

The Rules Based Order Meets the New Silk Road: Britain and China in the 21st Century

Speech to Bath University,
Monday 2nd July 2018.

Rt Hon Liam Byrne MP



Thank you very much for inviting me to speak today. It's a great pleasure to escape the turmoil of the capital for the calm of your campus, for a discussion about what lies ahead. Not in the hours to come. Or the weeks to come. But in the years ahead.

And the place I want to start is with something a very senior columnist said to me last week.

'We think' he opined, 'that the future looks like it has a lot more in common with Thomas Hobbes than it has in common with John Rawls. More Hobbsian than Rawlsian'.

I think that air of pessimistic realism is becoming a common view.

So I want to start with a line from Hobbes and an idea from Rawls.

The line is Hobbes' observation that: 'hell is the future seen too late'.

The idea from Rawls is the ideal of 'overlapping consensus'.

I think if we're to avoid the hell of Hobbes, then not only do we need to start looking further ahead but we need to think much harder about the overlapping consensus ahead, specifically along the new centre of the world economy: the new Silk Road.

Where should we begin. Perhaps with the start of the 'golden era'. It officially began in October 2016, with the visit, full of pomp and circumstances of

President Xi to Britain. And it was followed rather swiftly by Brexit, part of a pattern of populist votes across the West.

Now things are about to get messy.

Not only do we have to navigate a series of self-imposed red lines with the EU, but we then have to negotiate five further deals, with EFTA, the US, China, Japan and Australia, to cover around 90% of our exports. It will not be easy.

Strategically, however, the case I've made at book length (see *Turning to Face the East*), is that there is a good case for now turning East.

Why?

Because by 2050, the major economies stretched along the silk Road will be around 2.4 times the size of the economies of the trans-Atlantic coasts - some PPP\$193 trillion on the Silk Road compared to PPP\$82 trillion along the Atlantic coasts. Simply put, the Silk Road is where the money will be, and it is of course now the centre of China's geo-economic ambition: the creation of the One Belt, One Road initiative.

But here's the challenge.

As we seek to navigate this complex turn East, we find ourselves trapped between three presidents who, each in their own way, are clear about their manifest destiny in a way, frankly, we are not.

On the one hand we have President Trump with his mantra of 'Make America great again'. With it has come a new isolationism that we've seen at periodic intervals over the 20th century.

Then we have President Xi. Very much a man of destiny. Determined to restore the great power status of China, which he feels was lost at the beginning of China's descent into the century of humiliation. Not for nothing did he take his Politburo for their first official outing together to the exhibition in Tianamen Square spelling out the CCP's role on China's road to reconstruction. He has offered the world the idea of a 'community of common destiny'. It's not an idea that's well developed. But it's an surely an idea we should help shape.

And then we have President Putin. Leader of the world's new conservatism. The man who in 2013, attacked what he called the 'dechristianised West' which he said no longer knew right from wrong.

Look at these three Presidents and it's easy to conclude the future is indeed a place where life risks becoming 'nasty, brutish and short'.

So, the question we should wrestle with is how do we ensure that this extraordinary new economic space is Rawlsian, not Hobbsian. In my view, the key to this is working far harder to find the areas of 'overlapping consensus'. And here I think there are a few opportunities.

First, let's take infrastructure.

Today, we in the West have very little idea about what we think our priorities for trade-enhancing infrastructure might be. What is top of the list? And how do we make sure we develop infrastructure in a way that avoids all the mistakes of loading countries with debts they can't afford - as happened in Africa in the 1980's? How do we make sure that labour standards are high, in a way that avoids the early mistakes of the Qatar World Cup? In other words, how do we make sure that the infrastructure of the new Silk Road is built on rules that we agree?

Second, can we agree rules around infrastructure finance? Where should the bonds be listed? In what currency? What underwrites them? Can we get western and eastern bond buyers to ensure transparency and good standards of corporate governance?

Third, is the question of financial flows. Capital account liberalisation is one of the thorniest risks that China must grasp. But financial integration is inevitable if we trying to create a common trade zone. So how do we liberalise safely? What's the pace? What are the rules?

Fourth, is data: the essential flow for more and more trade. In Europe, we've just agreed new rules for keeping data safe. How we spread agreements like this along the stretch of the Silk Road? How do we resolve disputes? In tribunals? In new courts? How do we work together to develop the case law? And train the judges? These are areas rich in the potential for cooperation.

Fifth, how do we agree the tariff rates along the route? Can we work together to bring them down? And how do we ensure that when businesses make money, they pay the right taxes to the right people? Can we bring g tax transparency into trade agreements? How do we agree the rules to make this happen?

Sixth, is the question of security cooperation. The New Silk Road is home to some of the most violent places on earth, with huge numbers of conflict related deaths in Syria, Afghanistan and Iraq. How do we ensure that we work together to help keep the peace that is so essential to trade? How do we cope with the new movements of people? How we offer new sanctuary to refugees? And how do we work together to redevelop countries smashed to smithereens in war?

Seventh, at the centre of this new web is the WTO; a place where the UK is re-establishing its seat. Where we have problems with tribunal appointments. And where China and the UK will have to find new ways of working group together.

All of this will be hard. But put it all together and we have the makings of an architecture for locking a critical part of the world into something resembling a rules based order. Of course it leaves huge question of democratic norms unaddressed. That is not an excuse for avoiding the difficult questions. It's an argument for getting started on a practical agenda for change.

This is a win win for Britain and China.

For the UK, there is the prospect of new market access, access to new science and R&D spend, and of course, new inward investment into our hungry infrastructure.

For China, we unlock a brilliant place to expand their overseas direct investment; we offer a brilliant partner for scientific endeavour and of course, we offer a world leading services industries.

Now there will be plenty of issues to navigate.

Plenty of questions to answer. How do we get the balance right between multi-lateral and bi-lateral action? How do we predict the direction of American policy; will its current unilateralism persist? I fear it might for some years. How do we strike the right balance between new friends and old allies? Many in South East Asia are anxious about President Xi's ambitions. How do we ensure we get the balance right? Finally, how do we slowly develop 'understandings' into 'clubs' and 'clubs' into 'institutions'; institutions with predictable rules and predictable costs for misbehaviour, where as the Chinese say, the stone falls on both feet.

Navigating this new order is going to need all the ingenuity of great students like you here today.

It will require courage, creativity and yes, the art of finding consensus.

Crucially it's going to take an awful lot more intellectual effort than the stock currently invested by the UK, if we're to ensure that on the new Silk Road we're an initiative-shaper, not simply an initiative-taker.

Can we do it? Of course. You are in the words of Dean Acheton, 'present at creation'. You are watching a new order taking shape around you. Its triumphs and disasters will help define the quality of our shared lives together in this century. So, remember Mr Acheton's advice: 'the future happens one day at a time'. Let's not let a single day go to waste.

Thank you very much indeed.

Ends.