Institute for Public Policy Research

NAVIGATING TRADE-OFFS IN THE GLOBAL ECONOMY

A FRAMEWORK FOR A WORLD BETWEEN ORDERS

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ABOUT THIS PAPER

The purpose of this paper is to promote research about international economic policymaking, in response to today's geopolitical context.

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SUMMARY

The UK must navigate a new era of geopolitics, characterised by competition, conflict and instability. The return of president Donald Trump to the White House has instigated a trade war with China, alongside a new US universal tariff of 10 per cent on imported goods from nearly all countries. The result has been widespread disarray. Moreover, the global economy was already fragile after a series of major supply-chain disruptions caused by the Covid-19 pandemic, the subsequent reopening of economies and the Russian invasion of Ukraine. With the US–China relationship continuing to deteriorate, and global competition heating up as economies make the green transition, policymakers are faced with a head-spinning array of geopolitical challenges.

This is a strikingly different economic landscape compared to the last time a Labour government was in power. In the period following the end of the cold war, the prevailing assumption was that all good things came together: progressive outcomes across the economy, democracy and geopolitics were complementary and mutually reinforcing. Today, in an era of stuttering growth, geopolitical conflict and economic uncertainty, this assumption seems wildly outdated.

In this report we argue that, in this unpredictable context, the UK government will now be forced to make difficult choices between competing objectives for international economic policymaking. We explore the objectives that the government might want to pursue and how it should navigate the different trade-offs between them.

Our starting point is 12 objectives for international economic policymaking (see table S1): six objectives focussed primarily on the UK's domestic interests – such as building economic prosperity and bolstering national security – and six objectives focussed on global interests – such as accelerating the green transition and upholding the rules-based international order.

TABLE S1

Twelve objectives for international economic policymaking

Domestic objectives	Global objectives
Building economic prosperity	Accelerating the green transition
Strengthening resilience to external economic risks and shocks	Upholding the rules-based international order
Tackling domestic inequalities	Ending global poverty
Preserving national sovereignty	Empowering workers
Bolstering national security	Fostering positive geopolitical relations
Protecting democracy	Promoting human rights

Source: IPPR analysis

In a number of cases, these objectives stand in direct tension. In this report we highlight five different trade-offs.

TRADE-OFF A: 'GROWTH THROUGH EFFICIENCY' VS 'RESILIENCE TO ECONOMIC SHOCKS'

There is a trade-off between promoting growth through economic efficiency and reordering supply chains as a means of securing economic resilience. Building resilience in key sectors may require restructuring supply chains to reduce vulnerabilities to future disruption, whether from geopolitical or natural causes. This might involve onshoring, near-shoring or friend-shoring. But this requires shifting supply chains away from where production can be done most cheaply, creating economic inefficiencies.

CASE STUDY

Due to concerns over a reliance on semiconductor production in Taiwan, some countries – including the US and EU member states – have tried to reduce their dependencies by investing in the domestic production of semiconductors. US president Trump is also considering targeting imported semiconductors with tariffs. Semiconductors are seen as a strategic priority for resilience, given their importance in many technologies, but at the same time, onshoring manufacturing could prove extremely costly.

TRADE-OFF B: 'GROWTH THROUGH INTEGRATION' VS 'SOVEREIGNTY' VS 'DEMOCRACY'

Governments must grapple with a trade-off between economic integration, sovereignty and democracy. Close economic integration may support growth but it requires that countries harmonise their regulations and tax policies to facilitate trade and investment. This in effect means removing certain regulatory issues from political debate – for example, through delegating to technical bodies to ensure alignment at the international level – risking democratic disenfranchisement. Alternatively, governments could pursue economic integration and protect democratic debate by creating a federal system with supranational democratic institutions, but this requires pooling sovereignty. Finally, prioritising sovereignty and democratic control would prevent governments from guaranteeing the regulatory harmonisation needed for economic integration.

CASE STUDY

The EU allows for deep economic integration between countries and can be seen as a partially federal system: member states sacrifice some sovereignty as certain policies are determined at the EU level. Having now left, the UK is faced with a core trade-off in its relationship with the EU: a closer relationship requires greater regulatory alignment – in effect delegating some decision-making to EU bodies – but a more distant relationship restricts opportunities for economic growth.

TRADE-OFF C: ‘GREEN TRANSITION’ VS ‘GROWTH THROUGH INDUSTRIAL STRATEGY’ VS ‘FOSTERING POSITIVE GEOPOLITICAL RELATIONS’

Policymakers face a trilemma between three objectives: accelerating the green transition, supporting growth through industrial strategy, and fostering positive geopolitical relations with the global south. The green transition entails new regulations aimed at decarbonising and transforming the domestic economy. If these regulations apply only to domestic production and not to imports, there is a risk of a ‘first-mover disadvantage’: those countries that begin to expand their regulations risk making their firms less competitive than counterparts in other countries. This means that green firms – typically critical to modern industrial strategy – could be at a disadvantage. On the other hand, if the regulations are applied to imports, they face a backlash from countries in the global south that will be impacted by them. Finally, supporting domestic industries and maintaining relations with the global south risks slowing environmental progress, because policymakers would be encouraged to not advance too far ahead of the slowest global mover.

CASE STUDY

The EU is introducing a carbon border adjustment mechanism (CBAM), which will impose charges on imports in line with their embedded carbon emissions, reflecting the costs for domestic producers imposed under the EU’s emissions trading system. The EU’s CBAM is designed to create a ‘level playing field’ between EU producers and importers by applying equivalent charges to both. This ‘level playing field’ will allow the EU to decarbonise faster by phasing out ‘free allowances’ for certain carbon-intensive industries. However, significant concerns have been raised about the EU’s CBAM from some of the most affected countries in the global south, including Brazil, India and South Africa.

TRADE-OFF D: ‘GROWTH THROUGH INDUSTRIAL POLICY’ VS ‘INTERNATIONAL RULES-BASED ORDER’

The return of active industrial policy – alongside the increased focus on resilience – comes into conflict with some of the key principles of international trade law. For instance, measures that support strengthening domestic sectors and/or the onshoring of supply chains – such as local content requirements – may be considered discriminatory under World Trade Organization (WTO) law.

CASE STUDY

Successive US administrations have taken action to expand ‘buy American’ policies, aimed at favouring US products over imports. A prime example is the Inflation Reduction Act 2022 (U.S. Congress 2022), which includes tax credits for electric vehicles. Eligibility for tax credits is dependent on a number of criteria that favour the US and particular trade partners. China has argued that the Act is discriminatory under WTO rules.

TRADE-OFF E: 'FOSTERING POSITIVE GEOPOLITICAL RELATIONS' VS 'PROMOTING HUMAN RIGHTS'

Strengthening the UK's geopolitical relationships abroad may face tensions with the objectives of upholding democratic values and human rights on the global stage. Advancing the UK's relationships beyond its close allies could help to build broader coalitions on global challenges, foster peace and promote economic prosperity. But this may mean developing economic agreements with countries with differing values. Some may argue that human rights commitments should be embedded into economic agreements as a matter of principle and in order to try to incentivise positive change. But not all countries are willing to countenance these types of commitments and insisting on them could ultimately damage geopolitical relationships.

CASE STUDY

The UK is negotiating a free trade agreement with India, with the aim of reducing barriers to trade in goods and services. Yet as these negotiations have developed, concerns have been raised about India's human rights record. The UK could urge for the free trade agreement to be contingent on mutually agreed labour and human rights commitments, but this risks sabotaging the negotiations if India is unwilling to agree.

In reality, these trade-offs often interact with each other in complex ways. A prime example is the current trade war and the UK's efforts to negotiate the removal of president Trump's new tariffs. On the one hand, an agreement to remove tariffs would support economic growth, particularly in parts of the country outside London and the South East, and strengthen relations with the US. On the other hand, a deal might require aligning with the US on sensitive digital and tech policy matters, which could conflict with public opinion in the UK – with potential implications for both democratic disenfranchisement and national security.

