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KEYNOTE SPEECH

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Global Trade: Changes, Challenges and Opportunities

Ladies and Gentlemen, this is the first ever Asia House conference in Saudi Arabia and I'm delighted to be here for three reasons:

First, in a world of profound geo-political and geo-economic change, the future of global trade is this year more than ever at the top of the international agenda. Second, this is our country's first Presidency of the G20, to which I have the honour of contributing as Chair of the B20 Trade and Investment Taskforce, one of whose co-chairs is the HSBC Group Chairman, Mark Tucker. And, third, on a more personal note, this event, organised by Asia House, is sponsored by the newly merged Saudi British Bank and Alawwal Bank, which I have the privilege of chairing. As you know, Asia House is chaired by Stephen Green, an old friend with whom I worked when he led HSBC, and who was kind enough to invite me to share my thoughts with you.

Before beginning, though, I would be remiss if I did not also extend a special thank you to my dear friend, Sherard Cowper Coles, Group Head of Public Affairs at HSBC - and his team - for their invaluable help to our B20 Task Force and to me personally.

Asia; Trade; Growth; and Globalisation – not long ago it all seemed so rosy. The great financial crisis was behind us. Emerging markets were growing rapidly. Developed markets weren't far behind. Global trade was growing, not quite as rapidly as we might have hoped, but still very fast by historical standards. And globalisation was proceeding at pace, in so many fields, from data and digital to standards and supply chains. But – and in the history of human development, there is all too often a 'but' – we now know that all was not as it seemed. In Britain, America, across Europe, in parts of Asia and Africa, there were regions, communities and individuals who had been left behind - or felt they had been left behind- in the global race for greater prosperity and connectivity.

Across the continents, those whose politics tapped into this discontent, or seemed to do so, came to power. The many real benefits that globalisation had brought were forgotten. And barriers which so many of us thought had been coming down started going up again - emotionally, intellectually, culturally - and sometimes even physically.

It is against this background – of rising inequality and the emergence of the politics of nationalism – that I want to speak of three aspects of global trade: the changes that are underway in how the world trades; the challenges faced by those engaged in global trade; and the priorities for action identified by the B20 Trade and Investment Taskforce.

Changes

The first big change is in supply chains. According to research by HSBC, McKinsey and others, supply chains across the world are in rapid and profound transition. There are important differences between industries, sectors and geographies. But it's clear that the world is moving away from the old, linear, supply chain model of Western know-how at one end, and emerging market manufacturing at the other. Indeed, finished products and components that were once "Made in China" are now being "Made for China". Domestic demand is growing and it's easier to meet that demand locally than through sprawling global supply chains hampered by political, economic and regulatory barriers.

Against that background, firms – some 97 per cent of them in one recent survey – are planning big changes to how, when and where they make and deliver the products their customers want. They are looking to shorten and simplify their supply chains, make them faster and smarter, and more responsive to rapidly changing customer demand.

New technologies - including artificial intelligence, 5G, cognitive data analytics and 3D printing - will all bring further changes in the way firms plan, source, make and deliver their products and services. Inevitably, all these changes mean that supply chains are fragmenting and regionalising. Perhaps the best – the greatest – example of this is the way in which the growth and sophistication of China's economy is leading to a much more integrated system of trade within Asia, in which labour-intensive manufacturing of goods – but not services – moves to Vietnam or Cambodia, with the finished goods then exported back into China.

The second big – and related - change is the global pivot towards emerging markets, and to China in particular. By 2030, some 70 per cent of the growth in global GDP will come from emerging markets, given their long-term growth potential and the prospects for economic reform. Whereas export growth for developed economies is expected to slow to 1.5 per cent this year, in emerging economies it is expected to increase to 2.6 per cent.

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China's exports to the United States fell by nearly 15 per cent last year, while the share – 20 per cent - that went to India, Latin America and ASEAN (excluding Singapore) overtook the share going to the US. Saudi Arabia's experience is representative of these changes. China is now Saudi Arabia's largest trading partner, overtaking the United States. Bilateral trade between the Kingdom and China is growing at a 10-year compound average of 12 per cent. Asia is Saudi Arabia's largest trading region, powered by the export of Saudi oil to Asia's industrial powerhouses, but also by the bold model of economic and social reform set out in Vision 2030.

One small example: JollyChic, a US$1 billion-valued Chinese start-up which sells fashion and is primarily focused on the Middle East markets, does the bulk of its business in Saudi Arabia. Last year, JollyChic signed a memorandum of understanding with the Saudi Arabia General Investment Authority (SAGIA) to assist in the development and growth of the local e-commerce industry and ecosystem in Saudi Arabia. The move is part of Saudi Arabia's Vision 2030 which aims to contribute to the development of a robust and diversified economic infrastructure.

The third change affecting global trade is technological. The greater use of technology - and cloud computing is a good example - has the potential to transform the products and services that are offered to customers, enhance operational resilience and increase economic growth. It also has the potential to transform financial intermediation and the traditional financial system - and thus trade - especially in services. Trade finance, for example, is about to become smoother and more efficient as it adopts blockchain technology. And please forgive me, but I cannot resist sneaking in a plug for SABB – we were the very first bank here in the Kingdom to use blockchain technology for a trade finance transaction. As governments and global institutions grapple with trade issues, they will need to come to grips with issues raised by the new technologies, the growth of e-commerce and changes in financing and financial intermediation.

