

Speech: At the crossroads: Britain and global trade

Good morning everyone and thanks to the Federation of Small Businesses for the opportunity to hold this gathering this morning

In my first speech as Secretary of State for International Trade I set out the case for an open and liberal trading environment.

In that speech, in Manchester, with its iconic associations to free trade, I referenced Adam Smith, one of my political heroes – and not just because he was also Scottish and went to Glasgow university.

It was just over 240 years ago, on 9 March 1776 that he published the Wealth of Nations.

It set out the principles for the emerging world of global commerce at the end of the eighteenth century with a vision of what trade could produce in terms of prosperity and opportunity.

He countered the dominant mercantilist viewpoint – revolutionary in its time – and the case he set out is just as relevant today.

Indeed, he reminds us still, that the essential element of a successful trading system is mutual benefit.

David Ricardo took these principles of free trade forward when, in 1817, he published the theory of comparative advantage.

Building on Smith a generation before, Ricardo described the economic reality of the gains from trade and demonstrated how free and open trade is profitable to all.

When countries trade with each other, both sides benefit – even if one side is better at everything. It's counterintuitive but it is true nonetheless.

Ricardo talked of wine from Portugal and wool from England. Now Americans can buy iPhones built in China but designed in America – or the British can invest our pensions in a fund that trades stocks in London but has a back office in India. Everyone benefits.

Yet, although the principles of free trade are the same today as set out by Smith and Ricardo, the way we trade has changed beyond recognition.

Today, we stand on the verge of an unprecedented ability to liberate global trade to the benefit of all our citizens, with technological advances and burgeoning innovation dissolving away the barriers.

And Smith, nearly a quarter of a millennium later, is repeatedly vindicated. Time and again we find a strong positive correlation between economic

openness and growth.

During the 1990s, per capita income grew three times faster in the developing countries that lowered trade barriers than in those that did not.

That effect is not confined to the developing world, either. The OECD Growth Project found that a 10 percentage-point increase in trade exposure was associated with a 4% rise in income per capita. So free trade works.

Trade, specialisation and innovation, largely as a result of globalisation, has been of huge and sustainable benefit to the world economy. This in turn has spawned a productivity revolution through increased competition, economies of scale and global value chains.

When this is combined with the effect of liberal values of meritocracy, democracy and the rule of law, it can create a tidal wave of innovation and creativity.

It is no coincidence that the United Kingdom and the United States are among the most innovative economies, while those with more authoritarian regimes are only now beginning to catch up as centralised planning gives way to individual creativity.

In the twentieth century, one of the products of the influence of the UK, US and others was the creation of the WTO.

From the founding in the aftermath of the Second World War of the General Agreements on Tariffs and Trade, the WTO emerged as the home of the rules-based international trading system, and the repository of those free trading values that have underpinned global growth and facilitated more formal trade agreements.

And as we have heard when such agreements are reached, the positive effect on businesses, industries and economies can be remarkable.

Let me give you just one example.

The EU / Korea free trade agreement came into effect in July 2011. In the year before the deal was agreed, the UK beer and cider industry – commodities close to my heart in the West Country – sold almost nothing to Korea. Exports were under £2 million.

By 2017, however, sales to South Korea have exploded to over £93 million, and companies from large multinationals to SMEs we are able to embrace the opportunities that it bestowed. That is the scale of what can happen and that can happen multiplied many times over.

Making the moral and political case for free trade

Globally, as free trade has blossomed, poverty levels have fallen to their lowest in history: bringing industry, jobs and wealth where once there was only deprivation.

Trade liberalisation gives consumers greater choice, and the competition it unleashes brings higher quality and standards at lower prices for everything from food and drink to toys and cars. Free trade provides developing countries at the same time the opportunity to embrace the international trading system, to integrate into global value chains, and ultimately to grow their economies.

But, as Smith found, it would be a major mistake to assume that the case for free trade is so self-evident that it does not require steadfast champions.

We have seen the way in which trade agreements such as TTIP produced significant anti-trade protest across Europe, including in pro-free trade countries such as Germany.

Protestors successfully exploited public anxiety, based largely on lack of information and perceived, not actual, risks.

So, we must be willing to confront the myths and distortions that are often perpetuated by those opposed to the principles of free trade.

At the same time, we must ensure the right mitigations are in place – in reskilling and training – for those displaced by unavoidable technological change.

