

The Rt. Hon. Hugo Swire MP
Promoting Rules-Based Systems for Global Economic Growth

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Checked against delivery

Introduction

1. I would like to welcome you all to this FCO-sponsored conference.
2. This is my first visit to Wilton Park, and I am particularly pleased to have been asked to open discussions on such an important subject: how international rules and standards can help to stimulate global economic growth.
3. It is the first time we have tackled this issue in this forum. And with such a distinguished group of people here, I am confident that discussions over the next day and a half will be productive.
4. I am sure we are all agreed that we are sailing in uncharted economic waters. Few would have predicted at the onset of the global economic crisis in 2008 the long-term impact it would have on the global economy. How we navigate our way out of the current difficulties remains open to debate.

5. That said, we do know that increased and freer trade plays a major part in driving global growth. But to be sustainable and responsive to the interests of even the most vulnerable, this must respect the core values that underpin prosperity.
6. Over the next few minutes I will argue that a shared set of rules and standards governing the global economy is crucial to achieving this.

The global context

7. The situation we face is, in many respects, daunting. Economic uncertainty is eroding business confidence and dampening growth prospects, particularly in the Eurozone. Businesses, SMEs in particular, are finding it harder to access finance. Confidence in the banking sector has ebbed. The Doha global trade deal has stalled, and many countries are struggling to reduce their deficits. Growing protectionism and falling demand are impacting on business.
8. There is no easy solution. Different countries will – rightly – adopt different approaches, recognising the differences in our economies. But as these problems have global implications, we should all be concerned about how we respond.

9. The IMF recently announced that growth in the volume of world trade was projected to slow this year to 3.2 percent, driven by lower demand, especially in the Eurozone. GDP growth expectations for advanced economies were downgraded from 1.6 to 1.3 percent. Last month Eurozone business activity contracted at its fastest pace for almost three and a half years due to austerity measures and continued uncertainty. Vulnerable Eurozone economies are at a critical stage: Greece's growth this year is projected to slump to minus 6.1 percent.
10. Christine Lagarde has referred to the "ripple" effect that the crisis is having on the wider economy. It stands to reason that when growth in the world's largest economic bloc – the European Union – is faltering, it will have a knock-on effect elsewhere. Indeed, this is one of the reasons why faster-growing developing economies are also predicted to slow this year.
11. The big markets of China, India, Russia, and Brazil are all experiencing slower growth. In the second quarter of 2012 China's growth hit a three-year low.
12. And although the IMF projections are weak, the reality could be even weaker.

An argument for global rules

13. What happens on one side of the world should matter to the other. When demand weakens in one part of the chain, it is felt elsewhere. In that sense, economic uncertainty is contagious, and as we have seen through the latest growth projections, no-one is immune.
14. I am not saying that we do not all have our own individual challenges to overcome. For many countries the biggest challenge is reducing harmful deficits. For others it is rapid population shifts, high food and energy prices, or slowing export demand. These will inevitably require their own unique solutions.
15. But one thing is clear: the choices we make individually in response to these economic challenges will, in one way or another, impact on others. So we also need a co-ordinated *international* response.
16. But what kind of response? We recently asked businesses in the UK what they saw as the greatest challenges facing them in the global market place. Their answer was unequivocal: protectionism and corruption.

The threats to growth: protectionism and corruption

17. Britain, with its history of mercantile adventurism, has long been a strong advocate of free trade – and we have had to learn lessons along the way.

18. We all know that at times of economic difficulty, it can be tempting to close ranks and protect domestic industries and markets. It is only natural for countries to want to secure jobs and livelihoods for their own people. So we should not be surprised to have seen a rise in protectionism in recent months. Between November 2011 and June 2012, at least 110 protectionist measures were implemented globally – 89 of which came from G20 members themselves.

19. Be in no doubt: protectionism is a short-term response that has long-term and often unintended consequences. The current impasse in the Doha trade round is thought to be costing the world around \$180 billion a year. And protectionism can often lead to tit-for-tat measures that result in an inevitable race to the bottom.

20. If we really want to support our domestic industries, we need to make them more efficient and more competitive, rather than choosing to build a protectionist wall which will ultimately undermine competitiveness. Securing international trade agreements that open access for our businesses is the way forward – and it is a sad fact that protectionism tends to make these harder to attain.

