

Shifting Patterns of International Trade

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Thank you for that kind introduction.

So, why is HSBC here today with Politico to talk trade?

Well, every day we work with clients importing and exporting goods and services around the world – and what’s important to them - is important to us.

Today I’m going to use their experience as the basis for my insights, and will talk to three major trends shaping global trade flows.

First, the changing nature of supply chains – second, the changing nature of production - and third, how rapidly growing global consumption is fundamentally changing the marketplace.

A period of significant change always presents challenges.

It is for us here today - whether businesses or policymakers – to examine how American businesses can harness these trends - to drive greater prosperity and growth in the US - and beyond.

But before looking at the transformation underway in global trade, I’d like to take a few moments to examine why this debate is so important for the global economy.

I know that for many of you here, the arguments in favour of free trade may seem self-evident. Yet, there is deep-rooted scepticism about the benefits of trade.

This was brought home to me when - wanting to read up more about my new job - I visited a large university bookshop in my hometown of Oxford,

England. There I found shelves of books covering the debate – many with the words ‘unfair’ ‘conflict’, ‘power’ and ‘poverty’ in their title. Just a few examined the subject from a free trade perspective. This corner of a bookstore in England was reflective of a much wider debate.

A large poll - conducted by Hamilton Place Strategies earlier this year - found that half of Americans did not believe that the US benefited from free trade and just 17 per cent wanted Washington to push for more. Of course we must recognise that - in the short term - free flowing trade can be disruptive.

Old jobs disappear, new skills and investment are needed.

But trade is not a zero sum game. Instead, we must see it as a powerful tool.

Because trade is a catalyst for growth – which in turn drives job creation – and economic stability – all of which lead to greater security over the longer term – a win-win situation, and one which provides significant opportunity for the US.

There are other benefits too.

Free trade can drive higher living standards by helping cut the price of essential goods. Take the air conditioning unit - once a luxury - now an everyday product, helping people in Washington in August – and in places even hotter - to work - and relax - in comfort.

And trade gives us - as consumers - access to desirable goods from around the world - from the coffee beans in your latte - to the cocoa in your chocolate. And it is not just about benefits for the West.

As people and business in emerging markets access more sophisticated technology through trade - productivity increases - growth further accelerates - and incomes rise.

Which brings me to the three key trends which are shaping trade flows today – the opportunities they present for US firms - and the wider economy.

First, we are seeing the rise of more ‘flexible’ supply chains.

At the end of the last century, there was decisive shift in production ‘off-shoring’ – when manufacturing moved just one way - from West to East. Today, supply chains are less static, with many firms looking at ‘near’ or ‘on-shoring’ their production capacity.

This is because businesses are becoming ever more sophisticated in the way they scrutinise the risks - and rewards - in their globalised supply chains. They recognise that competitive advantage comes from sourcing from the best providers, whether in terms of cost – expertise - or scale.

The dynamics of labour costs are changing. Many developing countries are seeing a sharp rise in wages, particularly in China, where labour costs have increased significantly, particularly in the coastal regions.

And energy prices are making it much less attractive to transport some goods long distances to new markets. This trend is particularly benefitting the US, which is enjoying its own energy renaissance.

And strikingly, a recent Boston Consulting Group survey found that more than half of large US manufacturers, with sales of over a billion dollars, are considering whether to ‘reshore’ production back from China.

But it is not just US firms taking advantage of the opportunities back home. I was recently talking to our team in Germany, about the future investment plans of their customers - and noted that many were considering the South East of the

US as a manufacturing base, rather than Asia. The reason? Energy - labour costs – language - and logistics, such as the development of Panama Canal.

The second key trend is that global economies will continue to move up the “value chain”.

Take China, which is shifting its exports towards Information Communication Technology and industrial machinery - away from the low grade manufactured goods that characterised the first decades of its economic development. This opens up opportunities for near-by emerging economies, such as Vietnam, to take on that lower value manufacturing and production - further boosting development and incomes.

And while this shift brings added competition for some sectors, it also provides huge new opportunities for developed economies to supply even more sophisticated investment equipment to manufacturers moving up the value chain.

Third, we are seeing huge growth in the emerging market middle classes. HSBC estimates that by 2050 almost 3 billion people - around 40 per cent of the current global population - will have joined the middle classes, mainly in emerging markets (this research is in your packs). These new emerging market consumers are hungry for the brands and services that western consumers take for granted now.

And the rise of emerging market middle classes is not just driving demand for consumer goods – it’s also driving a demand for infrastructure support.

As countries move up the “value chain” they need imports - from basic commodities - to building equipment and high-end machinery. These are the building blocks for vast new cities - providing homes - employment - and transport infrastructure - for the new middle classes. Just consider that today, there are more than 80 Chinese cities with a population of over five million that still have no subway system.

As a leading exporter of industrial machinery and transport equipment, the US is especially well positioned to take advantage of these trends. HSBC's research shows these sectors will account for 35 per cent of the growth in US exports over the next three years.

Greater flexibility in supply chains, higher value production and the rise of a new emerging market middle class.

We are at a transformational moment in the global economy.

For those US firms – who, like the Roman God Janus, are able to gaze in two directions at once – toward their vast home market – and to these fledgling consumer markets – there are fortunes to be made.

US companies have all the advantages: mature business models; sophisticated goods; and less risk of currency exchange, as the world trades in dollars.

And we should not underestimate another fundamental advantage - the strength of US brands in these new markets, where aspirational consumers want to demonstrate their rising status through iconic brands.

As I said at the start, trade is not a zero sum gain. If the US stays on track to deliver the President's 2010 target of doubling US exports by 2015, this will support two million jobs.

And we recognise that lenders such as HSBC have an important role in promoting trade growth.

That's why we recently announced a 1 billion dollar, 18-month dedicated loan program for small and medium sized U.S. businesses looking to export or expand internationally.

We will also continue to work closely with Federal bodies such as the US Export-Import Bank and the Small Business Administration.

I am conscious that US Trade Representative Froman will speak soon, and I am sure he will have much to say about the role for policymakers in encouraging trade. But we can all recognise there is always more that can be done to help exporters - and our customers tell us that regulations around trade are still a hindrance. Therefore, it is our collective challenge to help businesses take advantage of these plentiful trade opportunities.

Trade is part of America's history - its values – its economic success. And trade is also key to America's future prosperity. This makes today's conversation all the more important.

HSBC will continue to make the case for trade, explaining it is about exporting goods and services - delivering real jobs – in the real economy. Yes, we agree that trade needs to be conducted on a level playing field.

But as long as you have solid foundations, we believe it is beneficial not just for buyers and sellers, but for the US – and society as a whole - which we are very proud to support.

Thank you very much for your time. I look forward to the forthcoming discussion.