Trade Policy History

February 2021

The British Academy

Contents

Foreword

The British Academy is the UK's national academy for the humanities and social sciences. We mobilise these disciplines to understand the world and shape a brighter future. From artificial intelligence to climate change, from building prosperity to improving well-being – today's complex challenges can only be resolved by deepening our insight into people, cultures and societies. We invest in researchers and projects across the UK and overseas, engage the public with fresh thinking and debates, and bring together scholars, government, business and civil society to influence policy for the benefit of everyone.

The British Academy aims to use insights from the past and the present to help shape the future, by influencing policy and affecting change in the UK and overseas. Given this, the Academy is well-placed to bring humanities and social science insight from the past into policy making for the present and the future. One way to do this is in using historical insights to inform policy making – 'looking back to look forward'.

To support these efforts, the Academy's public policy team has undertaken a programme of work on policy histories. The policy histories series develops historical analyses for individual policy areas. These analyses will be used to provide:

- a structured, rigorous and objective account of the history of a given policy area and the significance of key milestones in context,
- an informed basis for analysis and insights from the timelines as well as dialogue and discussion about what history can tell us about the future.

There are two components to the programme of work for each policy history:

- An *historical analysis* which involves desk research to develop a chronological and contextual overview of a policy area, and commissioning and facilitating of historically grounded analytical perspectives on that chronology from historians and policy experts in each policy area. Together the chronology helps to set the background and the analytical perspectives help interpret the chronology, set it in context, and provide views on what we can learn from the past.
- A series of *evening seminars*, which will pick up on themes from the historical analysis and stimulate dialogue and discussion about what we can learn from history.

During the pilot phase, two policy histories were produced for the Department for Business, Energy and Industrial Strategy: trade policy and science policy. This document provides the full versions of the expert analytical perspective contributions to the Trade Policy History Report, which concluded in 2019. As a result, this report does not cover in full the policy and details related to the Brexit transition after the European Union (Withdrawal) Act. The views expressed in these contributions are those of the authors and do not represent the views of the British Academy.

Introduction: The political economy of trade policy

Professor Martin Daunton FBA
Emeritus Professor of Economic History, University of Cambridge

Trade policy was shaped by the wider context of the performance of the economy – its ability to compete in overseas markets and to pay for imports. Trade policy was also part of a wider set of policies: it was shaped by monetary policy and the ability to change the parity of the pound against other currencies, by the ability to control inflation in comparison with other countries, by attitudes to the international flow of finance. Politicians and civil servants were very much aware of these two considerations and could not consider trade policy in isolation. In this essay, I will set out some of the ways in which the changing economic context and wider policies shaped trade policy – and point to ways in which these issues need to be considered in current debates. It provides the background for the chronology which follows in other contributions.

The balance of payments

Trade policy was affected by the changing nature of the balance of payments of the United Kingdom, whether it was in surplus or deficit, and by its changing composition. The balance of trade – or 'visibles' of physical goods – had a modest surplus of £200,000 in 1822 and was then in deficit every year until 1956. In the last year before the outbreak of the First World War (1913), the deficit on visible trade was £131.6m. Although the United Kingdom was the workshop of the world and the leading exporter of manufactures, it was also a major importer of food, raw materials and industrial goods. Consequently, the country's large overall surplus on the balance of payments on current account was the result of two other items: net earnings from overseas investment (£199.6m in 1913) and invisibles from banking, insurance, shipping (£168.2m). The overall surplus on current account in 1913 was £224.3m. In addition, there was a very large outflow of money on the capital account: in the surge of capital exports between 1905 and the First World War, it reached 76 per cent of gross domestic fixed capital formation.

This massive outflow of capital meant that investment overseas rose from 6.8 per cent of net national wealth of the UK in 1850 to 35.2 per cent in 1913 – and it provoked a major political debate before the First World War. Was overseas investment beneficial in securing cheap imports of food and raw materials, and creating markets for British manufactures; or did it starve domestic investment in industry and social overheads of funds, as well as leading to a highly unequal social structure with most of the benefits going to wealthy financial elites? Did the export of goods and capital arise from, and reinforce, a deeply unequal distribution of wealth and income which should be resolved by redistributive taxation to increase domestic consumption and outlets for domestic investment? On this view, free trade should be linked with redistribution to solve the problems of unemployment and poverty at home, with the higher levels of redistributive taxation paying for social welfare. The alternative, tariff reform position, was that unemployment could be resolved by import duties on manufactured goods from Germany and the United States which might also supply revenue for welfare; and cheap food could still flow in from imperial producers. Hence debates over trade and capital exports were closely linked with debates over domestic social policy.

The First World War marked a significant change, for the sale of overseas investments to fund the war and the reduction of earnings from invisibles meant that the overall balance of payments on current account was much weaker. In 1926, the year of the general strike, the United Kingdom had a deficit on current account - and was then in deficit from 1931 until a modest surplus in 1938. The figures for 1936 point to the radical change since 1913: the deficit on visible trade of £346m was no longer covered by earnings on foreign investment of £200m or invisibles of £127m.[1] The change is apparent in the ratio of the balance of payments on current account to GDP: between 1874 and 1913 it was 5 per cent, falling to 2.2 per cent in 1921–9, -0.9 per cent in 1930–8 and 0.0 per cent 1948–51.[2]

During the First World War, the government imposed regulations on the export of capital, and the Capital Issues Committee continued after the war 'to protect the foreign exchanges and to conserve capital for development within the United Kingdom'. There was now a concern for retaining funds at home for building council houses, handling the war-time debt, and reconstructing British industry – though some voices in the Treasury argued that capital exports would secure markets for British goods. Here was one reason for the Treasury's opposition to the Liberal plans of 1928 and 1929 for domestic investment in public works and industry, on the grounds that it would discourage exports of goods to the recipients of capital, as well as sucking in imports as a result of higher levels of domestic demand. The situation had changed, with much lower levels of capital exports in the 1920s, and Britain even became a net importer of capital in the 1930s as foreign companies constructed plants to circumvent tariff barriers.

After the Second World War, the balance of payments remained a source of considerable anxiety for British policy makers, for it was on a knife edge between surplus and deficit. The balance of payments formed one of the key indicators for policy alongside the level of unemployment. Visibles returned to a very modest surplus in 1956 and 1958 for the first time since 1822, but otherwise ranged from modest to large deficits; the balance on services was smaller as a result of government transfers, so that the balance of payments on current account moved into and out of deficit. The sale of foreign assets in the Second World War was even more marked than in the First World War: at current prices, the net assets of the United Kingdom overseas dropped from £5,160 million in 1938 to £580 million in 1950 – and in real terms, the drop was even more marked. The major financial houses of the City were marginalised from the 1930s, and in some cases turned to domestic issues – and wartime controls on the export of capital continued. The financial sector was less important than before the First World War, and the distribution of income and wealth fell in much lower levels – a fulfilment of argument of Labour in Edwardian Britain in favour of more equitable domestic consumption.

The external position of Britain was particularly acute at the end of the Second World War, with large deficits on the balance on current account in 1946 and 1947; a serious shortage of dollars, and high levels of government defence spending overseas, meant that the government had to embark on an export drive at the expense of domestic austerity. Domestic demand was held down by voluntary pay restraint, combined with voluntary controls on dividends as a quid pro quo to the unions, in order to release goods for export markets. Imports of non-essentials were strictly controlled by import quotas and licensing.

1 Data from BR Mitchell with the collaboration of Phyllis Deane, *Abstract of British Historical Statistics* Cambridge: Cambridge University Press, 1962, 333–5

2 RCO Matthews, CH Feinstein and J Odling-Smee, *British Economic Growth 1856–1973* Oxford: Oxford University Press, 1982 table 14.7, 442

Despite the pressure from the United States to move to an open, multilateral international trade regime, economic necessity as well as Labour's commitment to planning, meant that the economy was controlled. The ratio of import duties to total imports rose from 9.7 in 1929 to 24.1 in 1938, and to 38.2 in 1945; it remained 31.2 in 1950.[3] In 1948 alone, the Board of Trade's Import Licensing Department issued 250,000 licences. Import restrictions offered a high level of protection: according to one later estimate, 6.7 per cent of British manufacturing output in 1954 would have been lost if controls were not in place against imports from the United States and 16.5 per cent if all controls were removed.[4] The attraction of import quotas over tariffs was that they could be introduced by executive action without the approval of parliament or extended discussion with interest groups – and civil servants had experience of operating a system of direct controls as a result of the war. Many Labour politicians welcomed the use of these controls as one element in a planned economy, with very limited competition both at home and from overseas. As late as 1951, 10 per cent of consumers' expenditure was subject to rationing, 54 per cent of imports were controlled, and 40 per cent of consumers expenditure was price controlled.[5] Even in areas without formal price controls, industries adopted restrictive agreements to limit competition: in 1935, 25–30 per cent of gross manufacturing output was covered by restrictive agreements, rising to 50–60 per cent in 1956. [6] Criticism was to emerge of the risks of inflexibility and stasis by blunting competition and creating what has been called a 'low effort bargain': if wages and profits were constrained, and competition at home and from abroad were limited, why work harder and more efficiently? But the immediate result of the export drive, and the devaluation of sterling in 1949, was that the trade deficit with the dollar area fell from £510m in 1947 to £88m in 1950 when the balance of payments on current account returned to a healthy surplus before a reversal with the Korean War.[7]

In the 1950s and 1960s, the balance of payments on current account moved into and out of surplus. The problem was that domestic recovery resulted in increased imports and pressure on exports, leading the government to impose a 'stop' with higher interest rates – but exports did not increase rapidly to replace domestic demand with the result that unemployment rose above the politically acceptable level of about 2.5 per cent, leading to 'go' of lower interest rates. Trade policy was closely linked with macroeconomic policy, with the balance of payments and unemployment as the central elements rather than, as later in the 1970s, inflation. The weakness of the British balance of payments on current account remained a major constraint on economic policy: at a time when exchange rates were fixed (except for occasional devaluations in 1949 and 1967) it was not possible to allow a fall in the exchange rates to keep British goods competitive. Full employment and high domestic demand pulled in imports and made British exports more expensive, so leading to attempts to hold down wages and costs through an incomes policy. Trade policy was intimately connected with these constraints, and in 1970 the ratio of duties to total imports rose to 34.3.[8]

The debates over entry into the EEC were part of the response to this problem of the balance of payments. Could the British economy become more competitive, and move to a higher level of productivity, if it escaped from controls over both domestic and international competition, and escaped from the low effort bargain of wage, price and dividend controls?

3 S Broadberry, *Productivity Race: British Manufacturing in International Perspective, 1850–1950* Cambridge: Cambridge University Press, 1997, 140
4 A Milward and G Brennan, *Britain's Place in the World: A Historical Enquiry into Import Controls*, London 1996, 1, 6
5 J Tomlinson, 'Mr Attlee's supply side socialism', *Economic History Review* 46 (1993), 11
6 H Mercer, 'Anti-monopoly policy', in H Mercer et al eds., *Labour Governments and Private Industry: The Experience of 1945–51* Edinburgh, 1992
7 A Cairncross, *Years of Recovery: British Economic Policy 1945–1951*, London, 1985, 189, 201
8 Broadberry, *Productivity Race*, 140

The resolution of the balance of payments problem was not just a matter of trade policy: the reduction in tariff barriers after the Kennedy round of multilateral trade negotiations of 1964–67 posed problems of competitiveness for the British economy with implications for wage policy, competition policy, steps to improve productivity, and to make the economy more flexible and responsive.

The pattern of trade and multilateral settlements

The balance of payments in aggregate terms should also be broken down to understand the regional and sectoral composition of trade, and how surpluses in one area compensated for deficits in another as part of a system of multilateral settlements.

In many ways, the structure of trade in the late nineteenth and early twentieth centuries laid the basis for later problems. Although Britain had a deficit on visible trade, it was still the world's largest exporter of manufactured goods before the First World War. Its share dropped from an astonishing 40.7 per cent in 1890 to 29.9 per cent in 1913, and Germany and the United States were closing the gap, as was only to be expected given Britain's unusual dominance as the pioneer of the industrial revolution.[9] The experience of early industrialisation meant that most manufactured exports were semi-finished or capital goods rather than consumer goods which were increasingly imported. In 1899, only 17.7 per cent of British exports of manufactures were in sectors whose share of world trade was rising and 16.6 per cent in sectors whose share was stable; sectors with a declining share of world trade accounted for 62.9 per cent of British manufactured exports. Above all, there was a high dependence on textiles which accounted for 49.2 per cent of manufactured exports in 1870 and 31.9 per cent in 1910 – an area that was susceptible to competition from low-wage countries such as India. Before 1914, the weakness in the commodity composition of trade was almost entirely compensated for by the geographic focus on primary producers, who were increasing their share of world trade. The real reason for the drop in Britain's share was a lack of price competitiveness and a low elasticity of demand for British goods – that is, British exports were not in areas where demand rose with higher incomes.[10]

Before the First World War, India was central to the British position in the world economy, for a trade surplus with India covered about 40 per cent of deficits with other parts of the world. Britain was able to sell India goods such as railway equipment or cotton textiles from Lancashire (around half of exports to India before the First World War). Indian commodities had a market in the United States, and could overcome US tariffs more readily than British goods. This success of India contributed to Britain's ability to earn dollars and to cover its deficits in other areas of the world.[11] India's place at the centre of Britain's pattern of multilateral settlements, which depended on a particular constellation of policies. By the late nineteenth century, India was developing its own cotton textile industry and at the same time, the silver-based rupee was depreciating against the gold-based dollar. The result of these currency movements was to make British exports more expensive in India which provided a form of protection for its infant cotton textile industry – but it also increased the cost of servicing India's payments for British capital and the 'home charges' for the civil service and army.

9 S B Saul, 'The export economy, 1870–1914' *Bulletin of Economic Research*, 17 (1965), 12

10 H. Tyszynski https://onlinelibrary.wiley.com/doi/abs/10.1111/j.1467-9957.1951.tb00012.x 19 (1952), 292; T Hatton, 'The demand for British exports, 1870–1914', *Economic History Review* 43 (1990), 582, 586

11 S B Saul, *Studies in British Overseas Trade, 1870–1914* Liverpool: Liverpool University Press, 1940, ch.3 and 8.

The obvious solution for British rulers in India, who were concerned about political conflict and unrest, was to put a tax on imports of cotton textiles. What made sense in India did not in the metropole. The British Cabinet realised that Lancashire was the ‘swing’ area in elections and that it was already hit by the appreciation of the pound against the rupee. The imposition of import duties on British goods in India was therefore politically dangerous. The making of trade policy was a central feature of imperial political economy – and changed in a fundamental way after the First World War.

During the First World War, Lancashire cotton textiles lost their markets in Asia with growing competition from India and Japan – but at the same time the political calculation of whether to support Lancashire or India changed. India incurred considerable costs in the war, and in 1919 the British government opted to grant a degree of fiscal autonomy in order to make its own decisions on how to fund its debt. Naturally, the government in India, concerned with the growing pressure from nationalism, opted to increase import duties rather than to pass all the costs to the local population. Lancashire was no longer so important as a ‘swing’ area in elections – and greater priority was given to resolving difficulties in India.

In the interwar period, British exporters of manufactures did not share in the recovery of world trade, and its market share continued to fall. As before 1914, exports were heavily dependent on sectors with a declining share of world trade. Before the First World War, the geographical destination of British goods acted as a compensation but this was no longer the case after 1929, when primary producers were hit by a slump in prices and turned to import substitution industrialisation. More seriously, there was a continued lack of competitiveness. There was also a shift in the pattern of multilateral settlements. Britain’s surplus with India declined and no longer covered the deficit with the United States. The result was a search for markets within the empire, encouraged by the introduction of imperial preference in 1932. Between 1930 and 1933, the proportion of imports from the empire rose from 27 to 38 per cent, with about 77 per cent of the increase explained by the introduction of imperial preference.[12] This turn to the empire was part of a wider shift in the 1930s away from multilateralism to trade blocs and bilateral deals, such as in Germany and Japan – a trend that reflected and intensified the international tensions of the decade.

Britain’s difficulties in funding its dollar imports were even more serious at the end of the Second World War which meant that the Labour government continued to cling onto imperial preference despite the insistence of the United States that it be abandoned in return for Lend Lease and post-war loans - and this continued reliance on empire markets was closely connected with the existence of the sterling area. Trade policy cannot be separate from monetary policy, and the connection with the wider set of international economic policies of the ‘trilemma’.

Trade-offs: the ‘trilemma’ and trade

Policies on trade and money were two sides of the same coin. As we noted in the case of India, the depreciation of the silver-rupee against the gold-based pound had implications for trade, for British exports to India became more expensive. Much of Asia and Latin America had a silver-based currency before the First World War and even into the 1930s – but most advanced industrial countries followed Britain in adopting the gold standard in the latter part of the nineteenth century.

12 Tyszynski, World trade’, 289; A de Bromhead, A Fernilough, N Lampe and K H O’Rourke, ‘When Britain turned inward: the impact of interwar British protection’, *American Economic Review* 109 (2019).

Economists refer to a ‘trilemma’ or ‘inconsistent trinity’ – the need to choose between exchange rates, capital mobility and domestic monetary policy. If exchange rates are fixed (as under the gold standard) and international capital movements uncontrolled (as before 1914), then it is impossible to have an active domestic monetary policy. A cut in interest rates to stimulate the domestic economy would lead to an outflow of capital and put the currency under pressure, and conversely an increase in interest rates to dampen activity would lead to an inflow of capital and upward pressure on the currency. Given that exchange rates were fixed, an active domestic monetary policy was impossible. The trade-off would change if international capital flows were restricted: it would then be possible to alter the interest rate for domestic purposes without provoking a capital flow and without putting pressure on exchange rates. Similarly, if exchange rates were allowed to vary, it would be possible to use monetary policy for domestic purposes, and to allow capital to flow in and out.

