massive uncertainty. It was a world of uncertainty before – people would always say to me, "When are we going to get this deal done?" And who knows? Nobody can know that. But it's even more uncertain now. And so the only thing you can really focus on is what is the thing you need to do now; what's the step you need to take right now? And I think [the] launch was very significant. So that would be my approach in those areas.

Jon Davis: Thank you. I'm going to ask three more questions, and I'll invite Nyasha and Jess if you'd like to respond.

So: What are the gains for Britain from a trade deal that, on the government's own figures, will at best increase UK GDP by 0.16 per cent over fifteen years, and for which the US objectives include higher pharmaceutical prices and acceptance of US rule-making? What advantages can the UK realistically expect to secure?

Second: How does the panel think the future for UK-US trade looks under a Biden administration, assuming substantial progress is not made prior to November?

And third: In recent trade deals with Mexico and Canada, Washington included a clause stipulating that if any of the parties signed a free trade deal with a country that has a non-market, government-driven economy, the other signatories could take action, and even terminate the agreement. Would this be a deal-breaker for the British government?

Nyasha.

Nyasha Weinberg: Great, thank you very much. So if possible I'm going to try and couple the third question and the first question, because they both relate to the consequences of the UK striking a deal with the US. And obviously what you want to do when initially thinking about the scope for a trade deal in the UK's interests is to compare the US negotiating objectives with those of the UK, and to see the cope for the UK to either accede to or resist US demands. Now, the orientation towards trade deals that the US is taking is clearly one of delivering on the domestic policy agenda. If it's about the USMCA including a provision that prevents Mexico and Canada from doing a deal with China, what you can read is US domestic concerns that Chinese goods are going to be getting in through the back door of Mexico and Canada. If it's the question of more control for US drug companies, or more access to the UK's protected markets in pharmaceuticals, what you can read is the interests of US firms. And that also extends into protections for US tech companies: specifically there is a clause in the US negotiating objectives requiring that source code be protected, which then would limit the UK government's ability to scrutinise source code from the big tech firms – say Apple, Amazon, Facebook – if it wasn't necessarily [the case] that the algorithm was operating in the public interest.

Now, those are demands that clearly should raise some public-interest concerns, but it's not a foregone conclusion that the UK would accede to all of those US demands. And if you look at the UK negotiating objectives, they are absolutely unequivocal on

the face of them that the UK will protect the NHS. Now, whether those translate into protections over the course of the negotiations isn't necessarily clear; but what both Nick raised, and I think many people have been discussing over the course of the last six months, is the fact that US agriculture, and US agricultural interests, are absolutely key. And for the US, if it fails to do a deal that delivers in some way for pharma companies, tech companies or agriculture, US interests can't necessarily be guaranteed.

So clearly there will be trade-offs, but which sectors those trade-offs will take place in remains to be seen; I would probably say that the NHS may well see itself being protected by the government, but whether agriculture can be? It's perhaps too soon to tell.

Jon Davis: Thank you. Jess?

Jessica Redmond: I'll address the second question, then, about how Biden might change things. I think there are two ways that I can think of. The first is that it may well be disadvantageous for the UK government, because Biden is most likely going to be more pro-EU. So in the event that the UK is looking to use this deal as a signal that leaving the EU is still a way towards economic success, there's every chance that we'll see Biden picking up a similar rhetoric to what we saw with Obama, where Obama said that leaving the EU involves the UK going to the back of the queue in any potential trade negotiations. So that potential time pressure is one of the reasons in our paper why we think it might be possible that the UK government might prioritise a political mini-deal before the next election. But another way in which things might be better for the UK is a wider willingness to engage with the multilateral system that we might be able to expect from Biden. So Biden, in the past, has had much more positive relationships with the World Trade Organisation and other multilateral cooperative mechanisms, and it might be easier to persuade him to be more cooperative globally than the kind of actions we're seeing from Trump at the moment. So for the UK government, really it depends exactly what they want to get out of this deal, I think, as to whether Biden changes things for the better or for the worse.

Jon Davis: Thank you. These next questions to Meredith and to George.

First: Does the panel believe the UK Treasury as an institution has a preferred outcome in UK-US trade relations that differs from the government's? If so, in their experience, how will this clash between institutional structure and agency be resolved?

Second: Do the panellists see something like a political mini-deal hamstringing the UK government in a similar way that the political declaration tied Theresa May's hands when trying to agree how to leave the EU?

Third: Opposition to Huawei is one of the few areas of cross-party agreement in Congress. They won't stand for the UK's current policy towards Huawei, but as Mr Osborne says, this could be a card played in trade negotiations. However, is it realistic that the UK government will give this up with their levelling-up political driver still in play ahead of the 2024 election?

