

# Corporation of London

Speech by Stephen Green  
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Chairman, My Lord Mayor, My Lords, Aldermen, Mr Recorder, Sheriffs, Chief Commoner, ladies and gentlemen, good evening. On behalf of the guests assembled tonight, I would like to thank the Chairman for his toast, and for inviting me to respond on behalf of your guests at this dinner.

HSBC is a company that was established to finance international trade between Asia, Europe and the US in the 1860s. International trade has been in our blood ever since and it is my subject this evening.

Several years ago, HSBC moved its headquarters to Docklands. When you walk around Canary Wharf today, it's hard to recall that 20 years ago, after a long period of decline, the area was but a shadow of its former self.

That former self was its history as the UK's primary port. Today, Canary Wharf towers over the Grade 1 listed warehouses that remind us of the area's important commercial past. Although only two warehouses still survive, the original warehouse range ran in an unbroken line for half a mile.

On one end of the block, there is a large plaque that reads thus:

"Of this range of buildings constructed together with the adjacent docks, at the expense of public spirited individuals under the sanction of a provident legislature, and with the liberal cooperation of the Corporate body of the City of London, for the distinct purpose of complete security, ample accommodation to the shipping and produce of the West Indies at this wealthy port, the first stone was laid on the 12<sup>th</sup> day of July 1800 by the Right Honourable Lord Loughborough, the Lord High Chancellor of Great Britain, the Right Honourable William Pitt, first Lord Commissioner of His Majesty's Treasury and Chancellor of His Majesty's Exchequer." They were joined by the Chairman of the West India Dock Company.

The plaque goes on to applaud the start of "an undertaking which, under the favour of God, shall contribute stability, increase and ornament to British Commerce".

This stone was laid in 1802 at the opening of the West India Docks. It was just 25 years earlier that Adam Smith had penned the *Wealth of Nations*, and in so doing articulated the original case in favour of trade. And a few years later, David Ricardo would articulate his theory of comparative advantage, which demonstrated that all nations engaging in free trade could benefit, even if they were less efficient at producing goods than another nation.

The role of the City in financing trade and facilitating international capital flows cemented Britain's status as a trading nation. Those of you have been in the Bank of England's Parlour Room may have noticed an instrument there that resembles a clock. In fact, it is a Wind Dial dating from 1805, which was used by the Bank to forecast the arrival of shipping in London, which would influence both market prices and interest rates.

But it was in London's docklands, which remained the world's busiest as late as 1961, that you could see Ricardo's theory in practice. In the 19th century, when the world's exports as a percentage of global GDP grew from 4.6 per cent to 7.9 per cent, the UK's grew from 12 to 17.5 per cent. At the same time, British per capita income grew faster than at any time in the past.

This link between trade and per capita GDP has been replicated in recent history in numerous countries. The golden age of economic growth in the 1950s and 1960s was clearly ushered in by the dismantling of pre-war trade barriers. Martin Wolf, the economist, in his excellent book *Why Globalisation Works*, points out that all the countries that have risen in the rankings of global living standards had become more open to trade and capital in the 1990s than in the 1960s.

And a World Bank analysis of developing countries between 1980 and 2000, found that the top third in terms of economic performance saw trade increase from 16 per cent to 33 per cent of GDP; and their annual growth rates from 2.9 per cent in the 70s to 5 per cent in the 90s. The remaining two thirds experienced a decline in trade over the period, and saw their average GDP growth rate fall from 3.3 per cent a year in the 70s to 1.4 per cent in the 90s.

More open economies and the embrace of trade has transformed many Asian countries from poor backward economies to some of the world's most vibrant growth areas. And in the past two decades, the world has witnessed the biggest reduction in global poverty in the history of mankind, partly due to the opening of economies and free flows of trade. In particular, China and India have lifted 400 million people from extreme poverty.

Nor do the benefits of open markets accrue only to developing nations. According to a study by the Institute of International Economics, globalisation increases the standard of living of the US, by increasing the US' GDP by US\$1 trillion a year above what it would otherwise have been. It goes on to calculate that the added value of globalisation to an average American household is about US\$9,000 a year,

## benefits of trade

thanks to the country's integration with the world economy since 1945.

So there is strong evidence over time to suggest that trade brings unambiguous benefits in terms of rising prosperity. The achievements of our fellow human beings, when their ingenuity is unfettered by restrictive protectionism, are great indeed.

But major challenges remain. In spite of aid payments by OECD countries amounting to some US\$80 billion a year, more than a billion people in the world today still live on less than a dollar a day, and twice as many people exist on under two dollars a day.

Many of those people live in Africa where, in contrast with all other regions of the world, per capita GDP has barely changed in the last 25 years.

Clearly, it is the responsibility of wealthy nations to channel aid and support to the world's poorest nations, but no-one believes that aid alone will be able to give countries the chance to break the poverty cycle.

Instead, it seems very clear that trade offers the world's poorest citizens the best hope of escape from extreme poverty. And this has been acknowledged in the current round of trade talks, the Doha Development Round which – as its very name implies – puts development issues, including thorny matters such as agricultural access, at the heart of the trade agenda.

These are difficult issues to tackle, because the interests of individuals and individual countries often collide. Let me quote the words of an MP to you. "Free trade, one of the greatest blessings which a government can confer on a people, is in almost every country unpopular."

I'm sure this sentiment will ring true to you today – but the words are of the 19<sup>th</sup> century MP, Thomas Macaulay. A schizophrenic attitude towards free trade and development has been with us since the days of Smith and Ricardo.

Today, it is in evidence in the protectionist bills put before the US Congress; in the EU's so-called bra wars. Put simply, if you're a Portuguese textiles manufacturer, the last thing you want is cheap shirt imports from China. Conversely, if you're Tesco, or one of its customers, you don't want to pay more for your stock than you have to.

And this brings me to a crucial point. One of the issues that proponents of free trade need to acknowledge is the fact that, while liberalising trade brings overall benefits to an economy, there will always be winners and losers within that economy.

It is for this reason that, as a World Bank paper reminded us, "it is important to complement open-trade policies with effective social protection measures." As trade openness raises overall national income, society has a duty to share some of the gains of trade with those who are immediately – if not in the long term – disadvantaged by it. In other words, a robust support system needs to be in place for the individuals who are the casualties of a more open trading environment, one that focuses on equipping them with new skills to compete in a global economy.

Let me return to the IIE report. This estimates that elimination of all trade barriers, by both rich and poor countries, could lift 500 million people earning less than two dollars a day out of poverty by 2015, and add US\$200 billion to annual incomes in developing nations.

We all know that the dismantling of trade barriers is no easy task. Successive trade rounds reduced average tariffs on imported manufactured goods from between 15 and 25 per cent in high income countries in 1950 to around 3 per cent.

However, there are still huge inequalities in the global trade regime, most of which disadvantage the countries that can afford it least. It is shocking to note that imports to the US from Bangladesh and France attracted roughly the same amount in tariffs in 2004, but their exports were valued at US\$2 billion and US\$30 billion respectively.

**opportunity to spread prosperity**

If the Doha round is to be successful, then it will require a concerted effort by governments, with the support of business – and here the City can play an obvious part – to overcome a multitude of vested interests and to help societies in the rich world accept the genuine benefits of free trade both to their own living standards, and, crucially, to those of poor nations.

The prize at stake is the opportunity to spread prosperity to the world's poorest regions; it is one we should never lose sight of. The consequences of failure, of course, don't bear thinking about.

Thank you.