The inconsistent trinity could be extended as an incompatible quartet by adding trade policy. The gold standard trade-off was compatible with free trade (as in Britain) and with protectionism (as in Germany and France) depending on the balance of interests and domestic politics. The choice depended in large part on the economic structure of the countries. In Britain, the agricultural sector was small, with only 22.6 per cent employed in 1871 – the level in France and Germany was twice as high. Agricultural protection was much less electorally appealing in Britain – and its dominance in industrial markets meant there was little support from industries. The situation in France or Germany was different: the large agricultural sector demanded protection, as did many industrialists attempting to compete with British goods. Even when Britain did turn to protectionism in the 1930s, it took a different form: agricultural imports were still at world prices, with farmers compensated by a deficiency payment from the general taxpayer; in other European countries, domestic prices were held above the world level, and farmers were compensated by the consumer. This difference persisted right up to British entry into the EEC, and caused considerable tensions. But whether combined with free trade or protection, the choices in the trilemma had serious consequences for trade: keeping the exchange rate at a higher level than justified by purchasing power parity would harm export competitiveness; keeping it lower would increase export competitiveness and make imports more expensive.

British economic policy moved between these trade-offs. Before 1914, exchange rates were fixed by the amount of gold in coins (£1 was worth $4.86); capital could move freely; and monetary policy could not be used for domestic purposes. In the era of the gold standard and free trade before the First World War, priority was given to the international economy, but the domestic economy and welfare seemed to benefit. British workers gained from cheap food imports, British goods were exported around the world, and the standard of living rose at an unprecedented rate from about 1870. There were losers, such as landowners and farmers whose rents and profits were squeezed; the outflow of capital led to demands from new Liberals and Labour for redistribution of wealth to keep capital at home; and concerns over foreign competition led to Conservative demands for imperial preference. Nevertheless, the trade-off held before the First Wold War.

The gold standard was suspended in the First World War, but it was restored in 1925 by which time the pre-war trade off was more difficult to sustain. Restoring the gold standard at the pre-war parity caused problems, for costs in Britain rose during the war and the short post-war inflationary boom. Consequently, the pound was overvalued against the dollar, British goods were uncompetitive, and the attempt to cut costs led to recession and labour unrest. The old staple industries of coal, iron and steel, shipbuilding and textiles lost markets with deep-seated structural unemployment. Domestic welfare no longer seemed to benefit, and Labour now had a larger voice with a wider franchise and unionisation. The government and Bank of England recognised that the political circumstances had changed given high levels of unemployment in many export industries and started to control capital flows. The pressure on the trade-off was confirmed by the abandonment of the gold standard in 1931. The government could now hold down interest rates and adopt a policy of cheap money to stimulate the domestic economy; it could ensure that the exchange rate was slightly undervalued to make British exports more competitive and imports less attractive; and it could restrict capital movements. Hence the shift in the trade offs in the trilemma had major consequences for British trade, quite apart from what happened to tariffs.

The situation was different under the Bretton Woods regime of 1944 to 1972. The trade-off changed, in large part because of a shift in the balance between national and international economics. The turn to economic nationalism and trade blocs in the 1930s marked a turn from economic internationalism which came to be seen as one cause of the outbreak of war. The ambition at Bretton Woods was to combine support for domestic welfare (that had not been possible under the gold standard) with an appreciation of international cooperation (that had been lost in the 1930s with trade and currency wars). The outcome was a regime of 'embedded liberalism' – that is, the incorporation of rules for an open international market within a set of international institutions. The result was 'thin multilateralism' – a balance between the needs of an open multilateral economy with the pursuit of domestic welfare. Controls over capital flows meant that monetary policy could be set for domestic reasons; the exchange rate was not absolutely fixed but could be adjusted if it threatened domestic welfare; and the trade regime of the General Agreement on Trade and Tariffs (GATT) allowed various exceptions to the liberal trade regime to preserve domestic welfare. The Bretton Woods agreement did not contain an assumption of financial liberalisation at all costs, and rested on a belief that international flows of money were destabilising and destructive.

In theory, the Bretton Woods regime allowed a country to change its exchange rate if its balance of payments was in 'fundamental disequilibrium' – but this state of affairs was not defined, and most countries were committed to maintaining an overvalued exchange rate until speculative pressure made devaluation impossible to escape (as in the case of Britain in 1949 and 1967). The result was that overvalued exchange rates moved down suddenly and in large increments – and there was no reason for a country with an undervalued exchange rates (such as West Germany and Japan by the 1960s) to revalue except under considerable pressure from the United States.

The setting of exchange rates had obvious implications for trade policy. To maintain an overvalued currency which made exports uncompetitive, a country might need to impose restrictions on imports (as happened in Britain after the war). Indeed, it was argued by Milton Friedman as early as 1952 that economic policy was distorted by the pursuit of the secondary objective of fixed exchange rates which forced governments to control prices and costs in order to preserve the parity – in his view, it made more sense to permit greater freedom, so allowing economies to become more flexible and dynamic, leading to relatively stable exchange rates. A similar conclusion was reached by some officials at the Bank of England and Treasury in 1952 on more pragmatic grounds in response to a balance of payments crisis. Operation Robot – named after the three main architects, Leslie Rowan, George Bolton and Otto Clarke, - would allow the pound to float, permitting the removal of controls over the economy and allowing a more dynamic, flexible and competitive economy. Other officials were sceptical, fearing that the result would simply be inflation with higher import costs, a threat to employment, and demands for higher wages. The result would not be greater competitiveness and efficiency, for the exchange rate would 'take the strain' of higher wages and costs by floating downwards. The Cabinet was split and eventually ruled out the move as electorally dangerous as well as threatening the Bretton Woods regime.

The Bretton Woods regime faced growing problems in the 1960s. Capital controls were increasingly difficult to maintain with the restoration of currency convertibility in 1958, for it was difficult to separate movements on current account from capital account, and there were 'leakages' in various parts of the world such as Hong Kong. Above all, the emergence of the Eurodollar market in the 1960s created more footloose capital and contributed to the re-emergence of the City of London as a major finance centre after the doldrums of the 1930s to 1950s. Eurodollars emerged in response to policies adopted by the Kennedy and Johnson administrations which were facing pressure on the balance of payments as the American economy lost its competitive edge and the costs of the Vietnam war escalated. One response was to limit capital outflows – with the result that American corporations held dollar earnings off-shore, above all in London. Further, the Soviet Union did not wish to hold its dollars in New York with the risk that they would be frozen – and the Bank of England made it clear that it would not regulate this market. These Eurodollars were available for investment and put pressure on the trilemma of the Bretton Woods regime which was already facing problems as a result of the tensions between countries with under-valued and over-valued currencies.

When the Bretton Woods system collapsed in the early 1970s and the world moved to floating currencies, capital flows increased in scale – in part because eurodollars were now supplemented by the petrodollars after the OPEC price increases of 1973 and 1979. The adoption of floating rates had some of the consequences predicted by the opponents of Operation Robot: the exchange rate of the pound could fall and so compensate for higher wage inflation than in other countries such as Germany and Japan. The shift in exchange rate regime contributed to the stagflation of the 1970s with its high inflation and low growth: there was no need to control the money supply now that exchange rates were not fixed, and the oil shocks of 1973 and 1979 increased costs. There was debate within the Treasury and Cabinet on how best to respond. Edward Heath wished to enter the European exchange rate system as a sign of his commitment to the EEC, keeping a zone of monetary stability; his Chancellor, Anthony Barber, was less convinced and preferred not to defend the rate. But would that mean that the rate could 'take the strain' and undermine attempts to control inflation by a wage and prices policy?

The IMF crisis of 1976 in response to a run on the pound and a weak balance of payments led to a split within the Labour Cabinet. On one side were the advocates (above all Tony Benn) of the 'alternative economic strategy' which would turn Britain into a siege economy: the bankers would be outside the walls, and the industrial economy could be remade behind tariffs barriers. This position was associated with opposition to the EEC which would make higher tariffs impossible. On the other side were those (such as Denis Healey) who thought that inflation should be removed by limiting public spending and imposing stricter controls on the money supply. This position won, but the arguments continued. Should discipline be imposed on the British economy by linking the pound to an external constraint such as the Deutschmark (DM) or membership of the EMS, as argued by Nigel Lawson? Or did this approach entail too many risks of speculative pressure against the pound, as happened most notoriously on Black Wednesday in 1992 when Norman Lamont had to withdraw the pound from the exchange rate mechanism?

Policy moved away from the embedded liberalism and 'thin multilateralism' of the Bretton Woods regime to 'hyper-globalization' which gave a renewed priority to international economics at the expense of domestic or national concerns. The flow of capital around the world was given priority by the IMF, overturning the understanding at Bretton Woods, and GATT and the World Trade Organisation moved from a normative to a prescriptive approach to open trade and markets. International considerations were now taking priority over domestic welfare which provoked demonstrations against the WTO at Seattle in 1999 and against the G20 summit in London in 2009. Less dramatically, but more fundamentally, the sense that communities were sacrificed to global economics led to resentment in declining industrial centres. The result has been a call from international institutions to rebalance the trade-off between national welfare and international economics.[13]

The result has also been a return of inequality to the level of the late nineteenth and early twentieth centuries – and the adoption of austerity in response to the financial crisis of 2008 did nothing to mitigate the impact on disadvantaged groups, at a time when large sums were spent on rescuing the banks, with Quantitative Easing leading to rising asset prices for those who had capital. The result has been a political realignment that could threaten globalisation. The losers now were not farmers and landowners as before 1914, who faced cheap imports of food and falling rents – it was the communities affected by deindustrialisation which relied on specific skills without formal qualifications and faced competition from cheaper foreign suppliers and migrants. Austerity meant that they were left to deal with the consequences of globalisation with little help.[14] Here trade policy becomes implicated in much wider debates. Is the solution to return to a free trade policy of later nineteenth century Britain to recapture markets; is it to turn to public spending and to regenerate the areas and invest in skills; is it to turn inwards in a new form of the alternative economic strategy?

The debate over the post-war weakness of sterling, the desirability of floating in Operation Robot, or of pegging the pound in the European exchange rate mechanism, were all related to the status of sterling as a reserve currency and the empire as a trade area. Here is another theme in the context of trade policy: should Britain pursue a one world or two world policy, and what should be its relationship with Europe? Fundamental questions of identity and culture were involved.

One world versus two worlds

The Second World War, like the First World War, had a serious impact on Britain's position in the world economy. Should it now continue with its own trade and currency bloc alongside the dollar – the two-world solution – or should it turn to a one-world solution based on multilateral trade and the dollar? And in each case, what was the relationship with European integration?

In the Second World War, the productive economy again turned to the war effort and export markets were lost. During the war, foreign assets were further run-down and debts were incurred in the United States. Although goods provided on Lend lease were not paid for after the war, they came with the condition that imperial preference be ended – and the large post-war loans came with strings attached, of paying interest, ending imperial preference and returning to convertibility. At the end of the war, there was a serious dollar shortage and a need for an export drive at the cost of domestic austerity at home.

13 See Dani Rodrik, *Globalization Paradox: Democracy and the Future of the World Economy* WW Norton, New York, 2011

14 Italo Colantone and Piero Stanig, 'Global competition and Brexit', *American Political Science Review* 112 (2018) and Sascha Becker, Thiemo Fetzer and Dennis Novy, 'Who voted for Brexit? A comprehensive district level analysis', *Economic Policy* 17 (2017)

The government warned that ending imperial preference was not feasible, and that premature convertibility would lead to a disastrous run on the pound and the exhaustion of the loan and reserves -as duly happened. It did manage to cling onto imperial preference despite American pressure. This reliance on the empire had a number of consequences. One was to shape British attitudes towards emerging European integration, for the Commonwealth was an association based on voluntary agreement between independent dominions and colonies, with Britain playing the leading role, rather than supranational institutions. The defeated nations of Europe saw more reason to come together with supranational bodies to regain its diminished status, whereas Britain still had its Commonwealth. As a result, Britain was reluctant to expanding markets.

The reliance on imperial preference was related to another outcome of the war: the high level of sterling balances. During the war, the government purchased materials and paid for the armed forces in the middle east and India in sterling which was not convertible. Consequently, other countries, and above all, India, had large holdings of inconvertible sterling. The British economy was weaker than ever but sterling was the single largest reserve currency in the world at the end of the war, accounting for more than 80 per cent of foreign exchange reserves in 1947. One of the main themes in British – indeed, global – economic history was the decline in the share of reserves held in sterling to under 10 per cent by around 1970.[15] Trade policy was linked with the managed retreat of sterling.

If sterling were to be convertible, as it was briefly in 1947, the holders of sterling would rush to convert into dollars to buy goods for their economic development. Naturally, the British government preferred to block the sterling balances to prevent a run on the pound. But what should be done about these huge holdings? One solution, favoured by Churchill and Keynes, was to treat them as a contribution to the war and write them down. Wiser heads realised that India had suffered from a devastating famine in the war and was much poorer than Britain, and that writing off British commitments would be politically dangerous and morally reprehensible. An alternative was to fund the sterling balances, turning them into a debt that would earn interest and be repaid over time. Naturally, the holders of the sterling balances preferred to use the money they earned for their economic development. The result was to retain the sterling balances which could be used to buy British goods – even if they were less desirable than their American counterparts. British exporters, in other words, were dependent on ‘soft’ markets in the sterling area without the need to be competitive – an outcome that was reinforced by the system of imperial preference, and the reliance on a combination of rationing and purchase tax which blocked the emergence of a higher-value and quality commodities for the home market that might have led to greater export competitiveness. This problem of external balances was not shared by other European countries which also had much lower levels of debt. The British government simply had a larger task of earning foreign currency to pay down the sterling balances and service the debt.

The existence of large sterling holdings meant that the British government had to decide whether it pursued a ‘two world’ policy of maintaining sterling area alongside the dollar, or adopting a ‘one world’ policy by accepting that the dollar was the basis of the multilateral system. Policy on sterling was closely connected with trade policy through the debate over whether the future lay with a separate trade bloc based on sterling, working with the dollar, or even cooperating with Europe.

15 B Eichengreen, A Mehl, and L Chiţu. *How Global Currencies Work: Past, Present, and Future.* Princeton; Oxford: Princeton University Press, 2018, 118–9

The one world policy based on a multilateral economic system, the dollar and open trade was favoured by Otto Clarke who advocated an Atlantic Economic Community in 1949, a complete union between the United States and the British Commonwealth that would, he admitted, erode sovereignty. There was, by contrast, no point in clinging to the sterling area or the sterling area plus Europe, for he argued that adding together twenty bankrupt countries was no solution. He feared the only alternative to one world was a return to the trade blocs of the 1930s. Others favoured a two-world policy, of a sterling area trade bloc facing the dollar area – a solution that Clarke feared would link Britain to 'soft' imperial markets and lead to economic decline. The advocates of the two-world system thought that the Europeans could have to choose between the dollar and sterling. There were major issues of identity – whether Britain was Atlantic or imperial, and what its role should be in Europe. The British government did have a genuine and serious problem in handling the sterling balances which was not shared by the European economies, who were more concerned with a currency agreement – the European Payments Union – that would stimulate the recovery of intra-European trade. The British government – both Labour and Conservative – were wary of this initiative, for it was not clear what role there would be for sterling, and how British trade would be affected in the clearing union. Oliver Franks, the British ambassador to Washington, saw a choice between equality between the EPU and sterling or subordination – neither of which was attractive. The debate continued, and the British government hoped to convince the American to support sterling, on the grounds that some of the balances were held in parts of the world affected by Communism. Trade policy was linked with strategic policy.

The decline of sterling is a long and complex story, involving a mixture of pragmatism and delusion on the part of Britain, and a realisation by the United States and the Bank of International Settlements of the risk posed to international financial stability by a disorderly retreat. In the Basle agreement of 1968, the BIS underwrote a British guarantee to official sterling balances – and the City of London moved from defending sterling as a source of its financial power to the Eurodollar market. Was the future now to join the European monetary system or the dollar? As we noted earlier, the emergence of floating exchange rates meant that the debate continued over whether to link sterling to the DM or to the European monetary system in order to impose discipline or to allow the pound to float independently. Eventually, it was decided not to join the Euro, which meant that the pound could find its own level in the market, leaving freedom for changes in the rate which affected the competitiveness of exports and the relative price of imports. The fall in the value of the pound after the referendum made British exports more competitive and led to inflationary increases in imports – trade policy and tariffs will clearly be affected by future trends in exchange rates.

Implications

The main contention of this essay is that we cannot consider trade policy in isolation. There are implications to be drawn from the analysis of the factors that shaped trade policy since the nineteenth century.

