

# Speech: Brexit and beyond: Britain's place in the world in the 2020s

## **Introduction**

Where to begin? That is the question I have repeatedly asked myself since the Speaker kindly asked me to deliver this lecture.

Obviously, the place that Britain will hold in the world in the next decade is fundamentally dependent on 2 things – what Britain itself will be like and what the world around us will look like.

So, that was easy!

But, given the rapid rate of change in the global environment and the unpredictable nature of recent political events – from Brexit itself to the changing balance of global power to the rise of protectionist instincts and the emergence of political and economic nationalism – predicting the future is a fraught business. It would be, in the words of Yes Minister 'a very brave course of action, Minister'.

Yet, we must try to comprehend the forces at work if we are to set a definite course for ourselves and shape the world around us.

I decided, as a point of reference, to go back to the book I wrote in 2012 called 'Rising Tides'. It was written before our decision even to hold a referendum on EU membership at a time when the effects of the global financial crisis were causing many to question the stability, or even the validity, of the rules based global economic system.

What I wrote in the introduction was this:

'Understanding why things are as they are and how they have reached this point are vital if we are to make sense of the complex world around us. In an age when globalisation not only creates greater interdependence but brings an unavoidable importation of strategic risk, we need to understand as well as know – and they are not the same.'

As I often say, there is a reason why information, knowledge and understanding are all different words in the English language.

The introduction continued

'As we become more interdependent we interact with many more players in many more parts of the world than at any time in our history. This makes us more vulnerable to external shocks and less able to insulate ourselves from instability in distant parts of the global economy or from transnational security threats which may arise in a far-flung corner of the world. Phenomena ranging from the economic and security implications of the 9/11

attacks, through the vulnerability that the SARS outbreak in Asia in 2000, to the economic reverberations following the Japanese tsunami showed that the era when we believed events happened 'over there' is behind us. The whole history of globalisation tells us that the rate of its progress continues to accelerate.'

The point is that all these issues are inextricably linked: economic well-being, global political influence, the quality of life offered to our citizens, the ability of liberty to flourish within safe and secure societies, the need to recognize our mutual interdependence in a world where natural resources are unavoidably finite and where, in the words of a Kenyan proverb, we do not own the world but borrow it from future generations.

Understanding the great forces moving the tectonic plates of the economic, political and security world around us is vital to the navigation of its hazards and the realisation of its opportunities.

Some will say that the forces we are dealing with are too great – an easy way to abdicate our responsibilities at home and abroad. It is a view I reject.

For it is important for us to remember that we are not simply passively travelling on a globalisation conveyor belt but are able to influence its direction and destination. In the West, especially in the UK and the United States, we are defined by our belief in liberty and the rule of law; it is what enabled us to rescue Europe from both fascism and communism in the 20th century. It was our moral resolve as much as our military hardware that enabled us to prevail against the threats from Nazi Germany and the Soviet Union.

So the challenge is to ensure that our value systems survive, and the biggest challenge we now face is how we maintain our values in the debate about the balance between liberty and security in a world where new threats are constantly emerging – and emerging in ever more complex and unexpected ways.

So, before I turn to the specific challenges and opportunities that we will face in the global trading environment, let me just touch on the big picture against which we must consider our role. For while I believe that trade will be a key determinant in shaping our future there are several other factors that will define our global posture.

First, we have to determine how we, the UK will orientate ourselves in the post-Brexit period and beyond. Will it be an excuse for insularity or an opportunity to reject the concept of imposed supranational identity and be an outward looking liberal Britain, embracing the free market and championing free trade at a time when such a champion has never been so necessary?

I campaigned and voted to leave the EU because I fundamentally, constitutionally, believed that the whole concept of 'ever closer union' was dated and that in an era of globalisation, it would not be in Britain's national interest to be tied too closely politically and economically to a model that was designed for the world of the second half of the 20th century.

But, the referendum is behind us and the democratic decision made so, however we voted, we now need to put the division of the referendum behind us and focus on our collective future.

I believe that Britain's future role must be as an unashamed champion of a rules-based system whether in trade through the WTO, security through NATO or economic and political stability through a host of other multinational institutions. I believe that trade will be an essential part of that stability and I will turn to that in detail later on.

None of us know precisely how the world around us will evolve. I have thought for some time that if the 20th century was the era of the block – the economic block, the military block and the trade block – then the 21st century is likely to be the era of the organic solution.

