

Speech: Davos 2018: Chancellor's speech at the CBI's British business Leaders Lunch

Over the years, Professor Schwab has had a knack of expressing the tone for the year ahead with his Davos theme.

In 2010, 'Rethink, Redesign, Rebuild' was apt as countries and companies looked to move on from the financial crisis.

Last year, in the aftermath of the American Presidential elections and the referendum results in the UK, we convened under the banner 'Responsive and Responsible Leadership'.

And this year, as the global economy gains momentum, but societal divides and geopolitical uncertainty remain, we discuss how we go about "creating a shared future for the fractured world".

Because the fact is the global economy enters 2018 with more momentum than I can remember for a decade.

The IMF has yet again revised up its global growth prospects.

Equities are hitting new highs.

Business confidence is buoyant.

And we are seeing the broadest synchronised global recovery since 2010, with the IMF estimating that 120 economies saw a pickup in growth last year.

But despite this, political uncertainty persists.

And there is an abiding sense that the benefits of economic growth and technological advances are not being shared by all.

So in the past, where Davos has been the place to proclaim the rewards of globalisation and the fruits of free trade and open borders.

Today, as winners and losers are more polarised than ever before.

World leaders and business people have a duty not only to make the case all over again.

For the societal benefits of the continued cross-border flow of ideas, goods and services, people, and capital.

Of the technological revolution.

And for sound money and the modern market economy.

But to help to ensure that those benefits are genuinely delivered to all our people.

In the UK we have heard this debate loud and clear.

It was a feature of the election campaign last year.

And of course it was a key driver behind the Brexit vote in 2016.

I'll say a few words about some of the challenges we face this year to ensure we get Brexit right.

And then I'll say a bit about how we look beyond Brexit and make a success of the opportunities provided by the new economy.

When I spoke at this lunch last year, the UK was yet to trigger Article 50.

The idea of a transition period had hardly surfaced.

Since then, we have made significant progress in the negotiations, on issues from citizens' rights, to our financial settlement.

And in December, we reached that magic point of "sufficient progress" that has allowed us to move onto the second phase of the negotiations.

But yet, two weeks ago, when I was in Berlin addressing leaders from across business, government and the media.

I was surprised to find myself still being asked whether Britain's decision to leave the EU was reversible.

So let me be clear.

Britain will be leaving the European Union on 29th March 2019.

This decision is not going to be reversed.

That's a statement of political reality.

The challenge now is not to debate the merits or otherwise of that decision.

It is about how we forge a new relationship between Britain and the EU, that best supports the interests of the British and the European people.

That backs business, and safeguards jobs.

And preserves the shared European values that we all hold.

And that's where we need people to focus their energy now.

I welcomed Carolyn Fairbairn's speech on Monday this week.

For the contribution it made to the ongoing debate.

And its focus on securing the closest possible future relationship between

the EU and the UK, post Brexit.

Because while economies across the EU are recovering, this is no time to be complacent.

None of our European economies are so strong that we can afford to be exposed to any unnecessary economic, fiscal, or financial stability risks.

And despite the enormous progress that we have made, it right to recognise that the process of the UK moving from membership of the EU to a future and different relationship with the EU, has the potential to present such risks.

And, notwithstanding the progress that we've made, there is still a residual risk of an outcome that does not deliver what we want – to promote jobs and prosperity across this continent.

The EU27 exports more goods and services to the UK than to any other country, and 43% of UK exports go to other countries in the EU.

More than twice as many Euros are traded in the UK as in all the 19 Euro area countries combined.

60% of all UK trade with the EU is conducted through the ports of Calais and Dover.

Which underlines the importance of a customs arrangement with the EU, that protects free and frictionless trade.

And avoids significant disruption at the choke points that the ports of Calais and Dover represent.

And avoids any physical border infrastructure on the island of Ireland.

Because I agree with Carolyn that those who have suggested the Irish border can be kept open by establishing a customs border in the Irish sea are only shifting the issue, rather than solving it.

I also agree with Carolyn that an off-the-shelf deal – whether “Canada” or “Norway” – is not the right option for either Britain or the EU.

The existing models won't work; because we are trying to do something which is literally unique in the history of trade agreements.

Because we start from a position of high levels of bilateral trade in goods and services.

Deeply interconnected economies and supply chains.

Highly aligned regulatory systems.

And unparalleled cooperation in security and defence.

So instead of doing what we're normally doing in the trade negotiations – taking two divergent economies with low levels of trade and trying to bring

them closer together to enhance that trade

We are taking two completely interconnected and aligned economies with high levels of trade between them, and selectively, moving them, hopefully very modestly, apart.

And so we should be confident of reaching something much more ambitious than any free trade agreement has ever achieved.