- It is necessary to consider which sectors and regions of the global economy are growing most rapidly. Before 1914, Britain suffered from being in the 'wrong' sectors but the 'right' regions; in the interwar period, it was in both the wrong sectors and regions – and after the Second World War started to move to the more rapidly growing European economy. Is it now the case, as some argue, that Britain's future lies in the world beyond Europe – or could Britain as a member of the customs union negotiate more favourable trade deals with non-members than it could alone?
- Trade forms part of a wider pattern of multilateral settlements, with surpluses in one area covering deficits in another. A major theme in the history of trade policy is whether the best strategy is unilateral free trade (as in the later nineteenth century) with the assumption that surpluses and deficits would resolve themselves; to turn to trade blocs as in the 1930s; or to restore multilateralism as was attempted after 1945. Can Britain survive without being a member of such a bloc, and should membership be through maintaining the customs union (where members have a common external tariff and supranational institutions) versus a free trade area such as NAFTA (where members are free to pursue separate trade policies with third countries and do not have supranational institutions)?
- It is necessary to think beyond trade in visible goods, for even when Britain was the dominant industrial economy, it had a deficit on trade which was compensated by income from services – whose importance has grown with the recovery of the City of London and other services in the later twentieth century. How much effort should be spent on regenerating the industrial sector where there is serious competition from China and other countries, or should the emphasis be on the service sector?
- This decision has implications for domestic politics and interests. A focus on services benefits the financial sector and people with the ability to deal in abstractions, with a flexible form of knowledge associated with intangible capital – compared with those in industrial regions who have specific skills without formal educational qualifications based on tangible capital. The choice about trade policy, widely defined, will affect these groups differently.
- The debate over trade policy always had implications for welfare policy and for the distribution of income and wealth: exports might arise from low domestic consumption as a result of large disparities of income and wealth as argued by Labour and new Liberals before 1914 – and the attempt to restore export markets in the 1920s came at the expense of squeezing wages. Can markets be regained by cutting corporation tax, reducing the cost of welfare and eroding labour or environmental protection, or is that socially divisive and politically risky? Trade policy raises serious issues of social justice and equity.
- The shape of trade policy does not only affect domestic interests but has to respond to the internal politics of other countries, as we saw in the case of India. Negotiating a trade deal rests on an appreciation of the domestic constraints on the other party.
- How are the benefits of globalisation distributed? After 1945, thin multilateralism meant that domestic welfare was balanced with the pursuit of internationalism, but the emphasis shifted to hyper-globalisation which stressed internationalism at the expense of domestic welfare. As a result, some groups in society lost. The

beneficiaries were the 'emerging global middle class' and the 'global plutocracy'; the losers were the lower middle class and working class in the 'old rich' countries who suffered from outsourcing and technological change and were then hit by austerity. Trade policy forms one element in this wider redistribution of gains and losses within the world economy – and the extent to which social policies should offer compensation or austerity should further hit those who suffered.

- Debates over trade cannot be separated from the relationship with the trilemma: politicians and civil servants had to consider the links with the monetary regime of fixed or floating rates, with capital controls or freedom, with measures to limit inflationary pressures and competitiveness. Clearly, any decisions on tariff policy will be affected by whether or not the exchange rate depreciates; and earnings on services will be affected by whether or not the City of London remains a centre for off-shore finance as it has been since the emergence of the Eurodollar market.

The technical details of tariffs were largely left to experts negotiating in the GATT trade rounds in a highly complex way that few understood. Unlike in the United States, there was little scope for special pleading by sectoral interests through log rolling and pork barrel politics in Congress. But trade did enter political discourse over the wider questions of imperial preference versus free trade, economic nationalism versus internationalism – or in more cultural terms of identity politics. Was Britain part of a single multilateral trading system of open markets, of a trade bloc based on the Commonwealth or Europe, or the economic nationalism of the alternative economic strategy? Those debates ran through the late nineteenth and twentieth centuries and continue today.

British trade in the era of the two World Wars

Professor Patricia Clavin FBA
Professor of International History, University of Oxford

Professor Madeleine Dungy
Visiting Lecturer in Humanities, École Polytechnique Fédérale de Lausanne

The two world wars forged new links between trade policy and international power relations by turning the global economy into a potential weapon. Britain led this transformation by orchestrating the Allied blockade of the Central Powers from 1914 to 1918. As the British state extended control over shipping, trade and finance beyond its borders, it also intervened in domestic economic life in new ways. Workers, consumers and families all participated in the war effort, and they, in turn, expected the state to be more responsive to their social and economic demands.

These changes in the domestic and international political landscape were only faintly reflected in British trade policy in the 1920s. The British government supported temporary trade restrictions on the defeated powers, in the name of security. It also offered some new institutional support for exports in an attempt to boost domestic employment. Nevertheless, the overarching goal of British leaders after the First World War was to restore the open, globalized economy that had existed before 1914. In the 1920s, Britain helped coordinate the reconstruction of the international gold standard and also promoted multilateral trade liberalization through the League of Nations. The onset of the Great Depression brought a significant reversal of these policies. Britain left the gold standard and abandoned its support for free trade, embracing a new regime of imperial solidarity that encompassed both trade and monetary policy.

Britain had considerable international influence in this period, and so where Britain led, other states often followed. Yet, in many instances this dynamic benefitted neither Britain nor its trade partners. Britain successfully led the reconstruction of the international gold standard in the 1920s, but it did so in a way that significantly damaged its own economic and social fabric and helped to unleash global deflationary pressures. In the 1930s, Britain was also the first major economic power to leave the gold standard, but its pivot towards a policy of imperial solidarity contributed to the fragmentation of the international system into competing power blocs.

These were not merely failures in economic policy. They were failures to appreciate how ‘total war’ had changed the broader relationship between the economy, the state and society. Firstly, after 1918, citizens expected their government to manage the economy in order to support employment and rising living standards, even if this meant compromising cherished principles such as balanced budgets. Secondly, trade had become a critical security asset, and so the introduction of a restrictive trade regime in the world’s largest empire inevitably fuelled an economic arms race among the great powers. Britain was not the only country that was slow to learn the lessons of total war, but because it was an imposing economy with a large territorial and institutional footprint, its failures mattered a great deal for the rest of the world.

The impact of the First World War

In 1914, the advent of total war prompted states to become vastly more involved in economic management, and it necessitated and legitimized trade protectionism on an unprecedented scale. After September 1914, national frontiers were expressed in strongly militarized terms, and states developed ever-more sophisticated bureaucratic practices to control the movement of people and goods. In particular, the war produced heightened awareness as to the importance of commodities – notably food and materials needed for armaments' production – features we today associate with food and energy security.

The centrepiece of Allied economic warfare was the blockade, orchestrated by Britain. The blockade was integral both to Britain's diplomacy towards Germany before 1914, and to its strategy in the war. The legal basis for the blockade was the Trading with the Enemy Act in 1914. The legislation marked the effective abandonment of laissez-faire policies that were the touchstone of Liberal Party economics and the foundation for British commerce with the Empire and the wider world.

The war necessitated extensive intervention into the practice of international trade with lasting effects. The blockade required both the internal and external management of trading relations. The Trading with the Enemy Act focused on cutting British trade with Germany, Britain's single best customer. This required far-reaching internal surveillance of the British economy, enforced through the courts. It also required far-reaching external interventions. These comprised a series of political, bureaucratic, military and naval manoeuvres, guided by the British Foreign Office, to convince Allied and neutral countries to cease trading with the Central Powers. It was the blockade, and the extensive naval and intelligence operations it involved, which made the First World War a global conflict. British maritime power was a vital component.

The need to mobilize national, imperial and international resources for the prosecution of the war meant the state developed new tools in trade policy. With the end of the war in 1918, the British government moved to dismantle wartime trade controls, although the blockade remained in place until the conclusion of the Paris Peace Treaties. Trade embargos also remained to prevent British business from trading with territories that would become the Soviet Union.

The impact of the First World War had changed the relationship between the British state and world markets with important implications for the future. The point was underlined by the creation in 1919 of two new offices of state, the UK Department of Overseas Trade and its sub-department, the UK Export Guarantee Department. They took over and developed the state's capacity, considerably enhanced during the First World War, for collating and disseminating commercial intelligence and coordinating commercial services abroad.

The war changed the relationship between the British state and its citizens too. The scale and duration of the war had forced states across Europe to demand new sacrifices of their peoples. To secure that allegiance, governments, in return, were prompted to expand their obligations to citizens or subjects. This process extended the democratic franchise across European nation states - although not into Europe's remaining empires. Britain adopted universal male suffrage and limited female suffrage in 1918. Organized labour also grew in power and authority in ways that reshaped public expectations of trade policy in the future.

The British government tried to meet the domestic demand for state action in relation to trade and job creation through the UK Export Credit Guarantee Department. This office had both domestic and international objectives. Firstly, it sought to improve British export trade in textiles, notably in the north west of England. They were facing strong competition from textile manufactures in Japan, in particular, and were especially hard hit by the disruption to British trade ties by the war. Secondly, the department worked to assist the economic recovery of central and eastern Europe, where newly formed nation states faced manifold economic crises. Moreover, the old economic hubs in the region, Germany, Austria and Hungary, were shouldered with heavy reparations (payments imposed by the Allies for the 'cost' of the war). The restoration of stability to these territories that faced the risk of communist revolution and rising levels of inflation was understood as important for British security, and British prosperity.

A new global order, 1919–1929

The expanded political power of the working and peasant classes underlined what was new about political economy in the twentieth century: government was now held directly responsible for maintaining a continuing level of economic activity, and political legitimacy was increasingly dependent on the ability to manage the domestic economy to the collective advantage of the electorate. The growth of the state, and society's rising expectations of it, reinforced a political predisposition to trade protectionism that would become increasingly evident in the 1920s and 1930s. In central and eastern Europe, these tendencies were reinforced by the shift away from empire to the foundation of independent nation states.

In the first few years after the war, it was difficult for British politicians and civil servants to appreciate fully how the war had altered their relations with the electorate on the national plane, and how those changes would shape international trade relations. There were some limited experiments, such as the UK Export Guarantee Department, but British post-war trade policy was generally led by the view that market forces, not state intervention, would heal war-battered economies. There remained a deep faith in the importance of Britain's move to free trade to in the 1840s as the basis of Britain's spectacular economic growth in the 19th Century. Most iconic was Prime Minister Robert Peel's decision to repeal the Corn Laws in 1846 – a unilateral move. Further steps were taken by William Gladstone, as Chancellor of the Exchequer in the 1850s, to complete Peel's revolution. By 1860, he had removed import duties on 400 items; tariffs were retained for revenue purposes, on less than 20 imported 'luxury' goods.

The desire to return to 'business as usual' also shaped British monetary policy. In the 1920s, British monetary officials focused on the restoration of the international gold standard, which had functioned as a central pillar of the integrated world economy before 1914. This had important consequences for the competitiveness of British goods for export, and for Britain's invisible exports, notably from the City of London.

In the domain of trade, British policy was guided by the principle of non-discrimination. At the same time, Britain, in co-operation with the United States and France, signalled that market decisions would be made within an international regime of rules and regulations. The Paris Peace Treaties of 1919 produced a new framework for the development of international law, building in part on legal and diplomatic practices before 1914. Britain and the world's first inter-governmental organization, the League of Nations, was at the heart of this process.

There were tensions and contradictions in the new international legal order. British and US leaders jointly formulated the key trade terms of the 1919 Peace Settlement, but competing regional and imperial trade ambitions prevented them from devising a robust program of positive international economic cooperation. In 1919, they could only agree to a vague articulation of non-discrimination: Article 23 (E) of the League of Nations Covenant, a pledge 'secure and maintain freedom of communications and of transit and equitable treatment for the commerce of all Members of the League'. At the same time, this new universal norm was contradicted by unilateral Most Favoured Nation (MFN) obligations that the victorious powers imposed on the defeated states.

The MFN principle had been the mainstay of the bilateral treaties that regulated international trade prior to 1914. In the 1860s and 1870s, Britain helped generalize the use of the MFN clause in an interlocking network of bilateral trade treaties that began with the hallmark Franco-British treaty of 1860. MFN was a guarantee of non-discrimination intended to ensure, paradoxically, that no individual trade partner was ever treated as the most favoured nation, privileged above the rest. By granting MFN rights, a state pledged that benefits granted to one treaty partner would automatically be extended to all others, according to the most robust 'unconditional' interpretation of the norm that Britain followed. This practice encouraged trade negotiations because it ensured that the benefits of one treaty would not be nullified by future treaties that granted more advantageous concessions to other trade partners. MFN subsequently became a core principle of the international trade regime of the twentieth and twenty-first centuries. It is the legal cornerstone of today's World Trade Organisation (WTO) and of its predecessor, the General Agreement on Tariffs and Trade (GATT).

The vague and lopsided trade provisions adopted at the Paris Peace Conference reflected ambivalent British attitudes towards MFN. British leaders supported the idea of equity embodied in MFN, but also wanted legal latitude to pursue imperial trade preferences and national security commitments. This trend had its roots in trade law before 1914, when the Dominions had begun to introduce tariff preferences on British goods. Britain's qualified approach to 'free trade' became important when the Great Depression hit after 1929. Firstly, it provided the space for Britain and its imperial partners to agree to a comprehensive program of imperial tariff preferences. Secondly, British imperial preferences formed a precedent for German, Austrian and Hungarian claims for customs unions that would restore their lost imperial influence in central and eastern Europe. Trade policy thus became a key lever to revise the territorial terms of the 1919 treaties. This strategy was motivated in part by the unequal MFN provisions in the Peace Treaties, which affirmed trade law as a tool of power politics.

While the war had infused trade policy with great-power rivalries, the creation of the League in 1920 indicated a commitment from the victorious Allies to regulate those rivalries within a rules-based system of international relations. The move to the League of Nations, which had its own international secretariat, offered a new platform for multilateral negotiations. Britain was the pre-eminent power in the League, and used this platform to facilitate its multilateral relations around the world, including with its dominion and colonial territories. This was evident in the League's efforts to coordinate trade liberalization through treaties and through large international economic conferences, in 1927 and 1933. These efforts failed to produce a coherent international trade regime in the inter-war period, analogous to the GATT and the WTO. Nevertheless, the practices, ideas and intelligence garnered by the League (which involved many US collaborators although the US was not a member state) were central to the emergence of a new rules-based order within these later institutions.

In the 1920s, Britain used the League to produce uniform international trade rules and to expose bilateral treaty practice to a new degree of multilateral scrutiny and standardization. Most significantly, in 1923 Britain's trade representative in the League championed an International Convention Relating to the Simplification of Customs Formalities, which was the first multilateral treaty in history to give an international institution authority over core functions of state economic administration. The convention covered topics subsequently developed in the GATT and the WTO. The basic structure of the GATT's multilateral framework created in 1947 followed the basic organizational principles established in the League's 1923 convention: it governed administrative and regulatory questions through uniform international standards, while leaving tariff negotiations on a bilateral basis.

At the World Economic Conference of 1927, British delegates asserted the League's authority over bilateral treaty practice by empowering it to define a uniform interpretation of unconditional MFN. This was a pivotal moment when the bilateral treaty system inherited from the nineteenth century was reconfigured around a central institutional nucleus. After 1927, the League spent two years conducting a thorough survey of bilateral treaty practice in order to produce a standard five-paragraph MFN clause. The League's MFN clause was then incorporated, essentially verbatim, into trade treaties around the world, including in those signed by non-League members such as the United States. When Franklin Roosevelt's government pivoted the United States towards a more open trade policy in the 1930s, the League's MFN clause formed the unifying legal core of the dozens of trade agreements that it negotiated. The US Trade Agreements Programme thus helped generalize the League's standard MFN clause and make it the basis for the later GATT. Thus, while British leaders initiated the codification of MFN in the League in the 1920s, it was the US government that carried forward that process in the 1930s as Britain turned away from internationalism.

Britain's commitment to free trade complemented its stress on the importance of restoring the international gold standard after 1918. The gold standard was a monetary regime in which governments pegged their currencies to gold at a fixed rate. Britain adopted this system in the 1820s, and the other main trading powers adopted it in the 1870s. The gold standard undergirded globalization in the late-nineteenth century by providing stable exchange rates across the commercial world. It also supported free trade because both public monetary authorities and private lenders encouraged states and borrowers to promote open markets, on the grounds that overseas debtors needed foreign trade revenues.

The First World War undermined the gold standard because most belligerent governments, including Britain, financed the war partly through inflation. Britain returned to the gold standard in 1925, and, crucially, it opted to return at the same exchange rate that it had used in 1914. In contrast, most other European countries re-joined the gold standard at much lower rates, in order to adjust to inflation. Britain's choice to use a comparatively high gold exchange rate undercut the competitiveness of its exports. Nevertheless, officials in the Treasury and Bank of England remained firmly committed to the gold standard in the 1920s, partly because they believed that a 'strong pound' would aid the restoration of the City as an international financial hub. They also worked to extend the gold standard across Europe by coordinating a series of currency-stabilization loans through the League of Nations.

In the mid-1920s, the monetary stability provided by the gold standard did support a fragile recovery in international trade. With the onset of the Great Depression, however, the gold standard facilitated a deflationary spiral, as governments competed to raise interest rates to maintain their dwindling gold reserves. As the depression wore on, many indebted states also resorted to barter and monetary controls to avoid formally devaluing their currencies (and thereby increasing their foreign debt burden). Thus, while the gold standard briefly functioned as lubricant of international trade in the 1920s – although not for Britain, its main champion – it encouraged protectionism in the 1930s.

The Great Depression, 1929–1939

In October 1929, the booming US Stock Market on Wall Street, crashed. The board of the US Federal Reserve responded by raising interest rates, instead of dropping them. The measure curtailed the flow of capital out of the United States into Europe, and significantly increased the deflationary pressures already exerted by the gold standard system. Between 1929 and 1931, demand for primary products collapsed and prices, particularly of agricultural exports, fell through the floor. By 1931 the price of wheat on the Liverpool Exchange had fallen by 50 per cent and the price of meat dropped by 40 per cent. Farmers were now earning less than half what they had before 1929. But demand for manufactures also fell dramatically, and so did general levels of employment.

The liberal trade regime, already under pressure in the 1920s, was now swept away. Lobby groups exerted powerful pressure on governments to protect their domestic markets, particularly in the new states of central and eastern Europe. The rules-based approach to trade policy supported by the League of Nations was replaced by blunt power politics. Relations between European countries quickly deteriorated in this bitterly competitive environment. Farmers demanded tariff protection, agitated by the well-founded fear that their competitors would dump commodities in a desperate attempt to get rid of reserve stocks before prices further declined. The move led to panic selling all around. In 1930 the US government adopted the Smoot-Hawley tariff, which covered almost all goods entering the country at an average rate of 40 per cent. This decision drew stringent international criticism and set off a string of competitive tariff hikes around the world.