We will need to find new partnerships, new alliances and new mechanisms to deal with a whole new range of global challenges. We will need to develop new levers to pull in a wide variety of situations – the age of the one-size-fits-all solution is, I think, behind us.

Agility and flexibility will be the indispensable tools for those who want to succeed in the emerging global environment.

This will require us to update many of the institutions that have been an essential part of the global architecture from the second half of the last century if they are to maintain their relevance and effectiveness – from the economic to the security to the political. And the UK has, and will continue to have, an important influence in all of them.

## **Britain's security obligations**

Let me take just one example. The United Nations was founded in 1945 to replace the League of Nations and Britain has always played a central role.

From an initial 51 members it has now grown to encompass almost 200 nations. As well as its central bodies such as the General Assembly, Security Council and the International Court of Justice, it also operates agencies such as the World Health Organization, UNICEF and the World Food Programme.

From its early days reform has always been on the agenda, especially in the areas of peacekeeping and humanitarian operations, but possible changes to the security Council have attracted most attention.

It is here that Britain has, and will continue to have a key role. The size of its membership and the veto rights of the 5 permanent members are hotly contested.

Those who advocate reform point out that global political realities have changed fundamentally since the formation of the security Council in 1945, and, they say, its membership should change to reflect this. Certainly the arguments seem compelling, and there is no doubt that the economic and geopolitical landscape has altered dramatically over the past seven decades. But is the case as strong as its proponents suggest?

Geographical territory or economic size do not equate with security commitment. It is, after all, the Security Council, not the GDP Council.

Malcolm Rifkind put it in his typically forensic fashion:

The whole point about the Security Council is the contribution to security. It's not just a club. Those who want a permanent role will need to make a permanent contribution of the sort that Britain and France make. If they can't contribute to security in a meaningful way then their claim to a greater role will be much weaker.

There is surely an important point here for Britain's future role. How, for example, can countries who have constitutional restrictions on their military capabilities and use be equal partners with those who are willing to fund, equip and use military forces in whatever circumstances are necessary?

This means that while Britain will want to persuade our allies in NATO to contribute their promised dues of 2% of GDP, Britain must accept a leadership role in European, North Atlantic and global security.

This will mean a willingness to shoulder our share of the burden maintaining adequate defence forces as well as leadership in crucial areas such as cyber security and intelligence. One thing that we can predict with reasonable certainty is that the threats to our national and international security will not diminish in the 2020s and Britain must be willing to take a leadership role alongside our key allies such as the US.

It is also worth noting that when the UK leaves the EU, the 27 EU states will contribute only around 20% of NATO funding, a position that will be increasingly difficult to justify.

## **WTO**

But there is one key institution where I believe Britain can play a pivotal role post-Brexit and it is where the issues of trade and the global institutions meet.

The World Trade Organization came into being on 1 January 1995, replacing the General Agreement on Tariffs and Trade (GATT), which was having problems adapting to the speedily globalising world economy. Its main functions are the regulation of international trade and the resolution of disputes between members. At the end of March next year, we will take up our independent seat at the WTO, having been a founding member.

We will do so at a critical time for the organisation which is facing a challenge to the rules-based system amid a rising chorus of protectionism.

Across this decade, according to the OECD, we have seen the G20 countries steadily silt up the flow of global trade by adding to the number of non-tariff barriers being operated. Britain will have a crucial role in helping

to shape the trading environment of the 2020s. We will do so by unequivocally championing and making the case for free trade while understanding the fundamental shifts that are occurring in the global trading system as well as the changing pattern of Britain's own trade. Let me deal with each of these in turn.

## **The economic case for free trade**

In my [first speech](#) as Secretary of State for International Trade I set out in Manchester, with its iconic associations to free trade, the case for an open and liberal trading environment.

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

It set out the principles for the emerging world of global commerce at the end of the 18th century but its lessons are just as relevant today.

Smith had a vision of what trade could produce in terms of prosperity and opportunity, a vision that was revolutionary in its time.

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

'It is not', he famously wrote 'from the benevolence of the butcher, the brewer or the baker that we expect our dinner, but from their regard to their own interest'.

Yet, although the principles of free trade are the same today as set out by Smith in the 1770s, the trading environment has changed beyond recognition.

Today, we stand on the verge of an unprecedented ability to liberate global trade for the benefit of our whole planet with technological advances dissolving away the barriers of time and distance.

I have often said that if Francis Fukuyama had called his book 'the end of geography' rather than 'the end of history' he would have more closely described the world in which we find ourselves today.