NAVIGATING TRADE-OFFS IN AN UNPREDICTABLE GLOBAL ECONOMY

The five trade-offs we have described above highlight the stark choices facing the UK government in the current unpredictable global economy. But how should the government navigate these trade-offs? There is no simple way of prioritising objectives – particularly when the stakes are so high for geopolitical relations, for the global economy and for the climate. But there are some central guidelines that will help guide policymakers as they choose between competing objectives. We outline five here.

- **In a world of trade wars and supply-chain disruptions, economic resilience must now be a greater priority than in the past.** Putting resilience first should be a serious consideration for critical sectors – including energy, defence, food, communications, and healthcare and pharmaceuticals – and where restructuring supply chains is economically viable.
- **Deepening economic integration may be the right call even if it constrains some policy choices, provided the policy direction required to integrate has strong public backing.** That is, the UK would be justified in aligning or harmonising regulations with trade partners when there is a clear public consensus behind the policy direction being taken. But where issues are highly sensitive for the public, the UK will need clear 'red lines' that it will not cross.
- **The climate and nature crisis places an imperative on the UK government to deliver a green transition while building relations with the global south, even if this at times does not create a perfect 'level playing field' for business.** The UK's priority should be to take a consensual approach to international

environmental action, and so this might mean it is appropriate to offer exemptions for lower-income countries, provided this is proportionate and does not put UK businesses at a significant competitive disadvantage.

- **The UK should take a pragmatic approach to international economic law.** While the UK should be alive to the economic and moral implications of breaching international law, in a world where cherry-picking has become the norm and the WTO is not functioning effectively, it risks becoming hamstrung by an overly legalistic approach.
- **The UK's efforts to strengthen economic and geopolitical relations should be at the forefront of its international agenda, even if this means working with partners with which it disagrees.** There is no doubt that the UK should continue to be a leading voice globally for human rights and democratic norms. But in an era of tense and unstable geopolitics, it will need to be open to working with those who have differing viewpoints – and choose to 'show, not tell' its values – if it wants to deepen its economic and strategic diplomacy.

1.
INTRODUCTION

Labour's first year in government is marked by profound international uncertainty.

Competition, conflict and instability have become a growing feature of the international landscape over the past few years. Trade barriers have been rising and investment has been increasingly concentrated in geopolitical blocs. China's rise has seen the return of overt, great-power competition across military, technological and economic domains. And a surging nationalism in many countries has made it harder to address shared challenges such as climate change, just at the moment when international cooperation is needed more than ever.

But the arrival of the second Trump administration has intensified instability to an entirely different level. Now it feels like nothing – who holds power, who allies with whom, the 'rules of the game', the absence of great-power military conflict – can be taken for granted. The UK has to find a way to navigate the disintegration of the previous Western-led, 'rules-based' order, unable to rely on structures and norms that it helped to build, and which have largely been a 'given', helping the UK to secure its interests around the world.

The government is responding adeptly to key aspects of these changes. It has been clear in its continued support of Ukraine, working proactively with other European countries to build a 'coalition of the willing' to stand behind Ukraine, underpinned by rising defence spending. And it has kept a cool head in the face of the Trump administration's tariff actions, working hard to negotiate exemptions while considering the implications for its long-term industrial and trade strategies.

Underpinning the government's international diplomacy are the personal relationships between country leaders. Again, it feels like the government is deftly handling these, not least the US relationships, where the prime minister and foreign secretary have been able to communicate difference with the Trump administration while maintaining positive relations.

We are, however, only a few months into four years of what looks like profound instability and transformation in the international arena. And while Trump may have supercharged the breakdown in the previous order, no one expects that it will spring back, coherent and healthy, at the end of his term. The roots of its problems are deeper and these four years may break institutions and norms in ways that mean they cannot be easily glued back together.

The UK therefore needs to build on its deft handling of the past few months to develop a new approach to international economic policy.

The starting point of this different approach is to consciously recognise how radically different this era is to the one that preceded it. There may be a tendency to draw on templates – conscious and unconscious – from the last time Labour was in power. But that was an almost incalculably different period. 1997 was a time of almost unprecedented international optimism. Within the preceding decade, the Berlin Wall had come down, Nelson Mandela had been released from prison and the international community had successfully come together to solve the most prominent international environmental issue – the hole in the ozone layer.

This optimism was not just a feeling – it was embedded in international relations theory, epitomised by Francis Fukuyama's (1989) infamous declaration that we had reached the "end of history". Fukuyama argued that liberal democracy and the managed market economy had proven to be not only the best, but also the final set of arrangements for governing economies and societies. While this felt grandiose to many even at the time, the idea that progressive outcomes across the economy, democracy and geopolitics were complementary and mutually reinforcing did feel plausible, and came to underpin many policymakers' thinking.

No one living through the past few years and months seems likely to argue that this is the right way to see our international policy choices now. But it is one thing to know we are not working with the old assumptions – where all good things come together – and another to identify and actually use new assumptions, embedding them in a policy approach that helps the government achieve its objectives in these complex, high-stakes times.

This report seeks to help policymakers find a way to navigate this new era. First, it explicitly identifies the variety of objectives that the UK government might want to pursue in relation to international economic policy (chapter 2). Second, it explores where these objectives seem to rub up against one another (chapter 3). And third, it outlines how policymakers might want to navigate these different trade-offs (chapter 4).

We are not arguing for perfect coherence across the variety of decisions the UK must make in relation to international economic policy. The government often has to move at pace, not least in this period of turbulence and crisis. However, given how unpredictable the international context is at present, it will be very difficult to consistently achieve UK objectives without explicitly articulating them, and being clear about what the government most cares about.

And this is our core thesis: that, when faced with trade-offs, the government must choose. It cannot swerve making choices on the basis that there are straightforward 'win-wins' through which all objectives can be achieved simultaneously. The prime minister, Sir Keir Starmer, and the chancellor, Rachel Reeves, have made clear that this is a government willing to take 'tough choices' on the domestic economy. The same must apply for issues relating to international economic policy as well. We hope the discussion in this report helps the government to start to identify these, and to develop a strategic framework for consistently driving forward the things it cares about, amid the noise and chaos.

2. OBJECTIVES FOR INTERNATIONAL ECONOMIC POLICY

The context for international economic policy has shifted dramatically over the past decade. Donald Trump's first presidency and his return to the White House this year have sparked global trade turmoil and a US–China tariff war. The US president has introduced a 10 per cent universal tariff on all imported goods and a 145 per cent tariff on goods from China (Bown 2025). Even before this jolt to the system, supply chains had been exposed as being far more fragile than previously thought in the face of the Covid-19 pandemic, natural disasters and unpredictable new conflicts. Russia has also faced tough economic sanctions in response to its invasion of Ukraine, while European countries have had to take significant action to unwind their dependence on Russian energy (McWilliams et al 2024). At the same time, there is intense geopolitical competition over the technologies that will power the green transition (Zabelin and von Dongen 2024). The key institutions of 20th-century multilateralism – Nato, the UN, the World Bank and the WTO – are under increasing strain.

In this context, governments are faced with a set of competing objectives in pursuing international economic policy. The following section explores this in more depth.

WHAT DO WE MEAN BY INTERNATIONAL ECONOMIC POLICY?

By international economic policy, we mean any policy that influences or connects to the UK's economic relationships abroad. This could include:

- unilateral policy measures, including tariff reform, overseas development assistance, and export and investment strategies, as well as domestic measures that may affect the UK's economic partners (for example, subsidies and procurement policy)
- bilateral or plurilateral measures, including the UK's free trade agreements and the coordination of UK–EU relations
- multilateral measures, including how the UK positions itself on economic issues with respect to key multilateral institutions, including the IMF, the World Bank and the WTO.

TWELVE OBJECTIVES FOR INTERNATIONAL ECONOMIC POLICY

The potential objectives for international economic policy are broad in scope. Here we try to identify a comprehensive list of objectives that the UK government might want to pursue, as a starting point for navigating the different trade-offs between them.

