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Delivering Economic Growth Through Enhanced U.S.–UK Digital Trade

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In his congratulations to President Donald Trump on his election, Keir Starmer singled out “innovation and tech” as an area for cooperation and said that he knew that the UK-US special relationship would continue to “prosper on both sides of the Atlantic for years to come.” There has been bipartisan support for a U.S.-UK deal in the United States as well, in the form of introduced legislation and efforts to negotiate a comprehensive free trade agreement. While there are important design choices and risks to avoid, there is a practical path to an agreement which leads by example and thereby promotes global liberalisation in digital trade which benefits both nations as the first and second largest exporters of digitally delivered services globally. With the Prime Minister having visited Washington DC this week to discuss a range of issues, this note explores the case for an agreement and how it could be achieved in practice.

A U.S.-UK digital trade agreement would be in best interests of both countries

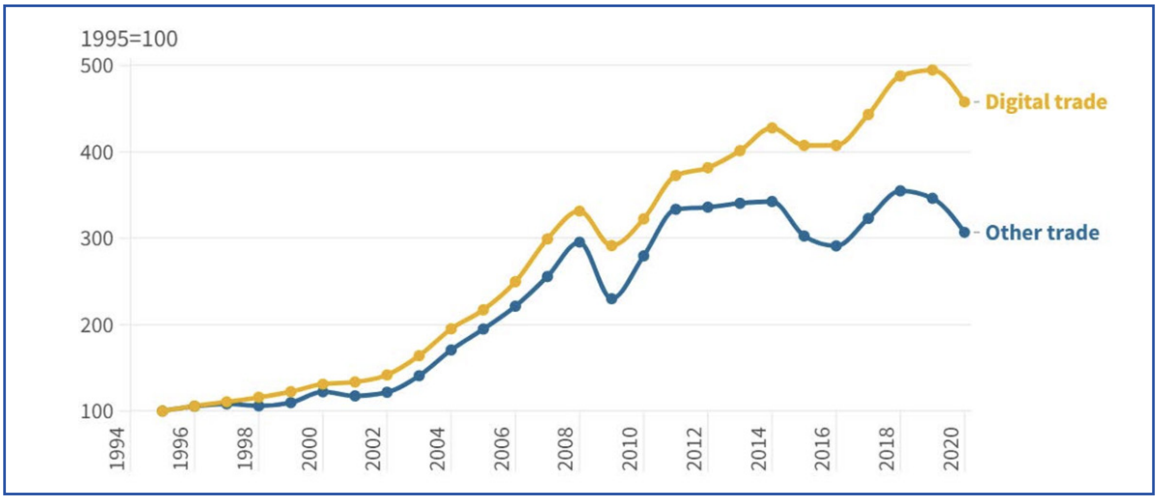
The United States has enjoyed strong diplomatic and economic relationships with the United Kingdom for over a century. The United Kingdom has served as a key market for U.S. companies for decades, as has the United States for UK companies, and both are top destinations for their respective foreign investment. The United States and the United Kingdom have a rich history of thriving trade relations, even absent a formal free trade agreement between the two. As the first and second largest exporters of digitally delivered services, they also represent world leaders in digital trade, and have the ability and imperative to shape global rules by leading by example.

Therefore, they have an excellent opportunity for the two countries to deepen and strengthen those ties through a formal agreement on services generally or digitally-enabled services in particular, reflecting the strength of both markets.

- The U.S. exported $68.2 billion in digitally deliverable services to the UK in 2023.
    - This represented 75% of all U.S. services exports to the UK that year.
- The UK exported $55.4 billion in digitally deliverable services to the United States in 2022, the most recent year with available data.
    - This represented 78.3% of all services exports to the U.S. that year.
- The United Kingdom both served as the largest exporter of services to the United States and (after Ireland) importer of services from the United States, according to the Office of the U.S. Trade Representative’s most recent information.
- The United Kingdom is the top destination for U.S. foreign affiliates’ services sales, and the United States is the top destination for UK foreign affiliates’ overall sales.
- Services represent 80% of the United Kingdom’s economic output and 77% of the United States’.

- Globally, digital trade is increasing at a much higher rate than traditional trade, making this a key sector for trade partners to amplify, as demonstrated by the OECD:

Figure 1: Figure 1: Digital trade is on the rise fuelled by digitally delivered services



Source: OECD

Although comprehensive Free Trade Agreements are generally the strongest method to shore up bilateral trade ties, sectoral-specific trade agreements can bring vast benefits to exporters, investors, and the workers that power these firms without wading into the complex and difficult trade-offs that would otherwise halt progress of a broader agreement. This is particularly true in the services world, where agreements such as the U.S.-Japan Digital Trade Agreement serves as a model for bringing certainty to multinational enterprises and aligning approaches to digital governance.

