A Retreating America in a Post-Brexit Setting: How Should the UK Manage its Trade Relationship with the EU?

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I. Executive Summary

January 31st, 2020, marked the official withdrawal of the UK from the EU, plunging Britain's economy into an unstable set of provisional trading agreements with its most proximate market. Throughout the negotiating process, successive British governments were unable to forge a palatable departure agreement in both their own legislature and in negotiations with Brussels, leading to a 'Hard Brexit' scenario in 2020. In short, the terms of the Johnson government's Brexit agreement were both "abrupt and economically damaging" (Kirkegaard, 2021), which, in combination with recent crises such as the COVID-19 Pandemic and Russo-Ukrainian War, have exacerbated British economic stagnation.

At a time of increasing geopolitical and geoeconomic uncertainty, particularly when considering the growing divide in transatlantic relations between Britain, Europe, and the US, it is vital to stabilise the UK-EU relationship by moving beyond the insecure 'provisional' set of trading agreements that resulted from the initial Brexit process. Chief of these agreements to consider is the Trade and Cooperation Agreement (TCA), which governs much of the post-Brexit trade environment in both goods and services between the UK and EU whilst allowing for deeper cooperation and trade agreements if both parties are so inclined (British Chamber of Commerce, 2024).

The TCA is fast approaching its first official review in mid-2026 (Fella, 2025). With this in mind and noting the Government's ongoing reset of negotiations with the EU (Menon and Portes, 2025), a window of opportunity is emerging for the UK to stabilise its trading relationship with the EU by renegotiating key elements of the TCA and other reciprocal trade agreements. Such actions would strengthen Britain's position in both economic and political terms by establishing a more consistent, though not regulatorily constraining, relationship with its European partners. Renegotiating post-Brexit trade structures with the EU would not alienate other areas of British foreign policy outside of Europe, rather, it would secure the UK's interests in its immediate geopolitical neighbourhood, facilitating a greater British global presence through a stronger European base. To strengthen Britain's European position in an increasingly unstable world, the Government should consider the following points as priority measures in a potential 2026 renegotiations round:

INITIATE TARGETED NEGOTIATIONS ON RED TAPE BOTTLENECKS, examining the introduction of Mutual Recognition for Conformity Assessment (MRCAs) for certain complex manufactured goods and Mutual Recognition Agreements (MRAs) for regulated professional services within a renegotiated TCA or successor agreement(s).

ENCOURAGE INVESTMENT IN INNOVATION AND R&D HUBS, allowing the British and EU economies to mutually benefit from the UK's position as an attractive incubator space for artificial intelligence, biotechnologies, and technical manufacturing.

DISCUSS FURTHER JOINT INNOVATION PROJECTS IN DEFENCE INDUSTRIES, identifying potential interests in joint aerospace technologies and uncrewed weapons systems innovation with specific EU member states such as France, Germany, and Italy.

CONCURRENTLY EXPAND BILATERAL TRADE NEGOTIATIONS OUTSIDE EU, working with British business forums, established firms, and emergent actors to diversify British export destination markets and promoting greater overseas investment, pursuant to the UK's recent deals with the Chinese and Indian governments.

II. An Inflection Point

THE MOMENT FOR CHANGE

Britain faces an inflection point in its geoeconomic strategy. Amid the current US administration's increasingly unilateral, non-cooperative approach to international affairs (Kundnani, 2025), and with the British economy still suffering from the effects of a Hard Brexit as demonstrated by the estimated 6-8% decline in GDP attributable to Brexit by 2025 (Bloom et al., 2025), the Labour government finds itself in the awkward position of navigating the current geopolitical landscape whilst charting a durable path forward for UK-EU trade. The ongoing reset of relations between the UK and the EU under Keir Starmer has produced some early results in the form of renegotiated academic and scientific agreements, allowing the UK to rejoin several collaborative EU initiatives (The Economist, 2025), however, both sides have failed to make progress on more substantive trade agreements in key economic sectors such as energy, manufacturing, and mutual qualifications recognition in the services sector.

At present, post-Brexit UK-EU trade is governed by the TCA, a placeholder framework born out of the "overt hostility" of the Boris Johnson government's negotiating strategy (Henig, 2024), where the government committed to pushing through Brexit at all costs. The TCA itself was a document of necessity and was certainly not intended to serve as a permanent vector for UK-EU trade, given its many flaws (British Chamber of Commerce, 2024). Accordingly, the introduction of the highly defective TCA caused UK trade to the EU to drop substantially, whilst EU exports to the UK also dropped, albeit less dramatically (Kren and Lawless, 2024). In negotiating the TCA, British officials failed to recognise the relative imbalance in leverage between the British and European markets, with 48% of Britain's export trade pre-TCA directed to the EU, and only 13% of EU exports destined for the UK (Henig, 2024).

Noting the imbalance in the significance of their mutual trade, the provisional nature of the TCA has had far greater detrimental impacts on the British economy than those of EU member states. Therefore, in the context of Labour's ongoing reset of EU-UK relations and the growing geopolitical rift between the US and Europe, addressing the myriad issues present in the TCA would allow Britain to strengthen both its regional and global geoeconomic position. Ultimately, forging a stronger relationship with the EU ought not be the dominant, overarching focus of British foreign policy, but instead, a crucial component in securing Britain's long-term stability in international economic and security spheres.

Though the US's heavily unilateral approach to international relations under Donald Trump does not necessarily signal a permanent, intractable geopolitical fissure between the US and Europe, it is vital for Britain to consider the sustainability of its economic relationship with the EU as part of its overarching foreign policy. Such an approach must ultimately reconcile the various red lines and negotiating failures uncovered by the initial Brexit negotiations process in favour of carefully tailored arrangements which both benefit Britain and entice European partners. As the European mainland has historically been Britain's largest, most proximate trade market (Steel, 1936; British Chamber of Commerce, 2024), the establishment of sustainable, mutually-beneficial trading practices between the UK and EU is vital, and must evolve beyond the limitations of the TCA.

With the TCA approaching its first prescribed review in 2026 (Fella, 2025), the British government must capitalise on the political momentum granted by negotiating breakthroughs such as the resumption of British involvement in the Horizon Europe programme to deliver additional progress in crucial economic sectors, with specific attention being paid to automotive manufacturing, energy markets, and professional services. The Brexit negotiation process demonstrates that the UK "will not neatly fit into existing models" (Henig, 2024) and, more importantly, that a successful re-interpretation of the EU-UK relationship will require bespoke arrangements to be reached in specific economic sectors while allowing for some bilaterally-focused agreements with individual EU member states.

To contend with how Britain can re-examine its trading relationship with the EU, this section will first contextualise the history of trade between the British Isles and the European continent, examining how an insulated British imperial identity influenced the UK's underlying approach to negotiations with Brussels. It then examines the effects of a separate British identity on the Brexit process, identifying instances where Westminster figures approached the EU with contempt rather than respect and acknowledgement of their economic significance to the UK. The section closes with a brief overview of the TCA, identifying priority areas for Westminster to negotiate with Brussels in anticipation of the 2026 review process.

Ultimately, for the UK to navigate the turbulence of the current geopolitical landscape, it must first secure a more durable set of trading arrangements and regulatory frameworks with its European neighbours as part of a wider international strategy. Whilst reestablishing cordial ties with the EU should neither be a maxim nor an overarching political priority, Keir Starmer's Labour government must learn from the mistakes of preceding Conservative governments and their negotiating teams in constructing the TCA to produce a stronger position for Britain.

GLOBALLY BRITISH, RELUCTANTLY EUROPEAN

As a result of its imperial legacy, British identity has been constructed relatively separate from the collective European identity. Up until the 16th century, the overwhelming majority of British trade was concentrated in the European and greater Mediterranean region, however, the introduction of overseas colonial trade gradually diversified Britain's trade flows (Steel, 1936). In the mid-19th century, Britain found itself at the effective centre of an increasingly integrated global economy (Kennedy, 1988), with the British Empire enjoying a period of hegemonic influence over international trade. Though British hegemonic influence would steadily decline throughout the 20th century due to the rise of the US and the impacts of the First and Second World Wars, this period of imperial dominance would come to shape British attitudes towards European trade and post-war integration.

Despite a steady decline in its international power in the 20th century, Britain attempted to retain influence over its imperial possessions for as long as possible. As a result, the UK did not participate in initial post-war economic integration in Europe and would only seek membership of the European Economic Community (EEC) in 1961 following "a reassessment of Britain's capabilities and world role" in the aftermath of the Suez Crisis (Fellows, 2018). Thus, Britain's participation in European integration was seen as a concession of its former hegemonic might, rather than an evolution of its economic doctrine.

Accordingly, much of the pro-Leave political rhetoric surrounding Brexit focused on re-establishing Britain's position as an independent international player, leaning heavily on Commonwealth nostalgia. Such rhetoric is best encapsulated in the Integrated Review of Security, Defence, Development and Foreign Policy (HM Government, 2021), which set out the pivotal shift in British foreign policy dynamics known best as the "Global Britain" strategy (Barker, 2023). As part of this strategy, an early priority for the Johnson government was to conclude Free Trade Agreements (FTAs) with Commonwealth nations Australia and New Zealand, despite there being "negligible economic benefits" available to the UK in such FTAs (Heron, Siles-Brügge and McDonald, 2025). The signing of these FTAs was hence reflective of an early belief amongst Brexiteers that the British government was capable of concluding individual, bespoke trading agreements with a range of international actors and blocs due to its former imperial might and identity (Saunders, 2020).

However, the success in concluding such deals, alongside their cumulative ability to supersede the economic benefits offered by EU membership has been unconvincing. Though the UK was granted accession into the intercontinental Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) (Garcia, 2024), and has recently announced an FTA with India (International Agreements Committee, 2026), the UK has thus far failed to demonstrate meaningful economic gains as a result of the Global Britain trade strategy. In the case of the CPTPP, for example, its economic impacts were negligible as the UK already had FTAs in place with nine out of eleven members of the CPTPP (Larbalestier et al., 2023), with critics identifying Britain's accession as a performance of "symbolic independence" from the EU rather than a meaningful change in the UK's trade landscape (Garcia, 2024). Though Brexit has certainly enabled the UK to embark on a less constrained campaign of international trade negotiations, the post-Brexit focus on "regaining sovereignty" has not necessarily translated to widespread improvements in British economic interests (Garcia, 2024).

Though the Brexit process has cemented Britain's desire to differentiate itself from the EU as an independent international actor, sizable economic gains are readily available in renegotiating the various deficiencies present in the TCA. If the Government is intent on delivering a substantive increase in economic conditions within the UK, it must depart from a continued adherence to the Global Britain strategy by recognising the relative gains available by renegotiating current provisional trade agreements with Europe. Though the continued negotiation of FTAs with non-European states and the careful navigation of the Trump Administration's international tariff environment should play some part in delivering stable economic growth for Britain, addressing the current deficiencies in EU trade agreements offers Starmer the fastest path towards renewed growth as the TCA's five-year anniversary looms. Granted, this can be coupled with a simultaneous expansion of British trade negotiations with other states in the Asia Pacific in order to improve the long-term position of British export industries (Business and Trade Committee, 2024), but an immediate stabilisation of British trade with the European market would ultimately offer an expedited improvement to Britain's business environment. Thus, by allocating sufficient governmental resources in the short-term to a 2026 TCA renegotiation round and subsequently delivering improvements in Britain's trading position with the EU, the Government will improve Britain's ability to conduct more extensive negotiations with non-EU states in the long-term.

