Speech: Global Trade Review 2019 Conference keynote address, Secretary of State for International Trade

Introduction

I'd like to start with an exercise. Who here has an iPhone with them?

Take it out, turn it over and tell me what it says on the back. The writing's minute so you're going to need pretty good eyesight, but I can assure you that I'm not here to give you an eye test.

It reads: "Designed by Apple in California. Assembled in China."

iPhones are just one example of the complex and integrated supply chains across the global economy, where design and build can take place across a range of countries, with each step along the way adding value to the final product.

If you measure trade merely in gross terms as a single transaction based on the final price you are missing the point. If you do not understand the complexity and importance of global value chains you will fail to set the appropriate policy frameworks. It is part of the challenge we face in a rapidly changing world of trade.

For example, we are in the middle of a revolution in e-commerce, and the digital economy is now a major part of global trade.

This has changed the game for everyone, from the largest corporations, to the thousands of small companies who have never before been able to trade internationally.

Services are now a larger part of the world economy than ever before. And regulation has not kept pace. The WTO estimates that while services comprise around two-thirds of global GDP and almost half of employment – and nearly half of world trade on a value-added basis – the barriers to trade in services are around as large as those in goods half a century ago.

For the UK, as a services-orientated economy – and the world's second largest services exporter – this clearly needs to change if we are to realise our potential as a truly Global Britain.

If we are make the most of the opportunities for future global prosperity in front of us, it's essential that we draw up a new set of rules governing key areas such as e-commerce and cross-border data flows, and tackle head-on the obstacles to digital trade such as data localisation. We need to redouble our efforts to promote an open, efficient and transparent trading environment.

The dangers of protectionism

Somewhat alarmingly, we appear to be moving in precisely the wrong direction.

For the first time in decades, the system of free, fair, rules-based international trade which underpins our global prosperity is under attack.

Ever since the financial crisis of 2008, G20 countries have been taking steps which limit market access.

Tariff and non-tariff barriers have been thrown up as countries try to defend or support domestic industries. Economists rarely agree on anything, but there is a near-universal conclusion that protectionism of this nature only ever leads to a dead-weight loss.

The consensus is clear: open and competitive markets are the most efficient vehicle for delivering the prosperity we all want.

Tariffs are a nice euphemism, but in truth are simply a tax on imports – an impediment to that prosperity, with far-reaching consequences. Tariffs are taxes. You can't like tariffs but hate taxes.

Tariffs mean people at home pay more for the things they use every day, and the businesses that we rely on to drive our economy will pay more to manufacture products with components from overseas.

Tariffs hold back growth, hitting the poorest among us hardest.

And what is worse, broad-based protectionism provokes retaliation driving up costs further.

Drawing on data from more than 150 countries, the IMF recently concluded that tariff increases had an overall negative impact, reducing productivity, income and welfare.

This has led to higher unemployment, higher inequality, and, incidentally, negligible effects on the trade balance. These barriers have the potential to dampen export orders and reduce manufacturing output, causing lost growth and kindling inflation.

Protectionism in history

Throughout history, attempts to protect domestic industries through tariff barriers – such as the Long Depression of the 1870s and the Great Depression of the 1930s – failed and failed miserably.

In contrast, the reversal of these policies after the Second World War had the opposite effect.

People talk about the moon landings or the climbing of Everest as the pinnacle of human achievement, but when you look at the broader benefit both pale in significance compared to the liberalisation of trade.

For the impact this can have goes way beyond any story that GDP data can tell; it's about something far, far more precious than that.

A study by the IMF found that a change in the real income of the bottom 20% of the population in developing countries was strongly linked with a change in trade openness.

In the past 25 years, trade has helped lift one billion of our fellow human beings out of abject poverty by creating jobs and raising incomes.

As Francis Fukuyama put it in his latest book "Identity", the percentage of children dying before their fifth birthday declined from 22% in 1960 to less than 5% by 2016.

This unprecedented transformation in living standards has been made possible by the General Agreement on Tariffs and Trade, the World Trade Organisation, and our acceptance of a global rules based system driving one of the greatest of mankind's achievements to date.

Of course there are those who do not share this interpretation of events, who cannot channel their inner Adam Smith and who argue for intervention and protection.

The infant industries fallacy

It is certainly the case that some countries have historically developed their industries while simultaneously having high tariff barriers.

Some have argued that this is the way forward for industries which require protection from more established competitors.

However, this is not the case. As the OECD has laid out, there is a clear link between Global Value Chain integration and economic transformation for developing economies.