By the early spring of 1931, Britain and Europe began to crack under the strain of declining prices. Economic and political pressures combined to produce a financial crisis that swept across Europe like a flash flood. In Britain, the sterling crisis ran from July to September 1931, and was a turning point in the monetary history of the twentieth century. It marked the beginning of the end of the gold standard system. In Britain it was not the commercial and savings banks – as in Germany and Austria – that were under pressure, but the central bank, the Bank of England. From July 1931 onwards, the gold-pound was sold heavily on the international exchanges and the Bank of England had to work hard to maintain its currency reserves and defend sterling's parity with gold.

At the heart of the sterling crisis lay the persistent frailty of the British economy. It was now widely recognized that the return to gold had not brought the benefits promised by Winston Churchill in 1925. Sterling was overvalued by around 10 per cent, and the orthodox policies required to maintain this parity – balanced budgets and a positive balance of trade – created a deflationary trap. For much of the 1920s the British economy was one of the most depressed in western Europe.

By 1931 Britain faced a severe balance of payments crisis: invisible earnings from the financial services, shipping and overseas business profits had all collapsed; so, too, had British exports. Although the prices for imported commodities on which Britain was heavily dependent had fallen dramatically since 1929, it was not enough to offset these problems. The final blow to the gold pound came in August when the minority Labour government was unable to resolve the growing crisis over the budget and was replaced by an all-party National Government. Ramsay MacDonald stayed on as Prime Minister and was joined by representatives from the Liberal, Labour and Conservative Parties, although the Conservative members soon dominated. The National Government made a last-ditch attempt to keep Britain on the gold standard by cobbling together public-sector pay cuts. Yet even this measure, combined with international cooperation among the world's most powerful central banks, failed to forestall the collapse of the pound.

On 20 September Britain was 'forced off' the gold standard. The end of the gold pound, however, was not so much a defeat as a surrender. It is clear that by the summer of 1931 many in Parliament, the Treasury, and even some officials within the Bank of England, had lost faith in the gold standard. The 1920s taught countries that had experienced severe inflation such as France, Germany and Hungary to cherish the sanctity of the gold parity. Britain's less than illustrious economic performance since returning to gold confirmed the opposite lesson: the gold standard was seen as a recipe for economic and social misery. This meant that in Britain, unlike in much of continental Europe, the domestic political costs of allowing sterling to float on the international exchange were not very high.

After leaving the gold standard, partly by accident and partly by design, the British government developed a national and imperial strategy for economic recovery. Interest rates were reduced and the pound was allowed to depreciate by around 30 per cent relative to countries that retained their fixed parity with gold, most notably France and the United States. Currency depreciation underlined a trend that had been under way since 1929: economic and monetary policy was now much more a matter for governments than central banks. The Bank of England formally lost its independence in determining monetary policy, although it was put in charge of a new Exchange Equalization Account (EEA).

The EEA smoothed out fluctuations in sterling's exchange rate by buying and selling foreign currencies, and it was therefore perceived abroad as tool to promote British foreign trade. A leading US Senator alleged that the EEA was 'being used to depreciate the pound and appreciate the dollar, thereby giving Britain an advantage in world markets against the United States'. It is true Britain soon enjoyed the benefits of deprecation as both trade and employment levels began to rise. Unemployment fell from a peak of three million in 1933 to just over two million in 1938, although structural problems and the loss of export markets prevented a robust British recovery.

Britain's abandonment of gold had wide-ranging international implications. Depreciation was an indirect form of protectionism for the British market - imports from nations still on gold were now more expensive - and this legitimated demands for tariff protection in those nations. In the longer term, sterling's depreciation worked to increase the deflationary pressure faced by European countries that were still on the gold standard and to undermine the credibility of the system as a whole.

In the 1930s, a 'sterling bloc' formed around Britain as the first recognisable international currency group. (During the Second World War it shrank in size, became more focused in character and became known as the 'sterling area'.) The Empire and the Commonwealth were at the heart of this bloc. When Britain left gold, it took with it empire currencies already pegged to sterling, namely those of India, Ceylon and Burma. Australia and New Zealand joined too. (Canada had already left gold in the winter of 1928/29 for domestic reasons.) Some European currencies chose to peg their own currencies to the pound, including Norway, Sweden, Denmark and Portugal, with Yugoslavia and Greece joining later. Britain was the leading export market for many of the countries. In the course of the 1930s, Egypt, Iraq, Iran, Japan, Argentina and Uruguay also joined the bloc.

British leaders actively encouraged the expansion of the sterling bloc. Neville Chamberlain, as Chancellor of the Exchequer, declared that he wanted to make it 'as easy for as many as possible of the unstable currencies to base themselves on sterling so that we may become the leaders of a sterling block (which would) give sterling a new force in the world'. It was a regional bloc with a global vision. At the same time, Britain did not control the bloc. Members of the group were free to adopt or give up the 'sterling standard' as and when they wished. There was no group organization or formal agreement amongst its members.

However informal the arrangements between members of the sterling bloc, the creation of this new monetary group helped other groups to define themselves in relation to one another and to sterling. By the end of 1932 a 'gold bloc' had formed around France, made up of countries still committed to the gold standard.

The competition between the currency blocs was amplified considerably by a new wave of protectionist measures that came in the wake of sterling's depreciation. Floating the pound provoked retaliatory 'beggar-thy-neighbour' trade policies in countries still committed to gold, many of them Britain's neighbours in Europe. France slapped a 15 per cent surtax on British goods in the wake of sterling's flotation. Partly in response to sterling's devaluation, new and tougher quotas were also introduced by Belgium, Switzerland, the Netherlands, Czechoslovakia and France.

The General Tariff and Imperial Preference

In the 1930s, Britain participated in the destruction of the rules-based system of trade relations in favour of a power-based system. No one benefited from this transformation, as levels of global trade fell precipitously. Britain's transition to protectionism signalled the country's break with the free trade ethos that had dominated its economic policy since 1846. Until 1931 over 80 per cent of imports entering Britain did so duty-free. Britain was the world's most important import market, taking in, for example, 63 per cent of all Danish exports, 21.4 per cent of Dutch produce, and 17.8 per cent and 10 per cent of French and German production respectively.

In 1931, Britain made an initial break with free trade by adopting an Abnormal Importations Act, which authorized the government to apply temporary tariffs. In November 1932, this stop-gap measure was replaced with a full General Tariff. It raised duties on many finished goods to 20 per cent, with levies of up to 33.3 per cent on products of what were considered to be key industries, such as motor vehicles.

Since the nineteenth century, calls to protect the British market had been linked with demands for closer economic integration within the Empire and Commonwealth. In June and July 1932 these demands added the third and final layer of British protectionism with agreements signed at the Imperial Economic Conference in Ottawa. The Ottawa Agreements reduced the tariffs levied on imperial primary producers by around 10 per cent, and thereby provided them with privileged access to the British market.

The Ottawa Agreements also enabled the National Government to appease working-class concerns that tariffs would increase food prices. Imperial preference, the public was told, meant cheaper food. It was also intended to consolidate 'historic links of kinship'. But Britain's imperial and Dominion partners quickly grew disillusioned. Imperial preference did not deliver greater profits for them, and it reinforced their categorization as primary producing states. The other problem was that the 'have-not' powers of Europe, notably Germany and Italy, increasingly used imperial preference to justify their demands for empire and regional influence.

When Hitler became Chancellor of Germany in 1933, preceding German governments already had plans in place to break off treaties with France, Sweden, the Netherlands and Yugoslavia that had served as anchors for Germany's MFN commitments, and had concluded preferential agreements with the Scandinavian dairy producers (Denmark and Finland). The Nazi government developed these moves and charted an assertive new course for German trade policy. Over the course of the 1930s, it effectively used preferential barter agreements to place Germany's eastern neighbours in a position of deep economic dependence.

There is still vigorous debate today among historians about how far Britain's move to imperial protectionism in 1932 was generated by longer-term trends in British political economy, including the decline of export industries, a preoccupation with the economics of empire, and growing frustration with the protectionist practices of continental Europe and the United States. Alongside these more gradual developments, the deflationary pressures of the gold standard after 1925, culminating in the financial crisis of 1931, played a crucial role in persuading politicians, big business and finance communities to embrace protection.

By 1931 it was accepted across the political spectrum that tariffs would generate much needed revenue for the government and reduce the volume of foreign imports entering Britain. Some Liberals continued to provide a dissenting voice. They (rightly) argued that sterling's flotation negated the need for tariffs because depreciation had already increased import prices and cheapened exports.

Britain's move to protection and imperial preference was not just ill-timed because it cut across the benefits of the newly floating pound. It introduced a new challenge in Anglo-American relations. In 1933, the Democrat Franklin Roosevelt became President, and his new Secretary of State, Cordell Hull was an ardent, life-long campaigner for free trade. In 1934, the United States passed the Reciprocal Trade Agreements Act (RTAA) that greatly strengthened the President's authority to negotiate trade deals. Under the terms of the RTAA, Roosevelt and Hull could pursue trade deals based on a flat-rate reduction of 10 per cent of existing barriers, a corresponding percentage enlargement of quotas, and bilateral agreements based on unconditional MFN treatment. Although Hull wanted to secure a trade deal with Britain from the moment he took office, British leaders resisted his overtures, mainly due to concerns about imperial preference. It was not until 1938 that Chamberlain finally signed a trade agreement with the United States, and he did so for reasons of political expediency, in order to show an Anglo-American front to the rising fascist powers. But this semblance of unity had come too late to persuade Hitler of Anglo-American solidarity. He was well-aware of antagonism between Chamberlain, now Prime Minister, and Roosevelt, which could be traced back to conflicts over the two countries' initial responses to the depression, aired at the League's World Financial and Economic Conference of 1933.

The Second World War and the World Order of 1945

As in the First World War, the prosecution of total war from 1939 to 1945 meant that the state determined the priorities of the economy, and international trade was severely disrupted. Britain again imposed a blockade on Germany. Yet, the expansion of Nazi German control over a wide swath of Europe meant that British economic warfare was less effective than it had been during the First World War. The US government partly compensated for this by providing earlier and more extensive economic support than it had done during the First World War.

In early 1941, when the British Treasury was almost exhausted, Roosevelt responded with the 'lend-lease' policy. This initiative imposed important conditions on the future of British trade policy. Lend-lease was a programme of military aid, by which the United States provided goods and services to support the fight against Germany, Italy, and later Japan, even before it formally joined the war in December 1941. Under the terms of 'lend-lease', the Allies would repay the US, not in money, but by returning the goods, using them in support of the cause, or by a similar transfer of goods. Wartime estimates calculated the United States provided between $43 and $50 billion (1945) dollars of aid. It received about $8 billion in supplies from the Allies, mainly in the form of raw materials and technology transfers, as 'reverse lend-lease'.

Crucially, the Lend-Lease Act also authorized President Roosevelt to demand unspecified political concessions as repayment for war material delivered. Roosevelt used negotiations with Britain for the so-called Master Lend-Lease Agreement and the Atlantic Charter of 1942 to signal that the United States wanted broader changes in British trade policy, notably a return to the posture of international engagement that Britain had adopted in the 1920s. (US leaders also tried, with little success, to use their leverage to curtail British imperial preference). The wartime agreements between the US and Britain set the goals that would lead to the creation of a new rules-based international order in 1945.

Throughout the war, economists from the United States and Britain also undertook a more systematic examination of the world economy. The exercise culminated in a new international architecture for economic and financial relations determined in 1944 in Bretton Woods. This small town in the American state of New Hampshire gave its name to the international agreements signed there between the non-Axis powers that set up the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development or World Bank. An International Trade Organization (ITO) was also proposed, but was never established. It proved much easier to reach agreement on monetary questions than on trade because the views of British and American experts were more similar on how best to 'manage' the financial dimension of the international economy. They agreed on a new monetary system to be based on fixed, but flexible exchange rates (currencies were permitted to move within a specified range). The dollar would serve as the anchor currency linked to gold, although this arrangement did not work as intended until the late 1950s. The World Bank was given a treasury of $7.6 billion (mostly drawn from American coffers) to help rebuild war-torn Europe and to promote economic development in Africa, Asia and Latin America. The IMF's mission was to help countries by offering stabilization loans to control the currency crises that, otherwise unchecked, would destabilize the entire international economy.

Trade was a particularly thorny issue because the war had made imperial preference more important, not less, as Britain had become more dependent on the Empire. But it was not Britain's demands for discriminatory trade practices and currency controls that scuppered the planned ITO, but US farmers and industrialists who would not accept the end of tariff protection. The US Congress destroyed the ITO at birth. The

General Agreement on Tariffs and Trade (GATT), set up in 1947 in preparation for the ITO became the central framework for international trade policy. It followed the more cautious approach initiated by the League. It promoted tariff reductions on the basis of bilateral agreements within a multilateral regulatory framework. Notably, the GATT generalised concessions agreed bilaterally through the enforcement of unconditional MFN.

Conclusion and policy takeaways

The era of the world wars underlines the importance of British ideas, practices, politicians and civil servants in the promotion of a rules-based trade order. Britain occupied an important, if no longer pre-eminent, position in the world economy during this period. In the 1920s, it used its influence to establish the foundations for a system of multilateral trade cooperation in the League of Nations, that paved the way for the later GATT and then the WTO.

The Great Depression illustrated just how important British leadership was to this enterprise. When Britain abandoned the rules-based trade regime in 1932 in favour of imperial protectionism, this encouraged other states to embrace nationalist economic policies. Roosevelt tried to counter this trend but was unable to do so without British participation. Aggressor states, such as Nazi Germany, were able to exploit divisions that opened up between Britain and the United States on trade to their strategic advantage. The Second World War forced cooperation and compromise between the United States and Britain – US leaders softened their categorical opposition to British imperial preference while British leaders agreed to submit trade policy, even within the Empire, to multilateral supervision. This partnership was the heart of the GATT.

Yet the geopolitics of 1945 are not today's geopolitics. Continental Europe was in tatters in 1945; today, the European Union is the strongest base of support for the WTO and its rules-based approach to global trade. Thus, the EU and the WTO are not alternatives but rather are complementary and indeed co-dependent systems. Arguably, one of the biggest mistakes that British leaders made in the 1930s was to think that national and imperial economic solidarity were incompatible with engagement with the League of Nations and with a US president who was pivoting towards Geneva. After 1945, Britain preserved many of the national and imperial trade protections that it had established in the 1930s, but, crucially, it agreed to discuss and coordinate those policies with its international partners. Britain's willingness to open its trade policy to multilateral negotiation in 1945 was critically important for the construction of today's system of international institutions.

Britain's turn towards Europe, 1947-75

Professor David Thackeray
Associate Professor in History, University of Exeter

The thirty years following the end of the Second World War were characterised by a dramatic shift in the direction of British trade. Whereas western Europe accounted for 26 percent of British exports in 1950–54 this figure had risen to 43 percent by 1970–73. Over the same period the share of the Empire-Commonwealth in British exports fell from 53 percent to 27 percent. This change marked a shift back to the pre-1931 status quo when Europe rather than the Empire-Commonwealth was the UK's key trade partner. However, after 1973 Britain's membership of the EEC went through a continual process of renegotiation and Euroscepticism grew significantly in influence.

1947–60: 'The three majestic circles'

In 1948 Winston Churchill spoke of 'three majestic circles' which shaped Britain's key strategic interests: the Empire-Commonwealth, the Anglo-American relationship, and European co-operation. British trade policy in the post-war years was influenced by concerns with balancing commitments to these inter-linked circles.

Between 1944 and 1947 Britain underwent a significant shift in its trade policy. Late nineteenth-century free trade arguments were strongly influenced by moral internationalism, the assumption that global economic well-being was best secured by governments reducing trade barriers unilaterally out of enlightened self-interest. After 1945, by contrast, arguments for freer trade were almost always based on institutional internationalism, which assumed that successful liberalisation required an international regulatory framework to enforce good behaviour, the key foundations of this order were the Bretton Woods system and GATT. Stafford Cripps, who served as Chancellor of the Exchequer under Clement Attlee, claimed in 1947 that 'a new economic international organisation was absolutely vital for the future peace of the world'. Furthermore, he noted that Britain's economic position would be aided by freer exchange promoted through multilateral co-operation: 'the vital objective of a 50 percent expansion of our exports is not likely to be reached in a world in which the markets of other countries are hedged about by arbitrary and unregulated barriers to trade'.

However, these aspirations to promote freer global trade sat uneasily with the 1945–51 Labour government's concerns with planning the domestic economy through the nationalisation of key industries and its interest in ensuring that imperial preference was not significantly eroded. Britain's economy drew closer to the Empire-Commonwealth during the austerity years following the Second World War. Between 1950–54 these countries were the destination for 53 percent of British exports. Britain became heavily dependent on American aid as a result of Lend-Lease during the Second World War and the signing of a post war loan in 1946. This dependence on the United States limited Britain's room for manoeuvre in trade negotiations. Yet it was Britain's economic weakness which helped it persuade the United States to keep the existing system of imperial preference largely intact during the negotiations which led to the General Agreement on Tariffs and Trade (GATT) in 1947. An attempt to make sterling fully convertible against the dollar in July that year was quickly abandoned after it led to a run on Britain's currency reserves. The United States' policy at this time was conditioned by concerns that trade with the war-damaged economies of western Europe would be hampered by the latter's developing dollar shortage. This helps explain the creation of the Marshall Aid fund for European reconstruction that year, of which Britain was the main beneficiary. Britain was a valuable economic partner for the United States given that it worked with other Sterling Area countries to pool dollar reserves, aiding their ability to trade with America. Nonetheless, under the terms of GATT, signatories were committed to establishing no new discriminatory preferences. The value of existing imperial preferences was gradually eroded over subsequent years through inflation.