These objectives can, in broad terms, be divided into two categories. One set of objectives focusses primarily on the pursuit of the UK's domestic interests – for instance, its economic resilience, sovereignty or national security. The other focusses more on the pursuit of international interests – such as ending global poverty, upholding the international rules-based order or promoting democratic values. Of course, there is a compelling argument that these global objectives are in the UK's national interest too – because they bring benefits for the UK's trading position, its security and so on – but they also have global significance in a way that the domestic objectives do not.

Table 2.1 categorises these two types of objectives. The categorisation is based on the primary focus of each objective: where an objective is framed as having a primarily domestic focus, we placed it in the left-hand column; and where it is framed as having a primarily global focus, we placed it in the right-hand column.[1] We explore each of these objectives in turn.

TABLE 2.1

Twelve objectives for international economic policymaking

Domestic objectives	Global objectives
Building economic prosperity	Accelerating the green transition
Strengthening resilience to external economic risks and shocks	Upholding the rules-based international order
Tackling domestic inequalities	Ending global poverty
Preserving national sovereignty	Empowering workers
Bolstering national security	Fostering positive geopolitical relations
Protecting democracy	Promoting human rights

Source: IPPR analysis

Domestic objectives

1. Building economic prosperity

Economic growth is a core objective of any government and the central mission of the current one. Successive governments have placed a strong priority on securing prosperity across the UK, after more than a decade of disappointing growth in GDP per capita (World Bank 2025). The pursuit of broad-based prosperity is in large part connected to international economic policy – including through policy measures aimed at securing inward investment, seizing export opportunities and strengthening trade relationships.

In the context of the international economy, there are multiple differing conceptions of how to secure economic growth. For this report, we focus on three distinct approaches.

- **Growth through efficiency.** Much of the traditional policy debate has focussed on securing growth through greater economic efficiency. According to mainstream economic theory, reducing barriers to trade and investment increases competition and facilitates specialisation, allowing for the more

1 One objective that is particularly hard to categorise is 'empowering workers'. This is because it is normally framed as benefitting both domestic and overseas workers, through facilitating a 'race to the top' by agreeing on higher standards. For this exercise, we have identified it as a global objective, because in principle it can be understood as an effort to raise the conditions of all workers, irrespective of national borders.

efficient use of resources and higher levels of economic output. This approach is exemplified by the trade rounds of the General Agreement on Tariffs and Trade (GATT) and the WTO, which primarily focussed on reducing tariffs and non-tariff barriers to trade (WTO no date).

- **Growth through integration.** Another approach to securing growth is the creation of trade blocs, where internal barriers to trade and investment are removed. This promotes economic growth through greater competition and economies of scale. While closely related to the 'growth through efficiency' approach, the distinction is that trade through integration involves maximal openness between members of a trade bloc – often requiring deep harmonisation of regulations – while excluding non-members from these benefits. The most prominent example of this approach is the EU's creation of the single market, which supports the free movement of goods, services, labour and capital.
- **Growth through industrial strategy.** There has been a recent resurgence in the development and deployment of industrial strategies to revitalise economic growth. This approach typically involves identifying key sectors with current or potential comparative advantage and making policy interventions (for example, subsidies, export promotion, tax incentives, regulatory changes or domestic content requirements) to support their growth. Particular value is placed on this approach at times of major structural change – such as the transformation of energy systems or the rise of disruptive new technologies – where intervention is necessary to help the economy adapt. Recent industrial strategy has focussed particularly on supporting green industries and businesses. The Biden administration's Inflation Reduction Act 2022 – which makes major climate and energy investments – and the European Green Deal Industrial Plan are two of the most significant examples of this approach (Murphy 2024). While president Trump's tariff agenda could also arguably be seen through the same lens – as a means of supporting US manufacturing – it is ultimately too haphazard and untargeted to be considered as a form of industrial strategy.

2. Strengthening resilience to external economic risks and shocks

Discussions about supply-chain vulnerability in the years since the Covid-19 pandemic have put a new premium on bolstering economic resilience (OECD 2025). By this, we mean mitigating the risk of supply-chain disruption in key strategic sectors of the economy – including energy supply, food production and communications technologies – by providing security against natural disasters, geopolitical tensions, economic upheaval, and war and conflict. There is particular sensitivity where supply chains are highly complex or where there are high levels of dependence on specific countries or firms. While some of the tools for strengthening resilience are similar to those used to promote growth through industrial strategy, resilience is primarily focussed on protecting against future threats, whereas industrial strategy is centred on proactively advancing parts of the UK economy.

3. Tackling domestic inequalities

Income inequality in the UK has remained stubbornly large since the 1990s (Brewer and Wernham 2022). Moreover, the UK is one of the most geographically unequal countries in the developed world, with sharp divides in productivity between London and the South East and the rest of the country (Raikes 2020; ONS 2024). A focus on addressing regional inequalities – sometimes framed as 'levelling up' the UK – has become a central feature of the current UK policy debate. Moreover, discussion of geographic inequalities has become increasingly tied to policy on international trade; one well-known study in the US found that greater competition with Chinese imports (the so-called 'China shock') led to a rise in unemployment and lower wages in local labour markets with competing manufacturing sectors (Autor et al 2013).

4. Preserving national sovereignty

In navigating international economic policy – particularly when entering new trading agreements or economic partnerships – governments have a defensive interest in maintaining their own powers to determine the shape of domestic policy, rather than transferring them to supranational institutions. This is most relevant where areas of regulation interact with the global economy – for instance, regulations on agrifood, product safety, digital and artificial intelligence (AI), energy and climate, and labour rights.

5. Bolstering national security

National security is the first priority of any government. In recent years, overseas threats to the UK's security have become increasingly complex. They include (HM Government 2025):

- conventional attacks on a UK ally or partner
- cyber-attacks on critical sectors such as the health and care system and transport
- disruption to Russian gas supplies and other energy infrastructure.

Moreover, in light of the new Trump presidency's shift in approach to Nato and Ukraine, defence has become an overriding imperative of the current government. National security is therefore likely to be an increasingly important part of the UK's international economic diplomacy.[2]

6. Protecting democracy

Over recent decades, governments in Europe and North America have faced a crisis of democracy (Patel and Quilter-Pinner 2022). In the UK in particular, there was a collapse in confidence in the government over the course of the last parliament (Curtice et al 2024), while only half of adults voted in the 2024 general election – the lowest share since universal suffrage (Patel and Valgarðsson 2024). In parallel, in the EU, the UK and the US, populist forces have reached new heights in recent years, typically mobilising voters over issues such as migration and globalisation. Policy choices in the international economy arena therefore often directly relate to the dynamics of populist politics. This underlines the importance of developing international economic policy in a way that rebuilds public confidence and strengthens the bonds between citizens and democratic politics.

Global objectives

7. Accelerating the green transition

As the greatest shared global challenge of our age, the climate and nature crisis is a priority for policymakers around the world. The UK government's ambition is to reach net zero greenhouse gas emissions by 2050 and to ensure that low-carbon sources produce 95 per cent of Great Britain's electricity generation by 2030 (its 'clean power' mission) (DESNZ 2024). Policymakers also have a strong interest in supporting international efforts at decarbonisation, with the aim of keeping the global average temperature 'well below 2°C above pre-industrial levels', in line with the Paris Agreement (UNFCCC 2015). Alongside these climate ambitions, the government has also made commitments on protecting nature, reducing pollution and addressing biodiversity loss, including the '30by30' commitment to protect 30 per cent of UK land and sea by 2030 (Defra 2025). Increasingly, there is an awareness that tackling the climate and nature crisis will interact with key decisions in international economic policy, including the sourcing of critical minerals for green technologies, the use of green subsidies and the application of charges to carbon-intensive imports.

