

‘Creating and sustaining meaningful partnerships’

Speech by Mark Tucker
Group Chairman, HSBC Holdings plc

British American Business Transatlantic Finance Forum
19 November 2020

Thank you Duncan.

HSBC is very pleased to support British American Business – and I am immensely glad to have the opportunity to make the closing remarks at this Transatlantic Finance Forum.

I am sure that you have found the discussions over the last four days insightful and productive.

The agenda of the Forum has covered trade, sustainability, regulation and innovation – each of which is a vitally important issue for the US and UK. And when thinking about them together, I suggest that the central theme that runs through them all is the need for partnership.

I don't just mean the partnership between the UK and US, although that is clearly a major focus of this Forum because of its critical importance and the continuing opportunities that we see to strengthen it further.

I also don't mean in terms of trade alone, although the US is of course the UK's largest export market for goods while the UK is the fifth largest goods export destination for the US.

I mean partnership in its broadest sense.

I mean an international environment in which the public and private sectors can work together to create and benefit from incentives that encourage sustainable, resilient and inclusive growth.

And I mean how governments co-operate and align legal and regulatory frameworks, and businesses work together so they can amplify the benefits they bring to customers and wider society.

Of course, partnerships can allow elements of competition as well as collaboration, recognising how important this can be as a driver of innovation and economic growth and that, at best, the shared benefits from competition demonstrate that it is more than a 'zero sum' game.

While partnerships come in many different forms, the best ones have partners who understand and trust each other and are willing to find balance by compromising when needed to achieve their common goals.

I would like to explore this further in my remarks today by considering the different roles that businesses, governments, trade and all of us need to play in developing, renewing and strengthening successful and flourishing partnerships.

Let me start with businesses.

In a competitive world, the energy to keep finding new ways to serve customers is fundamental. Commercial advantage is something that even the most successful businesses must constantly strive for and renew.

But we are living through the biggest global crisis in a generation.

Beyond the terrible human cost, the economic impact has also been unprecedented.

All companies have had to adapt in some way, whether that's been transitioning to remote working, shifting from physical to digital revenue streams or, in some cases, reshaping their businesses altogether.

Even as restrictions have necessitated physical distance, the vast majority of businesses have chosen to get closer to their employees, suppliers and customers. Or to put it another way, they are pulling through by pulling together, strengthening and renewing their partnerships with all their stakeholders.

The events of the past year have demonstrated the vital importance of resilience – not only within individual businesses but across whole supply chains, where collaboration has meant more sharing of information and premises, more advice being sought and given, and more co-operation to get products and services to customers.

Perhaps the best example of all, is work towards a COVID-19 vaccine.

A process that typically takes years has been accelerated by the partnerships that we have seen across the pharmaceutical industry, as the various consortia have raced to find an effective vaccine.

The news from the Pfizer-BioNTech and Moderna trials is highly encouraging, and gives us real optimism that we will be able to live with the virus over the long-term and that our situation may well improve in the short-term.

The next challenge will be supplying billions of doses around the world. UNICEF has already described this as needing the largest and fastest vaccine distribution effort in history.

It will require even greater levels of partnership and collaboration than we've seen to date - and I have no doubt that businesses will continue to step up when they're needed, and continue to demonstrate the wide range of benefits that they bring to society.

And on this last point, it would be remiss of me not to say that governments around the world can help to strengthen the ability of businesses to be a force for good by providing clarity in what businesses are required to do under corporate governance regulation, and consistency across global markets so businesses in one market are not disadvantaged by comparison with others.

Businesses benefit the most from this support when they are required to make decisions that may not be immediately popular with investors, especially if these decisions reduce returns in the short term. Outside of the exceptional circumstances we find ourselves in at the moment, investment in apparently slow and unprofitable vaccine development could be one example of this.

This brings me on to talk about governments.

Governments have provided unprecedented levels of support to individuals and to businesses during the pandemic.

This support has been largely effective – in particular, Government relief schemes have helped millions of people around the world at times when they've most needed it.

The crisis is still ongoing, particularly in Europe and the US, so further support measures are clearly still appropriate and necessary.

But this support cannot, and should not, continue indefinitely.

And the impact of the pandemic isn't uniform, so some industries and sectors will need more support than others to help them enact the fundamental changes required if they're to recover.

Governments must therefore prioritise creating more resilient, sustainable and inclusive economies, and make policy choices aligned with those goals. 'Building back better' must be a shared ambition and objective, and not just a slogan.

This will require partnerships and coordination at an institutional and international level, especially with regard to the regulatory environment.

Within the financial system, there has been mounting evidence for a number of years that, despite international agreements, national mandates and divergence in national implementation have led to regulatory fragmentation. This has fundamental implications for efficiency, effectiveness and stability.

So it is critical that we continue to evaluate the extent of the fragmentation that exists, and identify measures to mitigate its impact on stability and growth and ways to strengthen international agreements.

But this is just one example.

Regulation can stimulate and encourage innovation when it is dynamic and risk-based.

It has the exact opposite effect when it is not.

The fintech regulatory sandboxes pioneered in the UK, and now adopted by more than 50 countries, are a good example of how to foster innovative partnerships and raise the funding needed for new technologies, while staying alert to emerging risks and evolving regulation.

On the other hand, the rise of data 'protectionism' is limiting the cross-border movement of data and undermining the scalability of solutions that benefit customers.

Globally agreed standards are essential if we are to deliver the benefits that customers and society want and need.

Many of the discussions over recent days have considered the future of US-UK trade, and especially prospects for an eventual US-UK Free Trade Agreement.

