

# Global Social Responsibility

## RSA Anniversary Manufactures & Commerce Lecture University of Birmingham

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Distinguished Guests, Ladies and Gentlemen

First let me thank the RSA for inviting me to speak to you tonight; it is an honour. And I should congratulate the RSA, in the year of its 250<sup>th</sup> birthday, for continuing to work towards its stated goal of a principled and prosperous society.

As you know the RSA was originally founded as the Society for the Encouragement of Arts, Manufactures and Commerce, hence this lecture's name.

And the subject chosen for me tonight falls under the RSA's Manifesto Challenge of Advancing Global Citizenship, which is described as: to advance global citizenship in the increasingly interconnected world by promoting responsible policies and behaviours by individuals and by public, private, voluntary and other organisations.

Our planet is interconnected in an unprecedented way, yet humanity remains divided into the haves and have-nots.

Forget nationality, forget ethnicity, forget religion. What you have in the world today is two groups of people who live in two different places. Let me illustrate this by asking you to imagine two communities next to each other.

One is a village with 100 inhabitants.

The other is a town with 600 people.

If you live in the village, you have an income of US\$26,000. Your life expectancy is 79 years. 98 villagers are literate; 55 have had some form of tertiary education. 65 villagers have telephones; over half have access to the internet. All have access to water.

In the town, there are 600 inhabitants. If you live there, your life expectancy is 54 years. Your children are 15 times more likely to die before the age of five than in the village. Over 200 villagers have no access to safe drinking water.

550 of the 600 townies live on 2 dollars a day or less; over 400 of them live on less than 1 dollar a day. For

the technically minded, the dollars I am using are calculated by the World Bank using the Atlas method and based on GNI: Gross National Income. GNI is what economists now use to calculate a country's output; it replaces the more familiar GDP.

About 200 town-dwellers cannot read; not surprisingly the same number have never attended school. Less than one-in-12 have any form of tertiary education.

There are 30 telephones in the whole town; no-one has internet access. Perhaps 300 townies have never even made a phone call.

Who lives in these places? Well, in this room, we all live in the village. The village is the G7 countries, some of the world's richest, with just over 10 per cent of the world's population.

And the town comprises the poorest countries in the world. 60 per cent of the world's population: 3.7 billion people; a lot more human misery.

Inequality takes many forms. The village – about 10 per cent of the world's population – has over 90 per cent of the world's stock market capitalisation. The world's 15 major developed countries, with only 12 per cent of the world's population, use over half the world's mineral resources. And don't forget that in the two hundred years since the industrial revolution, mankind has consumed more mineral resources than it did in the previous million years.

In the poorest part of the town – mostly African countries – the inhabitants have a less than 50 per cent chance of reaching 40; a third have HIV/Aids; and women are a hundred times more likely to die in childbirth than in the village.

We talk about an interconnected world. And on many levels it is or, at least, becoming more so. But the figures show that there are some fundamental divides.

The major issue facing the human race in the 21<sup>st</sup> century is inequality. Inequality of resources, inequality of living standards, and most of all, inequality of opportunity.

**principled and  
prosperous**

I've worked in six different countries in three continents. I've spent 25 years in Asia, five in the Americas and a decade here.

And when I started my career in Asia, places like Malaysia, Singapore and Hong Kong were in their early stages of development. And today they are among the most well-off places in the world. And what has made the difference is good government. Government that emphasises primary and secondary education. Government that generally speaking is clean and effective.

One of the great international questions today is where you see oppressive government, how do you help the people who are under the yoke of oppression? The essence of democracy is that you are able to change your government. If you do not have that freedom, what are your options? There is no easy answer to this.

We live in a world where there is a consensus that free markets are the most effective way to allocate finite resources. At the same time the majority of the people on this planet are excluded from markets. Rather, they live a hand-to-mouth existence

We have to work out a system that allows these people to improve their lot in life. The tragedy is that it is through no fault of their own. The challenge is how to give them opportunity.

In Western democracies, political debate is about how much the government should do; how wealth should be redistributed.

Let me say that I am the first to accept that, provided they are delivered efficiently, we accept that in Western economies, governments are there to provide a safety net and opportunity and fairness in key areas such as health, education, pensions, policing, even transport, although perhaps that is a choice between the lesser of two evils!