2 There is a clear overlap between this objective and objective 2 on strengthening resilience to external economic risks and shocks, but national security is typically more strictly defined as focussed on current or emerging threats to the safety of a country's citizens and core institutions.

8. Upholding the rules-based international order

The UK has long been a strong advocate of the rules-based international order and the new government has signalled its reaffirmation of the UK's support for international law (Hermer 2024). With the core multilateral institutions of the post-war era under sustained pressure, the UK – as a mid-sized open economy – has a clear practical as well as principled interest in ensuring that the functioning and legitimacy of these institutions are maintained. In the economic sphere, this relates specifically to the IMF, the World Bank and – most sensitively – the WTO.

9. Ending global poverty

Eliminating poverty is a shared mission of most countries around the world. As a member of the UN, the UK has signed up to the 17 sustainable development goals, the first of which is to "end poverty in all its forms anywhere" by 2030 (UN 2024). The UK has traditionally been a world leader in its approach to international development, although successive cuts to the aid budget risk diminishing its reputation. The global context for ending poverty is hugely challenging: progress in reducing poverty rates has stalled as numbers in extreme poverty rose during the period of the Covid-19 pandemic (Aguilar et al 2024). And further setbacks are now to be expected as a result of the drastic cuts to the US Agency for International Development, increasing the urgency of this issue for policymakers.

10. Empowering workers

The rights and conditions of working people are a priority for the new government's policy agenda. Moreover, there is a crucial international dimension to promoting workers' rights and protections. This can be considered from two perspectives: on the one hand, ensuring domestic workers are supported when developing policy and are protected from global economic headwinds; and on the other hand, gearing policy towards uplifting and empowering workers globally. This objective speaks to concerns from some progressives that globalisation can lead to a 'race to the bottom' on labour standards, as well as fears over job losses and wage suppression in some countries, particularly in the manufacturing sector (Olney 2013; Batabyal 2020). Responses to these concerns could include higher standards in trade agreements and financial assistance for people who lose out from the economic effects of globalisation.

11. Fostering positive geopolitical relations

A common aim of international economic policy is to deepen geopolitical relationships. Stronger relationships underpin strategic cooperation on a number of fronts – whether on the economy, defence, research, energy, health or other shared challenges – and help to amplify the UK's values and secure its interests abroad. The new Labour government has emphasised a return to "responsible global leadership" and announced in particular its intention to reset the UK's relationship with the EU after an acrimonious post-Brexit period (PMO 2024). At the same time, the government has had to carefully manage the relationship with the new Trump administration in the US. Building relationships in the Indo-Pacific region is also likely to be a strategic priority, in light of its importance for the global economy and security. Another intersecting priority is strengthening trust with countries in the global south, where China and Russia have been vying with the west for geopolitical influence (Ashton 2024).

12. Promoting human rights

Governments often have an interest in pursuing their own values through international economic policy. The foreign secretary, David Lammy (2024), has spoken of taking an approach of 'progressive realism' towards foreign affairs – balancing hard-headed pragmatism with a belief in the power of foreign policy to work towards progressive ideals. In a period of geopolitical uncertainty – with liberal democracies under threat and authoritarianism on the rise – there is a clear case for gearing international economic policy to defend democratic values and human rights – whether through international diplomacy, sustainable development or support for multilateral institutions.[3]

Each of the objectives in this chapter may have a strong rationale in its own right, but the experience of policymaking in recent years has exposed the reality that, again and again, they come into tension. Yet political narratives have had a tendency to duck these trade-offs on the basis that there are 'win-wins' to be found that satisfy all objectives. In our view, it is time to tackle these trade-offs head-on and start to make difficult choices between competing objectives. In the next chapter we explore some of these trade-offs in more depth.

3 This objective is closely related to objective 10 on empowering workers, on the basis that workers' rights are often also understood as human rights.

3.
FIVE TRADE-OFFS FOR INTERNATIONAL ECONOMIC POLICY

In this chapter we explore five of the central trade-offs in international economic policy between the objectives discussed in chapter 2. These trade-offs reflect many of the most contentious choices currently facing policymakers as they navigate the changing global economy.

TRADE-OFF A: 'GROWTH THROUGH EFFICIENCY' VS 'RESILIENCE TO ECONOMIC SHOCKS'

There is a trade-off between promoting growth through economic efficiency and reordering supply chains as a means of securing economic resilience.

Building resilience in key sectors may require restructuring supply chains to reduce vulnerabilities to future trade disruption – whether from geopolitical causes such as the Russian invasion of Ukraine or US–China tensions, or from other causes such as the Covid-19 pandemic or climate change. A resilience-focussed approach could involve:

- onshoring (transferring production to the UK)
- near-shoring (transferring production to nearby countries)
- friend-shoring (transferring production to reliable allies or countries with equivalent values).

While it may not be feasible to move entire supply chains to the UK or its allies, the idea behind these approaches is to shift at least part of existing supply chains to reduce the risk of potential disruptions.

Each of the three approaches requires shifting supply chains away from where production can be done most cheaply. This makes supply chains less efficient. For instance, using tariffs on intermediate inputs to try to promote domestic manufacturing increases costs for these goods, which 'cascade' down the supply chain and result in cutbacks in production and price increases for consumers (see Kreuter and Riccaboni 2022). Similarly, one study suggests that friend-shoring may lead to a fall in global GDP of up to 4.6 per cent (Javorcik et al 2022).

On the other hand, proponents of resilience-based strategies argue that the reallocation of supply chains can reduce dependencies on unreliable partners and help to insulate countries from economic shocks. There is evidence in particular that the diversification of supply chains can help to reduce the negative impacts of shocks, while partial onshoring can also have benefits but comes with significant implications for economic efficiency (OECD 2023).

The trade-off between efficiency and resilience can be understood as a judgement about the risk of adverse impacts of economic shocks over time. Taking action to bolster resilience could have a short-run detrimental impact on growth by making supply chains less efficient, but it may prove economically optimal in the long run if it shields the UK from future economic shocks. Recent events – from the Covid-19 pandemic to conflicts and trade wars – have heightened policymakers' alertness to future economic risks and therefore helped to ignite the current efficiency/resilience debate.

The trade-off is most acute for goods that are foundational for future economic growth, such as semiconductors. This is because, on the one hand, they are likely to be strategically important – and therefore in need of protection from economic disruption – and yet, on the other hand, restructuring these supply chains will have wide network effects on other industries, with larger impacts for efficiency.

Case study 1: Chips

Europe and the US have grown concerned about global reliance on semiconductor manufacturing in Taiwan. Semiconductors are vital for a range of technologies, including cars, smartphones and computers. Integrated circuits or 'chips' are a key type of semiconductor product. These include 'logic chips', which are typically known as the 'brains' of electronic devices and which are vital for the rollout of AI (Jones et al 2023).

More than 90 per cent of high-end semiconductor production is based in Taiwan (ibid). One firm in particular dominates production: the Taiwan Semiconductor Manufacturing Company (TSMC). This level of concentration poses significant risks for semiconductor supply, in the event of a natural disaster, pandemic or other form of supply-chain disruption. The risk was brought home for governments during the semiconductor shortage in the early 2020s, which was the result of a confluence of factors, including strong demand for computers and smartphones from people working and studying at home due to the Covid-19 pandemic, as well as the shift to 5G and the US–China trade war (Gupta and Chauhan 2023). Moreover, there are particular concerns over the reliance on Taiwan due to its longstanding geopolitical dispute with China.

In response, some countries have begun to try to reduce their reliance on Taiwan and invest in the domestic production of semiconductors. For instance, the US CHIPS and Science Act 2022 and the European Chips Act 2023 are both designed to increase investment in domestic semiconductor manufacturing. President Trump, after suggesting he might apply tariffs of as much as 100 per cent on imports of semiconductors from Taiwan, recently announced a $100 billion investment by TSMC in US chip production (Mickle 2025). Onshoring manufacturing, however, could be very costly, given it will go against countries' established comparative advantage and may lead to a subsidy race or a trade war. TSMC has suggested that the cost of chips in the US could double as a result of US onshoring (Sacks and Huang 2024).