THE TCA IN 2026: IDENTIFYING AREAS FOR IMPROVEMENT

As the TCA was the highly flawed product of a turbulent Brexit process, the trading frameworks which it established were non-exhaustive, creating misaligned trading agreements with significant obstacles for British businesses. Though incremental progress has been made between the UK and EU in synthesising some areas of post-Brexit trade, "persistent tensions" have remained in areas such as agricultural phytosanitary measures, the mutual recognition of qualifications, and broader issues in aligning product standards for various manufactured goods (Fella, 2025). The lack of alignment in product standards across manufacturing sectors is particularly encumbering for British businesses, as exporters are forced to adhere to two separate product conformity frameworks (Mitchell, 2025).

These misalignments in trade frameworks in conjunction with additional obstacles for British exports in professional services have been economically disastrous for the UK. Looking specifically at services exports to the EU, Brexit-related barriers have reduced the exportation of British services by 15.8% on average across EU member states (Bhalotia, Dhingra and Arnold, 2025), with post-Brexit FTAs and trade agreements overseas failing to offset this decline in export value.

Therefore, a priority for forthcoming negotiations on the TCA should be to improve the alignment of regulatory frameworks to improve the competitiveness of British exports to the EU. Generally speaking, the alignment of product standards between the British and EU markets would not be seen to have a constraining effect on the ability of British businesses to innovate, and instead would relieve British exporters and British consumers with a reprieve from the higher prices associated with post-Brexit red tape. Where there would be potential for EU legislation to detrimentally affect the ability of specific sectors to innovate or retain a comparative advantage, such as artificial intelligence or biotechnologies, specific clauses should be negotiated in order to exclude these sectors from standards alignment, positing future alignment in standards as a future negotiating milestone.

Ultimately, the focus of any forthcoming renegotiations in 2026 should focus on the simplification of cross-border trade in goods and services in as many sectors as possible. As the TCA has produced an environment of "regulatory divergence" for British businesses (British Chamber of Commerce, 2024), an effective next step in the Government's reset of relations with the EU would be to identify specific areas of red tape where Britain and the EU would mutually benefit from regulatory alignment. This would deliver expedited benefits to British consumers and export businesses alike.

III. Industrial Overview

An industrial analysis of comparative advantage is integral to assessing the economic viability and desirability of deeper UK–EU trade relations. In November 2024, the UK government commissioned an assessment of the UK's Revealed Comparative Advantages (RCA), identifying a set of "supersectors" in which the UK is globally competitive and trade intensification would likely generate the most economic gains (Global Counsel, 2025). This chapter analyses such supersectors and finds areas in which the UK can bring value and benefit from partnerships with the EU.

ADVANCED MANUFACTURING AND AUTOMOTIVE SECTORS

The UK is a key player in global automotive manufacturing. The Society of Motor Manufacturers & Traders (SMMT) estimated that the automotive manufacturing sector employs over 180,000 engineers, technicians and other skilled workers across the UK (SMMT, 2025). In 2024 the automotive sector showed consistent growth, generating £115 billion ($155.62 billion) in imports and exports. However, the recent changes surrounding electric vehicles and batteries regulation introduced uncertainty that may impede growth in the sector.

1. What the UK can offer

The UK offers strong supply-chain capabilities in certain regional clusters. According to the 2023 Advanced Manufacturing Plan, the UK government has confirmed 5 investment zones, each due to receive £160 million over 10 years, specifically in South Yorkshire, Greater Manchester, East Midlands, West Midlands and the North East (Department for Business and Trade, 2023).

These zones are designed to reinforce existing strengths, with the government describing them as a way to "stimulate growth in key manufacturing clusters" and to back places outside London and the South East where 84% of UK manufacturing jobs already reside (Department for Business and Trade, 2023). The current depth and strength of supply chains, paired with the government's apparent involvement in their development create a strong comparative advantage for the UK.

Furthermore, UK firms tend to specialise in high-end niches that generate high value added per unit and are closely tied to long-term customer relationships and after-sale services. Such niches include luxury or small-volume cars, performance vehicles, advanced aero-engines and defence systems. A recent SMMT report on small-volume manufacturers notes that Britain's "world-class luxury, high-performance and niche car makers export almost £5bn in high-value products globally every year", with sector turnover of around £5.5 billion and a 15,000-strong direct workforce supported by some 60,000 supply-chain jobs (SMMT, 2025). It emphasises that "as much as 90% of UK SVM vehicle output is for export", far above the industry average of 77%, underlining how premium brands compete on technology, design, and brand rather than price alone (SMMT, 2025). In such areas qualitative competition based on technology and branding is paramount to quantitative price competition. In this industry, the UK offers qualitative comparative advantage to the EU's mostly mass production.

Finally, the UK has a strong comparative advantage in high-end business services, called "Mode-5 services", such as R&D, software and technical consultancy, which are frequently sold to EU manufacturers as intermediate inputs. The UK Trade Policy Observatory (UKTPO) defines Mode-5 as "the services content embodied in goods exports" and shows that domestic services inputs into manufacturing are substantial across UK regions, particularly in sectors such as food and beverages and transport equipment where engineering, design, and logistics services form a large share of value added (Borchert, 2025). Such embedded UK services are crucial for EU firms' competitiveness as they fundamentally shape the quality of the final product. From this perspective, the UK serves as an upstream enabler of EU firms, making its integration into the EU more desirable from the EU's perspective.

2. What can the UK get in return

In highly technical industries, such as advanced manufacturing, non-tariff barriers, rules and concessions outweigh nominal tariffs. (CEPR, no date) Most discussions encompass potential for Mutual Recognition of Conformity Assessment (MRCA). Currently, a UK-made car or industrial machine intended to be sold in the EU has to be tested and certified by an EU-recognised body, even if an accredited UK body has already tested it against exactly the same EU rules, leading to duplicate costs and delays. MRCA would eliminate this barrier, removing redundant procedures, shortening time-to-market for exporters, and lowering compliance costs. This would enable EU manufacturers to keep sourcing high-value components or complete vehicles from the UK.

The UKTPO paper on Trade Policy and the Production of Electric Vehicles warns that the step-up in rules of origin thresholds scheduled for 2027 is very demanding for current EV supply chains and risks making many UK- and EU-assembled vehicles ineligible for zero tariffs (Henry, 2025). It also highlights that much of the value of a UK-assembled battery could remain outside the UK if key components continue to be imported, which will be problematic in any FTA that requires high local content to qualify for preferences. Taken together, this analysis shows that the scheduled 2027 thresholds are binding and arguably too tight for complex EVs given realistic supply-chain development, providing empirical support for arguing that the UK should seek more flexible rules of origin or transitional arrangements that allow a higher share of non-originating inputs in these goods.

Moreover, there is growing concern that the treatment of Cathode Active Material (CAM) in the UK–EU rules of origin for electric vehicles needs to be clearer and more realistic. The European Parliament's brief on EU–UK EV rules of origin notes that "the scaling-up of the European battery ecosystem has been slower than initially anticipated" and that manufacturers are struggling to source sufficient EU/UK battery content, particularly under the tougher 2027 thresholds, which has already forced a three-year extension of the initial regime (Szczepański, 2024). A UK government record of the EU–UK Trade Specialised Committee on Customs Cooperation and Rules of Origin shows the two sides working explicitly on CAM, with the UK stating it is "keen to agree shared guidance for industry on the definition of Cathode Active Materials in order to give clarity to both UK and EU stakeholders with regards to originating content assessments for electric vehicle batteries," confirming that CAM definitions are a recognised policy problem (HM Treasury, 2024). Industry analysis reinforces this: one briefing on EV supply chains warns that "from January 2027, it is no longer enough to assemble battery packs in the UK or EU (Altilium, 2025). The origin of the battery components, especially CAM, must also be UK or EU-based," and cautions that without local CAM production, EVs risk "triggering trade penalties under post-Brexit Rules of Origin (ROO)." Commentators on why rules of origin are "causing problems for Europe's automotive market" similarly stress that under the TCA "the Cathode Active Material (CAM) that is used in batteries should also be processed and sourced from the UK or EU for tariff-free trade of EVs," a condition they describe as "difficult to achieve given current supply chains" (Lowe, 2026; Altilium, 2025). Taken together, these sources show both policymakers and industry acknowledging that CAM-related origin rules are currently hard to meet and insufficiently clear, which underpins an argument for more precise guidance and, where possible, more realistic CAM requirements aligned with actual investment and sourcing patterns.

FINANCIAL SERVICES

The financial services industry is one of the UK's largest and most competitive sectors, including wholesale banking, insurance, asset management, capital markets, foreign exchange and related professional services (law, accounting, consultancy). It generates a considerable trade surplus, making the UK the world's largest net exporter of financial services, and contributes strongly to productivity and value added relative to its employment share (Global Counsel, 2025).

1. What the UK can offer

The UK is estimated to account for close to a quarter of all European financial services income and around 40% of European financial services exports in some segments, particularly in wholesale banking, asset management, foreign exchange and derivatives trading (AFME, 2025). This depth and liquidity make the UK a suitable capital-markets hub for Europe, providing cross-border financing, sophisticated risk-management, and critical market-infrastructure services that would be costly and time-consuming for the EU to replicate fully on its own.

The UK government's Financial Services Growth and Competitiveness Strategy states that "by leaning into our comparative advantage, a more competitive UK financial services sector can enable growth across the rest of the economy", and it identifies green finance, sustainable investment, and fintech as central priority areas (HM Treasury, 2025). Analytical work on EU–UK financial relations by Bruegel argues that closer cooperation with the UK can help Europe "strengthen sectors including sustainable finance, digital currencies and other innovative financial technology", given the country's leading role in these niches and its weight in global green-bond, sustainability-linked loan and fintech markets (Bruegel, 2025). These capabilities complement bank-based finance which is still dominant in many EU economies by broadening access to capital-markets instruments, risk-transfer tools, and innovative financial products that are needed for financing the green transition and deepening the EU's Capital Markets Union (CMU).

Evidence from the Association for Financial Markets in Europe (AFME) shows that the UK hosts around 30% of European investment-banking revenue, over 40% of European FX turnover, and a major part of euro interest-rate derivatives clearing, underlining a structural comparative advantage in wholesale markets, legal services, and market infrastructure (AFME, 2025). TheCityUK highlights that roughly half of UK financial and related professional services exports go to the EU, and that a large share of EU-related trading in FX, derivatives and international bonds continues to take place in London after Brexit (TheCityUK, 2025). This pattern supports viewing the UK not just as a domestic market but as an inter-European platform whose capabilities directly enable EU corporates' access to capital and risk-management services.

Debates on the EU's CMU stress the under-developed equity markets, fragmented bond markets, and heavy reliance on bank lending as structural weaknesses that could hold back investment and innovation (AEFR, 2016). Bruegel contends that cooperation with the UK's financial centre can "support the CMU agenda by providing deep, liquid markets and risk-management expertise" and cautions that an aggressive push to onshore all activity might "reduce efficiency without clearly improving stability" (Bruegel, 2025). On climate policy, the UK's strategic documents emphasise an ambition to be the world's leading centre for sustainable finance, while EU institutions acknowledge that mobilising private capital at scale for the Green Deal will require strong capital-markets infrastructure and specialised green-finance expertise of the kind concentrated in London (William Fry, 2022).

2. What can the UK get in return

For financial services, the UK would benefit from predictable, durable access in critical wholesale segments via structured regulatory cooperation. European Parliament analysis of post-Brexit financial-services relations notes that current equivalence decisions (for example on UK-based clearing houses) are unilateral, narrow in scope and revocable, which creates ongoing uncertainty for cross-border business and for euro-denominated derivatives clearing. Bruegel similarly warns that a sudden removal of equivalence or forced relocation of all clearing into the euro area could fragment liquidity and raise costs for EU corporates and banks, arguing instead for a cooperative approach in which some key functions remain in London under strengthened supervisory arrangements. Against this backdrop, the UK can reasonably seek: a more transparent and rules-based framework for assessing and maintaining equivalence in areas such as central clearing, trading venues and benchmarks, and an institutionalised regulatory dialogue (via the existing Joint EU–UK Financial Regulatory Forum) that gives early warning of major rule changes and reduces the risk of politically driven cliff edges.