We accept some things should be provided for by the state and some should be provided through markets. Essentially the debate is about defining the boundaries. And the boundaries are drawn differently in Scandinavia to those in the US.

This is our debate in the West. It is not the debate in the rest of the world. Their debate is more fundamental. And as a result, the 21<sup>st</sup> century will be capitalism's most testing period.

In many parts of Western society, there is a perception that big business is bad per se, that globalisation is harmful, and that success is to be treated with suspicion. We see it in the anti-globalisation protests around the world.

And, certainly, globalisation can produce damaging effects. But I also believe that free markets are a force for good. And without engagement in the global economy, developing countries cannot raise the standards of living of their peoples. I cannot think of a closed economy that has been able to match the living standards of those who are open to international capabilities.

People depend on the jobs business creates to earn the money to live well or otherwise. And please do not confuse living well with conspicuous materialism.

Capitalism is not just about buying into global brands; it is about the green revolution that has done more to prevent starvation than anything else in the history of humanity; it is about lifting hundreds of millions of people above the poverty line – which I have personally witnessed in Asia – and it is about giving people access to the best that we produce in our society, whether that is literature or lightbulbs.

There would be no penicillin without the work of Fleming and other scientists. But it took the American chemical company, Pfizer, to work out how to mass produce it and save millions of lives.

At its best, capitalism is about choice. GNI per capita; how much money people have may look like a dry statistic. But it is actually about access to food and water; to health care, to education. It is about the chances of your children dying young; it is about whether you go blind for lack of a cataract operation.

A market economy gives people the freedom to choose how to spend their surplus income. It enables them to look after their families and educate their children – to give the chance of a better life for future generations.

It is no longer sufficient for capitalism to be better than its ideological rival of the last century, communism. If we want to sleep peacefully in our beds at night in an interconnected world where CNN, the Internet and the global media show the village and the town to each other, we need to act.

This visibility is an historical change. If there was inequality in the 1700s, it was because China was ahead of the rest of the world. I was taught at school that Britain didn't reach the standards of living of the glory that was Rome until the Stuarts, 1600 years later. Inequality exists in different times in different places, but most of humanity was unaware of their own or others' inequality.

Today the West cannot ignore the rest of the world; we can see it. People in the developing countries can also see what the possibilities are. I've seen this in

## freedom to choose

Indonesia where a village has one television set up on a bamboo platform and everyone watches it. And one solution for poor people is migration. Today, more people are migrating than ever before, in search of a better life.

According to the World Migration Report, there are now some 175 million migrants globally, about one person in 35. Most migration goes unrecorded in government statistics; people vote with their feet and leave no footprints.

But the whole world cannot move to the West. Most don't want to and shouldn't have to. We need to lay the foundations for markets to work where they are most needed: in the developing countries.

Government is, as I said, the key factor. Education is its most important responsibility. But beyond that, the intellectual, legal and social infrastructure that we take for granted is also vital.

The Peruvian economist Hernando de Soto in his masterful book, *The Mystery of Capital*, pinpoints the lack of defined property rights as the crucial problem for many people in developing countries. Without these rights, their assets cannot be leveraged as capital for creating wealth. You can't start a business by borrowing against your house, if you have no proof of ownership.

There is no a shortage of entrepreneurial skills in the developing world. If you can run a jeepney on the back streets of Manila or live off a couple of dollars a day in a favela in Brazil, then you have entrepreneurial skills in abundance.

Where does an HSBC fit in?

A company is an abstract, legal concept. But a company is also a human endeavour, a group of human beings who come together for a common purpose. Companies have values just as individuals have values. They have feelings just as individuals have feelings. And companies, of course, have the human frailties just as individuals do. Because companies are no more, and no less, than a group of individuals.

At HSBC, we see a complicated world where success in business is vital to the wellbeing of society; a world where difficult decisions have to be taken; and where the vast majority of businesses try to act responsibly.

For example, HSBC supports education at primary and secondary level for disadvantaged children. We do this in dozens of countries all over the world, supporting literally thousands of projects. We spend over US\$17 million a year and thousands of my colleagues give freely of their time and talent to support our work.

This work is important. And helping the communities in which we live and work is one of the responsibilities that a successful company should fulfil. But it is not our most important contribution.

That comes through our work, our everyday business of lending money to people. HSBC was born in emerging markets. We lend close to US\$100 billion in emerging markets, a comparable figure to the IMF or the World Bank. It is our customers who use that money to create wealth that are the best hope for emerging markets.

