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Making Trade Work Again: Resetting the UK's Trade Strategy for a Changing World

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Executive Summary

Trade has long been a driver of growth in the United Kingdom. As a mid-sized, open economy, Britain has often benefited when global trade has expanded and tended to struggle when it has slowed. One reason UK growth was so strong before the global financial crisis was simple: global trade was booming. But that period of hyper-globalisation is now behind us.

Over the past decade, the global trading environment has become more volatile. The UK's departure from the European Union, the return of war in Europe, and increasing strategic competition between the United States and China have all raised barriers to trade and contributed to a period of "slowbalisation". The US's recent decision to impose sweeping tariffs marks a further – and more dramatic – escalation. Trade is no longer a dependable tailwind; it is a shifting gust, shaped by the crosswinds of geopolitics.

There is a real risk the world is entering a period of deeper trade fragmentation. A more divided trading system would weigh heavily on UK growth and undermine global prosperity. But we should not declare the end of globalisation too soon. While the US has made the most visible moves, its long-term strategy remains opaque: tariffs may yet prove to be a negotiating tactic rather than a permanent retreat. And while uncertainty is already chilling trade and investment in some areas, many countries are responding not by retreating but by doubling down on trade integration.

What is changing is the form that liberalisation takes. Multilateral progress at the World Trade Organization (WTO) has largely stalled – not because the case for openness has weakened, but because strategic rivalry has made consensus harder to reach. In its place, regional, plurilateral and especially bilateral deals have multiplied. Goods trade, once the engine of globalisation, is now more exposed to disruption while services trade is surging.

Technology is accelerating these shifts. It is intensifying geopolitical competition – especially between the US and China – but also facilitating the growth of new pathways for trade. Much of the expansion in services trade has been powered by digital tools. And advances in artificial intelligence and other digital technologies now give governments the chance to rewire the infrastructure of trade itself, cutting the cost, time, and complexity of cross-border commerce.

Globalisation is not dead, but it is evolving. And Britain's trade strategy must evolve with it. The current approach, which is still heavily focused on traditional free-trade agreements (FTAs) was shaped in the aftermath of Brexit and remains geared toward replicating old models of market access. That may have been a reasonable starting point. But it is no longer sufficient for a more fragmented, faster-moving world.

At a time of weak UK growth and tight public finances, boosting trade is not just desirable, it is essential. And while the UK cannot control the global environment, it can ensure its trade engine is running as efficiently as global conditions allow. That demands a more hard-headed strategy – one that responds to the three forces reshaping global trade: geopolitical volatility, shifting patterns of liberalisation and rapid technological change. It must be smart in navigating complexity, agile in pursuing more targeted forms of liberalisation and equipped with the digital infrastructure needed to make it easier for businesses to trade. A shift from "Buccaneering Britain" to "Shrewd Britannia" – less swagger, more substance.

We recommend a three-pillar strategy:

PILLAR 1: RE-ENGAGING WITH THE ECONOMIC SUPERPOWERS

The UK's prosperity will continue to depend on its relationships with the world's three economic superpowers – the US, the EU and China – which together account for two-thirds of UK trade and investment. A decade ago, the UK had strong and growing ties with all three, but since then each relationship has become more complex, more contested and more politically constrained. The government has rightly recognised that the UK cannot afford to decouple from any of these economies and is taking welcome steps to re-engage. To ensure this effort delivers for the UK's long-term interests, we recommend three distinct strategies:

- **United States:** The UK should adopt a hedging strategy, engaging where interests align, while preparing for further volatility. The government is right to offer low-cost diplomatic gestures and agree a narrow, fast-tracked deal to limit the damage from recent US tariffs, particularly in vulnerable sectors such as autos. The 8 May Trade Framework is a necessary and welcome step in this damage-limitation effort. But to remain credible under WTO rules the narrow deal should be clearly positioned as an early harvest en route to a broader, phased agreement. The priority now should be to shift negotiating efforts towards areas of mutual benefit – particularly services and technology – where the 2019 US-Japan digital agreement offers a useful precedent. In parallel, the UK should make clear that any concessions are conditional on progress towards liberalisation and structured to shield the UK from future tariff escalation, ensuring the agreement serves as insurance, not just appeasement. At the same time, the UK should invest in quiet diplomacy with trusted partners such as the EU, Japan and Canada to develop a "deterrence coalition", and a coordinated playbook for responding if US trade tensions escalate further.
- **European Union:** A closer partnership with the EU should sit at the heart of the UK's international strategy. As the UK's largest trading partner and a natural ally on global trade and security, the EU remains critical to both UK prosperity and European resilience. The government has already taken some welcome steps to strengthen ties, announced at the 19 May summit. These should serve as a stepping stone to a more ambitious, forward-looking strategic partnership grounded in shared economic and security interests. We recommend focusing on five immediate priorities. The first three are already in play and now need follow-through; the other two require fresh UK leadership.

1. **Services trade:** Negotiate a new mobility chapter in the Trade and Cooperation Agreement (TCA) – including streamlined business travel and a youth-mobility scheme modelled on UK deals with Canada, New Zealand and Australia – to support labour supply and services exports.
2. **Energy:** Recouple with the EU's internal energy market and strengthen North Sea coordination on renewables and carbon storage to reduce energy costs.

3. **Defence:** Build on the security and defence pact to secure meaningful access to EU defence programmes for UK industry, and align defence R&D strategies on shared priorities.
4. **Technology:** Establish a "UK-EU Trade and Technology Council" to manage regulatory divergence and enable targeted cooperation on AI, digital infrastructure and economic security.
5. **Trade diplomacy:** Act as a bridge between the EU and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), and join the WTO's Multi-Party Interim Arbitration Arrangement to help lead a coalition of the willing in defence of rules-based trade.

- **China:** The UK should pursue a strategy of targeted economic re-engagement focused on attracting investment into non-sensitive sectors while protecting areas of strategic vulnerability. That should include welcoming Chinese investment where it supports UK industrial priorities, such as electric vehicles, but only where national-security risks have been clearly assessed in advance. To provide certainty and avoid deterring beneficial capital, the UK should develop a transparent pre-screening process under the National Security and Investment Act, giving potential Chinese investors clarity before formal review. The UK should also expand support for outward investment into China, helping UK firms access opportunities that are commercially valuable and strategically safe. In doing so, it should aim to mirror US investment ties with China to limit the risk of being targeted in future retaliatory action should US-China tensions escalate. Finally, the government must adopt a more disciplined public posture: drawing a clear line between legitimate business activity and state-directed interference, and avoiding rhetoric that blurs the distinction or forecloses future engagement.

PILLAR 2: RE-ORIENTING TOWARDS HIGH-IMPACT LIBERALISATION

The UK's trade policy remains heavily focused on negotiating traditional FTAs. While the agreement in principle signed with India on 6 May is a welcome step, an overreliance on FTAs in the future risks delivering diminishing returns. These deals are slow, resource-intensive and increasingly difficult to conclude in an era of political volatility. Between 2020 and 2024, the UK signed just three new FTAs beyond continuity agreements that are collectively expected to boost UK exports by £9.5 billion in the long run. Over the same period, the government resolved 640 market-access barriers, which will deliver greater economic value more quickly and with fewer trade-policy resources.

The UK should now pivot more of its trade-policy resources towards faster, more targeted liberalisation. We recommend strategic shifts in two areas:

- **Sectoral and market-access agreements:** Adopt a more focused trade strategy by scaling back the number of full FTAs pursued at once and concentrating on high-value opportunities. Finalising the FTA with India should be the immediate priority, given India's growing economic weight, and an agreement in principle has now been reached. For the Gulf Cooperation Council, the government should reassess whether bloc-wide negotiations remain the most effective route or whether faster bilateral deals with dynamic members like the United Arab Emirates (UAE) would deliver greater value. Elsewhere, FTA upgrades should be re-scoped to target specific sectoral gains, using the financial-services agreement between the UK and Switzerland as a model for sector deals with other partners such as Japan. Resources freed up from FTA negotiations should then be redirected to bilateral market-access campaigns focused on resolving a greater number and value of trade barriers. These campaigns should make better use of business intelligence, embassy networks and global supply-chain data to identify and prioritise commercially significant barriers.
- **Digital trade:** Pivot ongoing FTA upgrades with Canada, Korea and Switzerland into digital-first agreements focused on data flows, e-invoicing and regulatory interoperability. Accelerate accession to the Digital Economy Partnership Agreement (DEPA) and use it to build momentum for a CPTPP-wide upgrade to digital rules. Work with DEPA and CPTPP partners at the WTO to advance digital-trade standards and governance, laying the technical foundations for future multilateral reform.

PILLAR 3: IGNITING TECH-ENABLED TRADE FACILITATION AS A NEW ENGINE OF GROWTH

The UK's trade infrastructure is due an upgrade. While parts of the system have been successfully modernised, many critical components remain fragmented and increasingly fall short of global best practice. In the digital age, businesses still often face slow, analogue systems that are hard to navigate. This creates friction for exporters, especially small and medium-sized enterprises (SMEs), and means too many trade agreements are underutilised. In a world where big trade deals are becoming harder to negotiate, the UK must unlock more value from the deals it already has. That demands a modern, digitally enabled trade system – one that reduces the cost of trade, increases the speed and encourages more firms to trade.

We recommend five upgrades to the UK's trade infrastructure, underpinned by a change in governance to drive delivery:

- **AI trade advisor:** Create an AI platform that gives firms bespoke guidance on how to navigate trade rules and bureaucracy. This should start as a digital "front door" for advice – replacing static web pages and fragmented services – and evolve into an agentic AI advisor tool able to complete documentation and proactively surface export opportunities.
- **Single Trade Window (STW):** Relaunch the UK's stalled STW programme with a leaner, phased rollout. A single digital portal for all trade documentation can simplify compliance, reduce reporting time and enable wider digitalisation across the border system.
- **Trade data exchange enabled by distributed ledger technology (DLT):** Develop a secure, decentralised platform for real-time sharing of trade data across borders. By using permissioned DLT, the system can provide firms and government agencies with live consignment visibility, accelerate customs clearance and reduce costs through faster, more secure data exchange. Additionally, it enables the sharing of customs and government trade data between UK agencies facilitating the deployment of the STW.
- **Supply-chain intelligence system:** Use big-data tools to map supply chains, detect risks before goods reach the border and improve enforcement targeting. This will reduce delays for low-risk shipments and focus checks where they are most needed.

- **DLT-based cross-border trade payments:** Support the adoption of DLT-powered payment systems such as UK regulated stablecoins or tokenised bank deposits to enable instant, low-cost international trade transactions. This would reduce costs for exporters, improve liquidity and offer an alternative to legacy payment infrastructure vulnerable to geopolitical risk.
- **Delivery taskforce:** Establish a UK trade infrastructure modernisation taskforce – a cross-government delivery body with the authority, technical capability and political backing to drive reform, coordinate implementation and future-proof the UK's digital trade systems.

The global trade winds are shifting, and the UK must adjust its sails to catch them. Inertia will take the country in the wrong direction. Instead, Britain needs a sharper, more dynamic trade strategy – one that navigates geopolitical complexity, adopts faster, more targeted approaches to liberalisation and invests in the digital infrastructure needed to boost trade. Get it right, and trade can once again be a powerful engine of growth, even in a tougher, more uncertain global environment.

01

A Changing World: Why the UK Needs a Trade-Strategy Reset

The world is changing fast. The imposition of sweeping tariffs by the United States on "Liberation Day" marked a rupture in the global trading system not seen for almost a century. Yet this geopolitical shock, while dramatic, is only part of a broader story that is reshaping the face of global trade.

Globalisation is not dead. But its future is evolving, and will be shaped by three powerful, interrelated forces: geopolitics, trade liberalisation and technology. Each has played a vital role in the expansion of global trade since the mid-20th century. And each is now in flux. The most visible changes are geopolitical – the US's recent tariffs are the clearest example of this pivot, but far from the only driver of fragmentation. Trade liberalisation is also evolving – with multilateralism faltering and bilateralism resurging. And beneath both lies a technological transformation that is reshaping how trade happens, who can participate and where value is created.

These shifts are not all negative. They create space for new trade partnerships, faster trade facilitation and more agile policy. But they also generate new tensions: between openness and resilience, between multilateral rules and great power dynamics, and between fast-moving technologies and slow-moving institutions. Together, they challenge the assumptions on which the UK's post-Brexit trade strategy was built.

This chapter sets out the case for a strategic reset. It traces the evolution of these three forces – geopolitics, liberalisation and technology – and shows how each is reshaping the global trading landscape. For the UK, the implication is clear: trade strategy can no longer rely on inertia. It must respond to the real pressures reshaping the world and engage with each of them directly.

Geopolitical Fragmentation: The Return of Great-Power Politics

Geopolitical stability – particularly among the world's largest economies – supercharged global trade growth after the end of the Cold War. The fall of the Soviet bloc, the opening of China and the expansion of the EU all helped create a more interconnected and predictable trading environment. But over the past decade, that more benign period of history has come to an end. The UK's departure from the EU, the return of war in Europe, and a deepening strategic rivalry between China and the US have all signalled a shift. Trade is now unfolding in a more volatile, uncertain and contested geopolitical landscape.

