

# Speech: Britain's place in the global trading system

Good morning.

The arguments around Britain's exit from the European Union have been intense and passionate.

Understandably, they have dominated the political agenda and consumed most – sometimes all – of our political bandwidth.

On Tuesday the House of Commons voted to support a deal, with changes to the backstop. And the Government will now talk to the EU about how we address Parliament's views.

But, however we ultimately separate ourselves from the European Union, we must remember that there is a world beyond Europe and there will be a time beyond Brexit. That is what I would like to begin to focus on today.

## **The UK's future role**

The first question we must ask is a general one. What should Britain's place in the world be? Where should we direct our great political, diplomatic and economic energies?

What, if you like, is our mission?

It used to be fashionable to quote Dean Acheson, US Secretary of State under Harry Truman, in saying that Britain had “lost an empire and not yet found a role”.

That may have once been true. For some, the EU seemed to provide an answer. But the UK has been always an awkward member, unsuited politically and temperamentally to the demands and destination of ever-closer union.

Our new relationship will be far better for both the UK and the EU. Now Britain is taking back ownership of our destiny. Where we share a common agenda, the EU will find a stalwart friend, and a close political and economic ally.

We are emerging into a world that is crying out for leadership, and our country is uniquely placed to meet the global challenges of the 21st century.

The 2015 Strategic Defence and Security Review sums up our position perfectly. As it says:

“We sit at the heart of the rules-based international order. The UK is the only nation to be a permanent member of the UN Security Council and in NATO... the Commonwealth, the G7 and G20, the Organization for Security and Cooperation in Europe, the OECD, the World Trade Organization, the

International Monetary Fund and the World Bank.

We use our membership of these organisations as an instrument to amplify our nation's power and prosperity. In all these organisations, we play a central role in strengthening international norms and promoting our values. We promote good governance, anti-corruption, the rule of law and open societies.

We maintain and champion free trade, and we work with growing powers around the world to build a stronger and more resilient global economy."

It's hard to put it better than that. As Britain takes up her role as a fully independent actor on the world stage, this is an enviable position from which to be starting.

The Department for International Trade has, since its creation, been looking to that world beyond Europe and that time beyond Brexit.

And in an era where globalisation and rapid technological advancement are fundamentally changing the face of global commerce, Britain will have a clear role in helping to identify and meet the challenges and opportunities ahead.

In Davos last week, trade ministers considered a paper from the Global Future Council on International Trade and Investment. It set out a number of scenarios for the future trading environment.

They started with the optimistic – where countries cooperate to address issues through a revitalised WTO and complementary international frameworks – then they had the less optimistic, where countries cooperate but are drawn into competing blocs, producing a Balkanisation of global trade.

And finally they had the genuinely pessimistic where there would be a rise of protectionism and where countries could not cooperate, leading to prohibitive unilateral barriers with consequent inefficiencies, high economic risks and a decline in productivity and innovation.

It is essential that Britain uses its new role to help push the global trading arguments in the right direction.

Over the coming months I will be talking about the challenges we face in more detail such as the consequences of a protracted US – China trade dispute, the potential slowing of the global economy and the unmet challenges in the global trading system.

Today I want to set out our general approach to the institutions that govern global trade and where we believe momentum is required.

## **Opportunities of independent WTO membership**

Our first port of call has to be the WTO – the home of the rules-based international trading system that underpins our prosperity.

Now we all accept that the WTO as it stands may be imperfect. Some of its rules may be outdated. But, as Spanish-American Philosopher George Santayana

said: "Those who cannot remember the past are doomed to repeat it."

We have tried a world without multilateral institutions, where the economically powerful sought to defend their interests by erecting high tariff walls.

It didn't work out very well. Which is why, when the world came back together there was a strong desire to develop a framework where national governments could create collective solutions to shared challenges.

Since the end of the Second World War, falling tariffs and an ever more integrated rules-based system – underpinned by the General Agreement on Tariffs and Trade and the World Trade Organisation – have brought great benefits, both to developed and developing economies, in terms of stability, predictability and openness, creating greater opportunities for exporters and lower prices for consumers.

And it is important to remember at this juncture that we are committed to multilateral solutions not for altruistic reasons but because they best serve the interests of the UK and the wider world.

## **The case for trade**

It is also important to remember and to remind our people that free enterprise and open trade have taken more than 1 billion people out of abject poverty in the last generation or, as Francis Fukuyama put it in his latest book "Identity", the percentage of children dying before their fifth birthday has declined from 22% in 1960 to less than 5% by 2016.

But we have never seen trade simply as an end in itself. Trade is a means by which we are able to spread prosperity. That prosperity underpins social cohesion. That social cohesion, itself in turn, underpins political stability and that political stability is the building block of our collective security.