Europe and the US therefore face a choice between the following:

1. Work to shift semiconductor production away from Taiwan and to Europe and the US, at considerable cost to economic efficiency.
2. Continue to largely rely on semiconductors from Taiwan, running the risk of vulnerability to future supply-chain disruptions.

TRADE-OFF B: 'GROWTH THROUGH INTEGRATION' VS 'SOVEREIGNTY' VS 'DEMOCRACY'

The economist Dani Rodrik (2000) has postulated a trade-off between economic integration, sovereignty and democracy. Closer economic integration requires that countries harmonise their regulations and tax policies to facilitate trade and investment. This means either pooling sovereignty under a federal system or effectively restricting domestic democratic decision-making to ensure policies are aligned at the international level.

Framed in terms of the objectives listed in chapter 2, this trilemma can be described as being between promoting growth through integration, preserving national sovereignty and protecting democracy.

There is extensive evidence that economic integration boosts growth (see for example Badinger 2005). But allowing the free flow of trade and investment (beyond simply tariff reduction) typically requires the synchronisation of regulations and judicial oversight, in order to remove trade barriers and foster business confidence in the system. Yet economic integration in effect removes these regulatory issues from the democratic arena – for example, through delegating to technical bodies or through enforcing a political consensus for fear of market reaction. While this is typically not a formal restriction on democratic freedoms, it can narrow the bounds of political debate and limit the scope of policy choices, deepening democratic disenfranchisement and extending the scope for a populist backlash.

Alternatively, to maintain public consent for economic integration, countries could create a federal system with supranational democratic institutions. This has the potential to restore full democratic debate on economic policy, but would sacrifice national sovereignty in the process, as these economic decisions would no longer be made at the national level.

Finally, maintaining sovereignty and protecting democracy would prevent governments from guaranteeing the regulatory harmonisation needed for deep economic integration. Even if countries happened to align autonomously, there would be no guarantee this would last in the long run given national politics could diverge at any time, so it would be difficult to make the case for stability to business to support long-term growth.

Case study 2: An EU trade deal

As an EU member, the UK pooled its sovereignty in a range of areas, including agriculture, energy and climate, environment, competition and labour rights. The EU allows for deep economic integration between countries and can be seen as a partially federal system: member states sacrifice some sovereignty as certain policies are determined at the EU level. At the same time, there are constraints on democratic decision-making as EU citizens do not elect the European Commission directly.

Having now left and prioritised sovereignty, the UK is faced with a core trade-off in its relationship with the EU: a closer relationship requires greater regulatory alignment – in effect delegating some political decision-making to EU bodies – but a more distant relationship restricts opportunities for economic growth. A prime example is whether to negotiate a veterinary agreement, which will reduce checks and smooth the flow of UK–EU trade but will likely require alignment with EU agrifood rules, limiting the UK's room for manoeuvre in trade negotiations with other countries and the scope for democratic control over standards in this area (Morris 2025). For instance, it could mean a reduction in animal welfare standards – in particular, requiring the UK to overturn the ban on live animal exports that it introduced after Brexit (Singh 2025).

The UK therefore faces a choice between the following:

1. Agree to automatically align regulations with the EU in certain areas (for example, on animal and plant health) to strengthen economic integration, delegating political decision-making in these areas to the EU.
2. Maintain democratic control over these areas of policy, sacrificing closer economic ties with the UK's nearest neighbours.

TRADE-OFF C: 'GREEN TRANSITION' VS 'GROWTH THROUGH INDUSTRIAL STRATEGY' VS 'FOSTERING POSITIVE GEOPOLITICAL RELATIONS'

Policymakers face a trilemma between three objectives: accelerating the environmental transition, supporting growth through industrial strategy and fostering positive geopolitical relations with the global south.

The green transition entails new regulations aimed at decarbonising and transforming the domestic economy. As these regulations are introduced, there is a risk of a 'first-mover disadvantage': those countries that increase their regulations initially risk injuring their domestic firms, which could become uncompetitive compared with counterparts in countries further behind on making the transition. This means that green firms – typically critical to modern industrial strategy – could be at a disadvantage.

As a result, businesses will expect regulations to also apply to importers to ensure a 'level playing field'. But these import regulations are facing a backlash from lower-income countries, which argue that they are protectionist and hypocritical, given they would face trade penalties from countries that are historically responsible for far greater levels of emissions and environmental damage (see Lamy et al 2023).

This creates a trilemma:

- Introducing new regulations and applying them to imports could disproportionately impact lower-income countries and damage the UK's relations with the global south.
- Introducing domestic regulations while at the same time protecting lower-income countries – by not extending these regulations to imports from these countries – could undermine the UK's industrial strategy by disadvantaging green UK businesses.
- But prioritising both industrial strategy and relations with lower-income countries would inevitably mean reducing the ambitions of environmental policies, because policymakers would be encouraged to not advance too far ahead of the slowest global mover, for fear of harming their own industries.

This trilemma also has implications for some of the other objectives outlined in chapter 2. Introducing environmental regulations without parallel measures for imports could further jeopardise public confidence in government and undermine democratic consent, as political opinion could harden against a policy that systematically disadvantages UK business. At the same time, policies aimed at creating a 'level playing field' between domestic and overseas firms could undermine international development efforts by penalising lower-income countries, especially where they have less capacity to adapt their economies to new climate and nature regulations. The risk is therefore that these measures set back the fight against global poverty.

Case study 3: CBAM

The EU is introducing a carbon border adjustment mechanism (CBAM), which will impose charges on imports in line with their embedded carbon emissions, reflecting the costs for domestic producers imposed under the EU's emissions trading system. It will apply to carbon-intensive industries – including iron and steel, aluminium, cement, fertilisers, hydrogen and electricity – and will be introduced in full in 2026 (EC 2025). The UK is planning to follow suit and introduce its own CBAM in 2027, which will work in a similar way to the EU's (HMT and HMRC 2024).

The EU's CBAM is designed to create a 'level playing field' between EU producers and importers by applying equivalent carbon prices to both. Alongside addressing competitiveness concerns, the CBAM also aims to tackle the risk of carbon leakage – that is, where stricter decarbonisation policies lead to carbon-intensive production being displaced to countries with weaker policies in place. Historically, the EU has dealt with these concerns by issuing 'free allowances' for certain carbon-intensive industries – that is, allocating allowances for greenhouse gas emissions for free rather than through auctions. Free allowances for affected sectors are now being phased out in line with the introduction of the CBAM. This means in effect that the EU is opting for more ambitious decarbonisation policies while also ensuring EU businesses are not disadvantaged compared with their overseas counterparts.

However, some of the most affected countries in the global south – including Brazil, India and South Africa – have raised significant concerns about the EU's CBAM (GMK Centre 2024). The concerns raised include that the CBAM is a discriminatory measure and that it does not account for the specific circumstances of lower-income countries. In general, lower-income countries have tended to find it harder to adapt to low-carbon technologies because of a number of factors – including a lack of access to capital and skills gaps – and so would be at particular risk from the CBAM (Yu 2023). Moreover, in relative terms, some of the countries whose exports are most exposed to the CBAM are in the global south, including Cameroon, Mozambique and Zimbabwe (Magacho et al 2022).

Countries considering a CBAM therefore face a choice between the following:

1. Do not introduce a CBAM and maintain free allowances, lowering climate ambitions.
2. Phase out free allowances but do not introduce a CBAM (or introduce a partial CBAM with exemptions for the global south), potentially putting domestic businesses at a competitive disadvantage.
3. Introduce a full CBAM with no exemptions while phasing out free allowances, potentially setting back economies in the global south and damaging geopolitical relations with affected countries.