The Trump administration's approach to trade is the clearest example of this shift. US import tariffs have surged to levels not seen since the Smoot-Hawley tariffs of the 1930s.[1] America's turn inward has gone hand in hand with a broader change in doctrine: trade policy is no longer anchored in international law, but used as a tool of strategic leverage. Global commerce depends on stability, predictability and trust. Yet the country that once guaranteed all three has shifted from bulwark of the international system to disruptor-in-chief.

This disruption did not come out of nowhere. It is the product of political and economic pressures that have been building for more than a decade. Both of US President Donald Trump's electoral victories followed significant squeezes on American living standards. Median incomes took almost a decade to recover after the global financial crisis, and stagnated between 2020 and 2023 as inflation driven by the pandemic and war in Ukraine eroded household purchasing power.[2] In relative terms, the US has fared better than many other advanced economies – including the UK, where weak growth has produced a more prolonged and widespread income squeeze. But the political effect has been similar on both sides of the Atlantic. Trust in governments has weakened, and support for disruption has grown. Anti-establishment leaders have risen on promises to "take back control" of borders, institutions and economic sovereignty. In the UK, economic disillusionment helped drive the Brexit vote, though trade was less the target than a casualty of a broader battle over migration, sovereignty and national identity. In the US, trade did feature prominently in the 2024 presidential campaign, becoming a focal point of nostalgia politics: a promise to revive lost manufacturing jobs, even as decades of technological change have pushed that goal further out of reach.

These domestic tensions have been compounded by structural shifts in the global economy – shifts that the multilateral trading system has failed to keep pace with. There has been no major global trade agreement since the World Trade Organization (WTO) was established in 1995. Many of its core rules now look outdated, unable to govern a world transformed by new technologies, divergent climate strategies and the continued rise of China.

China's accession to the WTO in 2001 delivered enormous benefits to global consumers by lowering prices, but it also unleashed a competitiveness shock that reverberated around the world. Accession was granted in the hope of gradual convergence with liberal market norms. But China's state-led economic model has persisted, prompting a range of tensions over state subsidies, currency manipulation, intellectual-property theft and restricted access to the Chinese market. At the same time, China has used active industrial policy to cultivate new areas of genuine comparative advantage. Rather than encouraging convergence, China's WTO membership has instead pushed Western governments to become more interventionist, responding to China's success not by entrenching liberalism, but by emulating aspects of its strategy. Since 2020, more than 27,000 trade-distorting measures have been introduced globally – twice the number recorded before the pandemic. According to the European Bank for Reconstruction and Development (EBRD), more than 90 per cent of US and German exports are now covered by industrial-policy frameworks,[3] reflecting a broader shift towards state intervention.

Other structural shifts have also strained the global trading system. Digitalisation has transformed what is traded, how it is delivered, and who can participate. Data flows, digital services and e-commerce now account for a growing share of global trade, but remain only partially governed by international rules. Climate policy has become another source of friction. As countries decarbonise at different speeds and through different instruments, they are increasingly using trade policy to protect domestic industries or project climate ambition – most notably through the EU's Carbon Border Adjustment Mechanism (CBAM). In the absence of modern global rules, a patchwork of national and regional approaches has emerged. This adds friction, raises compliance costs and deepens the risk of trade conflict between countries that regulate differently.

Geopolitics will continue to shape the path of global trade in the years ahead, with much dependent on how the US's approach to trade evolves.

There are several plausible paths ahead. In one, US tariffs are used primarily as a negotiating tactic designed to extract trade concessions in America's favour, and at least partially unwound over time. President Trump's first term suggests this is a plausible outcome. But even this relatively benign scenario imposes significant costs on the global economy in the short-term: disruption, policy uncertainty and increased trade complexity as firms have to navigate a fast-evolving and intricate web of shifting tariffs. A second path could see higher US tariffs locked in permanently, signalling a more enduring shift towards protectionism and a more insular US economy. A third, more destabilising trajectory would see tariffs as the first step in a wider ideological push to decouple from China and fragment the global trading system into rival blocs – a scenario that, according to the International Monetary Fund (IMF), could reduce global GDP by up to 7 per cent.[4]

While the UK will need to adapt as events unfold, there are several strategic insights that hold true in almost any scenario. First, the US can no longer be treated as a dependable trade partner. A broader US-UK trade deal is still desirable – under the right terms – but any UK concessions should be conditional, with no assumption that a deal will endure. Second, the US's turn away from rules-based trade is creating more complexity for others. With tariffs now varying by sector, country or even firm, compliance costs and policy uncertainty will weigh heavily on UK exporters. Third, there is little prospect of multilateral consensus on WTO reform. The paralysis of the appellate body – triggered by the US – is likely to persist for the foreseeable future.

These insights inform our three-pillar trade strategy. First, the UK must hedge its exposure to the US by deepening trade partnerships with others. Second, in a world where policy shifts in Washington can trigger recessions elsewhere, political volatility in other countries may also rise, making it riskier to invest in multi-year negotiations for large-scale free-trade agreements that could be upended by electoral cycles. The UK's trade-liberalisation efforts will therefore need to adapt: prioritising faster, more flexible deals that deliver real gains without relying on political continuity. Third, the UK must invest in modern digital trade-facilitation systems that are more dynamic, data-driven and responsive to changing conditions. In an era where geopolitics is creating new barriers to trade, the government must harness technology to create a counteracting force to keep trade growing.

Trade Liberalisation: Evolving for a New Era

While the shock of the US's shift in approach to trade is significant and the risks of fragmentation are real, it should still be kept in perspective. In 2023, the US accounted for just 11 per cent of global trade.[5] The system can withstand the US's inward turn if other countries resist the same path and deepen trade with each other instead.

The case for openness remains compelling. For consumers, trade means greater choice and lower prices – benefits that disproportionately support those on the lowest incomes. For developing economies, it remains one of the most effective routes to growth, having helped lift more than a billion people out of poverty since 1990. For all countries, it drives productivity through competition, efficiency and specialisation. And it is the key conduit through which breakthrough technologies are diffused – from clean energy to artificial intelligence – making trade essential both to fighting climate change and to harnessing the economic benefits of the AI revolution. In a period of weak economic growth, pursuing trade liberalisation remains essential.

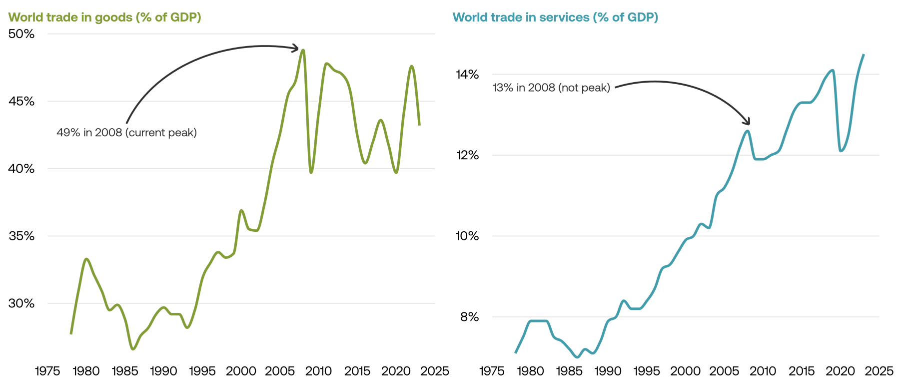
That logic is reflected in recent policy, where appetite for trade integration remains strong across much of the world. In 2024, the EU finalised major trade agreements with New Zealand and Mexico, and reached a landmark political deal with Mercosur that was 25 years in the making. China brought new trade agreements with Ecuador and Serbia into force, while the Regional Comprehensive Economic Partnership (RCEP) came into full effect across all 15 member countries in Asia. And, in the wake of Trump's tariff announcements, many countries have stepped up trade diplomacy – courting the EU and China in particular as they seek more stable, diversified trade partnerships. The US pivot has triggered a major trade shock – but like any crisis, it has also created an opening.

That opening is best understood in historical context. For much of the post-war period, trade liberalisation was underpinned by multilateralism – through successive rounds of General Agreement on Tariffs and Trade (GATT) negotiations that culminated in the creation of the WTO in 1995. These efforts delivered remarkable gains, particularly through the reduction of tariffs on goods and the establishment of common trading rules and practices. But since the collapse of the Doha Round in the early 2000s, multilateral progress has largely stalled. In its place, regional and plurilateral trade agreements have grown – including the expansion of the EU, the creation of the African Continental Free Trade Area (AfCFTA), and the formation of plurilateral platforms such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and RCEP. Bilateral trade deals have also proliferated.

As the architecture of liberalisation has evolved, so too has the nature of trade itself. In the early stages of globalisation, trade growth was mainly driven by inter-industry trade of goods – countries importing different products to the ones they exported. Over time, that growth was accelerated by intra-industry trade where the development of complex cross-border supply chains allowed firms to fragment production across geographies to exploit cost and scale advantages. But that era, too, may now be reaching a plateau. Goods-trade growth has stalled since the global financial crisis and has been further disrupted by the forces of fragmentation described earlier. By contrast, services trade – especially digital services – has accelerated. The rapid expansion of e-commerce and digital platforms, remote service delivery, combined with outsourcing of information and communication technologies (ICT) contracts to lower-wage economies, means that a growing share of trade now occurs through intangible channels. This is reshaping what is traded, who can trade and how value is created across borders.

FIGURE 1

Trade in services continues to grow while trade in goods has stagnated as a share of global economic activity



Source: World Development Indicators – World Bank

The UK's trade strategy will need to pivot to reflect these changes. Multilateralism is likely to remain constrained, but limited progress is possible through coalitions of the willing at the WTO. Plurilateral and regional integration is advancing – not only as more countries join existing agreements, but through the formation of innovative new arrangements like the Digital Economy Partnership Agreement (DEPA) led by Singapore, Chile, New Zealand and South Korea. But bilateral deals will remain a core focus in breaking down barriers at pace.

This new reality demands a strategic shift. Geopolitical volatility has already made the traditional model of comprehensive, multi-year free-trade agreements (FTAs) harder to sustain, especially when counterparties may see their negotiating positions reversed by electoral cycles. But structural shifts in the global economy reinforce the need for change. The UK should pursue trade liberalisation with renewed vigour to counter the threat of fragmentation – and to be effective, it must become faster, more targeted and more attuned to where value lies, particularly in digital services. That points to a pivot towards faster, narrower market-access agreements, and a greater focus on digital trade deals that keep digital markets open – pursued through bilateral channels, plurilateral cooperation and incremental progress among like-minded coalitions at the WTO. In an age of fragmented politics and fast-moving commerce, liberalisation will need to be just as agile as the world it serves.

Technology: Trade's Underappreciated Enabler

In government circles, discussions of the future of globalisation are understandably dominated by trade policy. It is, after all, the lever that governments control most directly. But many of the most transformative expansions in global trade were not driven by negotiations or treaties but rather enabled by technology. In the post-war era, a series of technological breakthroughs have reduced the cost, increased the speed and improved the reliability of cross-border exchange. These advances have reshaped not only how trade takes place, but also what is traded and who can participate.

Containerisation, which first emerged in the late 1950s and scaled rapidly from 1965 once international standards were agreed, is perhaps the clearest example. In 1956, Malcolm McLean, one of its pioneers, converted an oil tanker into the first container ship and estimated that containerisation would reduce the cost of cargo loading by almost 90 per cent, from around $5.83 per ton for loose cargo to under $0.16 per ton for containers.[6] Since then, containerisation has reshaped not just shipping, but ports and global logistics more broadly. By standardising processes and eliminating the need for repeated handling, it materially reduced the cost and complexity of trade. One long-term study found that over a 15-year period from the late 1960s, trade between countries that adopted containerisation grew ten times faster than trade between countries that did not, far exceeding the impact of tariff liberalisation over the same period.[7]

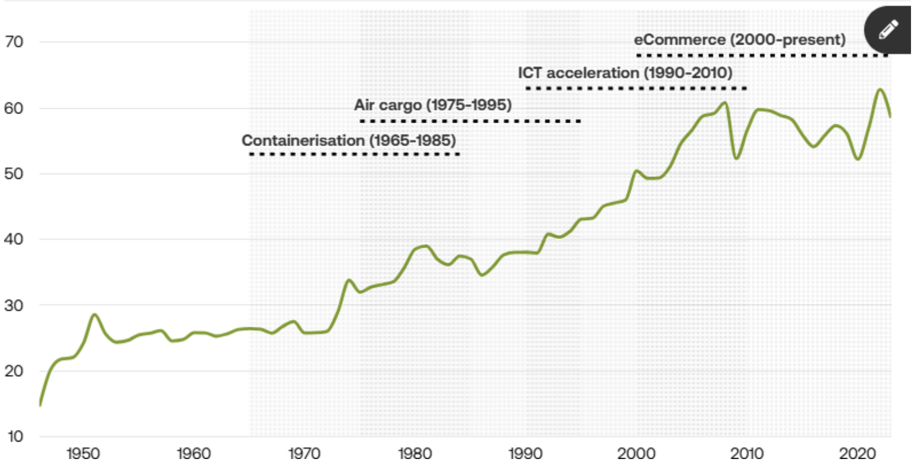
The rise of air freight brought a different kind of transformation. Although it accounts for less than 1 per cent of global trade by volume, air freight represents around one-third of trade by value.[8] By enabling fast, long-distance transport, it opened trade in high-value and time-sensitive goods, from fresh produce to just-in-time manufacturing components. Empirical studies estimate that each day of transit time is equivalent to a 0.6 to 2.1 per cent *ad valorem* tariff, with even larger effects for time-sensitive products. Air transport reduces the "time cost" of trade, often significantly. These incentives, combined with the declining cost of air travel, saw air volumes grow 2.6 times faster than sea freight between 1965 and 2004.[9]

From the 1980s onwards, traditional trade costs, such as tariffs and shipping charges, began to stabilise. But at the same time, the cost of transmitting information plummeted, thanks to advances in ICT. The development of satellites, fibre-optic cables, computers, email and the internet enabled the fragmentation of production, a process that economist Richard Baldwin describes as the "second unbundling" of globalisation. By allowing firms to coordinate complex production stages across countries in real-time, ICT enabled the separation of design, component production and assembly across borders. This drove the explosion of intermediate goods trade and the rise of global value chains in the 1990s and early 2000s.[10] One vivid illustration of ICT's impact is the collapse of international communication costs: in 1970, a three-minute phone call from New York to London cost the equivalent of $50 in today's prices, making global business coordination uneconomic.[11] Today, that cost is effectively zero.