Given the UK's role as a major provider of cross-border finance, risk-management, and advisory services, a second key ask is non-discriminatory access for UK-based firms to compete in EU public and private capital-markets projects, especially those linked to the Green Deal and large-scale infrastructure. The EU's Green Deal and sustainable-finance documents acknowledge that public funds are insufficient and that "mobilising private capital" via deep, well-functioning capital markets is essential to meet climate-investment needs estimated in the hundreds of billions per annum. At the same time, UK trade-policy reviews and independent analyses stress that services exports, dominated by financial and related professional services, support millions of UK jobs across the country, not just in the City of London. Professional bodies such as ICAEW argue that UK legal, accounting and advisory firms are integral to cross-border M&A, restructuring and infrastructure deals in Europe, warning that additional barriers risk increasing the cost of capital for European companies as much as they reduce UK exports. On this basis, the UK would benefit from fair treatment of UK firms in EU-based project finance, green-bond issuance, and advisory mandates, subject to normal prudential and conduct rules. Cooperation on sustainable-finance taxonomies, disclosure standards, and green-bond frameworks would allow investors in both UK and EU markets to channel capital efficiently into European green and infrastructure projects.

ENERGY AND ELECTRICITY

The physical geography of the UK energy system remains deeply embedded within a wider European framework. It is shaped by nearly five decades of EU membership that produced extensive material and institutional interdependence. Electricity interconnectors and gas pipelines link Great Britain and Northern Ireland with France, the Netherlands, Belgium, and Ireland, enabling routine cross border energy flows. Over the past decade, the UK has operated as a net importer of energy, with the EU supplying approximately 5 to 10 per cent of electricity demand and between 4 to 12 per cent of gas consumption. This pattern of dependence indicates that UK energy security has been sustained through participation in a regional energy system.

Following the UK's exit from the EU internal energy market on 1 January 2021, electricity trading between Great Britain and the EU has operated under more fragmented and less efficient arrangements. A process which has been a reflection of the loss of single market mechanisms such as EU electricity market coupling. Northern Ireland continues to participate partially in the single electricity market with Ireland under the Withdrawal Agreement, highlighting the differentiated territorial outcomes of Brexit. The EU-UK Trade and Cooperation Agreement provides a limited governance framework for energy cooperation, but excludes the UK from formal market integration. The central policy challenge is therefore one of optimisation rather than disentanglement, namely how to manage persistent interdependence under revised institutional conditions.

Energy trade illustrates the political economy dynamics identified by (Rams, 2024), in which infrastructure is both shaped by and constitutive of commodity flows that structure power, profit, and governance. Electricity interconnectors function not only as technical assets but as institutional channels through which value is allocated across regulatory regimes. Blair's (2005) analysis of global commodity mapping further demonstrates that commodity flows are closely aligned with political governance structures, reinforcing the interpretation of energy as a strategic asset rather than a neutral market good (Blair, 2005). From this perspective, the UK's post Brexit position is best understood not as external disengagement, but as continued material integration accompanied by reduced influence over rule setting, creating both constraints and strategic opportunities to reposition the UK as a systems integrator within the European energy economy.

Closer alignment with EU energy mechanisms offers the UK tangible economic and industrial returns. The most immediate gain lies in linking the UK emissions trading scheme with the EU ETS ahead of the introduction of the Carbon Border Adjustment Mechanism (CBAM) in 2026. As Morris and Emden (2018) highlight, regulatory alignment in environmental policy can enhance competitiveness while preserving domestic policy flexibility. ETS linkage would shield UK exporters from carbon levies, stabilise carbon pricing, and provide regulatory certainty for investors in low carbon industries. Beyond cost avoidance, such alignment would reinforce the credibility of the UK's net zero trajectory and reduce long term transition risk.

Participation in the EU internal electricity market would deliver further strategic benefits. Access to integrated power markets would allow the UK to optimise cross border electricity flows, reducing price volatility and improving security of supply during periods of renewable intermittency. This would lower wholesale electricity prices for consumers while providing energy intensive industries with greater cost predictability, a critical determinant of international competitiveness. Importantly, this cooperation enhances rather than undermines autonomy, as it enables risk pooling and efficiency gains in a capital-intensive transition.

Most analyses of future UK–EU cooperation focus on the extent to which the UK should align with European regulatory and market frameworks. This emphasis, however, risks under analysing the distributive consequences of cooperation, particularly the extent to which alignment generates asymmetric gains. From a political economy perspective, the question of what the UK secures in return is therefore not merely technical but distributive in nature, concerning who benefits, at what scale, and under which institutional conditions (Mattli, 1999).

From a positive vantage, closer cooperation in energy markets offers the UK measurable economic returns through enhanced market access and reduced price volatility. Studies of European electricity market integration demonstrate that market coupling lowers wholesale price dispersion and improves allocative efficiency across borders (Zachmann, 2013). For the UK, participation in integrated electricity arrangements would allow access to a larger pool of generation capacity during periods of domestic shortfall, reducing reliance on high-cost marginal generation. Helm (2017) argues that price stability in energy markets is a critical determinant of industrial competitiveness, particularly for energy intensive sectors, suggesting that integration could yield indirect productivity gains.

Similarly, regulatory alignment in climate policy is widely viewed as a mechanism for preserving export competitiveness. Morris and Emden (2018) find that coherence between domestic and EU environmental regulation reduces compliance costs and limits trade frictions for firms operating across jurisdictions. Linking the UK emissions trading scheme with the EU ETS prior to the EU's introduction of the CBAM in 2026 would therefore protect UK exporters from additional carbon related trade barriers, providing regulatory certainty for investment in decarbonising industries.

However, a growing body of scholarship questions whether the UK stands to capture a commensurate share of these gains. Scharpf (2010) caution that regulatory alignment within larger market systems often produces asymmetric outcomes, where smaller or non-member states bear adjustment costs without equivalent influence overrule making. From this perspective, the UK risks becoming a policy taker in energy governance, absorbing compliance costs while exerting limited control over regulatory evolution. Similarly, Blyth (2013) (Blyth, 2013) argues that integration strategies framed around efficiency frequently understate distributional losses, particularly where domestic industries face intensified competition without corresponding industrial policy support.

Critics further contend that access to European markets does not automatically translate into domestic investment gains. Research on infrastructure finance suggests that capital inflows often concentrate in jurisdictions with the greatest regulatory influence and policy stability, rather than in peripheral participants (Verdun, 2015). In this context, UK participation in European energy frameworks may lower system wide costs while delivering proportionally greater benefits to EU member states that retain formal decision-making authority.

Taken together, the literature suggests that while closer UK–EU energy cooperation offers potential economic benefits, these gains are neither automatic nor evenly distributed. The extent to which the UK secures meaningful returns depends on its ability to negotiate governance arrangements that mitigate asymmetry, protect domestic industrial capacity, and translate market access into sustained investment. Without such safeguards, cooperation risks reinforcing structural imbalances rather than delivering net economic advantage.

INNOVATION

This emphasis on energy and electricity cooperation highlights a broader pattern of strategic interdependence, which is increasingly reflected in discussions surrounding the future of innovation in Britain.

As with energy, the UK's innovation system is deeply enmeshed within transnational networks of capital, talent, regulation, and markets. Post Brexit innovation policy therefore cannot be understood solely through the lens of national capability building, but must instead be situated within a wider European political economy of research, development, and commercialisation.

The UK government has articulated an ambition for the country to become a science superpower by 2030, underpinned by increased investment in research and development and a focus on strategically significant technologies. Central to this vision is a commitment to raising R&D intensity towards 2.4 per cent of GDP, alongside targeted public investment in sectors such as artificial intelligence, quantum technologies, engineering biology, and net zero solutions. These priorities are channelled through national institutions such as UK Research and Innovation, with the intention of leveraging private capital, fostering regional innovation clusters, and attracting globally mobile talent. However, while these objectives signal continuity with the UK's pre Brexit strengths in basic research, they also expose persistent structural weaknesses in the innovation system.

Evidence presented to the Committee of Public Accounts in July 2025 underscored a core vulnerability, namely the UK's limited capacity to scale research driven ventures into globally competitive firms (Committee of Public Accounts, 2025). Professor Boyle observed that while the UK has a good record of spinning out commercial ventures from R&I, it has been less successful at scaling up these ventures (Committee of Public Accounts, 2025). This gap between discovery and delivery represents a critical constraint on the UK's ability to convert scientific excellence into sustained economic power. It also suggests that national innovation strategies focused narrowly on funding upstream research risk reproducing a familiar pattern of value creation without value capture.

These challenges are intensified by the shifting global innovation landscape. Professor Grant warned that other countries are developing extraordinary science bases, and doing so at a huge pace, highlighting the risk that UK based innovations may be outcompeted, acquired, or relocated before reaching maturity (Committee of Public Accounts, 2025). In this context, the scale limitations of the UK domestic market become particularly salient. High technology sectors such as quantum, advanced manufacturing, and engineering biology often require access to large integrated markets, complex supply chains, and long-term investment horizons to achieve commercial viability.

Cooperation with the EU offers UK innovators access to larger markets, cross border industrial ecosystems, and collaborative research infrastructures that cannot be replicated at the national level. As the Department for Science, Innovation and Technology emphasised, achieving this growth will require UK companies to successfully scale up their commercial exploitation of R&I, implicitly acknowledging that domestic policy instruments alone are insufficient to overcome scale up constraints. European collaboration can therefore function as a multiplier, extending the reach of UK innovation beyond national demand and enabling firms to integrate into continent wide value chains.

Moreover, European innovation ecosystems offer forms of patient capital and institutional support that remain underdeveloped in the UK context. The government's focus on coordinating public sector investors to support investment ready ventures reflects recognition of a financing gap between spin out and scale up. Extending such coordination across borders through joint programmes, co investment mechanisms, or regulatory alignment would further enhance the UK's capacity to retain high growth firms and prevent premature exit or relocation. This logic mirrors the energy sector, where integration enhances resilience and efficiency without eliminating national control.

To sum, the aforementioned evidence suggests that the future of UK innovation is increasingly contingent on structured cooperation with Europe. As in energy, interdependence does not imply the erosion of sovereignty, but rather a shift in the terrain on which power is exercised. Without access to larger markets, shared industrial ecosystems, and collaborative investment frameworks, the UK risks remaining strong at scientific discovery but weak at commercial delivery. In this sense, deeper UK EU innovation partnerships are not merely complementary to national strategy, but central to resolving the structural limits of Britain's post Brexit innovation model.

IV.Geopolitics In International Trade

In the second decade of the 21st century, rising global tensions with a polarising split in stances between the Western world and the emerging economic superpowers such as China and Russia have inflamed protracted wars in Ukraine and Palestine. As such, governments and intergovernmental institutions have gradually acknowledged that geopolitics has become an important factor in international trade. The World Trade Organisation (WTO), in its 2023 annual trade report, focuses on a joint move away from the belief that enhanced international trade would benefit growth and prosperity. It calls attention to a growing reluctance of policymakers to value international trade as a key element of economic growth and prosperity. Economic interdependence, an integral feature of international trade, has been interpreted by many policymakers as exposing countries to the risks of economic interdependence. Security considerations, with further regard to the geopolitical level, have become an influential determinant of trade policy. As a result, a wave of geoeconomic fragmentation has shifted focus from multilateral trade to bilateral trade with geopolitically aligned partners (WTO, 2023). Geoeconomic fragmentation is defined by the International Monetary Fund as a "policy-driven reversal of (economic) integration, often guided by strategic considerations." (Aiyar et al., 2023)

Such fragmentation prompts us to consider the trade relationship between the UK and the EU, situating it within a global context of debates on the impact of geopolitics on trade.