The boom in international trade since the Berlin Wall fell – growing at 8% a year – has seen developing economies as some of its biggest beneficiaries.

Whereas in the past some nations may have used tariffs to protect infant industries in a world where production and value chains were principally within that country, this model no longer works.

As we have seen with my iPhone example earlier, we now live in a world where complex global value chains that cut across national boundaries are an ever more important part of how we do business.

The use of imported intermediate goods and services has become dramatically more important for global exports.

It is estimated that such trade has doubled, with the value added of imports as a share of exports rising from 10% in 1990 to around 20% in 2015.

Imposing tariffs and non-tariff barriers in this globalised world threatens to fragment these supply chains, often damaging the very industries they seek to protect.

Trade statistics

A failure to understand the complexity of these global supply chains is also causing other problems.

All too often, we hear about how a reduction of our trade deficit is an improvement and an increase a worsening. This is only half the story.

The way the statistics are currently calculated does not capture the value added by each stage of the production process, nor the role of subsidiaries abroad.

This has led several economists to argue that some notional trade balances – most notably between China and the United States – are very misleading.

So, returning for the last time to the iPhone example: US import data will show an iPhone purchased in the US as an import at the retail cost, which is recorded as a trade deficit for the US, and a trade surplus for China.

This does not reflect the fact that only a fraction of its value is added in China. Most of its value was added in California.

And of course, Apple is a US company meaning much of the profit will ultimately end up there.

The deficiencies in measurement tend to make the trade deficit of industrialised economies like the UK and the US – which excel at things like design and software coding, activities that not reflected in most trade metrics – appear larger than they are.

Hal Varian, Google’s chief economist, has argued that the value of software in worldwide smartphone sales alone cuts the US trade deficit in half.

WTO reform

But a free and open system also has to be a fair one. Free trade does not have to mean a ‘free for all’. Despite its many successes, the international trading system is clearly not perfect and we must do everything we can to ensure that rules are applied fairly, universally and transparently.

We cannot tolerate illegal dumping or subsidy or the inability to determine whether a business is in the state or private sector.

In any dispute, our first port of call has to be the World Trade Organisation – the home of the rules-based international trading system that underpins our prosperity. For all its faults, it represents the best hope of retaining a global consensus on how we operate our trading system.

The United Kingdom will soon take its seat around the table as an independent member for the first time in over 40 years. It is an opportunity for us to help shape the global debate.

Working alongside our allies, we are making the case to update the WTO rulebook to tackle underlying trade tensions, which include industrial subsidies, state-owned enterprises and forced technology transfer.

We must encourage trust and transparency in the WTO by updating the dispute settlement system and improving members' compliance with notification requirements.

And we need to ensure that the system of special and differential treatment for developing countries is fit for purpose.

Levelling the playing field involves carefully considering poorer countries' individual needs, and ensuring that every country from the poorest developing nation to the world's richest economies reap the benefits of a liberal but rules based system.

Conclusion

Britain is a great and historic trading nation, but we have never seen this trade simply as an end in itself. Trade is a means by which we are able to spread prosperity.

That prosperity underpins social cohesion and that social cohesion, in turn, underpins political stability, which is the building block of our collective security.

It is a win-win system.

But this system cannot be taken for granted and those of us who genuinely believe in free trade and competition have a duty to recommit ourselves to the multilateral system with the WTO at its centre.

Yes let us recognise its faults and weaknesses but let us act collectively to make it work for all members – large and small, rich and poor, for today and for tomorrow. As we prepare to leave the EU, the United Kingdom has a Department of state for International Trade, dedicated to helping businesses like the ones in this room export, driving inward and outward investment, negotiating market access and trade agreements, and championing the concept and benefits of free trade.

It is why we have a network of Her Majesty's Trade Commissioners, with the experience and autonomy to drive our trading performance in specific markets, from China to North America to Africa. You will hear from some of them later.

However, this is not a mission Government can ever fulfil alone.

Businesses – like the ones represented here today – have a crucial role to play.

We want everyone who understands the vast opportunities that free trade represents, and the prosperity it brings, to help make this case.

To be a voice, promoting the benefits of the global multilateral trading system – and making that case throughout the UK and internationally.

We want you to make the case for international trade in practical terms – how it benefits your businesses, your communities and makes a real difference to people’s lives.

It is this case that will win the battle against the siren voices of protectionism. We should not be by-standers in our future. We should set a firm course to shape the coming era. For Britain and the world.

And we must success for the price of failure would be too high.

Thank you.