Technology is continuing to reshape the trading environment today. Remote service delivery, cloud computing and digital collaboration tools have enabled a surge in cross-border services trade – particularly in digitally deliverable sectors such as software, professional services and online education. Exports of digitally delivered services reached $4.5 trillion in 2023, up from $2.2 trillion in 2013, and now account for more than half of global services trade. As Baldwin has argued, this may represent a "third unbundling": the globalisation of labour and services without the need for physical movement.

FIGURE 2

The key technological innovations that have influenced trade since the mid-20th century



Source: World Bank and Jordà-Schularick-Taylor Macrohistory Database

But technology is also reshaping the broader trade environment. The geostrategic rivalry between the US and China is, in large part, a race for dominance in critical technologies, from semiconductors to artificial intelligence. That competition is already influencing trade policy through export controls, investment restrictions and critical-minerals strategies. Conflicts over digital-services taxes, data localisation rules and divergent regulatory models illustrate how technology is becoming a new frontier for cross-border tension.

Amid all these technological advances, one area that remains conspicuously static is the use of technology by governments to facilitate trade. The UK's trade-infrastructure systems, spanning trade advice, documentation, customs processing and enforcement, are often bureaucratic or inefficient: an analogue system in a digital age. But the UK's digital-infrastructure deficit is no longer tenable. As the global trading system becomes more complex, with new barriers emerging for both protectionist and legitimate regulatory reasons, digital tools will be essential to reduce the friction of navigating it. AI-powered systems can help firms identify opportunities and understand how to comply with relevant trade rules. Digital trade platforms and more intensive use of supply chain data can streamline compliance, join up government services and enable more targeted border enforcement. And modern payment technologies can lower the cost of cross-border transactions. In a world of proliferating rules and rising complexity, technology will be essential to keeping trade moving.

These trends point to a clear set of priorities for the UK. First, many of the technologies reshaping trade intersect directly with trade policy. The government's role should be to create the enabling conditions for that trade to grow, reinforcing a focus on digital trade agreements as part of the liberalisation agenda. Second, digital trade infrastructure must be treated as a strategic asset, not just to reduce administrative burdens, but to enhance competitiveness and respond more rapidly to a changing global environment. In a world where trade fragmentation is increasing and long-term deals are harder to secure, making better use of the provisions within existing agreements is essential – and that will require smarter, digitally enabled trade systems to facilitate more trade.

Time for a Reset

The global trading system is being reshaped by powerful, interrelated forces. Geopolitics is making trade more transactional and less predictable. Trade liberalisation has already shifted away from multilateralism towards regional and bilateral FTAs. But in today's environment, it may need to evolve further to focus on faster, narrower and more targeted market-access agreements. And technology is transforming both the nature of trade and the infrastructure needed to support it.

For the UK – an open, services-led economy struggling to reinvigorate growth – these shifts carry particular significance. The country is exposed to external disruption and more dependent on the rules-based order that has underpinned trade for the past 80 years. Britain cannot afford to turn its back on trade: openness has been a source of national prosperity for centuries. What is needed now is not less trade but a smarter, more strategic approach that can reinvigorate trade growth for the UK and support global trade more broadly. The chapters that follow set out what that reset should look like: a new approach to managing relationships with the world's major powers, a modernised liberalisation agenda and a serious investment in the UK's digital trade infrastructure to underpin the future of trade. In a more fragmented and fast-moving global economy, trade strategy must be just as dynamic.

02

Standing Between Giants: Re-Engaging With the Economic Superpowers

A decade ago, the UK had productive trading relationships with all three of the world's major economic powers. It was embedded within the EU single market, closely aligned with a globally engaged US, and steadily deepening its commercial ties with a rising China. Each relationship brought different opportunities, but all supported the UK's strategic position in the global trading system.

Today, that position is weaker on all three fronts. The UK is outside the EU, managing the frictions of a thinner economic relationship. It is being buffeted by a more inward-looking and transactional US. And it faces a far more cautious and politically charged relationship with China, where security concerns have displaced economic opportunity.

Yet despite these shifts, each superpower remains vital to the UK's interests. In 2023, the three superpowers together accounted for two-thirds of UK trade and investment, albeit with significantly different shares (Figure 2). And each superpower has strategic economic importance to the UK in distinct ways.

The UK remains tied to the EU economically and strategically. It remains by far the UK's largest trading partner and the UK and EU both face similar economic-competitiveness challenges, including high energy costs, sluggish productivity growth, and the need to cultivate a globally competitive tech sector. Both have a high degree of regulatory alignment, a similar approach to decarbonisation and support for the rules-based trade system. Both are also exposed to similar security risks, particularly from the war in Ukraine.

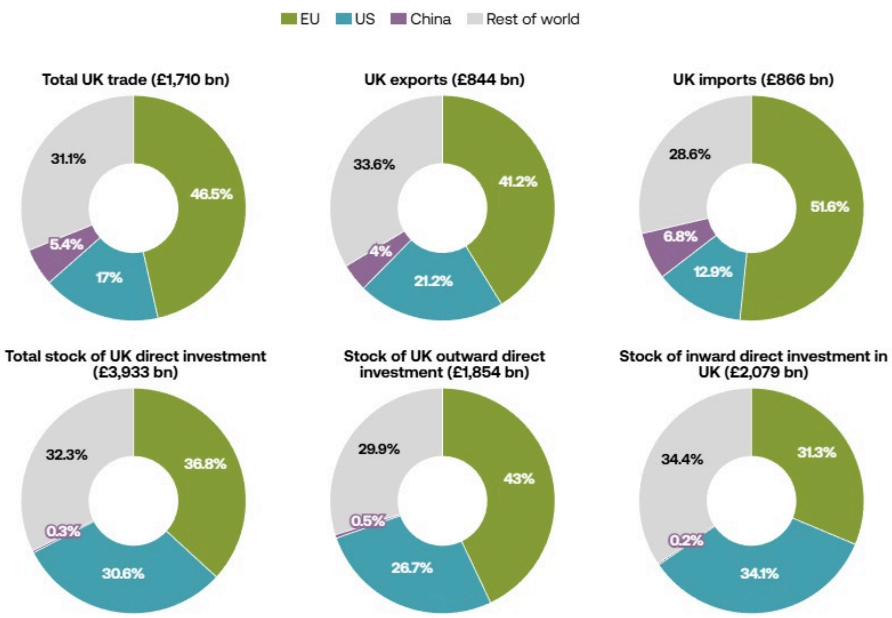
Likewise, the UK also remains tied to the US. The US is the largest international investor in the UK. The two economies share many similar economic characteristics: both are service dominated (the US and UK are respectively the first and second largest service exporters in the world), with large financial centres and globally competitive professional services. The UK's national security also depends heavily on continued access to US defence capabilities and intelligence networks, while its economic future depends on continued access to AI-era technologies from the US's leading tech firms.

The UK's direct economic links with China are more muted, particularly from an investment perspective. Still, as the world's largest goods exporter, supplier of critical minerals and provider of green technologies, China is of vital importance for the UK as a supplier of critical inputs needed in advanced manufacturing sectors and to reach net zero. Strategic engagement with China remains challenging given the complex security relationships, but economic decoupling is neither feasible nor desirable. Indeed, if the UK's industrial sectors that are struggling to make the green transition are to survive – particularly the auto industry – attracting investment from Chinese firms will be essential.

FIGURE 3

The EU, US and China account for the vast majority of UK trade and investment

Note: Data are from 2023



Sources: Department for Business & Trade: Trade and investment core statistics book, ONS Foreign Direct Investment involving UK companies

In short, the UK cannot afford to disconnect from any of the world's major powers. Each presents risks, but each is also essential to the UK's prosperity, security and global influence. Navigating these relationships requires a more deliberate and differentiated strategy – one that recognises the UK's unique exposure, avoids alignment traps and positions the UK to succeed in a multipolar trading system. Many other countries will face similar trade-offs. For the UK, this chapter sets out a pragmatic approach to engaging with each superpower.

The United States: A Hedging Strategy for a More Transactional Ally

The US's inward turn and growing willingness to use trade policy as a geostrategic tool presents a major strategic challenge for the UK. While the bilateral relationship is mutually important, the scale of the US economy – more than eight times the size of the UK's – means that any bilateral tensions are likely to hurt the UK more than the US.

The US also holds significant sources of strategic leverage. The UK's industrial and technological ambitions depend on continued access to frontier US systems. And perhaps most fundamentally, the UK's defence and intelligence networks rely heavily on integration with US capabilities.

RECOMMENDATIONS

These dependencies cannot be eliminated overnight. As a result, the UK's response to the US's trade pivot must be calibrated carefully. The priority must be to avoid the escalation of a trade skirmish into a more systemic financial, technological, or security crisis. We recommend a three-pronged approach.

1. Damage limitation through flattery, restraint and limited concessions
The UK should remain a low-friction partner in US trade diplomacy, offering symbolically important gestures that align with UK interests and political priorities in Washington – diplomacy by restraint. The offer of a second state visit and increased defence spending already reflect this strategy.

This approach should extend to future US tariff actions. Unlike larger powers such as the EU or China, or co-dependent partners like Canada, the UK has less strategic leverage for unilateral retaliation. If the UK were to impose retaliatory tariffs it would risk doing more harm than good – raising inflation, disrupting supply chains and escalating tensions. Instead, the UK should present itself as a principled but pragmatic advocate for open trade, seeking to negotiate away sector-specific tariffs through limited concessions, and reserving retaliation for more serious provocations.

The UK–US trade framework, announced on 8 May, exemplifies this damage-limitation approach. Focused narrowly on securing reductions in sector-specific US tariffs on key UK exports – such as autos, steel and aerospace engines – in exchange for limited UK concessions on agricultural access and ethanol, the deal should help soften the blow of the tariff shock once it is finalised. As the terms are still being worked out, the UK should ensure that any commitments on supply-chain security remain tightly defined and limited to preventing the UK from being used as a trans-shipment route to circumvent US tariffs. Anything broader could constrain the UK's ability to deepen trade ties with other partners – particularly China.

2. Pursue a broader, service-focused trade deal as insurance

A bilateral trade deal with the US has long been a central ambition of post-Brexit trade policy. A comprehensive agreement remains in the UK's interest, with government analysis from 2019 estimating a full FTA could boost GDP by 0.05 to 0.36 per cent.[12] But in today's context, the more realistic objective is a targeted deal focused on services, technology, digital trade and regulatory cooperation.

Both economies stand to benefit. The UK runs a substantial services surplus with the US, and the US has a strong interest in lowering frictions for its globally competitive services sector. A focused agreement could also institutionalise cooperation in areas such as AI governance, data flows and digital infrastructure. The 2019 digital agreement between the US and Japan offers a useful precedent.[13]

Framing the 8 May trade framework as an early harvest en route to a broader phased deal is also critical for WTO compliance. Under the WTO's most-favoured nation rules, trade-liberalisation measures must cover a substantial share of trade to qualify as a legitimate bilateral agreement. Only by embedding this initial deal within a broader UK-US trade deal can the UK credibly defend its commitment to global trade norms.

Throughout future negotiations, the UK should also make clear that any concessions, such as a pause on the digital services tax, must be explicitly conditional. They should be linked to meaningful progress on liberalisation and structured to exempt the UK from future tariff escalation – a trade deal as insurance. The UK should negotiate in good faith, but not at the expense of its free-trade principles. Demands that would violate UK regulatory sovereignty or undermine non-discriminatory systems, for instance a blanket exemption from VAT, should be rejected outright.