To make the case for free trade relevant, we need a narrative that transcends the whole political spectrum.

We can begin by pointing out that global free trade has enabled us to take 1 billion of our fellow human beings out of poverty in just one generation. It is one of the greatest achievements in the whole of human history.

And it is hard to imagine an international aid programme that would or could ever have been so effective.

History of protectionism

Yet, the benefits of free trade have not always been well understood.

And – perhaps more damaging – the perils of adopting a protectionist course have not always been apparent.

We saw this in the trade wars of the late nineteenth century. The ‘Long Depression’ of the 1870s onwards saw country after country trying, and failing, to protect themselves from global competition through tariff barriers and closing off their markets.

And we saw the same story again during the Great Depression.

Whether in Germany through draconian exchange controls, in America with Smoot-Hawley tariffs or in Britain and the Commonwealth with the Ottawa Agreements, we saw history repeat itself.

Again, countries reacted to domestic economic problems by attempting to cut

their markets off from international competition.

So let's be clear. Protectionism saps trade, disrupts supply chains and raises import costs. It creates uncertainty for businesses and consumers, and sows the seeds of hostility and mistrust between nations. It is not a history we need to repeat.

Bank of England Statistics

On the other hand, it is a testament to our ability to learn from our history – and the robustness of our international cooperation – that we did not repeat these mistakes during the most recent economic crisis.

Even at the height of the global problems in November 2008, the G20 reaffirmed its commitment to 'a shared belief that market principles, open trade and investment regimes, and effectively regulated financial markets foster the dynamism, innovation and entrepreneurship that are essential for economic growth, employment and poverty reduction.'

Unlike the Great Depression – where trade in global goods remained 20 per cent less than its peak for most of the following decade – global output recovered in just two years.

Now we all know there are a number of long-standing jokes about the indecisiveness of economists.

There's no such thing as a one-handed economist: it's always on the one hand this, on the other hand that. Or if you laid all the economists in the world end to end, they still wouldn't reach a conclusion.

But the effect of protectionism is as close to settled science as anything in economics will ever be: it means reduced productivity gains and lost economic growth. Long run historical trends suggest that a 20% reduction in trade holds back productivity by around 5%.

Yet now, despite all our collective experience, it seems we may be moving in the wrong direction. As the Governor of the Bank of England Mark Carney said in a speech earlier this month, trade tariffs recently announced between the US, its NAFTA partners, China and the EU have the potential to double bilateral tariff rates – and may already be having a dampening effect on global export orders and manufacturing output. A prolonged trade war would cause lost growth and higher inflation.

As I have said repeatedly in a trade war there are no winners there are only casualties for now. The social, political and security implications are impossible to predict.

HOW THE WORLD OF TRADE IS CHANGING

Global Trade – A snapshot

We are at an important juncture in the history of free and open trade, and of the established international order.

In many ways, the picture is a positive one. After several years of relative stagnation, the growth in global trade is once again outpacing the rise in global GDP.

This growth has been driven by those economies that will shape the future of trade, and continues to mirror the rebalancing of global commercial activity: Asia made the biggest contribution to trade growth of any region in 2017, accounting for 51% of the increase in merchandise exports, and 60% of the increase in merchandise imports.

Now this growth is partly cyclical, as the global economy continues its rebound from the dark days of the financial crash and ensuing recession experienced by many large economies.

Yet it is also a reflection of how globalisation and new technology continue to facilitate trade, and the irrepressible growth of the digital and knowledge economies – sectors which hardly existed even two decades ago.

But even as we gather under London's blue skies, there are trade clouds gathering on the horizon.

The 19th Report on G20 Trade Measures, prepared jointly by the WTO, OECD and UNCTAD, warned explicitly of 'a worrying trend of an increase in trade-restrictive measures'.

Its research showed that the pace at which trade restrictive measures were being implemented across G20 countries in the seven months to May this year had doubled in comparison to the six months before that, with 39 new measures being recorded.

These measures now cover twice the value of trade in comparison to restrictions enacted over a similar period in 2016/17.

It would be easy for us to say that this is just a blip, brought about by the recent US and Chinese measures.

But when we also see that the average number of trade remedy investigations instigated per month is at levels only last recorded in 2013, the trend becomes clear.

One conclusion is that, since 2008, the world's largest and most advanced economies, constituting the G20, have been falling prey quietly to the siren call of protectionism.

