

**THE CHALLENGE TO THE INTERNATIONAL TRADE
SYSTEM: WHY THIS WTO ROUND MUST BE SUCCESSFUL**

HONG KONG
TUESDAY 5 JULY 2005

Ladies and gentlemen, I am delighted to be joining you for this joint Chambers' lunch.

I am grateful to the Chairmen and Directors of the British Chamber of Commerce, the Hong Kong Chamber of Commerce and the European Chamber for their kind invitation to set out the UK's priorities for international trade, why we attach such importance to achieving a successful conclusion to the WTO Doha Round and what the UK nationally, and as Presidency of the EU, is doing to achieve this goal.

This is my first visit to Hong Kong. It is a unique and fascinating city, which still captures the British imagination. Over the last 24 hours I have had very productive meetings with Donald Tsang and members of the Hong Kong government, and with business leaders. In all of them I have stressed that we remain as committed as ever to Hong Kong's future stability and prosperity. And we look forward to maintaining our excellent ties with Hong Kong under the new Chief Executive.

May I thank the officers and members of the Chambers for the excellent work that they do with the government of the HKSARG to ensure that Hong Kong continues to flourish.

I hope that you will excuse me for being slightly partisan in thanking you for the benefits that this has brought UK-Hong Kong trade in particular, and for offering a few thoughts on our bilateral trade relationship.

British companies are both well established and represented in the Hong Kong market. In 2004 the UK exports to Hong Kong were worth £2.6 billion, up nearly 5.6% on a year earlier. UK imports grew by 4.5% to a value of over £5.8 billion. Hong Kong is our 13th largest market for goods. Almost one fifth of our exports to mainland China go through Hong Kong. Hong Kong is also a huge market for UK services.

UK investment in Hong Kong continues to grow and Hong Kong remains a major investor in the UK. With Hutchinson's recent investment in Cambridge Water and PCCW rolling out their innovative wireless broadband service in the UK, Hong Kong's confidence in the UK as the right place to develop successful business is clear. Investment in the UK by Hong Kong business now exceeds £19 billion.

And the profile of our engagement with Hong Kong is changing and growing. We have a long track record in the financial and legal services sectors. But ICT, engineering and construction companies, architects, designers and major retailers are also now enjoying unprecedented success in the development of Hong Kong's high-tech sector, in transport systems, in urban revitalisation projects and in the rapid expansion of the creative and leisure and tourist sectors. UK companies view Hong Kong not only as an exciting and responsive market in its own right, but also as an important gateway into and out of the mainland – particularly the Pearl River Delta.

My meetings with the Chief Executive, the Financial Secretary, the Secretary for Commerce, the Hong Kong TDC and business leaders were an excellent opportunity to look at how we can build on this success. I was very encouraged by the discussions. The future looks good for Hong Kong and for our trade and investment links.

Hong Kong and the global economy

It is no coincidence that one of the first places that I have visited as Minister of Trade is Hong Kong. In many ways we share a common perspective. We both live by trade. But Hong Kong particularly so. It is staggering that, for a region with just 6.8mn people, Hong Kong is the eleventh largest global trading economy.

And Hong Kong is truly a regional and increasingly global player. Take mainland China, where I go later today. 80% of multinationals, with regional offices in Hong Kong, run their mainland Chinese business out of this city.

Hong Kong is the financial hub of the Pearl River Delta region, one which pundits forecast will have a GDP of \$2 trillion by 2020.

Hong Kong is thus at the heart of the most rapid shift in the global balance of production the world has ever seen.

World trade and the WTO

In the next ten years world output is likely to rise by 50% and world trade by 100%.

More than ever we need a truly global trading system. And a system which delivers benefits particularly for developing nations. That is why we are committed to fair trading rules which reduce trade-distorting subsidies and open up markets, but - and this is crucial - rules which do not penalise the poorest.

It is not surprising therefore that, as a region built on trade, Hong Kong shares many of these views.

Hong Kong was a founding member of the World Trading Organisation. I will be back here in six months time for the WTO Ministerial meeting which will take us a long way to deciding the direction of international trade for years to come. Hong Kong has a pivotal role to play, both as host and Chair of the meetings. Under John Tsang's direction I know that we will be in capable hands.

The WTO Doha Development Agenda has the potential to provide a huge boost to world trade. The figures are staggering. Estimates are in the range of \$250 billion and \$600 billion annually, with most studies suggesting that developing countries stand to gain the most. This additional wealth can make a real difference to delivering the Millennium Development Goals. The World Bank estimates that a pro-poor DDA outcome could reduce the number of people living on less than \$2 a day by 144 million.

We are clear what we want to achieve here in December: an agreement that will allow an ambitious, pro-development conclusion to the Round in

2006. As Presidency of the EU, we will be doing all we can over the coming months to turn this vision into reality.

So are we going to get there? The easy answer is that I think we will have a much clearer idea by the end of the month. WTO Trade Ministers meet on the mainland, in Dalian, next week. And in Geneva, in the second half of the month, Chairs of the different negotiating groups will be reporting back on the shape of a deal in December.