In this section, we will discuss why and how the UK and the EU are weighing a complex and nuanced trade-off between efficiency and security in the increasingly fragmented world economy. We will approach this question by first evaluating current methods measuring the magnitude of geopolitics ' influence on trade, including the distance variable in the gravity model of international trade, the Ideal Point Distance (IPD) model, and other various measurements of geopolitical distances. This will be followed by a critical analysis of the geopolitical complications the UK is expected to confront with a strengthened trade agreement with the EU, namely, the concerns of restrained economic prospects for small and medium-sized firms (SMEs) in highly strategic and innovative sectors. In addition, we will further address the implications of a global economic environment that has been impacted by weaponised trade measures such as sanctions and tariff wars and their potential effects on trade relations between the UK and the EU. With regard to the internal economic situation of the UK, we will also discuss the ramifications of reducing the UK's overall trade volume by resorting to an autarchist solution.

THE DISTANCE OF TRADE THROUGH A GEOPOLITICAL LENS

1. The gravity model and the complications of trade distance

The gravity model of trade is classified by the WTO as 'one of the most popular and successful frameworks in economics' (Yotov et al., 2012). By drawing an analogy between Newton's Universal Law of Gravitation, the gravity model of trade suggests an inversely proportional relation between trade flow and the distance of trade, which has been empirically tested by numerous researchers (Baier and Standaert, 2020). While the most common practice remains classifying the distance of trade in the model as the geographical distance between the trading partners (Samyrao et al., no date), distance in the gravity model can refer to more broadly to any variable that can be considered as a point of friction between trade partners. The interpretation of distance is multidimensional: ranging from geographical and logistic distance, to legal and institutional distance, to cultural and linguistic distance. It can be concluded that the distance variables in different gravity models reflect a variety of factors that have the potential to act as a frictional force in the trade relationship.

Distance, in its literal meaning, has long been proven to have a significant impact on international trade. As Anne-Célia Disdier and Keith Head first systematically analysed in a set of nearly 1500 effects in 103 papers, the inverse relationship between distance and trade is found to be persistent since the middle of the last century (Disdier and Head, 2008). While the impact of distance on trade is commonly and intuitively explained by the corresponding transportation and logistics cost, influence of geographical distance on global trade persists despite large reductions in transportation costs as a result of technological advancement. (Samyrao et al., no date) The fact that geographical distance counts among one of the most significant determinants of the pattern of international trade seems grounded even with the continuing trend of trade globalisation, as Ros Tayler (Taylor, 2018) concludes in an effort to call for a more attentive and careful focus on the UK's trade relations with the EU, its closest and largest trade partner.

While making a similar appeal as Taylor, this paper will approach the issue with a discussion of geopolitical distance. This is, certainly, not to deny the tested importance of geographical distance on international trade, but in an effort to better situate the trade relation between the UK and the EU in a period where geoeconomic fragmentation, as a result of polarising geopolitical stances among the world's major economies, has become a prevalent feature of the global economy. It is therefore worth taking the geopolitical implications of trade distance into consideration. In order to analyse the impact of geopolitics as a friction to trade relations, we will offer an evaluation of existing measurements of geopolitical distance.

2. Ways to measure geopolitical distance

To measure the degree of geopolitical alignment in a quantitative setting and help policymakers navigate the geopolitical environment, an Ideal Point Distance (IPD) method has been frequently adopted. Built on the conception of an S score to measure countries' degree of alignment in international affairs by Curtis S. Signorino and Jeffrey M. Ritter (Signorino and Ritter, 1999), the IPD model is designed by Michael A. Bailey, Anton Strezhnev, and Erik Voete to determine how countries differ in votes in the United Nations General Assembly (UNGA) (Bailey, Strezhnev and Voeten, 2017). This general method has been adopted in various literature to discuss the trend of trade fragmentation.

With a special focus on the adoption of the IPD method, the McKinsey Global Institute analyses the geopolitical distance between major economies using a scale on which China and Russia are located on one end, and the US, other Western countries including the UK and the EU member states, Japan, and South Korea are on the other end (Seong et al., 2024). As the McKinsey Global Institute categorises trade relations according to the geopolitical distance between trade partners, it has found a decrease in countries' tendency to trade with geopolitically distant partners (Seong et al., 2024). According to McKinsey, the world is going through a wave of 'trade reconfiguration,' (Seong et al., 2024) where "trade reorients toward flowing between geopolitically aligned economies,, which has resulted in the noticeable phenomenon of trade fragmentation (Seong et al., 2024). Similarly, with a more granular version of the IPD method that takes time span and vote selection into consideration, the Board of Governors of the US Federal Reserve System has concluded that trade flows remain disproportionate to geopolitical distance, evidencing geoeconomic fragmentation (Airaudo et al., 2025). There are, nevertheless, cases not bound by the inverse relationship between geopolitical distance and economic exchange. The 2024 McKinsey study shows that trade in highly concentratedly produced items appears to be resilient across geopolitical distances since countries are more economically dependent on the production of these items (Seong et al., 2024). The January 2025 Fed note also shows that portfolio holdings by investors stay largely unaffected by geopolitical distance, as financial investors remain primarily driven by fundamental economic principals (Airaudo et al., 2025). With few exceptions, the IPD method is a generally accepted method of analyzing trade and geographic distance.

However, new measurement methods are being devised to assess the impact of geographic distance on international trade with better clarity. Some argue that the IPD method lacks flexibility, fails to account for UNGA agenda changes across time periods (Bailey, Strezhnev and Voeten, 2017), and focuses disproportionately on multilateral positioning rather than bilateral relations (Fan, Wo and Xiang, 2025). The trade relations between the UK and the EU belong unfortunately to the latter case. To address these insufficiencies, Tianyu Fan, Mai Wo, and Wei Xiang propose an 'event-based measure' that 'directly captures bilateral alignment through major diplomatic interactions' by rating diplomatic decisions on a scale ranging from severe conflicts to deepened cooperations with the assistance of large language models that utilize contextual political information through machine learning (Fan, Wo and Xiang, 2025). With this method, Fan, Wo, and Xiang have found significant empirical evidence of an inverse relationship between geopolitical distance and trade flows, with deteriorating geopolitical relations having reduced global trade by 7 percent between 1995 and 2020 (Fan, Wo and Xiang, 2025).

With improved measurement of geopolitical distance, empirical evidence has become more concrete and precise that geopolitical distance has been negatively impacting global trade, which, to a significant extent, confirms the current trend of geoeconomic fragmentation.

Security and efficiency: achieving a difficult balance

The evolution of trade negotiations between the British government and the EU governing body appears to prove the existence of geoeconomic fragmentation. At the UK-EU Summit in May 2025, leaders issued a joint statement setting up a new Strategic Partnership, which delineates areas where the UK and the EU have shared strategic interests (UK Government, 2025a). Key areas of cooperation include security, defence, development cooperation, mutual economic prospects, protection of the environment, and judicial cooperation (UK Government, 2025a). The December 2025 joint statement, as a further note to the joint statement issued in May, added cooperation over education, training, sport, and youth sectors through the Erasmus+ program (UK Government, 2025b). These outcomes reflect a keen focus on strategic and security-related areas, depicting a willingness by both sides to extend alignment from a purely economic sense to a geopolitical level. Moreover, with the May 2025 joint statement highlighting heightened global conflicts, notably the wars in Ukraine and the Middle East, territorial integrity in Moldova, hostilities between India and Pakistan, Iran's nuclear program, and the stability and prosperity of the Western Balkans (UK Government, 2025a). It has become increasingly clear that the UK and the EU are managing trade relations despite the uncertainties of global geopolitical crises.

The pursuit of security through the redirection of trade towards geopolitically aligned partners, however, does not come without a price. According to the 2024 McKinsey study, with a loss of export markets and increased import costs comes damage to long-term economic growth (Seong et al., 2024). Moreover, although fragmentation of trade can reduce economic interdependence, it may also increase supply concentration, exposing economies to supply side risks (Seong et al., 2024). These risks are outlined in a 2024 IMF working paper focusing on the impact of friend-shoring as a means of de-risking. Friend-shoring, by definition, is to move supply chains to geopolitically aligned countries. The paper estimates a long-term global GDP loss of 1.8 percent under friend-shoring (Cerdeiro et al., 2024). A 2022 working paper published by the European Bank for Reconstruction and Development (EBRD), however, shows that this number could be as high as 4.6 percent. The EBRD study confirms that the geoeconomic climate has prompted countries to friend-shore to reduce the potential social and political costs of trading with geopolitically distant economies. This can, however, inflict even higher economic costs due to the disruption of global supply chains (Javorcik et al., 2022).

With the incompatibility of economic hindsights of geoeconomic fragmentation and political focus on security, the balance between security and efficiency seems difficult to achieve. A rapprochement between the UK and the EU would foster resilience of the two economies facing the threats of polarising geopolitical tensions and protect supply chains. However, reorienting trade from geopolitically distant partners towards the EU would potentially suggest a loss of economic prospects from trading with partners with the largest comparative advantage. A cost-benefit analysis of economic efficiency and geopolitical resilience is needed to help policymakers to decide which end to prioritise and how the optimal situation can be reached.

Contested economic prospects

The British Chamber of Commerce (BCC) has warned of increasing problems at a firm level (British Chambers of Commerce, 2025). The December 2025 report shows that 54% of British exporters, with 96% being SMEs, think that they have not benefited from trading with the EU. The survey by the BCC's insight unit shows that 989 businesses, with 96% being SMEs, consider trading with the EU as becoming increasingly difficult (British Chambers of Commerce, 2025).

Another problem exposed is the question of barriers to trade. The report finds that, although the TCA permits tariff-free trade, non-tariff barriers such as regulation differences still exist, posing challenges to firms (British Chambers of Commerce, 2025). While detailed evaluation of potential non-tariff barriers is indeed worthwhile, the TCA's appeal to build a Level Playing Field (LPF) between the UK and the EU has introduced the more fundamental debate surrounding potential restriction of the UK's economic prospects.. An earlier analysis of the TCA by the Institute for Government (IFG), raises concerns about the liberty of economic and political actions made independently by the two respective governments while the two partners now abide by bilateral regulations proposed by the LFP (Institute for Government, 2021). This debate has persisted until today. A 2026 UK in a changing Europe article comments on Prime Minister Keir Starmer new year interview with the BBC, where he expresses an interest in further 'alignment with the single market'. It is possibly out of Starmer's focus on 'national interest', as the article analyses, that he proposes not a full integration in the EU market but the adoption of EU regulations in certain areas where the UK has the prospect of economic gain. However, as Reland also suggests, such behaviour might not suit the EU's interest and therefore need further conversations (Reland, 2026).

We can therefore deduce that nuances have emerged in the trade relationship between the UK and the EU that have extended from economic concerns. A more detailed discussion on potential political nuances, in particular under the current geopolitical context, is highly important.

The recourse to autarky

Though generally not supported by economists as an effective way to foster economic growth, a trend of quasi-pro-autarkist thought has emerged in response to the fragmentation of trade in recent years (Helleiner, 2021). Having reviewed the intellectual history of autarky as an economic concept, Eric Helleiner summarises that national self-sufficiency is often advocated in an effort to insulate countries from foreign economic, political, and cultural influences. In this way, pro-autarkists echo policy-makers who prioritise security in matters of international trade (Helleiner, 2021). As Cathrin Mohr and Christoph Trebesch analyse, the recent reorientation towards reluctance in trade reflects the attitude of an economic system that treats international trade as a vulnerability in times of economic shock and conflict (Mohr and Trebesch, 2024). A central difference between autarky and trade reconfiguration towards geopolitically aligned partners is that autarky strives to reduce interdependence to a minimum and often incurs a reduction in total trade volume.