3. Build strategic-deterrence alliances for pushback
Finally, the UK must invest in the capacity to respond if economic coercion escalates. That means working behind the scenes with trusted partners – particularly the EU, Canada and Japan – to develop a shared playbook of strategic responses. These "deterrence coalitions" would be designed to maximise collective leverage, including the capacity to target politically sensitive US exports and to prompt a market-led correction by undermining confidence in US economic management.

This strategy is not about retaliation for its own sake, but rather preventing escalation through credible deterrence. In the worst-case scenario where the US seeks to condition security guarantees or market access on political compliance, having a coordinated response in place will be essential to preserving the UK's sovereignty and economic resilience.

The European Union: Rebuilding Influence Through Strategic Partnership

A reinvigorated partnership with the European Union should sit at the heart of the UK's international strategy. The economic case for re-engagement has always been strong: the Office for Budget Responsibility estimates a 4 per cent hit to UK GDP from the downgraded relationship, while European neighbours have also suffered material, if smaller, losses. And the geopolitical case for unity has become stronger. The US's inward turn throws down a challenge for Europe: if the continent wants a seat at the superpower table in 2050, it will need to stand more confidently on its own and champion its interests in a rules-based international order. That cannot happen without a closer strategic partnership between the UK and the EU, anchored in a shared need to build European strength.

RECOMMENDATIONS

If European strength and competitiveness are the ultimate goal, any short-term reset in the UK-EU relationship should be judged by its ability to lay the groundwork for that ambition. The 19 May UK-EU summit made welcome strides in that direction by working to improve on the TCA, filling critical gaps in the security and defence relationship, and agreeing an agenda for further cooperation. Both sides will now need to move quickly to implement the outcomes already agreed in principle – such as establishing a Common Sanitary and Phytosanitary (SPS) Area and linking emissions-trading schemes.

But to lay the foundations for a more durable strategic partnership, the UK and EU will need to go further. First, by reaching agreement on areas still under negotiation – including limited mobility pathways to support services trade, closer integration of energy markets and the participation of UK industry in European defence programmes. Second, by advancing cooperation in other strategically important areas, particularly technology and the defence of open trade. These priorities should form the basis of the next phase in strengthening the UK-EU partnership.

1. Expand mobility to lay the groundwork for freer services trade

While the TCA provided tariff-free, quota-free trade between the UK and EU, it introduced a range of barriers relative to the pre-Brexit trading relationship. Some of these are now being addressed: the SPS agreement announced at the 19 May summit is a positive step that will boost UK agricultural exports and help smooth trade between Northern Ireland and the rest of the UK. However, the economic gains from this deal should be kept in perspective – according to analysis from the Centre for European Reform, it will only deliver a modest 0.1 per cent boost to UK GDP. [14]

The bigger economic prize lies in improving services trade by expanding mobility – an area where the existing TCA is particularly threadbare. Controversy over freedom of movement during the referendum lowered ambitions in the original negotiations, while the EU's desire to reduce its services trade deficit with the UK led to a defensive stance. The result has been self-defeating: restricted mobility has damaged both sides economically, limiting the ability of businesses and individuals to collaborate across borders. In the UK, labour shortages in sectors such as hospitality and construction have persisted for years and remained unresolved.[15]

The UK and EU are therefore right to pursue a more ambitious agreement, ideally in the form of a new TCA mobility chapter focused on professionals and young people. Such a chapter would not reinstate "free movement" (the permanent right to live and work in the UK), but would instead establish clear, time-limited conditions for cross-border mobility – an improvement on the TCA's current "Mode 4" provisions, which are limited.[16] This is an area where pragmatic compromise is possible.

Youth Mobility

Negotiations around a youth-mobility scheme are already well underway. This is a positive step: it would expand opportunities for young people on both sides of the Channel and help ease labour shortages in the UK. A well-designed scheme could boost UK GDP by up to 0.45 percentage points[17] – a significant gain within the overall set of potential TCA improvements. But details matter. To maximise the economic benefit, the scheme should not be overly restrictive in either duration or scale. The most effective approach would be to mirror the UK's existing agreements with Australia, Canada and New Zealand, which offer reciprocal two-year visas with the possibility of a one-year extension. A scheme limited to 12 months or less would be far less useful in addressing persistent labour shortages in anything other than temporary work.

At the same time, there is a strategic need for a pre-agreed braking mechanism to deal with cyclical or structural disruption of the labour market on either side. The scheme should be subject to generous quotas that enable access most of the time while still protecting against large surges in migration, as existing schemes referenced above do. The UK and EU should also agree protections in the event of domestic downturns, for example linking persistently high youth unemployment to either lower quotas for a period or more restrictive criteria, such as higher visa fees or minimum required savings.

Movement of Services Professionals

The TCA's provisions on short-term business travel and corporate transfers remain unusually restrictive – more limited than those the EU offers to Japan, Canada and South Korea, despite far deeper UK-EU ties. Country and sector exceptions add complexity: over 200 pages of the TCA are devoted to detailing which activities are permitted during short-term business visits.

New provisions could streamline access by creating new visa-free pathways for professionals, extending the allowable length of stay (as seen in other EU FTAs, which allow business visitors to stay beyond 12 months) and improving family rights for accompanying dependents, subject to conditions such as employer-sponsored health insurance. The trade impact from these changes would be small, but collectively they would streamline EU-UK services trade in ways that have clear precedent in other EU agreements.

2. Align on energy to reduce costs and strengthen resilience

The UK and EU share a common structural weakness: both suffer from high energy costs that are undermining industrial competitiveness, and both remain exposed to the risks of imported fossil fuels. These vulnerabilities – laid bare by the energy crisis following Russia's invasion of Ukraine – make energy security and decarbonisation critical shared priorities.

The more efficiently both sides transition to a low-cost, low-carbon energy system, the more resilient and competitive Europe will become. Given their geographic proximity and overlapping infrastructure, cooperation between the UK and EU on energy is not just desirable, it is essential.

The 19 May summit signalled a shift towards more pragmatic cooperation. The UK and EU committed to re-link their emissions-trading schemes – a step that will harmonise carbon prices, reduce market volatility and simplify cross-border compliance, including under future CBAMs. But more is needed. Under current arrangements, fragmentation in energy trade is raising costs. To fix that, we recommend two near-term actions to bolster UK-EU energy cooperation further:

Electricity Trade

Discussions are already underway on the UK rejoining the EU's internal energy market. This should proceed on a contractual basis to replace inefficient post-Brexit trading arrangements. Leaving the internal energy market cost UK consumers between £130 million and £370 million in 2022 and that figure is set to rise as electricity trade increases.[18] Recoupling would also support cross-border infrastructure investment. For example, rapid deployment of hybrid interconnectors could cut the cost of meeting 2050 offshore-wind targets by €13 billion for countries on the North Sea coast.[19]

Regional Energy Partnerships

The UK should also push for full membership of the North Seas Energy Cooperation when its current memorandum of understanding expires in 2026. This would enhance coordination of offshore wind and carbon-storage development with other North Sea countries and lay the foundation of a more joined-up spatial strategy in north-west Europe.

3. Re-engage on defence to shape Europe's strategic autonomy

The question of how to revive Europe's defence-industrial complex has become a central economic and strategic challenge in 2025. Caught between Russia's ongoing invasion of Ukraine and the increasing unreliability of American deterrence, both the EU and the UK face pressure to rapidly rearm and develop capabilities that are autonomous of the US.

The EU is accelerating its efforts to strengthen its industrial defence base. Recent proposals such as the €150 billion Security Action for Europe (SAFE) rearmament fund could reshape the continent's defence ecosystem. Without a proactive approach, the UK risks being marginalised in shaping these developments and excluded from key opportunities to protect its strategic and industrial interests.

The UK has already begun that process through the UK-EU Security and Defence Partnership agreed at the 19 May summit. That pact helps fill gaps left by the rushed Brexit settlement, which left the UK as an outlier among the EU's close partners in the paucity of mechanisms for collaboration. It provides a platform to restore UK participation in EU defence structures, including engagement in Permanent Structured Cooperation (PESCO) projects and administrative arrangements with the European Defence Agency.

But the pact is only a starting point – and outlines a relationship less substantive than the EU's ties with other close partners such as Norway. The UK should go further in supporting the EU's ambition to build stronger defence capabilities – while encouraging an approach to autonomy that looks beyond the EU itself to take a continent-wide view – to avoid the messy inefficiencies of excessive protectionism. To deliver this vision, the UK should focus on two key immediate areas:

Defence-Industrial Initiatives

The new Security and Defence Partnership takes some necessary initial steps towards closer UK-EU collaboration on defence-industrial policy. But both sides should now prioritise turning this progress into a meaningful UK role in EU-funded programmes such as the EU's new SAFE fund. This is a rapidly evolving space, with multiple programmes developing with different rules and eligibility criteria. UK participation will require flexibility on both sides. The EU must be willing to adjust its approach to acknowledge the interests of large third countries – for example, the EU's defence-industrial toolbox[20] comes with conditions around IP rights and export controls that are prohibitive to the UK. The UK, in turn, will need to align its defence priorities with EU objectives and contribute appropriate funding. The UK's cost-benefit analysis should weigh not only direct commercial opportunities but also the long-term strategic cost of exclusion from shared European initiatives.

Defence R&D Strategies

The UK should set out clear steps in its upcoming Strategic Defence Review to align its R&D priorities with emerging EU defence programmes. This would involve identifying areas of mutual interest such as cyber-security, advanced weapons systems and dual-use technologies, and creating formal mechanisms for joint planning and funding. Such alignment would ensure resources are used efficiently, critical capabilities are delivered more rapidly, and both sides can maintain a credible edge in a more contested strategic environment.

4. Strengthen cooperation on technology

The emergence of AI-era technologies is reshaping both economic competitiveness and trade. The countries that lead in developing and deploying advanced digital infrastructure, compute capacity, and energy-efficient models will gain a decisive edge – both in terms of productivity gains and their ability to compete abroad.

Yet technology remains a notable gap in the current UK-EU relationship and an area where the 19 May summit was light on detail. Closing that gap should now be a strategic priority: the UK and EU both have much to gain from more structured cooperation on emerging technologies. But the UK must tread carefully. The EU's AI Act represents a more prescriptive regulatory philosophy than the UK's flexible, principles-based model. Full alignment is neither feasible nor desirable – especially given the UK's lack of influence over EU policymaking. But the UK cannot operate in a silo. Ongoing divergence will limit market access for UK firms and regulatory friction will increase unless it is managed deliberately.

Deeper cooperation would also give Europe a better chance of competing with the US and China. The UK and EU face common structural challenges in commercialising innovation and scaling high-growth firms. Both remain heavily reliant on the US for foundational technologies. But they also have complementary strengths. The EU brings regulatory reach and infrastructure scale; the UK brings a world-class AI research ecosystem and commercial dynamism.

The UK and EU should therefore pursue structured cooperation, focused on three priority actions:

UK-EU Trade and Technology Council

The UK and EU need to establish a standing political forum to coordinate on technology policy, digital governance and economic security. This would allow structured consultation on upcoming regulatory changes, helping both sides anticipate and manage divergence rather than simply reacting to it. This was a notable gap in the development of the EU's AI Act, which evolved without significant UK input despite major cross-border implications. A joint technology and trade council, similar to the ones the EU has with the US and India, would send a clear signal of intent to collaborate where possible, even while managing differences.

AI Governance and Infrastructure

Building on more established mechanisms, the UK and EU should identify areas of AI development where cooperation delivers clear mutual benefits and reduces future barriers without requiring full regulatory alignment. These include harmonising technical standards to reduce compliance costs and ease market access, co-investing in energy-efficient algorithms and sustainable hardware, and supporting scale-up infrastructure that can benefit firms on both sides. As policy frameworks around AI remain in their infancy, closer dialogue will also help both sides learn what works and avoid premature divergence that could raise costs or undermine competitiveness. With AI set to reshape both the UK's and EU's economy, cooperation now can ensure that regulation supports innovation rather than stifling it.

Research and Innovation

Deeper scientific collaboration with the EU reinforces the gains from openness. The UK's re-entry into Horizon Europe is a good start. But this will require sustained access to EU research and innovation funding, even if it means increasing the UK's financial contribution – most of which is likely to return to UK institutions, given the strength of the UK's scientific base. It also means coordinating R&D priorities through formal joint-planning mechanisms, particularly in areas like green technology, AI and health innovation. And it will require improving mobility for researchers, both by reforming the UK's Global Talent visa and by negotiating more generous mobility arrangements with the EU.

5. Co-champion an open trading system

The UK and EU share a strong interest in defending an open, rules-based trading system – and in resisting global trade fragmentation. That shared outlook, which was reinforced in their joint statement on 19 May, is more important than ever as major players including the US adopt more transactional approaches to trade. The challenge now is to turn common values into concrete joint action. Two areas stand out as immediate priorities: strengthening ties between the EU and CPTPP block and advancing reform of the WTO.