Meredith.

Meredith Crowley: I think the first question... I find it odd to think that the UK Treasury has a different objective than the UK government. My experience with everyone I've ever interacted with at the Treasury has been of a very professional Civil Service that supports the government of the day; so I think they support the government of the day. I think one of the things, when you look at estimates of trade-agreement benefit, [is that] the models being used by the UK government are similar to the models being used in the European Union, and Canada, and Japan. Everyone's using the same models, and the US government is going to be forecasting what they think the benefit is to the UK, and I can guarantee that their forecast of the benefit to the UK is the same as the Treasury's. So it's very important that you do a rigorous analysis so you know what the other guy is thinking. And we do this by using models.

The issue of whether a mini-deal could hamstring the UK government in the future – I think this is one of the ones that I'm not sure about; it depends a lot on exactly what the status is. I think where we are right now, if both sides sit down and negotiate certain features, the question is what kind of status will it have as of December of this year? It depends a lot on who wins the election; if it turns out to be Biden, anything negotiated that's not broadly supported in the US would basically just be jettisoned, and we'd start negotiations again. I think the things that do potentially worry me would be major concessions in pharmaceuticals, because I think that could be very disadvantageous to the UK. They get very low pharmaceutical prices here through the entire regulatory infrastructure of drug approval by the NHS, and that benefits the UK people. It's one of the strange features – typically more trade, and more liberalisation of the market, lowers prices; but when you have a very unusual market like pharmaceuticals, with one purchaser in the country, the regular rules of the game don't apply. So I would be a little worried about that.

I think if there's some kind of photo-op deal that doesn't cover very much, it probably won't influence the future negotiations if the administration changes, and I think what we've seen under Donald Trump is that a lot of the agreements he negotiates with trading partners don't change things very much. There's a lot of rhetoric that says "This is the best deal in the world, ever", and then we see that the new agreement with Canada and Mexico looks almost identical to what Obama had negotiated to have with them under the Comprehensive and Progressive [Agreement for] Trans-Pacific Partnership. So I'll leave the last question about Huawei – and maybe let George also address this issue of the Treasury... how he feels about that.

George Osborne: Thanks Meredith. Well, we've got a bit of a Treasury-biased panel here, with Ed and Nick. The short answer is that the Treasury's back. After a period of about four years where prime ministers thought they could operate without the Treasury, or relegated it, or didn't want particularly to hear its advice – not, I would say, by the way, a period of enormous success for British governments – the Treasury's back. And it's back because it is coming up with the innovative policy to deal with the recession, like furlough schemes; it's back because we have a Chancellor who is working very closely with the Prime Minister; and it is back because the issue is the economy as well as the health crisis. So the Treasury's back... Nick can speak to this better than I can; the Treasury is one of the longest-existing

institutions of the British state, and has had for maybe a couple of hundred years a certain doctrine, and part of that doctrine is that free trade, and increased trade intensity, is a good thing. And so it will push for that, and hopefully that, as Meredith says, aligns with the broader objectives of the government.

Just on the Huawei issue, which I was involved in when I was in government, I think it comes back to this point about multilateralism. What is multilateralism? Multilateralism is trying to construct a way for countries in the world to cooperate on shared objectives, and you can't really talk about wanting more multilateralism, or greater support for multilateral institutions, while at the same time saying we need to contain China, and we need to side with the US in isolating China from the global system. Because China is not some small country that can be cut out of the system; it is the world's longest continuously existing civilisation; it's the world's second-largest economy; it's a sixth of the world's population. So the multilateral system will count for little, or rather it will only be a Western alliance, if it doesn't involve and include China. And you can already see how that is fraying with things like the World Health Organisation; in the middle of the world's biggest health crisis for a hundred years, the WHO has *not* been the place where the world comes together to discuss this, but has rather become a source of conflict between the US and China – or rather the US and the WHO, in an argument that China is overly influential there.

So I think it's going to be a hard task to reconstruct; I think the UK can play a role, although let's be clear: most people in the world, looking at the UK, would not think that the government has added to the multilateral system – they would see Brexit as an act of taking away from the multilateral system – but that's past; if the government can act as the go-between – essentially as the broker of a new multilateral system that can engage with China in a way that the US finds acceptable – then it will have done an enormous service to the world. And in that context, large Chinese businesses like Huawei: are they going to be shut out of global markets, in which case China's going to say, well, what's the point of supporting these global markets and the institutions that back them; or are we going to say to the US that there's got to be a way for China's technology businesses to do business with the world? And for me, Boris Johnson took the right decision on Huawei; he resisted pressure from some Conservative members of Parliament; he listened to his intelligence agencies, who were recommending that we *could* work with Huawei – and I thought that was actually an encouraging early sign in his premiership that he's prepared to be unpopular.