In the UK, policy analyst Andrew Sissons discusses the potential of the UK to achieve self-sufficiency. Sissons's appeal to autarky rather than trading with geopolitical allies is out of his concern that many countries with Western democratic ideologies, such as the US, risk facing abrupt changes in their political climate towards conservatism and protectionism, which could make trade negotiations even harder (Sissons, 2025). Of course, achieving complete self-sufficiency today amidst globalization is almost impossible. This is especially evident in the case of the UK. The percentage of exports in the UK's GDP has risen since the late 1980s and has exceeded 30% since 2020. (World Bank, no date) It would be difficult for the UK to restructure its industries to withstand the loss of competitive exports. Sissons therefore advocates for a sector-by-sector examination of autarkist potentials, prioritising self-sufficiency of strategically important sectors such as energy (Sissons, 2025). In this case, adopting an autarkist way of thinking, rather than becoming as self-sufficient as possible, entails both a strategic consideration of ensuring geoeconomic security, similar to forming a trade agreement with geopolitical allies in shared strategic areas.

V. Mapping Alternative Strategies

Following Brexit, the UK sought to redefine its trade policy under the broader strategic vision of a "Global Britain", aiming to reinvest in its relationships beyond Europe while maintaining influence as an open, outward-looking nation. Several distinct trade strategies have thus emerged, and this section seeks to outline and assess their relative feasibility and economic impact.

1. United States

The first strategy focuses on a US-led trade orientation. In 2024, US-UK goods and services trade totalled an estimated $340.1 billion (United States Trade Representative, no date), with the US accounting for 22.5 per cent of total UK exports, placing the US as the UK's largest single export market (Department for Business and Trade, 2026). Progress in deepening trade relations with the US was made in May 2025, when the UK became the first country to reach a trade agreement with the US after President Trump's "Liberation Day" tariffs imposed in April. The resulting General Terms of the Economic Prosperity Deal (EPD) introduced a set of sector-specific concessions (UK Government, 2025c). This included reduced tariffs of 10 per cent on UK automotive exports for up to 100,000 vehicles, the removal of 10 per cent duties on aerospace parts and engines, and commitments to negotiate preferential treatment for UK pharmaceuticals and pharmaceutical ingredients, contingent upon meeting US supply chain security requirements. In return, the UK agreed to eliminate a 20 per cent tariff on US beef imports and a 19 per cent tariff on ethanol, within quotas of 13,000 metric tons and 1.4 billion liters respectively.

However, the agreement lacks the scope and legal binding status of a comprehensive FTA. It covers only a quarter of UK goods exports to the US and excludes services, the area in which the UK holds its primary comparative advantage and which dominates its export profile with the US (Department for Business and Trade, 2025a). Notably, the EPD provides no immediate relief from US steel and aluminum tariffs, leaving UK exporters subject to 25 per cent duties. Consequently, while the EPD delivers small sectoral gains, it is unlikely to generate a substantial, economy-wide boost for the UK. Negotiations for a full UK-US FTA, which began in May 2020, have since stalled, and the UK Government has acknowledged there is little prospect of these talks resuming in the near term, citing US concerns over UK's handling of the Northern Ireland Protocol alongside general US reluctance to pursue comprehensive FTAs (UK Trade and Business Commission, no date).

2. Indo-Pacific

Second, the Indo-Pacific has become increasingly central to the UK's post-Brexit trade outlook. In 2021, the Conservative government announced a strategic "tilt to the Indo-Pacific", signalling an intention to deepen defence, trade, and foreign policy relationships with the region (Curtis and Brooke-Holland, 2025). The Indo-Pacific region encompasses a wide range of economies, from large rising powers such as China and India to high-income economies like Japan, South Korea, and Singapore, collectively presenting lucrative opportunities for UK exporters. UK trade with the region was valued at over £250 billion in 2022, underscoring its economic relevance (Yilmaz, 2025). More broadly, the region's importance to global commerce is reflected in the fact that approximately 60 per cent of global trade passes through Indo-Pacific shipping routes, and that the region is projected to account for more than 40 per cent of global GDP by 2030.

The most visible expression of the Indo-Pacific tilt has been the UK's accession to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) in 2024 (UK Government, 2023a). The CPTPP comprises 11 other countries (namely Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam), and is regarded as one of the most progressive free trade agreements globally.

Beyond the CPTPP, the UK has sought to deepen engagement with regional institutions, for instance through its admission as a dialogue partner in ASEAN in 2021 (UK Government, 2023b). Economic cooperation with ASEAN has focused on promoting an open, free, and transparent trading environment in support of the rules-based international system. This engagement has been reinforced by the launch of the £25 million ASEAN-UK Economic Integration Programme in 2023, which supports ASEAN economic integration through regulatory reform, enhanced trade systems, stronger supply-chain resilience, and wider access to financial services (UK Government, 2024).

3. China

China also remains a particularly important, albeit complex, component of the UK's Indo-Pacific strategy. As the UK's fifth-largest trading partner, accounting for 5.5 per cent of total UK trade, China offers access to one of the world's largest consumer markets (Department for Business and Trade, 2025b). UK exports to China are concentrated in high-value sectors such as cars, pharmaceuticals, and energy products, while imports are dominated by manufactured and capital goods. While the mid-2010s were seen as a "golden era" of UK-China economic engagement, symbolised by the 2015 declaration that Britain would become Beijing's "best partner in the West", relations cooled in the post-Brexit period (Meredith, 2022). The UK distanced itself from China's Belt and Road Initiative, while political tensions intensified following the UK's ban on Huawei's involvement in its 5G network and concerns surrounding Hong Kong's National Security Law (Foreign Affairs Committee, 2019). However, recent developments indicate renewed efforts by the UK government to re-engage economically with China. The first UK-China Joint Economic and Trade Commission (JETCO) since 2018 is expected to be used to press for improved market access for British firms in the Chinese economy and expand cooperation in UK's biggest sectors, including professional services, automotive, and healthcare (UK Government, 2025d). Discussions also aim to address persistent challenges in the bilateral relationship, such as human rights and level playing field issues that undermine fair competition for UK businesses. This reflects a potential recalibration of the UK's China policy, as it weighs the benefits of economic engagement against geopolitical risks and ethical considerations.

Cost-Benefit Analysis

1. United States

Benefits

As the UK's largest single-country export market, the United States offers substantial scale and purchasing power. The UK is well-positioned to access North American markets due to a combination of favourable factors, including shared language, strong historical ties, broadly similar legal and business cultures, and established commercial networks. Together, these features can reduce informational and transactional barriers to trade, enabling UK firms to compete more effectively than in less familiar or institutionally distant markets. An expansion of UK-US trade can therefore be expected to increase export volumes significantly and contribute positively to economic growth in both economies. Beyond immediate trade flows, closer engagement with the US may also incentivise the UK to align its regulatory standards more closely with global best practices, rather than prioritising the development of suboptimal alternatives designed to comply with EU structures. Such regulatory alignment could enhance the UK's long-term competitiveness in global trade.

While macroeconomic gains from recent UK-US trade arrangements may be limited, the agreement is nonetheless of considerable significance for sectors involved, and the people and regions that rely on them. The automotive industry, for example, is a cornerstone of the UK economy, supporting approximately 250,000 jobs nationwide (Collis, 2025). Meanwhile, the regions of Wales and Yorkshire and the Humber—together accounting for around half of the 37,000 jobs supported by the steel sector—stand to benefit disproportionately should trade barriers be successfully reduced. Historically, decline in UK industries like coal, steel, and shipbuilding have led to lasting adverse effects of high unemployment, poor health, regional economic inactivity, low wages, social problems, and intergenerational disadvantage. Thus, the EPD can mitigate risks of industrial decline and offer temporary relief to sectors amid recent headwinds. More importantly, it represents a positive development in bilateral economic relations, suggesting a degree of US openness to trade cooperation and potentially setting a precedent for deeper trade cooperation between the two countries.

Costs

Closer UK-US trade relations are associated with significant economic and political drawbacks, the first of which stems from asymmetric bargaining power (McDonald, Siles-Brügge and Heron, 2025). Brexit proponents initially argued that distancing the UK from the EU would allow it to secure more favourable terms with the US, given President Trump's support for Brexit and his preference for bilateral over multilateral trade agreements. However, the reality is that the EPD falls well short of the comprehensive FTA promised by Brexiteers as a viable alternative to EU membership (Chopin and Lequesne, 2015). Post Brexit, the UK has lost the collective leverage of the bloc, becoming a "middle power" with diminished individual influence. The imbalance in bilateral negotiations with stronger trading partners has constrained the UK's negotiating position and contributed to outcomes that are, in several aspects, less favourable than those prevailing before the Trump administration. This is evident in the UK's concessionary removal of tariffs on US beef and ethanol, which has prompted concerns amongst domestic producers over intensified competition and potential job losses.

The UK's weaker bargaining position becomes more apparent when compared with the EU-US Statement on an "Agreement on Reciprocal, Fair, and Balanced Trade", announced in August 2025 (European Commission, 2025a). This framework establishes a capped tariff rate of 15 per cent for most EU exports, with several strategic sectors like generic pharmaceuticals and aerospace reverting to lower Most Favoured Nation (MFN) tariff levels. This provides EU exporters with a single, predictable tariff ceiling rather than cumulative duties, in contrast to the UK's EPD, under which UK exporters may in some cases face 10 per cent preferential tariffs on top of the underlying US MFN tariff. Thus, further expansion of trade relations may disproportionately benefit the US, leaving the UK with comparatively unfavourable terms.

Political uncertainty further undermines the economic value of the UK-US trade relationship. The non-binding nature of existing agreements, combined with their limited scope, offers little predictability for firms. Recent developments—including (1) the US decision in December 2025 to pause implementation of a technology cooperation agreement covering artificial intelligence and nuclear energy, citing insufficient progress by the UK in lowering trade barriers (Nelson and Swanson, 2025), and (2) renewed threats in September 2025 to impose new tariffs on branded pharmaceuticals, trucks, and kitchen cabinets—underscore the fragility of the US's promise of preferential treatment (O'Carroll and Wearden, 2025). The volatility associated with the Trump administration's trade policy heightens business uncertainty, particularly for tradeable manufacturing sectors like pharmaceuticals, automotive production, and chemicals, which are disproportionately exposed to shifts in US demand and trade policy.

Finally, diplomatic and regulatory concerns remain salient. There is a persistent risk that the UK may face pressure from the US to concede on sanitary, environmental, or regulatory standards in exchange for tariff relief (Pinsent Masons, 2025). Historical precedent, notably the failure of the EU-US Transatlantic Trade and Investment Partnership negotiations, illustrates the political sensitivity of such issues, with European opposition having been driven by concerns that US pressure would undermine food safety, environmental protection, and labour standards (Chase, 2021). Significant divergence from EU standards would then place the UK in a difficult position, potentially undermining its relationship with its largest trading partner while still failing to secure a fully liberalised trade agreement with the US. Moreover, if UK-US arrangements do not cover "substantially all trade", the UK may find itself breaching its WTO obligations, as granting preferential access to the US without a comprehensive trade agreement could constitute discriminatory treatment against other trading partners, violating the MFN principle (WTO, no date).

