

**TFWA World Exhibition Conference**  
**Keynote Address: "The Changing World"**  
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Today, businessmen and politicians span continents with barely a second thought and that is one of many changes in a world that has never changed as fast or as comprehensively as it is doing at the present moment.

Let me try and address some of those changes and what they will mean for your industry and other industries as well. Well, I suppose the logical place to start is in our own back yard of Europe. Where there are changes of long term significance that are accelerating. We always look back in history and find some great change years ago. We can look at this year in Europe and see two changes of fundamental significance that will have an impact upon our lives and the future of European history for as far ahead as we can see.

First of course, at the beginning of last year, was the birth of a new currency, The Euro. The physical change from Deutchmark, francs, liras, pesetas to euros was technically was quite a brilliant operation but the real significance of the euro is not the symbolism of a single currency, is not the convenience of a single currency, it is what the advent of that single currency signifies politically and even more so what it will bring about economically right across the euro zone. It will bring about an accelerated integration of economies and regulations and not all regulations will be regulations that are favorable to industry. It will bring about, is bringing about a great acceleration in the mergers of pan European companies and is creating a much greater cross-fertilization of investment right across the euro area.

Now in many ways, the European ambition, the ambition over time (stated, I must tell you, in private, by heads of government, but I have never heard them stated in public), the ambition is a currency that one day, not yet, but one day will look the US dollar in the eye and create corporations across Europe large enough to compete on equal terms with the giant corporations in the US of today and the forth coming giant corporations in China that we will have in the next few years. Now thus far, in the relatively short existence of the euro it has been pretty weak on the foreign exchange markets and no one, I think would credibly claim that it is any suitable rival for the dollar but this is very early stages. I have no doubt that the euro will strengthen, firstly as the European economy recovers, although I think that may not be immediate, and secondly, as the extraordinary flow of investment out of Europe and into the dollar begins to even out and indeed reverse which is now beginning to happen.

Many people, of course say, particularly if they meet an Englishman, when will the pound sterling join the euro, or even will it. I think the simple answer to that question is I think it will join in due course, but I very much doubt whether it will join in the very near future and it won't be doing so for a range of reasons. If it did so, in the near future, it would be joining at the moment a weaker currency, in a weaker economy at the wrong stage of the economic cycle without adequate convergence and at a time when the sterling is too strong. So one day I think probably the sterling will join, but not yet and in any event, in order to join, the British Government must win a referendum on the specific question of whether sterling should be abolished and it should enter the euro zone.

Now, that referendum, at the moment, would be very difficult for the British Government to win. The present PM talks often about having it at some stage, but it is usually tomorrow and tomorrow never quite arrives and it hasn't arrived yet so I very much doubt we will have the referendum until the British Government believes it can win it and I think at the moment it is extremely unlikely that any British Government could win a referendum on joining the euro. So I think it will happen but not as speedily as some would hope and many would wish.

The second, a great change in Europe last year that is going to impact upon us, that will actually be agreed (planned for last year) will actually be agreed at the end of this year, and implemented over the next few years, is enlargement of the EU. Now certain, I think, to go ahead after the result of the Irish referendum endorsing the Nice treaty over the last couple of days. And so in December of this year, the Heads of Government of the EU will meet in Conclave and they will agree that over the next few years they will increase the size of the EU from 15 to almost certainly 25 nation states. It will be a spectacular change. In a few years, the EU will stretch from Ireland and Britain in the West to the very borders of Russia in the East. It will be the largest and the richest free trade market that the world has ever seen.

Of course, some people say, that these new European countries coming in, these new European economies, Poland perhaps, particularly at the moment, Hungary, and the others are relatively weak and poor compared to France and Britain and Germany and Italy, Spain. Of course, at the moment, that is true but if you think back just a few years ago, when Spain and Portugal joined the EU, they were still governed by men in dark glasses and epaulettes. They weren't modern industrial economies and yet their membership of the EU, the cross fertilization of subsidy and investment and the interaction of the free market has turned them increasingly into industrial economies, Spain noticeably so, but Portugal also. I think over the next 20 years or so, and that is the sort of time span that we are thinking of, you will see that happening increasingly across Central and Eastern Europe. The new Europeans maybe relatively economically weak today but they are joining a free trade area that will make them infinitely

stronger over the next couple of decades or so. Now many of the people looking at what is happening in Europe, see the benefits of enlargement as purely economic. I do not share that view.