In 1950 the European Coal and Steel Community (ECSC) was created, pooling industrial production between six west European countries. The 'common market' for steel and coal production can be seen as a defensive measure, promoting European co-operation and decreasing the chances of future wars preventing West Germany from establishing an industrial war machine. It is unsurprising that the Attlee government proved reluctant to participate in the ECSC given that it had nationalised coal and steel production. Subsequent efforts to expand the common market were driven by growing trade between the six member countries and concerns to avoid a relapse into economic nationalism in the event of an economic downturn. While Britain took part in these discussions over west European integration, participating in the Spaak Committee with the ECSC 'six', its decision to leave the committee in 1955 meant that it took no part in the negotiations which led to the eventual creation of the European Economic Community in 1957.

Britain's reluctance to entangle itself in schemes for west European economic co-operation was driven by perceptions of its relative economic strength, concerns to save dollars by trading with the Sterling Area, and efforts to preserve the role of sterling as an international currency. In 1949 the UK economy was significantly larger than its west European rivals. Around this time sterling accounted for around half of international trade in the non-communist world. The Sterling Area, of which all of the Dominions, with the exception of Canada, were members was much more tightly controlled after 1939 that it had been beforehand. During the war all members' dollar and gold earnings were pooled and rationed, under the custody of the Bank of England. After 1945 exchange controls were retained under the supervision of the Bank of England, in cooperation with national central banks, and bulk purchasing agreements and import quotas remained in place. At this time, co-operation with the Empire-Commonwealth was valued within British government due to its complementary trade, with the UK producing manufactured goods in exchange for agricultural products. By contrast, developing ties with industrialised western European countries which produced similar products was seen as being less beneficial to the British economy. In 1948 Europe accounted for around a quarter of British trade whereas the Sterling Area, in which the Empire-Commonwealth played the dominant role, took half.

British concerns with promoting Sterling were based on assumptions that global, rather than regional, economic co-operation was central to its trade policy. Trading within the Sterling Area and the pooling of dollar earnings also enabled Britain to rely less on imports paid in dollars. This meant it was an uneasy member of the European Payments Union (EPU), established in 1950 as a means to promote international trade and eliminate discriminatory trade measures in an environment where there was limited convertibility of currency. In 1952 HM Treasury devised Operation Robot, a plan to float sterling. A devalued pound would make British exports more competitive and discourage imports. However, had it been implemented, Operation Robot would have effectively undermined the EPU, which was a central component of European reconstruction efforts.

In 1956 HM Treasury promoted ‘Plan G’ as a means to challenge plans for a European Economic Community, which came into being the following year. The British proposals envisaged the creation of a free trade area based on the European members of the Organisation for European Economic Co-operation (OEEC). Its crucial differences from the EEC proposals was that it did not implement a tariff on agricultural products, nor did it include a common external tariff. Plan G can be viewed as an effort to maintain Britain’s existing preferential trade ties with the Commonwealth which were threatened by the introduction of the EEC’s Common External Tariff, while closening economic links with western Europe short of full participation in a customs union.

While Plan G was well-suited to Britain’s strategic interests, it received a hostile reception within western Europe, particularly France. This opposition was based upon concerns that Plan G would increase industrial competition with the UK. The EEC Common External Tariff provided safeguards for high tariff countries such as France and Italy. Under the British plan members of the free trade area would be able to pursue their own trade policies with the wider world. This would create problems for high-tariff countries as it would be possible for imports from countries outside the free trade area to enter a member state with low external tariffs, which could then be traded freely within the free trade area. Regulating the system would be difficult given the lack of effective origin controls at the time. The proposed Common Agricultural Policy (to be introduced in 1962) also aided the interests of French agriculture. Whereas agricultural imports from the French colonial empire were largely tropical produce, agricultural products from Australia, Canada and New Zealand largely complemented products produced in the UK- so the Plan G proposals to exclude agricultural products from tariffs had little appeal for the French.

The failure of Plan G in 1958 laid the basis for the creation of the European Free Trade Area in 1960 (EFTA). Its seven members, of which Britain was the leading economic power, were the OEEC nations that were not then part of the European Economic Community. While it was established to gradually eliminate customs duties on industrial goods, it was a half-way house to European integration, more modest in ambition than the EEC. Agricultural goods and fishing were excluded from its tariff arrangements and EFTA countries had no Common External Tariff. EFTA members were free to set their own customs duties arrangements and broker individual free trade agreements with non-EFTA states.

The failure of Plan G also marked a watershed in how policy towards Europe was formulated within Whitehall. Whereas HM Treasury and the Board of Trade had been the key players between 1955–59, the Foreign and Cabinet Offices took up this role in the early 1960s. Both Harold Macmillan, who served as Chancellor of the Exchequer between 1955–57 and his successor, Peter Thorneycroft (who resigned from the role in 1958) were deeply concerned with the direction of European integration and how the EEC’s creation would affect Britain’s world standing. By contrast, the Foreign Office, under Selwyn Lloyd’s leadership between 1955–60, took little interest in European integration. The Treasury’s influence dissipated after Lloyd became Chancellor of the Exchequer in 1960. Its concerns with the high potential costs of British membership, exacerbated by the launch of the Common Agricultural Policy in 1962 meant that it tended to adopt a more hostile attitude to British involvement in European integration thereafter.

1960–67: 'A vigorous and rapidly expanding market'

In 1960 a civil service committee (the Lee committee) was established to assess the potential value of UK membership of the EEC. Its report argued that there was a strong economic case for EEC membership:

In joining the Six we should be participating in a vigorous and rapidly expanding market….We should gain a great deal from larger scale production, specialisation, higher efficiency resulting from keener competition and the more rapid spread of technical skills and new developments….If we joined the inflow of new investment to the United Kingdom would be greater, and the outflow of capital to the Six might be less than if we remained outside.[16]

By this time there was a growing sense that Commonwealth markets were growing sluggishly and that these economies were too often reliant on the export of a few staple agricultural products. In addition, British trade with these countries was often focused on outdated manufactured goods which struggled to compete in other markets. By contrast, British trade with western Europe was focused on newer, hi-tech sectors of the economy. West European economies were viewed enviously as a result of their rapid economic growth throughout the 1950s. They had also grown more competitive in Commonwealth markets, with exports from this region to the Commonwealth rising twice as fast as UK exports since 1948. As the Lee committee report indicates, west European economies were viewed as being at the forefront of the development of modern technology and an attractive outlet for inward investment (particularly from the United States). The development of the Common External Tariff was particularly concerning for Prime Minister Harold Macmillan, who feared that Britain's access to these markets would be restricted significantly.

In May 1961 Macmillan announced in parliament that his government was considering launching an application to join the EEC. This turn to Europe stemmed, in part, from a sense that the value of Empire-Commonwealth markets was in decline as a result of the erosion of tariff preferences and the weakening influence of the Sterling Area in world trade. Whereas the Sterling Area had played a central role in post-war British trade policy its importance dissipated with the dismantling of import and exchange controls, the wiping out of wartime sterling balances, and the growth of multilateral trade. By the early 1960s British business was largely in favour of UK entry into the EEC, stemming from a significant growth in UK firms' investment in western Europe over previous years. EEC membership was increasingly viewed as an opportunity to avert relative decline and deal with a worsening balance of payments position, which was seen as undermining British industrial competitiveness. By 1962, when the Macmillan government finally committed to a membership application, 20 percent of British exports went to the EEC and a further 13 percent to Britain's partners in EFTA. Moreover, given that several EFTA members relied heavily on trade with the UK it could be assumed that they would seek to join the EEC if the British membership application was successful, and indeed, in the early 1970s Denmark and Ireland made their own membership bids dependent on the successful completion of Edward Heath's EEC membership application.

At this time, anti-Common Market rhetoric tended to be cast chiefly in terms of moral/ strategic language. This can be seen in a famous observation by Harold Wilson, then Shadow Chancellor of the Exchequer, in 1961 that 'we are not entitled to sell our friends and kinsmen down the river for a problematical and marginal advantage in selling washing machines in Dusseldorf'.

16 Economic Steering (Europe) Committee, ES(E) (60) 17, 6 July 1960, Covering note to the answers to the Prime Minister's list of questions, CAB134/1853, The National Archives, London.

Wilson claimed that France wanted to be 'the granary of Europe' and that British membership of the EEC posed a significant risk to agricultural products from Australia, Canada, and especially, New Zealand. He, along with Labour Party leader Hugh Gaitskell, claimed they had an obligation to aid these countries economically due to the sacrifices they had made to aid Britain in the immediate post-war years.

Britain's first application to join the EEC played a decisive role in reshaping trade policy within the Commonwealth, heightening anxieties about the UK's viability as a key market for the future. The governments of Australia, Canada and New Zealand publicly expressed frustrations with Britain's negotiating stance and the concessions they were likely to receive under a UK membership deal. Each of these countries took significant steps to promote regional trade alliances over the course of the 1960s, beginning the process of orientating their economies more closely towards Asia-Pacific markets. 1961 then, rather than 1973, was the key moment of crisis in UK-Commonwealth trade relations. While Britain's eventual entry into the EEC proved traumatic for some Commonwealth countries, particularly New Zealand, the drawn-out process of applying for membership significantly lessened the shock of this event and provided space for these nations to develop alternative regional trade alliances.

The failure of the first EEC application also led to changes in Whitehall's European strategy. Throughout the negotiations both Conservatives and Labour had a strong tendency to use geopolitical terms when discussing Europe and they struggled to relate the Common Market to everyday concerns regarding food and prices. From 1962 the government began working with the European Movement to produce booklets and broadsheets for a mass audience, putting the case for EEC membership largely in economic terms, stressing its potential as a market for British goods. Thereafter, the Foreign Office and Cabinet Office played the dominant part in shaping the government's European policy, in part because these departments saw EEC membership as an important way to restore Britain's 'influence' on the world stage.

1967–75: Negotiation and renegotiation

In April 1967 Harold Wilson's cabinet discussed a paper exploring the alternatives to EEC membership. The idea of a North Atlantic free trade area was seen as a non-starter given that it risked Britain becoming economically subservient to America. The 'Going it alone' option was discussed, while this was seen as possible from an economic perspective it was concluded that such a course of action would drastically harm the UK's international position: 'In form we might be more free, but it would be a freedom to submit to disagreeable necessities'.[17] The following month Wilson, who had opposed Macmillan's plans to join the European Economic Community, announced his decision to launch another application for EEC membership. Whereas concerns about Commonwealth cooperation had been central to the British free trade area plans of 1956–58 and planning during the first EEC application, Wilson's cabinet spent more time considering the effects of EEC membership on Britain's relations with EFTA and the United States.

Wilson's decision to launch another EEC membership bid can be seen as a response to Britain's declining economic and strategic position. The Kennedy Round of GATT talks (1964–67) had been threatened with failure due to French concerns with protecting CAP, which meant they favoured tariff reductions on industrial goods rather than agricultural products. French divisions with its EEC partners gave hope to Britain that it could promote co-operation with industrial rivals such as West Germany.

17 'Europe: Alternatives to Membership of the European Economic Community', CAB129/129/2, The National Archives, London.

However, during the final phase of Kennedy Round negotiations Britain found itself effectively sidelined by debates over trade liberalisation dominated by Washington and Brussels, which led to the largest decline in tariff barriers since 1947. It became increasingly difficult to make the case that Britain should retain loyalties to trade with Commonwealth partners given that Canada, Australia and New Zealand used the Kennedy Round to lower some imperial preferences in exchange for greater opportunities in American and Japanese markets. By this time it was clear that the Commonwealth could not provide an effective pivot for British trade strategy, especially given that its members were deeply divided on how to respond to the 1965 Unilateral Declaration of Independence by Rhodesia (now Zimbabwe), led by a rebel government promoting white-minority government.

In late 1966 the Confederation of British Industry (CBI) published a survey of its member firms, 90 percent of whom favoured UK membership of the EEC. With a worsening balance-of-payments situation, culminating in devaluation of the pound in November 1967, it is perhaps unsurprising that there appears to have been widespread public support for British membership during 1966–67. The Wilson government had also taken steps to promote European co-operation in high-tech industries through projects such as Concorde under the aegis of the Ministry of Technology. This organisation subsequently amalgamated with the Board of Trade in 1970 to create the Department of Trade and Industry, the forerunner of BEIS.

Before the second application the Foreign Office had sought to develop close relations with ‘the friendly five’ members of the EEC as a means to isolate France. In the months before the decision to apply for EEC membership it undertook a ‘probe’ headed by Con O’ Neill and the recently established European Economic Integration Department (EEID). British officials sought to downplay concerns that the UK would place several conditions on its membership, seeking to overcome EEC concerns that Britain wished to significantly reform the Community’s operations. When Macmillan announced his intention to open negotiations with the EEC in July 1961, the government insisted that any plan to apply for membership would be dependent on negotiations to ensure satisfactory arrangements were in place to meet the interests of the UK, the Commonwealth, and EFTA. Despite the failure of the second application as a result of Charles De Gaulle’s veto in November 1967, the Foreign Office continued to promote close relations with the ‘friendly five’ through the EEID, Embassy meetings in national capitals, and discussions with European Commission officials.

Following De Gaulle’s resignation in 1969 the EEC issued the Hague declaration committing themselves ‘to complete, enlarge and strengthen the Community’. Edward Heath opened accession negotiations the following year, paving the way for Britain to join the EEC in 1973. Nonetheless, there was widespread anti-market sentiment in the UK by this time. Labour’s February 1974 election manifesto stated that:

A profound political mistake made by the Heath Government was to accept the terms of entry to the Common Market, and to take us in without the consent of the British people. This has involved the imposition of food taxes on top of rising world prices, crippling fresh burdens on our balance of payments, and a draconian curtailment of the power of the British Parliament to settle questions affecting vital British interests. This is why a Labour Government will immediately seek a fundamental renegotiation of the terms of entry.

At this time the Labour Party was deeply divided on the issue of British membership of the EEC. Opponents such as Tony Benn argued that it was a ‘capitalist club’, which threatened British industrial jobs and the tenets of democracy. In 1976, after Britain’s continued membership of the EEC had been confirmed by a referendum, Benn, in co-operation with other anti-marketeers devised an Alternative Economic Strategy, which would seek to deal with Britain's economic crisis through protectionist measures such as import controls, incompatible with EEC membership.

Part of the reason why the Common Market cause won out in the 1975 EEC referendum was because the European issue was seen by many as peripheral to the wider economic crisis that Britain faced, which had been exacerbated by a spike in world oil prices and a rapid worsening in the UK's balance of trade deficit during 1973–74. The referendum took place in an economic climate which stacked the odds against further uncertainty. Moreover, the Keep Britain in Europe campaign did an effective job of challenging the common anti-marketeer claim that the UK had a straight choice between supporting Commonwealth trade or membership of the EEC. Pro-marketeer posters and leaflets informed voters that Commonwealth opinion was largely behind Britain's continued membership of the Community, and claimed that this policy was in the UK's best interests from perspectives of future trade and development aid strategy. The signing of the Lomé Convention towards the end of the renegotiation process in February 1975 was a boon for pro-marketeers who sought to argue that EEC membership would aid Britain's relations with the new Commonwealth. Twenty Commonwealth countries became signatories to the conventions and Caribbean exporters benefitted from special agreements for sugar and banana imports into the EEC.

The success of the pro-Market camp also stemmed, in part, from the renegotiation of Britain's membership that took place prior to the referendum, which was mentioned on the ballot paper. Wilson's renegotiation appeared to demonstrate that the EEC was willing to listen to the UK's concerns regarding its membership and suggested that Britain could lever authority within the Community. In fact, Wilson's renegotiation laid the basis for a variety of subsequent attempts by Prime Ministers to get a 'new deal' for Britain in Europe.

1976–92: The growth of a Eurosceptic tradition in British government

A detailed survey of Britain's evolving trade relationship with the European Union is beyond the scope of this paper. This section will instead sketch out how Britain's experiences within the EEC compared with the earlier hopes of supporters of UK membership and how this led to the development of a strong strand of Euroscepticism in British politics.

Britain had been sceptical about early moves to European co-operation in monetary policy through the European Payments Union in the 1950s and subsequently did not take part in the European Monetary System (EMS), which was established in 1979. The EMS formalised efforts to respond to the collapse of the Bretton Woods system in the early 1970s by member states maintaining stable exchange rates. After 1979 the Deutschmark became the lead member which other nations pegged their currencies to. Britain only joined the EMS in 1990 and withdrew on 'Black Wednesday' in 1992 after a sharp fall in the value of sterling. This episode damaged the reputation of John Major's government and prolonged the UK's recession, fuelling Eurosceptic feeling. Efforts to reform the EMS paved the way for the introduction of the Euro in 2002.

Margaret Thatcher can be seen as continuing the process of renegotiating Britain's relationship with the EEC begun by Wilson. While she presented the granting of a rebate on the UK's contribution to the EEC budget in 1984 as a triumph, it harmed relations with other member nations. Thatcher welcomed the economic liberalisation proposed in the Single European Act (1986), which sought to remove trade barriers between member countries by creating a single market. However, subsequent efforts to promote further political co-operation, spearheaded by Jacques Delors and Helmut Kohl, were viewed with widespread scepticism by the Thatcher and Major governments, culminating in the controversy surrounding the Maastricht Treaty (1992), which led to the establishment of the European Union. The EU's new constitution gave increased powers to the European Parliament and European Commission and laid the basis for the introduction of the euro.

