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## Transcript

# Navigating the New World Order: The UK and the Emerging Powers

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Thank you. I am grateful to Chatham House for this opportunity to address what I believe to be one of the most fundamental questions of the early 21st century. How Britain, as an established power, should respond to the rise of emerging powers and the new world order their rise is creating. In answering that question, I don't want to make a rhetorical speech this evening. I just want to make the case for three straightforward propositions.

One: we are living through a revolution in the global order. And it is a revolution; I use the word deliberately, not just to provoke.

Two: that Britain should not automatically fear this revolution, and has many of the qualities and characteristics needed to respond to the opportunities it offers.

But, crucially, three: to survive, or better still, thrive in this revolutionary environment, Britain needs to respond with a level of imagination and determination which is proportionate in scale to the impact of this revolution.

History is, I am sure, littered with Foreign Office Ministers' speeches announcing that we are living through a period of momentous global change. So it isn't without some forethought that I make this claim today. I do so against the backdrop of two revolutions of seismic proportions playing out on the world's stage.

The first is the Arab Spring. The scenes in Tunisia, in Egypt, in Libya, Syria and elsewhere have dominated the international headlines over recent weeks and months. So dramatic has been their impact that the Foreign Secretary has termed the events of the Arab Spring as arguably the most historic of the 21st century to date, more so even than 9/1.

But alongside these obvious, 'classic' revolutions, is a second one. Less visible, more slow-burning but equally – indeed I would argue even more – profound. The revolution of the Emerging Powers doesn't grab the headlines on a daily basis. It's unlikely to be debated in the pub. Or even in parliament for that matter – a point I regret and which I will return to later.

We are all subliminally aware of the rise of the Emerging Powers. But rather like the ageing process, it's a phenomenon you don't really notice from day to day. It may be barely visible in the lifespan of a news cycle, but it is constant, relentless and very real. As the Foreign Office Minister responsible for our policy towards the majority of the Emerging Powers – from Latin America to China, South East Asia and more recently India – I am in the privileged position of having this equivalent of the ageing process brought home to me on a daily basis.

The more I see of this process, the more convinced I am that we are witnessing a profound change in the world order. A change that in years to come people will think was a remarkable time in history. Let me give you just a couple of examples, which illustrate the dramatic nature of this revolution. I don't think I will be breaking the Official Secrets Act if I divulge that our Embassy in Beijing periodically produces a remarkable roundup of 'China by Numbers'. Here are a few excerpts from the last one:

- Before 1988 China had no motorways. By the end of 2010, it had built 74,000 km worth, making it the second largest network in the world.
- Added to that, China now has just over 8,000 km of high speed rail track, which is more than the rest of the world combined. By the end of next year, China is set to have 13,000 km of track.
- Economic growth and huge industrial progress means that today's generation of Chinese enjoys a radically transformed life compared to their parents and grandparents. For example, in the thirty years between 1949 and 1979 a grand total of 280,000 Chinese people travelled abroad. Last year alone, 57 million Chinese did.

The staggering statistics from China are replicated, if not always to the same degree, in India, elsewhere in Asia, and in many parts of Latin America. By 2050, China, India, Brazil, Mexico and Indonesia will all number among the world's largest ten economies. The international organisational architecture is changing rapidly to reflect these new realities.

We have already moved from a G8 to a G20 world. And rightly so, but do not forget the significance of this shift. For many years the face of global economic governance was an annual family photo of the G8 national leaders. With the sole exception of the Japanese Prime Minister, the entire world order was represented by North America and Europe. Nobody else sat at this top table. That structure reflected the centres of power and wealth in the Cold and post-Cold War worlds.

Now everything is changing, and although the global financial crisis may have accelerated the process of reconfiguring the world order, the direction of travel was already clear. Two weeks ago, I returned from an overseas visit to India and the Far East. Among the countries I visited was South Korea. A country which in the mid-seventies was poorer than its neighbour to the North, South Korea is now the world's 12th largest economy. It exports world class goods to every corner of the earth.

Its products today crowd out most others in every electronics outlet in Britain. I noted when I was in Washington a few months ago that even the State Department buys Samsung TVs. South Korea, embracing capitalism and democracy, has in one generation become a global power hosting G20 summits.

Over the last year, I have focussed my overseas travel on similar emerging economies. From Indonesia to China to India to Brazil and Mexico. Meeting my government counterparts, leaders of industry, businesspeople and members of civil society. An important part of those visits has been to promote Britain – as a trading partner, as a destination for inward investment, for higher education – and as a key political and security partner.