TRADE-OFF D: 'GROWTH THROUGH INDUSTRIAL POLICY' VS 'INTERNATIONAL RULES-BASED ORDER'

As discussed in chapter 2, there has been a revived interest in industrial policy as a means of bolstering economic growth. But the return of active industrial policy – alongside the increasing focus of policymakers on economic resilience – comes into conflict with some of the key principles of international trade law. There are also other objectives discussed in chapter 2 that are in tension with some of these international trade principles, including tackling the climate crisis and empowering workers.

Particular tensions arise within the framework of the WTO. Key tenets of the General Agreement on Tariffs and Trade (GATT) include (WTO no date):

- the 'national treatment' principle – prohibiting discrimination between domestic products and products imported from other WTO members once they have entered the domestic market
- the 'most favoured nation' principle – requiring that imported products from any WTO member are treated no less favourably than imports from any other country.[4]

Measures that support strengthening domestic sectors and/or the onshoring of supply chains – such as local content requirements – may fall foul of 'national treatment' rules (Mitchell 2024). On the other hand, efforts to 'near-shore' or

4 There are certain exceptions to this principle – for instance, where countries enter into a free trade agreement with each other.

‘friend-shore’ supply chains to support economic resilience may run up against the ‘most favoured nation’ principle, given some neighbours or allies will be favoured over others (Vanduzer 2023). President Trump’s ‘reciprocal tariff’ proposal, to the extent that it can be considered industrial policy, is also a clear breach of ‘most favoured nation’ rules.

Similarly, when it comes to climate, environmental and labour objectives, imposing restrictions on imports on the basis of their carbon content, environmental footprint or the rights of the workers who made them could conflict with both the ‘national treatment’ and the ‘most favoured nation’ principles, which are meant to prevent discrimination between ‘like’ products, regardless of production method (Morris 2022).

While larger countries less reliant on international trade (such as the US) may be at times willing to breach WTO rules, for a medium-sized open economy such as the UK there is much more at stake, given the risk of an international backlash. But by working strictly within the parameters of international law, the UK may struggle to make progress on its industrial strategy, economic resilience and a number of other objectives.

One potential way to escape this trade-off is to pursue reform of international trade law so that there is greater alignment with government objectives in other areas. However, negotiating and delivering on reform is extremely challenging, given it requires consensus across WTO members. In the short to medium term, the existing framework is therefore unlikely to change in any significant way.

Case study 4: Buy American

Successive US administrations have taken action to expand ‘buy American’ policies, aimed at favouring US products over imports. These measures can come into conflict with WTO law, which requires imported products to be treated equally to domestic products once they have entered the domestic market (the ‘national treatment’ principle).

A prime example of ‘buy American’ policies was implemented through the Inflation Reduction Act 2022, one of the flagship pieces of legislation of the Biden administration. The Act introduced a range of new subsidies to support the deployment of clean energy and green technologies. While under the second Trump presidency the focus has been firmly on tariffs rather than subsidies as the preferred method for stimulating US manufacturing, the Inflation Reduction Act is still in effect and is not expected to be repealed in full (Fujii-Rajani and Patnaik 2025). Part of the Act is focussed on tax credits for the purchase of electric vehicles, provided they meet the following criteria (Inflation Reduction Act 2022, Part 4 – Clean Vehicles).

- They must be assembled in North America.
- A certain share of the value of the critical minerals in the electric vehicle batteries must either be extracted or processed in the US or a country it has a free trade agreement with or be recycled in North America. Where a ‘foreign entity of concern’ – including companies that China controls – has extracted, processed or recycled any of the critical minerals, this automatically excludes the product from tax credits.
- A certain share of the value of the components of the electric vehicle batteries must be manufactured or assembled in North America. Where a ‘foreign entity of concern’ has manufactured or assembled any of the components, this automatically excludes the product from tax credits.

The tax credit policies in the Inflation Reduction Act led to a dispute with China, which argued that the Act is discriminatory under WTO rules – both because it favours US products over imports and because it favours imports from some countries over others (Asmelash 2024). While the Act is likely to be found in breach of international law, the WTO does not have a functioning appellate body and so the dispute is expected to be appealed “into the void” with no conclusion (ibid).

Some have called for the UK to take a similar approach to the US and adopt a ‘buy British’ policy, with domestic content requirements for green subsidies. However, unlike the US, the UK is a medium-sized, open economy and far more reliant on a functioning system for international trade. Moreover, these policies could breach the UK–EU Trade and Cooperation Agreement and damage trade relations with the EU.

The UK therefore faces a choice between the following:

1. Seek to introduce ‘buy British’ provisions to incentivise domestic production of clean energy technologies, potentially breaching WTO law and the UK–EU Trade and Cooperation Agreement.
2. Take a more cautious approach to introducing any ‘buy British’ measures, in order to comply with and uphold international law.

TRADE-OFF E: ‘FOSTERING POSITIVE GEOPOLITICAL RELATIONS’ VS ‘PROMOTING HUMAN RIGHTS’

In strengthening its geopolitical relationships abroad, the UK may face tensions with the objectives of upholding human rights on the global stage. Advancing the UK’s relationships beyond its close allies could help to build broader coalitions on global challenges, foster peace and promote economic prosperity (as discussed under objective 11 in chapter 2). But this could mean entering into economic agreements with countries with which the UK may have profound differences, including on fundamental democratic values and human rights.

Advocates of ‘values-based trade’ argue that values should be a consideration in economic diplomacy as a matter of principle. They claim that trade and economic negotiations are a legitimate forum for discussions on other topics, in particular the protection of human rights (which for the purpose of this trade-off we take to also encompass workers’ rights). They also argue that there are some countries where it would be ethically wrong to engage in trade negotiations or other economic arrangements, because of those countries’ violations of key human rights principles.

Moreover, there is some evidence that linking economic agreements with human rights commitments can incentivise change. For instance, one study found that states that are party to preferential trade agreements with hard human rights standards are more likely to reduce human rights repression compared with other states. The study suggests that these harder commitments are more effective than human rights treaties, which rely on persuasion rather than direct economic incentives (Hafner-Burton 2005).

On the other hand, critics may claim that grounding economic relationships in values can harm growth and appear patronising or neo-colonialist. In addition, there is a risk it could prove counterproductive by undermining geopolitical relations, thereby further driving a wedge in values between countries.

Moreover, as a medium-sized economy, the UK only has limited sway over the outlook or policy decisions of its partners. Where it can work in concert with allies to send a message – for instance, economic sanctions on Russia in response to its invasion of Ukraine – this can have a meaningful impact, but alone it is unlikely to have the economic or political firepower to incentivise major reforms in other countries whose values may differ. This means that often the trade-off here is one of principle – whether the UK should engage economically with countries that cross democratic or ethical ‘red lines’ – rather than about single-handedly leveraging political change in potential partners.

Case study 5: A UK–India free trade agreement

The UK is negotiating a free trade agreement with India, with the aim of reducing barriers to trade in goods and services. According to past government modelling, compared to a 2019 baseline, by 2035 a UK–India free trade agreement could increase UK GDP by between £3.3 billion and £6.2 billion (or 0.12–0.22 per cent of GDP) (DIT 2022). Negotiations began in 2022 but have struggled to reach a conclusion, with disputes ranging from market access for UK goods, to visa liberalisation and social security arrangements for Indian workers (Morris 2025). The new UK government relaunched negotiations with India in February 2025 and there are reports that the deal is 90 per cent agreed (Courea 2025; DBT 2025).

Yet as these negotiations have developed, concerns have been raised about India’s human rights record. The Trades Union Congress (TUC), for instance, has highlighted concerns over low wages and exploitation – including child labour and forced labour in sectors ranging from textiles to tobacco, as well as restrictions on the right to strike (TUC 2022). The TUC and others have also spoken out against discrimination towards India’s Muslim minority community through actions such as the Citizenship (Amendment) Act 2019, which excluded Muslims from citizenship fast-tracking rights (ibid; Maizland 2024).