<u>EU-CPTPP Trade Relations</u>

Momentum is building for closer cooperation between the EU and CPTPP members, as both blocs seek to diversify away from overdependence on the US and China. CPTPP members, particularly Canada, have an interest in diversifying their trading relationships and building closer ties with the EU. As a full member of the CPTPP the UK is well placed to act as a bridge. A practical starting point could be to work with both sides to develop a common protocol for rules of origin, allowing value to be accumulated across both blocs. That would improve supply-chain resilience, support trade diversification and create a stronger platform for future liberalisation.

<u>WTO Reform</u>

The UK and EU should also coordinate more closely in multilateral forums to build a wider coalition in support of rules-based trade. The UK should start by joining the Multi-Party Interim Appeal Arbitration Arrangement (MPIA), created by the EU and other like-minded WTO members as a stopgap measure to replicate the functions of the paralysed Appellate Body. The MPIA already includes a helpful coalition of 55 countries, including eight out of 11 other CPTPP members and many of the world's largest traders – including China and Brazil. This is a natural pro-trade grouping through which to pursue next-generation rule-making on issues such as digital trade and climate-linked trade policy. The UK and EU should also use the MPIA as a vehicle to lobby other global players to join – including Korea, the UAE and remaining CPTPP members – building a critical mass in favour of reinvigorating the rules-based system.

China: Targeted Rapprochement Through Investment

The economic relationship between the UK and China has been on ice for much of this decade. Security concerns have dominated policymaking, resulting in a prolonged pause in engagement, leaving both sides missing out on potential areas of mutual economic benefit. In an increasingly multipolar world, and with the UK struggling for growth, that position seems out of date. With US trade policy growing more volatile and the EU economy remaining sluggish, China's large and fast-growing domestic market – and its leadership in key technologies, particularly in green manufacturing – make it too important to ignore.

Any renewed engagement must be strategic. The UK cannot afford to deepen commercial ties in ways that expose national-security vulnerabilities. It will also need to weigh the risk that closer ties with China could provoke economic retaliation from allies. Here, the jury is still out: the Trump administration could take a maximalist approach to decoupling from China and view closer UK-China trade ties as grounds for punitive tariffs in the UK, or it could focus more narrowly on direct US-China flows and managing trade diversion through third-country trade routes.

For the UK, a prudent response to this uncertainty is to focus on cultivating investment links rather than trade. Investment flows are less visible to US trade enforcement and offer more stable long-term commercial linkages. And, by shadowing existing US-China investment patterns – and avoiding sensitive sectors such as defence, telecoms and critical infrastructure – the UK can mitigate both security risks and the potential for political blowback.

RECOMMENDATIONS

We recommend a three-pronged strategy to deliver a targeted and durable rapprochement.

1. Attract Chinese investment into non-sensitive UK sectors

The UK should identify strategic opportunities for Chinese investment that support UK industrial policy without compromising national security. In particular, Chinese green-manufacturing capabilities, especially in electric vehicles, could play a vital role in safeguarding the future of the UK's mass automotive sector. But the UK's current investment-screening framework may act as a barrier. The National Security and Investment Act (NSIA), while prudent in scope, risks deterring legitimate investment by generating uncertainty. To address this, the Office for Investment should work closely with the national security apparatus to develop a pre-screening framework for foreign direct investment from China. Where a potential investor is deemed low-risk and in a priority economic sector, the UK should actively seek to attract that investment with the confidence that security concerns have been resolved. This would allow the UK to pursue more proactive commercial diplomacy while maintaining strategic safeguards.

2. Enable strategic outbound investment into China

UK firms currently receive little structured support to invest in China, despite growing recognition that outbound investment can build more resilient supply chains and secure access to key technologies and contracts. Rather than focusing solely on "red list" risks, the UK government should also identify "green list" opportunities – sectors where UK investment in China is both economically beneficial and strategically benign. To support this, the Office for Investment's mandate should be expanded to include outward direct investment (ODI) with dedicated teams working alongside UK embassies to support UK firms entering strategic partner markets. A more deliberate ODI strategy would not only help firms diversify risk, but also reinforce commercial relationships that the UK has an interest in strengthening.

3. Coordinate government messaging and sharpen diplomatic posture

The UK must speak with a more consistent and coherent voice on China. Recent political and media commentary about firms such as Jingye, the Chinese owner of British Steel, risk conflating legitimate commercial activity with state-directed interference. This is not about being naive to the reach of the Chinese state but about being shrewd in distinguishing between

Chinese firms acting independently and those subject to state direction. Accusations of impropriety should not be made lightly. Respectful, calibrated diplomacy will be critical to sustaining any new commercial opening – and to preserving space for potential future cooperation, including on global green technology standards or WTO reform.

03 Trade Policy: Re-Orienting Towards High-Impact Liberalisation

The UK's post-Brexit approach to trade liberalisation was built around two familiar tools: FTAs and multilateral engagement through the WTO. That twin-track approach was sensible in context. The immediate priority after leaving the EU was to replicate existing FTAs with third countries, ensuring continuity for UK firms. The agreements with Australia and New Zealand, while small economically, made sense in the context of securing membership of the CPTPP – supporting the UK's broader Asia-Pacific pivot. And the UK's FTA with India, which was agreed in principle on 6 May 2025, is another welcome step on this path, securing UK access to a growing economic giant.

But beyond those initial steps, the UK's liberalisation strategy has become less strategically coherent. The Department for Business & Trade (DBT) continues to allocate the vast majority of its trade-policy resources to negotiating FTAs – either focused on new markets like the Gulf Cooperation Council (GCC), or deepening existing agreements – with live negotiations underway with Switzerland, Korea, Canada, Mexico and Israel. While some of these talks remain worthwhile, the heavy emphasis on FTAs is not well matched to the UK's economic strengths or the shifting global trading context. FTAs take years to negotiate, often centre on goods sectors of lesser significance to the UK's services-led economy, and can quickly become politically outdated.

The other strand of the UK's twin-track strategy, multilateralism, has remained largely static. The UK has positioned itself as a principled defender of the WTO, but it has played a cautious hand. It has avoided joining the alternative appellate mechanism created by other WTO members and focused instead on incremental technical progress through committees and working groups. This steady work remains valuable, particularly on trade facilitation and digital governance. But it reflects a strategy designed for a less contested world. In today's climate, the UK needs to do more than defend the system – it needs to adapt.

RECOMMENDATIONS

To remain effective, the UK's strategy must evolve towards a faster, more targeted and more strategic approach to liberalisation.

1. Focus trade-negotiation resource on sectoral deals and market-access agreements

The UK should shift more of its trade-negotiating effort away from comprehensive FTAs and towards faster, more targeted deals – focused on sector-specific agreements and the removal of individual market-access barriers. This approach is already delivering higher returns, is better aligned with the UK's economic strengths, and is more resilient to the political volatility and fragmentation of the current global environment.

There are three core reasons why market-access agreements and sectoral deals should now take centre stage in the UK's liberalisation strategy.

First, they offer a higher return on trade-policy investment – unlocking more export value faster and with fewer resources. Between April 2020 and March 2024, DBT resolved 640 market-access barriers across more than 75 trading partners.[21] DBT produces estimates of the value of some of these deals and on average each deal boosts UK exports by around £21 million per year – equivalent to £13.4 billion when summed up across all 640 deals.[22] By contrast, the UK's FTAs with Australia, New Zealand and CPTPP – which were negotiated over the same period – are projected to raise gross exports by £9.5 billion in the long run. Market-access deals are also negotiated with a fraction of the negotiation effort required for full FTAs. The vast majority of trade policy staff – more than 500 within DBT and a further 300 across government – remain focused on FTAs. This approach is also consistent with businesses concerns, which highlight customs processes and regulations as bigger barriers to trade than tariffs.[23]

Second, they are faster to negotiate. FTAs are inherently slow and vulnerable to political disruption. Since Brexit, the UK has implemented just three new FTAs beyond continuity agreements. Even the welcome recent announcement of a UK FTA with India took three years to agree in principle and still faces a lengthy process before it is ratified and comes into force.

Elsewhere, large and complex agreements such as the EU-Mercosur deal have taken a quarter of a century to reach conclusion. By contrast, sector-specific and market-access agreements are quicker and more agile. DBT has resolved an average of 150 barriers per year since 2020.[24] The UK-Singapore Digital Economy Agreement was completed in under a year. The UK-Switzerland Berne Financial Services Agreement took just over two.[25] All were concluded within a single parliamentary cycle, minimising disruption risk and delivering results more quickly.

Third, they are more targeted and better aligned with UK strengths. Comprehensive FTAs require agreement across all sectors, and often become bogged down in politically sensitive issues such as agriculture that deliver limited economic gains for the UK. Sectoral and market-access agreements, by contrast, focus on the barriers that matter most to exporters, such as licensing restrictions, regulatory delays and discriminatory treatment of UK firms. These barriers are typically identified directly by businesses, making the link between government action and commercial benefit much clearer. By contrast, FTAs are more likely to be underutilised: just 19 per cent of UK firms that export to non-EU countries use the preferential terms available under existing agreements, often due to complexity.[26] A more targeted market-access approach also allows the government to prioritise liberalisation efforts where they will have the greatest impact, focusing on areas of shifting global demand, comparative advantage or strategic importance – including prioritising market-access barriers related to sectors prioritised in the UK's industrial strategy, which account for more than a quarter of reported market-access barriers.

To embed this shift in practice, we recommend actions in two strategic areas.

Negotiating Capacity

The UK should be more selective in pursuing additional full-scale FTA negotiations. Finalising the terms of the UK's FTA with India is a clear priority, given an agreement in principle has already been reached and given India's strong growth trajectory. For the GCC, the government should take stock and consider whether FTA negotiations with the bloc remain the most efficient path or whether bilateral agreements with more dynamic members such as the UAE might deliver swifter results. That would mirror the approach now being pursued by the EU. Elsewhere, ongoing FTA upgrade negotiations should be re-scoped to focus on sectoral outcomes. The Berne Financial Services Agreement provides a model: a stand-alone mutual recognition deal in financial services that avoided the baggage of a full FTA. This blueprint could be applied to compatible partners such as Japan. Remaining freed-up resource could then be redirected into bilateral market-access campaigns, aiming to increase both the number and value of barriers resolved each year.

Data and Tools

The number of barriers reported by firms has fallen from around 500 per year in 2020–21 to around 300 per year more recently.[27] That decline is difficult to reconcile with the global rise in protectionist measures. The UK should make greater use of tools like the Global Supply Chains Intelligence Programme's (GSCIP) granular data to compare UK export performance across markets and with competitor countries to identify underperforming trade corridors. Where UK firms are falling behind in a particular market or supply chain, this should prompt investigation into whether regulatory or market-access barriers are to blame. In parallel, the government should make it easier for firms to systematically flag barriers through digital-trade support channels. As discussed in Chapter 4, an AI-powered trade advisor could help automate this process and ensure negotiations are driven by real-time evidence of where friction is holding trade back.

2. Make digital trade a strategic priority

Within the UK's broader strategic pivot away from comprehensive FTAs and towards more targeted liberalisation, one area stands out as deserving its own dedicated strategy: digital trade. This is both an area of comparative advantage and a growing strategic battleground in global commerce.

Digitally delivered services are a rare bright spot in the UK's trade performance. In 2023, they accounted for 77 per cent of UK services exports,[28] helping to cement the UK's position as the world's second-largest exporter of services. Since 2019, UK services exports have grown by 7.5 per cent per year, while goods exports have grown by just 0.3 per cent.[29] Digital trade is already the engine of UK export growth – and with the continued rise of digital technologies, it has significant potential to grow further.

But the UK's recent success in tapping this favourable trend is not guaranteed to continue. Digital protectionism is on the rise. The Organisation for Economic Co-operation and Development's (OECD's) Digital Services Trade Restrictiveness Index has increased by 20 per cent since 2014,[30] with rising barriers to data flows, localisation mandates and divergent privacy regimes driving up compliance costs and undercutting the openness of the global digital economy. Without a stronger strategic response, the UK risks losing access to key markets and falling behind in the development of modern trade systems.

Digital trade agreements are among the most effective tools available to counter these risks and unlock new growth. A 2023 APEC study found that well-implemented digital provisions can boost digitally delivered trade flows by 11 to 44 per cent, particularly where e-invoicing and cross-border data commitments are included.[31] OECD research shows that digital provisions in regional trade agreements more than double the total trade benefits of a deal,[32] while another study found that each additional digital clause can raise digitally deliverable trade by 2.3 per cent beyond baseline growth rates.[33] Digital agreements also reduce business costs by standardising compliance requirements and enabling firms – especially SMEs – to participate more easily in global value chains. Stronger digital provisions are especially effective in enhancing forward global value-chain integration, allowing UK exporters to embed digital services and inputs into broader global production systems.

These same provisions are also essential to a second strategic priority: enabling the next generation of digital trade infrastructure. As Chapter 4 sets out, the UK needs to significantly upgrade its trade systems for the digital age. But to unlock the full economic gains from doing so, it will often need digital trade agreements in place to provide the legal foundation for cross-border data flows and more efficient customs processing. A more coherent digital trade strategy is therefore essential – not just to boost digital exports, but to underpin the infrastructure that will streamline trade bureaucracy and support UK trade growth more broadly.

