

Parkinson TP

4th August 1981

Thank you very much for your letter of 30th July, with which you enclosed the text of a speech which you made on the 16th of last month. I hope that you will not think it presumptuous of me to say that I thought the speech was an excellent one.

Please make some more like it.

I have shown your speech to the Prime Minister.

IAN GOW

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From the
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30 July 1981

Dear Sir,

I hesitate before encouraging anybody to read any of my speeches, and particularly the longer ones, but I thought you might be interested to cast an eye over the attached speech which I had prepared for me for a recent occasion. I make no claims for its literary merit, but it does include a number of figures about our trade performance which you might find useful in preparing speeches for the Prime Minister.

Yours
Cecil
Parkinson

CECIL PARKINSON



MINISTER FOR TRADE'S SPEECH TO THE ENGLISH SPEAKING UNION
INTERNATIONAL SUMMER SCHOOL

16 JULY 1981

Madam Chairman, ladies and gentlemen, this is the second consecutive year I have been invited to speak at this distinguished gathering. And in what I have begun to regard as a slightly suspicious coincidence, I see from the programme that it is also the second time I have been scheduled to speak on the morning immediately following the group's visit to the Royal Shakespeare Theatre at Stratford.

Now 'Hamlet' last year and 'A Midsummer Night's Dream' this are obviously pretty hard acts to follow, and I'm not clear how far that is meant as a compliment. But if I can't hope to match Puck's boast of being able to "put a girdle round about the earth/In forty minutes", I hope you will bear with me while I spend rather less time in tracing - if perhaps rather more prosaically - the changing patterns of Britain's trade since the war and in reviewing our current trade policy towards fundamental issues like the open trade system and trade with the developing world.

A reduction of the UK's world role was of course always implicit in the national acceptance that the imperial phase was over. The war also ran down our domestic capital, led to the sale of overseas assets, and to the accumulation of massive new external debts.

Equally the industrial dominance we continued to enjoy briefly with the United States in the early 1950's - when the two countries between them were responsible for about half the world's exports of manufactures - was inevitably quickly eroded with the re-entry into world markets of other West European countries, most notably West Germany, following post-war reconstruction. And of course this was followed by the emergence of major new centres of industrial production in Europe, in Japan, and in more recent years among the newly industrialising countries of Asia and Latin America.



So the world trade map has been changed almost out of recognition in the last 30 years, with the enormously increased commercial importance of Bonn, Paris and Tokyo inevitably reducing that of Britain and the United States, which have both experienced a steady decline in their share of world markets.

But while this has become familiar enough, what appears to have been less noticed is that since the middle of the 1970's the UK has succeeded in halting this trend. Indeed the relative importance of exports to the British economy has grown significantly. A decade ago, exports of goods and services combined accounted for under a quarter of our GDP. Now it's almost a third - higher than any other leading industrial nation, including West Germany, France, the US, and perhaps surprisingly more than double the proportion exported by Japan.

Altogether last year the value of Britain's visible exports rose to nearly £50 billion - some three quarters of them manufactured goods. In fact contrary to some very gloomy forecasts in a period when the pound rose sharply and the world recession was getting under way, the proportion of British manufactured goods sold overseas reached an all-time record, with every industrial sector except shipbuilding increasing the proportion of output exported.

At the same time invisible exports, in which the UK has traditionally been a world leader, brought us in another £25 billion. And according to last month's report by the Committee on Invisible Exports, in 1979 the latest year for which figures are available, Britain earned more in net terms from things like financial and professional services than any other country, including the United States.



That I think is a fairly remarkable, if relatively unpublicised achievement for a country of Britain's size. Last year's generally good export performance may paradoxically of course have owed something to the depth of the recession in this country and the consequent need for companies to switch more of their sales towards overseas markets. But in my view it probably also reflects something of potentially much greater significance: a quiet revolution that has been transforming both the pattern and structure of Britain's trade in the post-war years and which may now have begun to feed through into a more successful overall export performance.

Let me explain. British industry has come in for its fair share of criticism in recent years, and nowhere more so than in Britain itself. Yet our industry can probably be credited with carrying through the most dramatic re-orientation of trading patterns of any country in Europe in the last 30 years, involving a massive transition that has seen the more technologically demanding markets of Western Europe virtually change places with the relatively less sophisticated markets of the Commonwealth in the nature of their importance to our economy.