In the interconnected and interdependent world of globalisation, we cannot disaggregate these elements without risking profoundly unwanted consequences.

Security, environmental concerns, trade, economic development, these are best tackled by countries working together. And not just two or three working together – but many, ideally all.

Economic nationalism may look like an attractive shelter from the winds of change that have come with the era of globalisation and even more from the technological revolution in which we find ourselves, but it is a mirage.

The alternative to an international rules-based system is at best a deals-based system that will suit only the strongest and at worst a free for all that will put at risk much of the progress we have made in recent decades.

The principle of working through consensus is one held dear by WTO members – and the United Kingdom and the United States were key in forming that

organisation. Decisions forced on countries by a larger group will not be legitimate, will not be respected and cannot ultimately be enforced.

But consensus building can be, and indeed has been, painstaking and slow. In the WTO, as in many international arenas, finding that sweet spot has proved elusive. So many of our collective ambitions for the multilateral system remain unfulfilled.

Now the WTO has, of course, had its successes such as the Government Procurement Agreement, the Information Technology Agreement, the Trade Facilitation Agreement, among others. But the reality is that we have not yet been successful in moving the system forward from the balance we achieved at the end of the Uruguay Round.

## **The changing global economy**

Fundamental changes in the world economy have created an entirely new trading environment.

The global economic centre of gravity is shifting, from North America in 1990 to China and the Far East in 2050. While we still expect North America and Europe to remain key trading partners for the UK, the growth in the East represents a huge opportunity for the UK to establish new, and grow existing, trading relationships.

It is predicted that the share of global GDP of the seven largest emerging economies – including China, India and Turkey – could increase from around 35% to nearly 50% by 2050, which would mean that they overtake the G7.

This is particularly relevant in the case of China, for example, which by 2050 will reach a projected \$51.3 trillion at Purchasing Power Parity, from \$21.4 trillion now, with India reaching \$30.7 trillion by the same year.

The Chinese bond market is expected to grow from around US \$3 trillion to US \$32 trillion by 2030, which is not a long time away, and by 2050, Asia's financial sector is likely to be four times the size of that in the West.

I often point out to those who are sceptical about the scale of change that China is expected to have 220 cities with a population of more than a million by 2030. The whole of Europe has just 35. This will be driven, in part, by a rapid expansion of the global middle class, which is expected to reach 5.4 billion people by 2030, up from 3 billion in 2015. Asia is expected to account for the vast majority of this growth.

But as well as a fundamental shift in who we trade with, how we trade is changing too.

The revolution in e-commerce is now a major component of world trade, from some of the world's largest corporations, like Amazon, to the thousands of small companies who have never before been able to trade internationally.

And such an upheaval requires a fundamental shake-up of the rules which

govern international trade. We live in a world where there is an increasing blurring of what constitutes a good and what constitutes a service and yet the regulatory system is a long way behind the curve.

Imagine what would have happened back in 1995 when the WTO was created if I had asked you the following question – “if I sell you code over the Internet to make something on your 3-D printer, have I sold you a good or a service?”

In 1995 you would not have understood the terms of the question because the terms would not have been invented yet. Yet these are the terms in which we trade today in the real global economy, but the system of global governance has not kept up.

Even if we ignore technological advances, patterns of international trade are still shifting rapidly.

We live in a world where complex global value chains are an ever more important part of how we do business yet our trading system still applies taxes – for let’s be very frank that “tariff” is simply a more acceptable way to describe taxes – a nice euphemism, but they are taxes – multiple times before the creation of a final product. This locks up value and increases costs to consumers.

Then we come to what we actually trade. Services are now a larger part of the world economy than ever before and Britain is the second largest services exporter in the world, behind the United States.

A recent WTO report estimates that, while services comprise two-thirds of global GDP and employment – and nearly half of world trade on a value-added basis, the barriers to trade in services are about as large as those in goods were half a century ago.

This has to change. Despite recent high-profile tensions, global tariff levels on goods have reached a historic low. But we have yet to achieve the same level of liberalisation for services.

Pursuing trade policies that promote openness and better reflect these developments in the global economy would boost productivity, raise living standards and promote competitiveness.

And these reforms will only become more vital as the interdependence of the global economy actually increases.

## **Benefits of multilateralism**

So, recognising this, what is the correct response for governments like ours, which are committed to global solutions to global challenges?

One option is bilateral or regional agreements. The Comprehensive and Progressive Agreement for Trans-Pacific Partnership, or CPTPP – much easier to say in the morning – is a good example, and of specific interest to a post-Brexit UK.

Its 11 member states constitute some 13% of global GDP. As you will be aware, the United Kingdom will, potentially, seek accession to CPTPP upon our exit from the EU.

I am delighted, Dean, that you mentioned that Policy Exchange endorsed this course of action in a paper last summer.