A good example of this is the fact that the US-Mexico-Canada agreement (which will replace NAFTA when ratified later this spring by the Canadian Parliament) includes chapters on e-commerce that restrict data localisation. And governments around the world are struggling with whether, when and how to tax e-commerce and transactions taking place somewhere in the ether.

To grasp how much change is taking place, just look at the world's greatest e-commerce platform – Alibaba. At a recent conference in London, Alibaba explained to several hundred British companies, most of them small or medium enterprises, how they could leapfrog the logistical and bureaucratic obstacles in the way of exporting to China by placing their products and services on its e-commerce platforms. These are platforms which reach some 800 million consumers in China alone, with the average Alibaba customer visiting the site some seven times a day, for a total of 28 minutes.

Challenges

And now what of the challenges affecting global trade? By far the most important structural challenge affecting global trade is the rise in bilateral trade tensions, especially between the world's two largest economies, the US and China. Sadly, this increase in tension, which also produces more friction, and increased cost, applies not just between the US and China, but also to some of the other great bilateral trading relationships: between the US and India, for instance. And the trade tensions between Japan and South Korea are an interesting example of trade regulations being used as a political weapon. Hopefully, though, the upcoming discussions between post-Brexit Britain and its largest trading partner, the European Union, will not become another example of the weaponisation of trade regulations.

Last year we all watched the "trade war" between the US and China intensify. While a "phase 1" deal was eventually reached, most exports are still covered by some form of tariffs. These are in addition to the global steel and aluminium tariffs imposed by the US in the first half of 2018. We can be confident that China will match US action through all means at its disposal.

The "phase I" trade deal signed on 15 January this year is limited in scope and provides some tariff relief for China in exchange for increased agricultural purchases. But a wider trade deal seems unlikely given the differences of view that remain, particularly over technology. Meanwhile, the Chinese authorities have been taking welcome steps to liberalise tariffs with the rest of the world. All this has led firms to look to diversify their manufacturing operations. Vietnam and other ASEAN nations are the beneficiaries, given their low labour costs and favourable investment conditions. This could translate to further challenges to the Chinese economy in particular, as it aims to attract high value manufacturing. But there is a danger that in future the US may target other countries, such as Vietnam, should trade imbalances widen, making planning for business even more difficult.

Another major challenge to the future of global trade is ensuring its growth takes into account sustainability. Sustainability featured in virtually every discussion related to trade and business at last month's Davos meeting. And it will drive discussions throughout the various G20 meetings here in the Kingdom, the current biodiversity COP in China and the COP26 discussions in the UK in November. There is rising pressure on governments, on firms and on individuals to ensure that economic activity moves us towards a lower – and eventually net zero – carbon future by 2050, if not earlier. Trade policy also has a vital part to play in supporting international environmental and labour standards and in ensuring protection of natural resources such as forestry or fisheries, as well as tackling social concerns, and ensuring respect for human rights and high labour standards.

And trade policy should be used to promote sustainable public procurement, to remove barriers to investment in renewable energy, and to harmonise environmental standards. It should also be used to make supply chains sustainable.

Priorities for action

So, against this background of change and challenges facing global trade and those who seek to regulate it, what are our priorities for action? The work of the B20 Trade and Investment Taskforce which I chair is at a relatively early stage, but we already see opportunities for improvement, and are looking for action by G20 governments, in four main areas:

First - strengthening the system itself. We must leverage current pressures on open markets to strengthen the multilateral trade and investment system, by reforming the World Trade Organisation, expressing support for open markets, and encouraging governments to support an open, modern and rules-based multilateral trading system, benefitting global society. Second - turning the challenges of technology into opportunities. Governments, firms and individuals need to promote digitisation of global trade, by establishing a multilateral framework for digital trade, whilst staying attentive to being inclusive and open to diversity. Attention should be given to supporting young companies and SMEs, and it will also be important to establish a system for regular standardized reporting on digital trade. Third - working better together. We all, starting with governments and the international bodies who regulate trade, need to do much more to strengthen joint initiatives for trade and investment, by launching negotiations for an international investment facilitation agreement, by improving access to trade finance, and by strengthening investment opportunities, especially in travel, hospitality and tourism, which are so important to international markets.

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Fourth and finally - sustainability. We need to do more – much more – to make international trade and investment more sustainable, to close the financing gap to achieve the SDGs, and to monitor the impact of trade agreements on the climate. The WTO should, in close cooperation with the World Bank, stay attentive not to hamper economic diversification in emerging and developing economies when negotiating new trade and investment agreements.

Conclusion

Ladies and Gentlemen, as each of us at this conference today knows, we stand at a fork in the road in the future of global trade. Do we allow markets to continue to fragment, and the frictions and costs of cross-border trade to rise, with adverse consequences for wealth and wellbeing across the globe? I hope we all agree that is not an option. But simply rejecting it intellectually as an option is not enough. We all need to do our bit to help address the real challenges our political leaders face, to explain why protectionism is never a long-term solution, and why we all benefit from a rising tide of free and fair international trade. We need to seize the opportunities offered by technology and changing consumer choices, and exploit them for the benefit of our customers, our shareholders and all our stakeholders.

I know this call to action is embraced by the B20 Trade & Investment Task Force, and I remain impressed and encouraged by the strong sense of a shared purpose and a shared fate exhibited in our discussions.
So I have every reason to believe that this same call to action will most likely be delivered to our leaders in our final set of recommendations. And it is my sincere hope that they will embrace it with the same strong sense of purpose and conviction exhibited by the Task Force members.

Ladies and Gentlemen, thank you very much for giving me the opportunity to share these thoughts with you this morning.