The difficult answer requires a gift of prophesy that I unfortunately lack – but I'll give you my honest attempt.

Agriculture is the totemic issue for the Round and we have seen slow but steady progress during the year. There is a lot left to do but I think we can see a way forward. To move along that path it is clear that developed countries will need to make big steps towards dismantling protection of their agriculture sectors through subsidies and tariffs.

But this is not - and cannot be - just an agricultural round.

Manufacturing and services amount to 96% of world GDP and 92% of cross-border trade – and are the lifeblood of our two economies.

Negotiations in both areas have been moving slowly this year.

Revised Services offers are trickling in. Both the EU and Hong Kong have tabled theirs. But we need more and we collectively need to raise our sights.

We are creeping towards an agreed formula on industrial goods. I hope we can finally crack this issue in Dalian next week. This would really make prospects look up.

We are making good progress in Geneva on reaching an agreement on trade facilitation. Minimising the costs and the time it takes to get goods to market will benefit us all.

To generate greater wealth and prosperity in the world we will need greater liberalisation in all these sectors. Liberalisation is sometimes seen as big business and rich countries prising open and then exploiting developing countries' economies. But evidence suggests that most countries benefit far more from opening up their domestic markets than from open markets elsewhere. That is a lesson we should all bear in mind when we come to the table in December.

For most countries opening up markets is the best way of generating wealth. But it doesn't work in every case. Some countries simply do not have the capacity to trade. By ensuring that the poorest countries have effective Special and Differential Treatment we can help them build the capacity to enjoy the benefits of liberalisation.

Negotiations during the coming months will undoubtedly be tough. But I believe that there is growing political determination around the world – not least here in Hong Kong – to succeed.

UK economy

Expanding trade is critical to Britain's growth and prosperity, as it is to Hong Kong's. Tougher global competition means that we too must adapt. We cannot compete on labour cost but we can on skills, on innovation and on scientific and technical know-how.

Sound economic management, based on entrenching long-term stability through fiscal and monetary discipline, means that Britain is now enjoying the longest period of sustained economic growth for 200 years, the lowest inflation for thirty years and the lowest interest rates for 40 years.

We are making major long-term investments in science and technology. We are encouraging greater collaboration between universities and business both in the UK and across the world, working to reduce unnecessary bureaucracy and regulation to encourage enterprise. And investing heavily in skills training. Here we are working with the Hong Kong Trade Development Council to help the Hong Kong - UK Business Partnership, launched last October, to increase collaboration on information communications technology and the creative industries.

Our history as one of the world's most open trading nations and our global reach, arguably wider than any other nation, puts Britain in a strong position to seize the opportunities the fast changing global market place offers.

European Union

Globalisation is a fact of life and we must ensure that it is a force for good. How the EU meets the challenge of globalisation is central to the debate on the future direction of the EU.

I don't need to go into detail, but it is clear to me that the EU needs to be more competitive. That means improving skills, making labour markets more flexible and opening up further the EU's telecommunications, energy and financial services markets. We also need to make much greater progress in reducing agricultural subsidies.

Over the next six months the UK, as EU Presidency, will take forward work already begun under previous presidencies to assess the impact of EU regulation on the EU's international competitiveness, to consider alternatives to regulation and, indeed, whether regulation is necessary at all.

We want to build on work already underway to open up trade in services across the EU, particularly in the financial sector where we want to ensure that the Financial Services Action Plan is implemented fully and effectively.

And, as I said earlier, we will work hard to ensure substantial progress at December's WTO Ministerial Meeting here in Hong Kong.

Conclusion

This week's G8 Summit in Scotland has a critical role to play in securing the political will necessary to ensure that the world trade talks succeed. While the Summit will focus, primarily, on Africa's plight, agreement amongst the world's richest nations to take the necessary steps towards progress on trade liberalisation will benefit us all.

Over the past 25 years China's increasing openness to overseas trade and investment has helped fuel annual growth of almost 9% and reduced the proportion of people living in poverty by two thirds.

In 2002, ten years after the completion of the Single European Market, EU GDP was estimated to be nearly 2% (£110 billion) higher than it would have been without the Single Market.

Over the past two years Hong Kong has enjoyed duty free access to mainland China for a growing number of goods and services under the Closer Economic Partnership Arrangement.

It could not be more apt, therefore, that Hong Kong, one of the greatest trading cities in the world and a staunch supporter of free trade, is hosting the WTO meeting in December. On behalf of the UK and our EU partners, may I thank the Hong Kong Government for all that they are doing to ensure the success of this vitally important meeting.

We, for our part, will work hard for an ambitious outcome.

WTO members have a unique opportunity, this year, to give millions of people across the world the chance to begin the slow climb out of poverty towards lasting prosperity.

I hope that you all, as major contributors to Britain's and Hong Kong's economic success, will work with us, the British and Hong Kong Governments, to help reach agreement. It is in all our interests that we succeed.

Thank you.

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