But another part of that process has been to draw the lessons we need to learn if Britain is to adapt to the rapid changes of the early 21st century; and how we in the Coalition government can start implementing those lessons learned.

And what are the lessons learned so far? If I chose a maritime theme for the title of this discussion, it's not just because my constituency is home to the UK's Hydrographic Office, the world leader in ocean charts. But also because we are in economically and politically uncharted waters.

Never has the world been so interconnected. And never has it been set to become so multipolar. The combination of these two presents us with unprecedented challenges. But it also offers unprecedented opportunities. I am often asked whether I see the rise of the emerging powers as a threat or an opportunity. The honest answer, of course, is that it is both. The task for a government of an established power is how to minimise the former and maximise the latter. In doing so, since we are in these uncharted waters, it is important to hold firm to certain key principles, the compass points of our policy. These are the three that I regard as most fundamental.

First, free trade, and the outward-looking mentality that underpins it.

Secondly, our values and the wider freedoms that support free trade and free societies.

And thirdly, the unique selling points of Britain which help give us the chance to turn this revolution into our opportunity.

The single biggest driver of the emerging powers revolution has been the embracing of free market economics and the remarkable opening up of world trade over recent decades. That phenomenon has lifted more people out of

poverty in my lifetime than any amount of international aid could have hoped to achieve. A quite staggering 600 million people in China alone.

In India, where twenty years ago one in every two people were living on less than a dollar a day, now the UN estimate that by 2015 it will be closer to one in five. Free and open markets have been the key to this huge economic progress. This is, as the UK, our first big opportunity. I do not believe that there is another country where the free trade reflex is so hard-wired into the national consciousness as our own.

True there is also a protectionist reflex when confronted by such enormous changes and – like every other constituency MP, I know this well – the case for free trade is one you still have to keep making on a daily basis to people on their doorstep. But, whether it be car workers in the North-East and the Midlands, wind-turbine engineers in Scotland or financial workers in the City of London, the simple truth is that free trade and investment are essential to our prosperity. And that will only grow as the emerging powers grow richer.

Our first task as government, and as we seek to grow our economy to tackle the budget deficit we inherited, is to make certain that we have the measures in place to reap the benefits of that free trade and investment. That is why, for example, we are committed to having the lowest rate of corporation tax rate in any major world economy, with a progressive reduction to 23 percent by 2014. It is why we need to keep introducing the sorts of measures which allow the World Bank and Economist Intelligence Unit to conclude, as they do currently, that the UK is the easiest place to do business in Europe and fourth easiest globally.

We must make sure we do not forget that free trade is central to the dynamic that is reshaping the world order. My second guiding principle is the freedoms and values that need to accompany it. It is a central question of our time.

In the more predictable – though it didn't seem so at the time – Cold War order, it was straightforward: liberal capitalism and liberal freedoms versus a state economy and state diktat. That argument was comprehensively won by the forces of liberalism. And to return to my recent Korean experience, it is still being won when you compare the different trajectories of North and South Korea. In one country people do not have enough to eat; in the other they enjoy unprecedented prosperity.

But the question now is whether there is an alternative model. Whether, to put it crudely, you can have a liberal economic model emancipating people from 9 to 5, and a controlling state model for when they get home. The jury is still

out. But I believe profoundly that the 9 to 5 must and will fundamentally affect the 5 to 9.

Economic liberalisation must surely, inevitably, be followed by more open societies and greater political pluralism. Our own history suggests it: the emerging middle class, along with working class citizens in the urban centres, who drove our own universal emancipation. Likewise the astonishing liberalisation that has taken place in the politics of Latin America in tandem with their economies, in a very short period of time.

I would argue that the same is true of South East Asia: compare Indonesia, Thailand, Malaysia and the Philippines with Burma. Freedom and prosperity creating new opportunities for ordinary people.

Our approach to the emerging powers is guided above all by the belief that these values are not Western, but universal. And to return to my starting point about the simultaneous revolutions taking place in the world, I believe that is why the events of the Arab Spring are of much more than just regional importance. Why, as William Hague has said, they are so momentous.

It seems obvious to me, and my colleagues in our coalition government, that we have to look at the changing world order in terms of opportunity. As an island nation, built on principles of openness and liberalism, dependent on trade, and with a historically global outlook, it would be odd to think otherwise.