Let me illustrate why I think the benefits go far wider than simply economics. Let me give you a for instance. Just suppose, for a moment, that former Yugoslavia had joined the EU 20 – 25 years ago. Would we, I wonder, have ever had the tragedies of Kosovo and of Bosnia if they had been an integrated part of the EU? Personally, I doubt if it would have happened. And it illustrates the point that I think is of fundamental importance, a wider EU will offer a security to our children and our grandchildren that our parents and our grandparents (who twice were engaged in world wars that began in Europe) would never have imagined. It is why personally, I believe the greatest, single advance since the advent of the old common market or the iron and coal community in the 1950's is a decision that will be taken this December to enlarge the EU from one end of the continent of Europe to the other.

Let me move on to some of the other changes that are going to affect all of us. The nation to which the world increasingly turns its eyes is China. China's accession to the World Trade Organisation is a pivotal event. It may sound rather technical but it has a very practical meaning. It means for China external ownership of Chinese assets, it means for the first time of 3,000 years of history, external adjudication of trade disputes in China and between China and other countries. It means for a communist economy, the progressive privatization of much of the economy. A once closed communist economy is marching out into the modern world and will be a good deal stronger because of it. What does it mean for the rest of us? For China's neighbours in South East Asia, it means huge concern at China's competitiveness. For the wider world, it means the security of knowing China will operate under broadly the same rules as the rest of us and for China, for China, it means she may find it difficult in the short term to meet the commitments she has entered into, within the timescale she has agreed to meet them. And China will face other problems as well; she will face the problems as well as the advantages of economic liberalism. She will face unemployment, she will face the problem that we all have in massive dosage in Western Europe: the problem of rising and almost unmeet able pension costs. And she will meet a demand for greater social provision that will grow and grow as living standards in China begin to increase. So no one should be remotely surprised if China's welcome admission to the World Trade Organization slows down the future pace of trade liberalization until China has absorbed the immense shocks of moving towards a free market system. And whilst this is going on, there is something happening in parallel. Every year, investment to the equivalent of US\$50 billion will continue to flow into China together with the transfer of large scale manufacturing capacity.

The free market expects China to succeed, backs China to succeed and wishes part of that success. But that very movement is going to pose a problem for us

that few people have yet begun to identify, because China, together with Japan, are going to raise something that we have not had to face in Europe for some time. Both nations, China, Japan and some Southeast Asian nations, though they are less important, are so disinflationary, that is, they are becoming deflationary. We know how to cope with inflation, we have had a lot of experience of that, but as Japan has shown for the last decade, coping with deflation is a much more complex and difficult problem and we live at the moment in a world in which every one of the great economic motors is depressed, a world in which the US is seeing a recession in manufacturing, in which the European economies generally are flat, especially Germany (the biggest and most important economic motor across Europe) and at a time when a dose of deflation from Japan and China could pose real problems to profit margins and if you damage profit margins, there are knock on problems to investment and to recovery. And it is ironic that the systematic outsourcing to low cost markets in Asia, mainly China (but not only China) has now exacerbated Asian export price deflation, increased price competition and may rebound both on Europe and the US with difficulties and problems we have not faced for a very long time.

Now let me just enlarge on that theme of change. Five nations are going to change our world: China, Russia, Brazil, Indonesia and India. Half the world's working population are in those five countries, half the world's working population, one-tenth of the world's output, in a global economy that is going to change. It is changing already in China, it has changed particularly in the software industry in India. It is about to change in Russia, which now lifts more oil each day than Saudi Arabia. It will change in Brazil and subject to political stability; it may change in Indonesia, though not I think, in the very near future. But within two decades, if we plan for the future, the world's trading patterns may look very different from those we are familiar with today. Those five countries will double their share of growing world trade---now mark that carefully--not just double the amount of world trade they have but double their share of growing global world trade. To put that in a better context, those five countries between them now have just one third of the share of world trade enjoyed by the present members of the EU. In 20 years time they will not have one third of the share of world trade enjoyed by the present members of the EU they will have one and a half times as much of a share of world trade as the EU. It will be the greatest change in world trade flows in such a short time that history has ever seen.