Jon Davis: Thank you. We've got about twelve minutes left; I'm going to ask another three questions, and I'm going to ask Nick, and Ed, and we'll see where we get to from there.

So: On the issue of multilateralism and UK leadership, what possibility is there for the UK to include climate, environment, and sustainable development commitments in trade deals, both in advance of COP26\* and to demonstrate the possibility of a green economic recovery?

\*(The UN Climate Change Conference, due to take place in November 2020)

Second: As you conclude, US foreign and economic policy is based on an anti-China bilateralism. Do you think the EU is at all likely to move in this direction, especially post-Covid?

And lastly: How politically risky is it for Boris Johnson's government to focus so much on a US trade deal and employ such brinkmanship over an EU trade deal, in refusing to seek an extension, and seeming to calculate that if we crash out on 31<sup>st</sup> December with no deal, then the likely considerable economic fallout can be blamed solely on the consequences of the Covid-19 crisis?

Nick.

Nick Macpherson: Interesting questions. Look, multilateralism... Britain can promote it; I think we're just going through one of those fallow periods. But often it takes really bad things to happen to make the world wake up and adopt a more multilateralist approach. So just because things are going badly now, [that] doesn't mean that will continue into the future. And obviously climate change is likely to be an element of any new multilateral settlement, simply because it's a global problem, rather like the virus; like barriers to trade... These are the sort of issues which multilateral agreements can help solve.

Now, the EU and China... the key thing there is just how much of German exports go to China. One of the great ironies of the latter years of our EU membership was that we were becoming more integrated with the eurozone and the EU, whilst Germany was becoming less integrated because of its extraordinary export success. And so I would expect the EU, as ever, to be a slight counterweight to the United States, and to be trying to steer a middle course which doesn't alienate the United States but also seeks to keep China inside the tent. It's certainly not going to roll over and suddenly accept American leadership in this space.

Final point... I'd like to have agreed with George Osborne earlier that Britain will reach a sensible deal with the European Union by the end of the year – and generally it does, actually; the rhetoric and reality are often completely out of kilter – but this government does seem to be adopting quite a high-risk strategy on the negotiations; so if it is going to come together, it's going to come together very late on. I actually think that there is quite a strong possibility of a No Deal come the end of the year, and for its consequences to be submerged in the wider depression we're likely to be in, come that point. But partly because – although I don't think the Prime Minister's terribly ideological; in fact I think he's very un-ideological – there are some quite strange people in this Cabinet, with quite strange views. So anything is possible.

But to come back to the point: if you think that No Deal is likely, then actually there is some merit in reaching an agreement with the United States; but the fact is that the economic benefits are small. It will all be dressed up as a great triumph, but I think people are pretty sensible about this – and I'm not a politician, so Ed and George will be far more in touch with what the British people really think on these issues. But generally, trade deals which are talked up but have little economic benefit... For a day or two, the politicians get their announcement, everybody says they're very clever, and then hard, cold reality sets in. And actually, if we don't do a deal with the European Union, we will be doing ourselves massive economic harm.

And where I do agree with George Osborne [is that] I am absolutely confident that in ten, twelve years' time we will have reached a new equilibrium, and it will be very close to the European Union for a whole lot of reasons.

Jon Davis: Thank you. Ed?

Ed Balls: Right, I'm going to answer the three questions quickly, and then abuse my position by asking a question back to George and the others. First of all, the astonishing thing about this two-month period has been the resilience of the global food supply chain. If you think back to the shortages in the first week, and the concerns about whether the food would run out in the shops, I think what has been striking is how that hasn't happened; and so I don't think, in any sense, that Covid and the pandemic would now be a credible excuse for a government which suddenly presided over a collapse in the food supply chain because of No Deal; and there is no US deal which can compensate for a big disruption in the flow of food imports, which come predominantly to the UK from the European Union. So I think George is right: there will be a deal; I think there will have to be some give from both sides; but frankly, the British government needs to do a deal, because these are not circumstances in which it would be able to deal, politically, with that economic and food supply disruption.

I think climate change is the one area where absolutely yes, a change of American President would clearly signal a change of approach in the content of bilateral and multilateral deals, because I think climate change is one area where there is a very clear distinction between both presidential candidates in economic terms. Whether that is as clear on China remains to be seen; historically, when I think back to elections in the late eighties and the early nineties, it tended to be the Democrats who were the more protectionist when it came to global trade, although it used to be Japan rather than China which got the ire of Dukakis, for example, in the '88 election.