2. CPTPP

Benefits

Accession to the CPTPP is projected to raise UK exports by £37 billion by 2030 and increase long-run GDP by £1.8 billion, supporting market diversification and economic growth. More importantly, it opens the opportunity to strengthen ties with fast-growing Indo-Pacific markets, many of which are expected to dominate global growth by 2050, according to PwC's 'The World in 2050' Report (Institute of Directors, 2022).

The CPTPP's high and pervasive standards promote free and fair trade by eliminating tariff and non-tariff barriers across manufacturing and agriculture, preventing protectionism and unfair advantages to state-owned enterprises, while still preserving members' rights to regulate in their national interest (Magnus, 2023). Services trade is liberalised by reducing market access barriers like labour market tests and establishment requirements, while providing dedicated fora for ongoing regulatory cooperation. Specific provisions in financial services (dedicated chapter guaranteeing non-discrimination of service suppliers across CPTPP territories) and digital trade (prohibition of custom duties on electronic transmissions and unjustified data localisation measures, together with support of free flow of cross-border data) are also closely aligned with the UK's export strengths (Deloitte, 2023). The agreement also establishes robust frameworks on intellectual property (IP) protection, as well as labour, environmental, and competition standards.

Beyond market access, CPTPP membership enables supply-chain diversification and recalibration in response to growing geopolitical threats to supply-chain resilience. Politically, accession increases the UK's capacity to shape standards governing commerce in the region, working with like-minded partners to advance modern, precedent-setting trade rules at a time when rules-based international order is coming under pressure.

Costs

The gains from CPTPP remain limited, making up only around 0.09% of UK's GDP in 2021, compared to the 4% GDP loss of leaving the EU (Larbalestier et al., 2023). This outcome can be explained by the fact that (1) The EU remains the UK's dominant trading partner, accounting for almost half of goods trade and around 40% of services trade, largely due to geographic proximity. By contrast, CPTPP countries account for only around 8% of UK's exports and 7% of UK's imports; (2) Most UK trade with CPTPP members is already carried out under preferential terms through FTAs, except for Malaysia and Brunei. In 2021, the UK's main exports to CPTPP members—machinery and mechanical appliances, precious metals, and motor vehicles—already faced near-zero tariffs, making tariff elimination far less significant; and (3) Supply chain integration of the UK with current CPTPP countries remains limited compared to the UK's integration with the EU or the US.

UK accession also raise regulatory concerns, since a continued alignment with the EU on Sanitary and Phytosanitary (SPS) measures would create a discrepancy between UK and CPTPP members, thus signing trade deals with large agricultural exporters would put UK farmers conforming to stricter EU standards at a disadvantage (Lydgate and Gasiorek, 2021). Similarly, inconsistencies between the IP provisions of CPTPP and the European Patent Convention (EPC) over "grace periods" also raise concerns, given that IP is a key driver of UK innovation and productivity, underpinning creative, research, and technology-intensive industries (International Trade Committee, 2023). Any requirement to diverge from or cede membership of the EPC to align with CPTPP rules would risk undermining business certainty and hinder growth of British firms. More broadly, the pursuit of an ambitious non-EU trade agenda would increase the political and legal costs of any potential re-entry into the EU customs union, as such a move would render existing bilateral and multilateral trade agreements invalid, constraining future policy options.

3. China

Benefits

Political leaders across the UK government have acknowledged the importance of UK-China relations, with Prime Minister Keir Starmer describing as "a defining force in technology, in trade and global governance" (Courea, 2025), and Chancellor Rachel Reeves emphasising how China, as the world's second-largest economy, already supports close to half a million UK jobs through trade and is expected to be the largest contributor to global growth over the coming decade (Reeves, 2025). Indeed, expanding trade relations offers several economic opportunities at a time of slow domestic growth and limited post-Brexit trade momentum. For the UK, higher volumes of trade will enable access to high-quality and competitively priced goods, while supporting export growth in sectors where the UK retains comparative advantage.

At the same time, China has sought to broaden its engagement with European economies amid shifting geopolitical dynamics, including US-China trade tensions under President Trump's second presidency. Chinese policymakers have repeatedly stressed their readiness to cooperate with the UK on the basis of mutual benefit and to support a more balanced international environment, especially in areas aligned with China's long-term priorities of innovation, development, and green transition (Xinhua, 2025).

At a sectoral level, potential gains are most pronounced in industries where UK capabilities align with Chinese demand, namely finance, pharmaceuticals, creative industries, and luxury goods (Interesse, 2025). Financial services emerge as a key beneficiary, with UK–China regulatory cooperation facilitating greater access for UK-based asset managers to Chinese capital markets. The pharmaceutical sector likewise stands to gain from China's potential fast-tracking of RSV vaccine approvals, lowering regulatory barriers to UK exports of life-sciences products. Lastly, improved market access for UK agricultural exports, such as pork, poultry, and pet food, also supports incremental growth in agri-food trade.

Costs

Aggregate economic benefits from deeper trade with China may still be limited, as China still accounts for only around 4% of UK exports and 7% of imports, far below the EU and the US (Kren and Lawless, 2024). Trade deals would benefit specific firms and sectors, but for a £2.6

trillion economy, its contribution to overall growth is likely to be marginal. Existing structural barriers in China's market further reduce potential gains, with regulatory opacity, language differences, capital restrictions, and licensing hurdles reinforcing business perceptions that doing business with China is "too difficult" (Nouwens and Cainey, 2020).

The case for expanding trade with China is further complicated by numerous non-economic risks. Today, national security concerns extend beyond traditional defence to data, technology, and knowledge embedded in global supply chains. Many consumer products like electrical vehicles and telecommunications equipment contain cellular modules predominantly manufactured in China, raising the risk that sensitive technologies and data could be accessed (Coalition on Secure Technology, 2024). UK intelligence and security agencies have repeatedly warned of China's ability to obtain commercial secrets and critical information through cyber-espionage, posing risks to UK national security (Curtis, 2024). These concerns are reflected in the UK's National Security Act in 2023, which explicitly highlighted the threat of "large-scale extraction of and interference with data" by state actors like Russia and China (Curtis, 2025).

Meanwhile, ethical considerations surfaced in the UK Government's 2023 refresh of the 201 Integrated Review, which noted that China was "challenging the centrality of human rights and freedoms in the UN system" (Curtis, 2024). Allegations of widespread human rights abuses against Uyghur Muslims in Xinjiang, repression in Tibet, alongside erosion of civil liberties in Hong Kong following the imposition of the National Security Law, have led to diplomatic tensions and tit-for-tat sanctions between China and Western states. Expanding trade engagement under these conditions may hence risk domestic and international political backlash for prioritising commercial interests over human rights concerns.

Last but not least, political risks arise from UK concerns over China's actions in the South China Sea and its deepening relationship with Russia. At the same time, China's growing reliance on industrial policy and state-led strategies to secure commercial, technological, and export access to global markets has increasingly been viewed less as a conventional pursuit of comparative advantage and more as a political campaign aimed at reshaping global leadership (Magnus, 2025). The political context is further complicated by strained US-China relations, since closer UK engagement with either side risks generating friction and economic retaliation from the other. This is evident in EPD provisions that condition preferential tariff treatment on UK compliance with US supply-chain security requirements, a thinly veiled reference to Chinese involvement in UK supply chains (Anil et al., 2025). These provisions have prompted criticism from Beijing that the UK is aligning with US efforts to economically isolate China (Downes, 2025).

Synthesis

Country	Synthesis
United States	The US remains a critical economic partner, having relatively closer geographical proximity than Indo-Pacific markets and strong

	complementarities in high-value services trade. However, Washington has limited incentives to offer significant trade concessions to the UK, and has increasingly shifted away from comprehensive FTAs towards smaller, modular agreements targeting specific objectives. Thus, partnership is economically significant but likely to remain transactional, with limited depth and breadth.
CPTPP	The CPTPP delivers modest macroeconomic gains but offers strategic value through regional cumulation and supply-chain diversification that bilateral agreements in isolation cannot provide. Its economic value also stands to grow as the agreement expands, with applications from China, Taiwan, Ecuador, Costa Rica, Uruguay, Ukraine and Indonesia, and expressed interest from South Korea, Thailand, and the Philippines.
China	China offers access to a large and fast-growing market, though persistent structural barriers and security risks must be overcome for deeper trade integration. As such, the UK should adopt a more open but cautious approach, prioritising targeted gains in niche sectors and selectively pursuing cooperation where interests converge.

Main Barriers to expanding non-EU trade

Despite the UK's emphasis on expanding non-EU trade through new FTAs, several barriers limit the extent to which it can meaningfully offset trade losses associated with Brexit.

Asymmetric Bargaining Power

Following Brexit, the UK negotiates trade agreements as a medium-sized economy rather than as part of the EU's large single market. This significantly reduces its leverage in negotiations with major partners such as the United States and China, resulting in agreements that are generally less favourable and involving disproportionate concessions.

Political Risks

The UK also faces difficulty in balancing its economic relationships across multiple blocs, including the EU, the US, China, and the CPTPP. In an increasingly fragmented global order, trade policy becomes entangled with foreign policy and security considerations, constraining UK ability to form stable long-term economic partnerships.

Limited Gains

With trade volumes strongly determined by economic size and geographical proximity, according to the gravity model of trade, joining distant trade blocs like the CPTPP thus puts the UK at a permanent geographical disadvantage. While such agreements may facilitate participation in Pacific supply chains, these gains are not going to compensate for the loss of access to nearby European markets, especially for small exporters that lack the scale and resources to operate across long distances.

Non-Tariff Barriers

The UK is distinctive in its heavy reliance on services exports (Berg, 2024). However, barriers to services trade are primarily regulatory in nature, consisting of licensing, local presence, ownership or citizenship requirements. Unlike the EU single market, FTAs seldom dismantle such regulatory barriers, typically focusing on preventing future restrictions and increasing legal certainty, thus they are unlikely to lead to significant new market access.

VI.EU Receptivity

This section will assess the attitude of the EU towards increased trade with the UK, by understanding it as a multilevel actor: first as an international organisation, and then as a political coalition. We will begin by justifying this multilevel approach to EU identity, and then outlining the geopolitical context in which EU decision-making takes place. Then, we will discuss the EU's attitude to the UK at an institutional level, tracking recent steps towards alignment and persistent barriers (namely the phenomenon of "cherry-picking"). Next, the attitude of some key players in the EU political coalition – France, Germany, and the Baltic States – will be evaluated. The section will conclude with reflections on how these attitudes should shape the UK's negotiation strategy on trade alignment.

Defining the EU

The EU has achieved a high degree of economic integration between member states through the single market, with the Treaty of Rome (1957) and subsequent agreements providing the organisation with exclusive competence on trade. This makes the European Commission the EU's sole negotiator on trade policy, meaning the EU as an international organisation can act to express a clear preference in policy discussions. However, the European Commission's mandate is set by member states, through the Council of the EU and European Parliament (European

Commission, 2025). As such, even though member states are not independent trade negotiators, it is important to recognise that preferences for trade with the UK will vary between the states which comprise the coalition and that this will impact the European Commission's negotiating strategy.

At the same time, simply assimilating the preferences of the EU with those of its most powerful member states veers into realist oversimplification. As Barnett and Finnemore (1999) argue, the legal-rational authority and control of technical expertise wielded by international organisations provide them with a level of autonomy separate from their member states. Multiple studies supply evidence for the independent roles of so-called Eurocrats (Ross, 1995; Zabusky 1995), and Pollack (1997) takes the European Commission as his central example of an organisation possessing "agenda setting" power which exceeds state control. Similarly, as Hurd (2005) has shown, international organisations produce norms of liberal internationalism, which can be strategic symbolic resources for weaker states to alter the balance of power. This complexity justifies a multilevel approach to assessing the EU's perspective on increased trade with the UK.

