

European trade and investment as engines of growth

Opening remarks by Douglas Flint
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Good morning ladies and gentleman and welcome to the second annual conference that HSBC has held here in Brussels.

We have a great deal to cover in a fairly packed agenda, and I am very grateful to the many speakers who have given their time to participate in the programme today.

These discussions are a natural follow-on from the conference that we held last December, which was around Growth with Regulation.

Back then we highlighted the considerable progress that had been made in advancing regulatory change to reduce risk in the financial system and re-establish growth in the European economy and it is very encouraging that today much of the agenda all over the world is about looking forward rather than looking back.

This year we want to focus on two key drivers of economic growth - specifically trade and investment.

Although we treat them as separate entities, trade and investment are increasingly two sides of the same coin.

For HSBC, trade is in our DNA. We were founded almost 150 years ago to finance trade between China, India and Europe.

And today, as much as 60 per cent of all trade comprises components within value chains that span national boundaries.

Indeed, one of the irreversible benefits of globalisation has been the increasing internationalisation of supply chains for companies of all sizes.

Trade is increasingly taking place within individual companies, and decisions about the

location of economic activity increasingly hinge on the ease and contractual certainty of conducting both trade and investment in chosen locations.

Growth and trade highlight further the necessity of supporting trade-related infrastructure, which depends on long-term investment to remain adequate - and a key part of the necessary infrastructure is, of course, a well-designed and supportive financial system.

The European Commission has suggested that, over the next 10-15 years, 90 per cent of global growth will be generated outside Europe, with a third from China alone.

And capturing some of that growth for Europe and for European companies relies on the ability of European business to deal across national boundaries with minimum friction and maximum leverage and to attract foreign direct investment into Europe.

The challenges for Europe are clear:

- Lowering barriers to increase the opportunity for trade;
- Removing obstacles that create unnecessary friction;
- Increasing Europe's appeal as an investment destination;
- Easing and standardising the investment process; and
- Ensuring that the financial sector regulations that are still to be implemented do not have unintended consequences that reinforce home bias and unwind some of the benefits of globalisation.

This is a timely discussion.

The current European Parliament and Commission, whose shoulders, alongside those

of European governments, regulators and central banks, have borne the burden of reconstruction in the wake of the global financial crisis, are coming to the end of their term.

The agenda that they – and we – have had to confront has been challenging on many fronts.

But in spite of this, I think we should reflect that we've come an awfully long way.

Work has largely been completed on capital definition and levels, liquidity buffers, the regulation of derivatives and central clearing, rating agencies, remuneration and so on and so forth.

It is important for the restoration of trust, which is still very much a work in progress, that the progress so far is acknowledged and understood.

But as we turn from one mandate to the next, it is a good time to consider what still has to be done.

The more difficult issues such as cross-border resolution, shadow banking and how to deal with conduct and behaviour regulation are still being finalised, and in some cases debated afresh some five years after the start of the crisis.

And there is still a long way to go to achieve what we need to do in terms of global co-ordination and harmonisation.

Home bias remains a persistent problem within the EU and elsewhere, reinforced by the ring-fencing of capital and liquidity through a whole bunch of different measures.

This constrains banks' cross-border activities and their ability to transfer and allocate liquidity across the jurisdictions in which they operate.

Securing the free flow of capital and liquidity that allows banks to support economic growth in Europe remains an important challenge for Europe to address.

The Single Market is undoubtedly the EU's most successful innovation and I hope that it will be

reinforced as the Banking Union is progressively put in place.

It is also essential, in my view, that the UK, a long-standing champion of the single market, continues to play a full role in shaping a reformed EU.

Settling these questions is essential to the operation of global markets, and it is also crucial for trade and investment.

Weighing the sheer quantum of work still to do on regulatory convergence is a timely reminder of the barriers and inconsistencies that remain between nations in defiance of increasing globalisation.

In trade at least there are moves afoot to advance the dismantling process.

Global trade negotiations are at a critical juncture.

In eight days' time the World Trade Organisation will meet in Bali, and we will see whether life may finally be breathed back into the multilateral negotiations.

More generally, work has already started on a so-called "plurilateral agreement" on Trade in Services, known as TiSA. The challenge here will be to deliver an agreement that is as inclusive as possible to maximise the economic benefits that arise.

At the same time, negotiations on Free Trade Agreements to govern Europe's trans-Atlantic and Pacific trade continue.

And it is encouraging to note the conclusions of China's Third Plenum, suggesting a bold lowering of barriers which will support the development of markets, trade and free exchange.

These are important developments for Europe.

