HOUSE OF LORDS

Select Committee on International Relations

Corrected oral evidence: Transformation of power in the Middle East and the implications for UK foreign policy

Wednesday 15 March 2017

10.35 am

Watch the meeting

Members present: Lord Howell of Guildford (Chairman); Baroness Coussins; Lord Grocott; Lord Hannay of Chiswick; Baroness Hilton of Eggardon; Lord Inglewood; Lord Jopling; Lord Purvis of Tweed; Lord Reid of Cardowan; Baroness Smith of Newnham; Lord Wood of Anfield.

Evidence Session No. 19 Heard in Public Questions 208 - 217

Witnesses

I: The Rt Hon Dr Liam Fox MP, Secretary of State for International Trade; Mr Jamie Munk, Lawyer, Department for International Trade Legal Advisers.

USE OF THE TRANSCRIPT

1. This is a corrected transcript of evidence taken in public and webcast on www.parliamentlive.tv.

Examination of witnesses

Liam Fox MP and Jamie Munk.

Q208 **The Chairman:** Secretary of State, good morning and welcome. Thank you very much for joining us. I have to make some routine observations at the beginning. As you will be all too aware, this is a public session. It is televised and a transcript can be looked at afterwards. As Chairman of this Committee I should declare my interest—I am an adviser to the Kuwait Investment Authority—as we will be discussing Middle East and Gulf issues in some detail.

As you are probably aware, the Committee is engaged in an inquiry into the very rapidly changing political and economic situation in the Middle East—transformed from anything we knew in the last century, or even 10 years ago—and the implications for British policies in all aspects: obviously economic and political but also security, energy and all the rest. That is the picture. I will begin by seeking an overview from you, Secretary of State, bearing in mind—I think I am right—that in your briefing you pointed out that this is a region of the world that takes bigger exports by far than even China, let alone India; twice as much. It is also a huge source of inward investment into this country. So we are talking about powerful economics as well as powerful politics. Could we have a view from you on how you see this developing, especially as the post-Brexit situation unfolds?

Liam Fox MP: Thank you very much, Chairman, for the opportunity. First, I will briefly set out the remit of this new department and how it is structured. The Department for International Trade has responsibility for trade policy. We have also taken into the department what was UKTI. We have UK Export Finance, DSO and the GREAT campaign. In other words, we have trade policy, 'financing mechanisms', the delivery elements and the marketing expertise in one place for the first time. That fits in with the functions of the department, which are threefold: the export of British goods and services abroad; investment—both foreign direct investment into the United Kingdom and overseas direct investment from the United Kingdom outwards, which makes a contribution to our balance of payments and our current account; and trade policy, which has huge implications as we leave the European Union. The department's agenda is to seek a technical rectification of our trading schedules at the World Trade Organization and then transitional adoption of the existing EU free trade agreements and economic partnerships before we look at new free trade agreements.

In addition, we have a number of mechanisms by which we deal with other countries. We have ministerial trade dialogues, such as the joint economic and trade committees with South Korea and with China. We have the economic and financial dialogue with countries such as Brazil. We have trade audits, which we are currently undertaking with countries such as India, where we can assess the perceived impediments to trade and investment in each direction. Then, of course, we have the trade working groups with groups of countries such as the GCC, Israel and New

Zealand already in operation. There is a very wide remit, taking some of the responsibilities that lay with other government departments until the machinery of government changes last summer.

I have made a number of visits to the region, particularly to the Gulf, where we have had early involvement as a department. We also, of course, have the working group on trade and investment—two equally important elements, as you said, Chairman—that was set up in December 2016. We are close to setting the date for our first meeting on that, which is likely to be in April this year. I have visited all the Gulf States, with the exception of Saudi Arabia, and ministerial contact has been quite intense.

The Chairman: Is it your thinking that a possible UK-GCC collective arrangement will replace what we were doing when we were part of the European Union, or a lot of new bilateral arrangements? I think I am right in saying that the EU's efforts to get an agreement with the GCC have not been too successful, so how does your thinking react to that?

Liam Fox MP: We have had a number of discussions. There is a customs union, of course, so we will look in future to establish a trading relationship that is UK-GCC rather than a range of bilaterals. If I may say so, I know there is a tendency at the moment to see multi-bilateralism as a substitute for multilateralism, but multi-bilateralism is expensive in terms of resource, it takes longer and it is likely to end up at multiple different end points. Multilateral agreements and work as groupings, where we can achieve them, make it simpler, as we have discovered in the transition of EU FTAs, where a compendium FTA makes it easier for us to operate. So we see it working as a GCC grouping. That is not to say that there is no room for individual investment programmes from individual states in both directions in a future trade agreement once we have left the European Union and are allowed to negotiate one. That will be the direction of travel.

The Chairman: Obviously, inward investment, which we rely on and which compensates for our huge trade deficit, has not been affected by whether we are members of the European Union. Can you see any decisions being altered by those who take these investment decisions as a result of us not being in the European Union?