There is, around the world, one special cloud that hangs over the recovery of the world economy: political uncertainty in the Middle East and in Iraq.

Let me say a word about the Middle East first. It would be very difficult in the ME at the moment, to find a single Israeli citizen that trusts Mr. Arafat. It would be difficult to find a single Palestinian citizen who trusts Mr. Sharon. The chance of a bilateral settlement led by Mr. Arafat and Mr. Sharon seems to me to be negligible to the point of being dismissed. None is likely and yet we need a

peace process. Even if the peace process is unlikely to be immediately successful we need it. If there is no peace process, there is a vacuum and into that vacuum will stride murder, mayhem and bloodshed. We have had for the past 18 months to 2 years, what is in effect, a low-grade war between Israel and the Palestinians. The danger is it becomes a fully-fledged war with all the wider implications that that could bring about.

Now how do we get a peace process and who can do it. If it isn't going to spontaneously combust between Israel and the Palestinians--and it isn't--the only nation in the world with the political clout to create one, is the US. We Europeans have influence there but we do not have the power there that the US has and that is why it is so vital that the US becomes absorbed once again in trying to create a peace process in the ME. If it is reached--and that is a big if--but if it were reached I personally believe there would be need for guarantees to make sure that both sides observed what had been agreed. I think those guarantees would have to be a very practical. I think they would have to be military. There would be the need for international troops on the borders between Israel and Syria, for example, and perhaps to ensure the future order of the West Bank and elsewhere. Now, all this spills over into the general war on terror (as it has become called) and the particular circumstances of Iraq. War, is a bloody business. No sensible nation enters into it lightly nor if at all possible without international support. That is why a United Nations resolution prior to military action against Iraq is so desirable. Without such a resolution, the price for toppling Saddam will not only be in blood, over the longer term it will be in trade and diplomacy as well. A resolution will be obtained, of that I am certain, though it is a much more open question as to whether the resolution will be what is required to offer immediate freedom of action against Iraq. No one should doubt the unpleasant nature of the Iraqi regime or the many crimes against humanity that have been committed or the potential threat they offer. The dossier published by the British Government sets out a compelling record of criminal misbehavior. But Iraq is not the only evil regime in the world or for that matter, the only regime to ignore UN resolutions. The case for removing Saddam is buttressed by the assessment of the future risk that he poses. Now, unless there is compelling intelligence information that is definitive about future risk, then the level of risk must be a matter of judgment.

Both the United States and Britain weighing up their knowledge and information, have decided that the risk justifies action to bring about the regime change that was first announced as a policy commitment by President Clinton and his administration. Many others profoundly disagree including many who hold no brief for the Iraqi regime. I don't wish to argue the merits of that case; I wish to touch upon the practical questions that follow the implications of all this, especially in bringing about regime change. For there are risks and there are costs. Many policy questions must now be under consideration.

If UN action fails and if it then comes to conflict, I would not expect it to be a long war. America spends on defense, each year, more than the next nine high spending nations in the world put together. That is the scale of American expenditure. So powerful militarily that the outcome can scarcely be in doubt. I do not myself believe that any stage in recorded history, has one nation had the military supremacy over the rest of the world that the US has at this moment. Now that power, that military strength is not to say that a conflict with Iraq would be without risk for it is not. The international community must consider what circumstances arise if Saddam Hussein is faced with a war that he can not win with a certainty that he will be deposed. Be in no doubt, if it comes to a conflict, Saddam will be dead or fled or in jail at the end of it.