Enshrining commitments to promote and protect digital trade in formal agreements also serve as an important signal globally that the free flow of data, information, and services is a top priority of these two allies, particularly as an increasing number of countries adopt the digital authoritarian model of China or become overly restrictive to outside investment and access. For example, the OECD has reported that digital trade barriers have increased by 25% between 2014 and 2023, "driven by increasing regulatory hurdles that affected communication infrastructures and data connectivity."

This bilateral trade brings numerous positive externalities for business operations and consumers. Improving and easing access to markets—particularly ones as interconnected as the United States and the United Kingdom—increases the reach and productivity of firms in each market to the other. This will improve competition in both countries, as more firms are able to operate in both markets, bringing both a larger number and more innovative options to consumers.

Additionally, unlike in the goods world, the increased access to foreign markets for services often leads to gains for workers in the home nation, as the delivery of those services requires fewer foreign workers to complete.

Several options that could be explored to promote U.S. and UK digital trade:

There are numerous configurations for embedding strong digital trade rules in meaningful agreements between the United States and the United Kingdom. Key design choices (and the trade-offs they involve) relate to the number of parties involved and the substantive scope of the agreement.

1. **Pursue a bilateral Digital Trade Agreement with the United States**, based on the robust agreements reached by the two countries in similar agreements such as the U.S.-Mexico-Canada Agreement, the U.S.-Japan Digital Trade Agreement, and the UK-Singapore Digital Economy Agreement.
   a. **Benefits:** A standalone digital agreement would provide specific, concrete commitments tailored for the digital economy and the services—such as financial services—that rely upon digital commerce. Such agreement could also provide the opportunity to supplement extant agreements with newer issues, such as AI-related principles.
   b. **Key Considerations:** Such an agreement would be most effective if the U.S. Congress could issue express authorization, as it did for the Taiwan Initiative on 21st-Century Trade First Agreement Implementation Act. In addition, such agreements should also include a longer-term framework for negotiating market access commitments.

2. **Expand the U.S.-Japan Digital Trade Agreement to include the United Kingdom**, to shore up digital cooperation between three key G7 partners.
   a. **Benefits:** Beginning with an already active agreement text that has a proven track record of delivering mutually beneficial outcomes can minimize the amount of politicking required to achieve an agreement.
   b. **Key Considerations:** Same as above.

3. **Strike a Digital Trade Agreement, based on the robust agreements reached by the two countries in other fora, that includes other key economic and security partners.** This could be an AUKUS (Australia-UK-US) agreement, a Five Eyes (Australia-Canada-New Zealand-UK-US) agreement, or other combinations.
   a. **Benefits:** The benefit of such an approach would be linking security and economic stability. Further, this would bind ally countries that have reached strong digital trade commitments in other contexts (multiple bilateral and multilateral agreements) with one another. Additionally, strengthening digital trade commitments with Australia (and/or New Zealand) will help solidify ties in the Indo-Pacific region and assist competition with China.
   b. **Key Considerations:** Negotiations between multiple countries, particularly from scratch with no existing agreement in place, could be complex and time-consuming. Although adopting these commitments with a larger group of countries would bring unique benefits and unlock economies of scale for businesses operating abroad, it would likely take more time for trade negotiators

than pursuing bilateral agreements. As above, providing for Congressional approval would strengthen its impact.

4. **Pursue a comprehensive, "negative-list" service agreement**.
   a. **Benefits:** Such an approach would attract a broad scope of stakeholders, and would address priorities for both digitally-relevant market access and digital-specific rules. The absence of goods commitments would mute opposition from U.S. labor organizations. This would again qualify as an Article V agreement, meaning commitments could exclude MFN application, a potential concern of trade partners, if not the United States.
   b. **Key Considerations:** Congressional resistance, absent express authority, could be expected, but with a broader scope, and not focussing exclusively on digital, gaining such authority might be easier.

5. **Pursue a comprehensive Free Trade Agreement with the United States to expand market access not only for services and digital products, but also for other goods producers.**
   a. **Benefits:** A comprehensive FTA would provide stronger legal backing to secure commercial flows between the two markets, and would lock in market access commitments. A comprehensive agreement would also naturally create positive economic impacts in other sectors, attracting support from other stakeholders (e.g. US agriculture).
   b. **Key Considerations:** Expanding the reach of the agreement increases the likelihood the negotiations founder over setting sectoral priorities and navigating offensive versus defensive equities. Market access commitments for goods requires explicit Congressional authority.

Under these broad headers, specific design points will still need to be negotiated, but this should be possible based on the mutual interest in a deal.

Meanwhile, as an immediate, near-term goal, policymakers hoping to seize this opportunity should work to avoid enacting any policies that could obstruct progress as these discussions advance. This would include, in particular new or expanded digital services taxes or disproportionate, extra-territorial and/or discriminatory regulatory measures. As this effort moves forward, ensuring no obstacles to digital trade agreements and other cooperation are put into effect will be increasingly important.