Liam Fox MP: We can really only go on recent experience. Since the referendum, capital investment from the Gulf into the UK has shown no sign of weakening. We have seen big deals this year, with National Grid getting £1.4 billion from Qatar, Scotia Gas getting £621 million from the UAE, and of course we are just about to host the UK-Qatar investment conference in London and Birmingham at the end of this month. Certainly there has been no reduction in interest. As we have seen, very firm investment intentions and decisions have already been made since June of last year.

Lord Hannay of Chiswick: On the GCC, am I wrong in thinking that the GCC has few plans to export to us and not many products that would be competitive if it did export them to us? Nor are there any very great barriers that we, either as a member of the EU or not, impose, because a lot of things that we import, such as gas and oil, are zero-rated anyway, if I understand it rightly. On the other hand, presumably we have quite a big interest in having as free access as possible to their markets. Is that not all going to be a bit unbalanced, and will it not pose some problems if we ask for very ambitious access to their markets and they can work out that the access we are offering them is not much different from what they have now?

Liam Fox MP: That would be true if trade was simply about goods and not also about services—and it would be true if we saw trade as merely a zero-sum game, which of course it is not. One reason why there is a strong fit between the relative economic objectives of the UK and the GCC is that we have a trade surplus with the Gulf of about £10.1 billion. We exported £20.2 billion in total in 2015. A lot of the interest has come from the export not of British goods but of British service capability. I have had a number of discussions with a number of countries in the region about how British skills could help to mature the markets.

This goes to the heart of the argument about overseas direct investment. There are those who would portray that as "the exporting of British jobs", but of course trade is built on a bilateral relationship, and where we can provide British expertise in market, that obviously provides a potential source of income for the UK, but it also provides us with the opportunity to mature markets more quickly and to help with social and economic development in some of the countries concerned. Of course, ultimately that provides a secondary opportunity for both in economic growth. When I have talked to countries particularly in the Gulf, I could literally be exporting British service sector expertise in educational products—incidentally, edtech has now overtaken insurance as a British export, which seems to have gone largely unnoticed by people who comment on these things—life sciences, healthcare, accountancy, legal services.

There is a whole range of elements that can help. From the UK's point of view, one of the lessons that we have learned in recent years, particularly in financial services, and one of the main opportunities that we have been able to exploit, is the unilateral opening up of domestic markets where we already have a footprint, where we are already there. For a multitude of reasons the picture is much more complex than simply what the balance of payments and goods looks like. It is how we can develop a mutuality in a relationship that might develop over time. That is one reason why there is such interest in the UK at present.

Of course, we will have to overcome some of our own capacity constraints. One problem the Government are dealing with at the moment is the fact that there might be almost an infinite demand for some of our services but a limited ability to supply them. However, there is quite a good fit, and there is a lot that we can do for inward investment into the UK and for infrastructure projects in order for the UK to be able to deliver a lot of our service expertise that can help to develop a lot of the markets.

I do not wish to labour the point, but I will give a specific example. Countries talk about developing themselves as a medical hub in the Gulf. We have made the point that that cannot be achieved simply by building hospitals and importing doctors indefinitely from the rest of the world. A key element will be to help countries to develop the professional infrastructure that they require in the form of nursing skills and medical skills. How do you build a medical school that helps you to deliver the medical staff over a longer term? How can we work with countries to provide that professional infrastructure, which is a much longer-term investment than simply helping in the construction of some of the hardware of some of these projects? That requires Britain to have a genuinely longer-term and strategic engagement in the region, understanding that some of these developments cannot happen overnight and will require us to have a longer-term commitment.

Lord Hannay of Chiswick: So presumably helping them to have access to our higher education, with no new immigration controls, will be part of that equation.

Liam Fox MP: I look at institutions such as the University of Nottingham, which has established a campus in Malaysia and in China, and I see that as one of the things that we should want to export as a country. Exporting our expertise is not only advantageous bilaterally in financial terms; it is also a question of us being able to export our values. We need to see the relationship as being a lot deeper than simply what goods we are selling this year.

Baroness Smith of Newnham: Thank you Secretary of State. I probably ought to declare an interest as somebody who is employed by Cambridge University.

Following Lord Hannay's point, clearly there are two ways of exporting higher education. One is clearly setting up campuses in other countries, but the other is having people coming to study here, which in many ways probably helps soft power rather more, because people come and study here, exchange ideas with international students from other countries and then go back to their own countries.

To press you a bit further on Lord Hannay's question, what scope is there for persuading the Home Office that international students really should not be part of migration figures, and that having them here is really important for international trade. They are not immigrants; they are people who are coming to benefit from a service and contributing to our economy.