And, as many of you will be aware, the EU-Japan Economic Partnership Agreement comes into force today.

The UK was, naturally, deeply involved in the negotiation of this agreement. And, as both our Prime Ministers have made clear, this ambitious EPA will form the basis of our new economic partnership.

Neither side intends to put up barriers where none now exist, and the UK-Japan Trade and Investment Working Group is striving to deliver this commitment.

Agreements such as these can be useful complements to the multilateral core. Which is why, given certain conditions, they are recognised as a possible deviation from the Most-Favoured Nation principle. They are easier and they are quicker to negotiate.

But they cannot tackle problems caused by widespread agricultural or industrial subsidies, they cannot adequately address unfair competitive practices, and ultimately the economic benefits unlocked by such agreements are relatively small compared to those of an agreement between all 164 WTO members.

Now, that does not mean we should not pursue them vigorously as an adjunct to wider liberalisation agreements but, equally, we need to remember that true multilateralism is, and will remain, the gold-standard of international trade agreements.

It minimises the risk of trade diversion. It lowers the costs for businesses, allowing them to take a common approach to non-tariff measures across a wide range of countries and markets.

For nations themselves, multilateral agreements provide stability and predictability, as well as guarding against ad hoc protectionism.

There is strong evidence of the trade creating effects of the GATT and WTO. In 2007 a paper was published that modelled the value of imports from 1950 to 2000. It found that world imports are higher by 120%, or \$8 trillion in 2000, relative to a world without the GATT and WTO.

And that is a truly historic achievement.

Of course, it has not been without its issues. The same report highlighted that the benefits have sometimes been uneven amongst developing nations.

Crucially, there is also evidence that sectors that have been mostly excluded from multilateral negotiations have not increased trade as a result of the

GATT and the WTO.

If Britain's destiny is to be a global champion of trading freedoms, then these two challenges represent our global mission – a direction of focus and an opportunity to change the world for the better.

## **Liberalisation of trade in services**

Our first priority must be the liberalisation of the global trade in services.

Now I'm sure that this audience is familiar with the headline figures. The UK economy is one of the most services-intensive on earth, with services comprising 79% of our GDP.

The sector employs some 26 million people in this country. Out of every five people in Britain with a job, four of them work in a service industry.

And these are remarkable figures by any measure. And they mean that the UK has a vast amount to gain by working with partners to make services markets more open, more transparent and more competitive.

And it must not be overlooked that, because so many aspects of the production of physical goods are in fact services – such as design, distribution, logistics and marketing, that liberalising services will also drive wider international trade.

Currently, it is estimated that the trade costs for services are up to three times higher than those for goods.

Between 1995 and 2005 trade costs for goods fell by around 15% – while the trade costs for services have remained, to this day, fairly constant.

Research from the Bank of England suggests that if a large sample of trade partners lowered their services trade barriers to the level of the least restrictive country, the UK's current account deficit could fall by up to 16%.

Leaving the EU gives us the freedom to pursue an independent trade policy that reflects our unique strengths in services.

A policy that is focused on our areas of competitive advantage – such as finance, insurance and business services.

And together, these comprise 57% of our services exports.

But it also gives us the opportunity to instigate international services liberalisation through fora such as the WTO.

We will actively engage in current discussions to agree new rules in key areas such as e-commerce, and to ensure domestic regulations do not constitute unnecessary barriers.

We are of course committed to TiSA, the ambitious, but currently stalled, agreement on trade in services.

TiSA has the potential to set the international standard and deliver a significant boost to the global economy, and we will continue making the case for it. But it is not our only option.

## **Digital trade**

I have already very briefly touched on the way that the digital economy is revolutionising trade. Digital and associated technologies are an area in which the UK is genuinely world-leading, and commands a significant competitive edge.

The ability to send data across borders is the central requirement for international digital trade. And data flows are the life-blood of today's digitalised economies.

They are vital not only to high tech industries but also traditional sectors, good and services as well. And I believe that it is patently absurd to talk about moving goods and services but not data in a modern economy.

And that is why obstacles such as data localisation must be tackled if we are genuinely to be able to take advantage of the digital era.

And ensuring that such flows continue unimpeded is a top priority for the United Kingdom. But if we are to ensure that data is free-flowing, we must also see that cross-border data flows are governed responsibly with modern, liberal and ambitious regulations, including the safe handling and storage of people's personal data.

## **UK and the Commonwealth**

Now, working to liberalise the trade in services will be of vast economic benefit to the UK and our partners.

But there is a greater mission that I alluded to earlier. The United Kingdom is uniquely placed to help redress the imbalance of the multilateral system, and to bring developing nations to the fore of the international trading community.

In 2019 our work at the WTO will move forward apace.