While these discussions continue, an even more urgent issue is the need to make the case for open, free trade between all economies.

The pandemic has hurt the global economy by squeezing both supply and demand.

The most recent WTO and IMF forecasts suggest that global trade volumes for goods and services are set to drop by around 10 per cent this year.

This isn't just about the impact of COVID-19.

The environment for global trade was already challenging before the pandemic struck.

Clearly geopolitics has been a major factor.

Overall levels of protectionism around the world have been rising, with further barriers erected during the course of 2020, in response to COVID-19.

There have been fewer multilateral trade initiatives in recent years, replaced instead by deals that have been agreed bilaterally or regionally, with the Regional Comprehensive Economic Partnership or 'RCEP' signed just last Sunday by the ten ASEAN members, China, Korea, Japan, Australia and New Zealand – but unfortunately not India, which pulled out of negotiations last year.

And the popular backlash against globalisation, which many people equate to global trade even though the two are not the same, has made it harder to win or maintain political support for new initiatives.

Business has a vital role to play in increasing understanding of both globalisation and global trade, whilst being clear about the benefits and challenges they bring, and also in making the case for free trade as a critical driver of global economic recovery after the pandemic.

This year, I co-chaired the B20 Trade & Investment Taskforce, which brought together 133 firms to make recommendations to the G20 governments on behalf of all businesses, and especially on behalf of SMEs, which are critical to economic growth and employment but may not always have the voice they need.

Research HSBC carried out in partnership with BCG estimated that if we choose to embrace an open and fair trading system, the world stands to gain an increase of up to 10 trillion dollars of global GDP growth by 2025. That is an additional 2% compound annual growth rate of GDP until 2025.

As the global economy tries to recover from COVID-19, we simply cannot afford to ignore the substantial benefits that a more globalist approach to trade would bring.

There were three key proposals made by the B20 Trade and Investment Taskforce.

First, we asked G20 leaders to strengthen the multilateral trade and investment system, including by rolling back protectionist measures and working together, and with other WTO members, to undertake necessary WTO reforms.

Second, we called for universally accepted legal frameworks that support and regulate the growth of e-commerce and digital trade, which must be considered alongside the movement of goods in any realistic '21st Century Free Trade Agreement'.

Third, we recommended that regulators reassess the current capital treatment of trade finance.

Around 40 per cent of global trade uses trade finance – the low risk nature of which can be seen in low default rates, despite recent trade tensions and economic uncertainty.

By ensuring capital treatment is more proportionate to risk, up to 2 trillion dollars of additional trade finance could be released, which would help to bridge current expected shortfalls.

So business is stepping up with ideas – and we are always ready to work in partnership with governments and international bodies to ensure rules are fair, standards are aligned and barriers are lowered.

The last area I want to consider is the role that all of us can play in partnership together.

In the past, there has been a tendency to believe that we have to choose between acting either in the interests of the short-term or those of the long-term.

For governments in the West, this might have been driven by the pressure to act within an election cycle. But whatever the political forces that might have made trade and investment more difficult, business has always “found a way”.

Companies that have seen the short-term and long-term as incompatible have contributed to the notion that they’ve put profits before purpose – and even that it is necessary to choose between the two.

Regardless of short-term challenges and uncertainty, the need to keep an eye on both the short and the long-term is greater than ever.

With the pandemic still ongoing, there is clearly much work to be done now to create a bridge to a post-COVID world. But we simply can’t afford to ignore the long-term challenges we face – none of which is greater than tackling climate change.

Banks are getting more involved in the low-carbon transition because it is the right thing to do with respect to our role in society – and it is also the right thing to do commercially. There are opportunities for us to provide finance to support sustainable projects and clean technologies – and to work in partnership with our customers as they transition to a low carbon world.

This transition will be more difficult for some customers than for others, and those in some more traditional industries face the most difficult transitions of all – but it is far better for us to work with them to change their businesses now, rather than walk away and force them to look elsewhere for finance.

It’s only by engaging them to understand their sustainability goals and helping them build and deliver an effective transition pathway that we can collect the data that investors can use to judge our performance, and that of our customers, effectively.

At the moment the data isn’t there – but we have to gather it.

HSBC has been part of the Taskforce on Climate-related Financial Disclosures from the beginning, and we have done all we can to try to make voluntary disclosure work. But there has always been the possibility of regulation if sufficient progress isn’t made – and there’s now a move to make climate risk disclosure mandatory, led by the UK.

I expect other countries to follow suit – and the most important thing will be that the different mandatory standards must be compatible, otherwise it will create more confusion than exists already.

At the same time, governments and development banks must work in partnership with the private sector to provide a clear and consistent understanding of what good environmental and sustainable business looks like – including but certainly not limited to finance. And once that’s agreed, we need a methodology for verifying those standards so investors can compare projects and make good decisions.

These should be amongst the priorities for the public and private sectors as we work towards COP26 to be held in Glasgow next November. And I very much hope that the US government will play an active role.

I have spoken today about the kind of international environment that will benefit everyone.

It is one in which the public and private sectors work together to create sustainable, resilient and inclusive growth; governments align legal and regulatory frameworks; businesses collaborate to amplify their benefits to customers and society and; we all play our part in helping to secure the future of the planet.

Clearly these will all be features of the future partnership between the US and UK – and more broadly, they can all be features of the partnerships that we are all part of.

It may seem idealistic – but why shouldn’t we aim high?

I look forward to working with British American Business and all of you to create more meaningful partnerships – and to do everything we can to renew and strengthen our existing partnerships, now and in the future. Thank you.