Morally, as well as economically, we cannot allow that to happen.

Those nations that have benefitted the most from free and open international trade – not only in terms of economic growth, but in the living standards of

their citizens – should not pull up the drawbridge behind them and deny those same rewards to more recently developing nations.

Why this matters

And why do we think this matters? Why should a UK consumer, small business, or even an exporter, concern themselves with the rise in protectionism and trade restrictive measures in other parts of the world?

Part of the reason is that no company, however small, can rely solely upon the products of one nation.

Global value chains have been the secret behind the consumer revolution of recent decades – they are the reason that we can today buy a flat-screen television for a fraction of the cost of a decade ago, or that we can get fresh fruit and vegetables in our supermarkets of all types year-round.

They have also meant that production costs at every stage, from coordination and logistics to assembly and packaging, have fallen, making it easier and cheaper to divide up the entire process.

On the whole, firms no longer specialise even in a single product. Instead they often specialise in tasks – from assembly, shipping or retail, for example.

At its heart, this is the natural conclusion of Ricardo's comparative advantage.

Most firms, at some estimates as high as 70%, now trade only in 'intermediates' – services, components and materials that make up final products for consumption.

To complicate the picture still further, the UK is the centre of robust intra-industry trade. This means that we import and export the same products, to account for varying tastes in consumer preferences between different countries.

Think BMWs and Citroens being bought here, while similar cars from the Sunderland plants are exported across Europe.

Put simply, this country's exports and our ability to satisfy consumer demands are reliant upon free and open access to imported goods.

Evidence of this can be found if we examine the UK's Trade in Value Added – a relatively new trade statistic jointly developed by the OECD and the WTO that attempts to measure these cross-border trade flows more accurately than traditional measurements have.

The analysis is experimental, yet it has clearly shown that more than a fifth of the content of UK exports are themselves imports, in one form or another.

And this suggests that, as a nation, we are well integrated into global supply chains. Moreover, it shows that the UK's broader economic health, from

our domestic markets to our world-class exports, is largely predicated upon free and open access to the global economy.

In such an environment, where the components of a single consumer item may come from several countries, and cross and re-cross international borders before they are assembled, it is easy to see how small tariffs can quickly add up.

This brings us back to our original problem.

Globalisation affects the lives of every single person in Britain today, and the commercial viability of every business. If a trade war really does break out, the subsequent hike in tariffs, even between just a few large economies, could have catastrophic consequences for global trade.

And the impact of this, let's be clear, would be felt by every single British citizen, and billions of others across the world.

Changing Patterns of Global Trade

In the future, these consumers will be most prevalent in those hugely growing markets that are radically redefining the patterns of global trade.

I often repeat the fact that the IMF estimates that, in the next 10 to 15 years, 90% of global economic growth will originate from outside the European Union.

The thriving economies of South and East Asia and, increasingly, Africa, are, and will become, ever more important as their newfound prosperity drives demand for the more goods and services.

The sheer scale of the change that is underway is often difficult to grasp from here in Europe, a region which has long enjoyed economic and political dominance.

So twice this year I have been in the Chinese city of Shenzhen. When Britain handed Hong Kong back to China in 1997, not exactly a lifetime ago, Shenzhen had a population of 40,000. Today it has a population of over 19 million.

By 2030 China is expected to have 220 cities with more than 1 million inhabitants, 220. The whole of Europe will have 35.

And on top of the vast Asia-Pacific growth it is predicted that there will be 1.1 billion middle class African consumers by 2060. The world is seeing a stunning and profound change.

Such a shift, not just in global demographics, but in the rise of the collective wealth of developing countries, will determine where the golden economic opportunities of the future will be – and where we must be too, if we are to provide jobs and prosperity of the future.

If we are to navigate the changes that the next decade will bring, we will have to fully accommodate these changes and recognise the emerging pattern of

our own trade too.

56% of Britain's exports now go outside the EU, compared with only 46% in 2006. What is more, while our EU exports are still dominated by goods, our non-EU exports are evenly split between goods and services. Yet it's services that present the greatest opportunity to expand Britain's trade.

We, as a nation, must re-orientate ourselves to where we can prosper in a rapidly changing global environment.

Engagement model

Our decision to leave the European Union is a decision to embrace this new world – not retreat from it. To be more open to free trade – not less. To fight protectionism – not to put up new barriers that would stifle our prosperity.