As the world's fifth largest economy but also as a leading commonwealth nation, we occupy an exceptional place among the world's biggest economic players.

Not only do we have historic and cultural ties to many of the world's developing nations, but we are also part of an existing community of nations that are eager and willing to deepen their trading ties.

Britain has enormous scope to facilitate, and enact, change.



We believe that the real story of the Commonwealth is its vast potential for trade and investment opportunities.

The 52 member states boast a combined population of over 2.2 billion people, 1 billion of whom are under the age of 25.

Their economies are wonderfully diverse, each with their own specialisations, industries and opportunities.

Most importantly, Intra-Commonwealth trade has consistently grown faster than the global average.

The Commonwealth Secretariat has calculated that bilateral trade costs for Commonwealth partners are, on average, a stunning 19% lower than between non-Commonwealth members.

To date, Commonwealth nations have registered over 600 trade liberalisation measures with the WTO.

Clearly, the potential is there, and so is the will.

## **WTO engagement in 2019**

So 2019 will be a significant year for both the UK and the WTO.

The UK is leaving the European Union. The WTO is facing many challenges to the ruled-based multilateral trading system.

As an independent member, the UK will have greater freedom to advance our agenda – in line with the terms of the withdrawal agreement – and to take advantage of the opportunities that leaving the EU presents us with in respect of our presence and participation at the WTO.

We will need to establish the UK as a credible, influential and creative WTO member – and there are a number of steps we need to take.

Establishing our own independent GATT and GATS schedules... ..accession to the GPA... .. complying with our notification and other WTO obligations and participating effectively in WTO fora, such as in the 28 WTO sub-committees that cover all aspects of multilateral trade... And of course to bolster the rules-based multilateral trading system, with the WTO at its centre.

We have the Global Dialogue on Trade, in which the CBI and our branch of the International Chambers of Commerce are strongly involved.

This is assessing what needs preserving and what needs improving in the multilateral trading system, and how to equip the WTO with the tools needed to tackle new challenges and disruptions of the 21st century.

The UK has world-class 'soft power' and we will be using this to hold meetings with developing countries, including in the Commonwealth, and maximising opportunities to promote and develop strong relationships to defend the interests of developing countries and the UK.

And we want to partner with Commonwealth countries to engage in WTO reform discussions in the sectors of the future.

We will encourage Commonwealth trade ministers at our next meeting, which Britain will chair, to set out ambitious thinking on how we can bring our trade and development policies closer together so that we can provide mechanisms for ever more countries to trade themselves out of poverty and into sustainable prosperity.

We need to build alliances to update and enhance the WTO rulebook to tackle underlying trade tensions. These issues include industrial subsidies, state-owned enterprises, and tackling blockages in ongoing negotiations, such as over fishing subsidies. We also need to establish new regulations and norms to facilitate emerging regulatory needs – as I have mentioned, such as in digital trade and service liberalisation.

But we also need to encourage trust and transparency in the WTO, in particular, modernisation of the dispute settlement system, improving WTO member compliance with notification requirements, and take another look at special and differential treatment.

For, if we are to have an international rules-based system that inspires confidence, then it needs not only to be fair but transparent. We must know which industries genuinely belong to the private sector and which are simply a cover for state economic activity.

We must redouble our efforts against overproduction, subsidy and dumping. We must protect intellectual property and strengthen our measures against IP theft and the restrictive treatment of foreign investors that are operated through mechanisms such as forced joint-venture requirements.

It is clear that while there are enormous opportunities in the global trading environment, with both the changing global patterns of trade and the nature of what is traded itself, there will be considerable challenges to be faced.

Security, environment, migration, trade and economic development. These things are related – part of the same continuum, as I described earlier.

The WTO and other international institutions have their parts to play in producing stable conditions for progress and prosperity.

But ultimately it is the responsibility of governments, of individual members, to provide the guiding vision. That vision needs to have not only a coherent intellectual and philosophical base but also practical solutions to some of the seemingly intractable problems that we face.

Building consensus requires everyone to have a stake in the solution. It has to work for the smallest and most economically vulnerable as well as the strongest and most advanced economies. It has to provide confidence for those who face an era with an almost unprecedented rate of change, socially and technologically.

And it will involve updating our global institutions so that they reflect the

realities of the 21st century – not the political, economic and social patterns of the second half of the 20th century when they were created.

I believe that together with our partners around the world, using all the advantages that I have set out, the United Kingdom can rise to this challenge as a modern, independent, free-trading nation.

We are not passengers in our own destiny. It is time for us to have a clear direction and set a firm course for our future.

A nation is a human thing. Influence is, at least in part, a reflection of our own self confidence.

We have so much to offer – to ourselves and to the world around us.

A confident Britain will help build a confident future for all.