Nearly a quarter of a millennium since Adam Smith, his vision is repeatedly vindicated. Time and again, studies have found evidence of a strong positive correlation between economic openness and growth.

During the 1990s, per capita income grew 3 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. In other words, free trade works.

Globalisation has been of huge and sustainable benefit to the world economy, including through trade, specialisation and innovation.

Increased competition, economies of scale and global value chains have all

contributed to a productivity revolution, boosting the output of businesses across the globe.

## **Making the political case for free trade**

It would be a major political mistake, though, to assume that the case for free trade is so self-evident that it does not require political champions today.

We have seen the way in which trade agreements such as the EU's proposed agreement with United States, TTIP, produced violent reactions, however carefully orchestrated, in traditionally free-trade countries such as Germany.

We need to be careful, though, to distinguish between the violent anti-capitalists on one hand and the legitimate concerns of those, on the other, worried about the effects that free trade and the development of new technologies may have on their own jobs and communities.

We need people to confront the myths and wilful distortions perpetuated by the anti-trade lobby, while at the same time introducing mitigations, particularly in providing access to reskilling and training, to those displaced by unavoidable technological change.

It is not only our democratic duty but our responsibility for the generations to come, to build the case for free trade by making coherent arguments that are attractive across the political spectrum. We can begin by pointing out that global free trade has enabled us to take 1 billion people out of poverty in just one generation. It is one of the greatest achievements in the whole of human history.

As the world's emerging and developing economies have liberalised trade practices and taken advantage of the opportunities of access to a more open global economy, prosperity has spread, bringing industry, jobs and wealth where once there was only misery, hopelessness and deprivation.

Are the antitrade lobby really suggesting that those of us who have benefited from free trade should somehow pull up the drawbridge behind us and deny the opportunities from which we ourselves have profited to others.

I believe that there is a strong moral case for free trade and that we should make its benefits available across the globe and to future generations and that to turn our back on it would be both socially irresponsible and morally unthinkable.

But there are other ways to describe the benefits of free trade.

I do not see trade as an end in itself but a means to an end. As I have just described, I believe that trade is one of the means by which we can spread prosperity. That prosperity underpins social cohesion and that in turn underpins political stability. That political stability in its turn provides the building blocks of our collective security. It is a continuum that cannot

be broken in one part without affecting the rest.

If we deny prosperity to those who simply want to benefit from the same opportunities that we ourselves have benefitted from we should not be surprised at the consequences – whether that be greater waves of migration or new drivers to radicalisation. It is why isolationism and protectionism can be so dangerous.

This is why we must take head-on the destructive arguments of the antitrade lobby whose narrative is that free trade is nothing more than a global corporate conspiracy, a front for their wider ideological anticapitalist agenda.

They peddle the irresponsible myths that agreements such as the new EU trade agreement with Canada, CETA, will result in reduced protection for workers, a degradation of environmental standards and the forced privatisation of organisations such as our NHS. These false claims are as dangerous as they are pernicious.

The facts paint a very different picture.

First of all, it is very hard to portray the current Canadian Prime Minister, the liberal Justin Trudeau, as a lackey of global corporatism.

Secondly, do we really believe that the Swedish or the Danish or the Dutch governments would jeopardise their ability to shape and control their policies in areas such as education or healthcare or social provision?

Do we really believe that political leaders in Europe and Canada, increasingly aware of the fragility of the natural world and who, along with voters, have increasingly pushed environmental concerns up the political agenda would willingly undo the collective progress that has been made?

We fully support the CETA agreement and have already announced that we will use it as the basis of a new UK – Canada agreement once we have left the EU. So let us be judged not by the rhetoric of the antitrade brigade but by the actions that we have already committed to take.

In replicating the CETA agreement we will be building into our future trading law its provisions and assumptions. Chapter 23 of the agreement, on trade and labour, specifically prevents the lowering of standards in order to boost trade. This comes on top of the replication of current labour rights which we are specifically transferring into UK law at present from EU law.

Chapter 24 of the agreement on trade and environment protects each side's ability to regulate where necessary and specifically prevents relaxation of current environmental law to boost trade.

And when it comes to privatisation of the NHS, one of the favourite accusations of the antitrade lobby, the agreement could not be more specific.

Annex II sets out the areas where there are specific reservations from the general applications of the treaty in certain areas. In the market access reservation it specifically exempts health services from the other investment

elements of the treaty.

In other words, governments retain their right to regulate their own public services, such as health, as they see fit and the general provisions of the treaty, for example on investment, do not apply.