But there are, of course, alternatives. Some of you will no doubt have seen in the Tube the current Economist advertising campaign which asks 'Where do you stand? Above the image of a scrawny British bicep is the proposition: 'Britain should give up trying to be a global power'. The advert sets out the reasons why. Happily, in the best traditions of the *Economist*, there is a parallel poster setting out the reasons why we should not. There are no prizes for guessing which poster I favour.

You won't be surprised to hear me say that I don't agree with the argument that we should shut up shop, pull up the drawbridge and curtail our ambitions for the 21st century. True, we are predicted to slip from the sixth largest economy in the world today to the tenth largest by 2050. True, as the emerging economies rise, their ability to project power will rise correspondingly. And true, the comfortable G8 world I mentioned earlier will give way to a more complex international architecture, partly by virtue of the number of actors and their diversity, but also because their starting points, and regions, are, in some cases, very different from our own.

Some British observers may feel defeatist when confronted by these changes. But Britain can have a positive and influential place in this new world order, so long as we make the right policy choices now.

First, because economic growth is not a zero-sum game. Our slice of the cake may be destined to shrink, but only because the world as a whole is becoming more prosperous. Including, albeit at a slower rate, Britain. So we will have a smaller share of the cake and still have more cake to eat. And global growth should be good news for a country that prides itself on its openness to trade and investment.

Secondly, because security and the ability to project power should likewise not be seen to be a zero-sum game. I accept that this is a potentially more controversial argument. But I would nevertheless make the case that the more networked and interconnected we become, the more it is in all our interests to uphold a rules-based approach to international stability and the international economy. Indeed, it is striking that the biggest threats to security today tend to come from those countries which have not kept pace with the great changes of the early 21st century and which have rejected the networked world. Countries such as North Korea and Iran.

And an international system that is more representative – for example in terms of Security Council reform – should also mean a system that better reflects the aspirations of citizens around the world. Particularly if those aspirations, as I believe, will head in the direction of the sorts of values Britain represents and admires.

And thirdly, because I believe that in this new order, Britain has certain unique selling points that will serve us well. I'm not sure if self-deprecation counts as a unique selling point. But we are, as a nation, quite good at doing ourselves down.

So it's worth indulging in a brief thought experiment. Imagine we were looking at another European country. Imagine, with less than 1 percent of the world's population, that it had the world's sixth biggest economy. Top table membership of all the world's key bodies, from permanent membership of the UN Security Council to a leading role in the European Union, NATO and the Commonwealth. Institutions that were world leaders in the media and education. Not to mention the enormous benefits of speaking the main global language.

I don't think if we were looking at our imaginary European country, we would think it was short of advantages to navigate its way through the global revolution now underway.

Britain remains a global power. Our institutional influence in international affairs is vast. Our network of bilateral relations with every major country in the world is sophisticated and effective.

And we have as a government made a conscious effort to reinvigorate those relationships over the last year or so, particularly in South East Asia and Latin America.

We are most influential as leaders of global thinking. The home to the world's most important daily newspaper - the *Financial Times* - the most important current affairs periodical - the *Economist* - and the world's most important broadcaster - the BBC. Across all three mediums, Britain is leading debate across the world.

Our leading universities – Oxford, Cambridge, the University of London - set the international standard. Britain has had more Nobel Prize winners than any country except the United States. We shape the culture, music and fashion landscape of the world.

Our technological genius makes Britain the base for everything from pioneering medical research to Formula One racing. We have sporting icons – from Manchester United to Wimbledon tennis, and, of course, the 2012 Olympics next year. I could go on – and in many regards Britain has an impressive story to tell – but that is not actually the main point I want to make today.

I want to conclude by giving you a much starker message than one which celebrates our achievement and place in the world. I have no doubt about the opportunities this revolution offers. But I am also in no doubt about the severe dangers of complacency. I have argued that Britain has the characteristics to prosper.

Britain was the leader of the last global revolution. We were the first country to industrialise. Our powers of invention changed society. Our systems of government and law ordered society. Our exploration altered the face of the world. So Britain has the ability - the imagination and energy - to succeed.

But my starker message is that - for all the examples I have just given are impressive and welcome - they are not nearly enough for Britain to prosper in the new, revolutionised global order. Britain needs to be far more competitive in a fast-changing world. We need to overhaul our thinking and our attitudes. The alternative, even allowing for Britain's existing areas of advantage, is benign decline.



That is clearly not in Britain's interest, and I do not believe it is actually in the world's interest either. I am making a far wider point than just the structure of Britain's diplomacy.

We get very good value, considering that, while we have less than 1 percent of the world's population, we allocate very little money to direct engagement with everyone else. For every £10 spent by the British government, about 1p is spent on global diplomacy.