The UK has already made progress on digital trade, notably through its Digital Economy Agreement with Singapore, but the current approach remains piecemeal. What's now needed is a more integrated and forward-facing digital trade strategy, spanning bilateral, plurilateral and multilateral efforts.

Bilateral

The UK should pivot ongoing FTA upgrade talks to focus on digital-first agreements. This includes lobbying Switzerland, South Korea and Canada to pivot their existing FTA renegotiations to focus on a digital trade agreement instead. These countries are all priority markets for digitally delivered services, and each has shown a willingness to engage in advanced digital trade negotiations. The UK-Singapore Digital Economy Agreement demonstrated that a high-quality digital agreement can be delivered quickly – it was completed in under a year and is now considered among the most comprehensive globally. Focusing on Canada and Korea in particular would lay the groundwork to upgrade the digital provision of the CPTPP, as discussed below.

Plurilateral

The UK should seek early accession to DEPA as a route to upgrading digital rules across the CPTPP. DEPA is a next-generation trade agreement designed specifically for the digital economy. It was launched in 2020 by Singapore, New Zealand and Chile, and has since been joined by South Korea. Canada and China have also applied to accede. What sets DEPA apart is its modular structure, which allows members to opt in to specific provisions aligned with their domestic regulatory regimes, making it both flexible and scalable.

Joining DEPA would give the UK a seat at the frontier of digital-trade governance and a platform for shaping global rules on issues such as data transfers, algorithmic transparency and digital-trade facilitation. But the strategic opportunity goes further. DEPA can also serve as a staging point for upgrading the digital provisions of the CPTPP. Three DEPA members – Singapore, New Zealand and Chile – are already in CPTPP. Canada is in CPTPP and has applied to DEPA. South Korea has joined DEPA and applied to CPTPP. And the UK has high-quality digital chapters in its agreements with Japan and Australia, both CPTPP members. If the UK were to convince Japan and Australia to also join DEPA, then eight of the 13 CPTPP members (assuming Korea's accession) would be DEPA members, creating a critical mass for raising the level of digital ambition across the CPTPP bloc.

By pursuing this strategy, the UK can act as a bridge, encouraging convergence around open, rules-based digital trade while strengthening its influence across both agreements. This would also position the UK at the heart of an emerging digital-trade coalition, with the leverage to shape future global norms.

Multilateral

While the prospects for substantial progress on digital trade at the WTO remain limited, at least for the remainder of the current US presidential term, the UK should help lay the technical groundwork needed to support future progress when political conditions allow.

The near-term priority should be to help secure a permanent moratorium on customs duties for electronic transmissions under the WTO's Joint Statement Initiative on e-commerce, which currently has to be renewed every two years. This moratorium has been repeatedly extended since it was first introduced in 1998 and is widely seen as a foundational pillar of the open digital economy. Its renewal remains contentious, but its lapse would risk the proliferation of digital tariffs, undermining both trade openness and certainty for businesses.

Beyond this, the UK should work with like-minded partners – particularly those in DEPA and CPTPP – to use the WTO as a platform for advancing technical standards for digital-trade infrastructure among broader coalitions of the willing. This includes areas such as regulatory interoperability, data-sharing frameworks, and systems integration for customs and certification. These are not zero-sum issues. Improvements in digital-trade infrastructure benefit all parties, making them one of the few areas where multilateral cooperation remains politically feasible. By helping to build consensus around these issues, the UK can position itself as a thought leader in digital trade – not just in liberalisation, but in the infrastructure and standards that will underpin the next era of global commerce.

04 Rewiring Trade: Igniting Tech-Enabled Trade Facilitation as a New Engine of Growth

A modern trade strategy cannot succeed without modern trade infrastructure. The UK has 39 trade agreements in place with 73 partners, yet many remain underutilised. Just 11 per cent of UK SMEs export, and even among those that do, firms face high costs and delays from complex compliance requirements and border processes that undermine confidence and limit take-up. According to a 2022 survey of 300 UK exporters, firms lose 6 to 8 per cent of their annual revenues due to border disruption alone.[34]

With new FTAs becoming harder and slower to negotiate, the UK must do more to unlock the value of the agreements it already has. Technology is a key enabler. Just as containerisation and air freight transformed global trade in previous decades, today's digital tools can lower compliance costs, reduce friction, and expand access if properly deployed. Done right, tech-enabled trade facilitation will not just reduce bureaucracy, it can be a new engine of trade growth.

This chapter sets out a practical framework for delivering that transformation. It proposes five strategic interventions:

- An AI-powered trade advisor tool to provide firms with real-time, tailored export and import guidance, and automate some of the paperwork that deters trade
- A Single Trade Window (STW) to simplify documentation, reduce duplication and act as a single point of digital entry for all UK trade processes
- A DLT-based trade information exchange such as the Trade Worldwide Information Network (TWIN) to enable real-time, permissioned data-sharing across borders and within government, streamlining verification and lowering clearance times

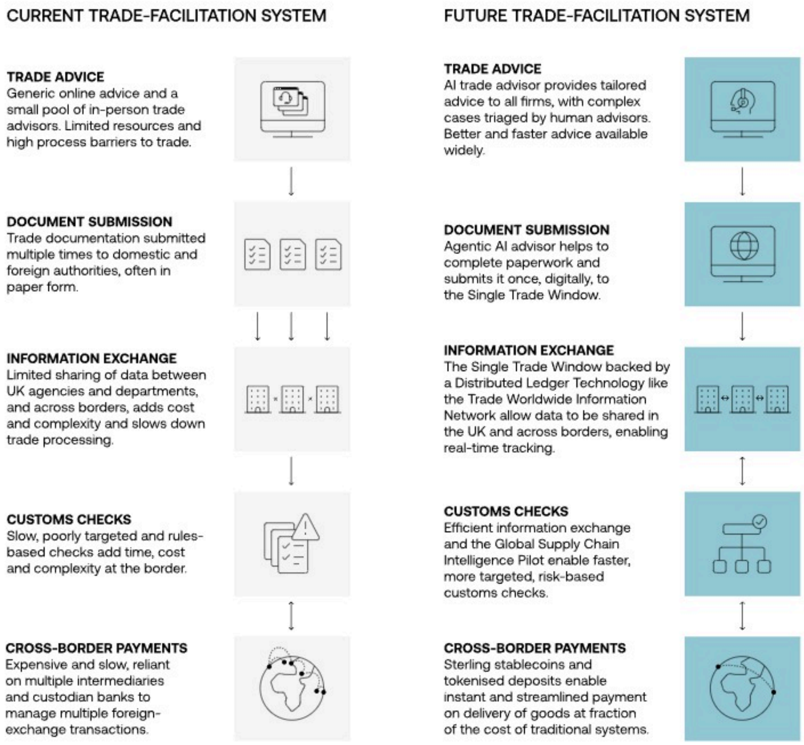
- A supply-chain intelligence system that uses big data and advanced analytics to track inputs into supply chains, streamline compliance with increasingly complex global trading rules, and strengthen the targeting of customs enforcement inspections
- A DLT-based cross-border payment system – such as a UK-regulated stablecoin or system of tokenised deposits – to enable faster, lower-cost programmable international trade payments

Given the UK's past challenges with digital delivery, this modernisation programme should be underpinned by a dedicated trade-infrastructure modernisation taskforce – operating across government, with responsibility for coordinating, delivering and monitoring the reform of the UK's trade systems.

The impact would be transformative. Imagine a world in five to ten years' time with all five components operating as an integrated system: A small-business owner in the UK logs in to their AI trade advisor, which walks them through the steps needed to export to a new market. The firm uploads documentation to the STW, which captures the data instantly. Data are then shared seamlessly to other government agencies, via a DLT-based information exchange like TWIN, helping to speed up domestic compliance checks. TWIN and similar platforms also enable cross-border data exchange and verify information against real-time supply-chain data, helping the authorities ensure it is accurate, compliant and secure. If a risk is detected upstream – say, a flagged supplier in the product's second-tier supply chain – officials are alerted immediately. They act quickly, guided by real data, not red flags after the fact. Meanwhile, cross-border commercial payments are settled automatically – not in three days through a correspondent bank, but instantly, via a regulated sterling stablecoin or tokenised deposit embedded in the platform, with minimal fees. This is a faster, simpler and more agile trade system that would make it easier for UK firms to compete and grow.

FIGURE 4

Transforming trade facilitation with technology



Delivering the AI Trade Advisor

The UK's trade-support ecosystem offers a range of valuable services, but it is fragmented, difficult to navigate and falls short of the needs of the digital age. Firms can access advice through great.gov.uk, the Export Academy and a network of human trade advisors overseen by DBT. Embassies provide in-country support while UK Export Finance (UKEF) and other trade-focused agencies like HM Revenue & Customs (HMRC) offer targeted support on finance and compliance. But these services are spread across multiple areas, managed by different departments and are rarely integrated into a seamless user experience. Bespoke, company-specific advice is limited to a relatively small pool of trade advisors, making it hard to scale tailored support to the businesses that need it most. The result is a system that is static, decentralised and poorly matched to the demands of a fast-moving, digitally driven trading environment.

The consequences are clear. Just 18 per cent of UK firms report a high level of knowledge about how to export.[35] Over half are unaware of major trade developments such as the UK's accession to CPTPP, and one in three firms with export-ready products cannot assess the cost of exporting.[36] This is not just a missed opportunity – it reflects a broader capability gap that undermines the UK's competitiveness.

Fixing this does not require duplicating existing resources or hiring hundreds of new advisors. It requires a smarter, more scalable solution: an AI trade advisor that provides firms with real-time, tailored guidance, automates routine paperwork and acts as a single, integrated front door to government support.

Other jurisdictions have already demonstrated this is feasible. In Finland, customs authorities have deployed AI to manage duties and documentation, with early pilots resolving over 90 per cent of enquiries without human intervention. The UK has an opportunity to go further by developing an agentic AI platform that not only advises but acts.

But this system will only be effective if it is delivered through a structured, iterative programme: one that begins with informational support and evolves over time towards proactive, automated execution. The goal is not just to answer questions, but to reduce friction, surface trade barriers and help firms unlock the value of existing agreements in practice.

RECOMMENDATIONS

To make an AI trade advisor operational, the government should:

1. Assemble and structure the information it needs to work
Begin by collecting and standardising the full range of trade-support content currently dispersed across government: regulatory guidance, export-documentation requirements, embassy insights and trade-advisor FAQs. This content should be cleaned, made machine-readable, and regularly updated to ensure the system delivers reliable and relevant responses.

2. Launch a focused first version that delivers immediate value
Develop a minimum viable product that helps firms search for accurate trade advice and receive tailored guidance through a conversational interface. Where confidence is low or answers are ambiguous, the system should direct users to human advisors or relevant government services.

3. Build a two-way feedback loop with policy teams
Enable businesses to flag market-access barriers and trade frictions directly through the platform. These reports should be logged, cross-referenced, and automatically pushed into DBT's internal systems so frontline experience shapes live policy and firms are notified when progress is made.

4. Expand its capabilities to automate routine trade processes
As the system matures, move beyond advice to execution. The agentic AI advisor should be able to pre-fill customs declarations, validate documents for errors and schedule uploads, reducing manual input and avoiding duplicative work.

5. Deliver through phased pilots and transparent governance
Test the tool with SMEs in priority sectors. Co-develop prompts and safeguards with human trade advisors. Retrain regularly based on user feedback and regulatory changes and publish clear metrics on usage, accuracy and escalation rates to build trust and accountability.

6. Create a cross-government delivery team to oversee the rollout
Responsibility for the system should not sit with a single department or vendor. A dedicated delivery team combining policy, technology and user-design skills should lead the rollout, reporting to a new UK trade-

infrastructure modernisation taskforce with the authority to integrate learnings from existing initiatives like the Global Supply Chain Intelligence Platform and Ecosystem of Trust pilots.

Delivering the Single Trade Window

The UK has implemented some important reforms to its trade documentation system in recent years, including the Customs Declaration Service, the Electronic Trade Documents Act and Import of Products, Animals, Food and Feed System. Yet, parts of the system remain difficult for firms to navigate – characterised by fragmentation, duplication, inefficiency and a continued reliance on paper-based processes. For businesses, this translates into avoidable delays, manual documentation requirements and elevated compliance costs. For government, it results in limited visibility, overlapping enforcement activities and missed opportunities to implement more targeted approaches to risk management.

The case for reform is clear. Nearly half of UK exporters now cite customs procedures and documentation as the single biggest barrier to trade, up from just one-third two years ago. Firms, especially smaller ones, often outsource documentation to brokers because the system is too complex to handle in-house, but this comes at a cost – import declarations alone impose an annual burden of £1.3 billion to £4 billion on UK firms.[37] And that's before factoring in the cost of re-entering the same data across disconnected portals. Fragmentation is not just inefficient, it's a hidden tax on trade and it leaves the UK trailing international peers on trade facilitation.