Liam Fox MP: There is an ongoing argument in government on that, and I have made my views clear in private to the Home Secretary. There is a value for those who come to study in the United Kingdom. I 100% accept the point that in many cases they will be imbued by the values that they experience while they are here. Many of them will go on to establish long-term relationships with the United Kingdom, as they understand our institutions. But we should not underestimate the value of us exporting some of our capabilities, not least because those who can come to the United Kingdom are often those who are best off. Our ability to widen the appeal and the reach of our educational standards and the values that go with them could be accentuated by further investment in country. I have spent some time working with our educational sector on this. It is one of the sectors in this country that shows the most appetite for being willing to do that, and it offers us huge opportunities to continue with that. I do not see it as one or the other; I see them both as very complementary.

Lord Inglewood: I understand entirely what you are trying to do with these service exports, if I can put it that way. It seems entirely sensible to me. But are you not talking about developing an existing relationship rather than pulling down actual legal and physical barriers and inhibitions to doing it? We are already doing this sort of thing now. Once we have left the EU, what will have changed in what we can do that previously we could not do?

Liam Fox MP: One way in which we can help in the region and elsewhere relates to some of the customs barriers that we face in access to markets and so on. That is a growing global problem.

Lord Inglewood: Sorry, are you talking about services?

Liam Fox MP: One of the problems that we have seen in the global economy is an increase in the number of measures that could restrict trade . The OECD estimates that in 2010 the G7 and G20 countries were operating about 300. That rose to about 1,200 at the end of 2015. One thing that the UK will want to do as we take our independent seat on the WTO is to try to encourage further global liberalisation, because that is the way to get better market access in general.

One reason why we established the working group on trade was to see whether we could identify impediments to trade in different markets, largely in the service sector—as has been pointed out, so far we are already operating in a low-tariff environment—and what we can do specifically in the service sector. That will be the primary role of this group: to identify areas of market access that we could reduce in future. Whether we would require going as far as a free trade agreement or whether we could do that by other means that are available to us is something that we will have to explore. When we hold our first meeting, that will certainly be at the top of my agenda in talking to the GCC countries.

Lord Inglewood: You have identified lots of potential targets for consideration?

Liam Fox MP: We have. We are not short of the things that we could export. When you add in cybersecurity and other elements of security that we might want to consider together, there is quite a big agenda, but we need to deal with some of the market access issues, especially in relation to services, not least because what the UK will be selling in effect will largely be service-orientated.

Q209 **Lord Purvis of Tweed:** Following directly on from that, could you help to clarify something? If impediments to trade in services are the global issue that you identify, which by definition will be shared by our existing European partners, and if, as you have said previously, it is an ambition of the Government to retain equivalence in how our service sector operates, especially financial services and insurance, why would these discussions with the GCC be unique to the UK and not to EFTA or EU partners already?

Liam Fox MP: We will want to establish our own relationship, because it is not just about trade; it is also about investment. Part of the problem is that people keep looking at the trade element without the investment side and do not understand how close that relationship has become. We are working with the EU. For example, at present we are trying to push the trade in services agreement at WTO. It has run into the sand for a number of different reasons, but we will continue to push it. It is all very well for the big, powerful trading nations to complain about a rise in global protectionism, but very often the culprits of that protectionism are the G7 and G20 countries when it comes to non-tariff barriers. So we need another round of global liberalisation, which the UK will want to give a push to.

That is not to say that, for example inside the European Union, we are alone. But there are things that we might be able to do as an independent member of the WTO in pushing that we might not be as free to do inside the EU. Certainly, along with a lot of our EU partners, there is a real appetite for liberalisation. One example is data. The Commission has been very forward-leaning on the liberalisation of data flows and opposition to data localisation, but it has not been possible for it to take the process forward because of a number of member states that oppose it. We want to take that forward. We think that it would be in our interest and in the wider interest, too—including the interest of a number of our European Union partners who are unable to achieve that through the EU at present.

Lord Purvis of Tweed: All those issues were addressed in the EFTA agreement with the GCC. What was not in the EFTA agreement that you think we can have by standing alone and adding external pressure on to the WTO process? I can imagine an individual country under the WTO, given that there is also an EFTA agreement with the GCC, being a greatly reduced influence.

Liam Fox MP: I do not think that we will have a reduced influence at all in the GCC. In fact, I think that the United Kingdom will continue to have a very strong influence for the very reasons that I set out. There is a strong affinity with the UK, not least because of previous educational experience in the UK, and not least because of previous military experience. Many of those who have been through Sandhurst or UK universities have a very strong affinity with the UK, which I do not believe is replicated anywhere else. That provides us with a very strong opportunity. There is a great deal of investment that preferentially heads towards the UK. So the UK is in a unique position with the GCC.

Lord Purvis of Tweed: But what is not in the EFTA agreement that we would want to have?

Liam Fox MP: We have not made known a view about membership of EFTA. We will make the agreements that suit the United Kingdom and would want to follow a trade and investment partnership. Our position is different from everybody else's, and I do not think that we need to look to any previous relationship to model what we are going to do.

The Chairman: I want to move on beyond the GCC. There is a lot more of the Middle East than that.

