

The UK's Strategic Realignment

Recent trade deals with the EU and United States

- UK Prime Minister Keir Starmer is recalibrating Britain's global posture through trade agreements with the EU and the United States to restore stability and strategic influence following Brexit.
- While most of these deals have not yet been finalized and are not expected to yield significant economic returns to the UK, they mark a shift in the government's approach in an increasingly volatile geopolitical landscape.

Introduction

Since taking office in July 2024, Prime Minister Keir Starmer has sought to restore the UK's global standing. In May, the UK signed trade deals with two of its closest allies, the EU and the United States.

Scope of the UK-EU and UK-U.S. Agreements

UK-EU Agreement

The new “strategic partnership” announced at the May UK-EU Summit represents an update to the relationship after the UK's exit from the EU in 2020. It enables the British fishing industry to have direct access to the EU agri-food market. This should assist exporters who have found it challenging to negotiate border controls.¹ The UK and EU have also agreed to link their emissions trading systems, allowing British energy firms to participate in the EU electricity market. This would be expected to increase energy security, lower prices, spur investment, and promote decarbonization. In addition, the deal opens the door for British participation in the EU's proposed €150 billion defense procurement program. This would allow British firms to bid for joint procurements.²

The UK business community has broadly welcomed the deal, although details remain vague and it is expected to yield limited economic benefits.³ More detailed negotiations will be needed in the future to make these agreements legally binding. And even once finalized, the deal would likely only deliver between 0.3 and 0.7% growth.⁴

UK-U.S. Agreement

The UK-U.S. deal, as initially announced, lacked detail and merely provided a framework for continued trade negotiations in specific sectors. In June, Trump and Starmer announced they had finalized negotiations on part of

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this framework. Trump agreed to lower tariffs on British car exports from 25 to 10% for the first 100,000 vehicles shipped annually. He will also exempt tariffs on exports of jet engines and aerospace components. The framework aimed to eliminate the 25% U.S. tariffs on steel and aluminum exports, but those issues remain under discussion, along with others. In exchange, Starmer granted the United States greater market access for beef, ethanol, and industrial products.

There are, however, reasons to be skeptical about the agreement. First, the United States is still subjecting most British exports to the “reciprocal” tariff rate of 10%. Second, the UK ceded to U.S. demands to exclude China from some of the UK’s strategic supply chains.⁵ Lastly, the deal still requires additional negotiation on other topics. More than two months after the original agreement was signed, there is still no clear timeline for these additional negotiations or for when the additional tariffs will be reduced or lifted entirely.⁶ Further complicating matters, Trump has a well-documented history of reversing his positions.⁷ When asked about assurances the UK would not face future tariffs, Trump said, “I like them – that’s their ultimate protection.”⁸ This statement underscores the anxiety that the entire deal may not be finalized or endure.

A post-Brexit pivot with the EU

Despite the UK-EU deal, the UK remains isolated from the EU market

London and Brussels have heralded the agreement as a “reset,” but those claims are exaggerated. Despite the UK-EU deal, Starmer is committed to Brexit and the UK remains isolated from the EU market. It does not reintegrate the UK into the Single Market or the Customs Union.

In strategic terms, the agreement strengthens cooperation at a time when both need each other to face some of the continent’s significant challenges. It also represents the first substantial effort to restore institutional cooperation since the divisive Brexit negotiations. This portends a future in which both sides may continue to develop arrangements to allow them to collaborate without reviving past institutional processes and avoid reigniting ideological debates.⁹

Symbolic win for Starmer and Trump

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The UK was the first country to secure a trade deal with Trump after he announced global reciprocal tariffs on 2 April. The agreement was driven by a pressing need to buy time, defuse rising tensions, stabilize the bilateral relationship, and reaffirm the UK’s special relationship with the United States. British officials likely calculated that concluding a deal swiftly would be better than waiting for a possible broader negotiation and risking future escalation.

It was also driven by a need to help the British economy. British exports to the United States fell by \$2.7 billion in April, marking the largest monthly decline

since records began in 1997. This likely contributed to the 0.3% contraction in GDP from March to April.¹⁰

The United States not only secured UK concessions but also obtained a positive public announcement to alleviate growing unease about Trump's trade policies.

An emerging foreign policy doctrine

The UK's agreements with the EU and U.S. reflect a geostrategic approach by the Starmer government to pursue broad frameworks and leave the details to be negotiated later. This gives the UK more flexibility and helps lock in early wins, even if significant benefits ultimately are elusive.