Something that properly reflects the 45 years that we have spent as members of the EU bringing our economies closer together, and the common regulatory starting point that follows from that experience.

But, as I know people in this room are very much aware, the UK will leave the EU on 29th March 2019. That's in just over 14 months time.

And businesses and people in the UK and across the EU need to know very soon how we get to the end state.

They need to have confidence that there will be a smooth and orderly path to the new arrangements, rather than a disruptive and dangerous cliff edge.

That is why we agreed in December the principle of a time-limited Implementation Period of around two years after we have left the European Union.

Where Britain will be outside of the EU Customs Union and the Single Market, but during which we will replicate the effects of both.

With reciprocal access to each other's markets.

And harmonised customs arrangements, ensuring a frictionless border.

So that business can continue, pretty much as before.

And so that businesses only have to make one set of adjustments during the whole process of the UK's departure from the EU

Recognising, as we clearly do, the obligations that will continue during such an implementation period.

And we should look to the March European Council to confirm the detail of this agreement.

Giving further clarity and certainty to UK and European businesses.

Of course, achieving progress on the Implementation Period and the future partnership negotiations is of vital importance to the UK economy in the short term.

And it is my current absolute priority as Chancellor...

But the long-term future of Britain's economy is about much more than Brexit.

As you have heard me say before, and will hear me say again.

We are on the brink of a technological revolution.

And you don't have to be in Davos to experience it.

Artificial intelligence is transforming our hospitals.

Robotics is remodelling our supply chains.

Big data is revolutionising our public services.

And this time it isn't just British Universities doing the inventing and the discovery, it is British business and industry.

Leading the innovation, the development, and the commercialisation.

Pioneering a revolution that will transform the global economy and the way we live and work.

And that has the potential to dramatically increase people's living standards – through delivering a significant upgrade in our productivity.

This is critical to the future of the UK economy.

And it's critical to addressing the societal challenges to which I have already referred.

Because it cannot be right that it takes a British worker until Friday evening to produce what a German worker has produced by Thursday afternoon.

And the technological revolution we are embarking upon gives us the perfect opportunity to change all that.

It is said that robotics in manufacturing and IT have already improved global productivity by 0.4 to 0.6% per year.

Other studies have suggested that artificial intelligence could double economic growth rates in advanced economies by 2035.

And this isn't all about virtual reality and driverless cars.

Ocado already uses AI to forecast demand for 50,000 items.

Meaning the suburban middle classes is already blazing the trail for artificial intelligence – the fourth industrial revolution in Britain.

But there are those who watch this gathering technological revolution with some concern.

Where people in this room see driverless cars and robotics as opportunities, others, perfectly rationally, see them as threats to their living standards and their employment prospects.

And our job, as leaders in government and industry, is to ensure that individuals, firms, and the whole economy are able to reap the benefits of this the new technology, and manage the disruption that it will bring.

At the level of the individual, people must feel that technological change will make them better off, not unemployed.

So not only must we ensure that people have the skills to maintain their employability through the change, we must ensure that they benefit from it in higher earnings.

In other words – returns from the greater productivity delivered through new technology cannot just go to capital, they must flow to labour too.

So that, as this year's Davos theme implies, the "proceeds of technological change" as we might call them, are spread to the many – not just concentrated in the hands of the elite few.

And it is not only workers who will be challenged.

At the firm level, new technology will have significant implications as intermediaries become redundant and business models are challenged.

Technology-enabled platforms will bring consumers and suppliers together directly in delivering services from finance to communications, to healthcare, and disrupting existing market structures and supply chains.

And at a macro-economy level, this technological revolution will connect billions of people and businesses around the world.

Rendering geographical distance an increasing irrelevance for the delivery of services.

While at the same time reducing the significance of labour cost (and perhaps the significance of economies of scale).

Allowing manufacturing, once again, to be located close to the point of consumption.

And like the revolutions that have preceded it, this technological revolution has the potential to raise global income levels, and improve the standards of living of people around the world.

But to realise this potential we will have to overcome profound new challenges, from the labour market to taxation, from regulation to income distribution that it will bring.

This won't all happen overnight.

And as we saw this week with a robot assistant getting fired from its job in a supermarket in Edinburgh, it won't all be smooth sailing.

But it is happening around us already.

And it is not going to be stopped.

So our choice is simple.

Embrace it.

Meet the challenges and reap the benefits.

Or hide from it and awake to find the world has moved on and left us behind.

I am clear, and certainly for an open economy like Britain, we must embrace this challenge.

Run towards it and champion the benefits it brings to our people.

And it is incumbent on all of us – governments and businesses around the world – to work closely together to demonstrate to our societies that we harness this potential to deliver a high wage, high growth economy.

Confident that together we can drive prosperity for all of our citizens.

Thank you