Q210 **Lord Hannay of Chiswick:** Secretary of State, could we look now at trade policy? Quite a lot of the countries that fall within the scope of our inquiry have very elaborate arrangements already with the EU involving free trade or preferential trade involving aid and co-operation in a whole range of fields. That is basically the countries of the Maghreb—Morocco, Algeria, Tunisia—along with Egypt, Israel, the Occupied Territories and Jordan. And, of course, in a customs union there is Turkey. I imagine that you would not disagree with the fact that the day we leave the European Union, if we make no arrangements we will simply drop out of all that. So what are your objectives for these countries? Will you try to go beyond what the EU has already negotiated? Are you happy with all the very complicated migration co-operation agreements and very large aid agreements? Are we going to simply replicate these? If so, with these countries are we effectively running in order to stand still.

Liam Fox MP: As I said at the outset, the department's three main priorities are the technical rectification of the WTO, which will enable us to trade on the basis of current schedules, which of course affects our trading relationship with every country, including those mentioned by Lord Hannay. Then we come to the EU trade agreements that already exist, and the partnership agreements and so on. Our aim initially is to transition those into UK law to ensure that there is no disruption in the relationships. So our first role is to make sure that at the point of exit we do not have any disruption either in wider global trade or with those partners who depend on us. Of course, this will take some time, and what we are doing to replicate these agreements in law is unprecedented to this extent: there are some 40 EU FTAs on their own, not taking into account other agreements. We will seek to replicate all of those.

Incidentally, we have had a very positive reaction from those who want us to do that. We have made an agreement that we will do so on the basis that initially they will be the same but that we will seek to liberalise them where we can. So the only direction of travel will, if anything, be to liberalise them to a greater degree than we have to date. Of course it is a huge undertaking. So the transitional adoption is important, but perhaps to underline that, there is a very strong principle that we will apply.

These are not just trade agreements. As Lord Hannay said, there are development agreements and all sorts of other agreements that go with them. It is very important that people understand that prosperity, open trade augmented by development programmes, social and political stability and security are not in different places: they are part of the same continuum.

It is therefore essential that we do not interrupt the prosperity agenda, the trading agenda or any of the other parts and still hope to get security at the end of it. Across government, we have to recognise that that is a single continuum. The trading part is maintaining the free and open trading environment and ensuring that there is no disruption that might cause political and economic instability as a consequence, which would have implications further down the line for regional security. So, yes, the answer is that we will seek to replicate them as much as we can. When we have done so, we will seek to take them further on whatever timescale it takes.

Lord Hannay of Chiswick: But presumably you recognise that there is another party to each of these agreements—Morocco, Tunisia, Egypt or whoever—and they may well have their price for replicating the arrangement that they have with the European Union and which we will now be asking them to have with a post-Brexit United Kingdom. So there could be a price to pay for that. I would have thought that that needed to enter your calculations. Perhaps you could say something about that.

The other thing is that with most of these countries—not all, because Jordan clearly is not in the situation—we have never operated a bilateral aid programme, a bilateral migration relationship or any of these other things. So are we going to construct bilateral relationships on all these extremely complex issues that have never existed before with those countries?

Liam Fox MP: The trading relationship is quite strong. In Egypt, we are supporting economic reform with a £150 million loan guarantee. The UK is the largest investor in Egypt, providing almost half of all foreign direct investment since 2011. More than 900 UK businesses are operating in Egypt with investment. The largest companies are Vodafone, BP and Shell. In Algeria, we exported £333 million in 2015. UK businesses such as BP, Unilever, HSBC, GlaxoSmithKline and AstraZeneca are all working there. The problem there is WTO accession, which has taken 20-plus years and is as yet unfinished. The UK is also Morocco’s seventh largest export market. So there is already a large degree of economic interdependence which it will be in the interest of both parties to continue.

In the discussions that we have been having with countries about continuing the EU relationship, we have yet to come across a country that has said that it did not think that was a good idea. So the understanding is that we can provide stability and help with investment and export markets in the UK itself. There is a genuine understanding that we want to continue with the stability and potential investment. As I said, in countries such as Egypt, where we provide more than half the investment already, there is a very strong incentive to have a very positive relationship with the UK.

Q211 **Lord Grocott:** I think you have almost answered my question already, but I will ask it none the less. In the nine months in which you have been in role, you have obviously had very extensive contacts with the countries that we are talking about here. What is your broad assessment—can you generalise at all—about the countries that you have been dealing with, given that in very crude terms the options post Brexit are that the trading relationships will continue broadly as they are now? That is one possibility. Another is that they will significantly worsen when we leave, because countries will want to establish barriers that do not exist at present. A third possibility is that they improve and it is possible to develop more beneficial trading relationships. Can you generalise? Have you found hostility, for example, to improving these relationships?

Liam Fox MP: I think Lord Grocott is exactly right: it is impossible to generalise across the region. Some countries have greater political stability and therefore greater attraction to inward investment. In turn, if that investment takes root it can produce prosperity and social stability. However, it is not equally spread across the region.