And then – Paul Tucker makes this point in our paper – it's very interesting to think, if you take a hawkish view of China, that the one thing which you might think China would be extremely pleased about is a big fragmentation of cooperation amongst countries outside of China. And so I think as these debates unfold over the next one or two years, you might see, under either President, America realising that it needs to engage more with allies if it's to pursue – as Shanker said – some of the legitimate questions which need to be pursued; and I don't think that you will see the European Union lurching to the kind of position Donald Trump takes. So you actually might see more cooperation and engagement on economic issues between America and Europe, in order to pursue a more sensible China policy. I don't think it's in Donald Trump's interests, if he really wants to pursue this agenda, to try and do it alone.

I guess the question I was going to ask George follows on from that China point – and I'm interested to know everybody's views of course – but George talked about prime ministers pursuing agendas in the national interest, contrary to the pressure from Conservative backbenchers. I understand that, and all leaders have to pursue agendas, sometimes, despite the pressure from their backbenches – although over the last ten years, you might say, George, that didn't end up going quite as well as you

might have liked – and we now see, post-ERG, a CRG group being set up, jointly chaired, I think, by Tom Tugendhat and Neil O’Brien: the China Research Group. And so I’d be interested to know whether you think, compared to your time – I don’t remember you really ever having a difficult time in Parliament, or more widely within your party, on China – is the politics within the Conservative Party changing? Is the Conservative Party thinking, post-Brexit, in a more “Trumpian” way in terms of China... Is that how we should read the CRG? Is the kind of ERG thinking now shifting to focus on China, and does that change the dynamics in terms of the pressure on Boris Johnson as Prime Minister? We know that he has in the past had internationalist moments; we know that when it comes to his own backbenchers, he’s not necessarily hugely good at resisting pressure. So what will that pressure be; how should we read the CRG; and how does it change the dynamic of how he would pursue, potentially, a mini-deal this year?

George Osborne: Good to have you asking me questions again, Ed.

Ed Balls: I’m not expecting any answers, of course!

George Osborne: So first of all, the European Research Group was not about Europe; it was about power in Britain. It was about seizing control of the Conservative Party, and very successfully it did that – or at least it found someone, an ally, who also wanted to be in charge, and that was Boris Johnson; and how they rub along together will be one of the interesting dynamics of this parliament. I agree that it is an interesting development, though, that this China Research Group has emerged. I don’t want to be rude about other members, because many of them are people I like and admire – but they are not as power-focused, let’s put it, as the ERG members; I think they really are interested in China. And I think they are reflecting a mood across the West – most obviously in the United States, but actually in France and elsewhere – that developments in China over the last five, six years have raised questions about China’s commitment to certain international values, and that there are legitimate questions to be asked of them. To which my answer would be, get them more involved, then – get them *more* engaged, rather than try and isolate them.

To your final point – will Boris Johnson resist? – I think the interesting thing here is that... Bit of a personal anecdote, but I made a visit to China with Boris Johnson, when he was Mayor of London and I was Chancellor, and he was then very open to Chinese investment in the UK. He was prepared to withstand criticism in London that Chinese people were buying up apartments that Londoners should have; that the Chinese sovereign wealth fund was going to own a stake in Thames Water, for example, or Heathrow Airport; and he was very [much], as he would put it himself, banging the drum for British business and Chinese investment in Britain. And I think, curiously, the member of the Cabinet most in favour of engagement with China is Boris Johnson – which helps, because he’s the Prime Minister; and politically it helps, in this government, where there’s one pre-eminent power in the government. And I thought the Huawei deal that I mentioned was an interesting sign that he’s not prepared to actually go down that kind of isolationist route with China, or just follow the US Congress and administration. And so I’m rather optimistic; I think that’s one of those areas where he’s perfectly prepared to resist some of the pressure – and we will see. But if I think back to the world I was in, in 2010, [during]

the recovery from a recession – you’re doing everything you can to get investment into the country, and to open it up to international markets, and I think that’s the story. I think Covid will have many impacts on our lives, but in the much narrower sense of British politics, it has completely changed what we talk about, and of course that is one of the endlessly interesting, fascinating things about politics: how quickly it changes.

Jon Davis: I’m going to have to bring this to an end now. I thought that was really quite wonderful. Thank you so much to Shanker and to Meredith; to George, to Nick; and to the paper-givers: Nyasha, Jessica, and Ed – and a special thank you to Martin Stolliday, who has performed miracles in delivering a seamless product. Thank you very much to everyone who joined; see you again soon.

Thank you.