Now this is a qualitatively different circumstance from the Gulf War of a decade ago. Then, Iraq was to be evicted from Kuwait. Now, it is Saddam Hussein and his regime that are to be evicted from power. He is an unstable, and a threatened man. What is the worst that he might do? Every scenario will need to be considered. The worst nightmare is the risk that Saddam will use biological and chemical weapons believing that he has nothing to lose. Before the Gulf war he was told in unmistakable terms by Jim Baker, then the Secretary of State in the US, what would happen.

Are we in a position to protect against a strike at the Saudi or the Kuwaiti oil wells? Remember, this is the leader who set fire to 11,067 Kuwaiti oils wells in his retreat from Kuwait ten years ago. Can we protect against a strike at Riyadh, can we protect against the gift of terror weapons of mass destruction to terror groups who might use them over many years to come? Is there a risk that Saddam Hussein might target Tel Aviv in an attempt to bring Israel into the conflict so that he might hope to rally Arab support on his side?

Now, none of this might come about, but none of it dare be ignored for no one can be certain at the moment of the answers to those questions. They are not reasons for backing off, since Saddam in power with nuclear, biological and chemical weapons might do any one of them but they are concerns that the policy makers will need to consider and so will the international community as a whole. And then we need to examine as well, what will face people after any war begins.

History suggests that the Shi'ites in Iraq who have never held power but who are by far the majority of the population may rise against the supporters of Saddam. On one level, this is desirable, it gives tangible expression to the pent up fear and hatred of Saddam's rule and may help bring it down. But unfortunately, it may not be that simple. The uprising will be brutal as well, and not at all easy to control. In 1991 after the Gulf war ended, a Shi'ite rebellion led to murder and to mayhem on a very substantial scale. Any troops in Baghdad would be forced to intervene to protect civilians. Disposing of the Iraqi regime may only be the beginning of their role in Iraq. They may arrive as liberators but be forced to remain as

peacekeepers and then of course, after the war is over and the present Iraqi regime has gone, the problems of peace and reconstruction will loom large. Who, in those circumstances will govern Iraq? Is there an exit strategy or will the coalition partners be trapped in Iraq with the responsibilities of government? And if they impose a government, will it be seen as a puppet regime, will it be ignored by all its Arab neighbours as a pariah or will perhaps, a government be formed that is hostile to the West and what then does the coalition do?

Democracy suggests that if Saddam Hussein was removed that a Shi'ite government would take over. 60% of the population cannot be ignored. And there an interesting speculation arises: what sort of Shi'ite government might it be? The specter arises of a Shi'ite Iraq neighbored by a Shi'ite Iran. Hardliners in both countries might welcome such an outcome. Now these of course, are some of the nightmares that may not come about. Other, more beneficial outcomes, are possible and certainly will be planned for. Outcomes such as a genuine multi ethnic government in Iraq offering new hope to a middle class that is moderate, secular and well educated. But war is a hazard and the dark side of the scenario cannot be ignored and must be planned for. Sometimes, politics offers a choice between awful and worse and this is one of those times. And of course, all this has its own economic impact as well.

What is the impact at the moment of the uncertainty over the ME and over Iraq? It seems to me that it is holding back investment, depressing equity values. It seems to me aligned with the general slow down in the world economy. It presents, for many companies, an impenetrable barrier, to proceeding with the large-scale investment that so often is the seed corn of growth and prosperity.

In the US they have similar problems. But what would the impact of a war itself actually be economically. It would vary from one part of the world to another. The impact of a war in the US, for example, which is depressing on the economy, may well be offset by the increase in federal expenditure as a result of the war and in order to offset the economic downturn created by a war. So that may be the position in the US but it certainly will not be the position in Europe. No such offset of increased expenditure is likely in Europe or probably even in Japan, at the present time. In Europe, certainly not, already countries are beginning to look at increasing expenditure and running against the straight jacket of the stability pact that underpins the euro, or expenditure we may have a weaker euro. A good deal of it might be counter-productive. That Europe is suddenly going to expand its expenditure to offset the depressive effect of a war is hardly likely. And in any event in Europe, we would certainly face the particular problems of the higher oil prices that would certainly result from a war and the greater uncertainty that would accompany it.