Do I think it would be wise of us to expect it to be so? We can, where possible, and where we seek trading opportunities it is a chance for us to encourage the sort of economic development that can lead to better prosperity sharing in these countries and ultimately help their own political stability. That is very much part of what we seek in a trading relationship. I have never seen trade as a purely financial transaction; I see it as a way of deepening strategic relationships in the longer term. That is mutually beneficial.

It is not always immediately apparent to people in the UK what the strategic rather than the financial benefit would be, but I would argue that if we can invest in trade with these countries in a way that increases prosperity and stability, that is a positive benefit to our wider security in the longer term. It is not always easy to make that case, but I believe it to be true.

Lord Purvis of Tweed: Going back to the two examples that you mentioned, Morocco and Tunisia, our current trade with them is under the EU association agreements—Morocco and Tunisia in 1996 and 1995 respectively. They are currently in negotiation for a deep free trade area agreement. When we leave, are you saying that we will simply adopt the association agreement terms in seeking a relationship with them so that they agree a bilateral with us on the association terms, or will we wait until they have agreed their deep free trade area agreements with the EU before we even seek to adopt that? There could be a considerable delay and we would simply revert to a WTO relationship with them, which is a less beneficial relationship than the one we have at the moment.

Liam Fox MP: I do not believe that is true. We would seek to replicate whatever relationship they had with the EU at the point of exit. Had they completed a deeper FTA, we would seek to replicate that. Were they still operating on the agreement that they have today, we would seek to replicate that. That is not entirely different from countries that are in the process of ratifying EU treaties at present, Canada being one of them. We do not know whether, when we leave the EU, we will have the full ratification of CETA or not. It is the same in relation to the countries that you mentioned. We would seek to replicate that. Just as they would seek to deepen their relationship with the EU, we would seek to deepen our relationship with them, too. Because they would be dealing with a single country rather than seeking a process of ratification with 27 countries, we would see whether we might be able to expedite that.

The Chairman: A different kind of question now from Baroness Hilton.

Q212 **Baroness Hilton of Eggardon:** Secretary of State, many of the countries that we deal with in the Middle East have very questionable human rights records. You have mentioned mutuality and exporting our values. Does that mean that you might make some trade agreements or particular service agreements conditional on improving their human rights records?

Liam Fox MP: We have a strong record of defending human rights and promoting our values. We need to look at what I might describe as the flip side of that coin, which is our ability to shape and change what is happening in different countries by encouraging development. We have set out a number of areas, such as arms exports, where we apply different criteria, and we will look at a number of different areas. In general, however, I see a combination of our trade policy, our investment policy and our development policy as a tool by which we can help to shape and improve some of the political systems that lead to improvements in human rights.

Baroness Hilton of Eggardon: It does not seem to be very effective in relation to Saudi Arabia, with which we have arms deals that are of considerable value to our country.

Liam Fox MP: In view of some of the reforms that have taken place in Saudi Arabia, we want to encourage trends towards greater democratic involvement. The more engaged we are, the better. The alternative, disengagement, would mean that we would not be able to have some of the influence that we seek to bring.

Baroness Hilton of Eggardon: At the moment, the EU has an embargo on dealing with the disputed settlements in the West Bank. Do you intend to continue that policy?

Liam Fox MP: The settlements are not covered by the current EU-Israel association agreement. It is that agreement that we would seek to replicate. It is not a small workload to transitionally adopt all these agreements, and any changes to any of the agreements would depend on future political developments, but it is very clear that the Government continue to believe in a two-state solution. The current association agreement reflects that policy and will continue to do so.

Lord Wood of Anfield: Secretary of State, would you clarify something that you said? Are you saying say that the act of trading with countries—let us take a country such as Bahrain, which has a catalogue of human rights problems, political party members being arrested and other problems—will itself ameliorate the human rights abuses, or are you saying that the consistent approach of our Government is that you do the trade part and other parts of government tackle the human rights abuses in parallel? I was not quite sure what you were saying.

Liam Fox MP: I do not think that trade alone will ever be the single tool by which we can achieve that, but trade and investment and deepening our relationship over time gives us an ability, in some places alongside our development policy and in some places alongside our security policy, to help to shape events that we would not have were we to disengage from them.

Lord Wood of Anfield: But do you see your role as Trade Minister as involving raising concerns about human rights abuses in the course of your negotiation of better trade relationships?

Liam Fox MP: It is a part of a cross-HMG activity. Perhaps in the past we have not succeeded as a country where we have been seen to have a very transactional relationship with a lot of countries; that we would talk to them when we wanted something specifically but would not engage more widely when we did not. As I say, we increasingly see the links between prosperity, including trade, investment, and our development programme and our security relationships across government the means by which we can help to shape agendas.

Lord Hannay of Chiswick: On this point, quite a lot of the EU's agreements, which I think you said you were proposing to replicate, contain provisions on human rights. Are we going to replicate those provisions on human rights in bilateral agreements that we reach with these countries?