The UK could refuse to negotiate with India on this basis or try to encourage a change in direction by urging for the free trade agreement to be contingent on mutually agreed labour commitments – for instance, the ratification of the fundamental International Labour Organization conventions (for example, on freedom of association). India, however, has traditionally been reluctant to bring broader issues into trade discussions. While there are signs of a recent change in approach – for instance, India negotiated labour and environmental provisions in its deal with countries of the European Free Trade Association (Iceland, Liechtenstein, Norway and Switzerland) – this is likely to be a very difficult area of negotiations, particularly if the UK wants to include commitments which are enforceable (Rohan 2024). The previous UK government had been prepared to sign a deal with India without binding commitments on workers’ rights or the environment (Lanktree 2023).

The UK therefore faces a choice between the following:

1. Insist that the UK government will only sign a deal with India if it commits to upholding enforceable human and labour rights obligations, recognising that this might mean walking away from any potential agreement.
2. Go forward with negotiations without such an expectation, on the basis that strengthening the economic and geopolitical relationship with India must ultimately be prioritised.

EXAMPLES OF COMPLEX TRADE-OFFS IN INTERNATIONAL ECONOMIC POLICY DECISIONS

The trade-offs explored in this chapter are not abstractions; they have repeatedly materialised in the choices that policymakers have faced. But in the real world, the objectives discussed in this report often interact in even more complex ways. The box below illustrates some of the most prominent contemporary examples of international economic policy decisions and how they expose an intricate set of trade-offs between objectives.

EXAMPLE: COUNTERVAILING TARIFFS ON CHINESE ELECTRIC VEHICLES

Electric vehicle (EV) production is a fast-growing global industry that is crucial to many countries' net zero goals. China now dominates the EV market, with production making up around two-thirds of global EV sales in 2023 (Wang 2024). Chinese EV exports increased 160 times over between 2019 and 2023, and the UK is one of China's largest export markets (Song et al 2024).

In order to grow its EV industry, China has made extensive use of subsidies – according to one conservative estimate, these totalled $230.9 billion between 2009 and 2023 (Kennedy 2024). Subsidies have included buyers' rebates, sales tax exemptions, and research & development (R&D) spending (ibid).

These subsidies have sparked concern in Washington and Brussels. The US has introduced 100 per cent tariffs on Chinese EVs under section 301 of the Trade Act 1974, which enables the US Trade Representative to respond to unfair trade practices (Schwarzenberg 2020; U.S. Department of Commerce 2024).[5] In Europe – which, unlike the US, imports significant numbers of Chinese EVs – the EU has adopted a more traditional WTO-consistent approach: following an anti-subsidy investigation into Chinese battery EVs, it imposed countervailing tariffs of up to 35.3 per cent on these products for a five-year period (EC 2024). For its part, China has made efforts to retaliate – in particular, through an anti-dumping investigation into EU brandy exports (Reuters 2025a).

The UK must decide whether it should follow the US's and EU's lead. So far it has decided not to initiate any investigation – it may be waiting to see if there is trade diversion to the UK as a result of the EU's tariffs.

Introducing countervailing tariffs may support:

- **resilience**, by ensuring the UK is not excessively dependent on China for EVs
- **the empowering of workers**, by safeguarding employees in firms at risk due to unfair competition
- **tackling inequalities**, by protecting regions of the UK that have EV manufacturing hubs.

Resisting countervailing tariffs may support:

- **efficiency**, by keeping EV costs down and avoiding retaliatory tariffs
- **the green transition**, by ensuring clean products stay affordable for consumers
- **positive geopolitical relations**, by avoiding trade tensions with China.

5 These are separate to the new auto tariffs introduced under president Trump. In addition, the US has put into place prohibitions on Chinese car technologies on security grounds.

EXAMPLE: US TRADE NEGOTIATIONS

Since his return to the White House, president Trump has disrupted global trade through a series of unpredictable tariff announcements. At the beginning of April, the president proposed a universal baseline tariff of 10 per cent on imports from nearly all countries, as well as 'reciprocal tariffs' of up to 50 per cent for countries with which the US has large goods trade deficits (Bown 2025; White House 2025). After a period of market turmoil, the president reversed course, pausing the additional 'reciprocal tariffs' for 90 days, while keeping the universal 10 per cent tariff and ramping up tariffs on China. The US has separately announced new sectoral tariffs on steel and aluminium and on cars and car parts, and there are further tariffs expected on semiconductors and pharmaceuticals (Bown 2025; Charter 2025).

Economists have warned that these tariffs will be damaging for UK growth (Mitchell 2025). For instance, the OBR has estimated that a US universal tariff of 20 per cent could adversely affect GDP by 0.6 per cent in 2026–27 and by 0.3 per cent in the medium term (OBR 2025).[6]

There is a possibility, however, that the UK could negotiate a deal to lift some or all of these tariffs. At their meeting in the White House in February 2025, president Trump and prime minister Keir Starmer suggested that work was ongoing on a trade deal, focussing on advanced technologies (including AI) (Reuters 2025b).

While the contours of the deal are not yet known, it is possible that it may involve aligning more closely with the US on AI over the EU. The US government has taken issue with the EU's approach to online protections and warned of over-regulating the AI industry (Dastin and Melander 2025). A recent signal of a difference in attitudes between the UK/US and the EU came at an AI summit in Paris in February 2025, where the UK and the US both declined to sign the closing statement on 'inclusive and sustainable' AI (Milmo and Courea 2025). There are also reports that the government may scrap or water down the digital services tax as part of any US deal (Crerar et al 2025).

As negotiations with the US progress, the UK government may therefore face a choice. On the one hand, it could be offered a deal by the Trump administration to align policy on tech and AI, in order to avoid tariffs and maintain positive relations with the US. On the other hand, it could resist such a deal on the basis that it wants to forge a different path to the US on digital policy.

In this hypothetical scenario, a tech and AI deal with the US would support:

- **growth through efficiency**, by helping to lift new Trump tariffs
- **tackling inequalities**, by reducing tariffs on goods sectors, which will have a larger impact outside London and the South East
- **positive geopolitical relations with the US**, a key longstanding partner.

But walking away from a tech and AI deal would support:

- **democracy**, by ensuring democratic control over policy decisions on AI and tech
- **the maintenance of UK–EU geopolitical relations**, given no deal with the US would likely be interpreted positively by the EU
- **national security**, by allowing for stronger digital safeguards.

6 This is based on a scenario where the US imposes 20 per cent tariffs on imported goods from all countries and where China, Canada and Mexico – but not other countries – retaliate with equivalent tariff measures.

4. IMPLICATIONS FOR POLICY

Chapter 3 outlined a series of very real trade-offs that governments face in the current global economy. But how should governments navigate these trade-offs? There is no simple way of prioritising objectives in international economic policymaking – particularly when the stakes are so high for geopolitical relations, for the global economy and for the climate. But there are some central guidelines that could help guide policymakers as they choose between competing objectives. We outline five here for the UK.

In a world of trade wars and supply-chain disruptions, economic resilience must now be a greater priority than in the past.
This means that, whereas previously, efficiency considerations would normally prevail over resilience, now there are times where governments should put resilience first. This is particularly the case for key sectors vital to economic and national security, including products that are central to the green transition. We identified critical sectors in IPPR's previous report on trade strategy – these include energy, defence, food, communications, and healthcare and pharmaceuticals (Morris 2025).

This does not, however, mean that resilience will always trump matters of economic efficiency. In some cases, even in critical sectors, it may not be in the UK's strategic interests to take action to prioritise resilience, because the costs of onshoring production or diversifying imports may be wholly disproportionate to any potential benefits, making such action unfeasible. For instance, China is by far the world's largest producer of solar panels, to the extent that it is in general not feasible for other countries to catch up, and to attempt to do so would be extremely costly (Bradsher 2024; Draghi 2024). In this case, despite the current reliance on China, on balance it would probably not be in the UK's interests to attempt to restructure supply chains, and so efficiency considerations win out.