In our 140-year history, we have literally created the banking system in many countries. We can introduce new skills and expertise to developing markets. We can bring international standards of transparency, disclosure and accounting – all part of that vital intellectual infrastructure.

As a result, we believe that we have played an important role in the development of many economies.

Ironically, one area today where we think we are doing just that, is one where we are criticised in the West.

One of the facets of globalisation is the internationalisation of labour. We are in the foothills of a revolution of services' internationalisation, which will change the face of G7 economies just as the first wave in manufacturing did.

The reason for this is straightforward. In an interconnected world, some of the work in developed countries that costs US\$50 an hour can be done in a developing country for less than US\$6 an hour.

And advances in communications, in bandwidth, in image technology, mean work that was local in scope can now be done anywhere in the world. We have seen it in manufacturing, now we are seeing it in service industries.

At companies like HSBC, this process started over 10 years ago and we now have global resourcing centres in India, Malaysia and China that perform work that was previously done in the UK, France, the USA.... And we are opening new centres in Sri Lanka and the Philippines.

HSBC and others have been criticised in some quarters for "exporting jobs" from developed countries. Actually, we believe that we are preserving jobs in the West by doing what is necessary to ensure HSBC's long-term success.

But most importantly, we also believe that we are creating high-value jobs in economies that desperately need them, and reducing global inequality.

We are excellent employers, we provide state-of-the-art facilities and pay excellent market rates for talented employees. They are mostly delighted to work for



HSBC. We are not fly-by-night operators. We have been in China and India for more than a century and we manage our businesses there for the long term.

As for HSBC, so for many others. Deloitte Research estimates that over US\$350 billion of costs for the global financial services industry will be relocated offshore within five years, potentially two million jobs. You can debate the timescale, but not, I think, the numbers.

This is an inevitable process. Trying to reverse it would be – as the FT put it – “like trying to preserve buggy whip-making after the advent of the Model T Ford”.

We should also remember that in many industries the flow has been in the opposite direction. The world has “offshored” its investment banking needs to Wall Street or the City of London; the world has “offshored” the entertainment industry to Hollywood; the software industry to the West Coast of America; much of mobile phone technology to Finland; consumer electronics to Japan and so on – these are much more valuable jobs than those presently flowing the other way.

The creation of jobs is vital to development. Jobs mean wages. And wages mean consumption. And the development of a consumer society is the best thing that could happen to a developing country.

The writer, John Kay, makes the point that “poor people are poor not because they participate in international trade too much but because they participate too little”.

The development of our form of capitalism is, in part, the history of specialisation. It is the move from subsistence: that is simply producing for your own consumption the food that you need and the fuel to cook it, to producing goods or services that you can trade for other goods and services.

Specialisation of labour creates increases in productivity through innovation and through economies of scale.

We are here in Birmingham in the heartland of the

industrial revolution. The move from rural agricultural work to urban industrial work created great wealth in this “city of a thousand trades”.

Of course, it also created dislocation and inequality along the way. But no-one can dispute that people are better off today than they were before the steam engine, the spinning jenny and the power loom. We all owe a debt to the Lunar Society of Birmingham.

Let me finish with this. Global citizenship is only possible in an open economy. The disenfranchised global citizen is the one who does not have access to economic opportunity.

There are clearly aspects of globalisation which are negative. Creating a job in India does mean technically that there is one job less in the UK. And that has an impact which we need to deal with sensitively. Although we should also remember that it creates trade beneficial to the UK and the opportunity for future workers to move up the value chain.

Removing barriers to trade means that industries can be exposed to the full force of international competition, which can be very painful. We don’t have to look any further than British manufacturing a generation ago to see that. My first motorcycle was a BSA Bantam, which cost me the princely sum of £25. You don’t see many BSA

motorcycles on the streets of Solihull today.

But in the P&L account of globalisation, the bottom line is overwhelmingly positive.

The RSA manifesto, that I started with, aimed to “advance global citizenship by promoting responsible policies and behaviours by individuals and by public, private, voluntary and other organisations”.

This is the heart of the matter. To help those who cannot help themselves today; to be able to do so tomorrow. Government has a part to play. Business has a part to play. But above all, we as individuals have a part to play.

Thank you.

**access to economic opportunity**