A well-designed STW would allow firms to submit all trade-related documentation through one secure digital portal: one front door for government, one process for business. This should cut broker costs and potentially even allow businesses to handle some bureaucratic processes in-house, enabling more businesses, particularly SMEs, to trade. It would also provide the foundation for deeper modernisation: once submissions are digital and standardised, government can layer on automation, pre-clearance tools, and real-time reporting.

The UK has already committed to delivering an STW, but the programme was paused in 2024 after costs ballooned to £330 million and timelines slipped.[38] The problem wasn't the vision, it was the execution. As the National Audit Office made clear in its 2024 report, the UK's border digitalisation efforts suffered from unclear accountability, fragmented delivery and unrealistic scope.[39]

But the business case for an STW remains strong. The government's own estimates suggest it could deliver £2.8 billion in benefits over ten years, including £2.48 billion in savings for firms and £250 million in efficiency gains for government.[40] And that may understate the wider gains, because the STW is also the gateway to broader digitisation across trade, from AI-supported compliance to programmable payments.

International experience shows STWs are transformative. For example, New Zealand's STW halved shippers' reporting time, cut government compliance costs by 20 to 50 per cent, and reduced time spent on export refunds by 50 per cent.[41] In Singapore, 90 per cent of trade permits are now processed in ten minutes, down from two to seven days.[42] Even smaller emerging economies like Rwanda[43] and Guatemala[44] have delivered national STWs and done so at remarkably low cost (for under $5 million).

RECOMMENDATIONS

The UK cannot afford to fall further behind its international peers in digitising its trade-documentation procedures. The government should therefore restart the STW programme but learn from the mistakes of the past and consider the idiosyncrasies of the UK's complex legacy processes. With a resolute focus on delivery, it should:

1. Appoint a single delivery authority to lead the rollout

Assign full accountability for the STW to a named programme director, housed within the UK trade infrastructure modernisation taskforce.

- Set up a dedicated programme office with secondees from HMRC, DBT, Department for Environment, Food & Rural Affairs (DEFRA) and Border Force, supported by external experts with international STW delivery experience.
- Give the programme director formal authority to make cross-departmental decisions, with a direct reporting line to Treasury and Cabinet Office.
- Move beyond a traditional steering-group model. This team should be operational, empowered and focused on execution.

2. Start small and scale fast

Phase delivery to avoid the overreach and complexity that derailed the previous rollout.

- Commit to a minimum viable STW by 2027, covering the UK's top ten trade documents and linking three to five core agencies.
- Launch a "light track" STW pathway for brokers to drive early adoption and demonstrate benefits.
- Sequence features pragmatically – starting with the highest-impact functionality and expanding from a stable base.

3. Mandate digital documentation across trade processes

Although the Electronic Trade Documents Act 2023 created legal recognition for most digital records, many key documents remain paper-based in practice.

- Extend legal recognition to ensure all major trade documents are covered, including SPS certificates.
- Make digital submission the default for all trade-related interactions with government.
- Support businesses through this transition with targeted grants or tax relief for adopting structured e-documentation formats.

4. Build architecture that integrates with legacy systems

Departments can't rip out and replace their IT and processes overnight, but they don't need to. The STW can succeed by sitting on top of legacy systems, provided it has the legal authority and technological capability to share data across departments as well as the capability to convert digital submissions into formats compatible with older tech.

- Pursue legislative change to enable trade-documentation data to be shared across departments.
- Build the STW on a modular, API-first architecture with a shared data translation layer that sits on top of legacy systems and a dedicated integration team responsible for linking departmental platforms.
- Integrate distributed-ledger technology (see below) to share data with permissioned legacy systems.
- Launch a technical interface testing programme, bringing in logistics tech providers and customs brokers to co-develop real-world integration tools.

5. Rationalise and standardise trade data across government

Without common standards for trade documentation, automation is more difficult and parallel processes are more likely to persist.

- Rationalise trade data across departments after reassessing what data is needed and work towards a single data architecture.
- Mandate the use of United Nations Centre for Trade Facilitation and Electronic Business vocabulary for all trade-documentation fields submitted through the STW.
- Publish a UK trade-data dictionary, developed with industry and updated annually.
- Require all future trade-related IT systems to meet these data standards as a condition of procurement.

6. Embed user feedback and performance monitoring into delivery

Usability, not just compliance, must guide the next phase of STW development.

- Establish a user advisory council drawn from SMEs, freight forwarders and logistics tech firms.
- Create a live user-testing environment for new STW features and use real-time feedback to shape rollout.
- Publish quarterly user feedback and performance metrics to build accountability and signal continuous improvement.

Delivering a DLT-Based Trade Information Exchange

For many UK businesses, the real friction in trade doesn't come from tariffs or trade rules: it comes from what happens at the border. Or more precisely, what doesn't happen fast enough.

More than half of UK importers report experiencing delays.[45] For 40 per cent of them, it means waiting three or more extra days for goods to clear. For one in five, it means shipments rejected entirely. The financial consequences are enormous: physical checks alone can push broker and port fees up by 234 per cent,[46] and every hour of delay adds £35 to £50 to a consignment.[47]

What these problems have in common is a lack of trust in the information flowing through the system. Officials don't have the data to make faster decisions and firms don't know what's expected of them, causing extra checks, delays and duplication.

DLT-based information exchanges create a new model for trust at the border. A prominent example of such technologies is the Trade Worldwide Information Network (TWIN). Built on DLT, TWIN allows all parties in a supply chain – public and private – to contribute information into a shared, tamper-proof system of record, where data is secure, time-stamped and permissioned.

Each consignment becomes its own digital twin: as it moves through the supply chain, scans, checks and certifications are logged in real-time – all verifiable, all immutable. Unlike centralised databases, DLTs are decentralised by design, so information remains under the control of its owner. This means that data are shared only with those who have been granted access, reducing the need for new domestic or cross-border legal agreements.

This isn't hypothetical. The Cabinet Office's Ecosystem of Trust (EoT) and Border Trade Demonstrator trials have already tested DLTs in live environments. In one pilot, border officials received comprehensive supply-chain data 20 hours earlier than they would have through traditional channels.[48] For participating businesses, admin costs halved and courier fees dropped by £30 to £100 per declaration.

When scaled, the impact could be transformative: government estimates suggest that TWIN and similar platforms could save £2.25 billion over ten years, prevent up to 13 per cent of rejections, and deliver further benefits of £3.65 billion if all supply-chain data required by the government were made available through such platforms.[49]

DLT-based information exchanges like TWIN have three main advantages over traditional trade border systems:

- **Easing data-sharing both within and across borders:** Stringent data-governance rules make it difficult to share trade-related information – both domestically and internationally. Within the UK, privacy regulations often prevent departments from sharing data with each other, which means legacy systems remain siloed and cannot be integrated. This is a major barrier to delivering an effective Single Trade Window. Cross-border data sharing is even more constrained: governments don't have access to primary supply-chain data, while access to official documents typically requires bilateral agreements, which are slow, resource-intensive, and politically complex to negotiate. DLT-based platforms offer a way around these barriers. By decoupling data access from data ownership, they allow stakeholders to share information without transferring control. Data are only visible to those who have been granted permission, and remain under the control of their original owner. This permissioned, decentralised design makes such platforms compatible with modern data-governance regimes, enabling secure, real-time data sharing both within government and across borders.

- **Real-time data to enable more targeted enforcement:** This is not just about more data, it's about getting the right data, faster. By providing earlier access to high-quality information, it allows border authorities to accelerate and improve enforcement checks. This is especially critical for time-sensitive goods, such as perishables, which can lose value if delayed. TWIN and similar technologies can also integrate with supply-chain data and advanced monitoring tools to give officials a full picture of a consignment's journey – not just what's declared at the border, but what happened upstream: supplier documentation, manufacturing attestations, storage conditions, transit logs. This enables earlier, more accurate compliance decisions and lays the foundation for a fundamentally different model of enforcement that is faster, smarter and more targeted.
- **Laying the foundation for cross-border automation of customs compliance checks:** The most transformative potential of such technologies lies in what it enables beyond the UK border: automated, transnational compliance checks. If the network scales to include other governments and major supply-chain actors, customs authorities could access all necessary information in real-time, allowing them to verify compliance instantly, without manual intervention. Simulations suggest the impact could be substantial: combining blockchain-based systems with fully digital transactions could increase UK exports by 1 per cent, lower prices by 0.9 per cent, and raise GDP by 0.4 per cent – a meaningful productivity boost at a time of weak economic growth.[50]

RECOMMENDATIONS

To make good on this potential, the government should:

1. Recognise, access and use primary supply-chain data contained in DLT-based information exchanges

The UK government should integrate private-sector data from DLT-based information exchanges with public systems to facilitate real-time data-sharing between public authorities, traders and logistics actors.

- Build on the data hub developed by the Cabinet Office during the EoT trials to create a single ingestion point for supply-chain data from DLT-based information exchanges.
- Set data standards and requirements to permit verified and licensed data providers to share supply-chain data with the UK government. This would include existing platforms like TWIN but also allow other platforms to participate as long as they meet the government's standards – to incentivise innovation and competition.
- Link the ingestion point with the respective agencies and departments including HMRC, DEFRA, Border Force and DBT so that supply-chain actors can share data efficiently with all appropriate UK government agencies.
- Use an industry-led access model, where freight firms and carriers pay for use while the government accesses data at no marginal cost.
- Provide targeted training and simulation workshops for frontline staff and develop a "DLT for Officers" interface for day-to-day use. Collect feedback to identify data requirements.

2. Select TWIN as the DLT-based information exchange to underpin the government's STW and enable efficient data-sharing between government departments

DLT technology can help facilitate the flow of data between UK government departments without requiring major legislative change. For this to happen, a single DLT-based information exchange needs to be integrated with the STW. TWIN is the obvious DLT candidate to select given its success in early EoT trials and its proven ability to integrate with STWs. This would then mean the STW acts as a single portal for firms to upload data and TWIN provides the single system for UK government departments to be able to access the same data.

- Integrate TWIN into the STW backend as a decentralised data-sharing layer. This will allow the sharing of government data among permissioned departments and agencies.
- Use TWIN to connect the STW with legacy systems, enabling partial participation from departments not yet fully digitised.

- Implement permissioned access protocols so that agencies see only what they need, when they need it, without creating new silos.

3. Build a DLT-based information exchange network internationally to streamline cross-border compliance

The value of DLT-based information exchanges increases with the size of its network: the more supply-chain actors join, the more complete the information authorities will have at their disposal. Additionally, their value also increases with the quantity and quality of data shared: beyond supply-chain data, these technologies can enable cross-border sharing of government documents. But this requires that the data must be interoperable and mutually recognised. To help magnify the benefits of these technologies, the UK should:

- Use the UK's leadership in digital trade to pitch DLT-based information exchanges like TWIN to partners in the CPTPP and the African Union.
- Integrate the mutual recognition of key trade documents into digital-economy agreements and WTO e-commerce talks.
- Promote the adoption of globally interoperable data standards, paving the way for legal recognition of digital documentation and shared compliance models.
- Scale the trusted pipeline of cross-border data developed in the EoT trials and use supply-chain information to automate the creation of import administration documents as is already being trialled in the Netherlands and Kenya.[51]

4. Supercharge DLT-based information exchanges with smart monitoring technologies

TWIN and other DLT-backed platforms could become an even more powerful tool as a real-time risk engine if combined with real-world sensors such as location trackers, temperature monitors and tamper-detection seals in the future.

- Launch pilot projects using internet-of-things-enabled consignments in high-risk sectors such as perishables and medicines.

- Use GPS, temperature and tamper sensors to trigger pre-arrival notifications and proactive enforcement.
- Develop rules-based workflows where environmental or handling data triggers inspection or clearance automatically.

Delivering a Supply-Chain Intelligence System

Every day, UK border officials are expected to make high-stakes compliance calls – often with limited visibility into the complex supply chains behind a product. Without access to upstream data, it is harder to spot patterns, trace risks or focus enforcement where it matters most. And while TWIN excels at providing real-time data on individual consignments, it relies on full industry participation. Until that becomes the norm, authorities still need ways to detect emerging risks – even when not every actor in the supply chain is digitally connected.

Traditional methods aren't up to the task, but using big data on global supply chains can address this issue. In 2022, the UK government piloted a new approach: using the GSCIP. Instead of tracing each shipment manually, GSCIP used big-data analytics to detect patterns across global supply networks, identifying hidden risks faster, earlier and more affordably. The results were striking: risk assessments dropped from six months to under one, and costs fell from £188,000 to just £5,000 per review.

This model enables smarter, earlier interventions. When a UK firm sources goods from multiple suppliers across jurisdictions, intelligence platforms can now track that journey well in advance, allowing officials to act proactively, not reactively.

This unlocks several capabilities that could transform border enforcement:

- **Improved product classification through AI:** AI tools trained on global supply-chain data can recommend the most accurate commodity codes based not just on product descriptions, but on sourcing patterns and historical classifications. This improves compliance accuracy, reduces errors and speeds up clearance.