It was agreed at the European Council meeting in March that the UK could formally begin negotiating new trade agreements from April 2019.

For the first time in over 40 years we will be able to determine who we trade with, and on what terms.

To ensure we make the most of this unique opportunity, it makes sense to start thinking about our negotiating priorities for the future, and thinking about them now.

In the House of Commons on Monday, I set out how Parliament, the Devolved Administrations, the public, businesses and civil society will be able to engage in a trade policy that benefits the whole of the UK and ensure that we meet our commitments to an inclusive and transparent trade policy.

We committed to working closely with the Devolved Administrations on an ongoing basis to deliver an approach that works for the whole of our United Kingdom.

Because everyone, from every part of the UK, must have the opportunity to engage and consult.

Scrutiny of our future trade arrangements is vitally important as we take powers back from the EU into UK law, and begin negotiating our own new free trade agreements.

With other nations

That is why today I am announcing four public consultations on our post-Brexit trade negotiations.

Our intention is to seek free trade agreements with the United States, Australia and New Zealand. These are crucial strategic and economic relationships that must continue on a sound footing after Brexit.

UK exports to Australia and New Zealand are growing at 14.8% and 16.8% respectively, a faster pace than our global average, and far outstripping export growth to the EU.

The United States is the UK's single largest trading partner and foreign investor, accounting for over £100bn worth of UK annual exports. As we saw during President Trump's visit, the UK is very keen to further our already excellent trade and investment relationship, and I look forward to continuing these discussions during my visit to Washington next week.

While there are many other markets the UK will look to for new agreements in the future, our shared values and strength of trade with the US, Australia and New Zealand make them the right places to focus our initial attention.

However, we must go further. The Government is determined not only to seek deals with key bilateral partners, but to break new ground: putting the UK at the heart of the world's fastest growing regions.

That is why I am also announcing a fourth consultation on potentially seeking accession to CPTPP – the Comprehensive and Progressive Agreement for Trans-Pacific Partnership.

This covers markets across the world – from Canada to Chile, Mexico to Vietnam. It reduces 95% of tariffs, along with other barriers to trade.

The eleven members of CPTPP accounted for £82.5 billion of UK trade in 2016, more than the Netherlands, France or China. It covers a diverse range of economies, many of which have been – and are projected to continue to be – a major source of global economic growth.

These consultations are about how we position ourselves as Global Britain. To build the export markets, investment opportunities and trading relationships of the future.

Trade affects us all – whether it is through the prices and availability of product on our supermarket shelves, to the resources available for our public services, to the jobs and investment on which we all rely.

So, I believe it is vital that everyone has their say to ensure these deals work for the whole of the UK – and I strongly urge anyone and all organisations with an interest to take part in these consultations.

Opportunities for the UK

Because our trading future, as our United Kingdom, is bright.

We require an economic outlook that allows us to take advantage of the substantial opportunities that Europe will continue to bring, but without limiting our ability to adapt to a changing and growing world beyond the European continent – as the Prime Minister has repeatedly made clear.

And when we leave the European Union, we will be able to do just that. We

will be able to enter into meaningful trade agreements with partners across the world, leading the charge towards greater liberalisation where we can play to our strengths – in financial services, digital and investment.

We will have the freedom to negotiate in areas such as services, tariffs, quotas, and conformity assessments.

We will take up our independent seat at the WTO and continue to champion the rules-based international trading system.

We have a once in a generation opportunity to set our own course.

It is where the world is growing fastest that demand for British services and goods will offer the most potential growth for our exporters and investors.

Since the Department for International Trade was created, my ministers and I have undertaken 188 visits overseas. No matter where we have travelled, we have found the same phenomenon.

For UK export goods – from top end fashion, to high-quality cars, to our luxury food and drink produce, to high-end manufacturing – the demand is growing.

For professional services too, from accountancy to law or education or life sciences or financial services, the growing demand in places like Asia and Latin America will need more of the skills where we are already world class.

In the knowledge economy, we already have what others want and need.

The demand is out there for what Britain is able to sell. And we must play our comparative advantage.

We must set our sights on this brighter future.

We are at a historic crossroads. Britain has decided to leave a European orbit to embrace a global one, retaining our close links with our European partners while understanding our global potential.

It is an exciting time that we should approach with confidence and optimism, secure in the knowledge that our own belief in free trade and the benefits it has brought are not our history but our road map to the future.