Context for EU Decision-making

Part of the case for rethinking the UK-EU relationship lies in the extent to which the international context has changed since the Brexit years. Russia's full-scale invasion of Ukraine in February 2022, the largest territorial attack on a European country since World War II (Plokhy, 2023), has been transformative. Prior to the invasion, Russia was the EU's fifth-largest trading partner, accounting for €89.3 billion in exports and €158.5 billion in imports in 2021 (Eurostat, 2022). The EU suffered a severe energy crisis after Russia cut 80 billion cubic metres of pipeline gas supplies to the region (IEA, 2024), and prices remain volatile despite plans to phase out EU dependence on Russian fossil fuels. Food markets were also affected after Ukraine's agricultural exports were brought to a virtual standstill by a naval blockade (Consilium, 2025), and persistent Russian strikes on key Black Sea ports mean global supply remains insecure. The invasion caused an overall economic slowdown in the region and constrained pandemic recovery (European Commission, 2025), with the Baltic states bearing the brunt of the effects (Redeker, 2022).

Crucially, the invasion required member states to re-evaluate the bloc's defence policy and rearm in the face of Russian aggression, an issue which intersects with another novel geopolitical variable: the foreign policy of the Trump administration. President Trump has repeatedly criticised NATO as a scam enabling Europe to leech off the US for defence – during his 2024 election campaign, Trump suggested that the US might not defend a NATO country being attacked if it was not meeting its spending targets (Sabbagh, 2025). It is the EU's dependence on US defence that allowed Trump to strongarm the European Commission into a lopsided trade deal in July 2025. Saddled with an initial 20% tariff, the EU struggled to find the consensus among member states needed to impose retaliatory measures and ultimately had to accept a 15% baseline tariff, leading Politico (2025) to nickname 2025 "Europe's year of Trump trade trauma".

Outside Europe, Trump has proven himself willing to violate international law through his military operation to facilitate regime change in Venezuela, and continues to threaten to annex Greenland (Behm, 2026). His transactional interventions into Ukraine and Gaza are characteristic of a broader shift towards zero-sum realpolitik, leaving Europe dangerously dependent on an America that views the continent as a competitor rather than a partner (Martins, 2025). Europe and the UK are denied a meaningful seat at the table in this new superpower diplomacy, instead left to watch as the rules-based international order is increasingly eroded. In the face of unpredictable actors and a changing international landscape, rethinking the rift with the UK is therefore an appealing prospect for the EU. As one EU diplomat told the BBC in May: “It's a cold world out there. We need to huddle together” (Mason, 2025).

EU as an Institution: Seeking Common Understanding

The EU’s institutional perspective on closer alignment with Britain on trade has been notably more positive this year. The European Commission has committed to building on the TCA and the Withdrawal Agreement to create more mutually favourable terms, signalling an inflection point for re-evaluating these agreements. In May 2025, the UK and the European Commission agreed on a Common Understanding framework for strengthening bilateral cooperation within the Strategic Partnership. Importantly, both parties agreed to work towards the establishment of a shared sanitary and phytosanitary (SPS) area subject to joint governance, which would reduce the Brexit-era “certificates and controls” (Cabinet Office, 2025) to which the Office of Budget Responsibility attributed a 15% reduction in imports and exports (OBR, 2021). There has already been progress: in November 2025, EU member states agreed on a mandate for the European Commission to negotiate a veterinary agreement (Rankin and O’Carroll 2025). The framework also suggested a potential UK entry into the EU’s single market for electricity, and future linkage of emissions trading systems (Cabinet Office, 2025).

Collaboration is also forthcoming on important areas outside of trade. Parallel to the Common Understanding, the UK and EU also agreed on a new Security and Defence Partnership. This agreement is “aspirational and forward looking” but suffers from some “obvious roadblocks” according to Chatham House. Principal among these failings is the collapse of talks to increase the UK’s participation in Europe’s SAFE defence-spending fund, an €150 billion low-interest loan scheme allowing the EU to borrow money on financial markets and lend it to member states (Martill, 2025). Despite this, the SDP confirms intended cooperation in a broad range of security areas, from maritime, space, and cyber security to disarmament to training and education (Consilium, 2025). Furthermore, the UK has taken a leading role alongside France in the Coalition of the Willing, an initiative formed to guarantee Ukraine’s security following the end of hostilities with Russia, in light of a potential American disengagement (Bielieskov, 2025). Additionally, the UK will return to the Erasmus scheme in 2027, allowing young people from the UK and the EU to study abroad (The Economist, 2025). All this signals that the adversarial political style of the Brexit age is receding into the past, and that the EU recognises and seeks to pursue its interest in closer links with the UK.

EU as an Institution: Not Sold Separately

However, the EU has drawn several important lines in the sand with regard to closer alignment on trade. Foremost amongst these is the UK's relationship to EU institutions and regulatory architecture (Martill, 2025). Any step towards alignment on trade must maintain the overall balance of rights and obligations possessed by current EU member states: attempts to avoid this are pejoratively labelled "cherry-picking". As Dutch MEP Kati Piri put it in 2020, "The UK's expectation to keep the benefits of a member state without agreeing to any obligations, including a clear level playing field and governance provisions, is simply not realistic." While Piri was discussing the Brexit negotiations here, the sentiment remains: from the EU perspective, the UK cannot expect to reap the benefits of the single market without making significant concessions in return.

The "cherry-picking" term is applied to the UK's negotiation strategy in two primary ways. First, it describes when the UK seeks to gain access to parts of the single market without making broader commitments (Menon and Portes, 2025). EU spokespeople emphasise the indivisibility of the single market: for countries seeking entry, all "four freedoms" – movement of goods, services, capital, and people – must be accepted. This has been a party line for the EU since Brexit negotiations (Spisak, 2025). A recent example of the UK attempting to cherry-pick in this sense occurred during discussions of conformity assessments, where both parties aim to align the regulatory specifications for goods on both sides of the Channel (Menon and Portes, 2025). While the EU seeks a generalised mutual recognition of conformity agreement, the British Chancellor Rachel Reeves has expressed interest in a "bespoke" deal where the UK would only align with EU regulations in the chemicals sector, in exchange for improved market access (Fleming and Parker, 2024). Similarly, Chatham House has identified a "perception gap" on defence, with British policymakers viewing UK defence contributions as positive engagement for which trade concessions might be exchanged, and not understanding that Brussels considers this cherry-picking a risk (Martill, 2025).

The second application of "cherry-picking" refers to when the UK attempts to negotiate with individual member states rather than the EU as an institution. For example, the UK rejected an EU-wide youth mobility scheme in April 2024, with the government saying it would prefer to make separate mobility agreements with selected EU countries (Seddon, 2024). This is less of a risk on trade, as the European Commission's exclusive competency forecloses negotiations with individual member states.

For Eurocrats most opposed to cherry-picking, Switzerland forms a useful cautionary tale: until December 2024, Swiss access to the single market was premised on an inefficient patchwork of over one hundred piecemeal bilateral agreements (Spisak, 2025). This relationship evolved incrementally over thirty years through a mix of agreements and voluntary adoption of EU laws, but Brussels remained frustrated that Switzerland benefited from reciprocal market access without the obligation to dynamically align with new EU legislation. It took a twelve-year "reset" period to produce the new structured and formalised set of agreements – which even now require approval by the Swiss parliament, will "almost certainly" face a national referendum, and are likely to become a focal point of Swiss federal elections in 2027.

At the institutional level, the integrity of the single market is a very difficult issue for the EU to compromise on. Martill (2025) argues that, as an "inevitable consequence of its politico-institutional order" the EU will continue to struggle with "strategic thinking", hampered by a slow-moving bureaucracy and internal fractures. Likewise, Martins (2025) writes that the EU can function exclusively within a "liberal hermeneutic framework", meaning that it favours principled commitments and lacks the hard-headed economic pragmatism required to make a meaningful exception to the "Four Freedoms" doctrine. For this reason, it will be a challenge to reframe closer alignment with the UK on trade as a strategic necessity rather than "cherry-picking".

EU as a Political Coalition

While analysis of the EU's unified institutional direction is important, it should not be forgotten that the EU is a coalition of 27 states with differing fiscal policies, ideological alignments, and national interests. To generalise, there has long been an economic disparity between wealthy northern states and more economically fragile southern states, with Western European states having typically been more tolerant of migration than Eastern European states (although this has been subject to change in recent years) (Mastrosanti, 2026). Similarly, democratic backsliding in states like Hungary and Poland has fuelled tension with states which adhere more closely to the EU's liberal democratic values.

These divisions are heightened by the fact that the biggest and wealthiest countries in the EU are currently acting from a position of economic and political weakness. The IMF has forecast weak growth for France and Italy, and Germany has been in a structural recession since late 2022 (The Economist, 2025). One year on from the release of Mario Draghi's ambitious plan to reignite European economic growth, he pointed out that every challenge he had identified had worsened (Royer, 2025). The EU's political coalition is also suffering from a leadership vacuum. France's influence is waning due to Macron's political defeats and poor public finances, while Germany has been similarly undermined by unimpressive election results from Scholz's coalition (Maillard, 2024). As such, the level of political will and shape of the economic calculus driving closer alignment with the UK is very much linked to which member states attempt to lead it.

France was often cast as the antagonist in the UK's Brexit melodramas, with Emmanuel Macron acknowledging at a meeting with Boris Johnson in 2019 that he'd "always been portrayed as the toughest of the lot" (FranceInfo, 2019). There is truth to this narrative: Paris has been consistently adamant that there should be a demonstrable cost to Brexit, seeing itself as the "guardian of the orthodoxy of the Brexit treaties" (Schichan, 2025). For this reason, France's attitude to the UK will be important for determining the speed and scale of UK trade alignment.

What continually binds the two states together is their defence partnership as the only two nuclear powers in Europe. In Schichan's view (2025), France sees a strong European security architecture as an impossibility without the UK's participation – in fact, France sought to add a security element to Brexit negotiations back in 2019. However, the extent and manner of the UK's participation in European defence is potentially problematic for Paris. During negotiations over the UK's entry into the Security Action for Europe (SAFE) defence fund, France proposed a 50% ceiling on the value of British-produced military components in projects financed by the fund, a move provoked by competition over defence-industrial interests (Rankin, 2025). The SAFE negotiations point to a broader tendency in French trade preferences – this protectionist bent is what has led France to oppose the ratification of the European Commission's trade deal with the South American group Mercosur. France can afford to be protectionist: the Economist (2025) notes that Paris is far less exposed to international commerce than comparable European states like Germany, and so is more likely to advocate for "buy European" clauses and strategic autarchy. For this reason, France could prove a barrier to greater UK alignment with the single market.

By contrast, around a third of Germany's trade is beyond EU borders – automotive exports are particularly strong, such that Berlin continues to reject tariffs on Chinese electric vehicles for fear of retaliation (The Economist, 2025). This more globalised outlook bodes well for negotiations with the UK. The German government has been "persistent" in its demand for a youth mobility scheme (Bloom and Webber, 2025), and Wachowiak (2025) writes that 2025 was a "good year" for British-German relations, with a friendship treaty signed in July of 2025. Berlin played a positive role in the SAFE talks for the UK; however, Germany's desire to come to an agreement was not sufficient to risk a fight with France. The Franco-German relationship will take priority for both parties over a successful reset with the UK (Henley, 2025).

Another significant division within the EU has emerged out of the conflict in Ukraine: although the war has done much to unite the continent on defence, the member states nearest Russia are the most dependent on retaining US military support. Forging stronger links with the UK has the potential to anger the Trump administration, and siding with the less powerful ally may prove an unattractive choice. These Baltic states are loath to economically punish the US (The Economist, 2025) and so may be wary of closer UK alignment.