In 1950, Australia was easily our biggest trading partner, with four other Commonwealth countries from the other side of the world, Canada, South Africa, India and New Zealand all included in our top ten export markets. Together with the United States, the Commonwealth accounted for around half of all our trade, while we did about 20 per cent of our trade with the group of neighbouring European countries that are now our partners within the European Community.



Thirty years later this picture has been almost exactly reversed. West Germany, which didn't appear in either our top export or import lists in 1950 has overtaken the US as Britain's largest single trading partner. And with the exception of Greece which only acceded to the European Community at the start of this year, all the other members of the Community - together accounting for more than 40 per cent of our total exports - are now featured in our top dozen export markets. By contrast overseas sales to the Commonwealth have fallen steeply to around 10 per cent of our exports.

That's the first strand of the revolution in our trade - and of course one of the main effects of this transformation in our trading patterns has been to increase the pressure on British companies to match the competitiveness of European countries producing similar sorts of goods and in the last decade particularly German, French and Italian producers within a massively enlarged home market of 260 million people. It's an adjustment that has taken some time, and even now we still have a considerable way to go to match the market shares currently enjoyed by the founder members of the Community. But Britain's exports to Europe have begun to increase rapidly, and last year was our first visible trade surplus with the Community for a decade.

The second strand has been a gradual change in the product structure of our trade, with advanced technology sectors of industry tending to increase their share of total manufacturing output at the expense of the older, heavy industries - a process accelerated by the domestic recession. And within high value added sectors like aerospace and electronics an astonishing growth in exports and profitability has been demonstrated as possible even in a world recession. The pharmaceutical industry, for example, has just announced a 17 per cent increase in exports to £745 million last year while imports fell 4 per cent.



Another relatively new sector which has had a particularly marked impact on our trade is of course North Sea oil. Last year, when we achieved self-sufficiency in oil for the first time, oil exports jumped by nearly a half to over £6 billion - around an eighth of our total visible exports. That's clearly significant, but it needs to be kept in proportion. Britain is not Saudi Arabia. Even at peak production in the middle of this decade, oil and gas together will probably contribute something like 5 per cent of our GDP. That's an important contribution - as big as any other industry in the country - but by itself it can't provide our economic salvation, which remains dependent on the performance of our entire economy.

But that performance is not of course wholly dependent on the structural changes now occurring within our manufacturing industry, or even the major geographical reorientation that has been occurring within our markets. For Britain, as for a number of other developed countries, the third and perhaps potentially most significant strand of all in the transformation that has been changing the face of our trade has been the growing importance of services, both to our trade and to our total economy.

In the decade to 1980 alone a loss of a million jobs in the UK manufacturing sector has been more than balanced by an increase of 1 $\frac{3}{4}$ million jobs in the service industries over the same period - a pattern broadly repeated in other industrialised countries. Indeed, perhaps surprisingly - though admittedly this has changed in the last two years - a greater proportion of Japan's manufacturing workforce left the manufacturing sector between 1973 and 1978 than in Britain.



In any case, services are now easily the dominant activity in the British economy. In 1979 they accounted for over half of total output - around double that provided by the manufacturing sector. And while many services, for example public administration, health and education are by their nature largely non-tradeable, others, like civil aviation, some financial services and consultancy have provided some of the economy's fastest growing export areas.

That is not to argue that services either could or should ever replace the role of manufactured goods in our overseas trade. Both are important to our exports, with manufactures currently accounting for a half of total visible and invisible exports, and services a fifth. There is also considerable interdependence, with some service earnings depending on exports of manufactures.

Even so, we are having to increasingly modify the traditional concept of this country's wealth creating base. And looking slightly further ahead, there is an interesting theory that partly as a result of the changes I have been outlining, the world is gradually moving Britain's way.

It goes like this. As more heavy industry and the kind of repetitive, labour intensive manufacturing activities at which we are not particularly good are inexorably transferred to China and the Pacific Basin, there will be a considerable rise in demand from these and other areas for precisely the things in which Britain most excels - information technology, including telecommunications and computer programmes; science and research-based industries like biotechnology, pharmaceuticals and aerospace and robotics; and services like consultancy, finance, insurance, teaching aids, the arts and entertainment; indeed all those areas where we can sell our creative powers and scholarship.



All this raises the intriguing prospect of the development of a kind of Marxism in reverse - the old theory about the bourgeoisie living off labour being overtaken by an accelerating movement of labour into the so-called bourgeois professional occupations on whose earnings this country will increasingly depend!