Policy lessons

There are significant parallels between the post-2016 policy environment and that which British policy makers faced between 1947 and 1975. In both periods the UK has sought to promote itself as a champion of 'free/r trade' at a time when protectionist pressures are growing in parts of the world economy, as well as attempting to balance its role as a global and regional economic power. However, there are significant differences. Firstly, the speed of media reaction to events and public focus on trade policy is much more intense today. The Europe issue was not front-page news on many days in the immediate run-up to the 1975 EEC Referendum. Secondly, the globalisation of manufacture has complicated the processes of debating 'national' trade policy. Non-tariff issues such as regulatory standards are now a much larger factor in trade negotiations than they were in this earlier period. Finally, the idea of the referendum mandate complicates policy-making today in ways which did not previously exist.

Hearts and Minds:

The most obvious change in British trade policy over the course of the 1950s and 1960s was that government's approach shifted from focusing on balancing Britain's existing strategic interests to attempting to winning hearts and minds in Europe. The Plan G free trade area plans of 1956–58 are highly relevant today as they marked Britain's initial response to the development of the EEC. While Plan G was well-attuned to balancing Britain's strategic interests it failed to take account for the appeal of the EEC to west European economies which were increasingly reliant on regional trade. The British conduct of negotiations was also high-handed being largely conducted in London (apart from Paris meetings coinciding with OEEC gatherings).

The uncertainty over Britain's proposals during the first application did little to ease EEC distrust of the government's motives. When Macmillan announced his intention to open negotiations with the EEC in July 1961 he insisted that a British application for membership would be dependent on negotiations to ensure satisfactory arrangements were in place to meet the interests of the UK, the Commonwealth, and EFTA. It was not until July 1962 that the British government announced its formal intention to join the EEC and even then the introduction of the Common Agricultural Policy (CAP) that year had added a further complication to negotiations. The British government was keen to renegotiate the terms of CAP, given that it was likely to significantly increase the costs of British membership of the EEC.

By contrast, there was a much greater effort to win the support of the 'friendly five' during the second application and afterwards, with Britain avoiding putting conditions on its future EEC membership. This meant that France was significantly more isolated in its trenchant opposition to British EEC membership in 1967 than it had been in 1963. It also helps explain why the EEC issued the Hague Declaration supporting enlargement of the Community seven months after De Gaulle's resignation as French President in 1969.

Gradual Change:

More by luck than design, the long gap between Britain's first application to join the EEC in 1961 and its eventual entry in 1973 lessened the shock of the UK's shift in economic policy. Over the course of the 1960s Commonwealth producers shifted their attention to alternative regional market opportunities which would compensate for the loss of British markets. While British entry to the EEC still had major repercussions for New Zealand, which relied heavily on the British market, these effects were cushioned by transitionary arrangements won as part of Wilson's renegotiation.

Appealing to the British Public:

There was significant uncertainty upon what terms the British government wished to enter the EEC during the first application (1961–63). Politicians expressed a reluctance to discuss the economic costs of EEC membership for British consumers out of uncertainty about what a final deal for UK entry might look like. By contrast, after 1963 the government focused much more on explaining the functions of the EEC to the British public through co-operation with the European Movement.

Caution and Compromise:

The outcome of the renegotiation of Britain's EEC membership in 1975 was treated with cautious optimism by Harold Wilson, acknowledging that some of the more ambitious proposals for reform outlined in Labour's 1974 election manifestos had not yet been achieved. Prior to the referendum he stated in parliament that 'I believe that our renegotiation objectives have been substantially though not completely achieved'. Wilson's cautious approach arguably reflected the public mood in 1975. Support for European membership was tepid at best but it was often seen as better than the alternatives. Europe was often seen as a side issue to Britain's domestic economic problems. Ultimately though, as subsequent events show, this was the start of a series of renegotiations of Britain's trade relations with Europe which are likely to continue for the foreseeable future.

An analysis of historical trends in international trade and their implications for the UK

Dr Stephen Woolcock
Associate Professor of International Relations, London School of Economics

This short paper identifies some underlying factors that have shaped trade policy in the past and continue to do so today.

From (classical) liberalism to (neo)mercantilism

Ideas and world-views have shaped and continue to shape trade and investment. In the 19th century the system was still influenced by British (classical) liberalism, which in trade terms meant unilateral tariff reductions. The British ideational leadership in the shape of free trade based on comparative advantage was shaped by Britain's competitive position in manufactures thanks to the fact that the industrial revolution took off in Britain. The strength of manufacturing, and the fact that major land owners invested in stocks and shares, had a major impact on the debate on the Corn Laws. Britain benefitted from a virtuous circle of outward investment that funded the purchase of British capital goods. London was established as the leading financial centre, but the international monetary order required the cooperation of other central banks.

Already before the 1914 protectionism was on the rise and Britain's competitors were pursuing infant industry policies. The 1914–18 war significantly weakened the British economy. During the interwar period Britain was no longer able to shape developments and the United States was not ready to assume leadership. In the 1930s Britain adopted a policy of imperial preferences in response to the rise of protectionism. After the shock of economic nationalism in the inter war period, the liberal system that emerged in the 1940s was led by the United States and was based on reciprocity following the adoption by the US Congress of the Reciprocal Trade Agreement Act in 1934. The General Agreement on Tariffs and Trade (GATT) provided an international regime for tariff liberalization and later efforts to address non-tariff barriers.

'Neo-liberal' ideas in the shape of deregulation, privatization and liberal trade and investment dominated the period from the late 1970s until recently. The liberal trade and investment aspects of this 1980s paradigm shift were in line with the liberal trade traditions of the British, even if there was less consensus on the privatization and deregulation elements. Britain therefore played an active part in promoting more open markets both multilaterally in the GATT/WTO and in the European Union in the shape of the Single European Market.

The post 1945 trading system is one based on reciprocity or, in GATT 1948 terminology, a broad balance of benefits. Recent trends clearly point to, at best, more neo-mercantilist policies by major trading nations seeking to mitigate the short term costs of adjustment to increase import competition. In other words, measures that do not threaten the open trading system as a whole. There remain open questions however, about trends in China and the USA. China's strategic trade policies and the scale of the resources deployed could be interpreted as a more malign form of mercantilism. Equally, the trend in the United States to unilaterally define what is 'fair trade'.

If this view is correct Britain's interests lie in doing what it can to support an open trading system by promoting and strengthening provisions that contain both long-term or excessive intervention in support of industries and narrow definitions of reciprocity.

From a predominantly power-based system to a predominantly rules based order

Although liberal in effect the GATT system was shaped by relative market power. The United States, supported by other developed economies, shaped outcomes. The terms of trade, and how disputes were settled, were to a significant degree determined by relative market power. Over time the trading system developed a more rules-based order. In other words, a framework of rules shaped trade relations and the resolution of disputes. This was the case in the GATT/WTO, with the conclusion of the Uruguay Round representing the high point in terms of multilateral rules, but also in regional and preferential agreements, with the EU being the most developed form of rules-based order. It has been argued that a more rules-based system promotes predictability and thus facilitates trade. At the same time, it represents a diminution of national policy autonomy and regulatory sovereignty, as rules extend to a range of non-tariff and regulatory impediments to trade and investment. A reversion to more power-based trade policies may be in the interests of powerful states. There are clear signs that the United States wishes to regain more autonomy over its trade policy, because US interests are not seen to be ensured by the existing rules. The US therefore seeks to take back more policy autonomy, such as through the use of instruments such as import controls based on national security that are not subject to tight WTO rules, and efforts to blunt the enforcement mechanisms in the WTO. China supports the existing multilateral rules but has no interest in any extension of these that would constrain its strategic trade and industrial policies.

As a relatively small open economy (compared to the US and China) it is in Britain's interests to retain a rules-based trading system. The question is then what rules and what degree of policy autonomy or regulatory sovereignty is the UK willing to cede in order to ensure a predictable framework for trade and investment? The current British preference is that of the EU *acquis communautaire*; on leaving the EU Britain how far will the UK diverge from these?

Widening and deepening

Considering the post 1948 international trading system, there has been a progressive widening and deepening. Widening in the sense that more and more economies have become active in trade and trade policy – the GATT was negotiated by 23 men sitting around a table in Geneva, whereas the Doha Development Agenda (DDA) sought to find agreement between 164 WTO members, with many thousands of active stakeholders monitoring the process. Deepening in the sense that the major multilateral trade negotiations (MTNs), (the Kennedy Round in the 1960s, the Tokyo Round in the 1970s and Uruguay Round in the 1980s–90s), progressively extended GATT/WTO rules to cover first non-tariff measures, then regulatory impediments to trade (customs procedures, technical barriers to trade and sanitary and phytosanitary measures and government procurement), services (the General Agreement on Trade in Services and sectoral agreements in financial services, telecommunications) intellectual property (Trade Related Intellectual Property Rights) and some aspects of investment (Trade Related Investment Measures).
The trading system coped with widening by a form of 'variable geometry,' and

special and differential treatment for developing economies. This worked as long as the major importing countries (the USA, European Community/Union and thus the UK) were willing to accept 'free riders'. Over time the progressive, relative decline of the economic weight of the OECD economies made this 'North-South' arrangement less and less viable. The growth of emerging markets, and above all that of China, means that the trading system faces the challenge of how to differentiate between the mature developed economies, emerging powers, and developing, small and vulnerable economies.

The trading system has sought to cope with deepening by expanding the trade agenda to cover more topics. But this has run into opposition from developing countries, an opposition which, with the added market power of the emerging markets, now has an effective veto power in any multilateral negotiations.

These trends affect the UK trade policy. How will the UK trade policy differentiate between the African, Caribbean and Pacific states and countries such as China. Within the commonwealth how should such differentiation work? In terms of the trade agenda, should the UK pursue a comprehensive agenda including sustainable development and human rights in order to ensure broad support among British stakeholders, something China and other Asian economies have rejected? How can efforts to open major emerging markets involving liberal policies be reconciled with popular pressure for more sustainable trade policies?

Multilateralism vs preferentialism

While the GATT/WTO is generally seen as a multilateral trading order, this is only partially the case. Certain founding principles of the GATT are multilateral, above all the MFN (most favoured nation status) as applied to tariffs. But most of the trade and investment agreements developed progressively over the period after 1948 were really a form of plurilateralism. Likeminded GATT Contracting Parties (CPs) came together, usually in the OECD, and shaped the trade rules. These were then subsequently multilateralised in the GATT. As the multilateral approach has stalled, as with the DDA, there has been a reversion to plurilateralism. Just as in the past, plurilateralism is seen as a means of making progress on new initiatives in e-commerce, of facilitation of investment, and of more effective control of subsidies (see decisions taken at the WTO Buenos Aires Ministerial meeting in late 2017).

The option of preferential agreements (PTAs) has been ever-present in trade, but since the 1990s PTAs have taken over. The norms and standards included in PTAs tend to become the established international practice (e.g on procurement, investment, digital trade, services etc.). WTO conditions therefore lag considerably behind developments in PTAs with regard to coverage of topics of relevance to market access and the right to regulate.

Britain therefore needs to have a policy on plurilaterals. For example, should it support the rapid conclusion of plurilateral agreements? There are benefits for the UK in this, because on leaving the EU any British government will be in a hurry to conclude agreements that 'level the playing field' for UK exporters and investors. But without the participation of major emerging markets, pressing ahead with plurilateral agreements could divide the open trading system. Inclusion of emerging markets in such agreements requires a broad consensus, which will take time.

There are similar considerations with regard to preferential agreements. British exporters and investors will lose the WTO plus access to markets it has through the PTAs the EU has negotiated. In the short to medium term this will mean that Britain must seek to replicate the EU agreements. In this the UK will aim to achieve the same terms as the EU; to reopen agreements will mean complications and delays. If it wishes to get EU plus access, the question arises as to what further concessions the UK is able and ready to make in reciprocal market access negotiations?

Shifts in the pattern of trade and investment

In the late 19th century Britain accounted for a large share of trade and outward investment. This changed with competition from Germany and other states towards the end of the century. The 1914–18 war reduced Britain's trade and wealth. Moving forward to the post 1945 period, the United States accounted for 50% of world industrial output and held most gold reserves. With the recovery of the European economies the North Atlantic became the core of the international economy. The predominant share of world trade and investment in the North Atlantic region continued and Britain aligned itself with this. Transpacific trade with Japan increased, but international trade policy was still shaped by the North Atlantic relationship.

Economic growth since 1990s has shifted towards East and South East Asia thanks to the growth of China and South East Asian economies. Much will depend on the longer-term developments in China, but UK trade and investment policy, like that of other countries, will now have to adjust and focus more on the Asia Pacific region. This has implications for trade policy capacity and the ability of UK firms to compete in the region. Is it possible to negotiate agreements with economies in the Asia Pacific region as well as with the EU and the USA and Canada, and are Britain's industry and service sector geared to compete in these culturally and geographically more remote economies?

The old and new politics of trade

The 'old' politics of trade and investment was mostly conducted by senior civil servants in a specialist trade department, with inputs from across government, and based on informed judgments on the balance between the welfare gains of liberalization and the balance of sectoral interests. Democratic legitimacy for these decisions was provided by the government of the day with limited detailed scrutiny by Parliament and generally limited public debate. After the debate on imperial preferences in the late 1940s, trade seldom played an important role in voting intensions or elections and thus in party politics. This 'old' trade policy was to a significant degree interest based politics, in which the 'offensive interests' of competitive sectors was balanced against 'defensive interests' of sectors struggling to compete internationally.

'New trade policy' might be seen as being shaped by majoritarian politics, in which a range of other interests, or the general voting public, have more influence in trade and investment. And party politics play more of a role, as is the case today in the context of Brexit. The change has generally been brought about by globalization and a greater awareness of the significance of trade and investment policies (trade and environment, trade and development, trade and data protection, the impact of investment agreements on the right to regulate). These other interests now challenge the right of officials (a policy elite) to decide on policies, and there are accompanying risks of populist trade policy, in which trade and investment are presented as either the solution to or the cause of domestic discontent.

This has a bearing on UK trade policy because it affects the decision making framework, democratic oversight, the degree and type of transparency in the policy process, and thus ultimately the efficacy and democratic accountability of UK policy. As the UK leaves the EU, trade relations have also assumed a higher profile. There is a risk that the polarization of public opinion and between the political parties created by Brexit will spill over into trade and investment policy. When it comes to adopting a new independent trade policy, therefore, will Britain attempt to follow the old or embrace the new politics of trade?

Chronology: A timeline of trade policy milestones

Trade policy is a broad policy area, and after surveying a wide range of documents produced by government, academia and think tanks the focuses below were used for this policy timeline, which covers the period 1914 to 2018.

- National and international policymaking institutions for trade policy
- Overarching developments which affect the trading of goods and services
- Preferential trade agreements (with regions and individual countries)
- Trade issues, including barriers to trade.

Criteria for Inclusion

Milestones were deemed significant enough for inclusion if they match one or more of the below criteria:

- There is consensus of its importance among experts (e.g. commonly referred to as significant in the existing literature);
- It enacts a legislative change;
- It results in a change in the machinery of government (e.g. the creation, disbandment or reconfiguration of a department);
- It marks a shift in the direction of government policy;
- It reviews the policy landscape of the time.

> *"History does not refer merely, or even principally, to the past. On the contrary, the great force of history comes from the fact that we carry it within us, are unconsciously controlled by it in many ways, and history is literally present in all that we do."*
>
> James Baldwin, 1965[18]

1914–1918: World War One

World War One disrupted global trade and the economies of each country involved as resources were redirected towards the war. There was an immediate impact on international stock markets which had facilitated the free flow of capital between countries. In the summer of 1914, every major European stock exchange and many stock exchanges outside of Europe closed for several months. Limits were placed on the flow of capital for the remainder of the war. The costs of the war were so great that many countries, including the UK, suspended or abandoned the gold standard so they could print more money to pay for the war effort. This led to inflation. The UK only returned to the gold standard in 1925.

18 (Quoted by Pascal Lamy, Director General of the World Trade Organization 2005–13) C. VanGrasstek, *The History and Future of the World Trade Organization* (Geneva: World Trade Organization, 2013), p. vii. https://www.wto.org/english/res_e/booksp_e/historywto_e.pdf (Accessed 19 November 2018).

1918: UK Department of Overseas Trade established

The UK Department of Overseas Trade operated from 1918 until 1946. Before the First World War, governmental responsibility in matters relating to overseas trade was shared between the Foreign Office and the Board of Trade.[19] The Department of Overseas Trade was established in 1918 by the Foreign and Commonwealth Office and the Board of Trade. Under the Overseas Trade Department (Secretary) Act 1918, it was charged with the duty of collating and disseminating overseas commercial intelligence and administering commercial services abroad.

1919: UK Export Credit Guarantee Department created

The UK Export Credit Guarantee Department was set up in June 1919, it was regularised the next year by the Overseas Trade (Credit and Insurance) Act 1920. At that time it was a sub-department of the Department of Overseas Trade. There were two main reasons for its establishment:

1. The need in a period of unemployment to increase the availability of jobs, particularly in the textile industries of the north west, by boosting the export trade;
2. the hope that a similar result would be achieved by assisting the economic restoration of the countries of central and eastern Europe following the First World War.[20]

1931: Britain withdraws from the gold standard

In September 1931, Britain withdrew from the gold standard. The gold standard exchange rate scheme created the framework for the global monetary system for much of the period between World War One and World War Two. The decision represented 'the end of an epoch' and with Britain's withdrawal the whole system was undermined.[21] By the mid-1930s a new global economic order had emerged; countries adopted independent and uncoordinated policies.

1932: UK adopts a trade policy of Imperial Preference

At the Imperial Economic Conference in 1932, the decision to pursue a trade policy of Imperial Preference was taken. Whereby preferential tariffs were granted for dominions and colonies within the British Empire. The policy discriminated against countries outside the empire, such as the US. This protectionist measure was designed to provide Britain with a dominant trading position within its empire. It was set for five years. It was not renewed in 1937.

19 The National Archives, Records of the Department of Overseas Trade, http://discovery.nationalarchives.gov.uk/details/r/C481 (Accessed 30 October 2018).