The Commission estimates that the successful conclusion of every Free Trade Agreement currently on the table could add 2.2 per cent to

European GDP and support the creation of more than 2 million new jobs.

The OECD, for its part, estimates that a comprehensive implementation of all measures on trade facilitation under negotiation would reduce total trade costs by 10 per cent in advanced economies and by 13-15 per cent in developing countries.

And the International Chamber of Commerce predicts possible GDP gains of up to 2 per cent a year from eliminating the most egregious trade barriers on both sides of the Atlantic.

So there is a great deal to gain and we very much hope that all of these agreements can be successfully concluded.

But it is also important that the parties involved remain mindful of the need to take a coordinated approach.

Frustrations with the multilateral trade process are understandable given the glacial pace of progress since the start of the Doha trade round twelve years ago.

And there's no question that the recent trend for bilateral or regional preferential free trade agreements has had a dramatic impact on world trade. Today, roughly half of the exports of the top 30 exporters go to preferential trade partners.

Yet it's important that these agreements are seen as steps towards a more harmonised and coordinated programme of trade agreements, which are vital both in terms of delivering a more significant expansion of trade and ensuring that the benefits of trade expansion are felt fairly and equitably.

So while we strongly support the conclusion of regional and bilateral Free Trade Agreements, we should not be content to stop there.

Almost regardless of the outcome in Bali next week, the WTO will retain a profound role in ensuring that the strands of competing agreements are pulled together as closely as possible on a global scale.

As well as removing barriers to trade, we must also secure channels of trade finance.

Trade finance is critical in providing important access to liquidity and risk mitigation benefits which are essential to smaller corporates in particular, so the right regulatory treatment is essential to supporting the competitiveness of local economies.

Data from the International Chamber of Commerce indicates that trade finance supported \$18 trillion in annual global commerce in 2011, some 30% of world trade.

The evidence also supports the fact that trade finance is one of the safest, if not the safest, form of finance as a result of its short-term, self-liquidating and transactional nature.

Out of nearly 8.1 million short-term trade finance transactions between 2008 and 2011, fewer than 1,800 defaulted – approximately 0.02 per cent.

So far, European policymakers have, very courageously, set a positive precedent by recognising the low-risk liquid nature of trade finance and adjusting the prudential calibration of certain capital and liquidity provisions within CRD IV.

We are very supportive of these steps, but this has not yet been accepted at the international level.

To give one further risk, the Basel Committee proposal to introduce a Leverage Ratio, if implemented in its current form, would most likely result in pressure being placed on reducing low-risk assets such as trade finance, as this would not be linked to carrying the applied capital charge.

We need to remain vigilant in terms of understanding how the supply of finance to trade could be affected by the regulation that we seek to implement for different purposes.

At the same time, securing the investment necessary to upgrade infrastructure is one of the continuing challenges of the post-crisis world.

Many EU Member States are currently developing their own plans to boost infrastructure investment and are taking steps to increase capacity to fund and build designated projects.

We welcome this, but at the same time we need to find the right pan-European dimension, and more specifically to decide what should be done at the centre to “industrialise” Europe’s currently fragmented market for infrastructure.

The Commission’s green paper on long-term financing is a welcome contribution that poses some important questions around:

- The capacity of financial institutions to channel long-term finance;
- How efficient and effective financial markets are in offering long-term financial instruments;
- Cross-cutting factors enabling long-term saving and financing to be made more effective; and
- The ability of SMEs to access bank and non-bank financing.

The need for a supportive public policy environment will doubtless be one of the principal topics of discussion today, particularly in ensuring that finance gets to the parts of the economy that public policy seeks most to support.

A key element in supporting growth will be establishing priorities for all forms of infrastructure investment.

More broadly, given banks’ reduced capacity and ability to support long-term investment directly from their balance sheets because of regulatory reform, it will be crucial to take steps to revitalise capital markets and improve their capacity to supply credit to the real economy through new funding models and new sources of investment, underpinned by supportive policy.

If we could double the percentage of investment allocated to infrastructure by EU pension funds and the like, this would generate €1.7 trillion of additional funding, which would be enough to meet all Europe’s needs for transport and energy combined.

Other regions clearly have their own demands for infrastructure so proposals to attract new sources of investment must ensure Europe’s infrastructure proposition are attractive both to European and global investors.

So in conclusion; we have profound challenges and there is much to discuss.

But that should not disguise the achievements that have been made over the last five years.

I would like to place on record my personal thanks to the outgoing members of the Commission and the Parliament for their work that has made our economy safer and, in particular, for their support on trade finance.

I look forward to working with them in their new positions and their successors to help the European economy grow.

And finally, thank you very much for listening, and I hope you have a very successful conference.