How should Britain present itself

The European Commission, despite its hard-line rhetoric on the Four Freedoms, will in fact accept a limited degree of cherry-picking. It has done so for Switzerland, which is in the single market for goods but has agreed a safeguard clause to suspend free movement in cases of "serious economic or social problems" (European Commission, 2025). Also in the single market without unrestricted free movement are Liechtenstein and Northern Ireland, albeit the latter only for goods (The Economist, 2025). However, cherry-picking is only tolerated by the EU when there are obvious self-interested reasons for it to do so. This is clearly visible in the successes of the Common Understanding framework: the EU can make concessions on SPS because they will enhance the functioning of the Windsor Framework in Northern Ireland. Likewise, EU energy security depends on electricity from the UK, so it makes sense for the European Commission to compromise here. What the European Commission will not allow is for the UK to, as Reland (2026) puts it, "endlessly pick and choose the best economic benefits of the single market".

Henig (2024) identifies the UK's "failure to develop a realistic narrative" around what economic concessions are possible as a persistent negotiation error in dealings with the EU. It seems this bad habit remains. In Keir Starmer's new year interview with Laura Kuenssberg, he spoke transparently in favour of aligning with single market rules and expressed an ambition to "go further" than what had been agreed to since May (McKiernan, 2025). However, Starmer announced his intention to proceed with single market alignment "issue-by-issue, sector-by-sector". This is, of course, precisely the approach that Brussels rejects, and we argue has little chance of success.

The temptation is to target specific sectors where the EU would see the most benefit in allowing the UK to align with single market rules, and would therefore tolerate a little "cherry-picking". Earlier in this paper, we identified financial services and particular high-end manufacturing as areas where the UK has a strong comparative advantage. The same logic animates arguments leveraging UK contributions to defence for economic concessions. However, to adopt an incremental approach as a long-term strategy limits the possibilities of UK alignment: at the point where alignment is significant enough to reap meaningful financial reward, Brussels would likely demand that the UK's obligations increase to match its rights. A potential risk is the imposition of punitive "joining fees" - tellingly, some member states are already insisting that London should pay into the EU budget for the privilege of aligning with the single market on electricity. Furthermore, the spectre of Switzerland hangs over any deal with the UK. Bern's access to the single market comes at the price of largely accepting freedom of movement and paying into the EU budget. It would be politically difficult for the European project if the UK is seen to be receiving a better deal.

As such, Reland (2026) concludes that the inherent tradeoffs behind Brexit remain the same years later. Starmer's options are to negotiate smaller regulatory alignment deals on areas Brussels deems acceptable, or to trade off freedom of movement and financial contributions to the EU in exchange for deeper integration and more significant economic benefits.

VII. Policy Recommendations

1. TCA Renegotiation

An imperative for the current government would be to use the 2026 TCA review period to push for greater synthesis in trade regulation between the UK and EU markets. This effective cutting of 'red tape' through the introduction of MRCAs and greater coordination of export paperwork relating to phytosanitary measures and product standards would ease frictions associated with post-Brexit trade. Such measures would deliver dual benefits for British consumers (who may benefit from lower prices on European goods/produce) and for export businesses in the UK (whose costs in exporting goods to the EU market would be reduced). Such reforms are particularly vital for SMEs, which are disproportionately impacted by mis-alignment in trade regulations, as they cannot sustain the higher costs associated with post-Brexit European trade in the same way that large multinationals can.

2. Push For Greater Mutual Recognition Agreements

Alongside the renegotiation of the TCA, the current government will find additional value in negotiating MRCA, particularly in advanced manufacturing, and MRPQs for regulated professions. This will allow for far greater mobility amongst high-skilled workers, facilitating greater labour mobility for multinational corporations with relevant offices in both the UK and the EU. Additionally, it will enable UK and EU bodies to recognise each other's testing and certification for goods that already comply with identical standards and would eliminate duplicate procedures, reduce costs, and shorten trade delays. This would help preserve deeply integrated supply chains that depend on frictionless cross-border movement of components and finished products. At present, the TCA allows for sector-by-sector negotiation of MRAs. In order to expedite such negotiations, a list of key professions and sectors should be agreed between the EU and UK to allow for intensive negotiations. This is particularly relevant for the UK as a heavily services-based economy with a far higher level of innovation, which has strong value to add to EU clients, particularly if MRPQs facilitate greater workforce flexibility and mobility.

3. Long-Term Diversification in International Trade

In line with a forthcoming renegotiation of the TCA, the current government must evaluate its rhetoric surrounding 'Global Britain' to improve the role of British business forums, established firms, and emergent actors in establishing stronger bilateral trade agreements overseas. This can only be targeted following a normalisation/stabilisation of the British trade structures with the EU. Predictability in the UK's most proximate market will allow for a more exploratory foreign trade policy in the long-term. By focusing on trade normalisation with the EU in the short-term, the UK can reallocate more resources in the long-term towards diversifying British trade links and supply chains, particularly in Asia, in line with aspirations to improve the UK's competitiveness across international markets.

4. Targeted Joint Investment in Heavy Industry and Defence

In recognition of the current geopolitical environment, the UK has a common interest with its European partners in establishing new, innovative programmes in the defence sector to provide additional armaments to NATO members. Particularly in the aerospace and uncrewed weapons sectors, there is a joint benefit to further industrial public-private collaborations between British, French, German, Italian, and Swedish firms in shoring up European manufacturing capacity and preparedness for forthcoming geopolitical confrontations. Such initiatives would have the dual benefit of shoring up the UK's defensive capabilities whilst driving additional investment and economic growth within British technical manufacturing sectors, in line with established Labour manifesto goals. Though such collaborations would entail close cooperation between the UK and EU members, this would not entail additional regulatory constraints on the UK, as it would simply be an extension of existing collaborative programmes, aiming to emphasise Britain's role as an innovative force.

5. Compromise Concessions on Mobility

Given the EU's concern with cherrypicking, we argue that a negotiation strategy for deeper economic integration which does not make a visible concession on freedom of movement is unlikely to succeed. We recommend in particular accelerating negotiations on a UK-EU Youth Mobility Scheme. The EU has advocated for a youth mobility scheme since April 2024, but aside from the welcome announcement that the UK will officially rejoin the EU's Erasmus+ programme in 2027, progress has stalled. Warner and Kassim argue that successive UK governments have deliberately misrepresented the risks of an EU-UK youth mobility scheme, labelling it a Brexit "red line" (Warner and Kassim, 2025). In reality, a youth mobility scheme is decisively not freedom of movement: the proposed scheme requires a visa and only allows temporary stays for work, study, or travel under specific and restricted conditions. It does not grant settlement rights or unrestricted movement across EU countries (Warner and Kassim, 2025).

6. Strengthen Negotiating Capacity

Given the UK's reduced bargaining power as a medium-sized economy negotiating independently, strengthening trade negotiating capacity should be a core policy priority. The government should therefore invest systematically in trade negotiation expertise by hiring and retaining highly experienced negotiators with sectoral and legal specialisation. A better understanding of the strategic objectives, red lines, and constraints of major partners such as the US and China, together with improved coordination with domestic stakeholders, would enable the government to more effectively assess sector-specific impacts of trade proposals and negotiate agreements that align with national priorities. Furthermore, the UK should avoid over-reliance on bilateral negotiations with economic superpowers, instead amplifying its influence by working alongside other middle powers. This requires deepening trade and diplomatic relationships with multiple mid-sized economies simultaneously, supporting broader plurilateral and multilateral trade agreements, and coordinating policies, standards, and strategic investments to pool influence.

7. Re-Evaluate Trade Relations with Partners Outside of Europe

We propose a comprehensive re-evaluation of the UK's trade relations with major economies such as China and the CTPP for better coordination and mutual economic benefits, while multilateral trade pacts with mid-sized economies should also be fostered. Consistent with the cost-benefit analysis above, the UK should pursue a sector-specific engagement strategy with China rather than broad-based liberalisation, prioritising areas where UK capabilities align with Chinese demand, mutual economic benefit is clear, and risks are manageable, such as financial services, advanced manufacturing, and pharmaceuticals. To maximise the value of CPTPP membership, the UK should focus on deepening integration with key Asian economies, particularly highly developed and institutionally compatible partners such as Singapore, Japan, and Vietnam. This should be accompanied by policies to support British businesses, especially SMEs, in entering distant CPTPP markets, including enhanced export finance, trade facilitation, and regulatory navigation support.

VIII. Conclusion

Britain's post-Brexit trade trajectory illustrates the limits of pursuing economic autonomy without adequately accounting for geoeconomic fragmentation, market asymmetries, and institutional leverage. As discussed, the TCA was not designed as a permanent settlement to sustain UK-EU trade, but rather as a minimally viable framework completed under conditions of political urgency and strategic miscalculation (Henig, 2024). The result has been a UK-EU trade relationship characterised by regulatory fragmentation, elevated transaction costs, and persistent uncertainty (HM Government, 2021). The central constraint facing the UK in a post-Brexit world, then, is the challenge of operating within deeply integrated European economic systems without institutional mechanisms to manage interdependence.

Across key sectors such as manufacturing, services, and energy, regulation constitutes the primary bottleneck to UK-EU trade. For complex manufactured goods and regulated professional services, duplicated assessments, certification requirements, and licensing barriers impose disproportionate costs on British firms (Berg, 2024). This reinforces the case for targeted negotiations focused on reducing red tape through MRCAs in select manufacturing sectors and MRAs for professional services. Within the context of a renegotiated TCA or other successor agreements, such measures would address the most economically damaging forms of post-Brexit friction while avoiding the political infeasibility of complete alignment. (CEPR, no date)

Beyond regulatory reduction, innovation stands as a domain in which UK-EU cooperation offers positive-sum gains. Britain's strength as an incubator economy for artificial intelligence, biotechnology, and advanced technical manufacturing positions it as a complementary partner for European innovation ecosystems (Borchert, 2025). Encouraging joint investment in research and development hubs would allow both sides to capture subsequent benefits while addressing longstanding European challenges related to scaling and commercialisation. The UK's renewed participation in Horizon Europe illustrates that nuanced, sector-specific cooperation remains feasible and mutually advantageous when grounded in shared strategic interests (Henig, 2024).

In particular, defence industries provide a potential dimension for further selective cooperation. As European states reassess supply chain resilience and technological autonomy in response to heightened geopolitical risk, opportunities for joint innovation in aerospace technologies and uncrewed systems are expanding (Martill 2025). Collaboration with EU member states such as France, Germany, and Italy offers a pragmatic pathway for advancing defence innovation without institutional reintegration. Such initiatives would reinforce Britain's role as a high-value defence partner while aligning it with broader European security objectives.

However, evidence does not support a strategy of exclusive European reorientation. While the EU remains Britain's most consequential economic partner, resilience in a fragmenting global economy will require diversification. Concurrently expanding bilateral trade negotiations beyond Europe while working closely with British business forums, established exporters, and emerging firms would allow for opportunities to broaden export destination markets and attract inward investment. Recent engagement with major global economies such as China and India illustrates the potential of such an approach, as long as such agreements complement rather than substitute the stabilisation of the UK's European economic base (Yilmaz, 2025).

Ultimately, the findings in this report point toward a trade strategy defined by sustainability and complementarity rather than breadth or complexity. The 2026 review of the TCA, therefore, represents a critical inflection point. Approached as a technical exercise, it risks locking in inefficiencies that will continue to erode British competitiveness. Approached strategically, however, it offers an opportunity to recalibrate the UK's position within the European economic system and beyond. The challenge for the UK is not to choose between Europe and the world but to integrate both within a coherent trade architecture that treats regulatory cooperation, innovation investment, and market diversification as mutually reinforcing pillars of long-term economic resilience.

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