Liam Fox MP: It is way too early even to start talking about the bilateral agreements when we have not yet done the EU ones yet. However, there is no reason to suppose that the United Kingdom will take a different approach to human rights in the future than we have up to now.

Lord Hannay of Chiswick: So we will include provisions for them in bilateral agreements?

Liam Fox MP: I cannot imagine that there would be any reason for the United Kingdom to do anything differently from the way we are doing it today.

Baroness Coussins: What is your assessment of the evidence that suggests that UK arms sales to Saudi Arabia are leading directly to humanitarian violations in the Yemen? Would you be prepared to intervene at any level?

Liam Fox MP: We are currently awaiting the court judgment, and as I am the Minister responsible for defending the JR I am not going to comment any further on that particular case. I am sure the Committee will understand why.

The Chairman: In this age of disruption, we have heard that trade and energy patterns are being completely disrupted, and I think Lord Reid would like to come in on that.

Q213 **Lord Reid of Cardowan:** Thank you, Secretary of State. I think your general approach is clear. It is the Adam Smith approach: not only do we benefit through trade but it builds the economic base for social progress and engagement to encourage people to go in that direction.

I want to ask you something a bit more specific. It is about the Gulf states themselves, which for other reasons want to diversify their economies. The price of oil declining, potential peak oil production and perhaps internal political reasons mean that they have to develop in a diversified fashion. What can the United Kingdom do specifically in those Gulf states, many of which have a similar vision to Saudi Arabia's Vision 2030, to encourage that diversification and social progress? Secondly, what are the specific areas where the UK might benefit from that, as well as the Gulf states themselves?

Liam Fox MP: As is typical of Lord Reid, that is a good seven questions in one. I shall regard it as a menu to choose from.

Lord Reid of Cardowan: Three comments and two questions.

Liam Fox MP: Lord Reid is quite right. I am an admirer of Adam Smith. It is worth reading him again today, because he is as vital now as he was in 1776 and very useful, not least because he reminds us that trade is not just about producers but about consumers, and about giving consumers choice about what they buy, at what price and from whom.

On the Gulf, of course they are looking to diversification. The region lacks liquidity at present and UK export finance is very much sought after. We are putting 20 staff with UKEF-specific skills into key posts around the world, including in the region. We have also allowed UKEF to provide finance in a range of Middle East currencies. All GCC currencies are included in that, and we are increasing the market limit for UKEF to all the countries in the region by up to 100%, up to a maximum of £5 billion.

We have a very large number of companies operating in the region, but there are specific projects worth mentioning. In Dubai, for example, we have a partnership between Dubai South, the aviation hub that is being created around Dubai's new Al Maktoum Airport, and the University of South Wales. It will be the largest airport in the world once it is open. The University of South Wales is setting up a training centre focused on advanced aerospace engineering. That is an example of where one of our educational institutions is carrying out economic activity that will be part of a mutually beneficial wider relationship. There are whole areas.

Another example is that, with Babcock, we have the contract for the new Duqm port in Oman. Michael Fallon was instrumental in pushing that forward. It is not only a major development but the Royal Navy will use it for our new carriers. We also have the potential for UK involvement in the construction of the new refinery there.

Getting involvement in one area allows involvement in different areas, such as security. It allows investment in hydrocarbons and the diversification of refinery capability in the region as a whole. It is quite a good example of where our specific investments will not only lead to in-country improvements but will offer us opportunities as well as greater regional benefit. There are a whole number of areas where these opportunities are opening up, and we are trying to help British companies get into those contracts.

Q214 **Lord Reid of Cardowan:** A very brief question. Here, I declare a half-interest, as I have been coached on this previously. You mentioned cyber. The Emirates are fast developing in that area. Have we given any assistance or been approached to regarding the development of a cyber hub in the Emirates?

Liam Fox MP: We have had a number of discussions with a number of countries in the region. The tendency at the moment is for everybody to want to become the cyber hub for the region. That does not preclude us from talking on a country-by-country basis, but we are seeking to avoid massive replication. Many of the Gulf countries want to be the economic hub, but they cannot all be the economic hub. Many want to become the medical hub, but they cannot all become the medical hub. The same goes for the cyber hub, but that does not preclude us from discussing it and helping individual countries with their cyber agenda.

Lord Reid of Cardowan: But do we take the view, which you implied in one of your earlier answers, that it is better to assist these countries in the development of skills and competencies in their own nationals rather than export British companies or universities to them?

Liam Fox MP: It is more a question of using our expertise to help them to develop their own capabilities. That is the way in which we get a win-win. Obviously we can win contracts for UK companies and use our expertise to ensure that best practice is followed. However, it is very important that countries in the region develop their own professional skills and are not dependent on us or anyone else for their future capabilities.