20 Export Credit Guarantee Department, The National Archives, http://discovery.nationalarchives.gov.uk/details/r/C100 (Accessed 30 October 2018).

21 M. Kitson, 'End of an Epoch: Britain's Withdrawal from the Gold Standard', in R. Parker and R. Whaples (eds), *Handbook of Major Events in Economic History* (London: Routledge, 2013).

1932: Import Duties Act

The Import Duties Act introduced a general tariff of 10% on the majority of imports but gave preferential treatment within the Empire. The Act indicated a further shift towards protectionism in the UK.

1934: United States Reciprocal Trade Agreements Act

The US Reciprocal Trade Agreements Act gave the President the power to negotiate bilateral, reciprocal trade agreements with other countries. The law allowed President Franklin D. Roosevelt to pursue a new liberal trade policy.

1939–45: World War Two

World War Two disrupted international trade and national economies as the resources of each country involved were refocused on the war effort. Lessons were learnt from World War One when many stock exchanges closed for several months, in 1939 the London Stock Exchange closed for one week. Capital restrictions were however put in place for the duration of the war.

1944: Bretton Woods System established

The Bretton Woods Conference took place in 1944 in Bretton Woods, New Hampshire. It was attended by delegates from 44 Allied countries during war. It established the Bretton Woods semi-fixed exchange rate system in which member currencies were pegged to the price of gold, the US dollar was the reserve currency linked to the price of gold. It aimed to ensure stable exchange rates to encourage international trade, investment and economic growth after the instability brought by two world wars. After World War Two new countries joined including Japan and Germany. The International Monetary Fund (IMF) and the World Bank were created as part of the Bretton Woods framework. An International Trade Organisation was planned but did not materialise. The system effectively collapsed in 1971 when the US terminated convertibility of the US dollar to gold.

1946: Anglo-American post war loan

After World War Two ended the US lending scheme to the UK and other Allied powers, known as Lend Lease, ended abruptly. Economic difficulties grew quickly and the UK had to request a loan from the US. The loan was provided in 1946 and was not paid off until 2006. One of the conditions of the loan was the convertibility of sterling into dollars, which would aid US trade. This quickly led to a weakening of sterling and in 1949 the UK government took the decision to devalue sterling by 30%, from $4.03 to $2.80.

1948: Creation of General Agreement on Tariffs and Trade (GATT)

In October 1947, 23 countries signed the General Agreement on Tariffs and Trade (GATT) in Geneva, Switzerland, it became operational in 1948. The aim was to boost trade liberalisation and so the agreement included the first round of tariff concessions as part of multilateral trade negotiations. There was also a set of rules to prevent these concessions being disrupted by restrictive trade measures.[22] In March 1948, the Charter to create an International Trade Organisation was rejected by US Congress. GATT was therefore the only international mechanism for governing world trade. Until 1995 when GATT was replaced by the World Trade Organization. GATT was the product of ‘unprecedented international cooperation by an international community that was deeply scarred by the damage and destruction’ that two world wars had brought about.[23]

1949: Second GATT round of trade talks (Annecy)

The second round of GATT trade talks took place in Annecy, France in 1949. Some 13 member countries exchanged 5,000 tariff concessions. The negotiations are a form of barter, whereby member governments accept commitments on their own import tariffs in exchange for the reciprocal tariff commitments of their trading partners. For each round a bargaining protocol is set which includes rules for the timing of events, types of interactions and the exchange of information among participants.[24] This round of negotiations also allowed 10 more countries to join: Denmark, the Dominican Republic, Finland, Greece, Haiti, Italy, Liberia, Nicaragua, Sweden and Uruguay.

1950: The Colombo Plan

The Colombo Plan for Cooperative Economic Development in South and Southeast Asia emerged from the Commonwealth Conference on Foreign Affairs held in Colombo, Ceylon (now Sri Lanka) in January 1950. It launched in 1951 as cooperative programme for the economic and social advancement of the peoples of South and Southeast Asia supported by multiple governments, including Australia, the UK and US. The programme facilitated assistance from developed countries to developing countries, such as physical capital, technology and skills development.[25] The Plan has been reformed and extended numerous times and continues to operate to this day.

1950–51: Third GATT round of trade talks (Torquay)

The third round of GATT trade talks were held in Torquay, England from 1950–51. There were 38 countries involved and they exchanged 8,700 tariff concessions. The 1948 tariff levels were cut by 25%.

22 World Trade Organization, Fiftieth Anniversary of the Multilateral Trading System, 1996, https://www.wto.org/english/thewto_e/minist_e/min96_e/chrono.htm (Accessed 13 November 2018).

23 C. VanGrasstek, *The History and Future of the World Trade Organization* (Geneva: World Trade Organization, 2013), p. vii. https://www.wto.org/english/res_e/booksp_e/historywto_e.pdf (Accessed 19 November 2018).

24 K. Bagwell et al, Multilateral Trade Bargaining: A first look at the GATT bargaining records,

25 The Colombo Plan, http://colombo-plan.org/colombo-plan-history/ (Accessed 30 January 2019).

1955–56: Fourth GATT round of trade talks (Geneva)

The fourth GATT round of trade talks took place in Geneva from 1955–56. There were 26 countries involved and this round resulted in $2.5bn in tariff reductions.[26]

1957: European Economic Community (EEC) created

The European Economic Community was established by the Treaty of Rome. It consisted of six members: Belgium, France, Italy, Luxembourg, West Germany and the Netherlands.

Treaty of Rome, March 1957, Article 2 –

> The Community shall have as its task, by establishing a common market and progressively approximating the economic policies of Member States, to promote throughout the Community a harmonious development of economic activities, a continuous and balanced expansion, an increase in stability, an accelerated raising of the standard of living and closer relations between the States belonging to it.
>
> Barriers to trade were eliminated including, customs duties. It also allowed for freedom of movement for persons, services and capital. The European Investment Bank (EIB) was established to facilitate the economic expansion of the Community with new resources.[27]

1960: European Free Trade Association (EFTA) established

On 3 May 1960, EFTA was created, by the Stockholm Convention (1959), to serve as an alternative trade bloc for those European states that were unable or unwilling to join the European Economic Community. The original seven members were: Austria, Denmark, Norway, Portugal, Sweden, Switzerland and the United Kingdom. EFTA was important as a competing model of European integration but short of a customs union, without the deep integration implied by the Treaty of Rome which created the EEC.

1960–61: Fifth GATT round of trade talks (Dillon)

The fifth GATT round of trade talks (named after US Undersecretary of State Douglas Dillon who proposed the negotiations) took place in Geneva from 1960–61 and involved 26 countries. This round largely focused on harmonising with the European Economic Community. It resulted in about 4,400 tariff concessions covering $4.9 billion of trade.[28]

26 WTO, The GATT Years, 2018, https://www.wto.org/english/thewto_e/whatis_e/tif_e/fact4_e.htm (Accessed 29 October 2018).

27 Treaty of Rome, March 1957, https://ec.europa.eu/romania/sites/romania/files/tratatul_de_la_roma.pdf (Accessed 29 October 2018).

28 History of GATT Rounds, https://www.joc.com/history-gatt-rounds_19931214.html (Accessed 29 October 2018).

1961: Creation of the Organisation for Economic Co-operation and Development (OECD)

The Organisation for Economic Co-operation and Development (OECD) superseded the OEEC in September 1961. The OECD members included the European founding countries of the OEEC and the United States and Canada.[29] Beginning in 1964, other countries started to join including Japan. There are now 36 member countries. The OECD promotes trade liberalisation. It provides a forum in which governments can work together to seek solutions to common issues. It aims to understand what drives economic, social and environmental change, in part by measuring global flows of trade. The OECD also sets international standards on a wide range of areas.

1962: The European Economic Community establishes its Common Agricultural Policy[30] (CAP)

The Common Agricultural Policy was conceived as a common policy, with the objectives of providing affordable food for EU citizens and a fair standard of living for farmers. It has evolved over time and is now based on four key principles: free movement of agricultural goods within the community, common prices, standardised organisation for each commodity and uniform tariff walls against imports from non-EU countries.[31] From 2003, the CAP began providing income support to farmers, on condition that they fulfil food safety, environmental, animal health and welfare standards.

1963: UK's first application to join the EEC vetoed by French President Charles De Gaulle

British Prime Minister Harold Macmillan noted the rapid economic advance made by the EEC, particularly in France and Germany. His Conservative Government sought to join the EEC but the UK's Commonwealth ties, domestic agricultural policy and close relationship with the US were seen as barriers to entry.

1964: The United Nations Conference on Trade and Development established (UNCTAD)

Growing concerns about the position of developing countries in international trade led many developing countries to call for a conference to resolve these issues and identify appropriate actions.[32] The first United Nations Conference on Trade and Development (UNCTAD) was held in Geneva, Switzerland in 1964. It meets every four years.

29 History of OECD, http://www.oecd.org/about/history/ (Accessed 29 October 2018).

30 European Commission, The Common Agricultural Policy at a glance, 2018, https://ec.europa.eu/info/food-farming-fisheries/key-policies/common-agricultural-policy/cap-glance_en (Accessed 29 October 2018).

31 J. Martin and J. Bowen, Brexit Trade and Tariffs, History and Policy, 30 April 2018, http://www.historyandpolicy.org/policy-papers/papers/brexit-trades-and-tariffs-challenges-and-opportunities-for-agriculture (Accessed 29 October 2018).

32 United Nations Conference on Trade and Development, https://unctad.org/en/pages/about%20unctad/a-brief-history-of-unctad.aspx (Accessed 30 January 2019).

1964: British National Export Council established

The British National Export Council (BNEC) was announced by the Secretary of State for Industry, Trade and Regional Development in July 1964, following a review of the arrangements for expanding British export trade.

It was initially set up for three years. In 1971 it was dissolved and replaced in 1972 by the British Overseas Trade Board (1972–1988) which was part of the Department of Trade and Industry. The British National Export Council marked a partnership between industry and government. It was originally sponsored by a grant from the Board of Trade and various industrial organisations including: Confederation of British Industry, City of London, Association of British Chambers of Commerce and the Trades Union Congress. Over time it became almost wholly government-funded.

1964–67: Sixth GATT round of trade talks (Kennedy)

The sixth GATT round of trade talks (named after assassinated US President John F. Kennedy) were held in Geneva from 1964–67. They involved 62 countries – 75% of total world trade. This round significantly increased the scope of GATT agreements and concessions were estimated at $40 billion.

1967: UK's second application to join the EEC fails

The UK, under Harold Wilson's Labour Government, applied to join the European Economic Community for the second time. French President Charles De Gaulle vetoed the UK's application again for much the same reasons as in 1963. De Gaulle said the UK showed a lack of interest in the Common Market and would require a radical transformation before joining the EEC.

1967: Devaluation of sterling

In November 1967, after attempting to avoid devaluation, the Labour government under Harold Wilson devalued sterling from £1 to $2.80 to £1 to $2.40.

1970: Department of Trade and Industry formed

The Department of Trade and Industry (DTI) was formed in 1970.
It was an amalgamation of the Board of Trade and the Ministry of Technology.
The Secretary of State for Trade and Industry also took on the title of President of the Board of Trade; a historic role that can be traced back to the 17th century position of First Lord of Trade. It remained in a similar form until 2007, when the Department for Innovation, Universities and Skills (DIUS) was created and the Department for Business, Enterprise and Regulatory Reform (BERR).

1973: UK joins European Economic Community (predecessor to EU)

After two earlier applications to join the EEC, the UK's third application was successful. Since 1973, the UK's trade policy has been set collectively with other member states and negotiated by the EU Commission. As part of EEC membership, the UK joined the Customs Union. The UK had a five-year transition period to adopt the Acquis Communautaire (accumulated body of EEC law and obligations) including the common external tariff.[33]

1973–79: Seventh GATT round of trade talks (Tokyo)

The sixth GATT round of trade talks took place in Tokyo and Geneva from 1973–79. The round involved 102 countries, negotiations covered both tariff and non-tariff issues. It resulted in an extension to the GATT's purview to include subsidies, government procurement, trade in dairy products and civil aircraft. It concluded with tariff reductions and agreements not to increase existing tariff, this covered an estimated $300 billion of trade.[34]

1975: UK referendum on continued membership of the EEC; votes to remain

UK referendum on continued membership of the EEC, 67% of voters voted to remain a member (national turnout of 64%).

1975: The Lomé Convention

In February 1975 the Lomé Convention was signed by 46 African, Caribbean and Pacific (ACP) countries and the 9 members of the European Economic Community. It gave ACP countries limited preferences within the European market.

Significance: It marked a new stage in the EEC's cooperation with developing countries within an enlarged framework – the African, Caribbean and Pacific (ACP) countries.

1985: The Schengen Agreement

The Schengen Agreement created the Schengen Area in which internal border checks would be gradually abolished and common border controls would be introduced. The treaty was signed by 5 of the 10 EEC members – Belgium, France, Luxembourg, the Netherlands and West Germany.

33 UK Trade Policy Observatory, Written evidence to House of Commons Treasury Committee, 22 February 2017, http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/treasury-committee/the-uks-future-economic-relationship-with-the-european-union/written/46587.pdf (Accessed 5 November 2018).

34 History of GATT Rounds, https://www.joc.com/history-gatt-rounds_19931214.html (Accessed 29 October 2018).

1986–94: Eighth GATT round of trade talks (Uruguay)

The eighth GATT round of trade talks took place in Uruguay from 1986 to 1994. A total of 123 countries took part in the Uruguay round of trade talks. They covered almost all trade, from toothbrushes to boats, banking, telecommunications, genetically modified food and AIDS treatments. The negotiations lurched between failure and predictions of imminent success. Several deadlines were not met. It was the largest trade negotiation and took seven and a half years, almost twice the original schedule, to complete.[35] Many of the Uruguay agreements set timetables for future work.

1990: UK joins the Exchange Rate Mechanism (ERM)

The UK joined the Exchange Rate Mechanism in October 1990. It had taken many attempts to persuade Conservative Prime Minister Margaret Thatcher to do so. The UK entered the semi-fixed exchange rate at a high level in relation to the anchor currency, the German Deutsche Mark. The UK government hoped that joining the ERM would help to bring inflation down within the UK. Inflation did go down but there were also negative consequences. For example, UK homeowners saw their mortgage repayments increase considerably as the UK followed Germany in increasing interest rates to maintain sterling's position within the ERM. The UK withdrew from the ERM in September 1992, known as Black Wednesday, after mass short selling of sterling meant it could not maintain its position within the ERM limits.

1992: The Maastricht Treaty – established European Union

The Maastricht Treaty 1992 established the European Union from 1993.
It set the goal of creating economic and monetary union, including a single European currency, the Euro. The UK secured an opt-out from joining the single currency. The people of the then 12 state members were given European citizenship. The treaty required ratification from each member state, this was a drawn out and close-run process. For example, the treaty was rejected in the first Danish referendum and only approved by a small margin in the French referendum. In the UK it was ratified by Parliament.

35 World Trade Organization, The Uruguay Round, 2018, https://www.wto.org/english/thewto_e/whatis_e/tif_e/fact5_e.htm (Accessed 19 November 2018).

1993: European Single Market introduced

The European Single Market came into force in January 1993, the timetable had been set by the 1986 Single European Act. The Single Market established the free movement of goods, people, services and capital within the European Union. It was one of the founding aims of the EEC.

1995: World Trade Organization formed

The World Trade Organization was created on 1 January 1995 and marked the biggest reform of international trade since after the Second World War. It was established by the 1994 Marrakesh Agreement. Whereas GATT had mainly dealt with trade in goods, the WTO and its agreements now cover trade in services, and in traded inventions, creations and designs (intellectual property).

1996: European Market Access Strategy launched

The EU Market Access Strategy was launched in 1996 with the aim of 'enforcing multilateral and bilateral trade agreements and ensuring that third country markets were open to EU exports.'[36] It provides EU exporters with information on market access conditions and requirements that apply in partner countries and addresses market access restricting policies that impede EU exports.[37]

1996: World Trade Organization Ministerial Conference (Singapore)

In December 1996 ministers from more than 120 World Trade Organization member governments and from those in the process of acceding to the WTO attended a Ministerial Conference in Singapore. The Conference was the first since the WTO was formed in January 1995. Four working groups were established that focused on: transparency in government procurement, customs issues, trade and investment and trade and competition.[38]

1999: European single currency introduced – the Euro

In 1999, the Euro, a new currency was introduced for EU members, as part of the plan for Economic and Monetary Union (EMU) established in the Maastricht Treaty. The majority of member countries joined the Euro including Belgium, France, Germany, Italy, Ireland and Spain. The UK along with Denmark had secured opt outs and so maintained their existing currencies. This was a major step towards an integrated Europe. The Euro has promoted trade significantly inside and outside of the Eurozone.[39] It is the world's second most traded currency in foreign exchange markets.

36 European Commission, Market Access Strategy, http://trade.ec.europa.eu/doclib/html/134591.htm (Accessed 6 February 2019).

37 European Parliament, The EU's Market Access Strategy: does it reach its main goals?, 2017, http://www.europarl.europa.eu/RegData/etudes/STUD/2017/603860/EXPO_STU(2017)603860_EN.pdf (Accessed 6 February 2019).

38 WTO, The First WTO Ministerial Conference, 1996, https://www.wto.org/english/thewto_e/minist_e/min96_e/min96_e.htm (Accessed 6 February 2019).

39 European Commission, Study on the Impact of the Euro on Trade and Foreign Direct Investment, 2008, http://ec.europa.eu/economy_finance/publications/pages/publication12590_en.pdf (Accessed 6 February 2019).

1999: World Trade Organization Ministerial Conference (Seattle)

In November-December 1999 a WTO Ministerial Conference took place in Seattle. A new round of multilateral trade negotiations were due to be launched but there were disagreements amongst WTO members about the agenda. The conference ended within a few days, in part due to anti-globalisation protests near the venue in Seattle.