But good fun though this kind of speculation may be, more important is what is happening in the here and now. And against the background of the kind of changes I have been describing, what is the present Government's approach to trade policy?

First I think it is clear that because of Britain's exceptional dependence on exports it is very much in our interest that the open trading system should be preserved, and I therefore strongly welcome the recent statement by the US's Trade Representative, Bill Brock, that the new Administration intends to work for a more liberalised trading system and to maintain open trade between the European Community and the US.

Nevertheless, I think it is accepted in both continents that there is no simple either/or choice between two opposite poles labelled 'open trade' and 'protectionism'. It is an unreal opposition precisely because free trade has always been a matter of degree. And this of course is specifically reflected in the GATT rules for world trade which recognise that the right to resort to restrictions in cases of severe disruption is necessary to the long-term survival of the open trading system. There is no text book international Eden serving perfect laws of competition. It doesn't exist in this world, and I shall be pleasurably surprised if it is to be found in the next.



On the contrary, the reality is that underlying the open trading system is an economic deal, based like any other on a calculation of the balance of advantage to them by individual nations. And because it is a deal between nation states whose first concern - rightly or wrongly - is always with the protection and welfare of their own populations, the international trading system will continue in its existing form only for as long as it can demonstrate that it is continuing to serve the interests, and share out the benefits, to all the nations that are party to it.

Certainly it has succeeded in this triumphantly for most of the post-war period with an unprecedented growth in world trade, so that until the start of the 'OPEC decade' in the early 1970's the open trading system was being widely taken for granted.

Alas, as we now know to our cost, the world had not after all discovered the secret of perpetually high economic growth. The second major recession in a decade has brought new pressures, and new pressures new restrictions, which have created some ominous fissures in the structure of the open trading system. Faced with heavy unemployment and the contraction of major industries, the majority of industrialised countries have responded with traditional orthodoxy by placing new barriers on imports.

The recent GATT report points out that last year was one of the most difficult of the entire post-war era for the world economy with increased inflation and unemployment, continuing monetary instability and heavy trade imbalances. As a result international trade grew barely one per cent in volume - it has been lower in only two previous years since the war - and protectionist pressures have increased with a high number of international trade disputes.



But however much liberal economists deplore this trend and point to the 1960's as an example of the way prosperity and world trade flourished following the steady fall in protectionist barriers after the war, it is at least arguable that this is to look at the problem from the wrong way round.

For of course it is precisely in those periods when growth prospects appear good and world economic confidence is growing that nations are most willing to disarm themselves economically. Even as initially fervent an advocate of the benefits of free trade as John Maynard Keynes adjusted his views on this issue when faced with the consequences of the Depression. And it is in this context - and perhaps particularly the further implications for employment in the short run - that the huge and fast increasing trade surpluses that Japan has run up with Europe and the United States has to be seen. Last year the European Community's deficit with Japan was \$11 billion, the USA's \$10 billion, and the EFTA countries \$2½ billion. This is partly the result of Japan's success in concentrating exports on particular product sectors and partly of the very small market for manufactured products that Japan still offers other industrialised countries.

But the kind of voluntary restraint arrangements that both the US and European countries have increasingly had to turn to in their dealings with Japan must remain very much a measure of the last resort. I accept that there is a real danger of the producer lobby conducting trade arguments with little reference to the interests of the consumer, and that Japan provides a classic example of the dichotomy between unfair and unwelcome trade. In any case increased restrictions have so far resulted simply in increased Japanese competition in third markets and an acceleration of Japanese restructuring into new industries rather than providing more time for domestic industries to rationalise.



Yet the importance of the Third World for Britain's exports has been underlined by a whole spate of multi-million pound export orders in recent months including a massive £550 million contract for a coal-fired power station in Hong Kong, a £150 million contract for hospital and associated services in Saudi Arabia, a £93 million construction project in Zimbabwe, a £70 million steel plant for Morocco, a £40 million project to build Land Rovers in Yugoslavia, an agreement to help Brazil develop its coal industry for which projects already identified could amount to exports valued at over \$400 million, and an agreement which will give UK industry work worth a minimum of £150 million on constructing a sewerage system for Cairo.

All that adds up to a lot of new work for British companies, work which could clearly have been put at risk by a more restrictive attitude towards the Third World.

Last week I was in South America