Lord Reid raises the very important point that it can become a dependency relationship. That is not what we are seeking to achieve. We are seeking to achieve maturity in a number of sectors so that countries themselves can become more independent and more able to generate the sort of economic prosperity, stability and security upon which wider security depends. It is key that we do not see this as Britain creating dependencies but as Britain creating interdependent relationships.

Lord Jopling: One of the principal ways in which diversification could happen is through tourism. Dubai has been very successful in that aspect. Other countries have tried hard; I am thinking of Egypt and Tunisia, but in both those cases it has come to a grinding halt because of terrorism. Egypt's economy has suffered hugely as a result of terrorist actions. Can the UK do anything to help countries that wish to develop tourism to find new and better ways of combatting terrorism, or is that almost impossible?

Liam Fox MP: That is rather more the territory of my colleagues in the security parts of government. However, it is a very vivid example of the link between prosperity, stability and security. Where one breaks down, so will another. It is clearly in the interests of the countries concerned to ensure that their counterterrorism co-operation and capability are increased. The UK is a ready and willing partner in that.

There are, however, some brighter spots in the region: countries that can show improvement in tourism. I have had discussions in Oman about the potential for tourism there, where tourism has blossomed due to the displacement of tourists from places such as Egypt because of recent events. There are opportunities to expand that. Anyone who has driven down the Omani coastline and who cannot see the possibilities for greater tourist development has not been looking at the same scenery that I have.

One of the potential developments down the coast in Oman is the Duqm development, where we are seeing major investment by the UK, which will require service infrastructure development and accommodation. It is likely to mean that with the new airport for example there is the potential to extend tourism. We should look at the opportunities to extend that. There is a limit to what we the UK can do about the security concerns of individual countries, but there are other places where we can help to exploit some of the potential that is as yet untapped.

The Chairman: Can we turn to Iran now? I am sorry that we are pushing on, but we do not want to take more than an hour of your time.

Q215 **Lord Grocott:** My question is on the Iran nuclear deal and the economic/trading/investment benefits that might have resulted from that. We have had evidence from people as varied as Normal Lamont and Jack Straw, both of whom have said in broad terms—I do not want misrepresent them—that the economic opportunities that might have developed as a result of that deal had not materialised in quite the way they might have done, both for the Iranians and for potential trading partners. Do you agree with that assessment? If so, what could or should the British Government do to free things up?

Liam Fox MP: It is certainly true that some of the market opportunities that the lifting of sanctions should have provided have not yet been realised. The financial sector here is still showing relatively limited appetite for re-engaging with Iranian entities and establishing banking channels between the UK and Iran. If our trade relationship with Iran is to increase, all of government needs to tackle the lack of banking channels. However, it is also important that Iran takes the necessary measures to ensure that it re-engages with the international banking system. There are two parts to the impediment, and that is one of them.

As part of our broader strategy for Iran, DIT officials have been leading efforts to get completed a handful of strategically important commercial transactions between the UK and Iran: Rolls-Royce, Airbus, British Airways, Vodafone—to name a few. We are working across government to try to get that to work, but I reiterate that while there is so much that we can do on our side there is also more that the Iranians need to do on their side to enable the benefits of the lifting of sanctions to happen. While we are absolutely resolute about the need to enforce the nuclear agreement, it would be beneficial if we were to see the economic elements that should flow from the lifting of sanctions become more widely spread inside Iran.

Lord Grocott: But presumably as far as the Iranians are concerned we made the agreement with them collectively because everyone thought it was in their interests. The Iranians’ sense of it being in their interests was very much, as I understand it, to do with the likely economic benefits that would result. It has certainly been put to us that if no economic benefits result, the Iranians are bound to start asking what the point of all this is.

Liam Fox MP: From the point of view of ordinary Iranians, that would not be an unnatural question for them to ask. But, as I say, the Iranians themselves need to take some actions. I have commissioned a report in my own department seeking solutions for normalising effective payment channels so that we can help to open up some of the trading opportunities that undoubtedly exist there. That work is due to come back to me by the end of this calendar month, so I cannot tell the Committee at this stage exactly what we think that might produce, but when that report is made available to me I will be very happy to send its findings to the Committee, if that would be helpful to the UK in looking at opening effective financial channels, because unless we have the funding channels it will be very difficult for us to take advantage.

Again, I reiterate that it is also for Iran to re-engage with the norms of the international banking system if it wishes to take advantage of the lifting of sanctions.

The Chairman: That would be extremely helpful.

Lord Hannay of Chiswick: If the US Administration back out of the JCPOA or take action, or inaction, which means that they no longer implement it, we will stick with it, will we?

Liam Fox MP: I am afraid that is one too many hypotheticals for me in one session.

Lord Hannay of Chiswick: It may only be six weeks away.

Liam Fox MP: We cannot make policy on the hoof on the basis of what might happen. We will wait to see how the American Administration's position develops. It will be appropriate to deal with the question then.

The Chairman: Let us get off the hoof and on to the long-term plan for China, which seems to dominate everything.