It could not be more explicit or more clearly set out and we will continue to apply these measures post Brexit.

If we're not willing to take head-on the deceptions of the antitrade lobby then we will deny to future generations, including those in developing countries, the benefits of free trade that we ourselves have enjoyed with improved living standards, improved safety and reliability of goods and improve choice for consumers.

## **Consumer power**

Which brings me to one of the next major factors that will shape our training future – the rise of the informed consumer.

Pascal Lamy, the former director-general of the WTO said that:

in the old world of trade, production systems were national and obstacles to trade were about protecting domestic producers from foreign competition. In the new world, production is transnational along global supply chains of goods and services and obstacles to trade are about protecting the consumer from risk.

There is no doubt that free trade is the ally of the consumer and that in the theoretical land of free trade the consumer is king (or queen)!

We can all see the benefits of greater choice, greater competition and lower prices in the vast array of goods in our shops and supermarkets where traditional seasonal provision has given way to year-round availability with an increasingly wide selection of produce – from Sauvignon Blanc from New Zealand and coffee from South America. We are also seeing increasing demand for global goods with the growth of world food aisles and the popularity of superstores like Wholefoods and Aldi.

Consumers will, according to time and place, have different priorities. Some will simply care about price and as long as items, from food to electrical goods, are safe then it is a legitimate concern that should not be mocked or condescended.

Just because some choose organic at a higher price does not mean that all the rest should be denied choice at lower costs.

Some consumers will have a greater concern about the means of production and will choose to buy free range products, for example.

Some may care about the country or region of origin, in order to promote



certain economies, for example by buying British, or to make a political protest against others. These are, again, legitimate and the right of consumers in a free society.

In order to satisfy them it will require greater transparency and information about produce, including labelling, and I believe that consumers are likely to take a greater interest in trade agreements in the future than they have in the past, something that will require much wider consultation by policymakers.

These are welcome trends which should be embraced by politicians who believe in the concept of trade as a consumer benefit.

## **Changing patterns of global trade**

And, 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 goods and services from the developed countries that are prepared to interact with their markets.

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. Here, old assumptions can be difficult to shed.

Twice this year I have been in the Chinese city of Shen Zen. When Britain handed Hong Kong back to China in 1997 Shen Zen 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. The whole of Europe will have 35. It is a stunning change.

By 2020 China's middle class is expected to number 600 million, and by 2050 Africa, on its own, will represent 54% of world population increase. And on top of the vast Asia-Pacific growth it is predicted that there will be 1.1 billion middle class Africans by 2060.

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 for 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 changing pattern of our own trade too.

56% of Britain's exports are now to 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 is services that present the greatest opportunity to expand Britain's trade.

Our approach with the EU should not be premised on simply identifying how much of our current relationship we want to keep, but what we need to prosper in a rapidly changing global environment.

We cannot let the practices and patterns of the past constrain the opportunities of the future.

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.

For it is growth in these newly emerging middle classes in China, South East Asia and Africa where demand for British services will offer enormous future potential growth for our exporters.

Since the Department for International trade was created, my ministers and I have undertaken 167 visits overseas. No matter where we have travelled, we have found the same phenomenon. A British label on goods is regarded as a sign of quality and in services, the demand for British expertise is huge.

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

From legal services to accountants to architects to planners to medical services to financial services, the demand is out there for what Britain is able to sell.

Of course, if we are to take maximum advantage of these opportunities then we will need to ensure that we have a sufficient supply of the appropriate skills to export and this will require cross governmental cooperation, including in education and training, and will require a cultural shift in many of our professional organisations.

We need to ensure that we do not identify the demand and opportunities but then fail to provide the capacity to take advantage of them.

## **Conclusion**

As I said earlier, it is too easy to see the scale of the challenges as an excuse to abdicate our responsibilities to our own and our collective global future. We are not passengers in our own destiny, we can make change happen.

In my book I quoted one of my medical heroes, Jonas Salk, whose work on vaccines conquered the scourge of polio. He said 'I have had dreams and I have had nightmares, but I have conquered my nightmares because of my dreams'.

As we navigate the challenges of an uncertain world we must be bold, optimistic and confident – in ourselves, our people and our values.

Brexit has awoken the world's interest in Britain and it has awoken Britain's interest in the world. That is why our exports have grown 11% in a year while global trade has grown by less than 4%.

None of us can know what lies ahead but we can be certain that the scale of our ambition will be the key to what we can achieve together – for our people, our country and for the world beyond our borders.