The EU deal aims to reposition the UK in Europe, rebuild trust, and gain influence in a region where Britain remains economically and diplomatically intertwined. The U.S. deal, in contrast, is a calculated short-term maneuver to de-escalate tensions, demonstrate relevance to Washington, and create space for longer-term planning.

This strategy also hedges against uncertainty in global politics. Recognizing that Trump has thrown alliances, including transatlantic relations, into flux, London is positioning itself as a pragmatic and dependable actor.

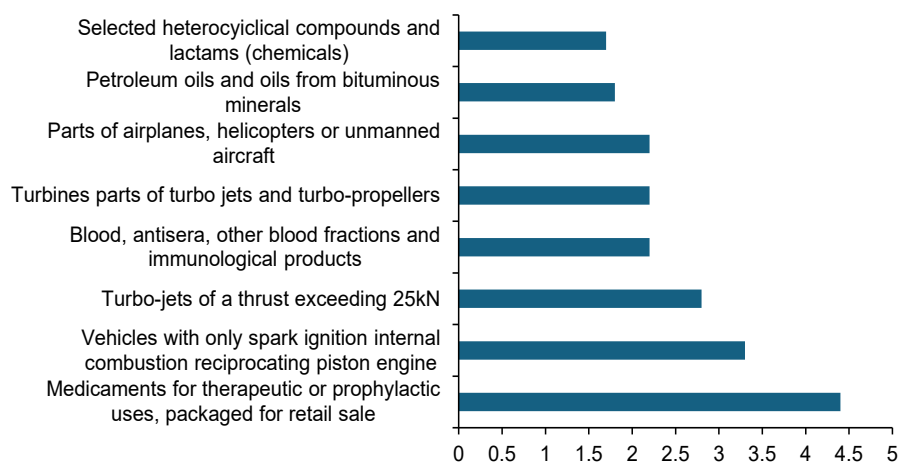
Diplomatic gains, domestic economic headwinds

Starmer's early moves on the international stage enabled him to secure agreements with key partners. Funcas assesses that once the UK's deals with the EU and the United States are finalized, they will have a modest economic impact and fail to address the country's systemic challenges, such as weak economic growth and stagnant productivity. With analysts predicting a weak jobs market and low growth rates for the remainder of the year, voters may soon overlook these trade deals if they become anxious about the country's lackluster economic performance.

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**EXHIBIT 8.0 – THE UK'S TOP 10 EXPORTS TO THE UNITED STATES IN 2023,
RANKED BY VALUE OF EXPORTS (IN USD BILLION)**



Note: Group names have been simplified for clarity. Full details can be found using the following 6-digit HS code aggregates: 300490, 870324, 841112, 300215, 710813, 870340, 841191, 880730, 271012, 293379.
Source: UN Comtrade.

Notes

- ¹ <https://www.instituteforgovernment.org.uk/comment/keir-starmers-uk-eu-reset#:~:text=The%20agri%2Dfood%20deal%20should%20help%20GB%20exporters,exporters%2C%20with%20the%20potential%20to%20reduce%20prices>
- ² https://www.pinsentmasons.com/out-law/news/uk-eu-trade-deal-food-energy-defence?utm_source=chatgpt.com
- ³ <https://www.cbi.org.uk/media-centre/articles/cbi-responds-to-uk-eu-summit/#:~:text=19%20May%202025,jobs%2C%20and%20raise%20living%20standards>
- ⁴ <https://www.cer.eu/insights/gap-between-brexite-reset-rhetoric-and-reality>
- ⁵ <https://www.ft.com/content/3eb31a1c-a19e-480b-a970-2629c714363c>
- ⁶ <https://www.politico.eu/article/donald-trump-white-house-britain-uk-deal-tariffs/>
- ⁷ <https://ustr.gov/about/policy-offices/press-office/fact-sheets/2025/may/ustr-fact-sheet-us-uk-reach-historic-trade-deal>
- ⁸ <https://www.nytimes.com/2025/06/17/world/europe/trump-starmer-trade-uk-g7-summit.htm>
- ⁹ <https://www.ft.com/content/d4eb444f-d867-40db-8f1c-5469b958be85>
- ¹⁰ https://www.reuters.com/sustainability/sustainable-finance-reporting/uk-economy-shrinks-by-03-april-ons-says-2025-06-12/?utm_source=Sailthru&utm_medium=Newsletter&utm_campaign=Daily-Briefing&utm_term=061225&lctg=650c58afb8e3cb338a096e92