The precise balance of interests will depend on the situation in question. But as a general guide, the UK may be well advised to prioritise resilience provided it is in its strategic interests – that is, if restructuring supply chains is economically viable and the goods are essential for economic and/or national security.

Deepening economic integration may be the right call even if it constrains some policy choices, provided the policy direction required to integrate has strong public backing.
This principle recognises that agreeing policy alignment at the international level is legitimate in areas where there is broad consensus among the public about the policy in question. In other words, if the UK can secure economic growth by harmonising its regulations with trade partners, this can be justified where there is public support for the regulations the UK would need to adopt or where the public does not have a strong opinion on the matter (typically in highly technical areas with little political controversy).

However, this will not be true in all cases. Where negotiations encompass issues that are highly sensitive for the public – for instance, allowing imports of chlorine-washed chicken or weakening online safety laws – then integration is unlikely to be the right approach. In particular, where there is clear, consistent and firm public opposition to policy alignment, then these constitute 'red lines', which should not be compromised on, regardless of the economic benefits. This means that navigating this trade-off crucially depends on the balance of public and political opinion on any regulatory proposals.

The climate and nature crisis places an imperative on the UK government to deliver a green transition while building relations with the global south, even if this at times does not create a perfect 'level playing field' for business.
With 2024 being the first year where global temperatures were on average more than 1.5 degrees above pre-industrial levels, there can be no slowing down of the UK's climate and nature agenda (Copernicus 2025). At the same time, any new green regulations need to be carefully calibrated to ensure they do not disproportionately harm the economies of the global south, which could damage relationships and undermine the international consensus over environmental action. This is not simply a nice to have; it is essential to the task in hand. The UK could manage a seamless net zero transition, but if it does it alone, it will be meaningless.

This means a consensual approach will be needed to maintain cooperation on climate and nature action, even if this sometimes means exempting imports from lower-income countries from environmental regulations. Any exemptions for lower-income countries, however, would need to be carefully defined as if they are too broad they could place UK businesses at an unjustifiable competitive disadvantage. Exemptions and easements should only be targeted at those countries that truly need them.

One further complication here is that there may be economic benefits to aligning some environmental measures with the UK's trade partners – notably the EU. In this case, the advantages of economic integration might outweigh other considerations, even if this means making a different choice to what the UK would otherwise make if it were acting independently. (For example, the UK might not be able to offer wholesale exemptions to lower-income countries if it needs to align with the EU on certain green regulations.)

The UK should take a pragmatic stance to international economic law.
Respect for international law is a core tenet of UK democracy. But with the US riding roughshod over trade law principles and the WTO unable to properly resolve disputes between countries, an absolutist approach to international economic law could hamstring the UK's efforts to navigate the current geopolitical terrain.

This means that, where there are significant implications of breaching agreements – for instance, the threat of tariffs from the EU in response to violating the Trade and Cooperation Agreement – or where there are compelling moral or economic arguments to comply, the UK should firmly uphold its international commitments. But where this is not the case and other priorities pull in different directions, a more flexible attitude may be necessary. In a world where trade partners are increasingly cherry-picking or ignoring trade law and where the shape of global diplomacy is largely dominated by geopolitical and economic clout, the UK risks being left behind if it is overly constrained by a legalistic approach. (We draw a contrast, however, with international humanitarian law, which the UK must uphold as a priority.)

In the long run, the UK should work with its allies to revise international economic law so that it reflects key priorities on industrial policy, climate action and workers' rights. Of course, these changes require a broad international consensus – which in the current era feels hard to envisage – but for pragmatism in the short term to be justified it must go hand in hand with a vision for longer-term reform.

The UK's efforts to strengthen economic and geopolitical relations should be at the forefront of its international agenda, even if this means working with partners with which it disagrees.

Promoting human rights and democratic values is an essential part of the UK's role on the global stage, at a time of creeping authoritarianism and international tensions. But with the UK's relationships with some key partners weaker than they once were, there is also an imperative to deepen alliances where possible.

This does not of course mean that the UK should give up on its values: moral leadership will be vital in the face of multiple external threats. But only working with those with similar values will hamstring the UK's negotiating strategy in an era of tense and unstable geopolitics.

Moreover, when it comes to global diplomacy, sometimes it can be more effective to manifest values in the UK's own actions – domestic and international – rather than through enforcing adherence through the threat of economic sanctions. This is true both in the UK's partnerships with countries in the global south, where communicating the UK's values without sufficient care can come across as hypocritical and condescending, and in its partnerships with countries such as the US, where a purist approach risks further escalating a global trade war.

5. CONCLUSION

This report has argued that policymakers face a series of difficult trade-offs between objectives in international economic policymaking. Our core message is that **the UK government needs to prioritise** between these objectives. In a turbulent international context, now is the time to choose.

Below we set out five main principles to help guide the choices of policymakers as they navigate these objectives.

- **In a world of trade wars and supply-chain disruptions, economic resilience must now be a greater priority than in the past.** Putting resilience first should be a serious consideration where sectors are critical for economic and/or national security – including energy, defence, food, communications, and healthcare and pharmaceuticals – and where restructuring supply chains is economically viable.
- **Deepening economic integration may be the right call even if it constrains some policy choices, provided the policy direction required to integrate has strong public backing.** That is, the UK would be justified in aligning or harmonising regulations with trade partners when there is a clear public consensus behind the policy direction being taken. But where issues are highly sensitive for the public, the UK will need to set out clear 'red lines' that it will not cross.
- **The climate and nature crisis places an imperative on the government to deliver a green transition while building relations with the global south, even if this at times does not create a perfect 'level playing field' for business.** The UK's priority should be to take a consensual approach to international environmental action, and so this might mean it is appropriate to offer exemptions for lower-income countries, provided this is proportionate and does not put UK businesses at a significant competitive disadvantage.
- **The UK should take a pragmatic approach to international economic law.** While the UK should be alive to the economic and moral implications of breaching international law, in a world where cherry-picking has become the norm and the WTO is not functioning effectively, it risks becoming hamstrung by an overly legalistic approach.
- **The UK's efforts to strengthen economic and geopolitical relations should be at the forefront of its international agenda, even if this means working with partners with which it disagrees.** There is no doubt that the UK should continue to be a leading voice globally for human rights and democratic norms. But in an era of tense and unstable geopolitics, the UK will need to be open to working with those who have differing viewpoints – and choose to 'show, not tell' its values – if it wants to deepen its economic and strategic diplomacy.

This provides only a starting point for thinking through how policymakers can navigate a series of unenviable trade-offs in the coming years. To think through these trade-offs in more depth and develop a plan for how to decide between them, the UK government should take proactive action now, near the start of its time in office.

Crucially, the government needs to decide whether the objectives we have laid out in this report encompass what it cares about, and whether our assessment of how it might navigate trade-offs, through our five principles, reflects its own approach.

The clearer and more deliberate the government is able to be about what it is trying to achieve, the more likely it will be able to consistently pursue its interests over time and across issues.

We recommend two further actions to help the government embed a strategic approach to managing trade-offs in international economic policy.

First, there should be an appropriate mechanism within government for deliberatively assessing and weighing up trade-offs as they emerge. The resilience subcommittee of the National Security Council – which brings together key cabinet members, including the chancellor, deputy prime minister, chancellor of the Duchy of Lancaster, home secretary and secretary of state for energy security and net zero – could be a valuable forum in which these deliberations could take place (Cabinet Office 2024). The foreign secretary – who has a vital role in international economic policymaking – should also be included in these discussions.

Second, this forum should ensure that it is not just able to take decisions based on top-level assessments of principle, but also has the best-quality information available to it to allow it to assess – to the extent possible – the likelihood and size of potential impacts of different types. For this reason, a sufficiently staffed secretariat should be available to the committee, underpinning decision-making with high-quality data and evidence. It should take the committee's guidance on priorities, create a framework within which to consider trade-offs, and work over time to build the evidence base. This will help the government to consistently and strategically pursue its goals in this new and unprecedented era.

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