Brexit and Trade – The UK Must Now Be Flexible, Opportunistic & Respectfully Machiavellian

By Lord Waverley **20Oct, 2018**

The Trade Bill before Parliament is a necessary piece in the BREXIT jigsaw. A question to start with, however, is this: will the bill survive the environment in which it must serve, or will it require amendment once the conditions under which the United Kingdom leaves the European Union are known?

It would appear that the architects of the BREXIT vision did not anticipate the complexity of the negotiations, from the unfolding contagion in important emerging markets to trade tariffs distorting globalisation – all of which could become centre-stage challenges. Those are insecure foundations on which to build a secure future.

Substantive points have been made about the ability to renegotiate trade agreements; nevertheless, the UK Government must shoulder the consequences of its policies and actions. History will judge whether the architects of BREXIT made a fundamental error of judgment by looking to the future with blinkered vision, along with a negotiating flaw of not being sensitive to the unsurprising strength of opinion across the Channel that could possibly haunt us further. Time will tell, and shortly at that. At this late stage we must be flexible, opportunistic and respectfully Machiavellian. All that said, we are where we are – but just where are we? We must either wrap-up what was started or change tack, decisively searching for an assured future. As Cicero said, "Where there's life, there's hope"; in that we may take some comfort.

There are many aspects to the Trade Bill, but I focus my central remarks on a cornerstone of the economy: financial services. The bill represents a building block, as it should. It is inconceivable that the EU 27 would allow as important a sector as financial services to remain fully offshore. Brexit may indeed mean Brexit, but Brexit also means consequences. Post-Brexit pressure will undoubtedly grow on the City of London, and other financial centres around the United Kingdom. The European Central Bank is already implementing its location to the continent in mandatory stages.

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The combination of principle and the possibility of rich pickings will place further sustained pressure on the financial services sector. The list of annual rankings of international financial centres has been published. An eye must be kept on how London fares, now and in subsequent years, having mostly maintained its position at number one until now.

The financial services sector is on the move, and it is necessary to be diligent and keep abreast of unfolding events. The likes of Frankfurt, Paris, Toronto, Tokyo, Seoul, Astana and Moscow, along with others, are the founding members of the newly established World Alliance of International Financial Centres, to be headquartered in Frankfurt and incorporated under Belgian law. Currently, London has observer status only. The UK Minister responsible should become acquainted with this alliance.

Then there is China's increasing influence in Europe, and the world at large. As in times past when the pound was superseded by the dollar, so a potential parallel yuan could become a base currency for the changing face of global geo-economics, which centres such as Ankara, Tehran and others might find increasingly appealing. China's impact is growing. It is delivering west-bound the infrastructure that supports economic growth and the evolution of the old Silk

Road. In the first five years since the Belt And Road initiative was announced,103 countries worldwide have signed 118 agreements with China.

The UK's expertise is considered to be well-placed, with useful experience in supporting and promoting that infrastructure development. The UK has the experience and proven ability in supporting and promoting infrastructure development. Together we can advance east-bound, thus increasing trade and connectivity, improving quality of life and reducing the cost of living.

But corporate partnership in the spirit of local content is fundamental, and I would urge UK players to seek out co-operation agreements with local players of merit, wherever the trillions of dollars are likely to be invested. Many countries and regions along the Belt And Road have considered integrating the initiative with their own development programmes – including Mongolia's Prairie Road, Kazakhstan's Nurly Zhol, and the Eurasian Economic Union –with Pakistan having high expectations for the EU's Juncker investment plan. The Belt And Road initiative has been incorporated into the documents of many international mechanisms including the UN, the G20 and the Asia-Pacific Economic Cooperation.

The US-China trade war is not close to being resolved and its impact is already being experienced in Asia, particularly in those countries that have good trade relations with China, such as South Korea and Singapore. UK trade with these countries has had an upward trend in recent years and is likely to be impacted as these countries get caught in the crossfire. China has warned that it will take countermeasures if the United States escalates the trade war. The United Kingdom needs to take a holistic approach.

Technological advancement makes access to any financial centre easy. This is a good time to look to the future, and fully understand and respect the importance of partnerships. As Amina Turgulova, head of global markets at the Astana International Financial Centre in Kazakhstan has reminded me, while London will always be an attractive destination with many opportunities, there must be a clear and innovative development plan based on partnership. It follows that it is imperative that we build strategic links with other capital markets. Linkages and partnerships are paramount. The London Stock Exchange Group is working on links with the Shanghai Stock Exchange, and the London Metal Exchange belongs to the Hong Kong Exchange.

There is a real necessity for a regulatory framework to adjust to changes; this will distinguish the leading financial centres from the rest. No less a body than TheCityUK is calling for the UK to make the most of the once-in-a-generation opportunity to recalibrate and repurpose its trade and investment policy to benefit the wider economy once it leaves the EU. I commend its thinking to Government and refer the Minister and her team to its report of January 2017, entitled Future UK Trade And Investment Policy. TheCityUK's latest report of August 30, 2018, entitled A UK-EU Association Agreement And Future UK Free Trade Agreements, in effect builds on last year's report by going further into the detail of the issues that will concern financial and related professional services. I share many of its conclusions.

The potential presented by deals that focus on regulatory coherence and co-operation, as well as next-generation international trade and investment agreements, would not only strengthen London's position as the leading global financial centre but bring new growth opportunities to key financial centres across the country. Trade policy is useful ammunition here; equally, it serves as a carrot.

I absolutely recognise the importance of trade, which allows people to work their way out of poverty, and supports job creation, value-addition and clean industrialisation. A message to the world at large is that trade is as critical to us as it is to others. The UK Government should ensure, however, that equivalent levels of market access are accorded.

Agreements with implications such as these for consumers, businesses, development and human rights – to which should be added the scourge of corruption – should have maximum scrutiny. It is suggested that the replication of some FTAs and EPAs is the way forward. I can see the benefits, but does this approach merely store-up problems for the future, and should it be challenged? Scrutiny and approval of all agreements on the overseas front should become mandatory. However, while remaining broadly supportive of much of what the Trade Bill contains, Government should reflect on the benefits of scrutiny and participation by allowing a framework that covers consultation with stakeholders, including a process that embraces public support. We need a more formal system of accountability, definition of the devolved Administrations' roles, full debate, approval by both Houses of Parliament – including a dedicated committee – and parliamentary scrutiny in the proposed process.

I recognise that this requires a seismic change, but our country's future should centre on the change needed to prepare for tomorrow's world. The role of Parliament in approval and ratification processes for international trade agreements – enshrining the Ponsonby rule, whereby international treaties have to be laid before Parliament 21 days before ratification – should be unequivocally embraced. The Government's performance in ratification timelines is – if I may choose my word carefully – precarious. This needs attention. i