- **Digital product passports to enhance traceability:** Each component in a shipment can be linked to a time-stamped, verifiable record – a "digital passport" of origin certificates, supplier attestations and transit logs. This allows border officials to validate compliance without repeated manual checks.
- **Early detection of upstream risk:** If a supplier lacks certification or a sourcing pattern deviates from norms, the system can flag it before goods are shipped. This enables a preventative approach to enforcement and avoids delays.
- **Targeted, risk-based enforcement at the border:** With richer data, customs can assign pre-arrival risk scores. Low-risk shipments can be cleared rapidly, while anomalies are prioritised for inspection, improving resource allocation and reducing friction.
- **A dynamic evidence base for trade policy:** Supply-chain intelligence doesn't just support enforcement. It helps identify chokepoints, compliance gaps and sector-specific risks, providing a live feedback loop for trade policy and negotiation strategy.

RECOMMENDATIONS

To deliver on this potential the government should:

1. Integrate supply-chain data with the STW and TWIN

This intelligence must be embedded in the UK's core trade infrastructure.

- Integrate supply-chain maps into the STW backend to give officials visibility into consignment risk in context.
- Use product-specific maps to enrich TWIN data, combining "zoom-in" consignment data with "zoom-out" supply-chain insights.
- Use AI to triage inspections based on upstream risk, not just document quality.

2. Rethink border enforcement around real-time intelligence

Once the model is proven, strategy should shift from static rules to live insight.

- Move from rules-based inspection to risk-based workflows powered by real-time data.
- Begin designing primary legislation to enable digital risk scoring and automated pre-clearance for trusted consignments.

Delivering DLT-based cross-border payments

International payments, which underpin global trade, remain reliant on traditional banking systems, where a single cross-border transaction often passes through multiple intermediaries in different jurisdictions. This adds costs and introduces delays – both of which disincentivise trade.

These frictions are not trivial. Globally, cross-border payment fees average 1.5 to 2.5 per cent of the transaction value, with approximately one-quarter of payment corridors exceeding 3 per cent.[52] Delays are also costly: in the UK, cross-border B2B invoices take an average of 30 days to settle, compared to just 21 days for domestic payments, tying up working capital and creating cash-flow risks for exporters.[53] Any strategy to modernise trade infrastructure must therefore include a parallel effort to reform how cross-border payments are conducted.

In recent years the UK has made good progress on improving the efficiency of existing cross-border payment infrastructure. It has been at the forefront of implementing the Financial Stability Board's 2020 roadmap, including early adoption of ISO 20022 messaging standards and efforts to align regulatory frameworks across jurisdictions. But when it comes to enabling next-generation infrastructure – such as stablecoins, tokenised deposits or central bank digital currencies that use DLT – the UK is falling behind. Unlike jurisdictions such as the EU, US and Singapore, the UK has yet to provide a clear regulatory framework to support adoption. Without decisive action, the UK risks ceding leadership in the future of global payments.

Some of the groundwork has already been done. For example, HM Treasury has already consulted on stablecoin regulation, and the Bank of England is preparing a framework for systemic risks. But the timing of the 2024 election caused the legislative timetable to slip. What was once expected by 2024 is now bundled into a broader crypto asset package not due until mid-2026 or later.

These delays risk costing the UK. Without legal clarity on how stablecoins or tokenised deposits will be treated by regulators, domestic financial and technology firms are discouraged from carrying out the required private investment, and the UK could be locked out of a role in shaping the growing market for programmable payments. For example, total monthly transaction volumes of stablecoins have risen from under $15 billion in 2019 to over $650 billion today – still a small share of total payments, but growing fast.[54] Adoption is accelerating in specific sectors and geographies, particularly in emerging markets where stablecoins are already being used in remittances, agriculture and shipping.[55]

The UK's sluggish embrace of new payment technology is no longer simply a technical inefficiency – it is a missed strategic opportunity. In a world where existing payment infrastructure could be weaponised, the UK needs credible alternatives. A DLT-based cross-border payment system could provide a credible alternative to legacy international settlement systems and complement the UK's digital trade infrastructure in three ways:

- **Reduce cross-border settlement times and costs:** For example, the money-transfer company MoneyGram's use of the Stellar blockchain has achieved sub-five-second settlement with fees below 0.1 per cent.[56] In corridors where the UK trades with partners in Africa, Asia or Latin America, this could unlock significant liquidity benefits for exporters – particularly SMEs.
- **Act as a strategic lever in a changing global financial system:** As geopolitical tensions increase and traditional payment systems face rising regulatory divergence, the UK must ensure that it is not overly dependent on foreign financial infrastructure. A DLT-based cross-border payment system would provide a parallel channel for cross-border settlement anchored in UK legal and regulatory frameworks. This would enhance the UK's capacity to shape emerging norms in digital finance and protect national resilience as global financial fragmentation deepens.

- **Generate positive spillovers for the UK's financial ecosystem:** For instance, PwC highlights that the increasing regulatory clarity surrounding stablecoins is encouraging their wider adoption by financial institutions.[57] If stablecoin usage continues to grow, especially for international transfers, it will drive demand for an "on-chain" financial services infrastructure, including regulated issuers, exchanges, custodians and compliance providers.

But caution is also needed. For example, while stablecoins could transform cross-border payments, they also pose financial-stability risks if not properly regulated. A key concern is the preservation of the "singleness of money", the principle that all forms of sterling must be reliably interchangeable at face value. If a widely used stablecoin were to lose its peg, users could face losses, triggering a run and undermining confidence in the broader payments system. Over time, large-scale private issuance of stablecoins could also erode the state's monetary sovereignty and reduce fiscal income from seigniorage. Moreover, the cyber-security and resilience of a DLT-based payment infrastructure at scale needs to be tested further.

In the case of stablecoins, these risks are amplified by their inherently global nature, which can be readily adopted across borders. Without a sterling-denominated stablecoin governed by UK law, the UK could face a scenario where foreign-issued stablecoins become widely used in trade and payments, exposing the economy to financial-stability risks without the regulatory tools to manage them. In this context, failing to act does not mean avoiding risk, it means accepting exposure without control. A clear domestic regulatory framework is therefore essential to manage these risks proactively and ensure the UK shapes, rather than absorbs, the next generation of global-payments infrastructure.

What's needed now is targeted action that's proportionate, focused and aligned with UK trade policy – not with crypto hype, but with practical outcomes for exporters, logistics providers and payment infrastructure. A combination of public and private DLT-based cross-border payment infrastructure could provide a credible alternative to legacy international settlement systems. It would enable seamless integration between digital trade processes and digital value transfer, while reinforcing the UK's financial sovereignty in a more fragmented global financial landscape.

RECOMMENDATIONS

The government should:

1. Accelerate the regulatory framework for fiat-backed sterling stablecoins

The UK has already laid important groundwork through consultations and cross-sector engagement. With broad stakeholder support and policy direction in place, the priority now is to move from preparation to implementation, delivering a clear and credible regulatory regime that gives firms the confidence to invest.

- Bring forward the Financial Conduct Authority's (FCA's) implementation timetable for stablecoin regulation, aiming to finalise a dedicated regime for non-systemic stablecoins in time for a 2025 launch, rather than waiting until mid-2026.
- Accelerate development of the Bank of England's regime for systemic stablecoins by publishing, alongside the FCA's 2025 launch, an indicative definition of "systemic" status, such as threshold transaction volumes or other risk-based criteria. This would give potential issuers early visibility into the likely regulatory perimeter, enabling them to develop and test business models with greater certainty, rather than waiting for the full regime to be finalised.

This is what pro-growth regulation looks like: reducing uncertainty, enabling investment and ensuring the UK remains a leader in global financial infrastructure.

2. Launch a cross-border digital-trade sandbox

Global DLT-based payment technology is still in its early stages, and many of the financial-stability risks it poses will only become visible through real-world experimentation. Attempting to regulate every potential use in advance risks stifling innovation before its benefits are realised. Instead, the

UK should extend its proven "test-and-learn" approach, which is already used successfully in the Digital Securities Sandbox, to cross-border digital-trade payments. A dedicated DLT-based cross-border payment sandbox, using stablecoins or tokenised deposits and focused on commercial trade transactions would enable programmable, real-time payments to be trialled in a live but controlled environment. Crucially, it would also allow UK regulators to engage with international partners to explore the scalability of DLT use in trade payments, define appropriate regulatory boundaries and shape global regulatory standards for the next phase of global finance.

- Limit participation to verified traders – exporters and importers with digital invoices, customs declarations or trade-finance links.
- Ensure smart contracts link payments to trade events – like invoice validation or customs clearance – embedding compliance into every transaction.
- Run the sandbox under joint oversight by the Bank of England and FCA, drawing from the Digital Securities Sandbox model.
- Explore other jurisdictions and international institutions that would like to take part, such as the BIS, Singapore or the EU, which are all actively testing DLT or stablecoins for payments.

Done right, this could position the UK not just as a user of stablecoins but as a global standard-setter for how they power the next wave of digital trade.

How Would a DLT-Based Payment System Improve Trade in Practice? A Case Study of a Sterling Stablecoin

Imagine a Singapore-based company (BuyerCo) agreeing to purchase £100,000 worth of industrial equipment from a UK manufacturer (SellerCo). Rather than settling the invoice through the traditional cross-border banking system, which would typically take several days and incur substantial intermediary fees, the firms choose to use "GBPC", a fully collateralised sterling-pegged stablecoin governed by UK law.

To begin, BuyerCo acquires GBPC using Singapore dollars via a local regulated crypto exchange that offers a GBPC/SGD trading pair. This exchange, which already holds a reserve of GBPC from the stablecoin issuer, transfers the tokens directly into BuyerCo's digital wallet.

BuyerCo then sends the payment to SellerCo by transferring the stablecoins to SellerCo's wallet address on a public blockchain (such as Ethereum). The transaction is validated almost instantly by decentralised blockchain infrastructure. Smart contract logic, configured by the stablecoin issuer or a trusted third party, can ensure the payment is only finalised upon confirmation of delivery, for instance via data submitted through the UK's TWIN infrastructure.

Upon receipt, SellerCo sees the GBPC in its wallet in near real-time. The firm can choose to hold GBPC for future trade transactions or convert it immediately into GBP. If converting, the stablecoins are transferred to a UK-based exchange, where they are sold into a liquidity pool and settled in fiat via domestic banking rails, meaning the final funds arrive in SellerCo's GBP account as quickly as a local payment.

In this model, the firms benefit from faster settlement, significantly lower fees and enhanced control over the timing and conditions of payment without relying on a complex chain of correspondent banks or waiting days for confirmation.

Getting Trade-Infrastructure Governance Right

Ambitious reform requires clear ownership. Modernising the UK's trade infrastructure is not a one-off IT upgrade. It is a complex, multi-year transformation programme that will span departments, governments and election cycles. It needs dedicated, cross-cutting, technically skilled leadership from start to finish.

Today, that leadership is missing. Governance of the UK's trade systems is fragmented. The Cabinet Office typically provides coordination. HMRC oversees delivery of the STW. DBT leads the GSCIP, and various agencies are responsible for key customs and enforcement systems. This siloed model has made it harder to deliver transformational change at pace, and was a key factor behind the delays and overruns that ultimately paused the STW programme in 2024.

International examples show how this can be fixed. In the US, the Border Interagency Executive Council brings together all federal departments with border responsibilities. It played a critical role in the delivery of the US STW, and helped eliminate 269 paper-based processes through its Automated Commercial Environment initiative. It is not just a coordinating body, it is a delivery mechanism.

The UK needs a similar approach. We recommend the creation of a UK trade-infrastructure modernisation taskforce – a dedicated team responsible for coordinating, delivering and maintaining the transformation of the UK's trade systems. It should have three core functions:

- **Cross-departmental remit:** The team should comprise officials from DBT, HMRC, DEFRA, Border Force and the Cabinet Office under a single operational leadership structure. This team should be complemented by external technical experts with experience delivering digital trade transformation in other countries. It should report to a programme director who in turn reports to the Treasury and Cabinet Office to monitor funding and progress. This team would then be empowered to take delivery decisions across department boundaries.
- **Delivery and technical execution:** Ensure the team has access to the digital, procurement and technical capability needed to oversee large-scale platform development or to work effectively with third-party technology partners.
- **Monitoring, maintenance and expansion:** Task the team with regular review and iteration of the UK's digital trade systems, ensuring they evolve alongside emerging technologies, new international standards and changing trade patterns.

Conclusion

Global trade is entering a new era shaped by fragmentation, geopolitical volatility and rapid technological change. For the UK, this is a moment of risk, but also opportunity. The old model of trade strategy built around big FTAs and slow-moving systems can no longer deliver in a world where the landscape is shifting and deals are harder to do.

To thrive in this environment, the UK must act with focus and agility. That means re-engaging the world's major economic powers with realism and strategic purpose. It means moving beyond traditional trade agreements to pursue faster, more targeted liberalisation. And it means upgrading outdated trade infrastructure – rewiring the system to reduce friction, boost resilience and make the most of the deals already in place.

A more contested global economy demands a more modern trade strategy. The task now is to make trade work again – not by looking back, but by building a strategy fit for the future.

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