Now that is gloomy. One of the worst things that would happen economically speaking, and in the narrow field of economics would be the uncertainty of the ME to go on for a very long time, because once the uncertainty has been

removed and concluded, there is at least a realistic chance that the end of the crisis that has so depressed people's behavior and expectations and investment, and growth that the end of the crisis could be a spur to that activity at present being held back and begin to pull the world's economy forward, so one sees the alternatives of what may happen over the months that lie immediately ahead.

Now I have spoken of some of the changes around the world in Europe, in China, I have not spoken of Russia, but there too you have an embryonic private sector. Changes being implemented in Russia on a scale that we have not previously seen. The most spectacular, admittedly, not against many competitors but the most spectacular stock market performance last year was Russia. Russia is beginning to create niche markets that are very profitable. It has a long way to go but if five years ago you asked would Russia had made as many worthwhile beneficial changes as she had in the last five years, many people would have said no and yet she has.

Southeast Asia faces the particular problem that it is so dependent on the American economy. When the American technology market collapsed, half the GDP of five or six Southeast nations just disappeared and they are now caught between the need for growth in the US and the fear of competitiveness from China. So change there too and political change as well, with changing trade patterns and the necessary changes that are inevitable in the nature of world economy that we have at the moment.

I don't think there has been a time when so much serious long-term change was taking place at the same time. Now anyone who may be skeptical of the impact of these changes on the world in the future I invite them just to cast their mind back for a few moments. Just a few months ago I attended the funeral of HM Queen Elizabeth, The Queen Mother. As I sat in Westminster Abbey, I pondered upon the remarkable advances that the world has seen during the lifetime of the Queen Mother. She would have remembered with amazement, perhaps even disbelief, the news that Count Zeppelin had designed a machine that would fly. Consider what has happened since within the period of that one very long life and as you consider it, bear in mind what the genetic changes and the mapping of the genome system are likely to mean. In the wealthier countries where medical aid is readily available, the life span of people will increase dramatically over the next 30 years.

Consider what has happened within the period of that one very long life. In 1900, the Europeans were dominant, the UK, France, and Russia controlled 80% of the world's surface. Only Siam, only little Siam, had never been governed by the Europeans. Even the US was still a detonation, financed largely by the city of London. How things have changed. The British Empire, probably the richest and most powerful that the world had ever seen, the Empire upon which it was said the sun never set...the British Empire has gone. The French Empire has gone. The Russian Empire has gone. The Ottoman Empire has gone. The Hungarian

Empire has gone. The US is now the most powerful nation in the world, economically, politically and militarily, with China on course to become her greatest rival and Europe building a unity never seen in all its long history on the back of a 1000 years of war.

Those children born today will see the conquest of the stars, they will see a genetic rebuilding of failing bodies. They will see technological change on a scale that even today, after the remarkable changes of the last two decades, we in this hall can scarcely begin to imagine. It will be for them, a world unrecognizable to earlier generations.

Against these enormous changes around the world, to accompany these enormous changes around the world, we need, what I call, grown up politics. But one small gesture can create a global impact. The events of September 11<sup>th</sup> in NY and Washington are giving the whole world a master class in consequences. We need politics that confront the uncomfortable, politics that rise above the short term and the sound bite, politics that are long term, politics that realize it no longer controls all the pieces on the chequer board, politics that adopt common ideals and reject common abuse, politics that are directed to issues and takes much less account of personalities. We need joined up, commonsense politics.

Let me conclude, by reading to you a poem that many of you may know and that I learnt as a very small boy:

For the want of a nail, the shoe was lost  
For the want of a shoe, the horse was lost,  
For the want of a horse, the rider was lost  
For the want of a rider, the message was lost  
For the want of a message, the battle was lost  
For the want of a battle, the war was lost  
For the want of a war, the Kingdom was lost  
And all for the want of a horseshoe nail

That was written in 1758, it is the classic illustration of how a whole chain of events can be triggered by one single incident. If that was true, if that was true in the world of the 18<sup>th</sup> Century, how much more true is it in the global world of today? We would all be wise to take time out to reflect upon all of that, and wiser still to act upon it whilst there is good time.

Thank you very much.