2000: The Africa, Caribbean, Pacific–European Union Partnership Agreement

Known as the Cotonou Agreement, the Africa, the Caribbean and the Pacific (ACP) partnership agreement with the EU was then the most comprehensive partnership agreement between developing countries and the EU. Since then it has been the framework for EU's relations with countries from Africa, the Caribbean and

the Pacific (ACP). It replaced the Lomé Convention (1975) which was incompatible with the World Trade Organization.

The individual country Economic Partnership Agreements (EPAs) are compatible with the World Trade Organization, they open up EU markets fully but permit ACP countries a transition period to open up to EU imports while providing protection for particular sectors.

2001: World Trade Organization Ministerial Conference (Doha)

The WTO Ministerial Conference which collapsed in Seattle in 1999 was reconvened in November 2001 as part of the new Doha Development Round. There was agreement on the development agenda to lower barriers to trade and make it easier for developing countries, particularly Least Developed Countries (LDCs), to integrate into the WTO multilateral system. The round was projected to be completed by January 2005. China became a member of the WTO.

2003: World Trade Organization Ministerial Conference (Cancún)

In September 2003 the WTO Ministerial Conference was convened in Cancún, Mexico, it was attended by 146 member countries which represented 93% of global commerce. After four days of talks, the Doha Development Agenda stalled when developing countries criticised the US-EU agriculture proposals and no consensus could be reached.[40]

2005: World Trade Organization Ministerial Conference (Hong Kong)

In December 2005 the WTO Ministerial Conference was held in Hong Kong, China. Ministers from 149 member governments attended. The Doha Development Agenda was once again pursued. Member countries agreed to abolish agricultural export subsidies by 2013 (took until 2015), these distorted both export and import markets. Industrialised countries would also open their markets to goods, such as cotton, from developing countries.[41]

40 WTO, The Fifth Ministerial Conference, 2003, https://www.wto.org/english/thewto_e/minist_e/min03_e/min03_e.htm (Accessed 6 February 2019).

41 A. Balakrishnan, "Doha Timeline", The Guardian, 21 July 2008, https://www.theguardian.com/business/2008/jul/21/doha.trade (Accessed 6 February 2019).

2007: The Treaty of Lisbon

The Treaty of Lisbon was signed by EU member states in 2007, it came into force in 2009. It changed the constitutional foundation of the EU including changes to the voting system. The Lisbon Treaty substantially increased the powers of the European Parliament on trade matters.[42]

2007–2008: Global financial crisis

In 2007 a crisis emerged in the US sub-prime mortgage market which quickly escalated into a global financial crisis by 2008. The financial crisis became an economic crisis that impacted all sectors. Between 2008 to 2009 the largest drop in global trade since World War Two occurred.[43]

2008: World Trade Organization Doha Development Round (Geneva)

Following negotiations in Geneva in 2004 and 2006, Paris in 2005 and Potsdam in 2007 WTO members attempted to conclude the Doha Development Round but negotiations broke down in July 2008.

2011: World Trade Organization Ministerial Conference (Geneva)

In December 2011 the WTO Ministerial Conference was held in Geneva. After 18 years of negotiations Russia became a WTO member, it had been the largest economy left to join the WTO, after China acceded in 2001.

2011: EU-US Summit (TTIP launched)

The EU-US Summit in Washington DC in November 2011 marked the start of attempt to create mega trade agreements with the launch of plans for a Transatlantic Trade and Investment Partnership (TTIP). The EU and US are each other's largest trading partner. As of 2019, negotiations were yet to be concluded.

2013: World Trade Organization Ministerial Conference (Bali)

In December 2013 the WTO Ministerial Conference was held in Bali. The "Bali Package" was approved by ministers, it consisted of a series of decisions which aimed to simplify trade, allow developing countries more options for improving food security (availability and access) and to increase trade in the least-developed countries. WTO members accepted Yemen as a new member.[44]

42 European Parliament, The Treaty of Lisbon, 2007, http://www.europarl.europa.eu/factsheets/en/sheet/5/the-treaty-of-lisbon (Accessed 6 February 2019).

43 The World Bank, National Accounts Data, https://data.worldbank.org/indicator/NE.TRD.GNFS.ZS (Accessed 6 February 2019).

44 WTO, The Ninth Ministerial Conference, 2013, https://www.wto.org/english/thewto_e/minist_e/mc9_e/mc9_e.htm (Accessed 12 February 2019).

2015: Introduction of EU Digital Single Market

The Digital Single Market Strategy is built on three pillars:

- Access: better access for consumers and businesses to digital goods and services across Europe
- Environment: creating the right conditions and a level playing field for digital networks and innovative services to flourish
- Economy & Society: maximising the growth potential of the digital economy[45]

Achievements include abolishment of mobile roaming charges, introduction of EU rules on data protection and privacy – General Data Protection Regulation (GDPR).

2015: World Trade Organization Ministerial Conference (Nairobi)

In December 2015 the WTO Ministerial Conference was held in Nairobi, Kenya – the first to be hosted by an African nation. It culminated with the creation of the “Nairobi Package” – six decisions related to least-developed countries including on, agriculture and cotton.[46] WTO members made a commitment to abolish export subsidies for farm exports, this was seen as an historic agreement.

2016: UK referendum on membership of EU; votes to leave

Prime Minister David Cameron called a referendum in June 2016 to determine whether the UK would remain a member of the European Union, 52% of voters voted in favour of leaving the EU (on a turnout of 72%). For some supporters of Brexit, creating an independent UK trade policy was an important motivation for leaving the EU. The UK government is negotiating the future terms of its trade with the EU and an independent UK trade policy outside the bloc.[47] Multiple government departments and agencies are informing the negotiations for leaving the EU.

45 European Commission, ‘Shaping the Digital Single Market’, 2018, https://ec.europa.eu/digital-single-market/en/policies/shaping-digital-single-market (Accessed 30 October 2018).

46 WTO, The Tenth Ministerial Conference, 2015, https://www.wto.org/english/thewto_e/minist_e/mc10_e/mc10_e.htm (Accessed 12 February 2019).

47 Chatham House, ‘The Future of UK Trade Policy: Principles & Challenges’ Event Briefing, October 2016, https://www.chathamhouse.org/event/future-uk-trade-policy-principles-challenges (Accessed 23 October 2018).

2016: Department for International Trade (DIT) and Secretary of State for International Trade created

The Department for International Trade is an international economic department designed to secure UK and global prosperity by promoting and financing international trade and investment.[48] DIT replaced UK Trade and Investment (UKTI).

2016: Election of US President Donald Trump – new US approach to trade

After Donald Trump's election as US President in 2016, the US began challenging aspects of the existing international trading system that were judged as not serving US interests. For example, Trump halted TTIP negotiations.

2017: UK invokes Article 50 of the Treaty of Lisbon – withdrawal from EU begins

On 29 March 2017, UK Conservative Prime Minister Theresa May invoked Article 50 of the Treaty of Lisbon. This began the process for the UK's withdrawal from the EU. Article 50 allows a two-year time frame for the negotiation of a deal between the UK and the EU, after which the UK will leave the EU. This negotiation period can only be extended by unanimous agreement from all EU member countries.

2017: UK Government White Paper: Preparing for our future UK trade policy

The White Paper on Preparing for our future UK trade policy explored the emerging approach to establishing an independent, international trade policy once the UK leaves the European Union. The government committed to the following principles.

- Pursue economic prosperity for the UK and lead by example through our liberal economy and pursuit of free trade.
- Develop, support and enforce a fair and proportionate rules-based system for trade, domestically and internationally.
- Develop a trading framework which supports foreign and domestic policy, sustainability, security, environmental and development goals.
- Develop a trade agenda that is inclusive and transparent.[49]

48 National Audit Office, 'A short guide to the Department for International Trade', October 2017, https://www.nao.org.uk/wp-content/uploads/2017/10/Short-Guide-to-the-Department-for-International-Trade.pdf (Accessed 5 November 2018).

49 Department for International Trade, White Paper: Preparing for our future UK trade policy, October 2017, https://www.gov.uk/government/publications/trade-white-paper-preparing-for-our-future-uk-trade-policy-government-response (Accessed 6 February 2019).

2017: UK Industrial Strategy launched

The Industrial Strategy stated its aim to 'create an economy that boosts productivity and earning power throughout the UK' based on five foundations: ideas; people; infrastructure; business environment; and places.[50] It noted, "The decision to leave the European Union was not a decision to retreat from the world. In fact we need to embrace it – to trade more not less. We must remain an open, liberal market economy. There are opportunities to be gained upon leaving the EU. The opportunity to become more protectionist is not one of them. Britain's future has to be one of free trade with the whole world, including with the rest of Europe."[51]

2017: UK Trade Bill introduced

The Trade Bill was introduced in November 2017, it is scheduled to be completed in 2019 and will establish legal powers and structures to enable the creation of an independent UK trade policy.

2017: World Trade Organization Ministerial Conference (Buenos Aires)

In December 2017 the WTO Ministerial Conference was held in Buenos Aires, Argentina. Ministerial decisions were taken on fisheries subsidies and e-commerce customs duties. For the first time in WTO history 118 WTO members (of 164) endorsed an initiative which seeks to remove the barriers to trade and to foster women's economic empowerment, known was the Buenos Aires Declaration on Women and Trade. Progress will be reported in 2019.[52]

2018: The European Union (Withdrawal) Act

The European Union (Withdrawal) Act received Royal Assent in June 2018, it repeals the European Communities Act 1972. It made provisions for the UK's withdrawal from the EU. It will allow for legal continuity during the transition by enabling the transfer of EU law into UK law. It confers powers on the UK government to amend retained EU law.

50 Gov.UK, 'Industrial Strategy: 2017', https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/730048/industrial-strategy-white-paper-web-ready-a4-version.pdf (Accessed 14 February 2021).

51 Ibid.

52 WTO, Buenos Aires Declaration on Women and Trade, December 2017, https://www.wto.org/english/news_e/news17_e/mc11_12dec17_e.htm (Accessed 12 February 2019).

Milestone summary list

Our initial research has brought together a longlist of British trade policy milestones covering the period 1918–2018. We asked academic experts to participate in a short exercise ranking each on a scale of 1 to 3, from most important to least important, in terms of historical importance. In this context, we have taken this to mean significance to the history of UK Government trade policy since approximately 1918 with a strong contemporary relevance for policymakers and/or impact upon the relationship between UK Government and the global trade community. Below is the full longlist of milestones:

1914–1918	World War One
1918	UK Department of Overseas Trade established
1919	UK Export Credit Guarantee Department created
1931	Britain withdraws from the gold standard
1932	UK adopts a trade policy of Imperial Preference
1932	Import Duties Act
1934	United States Reciprocal Trade Agreements Act
1939–45	World War Two - disrupted trade
1944	Bretton Woods System established
1946	Anglo-American post war loan
1948	Creation of General Agreement on Tariffs and Trade (GATT)
1948	Winston Churchill's 'Three majestic circles' speech
1948	Creation of Organisation for European Economic Co-operation (OEEC)
1949	Second GATT round of trade talks (Annecy)
1949	The Colombo Plan
1950	European Coal and Steel Community (ECSC) created, as part of the Schuman Plan
1950	Third GATT round of trade talks (Torquay)
1955–56	Fourth GATT round of trade talks (Geneva)
1957	European Economic Community (EEC) created
1960	European Free Trade Association (EFTA) established
1960–61	Fifth GATT round of trade talks (Dillon)
1961	Creation of the Organisation for Economic Co-operation and Development (OECD)
1962	The European Economic Community establishes its Common Agricultural Policy (CAP)
1962	The European Economic Community establishes its Common Agricultural Policy (CAP)
1963	UK's first application to join the EEC vetoed by French President Charles De Gaulle
1964	The first United Nations Conference on Trade and Development (UNCTAD)
1964	British National Export Council established
1964–67	Sixth GATT round of trade talks (Kennedy)
1967	UK's second application to join the EEC fails

1967	Devaluation of sterling
1970	Department of Trade and Industry formed
1973	UK joins European Economic Community (predecessor to EU)
1973–79	Seventh GATT round of trade talks (Tokyo)
1975	UK referendum on continued membership of the EEC; votes to remain
1975	The Lomé Convention
1985	The Schengen Agreement
1986–94	Eighth GATT round of trade talks (Uruguay)
1990	UK joins the Exchange Rate Mechanism (ERM)
1992	The Maastricht Treaty – established European Union
1993	European Single Market introduced
1995	World Trade Organization formed
1996	European Market Access Strategy launched
1996	World Trade Organization Ministerial Conference (Singapore)
1999	European single currency introduced – the Euro
1999	World Trade Organization Ministerial Conference (Seattle)
2000	The Africa, Caribbean, Pacific–European Union Partnership Agreement
2001	World Trade Organization Ministerial Conference (Doha)
2003	World Trade Organization Ministerial Conference (Cancún) – G20 established
2005	World Trade Organization Ministerial Conference (Hong Kong)
2007	The Treaty of Lisbon
2007–2008	Global financial crisis
2008	World Trade Organization Doha Development Round (Geneva) – negotiations stalled
2011	World Trade Organization Ministerial Conference (Geneva)
2011	EU-US Summit (TTIP launched)
2013	World Trade Organization Ministerial Conference (Bali)
2015	Introduction of EU Digital Single Market
2015	World Trade Organization Ministerial Conference (Nairobi)
2016	UK referendum on membership of EU; votes to leave
2016	Department for International Trade (DIT) and Secretary of State for International Trade created
2016	Election of US President Donald Trump – new US approach to trade
2017	UK invokes Article 50 of the Treaty of Lisbon – withdrawal from EU begins
2017	UK Government White Paper: Preparing for our future UK trade policy
2017	UK Industrial Strategy launched
2017	UK Trade Bill introduced
2017	World Trade Organization Ministerial Conference (Buenos Aires)
2018	The European Union (Withdrawal) Act

Glossary

Balance of payments	The balance of payments is the sum of all transactions made between entities in one country and the rest of the world over a defined period of time. It is split into two accounts, the current account and the capital account.
Bilateral	An agreement/policy between two states that is legally binding only for these two states, with benefits usually not shared with other countries.
Capital account	The capital account is the change in foreign ownership of a nation's domestic assets subtracted by the change in the nation's ownership of foreign assets over a defined period of time. In other words, it reflects net change in ownership of national assets.
Capital controls	Capital controls are measures imposed by a state's government aimed at managing capital account transactions. They include outright prohibitions against some or all capital account transactions, transaction taxes on the international sale of specific financial assets, or caps on the size of international sales and purchases of specific financial assets.
Current account	The current account is the record of a nation's net trade in goods and services, its net earnings and payments on cross-border investments, and its net transfer payments over a defined period of time.
Domestic fixed capital formation	The net increase of a country's fixed capital over a defined period of time. (fixed capital is taken to be any real, physical asset that is used in the production of a product but is not used up in the production process and can be reused).
Floating	Allowing the value of a currency to fluctuate in response to foreign-exchange markets.
Footloose capital	Capital that can be placed at any location without significantly affecting production or value.
Free trade	International trade without imposed tariffs, quotas and restrictions.
General Agreement on Trade and Tariffs (GATT)	The General Agreement on Tariffs and Trade has been superseded as an international organisation by the WTO. An updated General Agreement is now the WTO agreement governing trade in goods. GATT 1947: The official legal term for the old (pre-1994) version of the GATT. GATT 1994: The official legal term for new version of the General Agreement, incorporated into the WTO, and including GATT 1947.
Gold Standard	A monetary system in which the value of a country's currency is directed linked to a fixed price for gold set by the country.
Intangible capital	All forms of non-physical capital - services and non-physical goods. See also Invisibles.

Invisibles	Refers to services and products that do not involve the transfer of physical objects. See also Intangible capital.
Mercantilism	A national economic policy that is designed to maximise the exports of a nation.
Most Favoured Nation (MFN)	Refers to the principle of not discriminating between one’s trading partners, i.e. all are granted "most-favoured-nation treatment". Under WTO rules, an advantage negotiated with one country must be extended to all trading partners who are WTO members.
Multilateral	At a level involving all WTO member countries.
Non-essentials	Goods or services that are not essential to consumers, and are dependent on income levels and therefore more sensitive to income change.
Petrodollar	A notional unit of currency earned by a country from the export of petroleum.
Plurilateral	At a level involving only some WTO member countries (a preferential approach).
Preferential Trade Agreements (PTAs)	This is the term used in the WTO for trade preferences, such as lower or zero tariffs, which a member may offer to a trade partner unilaterally. These include the Generalized System of Preferences schemes, under which developed countries grant preferential tariffs to imports from developing countries. They also include non-reciprocal preferential schemes granted through a waiver by the General Council, meaning the member has been exempted from applying the most favoured nation (MFN) principle.
Purchasing power parity	The ratio of the value of a good in one currency to the value of that same good in another currency, with exchange rates taken into account. Used to compare countries' economic productivity and standards of living.
Soft market	A market that has more potential sellers than buyers.
Tangible capital	All forms of physical capital. See also Visibles.
Trilemma	Refers to the idea that it is impossible for a country to have all three of the following at the same time: fixed exchange rates, capital mobility and domestic monetary policy.
Unilateral	An agreement/policy that is decided by, and generally only intended to benefit, one nation and does not regard other nations. Not negotiated between nations.
Visibles	Refers to physical goods. See also Tangible capital.

The British Academy
10–11 Carlton House Terrace
London SW1Y 5AH

Registered charity no. 233176

Published February 2021

ISBN 978-0-85672-655-2

DOI doi.org/10.5871bapolhist/9780856726552.001

Design by Only

Twitter: @britishacademy_
Facebook: TheBritishAcademy
LinkedIn: the-british-academy-