Q216 **Baroness Coussins:** Turning quickly to China, how significant for the UK might the further development of the One Belt initiative be, as well as a possible China-GCC trade agreement?

While we are on China, do you expect China to want to, or be able to, stick to its current view of its role in the region as strictly business and taking a non-interventionist stance on politics in the region?

Liam Fox MP: The latter rather strays into the territory of the FCO, which I am not sure would thank me for my opinion. On the trading side, clearly this is a multi-trillion pound project with enormous potential benefits that encompasses more than 65 countries. I will chair the joint economic and trade committee later in the year in Beijing, and under the auspices of our department we will host an expo in Hong Kong, at the very end of this year or the beginning of next year, with the specific purpose of setting out the fact that if there is all this infrastructure development there is also a need for concomitant service sector development, and the UK is very well placed for a lot of the investment that goes along with just the building of the hard infrastructure. We see that as a major opportunity. On 21 September this year, I will host the Think Asia, Think Hong Kong symposium, which again tries to get British businesses to recognise the opportunities which the One Belt, One Road programme brings to us. There is a lot of opportunity for us there.

One of the things that my department will be working on will be to show different sectors of our economy exactly the sort of opportunities that they can take advantage of, and there are a lot of them. In the energy, environment and infrastructure sector, for example, there are our strengths in feasibility studies, governance projects and management architecture. There are huge opportunities for us there. In our financial and professional services, UK banks, law firms and consultancies are very good at managing the life cycle of a project and understanding all that. So there are great opportunities for us there, too. In advanced manufacturing, there is airport power, energy, smart city technology, and there is healthcare. Some of the infrastructure will have to come around these projects, and we have enormous potential to get involved there.

One of the things that we regard as a priority is getting businesses to understand just what a great opportunity this is for us to get into those projects. That is why we are setting up the expo: it is to give British businesses an idea of what is available and to give the Chinese and their partners an idea of what Britain could contribute. We need that to work in both directions. But the opportunities are enormous.

The Chairman: Secretary of State, you said at the beginning that you wanted development, security and trade to be treated together. We have one more question from Lord Inglewood on how that will work departmentally and mechanically in Whitehall.

Q217 **Lord Inglewood:** In your opening remarks you touched on how your department was the centre of things, specifically for the development of Middle East and north Africa policy. How are you involved in what is going on in Whitehall and with the Gulf strategy, which formed part of the 2015 strategic defence and security review? You are joining a lot of existing players and you are the new kid on the block.

Liam Fox MP: But we also carry a lot of the functions that other departments previously carried. For example, we have a role on export finance, which previously sat purely with the Treasury. In UKTI, both inward and outward investment and the selling of British goods and services abroad used to sit somewhere else. We are integrating into the government structures. The number of bilaterals is also increasing. I have regular bilaterals with the other key Cabinet Ministers involved, the Defence Secretary and the Foreign Secretary. There is quite a close level of working on that, as well as the formal elements at the NSC and what we do at Cabinet sub-committee.

I think there is a growing understanding across government, as I said at the beginning, that this is an unbreakable continuum and that we cannot operate policy on a Whitehall silo basis. We have to all work together in an integrated way or we cannot succeed, because we cannot disaggregate the elements that could lead to a constructive whole.

In the discussions that I have internationally, I make that point at every meeting I attend to the extent of becoming boring. It is essential that the international community understands that we have to co-operate in each of those areas.

Lord Inglewood: Do you mean us with other countries, as opposed to within our own domestic sphere?

Liam Fox MP: Yes, of course with other countries. You cannot wish global security but impede global prosperity. You cannot wish to enjoy the bits that you favour without contributing to all the parts. That is an argument that the international community needs to understand; it is a necessary corollary of the whole agenda of globalisation. Globalisation is not an option. To say that you do not like globalisation or do not support it is like saying that you do not support rain or do not believe in night time. It is the reality in which we find ourselves, and we have to find the tools to make it work. That requires a co-operation born of interdependence that I do not think we have ever had before.

Lord Inglewood: Do you find that other countries concur on that, both big and small, allies and less friendly ones?

Liam Fox MP: Not everyone is equally welcoming of the globalising agenda, but it is our duty to try to get that message across as best we can. If we believe it to be true, and I do, it is essential that we not only have cross-departmental working in the UK but cross-national working to ensure that the international bodies governing our prosperity and security—from the WTO to the World Bank and from the UN to NATO—all understand that we are now in an utterly interdependent relationship that cannot be disaggregated at political will.

The Chairman: Secretary of State, you have given us some powerful insights into your thinking on the novel and fast-changing situation around international trade and the realities of trade today, which is very different even from trade 10 years ago. The whole pattern is reforming. Thank you very much for that. I have a feeling that we need to go back and read Adam Smith and David Ricardo to work out how they fit in with the present situation. No doubt we will all do that tonight.

Liam Fox MP: Some things change less than others.

The Chairman: Thank you very much. You have been very helpful, and we are very grateful to you.