Within this budget, the essential changes are being made. More Foreign Office staff are being directed towards the powerhouses of the near future: China, India and Brazil. And, of course, Britain's global outreach also includes considerable budgets allocated to international development and defence cooperation.

But adapting to the new world order is not just a task for our internationally-orientated departments. They are, in some ways, the least important. There is actually almost no part of our government or public life that should be exempted from this national task. To be competitive in the world, we need change at home.

Most seriously, we cannot continue to live way beyond our means. It is unsustainable for the British government to be borrowing, as we currently are, an extra £400 million every single day. Tackling this appalling deficit should be the duty of all politicians in Britain. We are already getting close to spending £1 billion – that's £1,000 million – every single week, just on the interest on the debt. That is more than we spend on education. More and more debt is a recipe for ruin and a risk to our national security. That is why the coalition government literally cannot afford to fail with deficit reduction.

Our education system needs an overhaul. Britain has first-class universities but it also has unacceptable levels of educational failure. It is impossible to be globally competitive without being a leader on literacy and numeracy. Young people leaving school without qualifications are struggling to compete against European immigrants despite having the considerable benefit of home advantage. How can they be expected to compete in a global market place?

Speaking English is a great in-built advantage for Britain, but would we benefit from having millions of young people learning Mandarin? Or Hindi or Japanese or Portuguese? Yes, of course. But that is not happening. Very few young British people learn Chinese, and very few travel to China to study. Our government is rightly addressing Britain's inadequate physical infrastructure.

Key parts of our rail and road network are clearly overburdened or insufficient to support strong economic growth. Where Britain once led the world with the majesty of our train stations, Asia now does the same with its airports. Often, ironically, designed by British architects.

Our basic knowledge of the world, remarkably for a country with such a global history, is also inadequate. Insularity is certainly not unique to Britain, but in a more globalised world, we need a more globalised outlook. China is the second biggest economy in the world and has 1.3 billion people. But how many of those people could the average British person name? One or two? Maybe none at all. We will struggle to trade successfully with a country that the majority of us know virtually nothing about.

But it is not just the man on the Clapham Omnibus. There is an institutional complacency in Britain that we need to shake off. There is a key role here for us as legislators; not just government but parliament as a whole. Despite the awesome scale of this revolution, there is remarkably little parliamentary attention devoted towards the emerging powers, and our relations with them.

Some of you may have seen those maps of the world where each country, rather than being drawn to its geographic size, is drawn in scale with its population. They can look funny, with Australia and Canada, for example, looking strikingly small.

Well, if you drew a map of the world where the size of countries was determined by the number of times they featured in parliamentary questions, then I can assure you that Burma and Sri Lanka would absolutely dwarf India and China on the Asian continent.

In one sense, that is understandable. Parliamentarians are right to be concerned about conflicts and human rights. But we must also be concerned about the new reality which confronts us as a nation. We must ask ourselves whether we are adapting our institutions, and alerting our public, to that new reality. We should not assume that Britain, or Europe as a whole, has an automatic right to be the most prosperous or influential continent. The numbers simply do not support such an assumption.

By the middle of the century Europe is forecast to have 5 percent of the world's population and 10 percent of its economy – richer than average, but much less so than a generation ago. To an extent, that is inevitable, but crucially in terms of growth it is still moving fast in the wrong direction, being outperformed and overtaken by every other continent in the world.

We need to think how we can be more productive, not come up with more regulations which make it harder to employ people and less worthwhile to work. We need to question our other big assumptions, about what is affordable, and the role of the state.

It will be difficult to remain globally competitive when the state is spending 45 percent of GDP. It will be difficult to remain globally competitive with higher marginal tax rates than in comparable economies. It will be difficult to remain globally competitive with a rapidly declining percentage of the population being of working age.

So this is my conclusion. Britain remains a major force in the world, economically, politically and culturally. We shape attitudes with the power of our example, our values, and our argument. But Britain needs a big wake-up call. We have no pre-ordained right to be wealthier, more successful and more influential than other countries. We earned that status in the past through invention, adventure and enterprise, and we need to earn it again for the future.

If we do not embrace the big changes, our lives will not stay the same. That is a false comfort. Without change we will decline. Far from being the frightening option, change is actually the safer long-term choice. We are in a different world now from that enjoyed by my parents and grandparents.

In many ways it has benefits. There is greater global understanding and far less chronic poverty. But it is certainly very different. And if Britain is not willing to think differently and be different in its response, we will not succeed.