21. I also believe that corruption remains a scourge on the global economy. It is a corrosive element with long-term economic, social and political consequences. And by adding as much as 10 percent to the total cost of doing business globally, and up to 25 percent of the cost of procurement contracts in developing countries, it inflicts damage on the most vulnerable in society.

22. I know this is a difficult subject. Some continue to downplay its potential to damage the global economy, classing it as a necessary evil in normal business behaviour.

23. But we should not fall into this trap. Make no mistake: corruption is global. In Europe, we have had to take tough measures to deter it. In developing economies, domestic concern about corruption is also rising, as a growing private sector tries to compete with state-run and protected assets. And in some of the world's poorest countries, the lack of

strong, transparent and accountable institutions means that citizens remain unable to share in the benefits of growth.

24. A recent report by the International Chamber of Commerce, Transparency International, the UN Global Compact and the World Economic Forum provides a stark reminder of the costs of corruption to business. The report states that corruption is the biggest single obstacle to economic and social development around the world. It put the price tag at around \$2.6 trillion, or 5 percent of global GDP, each year. And it is not just a question of the direct cost: corruption damages business confidence, deters investment and distorts the market.

25. I see the domestic and international application of rules and standards as an essential part of building the confidence the market needs. Corruption is exactly the sort of threat they can help to address.

26. And on this the UK is showing global leadership. Our Bribery Act, which sets out a framework for dealing with corrupt business practices, has been a brave step to take. Indeed, it was initially met with nervousness in some quarters. But a year on, British companies are telling us that they see it as a real reputational asset in securing trade.

27. As the Prime Minister, David Cameron, made clear in an article in the *Wall Street Journal* recently, if we are to successfully tackle global poverty we need a radical new approach, supporting what he calls the "the golden thread" of conditions that enable open economies and open societies to thrive: the rule of law, the absence of conflict and corruption, and the presence of property rights and strong institutions. He will make this a key focus of his role as co-chair of the UN's High Level Panel of Eminent Persons on the Post-2015 Development Agenda, as well as for the UK's G8 Presidency.

Responding to this threat: global rules and standards

28. Responding to these two challenges – protectionism and corruption – is therefore crucial. And I think this is where the subject of this conference comes in.

29. The current framework of global economic rules and standards covers a broad range of activity, from corporate governance, anti-corruption to competition law and rules governing trade. But the coverage, breadth and depth of these rules is patchy. Crucially, most were drawn up at a different time, when there was a different global economic dynamic.

30. The global economy is even more interconnected today than it was 50 years ago, with a range of new and influential economic actors. So there needs to be an architecture within which we can maximise the benefits of trade – one in which everyone sees the imperative to engage. This was a clear recommendation of the Prime Minister's report to the G20 last year on global governance.

31. After all, if we all played a game according to different rules, it would not be much of a game.

32. Business needs the assurance of a level playing field, underpinned by basic rules, to have the confidence to engage and export – no matter where in the world you are operating. These rules are not about constraining business, and we would not back them if they were. They are about ensuring that businesses remain flexible and responsive, yet resilient enough to build a solid foundation for future global trade and economic engagement.

33. We need to show countries that are currently hesitant that these rules are relevant, and ensure that the process through which new and existing standards are updated and developed is transparent and open to all. The architecture needs to be fit for purpose. And it will be important for key players such as the OECD to continue adapting to the changing global dynamic, while recognising that different countries are at different stages of economic development.

34. But we should also recognise that if we disagree we risk the system breaking down, with partners reneging on their commitments and others free-riding from the sidelines. During this period of global economic stagnation, we should all be pushing for partners to implement existing commitments. At the same time, we should encourage new partners to join the fold.

Conclusion

35. The economic challenges we face today are complex and multifaceted. They will require individual solutions, but – I hope I have shown this afternoon – within a *collective* framework.

36. We are beyond the point where we can credibly argue that economic progress can be best served through isolation and protectionist policies; globalisation remains our only option. Of course, we should recognise that there is no magic bullet, and I would certainly not argue that the current rules and standards are a perfect model.
37. But one thing I am sure about is that economies across the world need to complement each other if we are to meet our common objective of sustained, long-term growth, in which our businesses and peoples can thrive.
38. So I want to finish today by posing some practical questions. Of the global rules and standards that already exist, which need fixing most urgently, and how? What more can we do to improve enforcement? Are there areas of economic activity that fall outside the current architecture, and if so, should – and how – do we bring these in? Are there rules that are out of date and no longer applicable?
39. I do not expect you to find concrete answers to these questions in the next day and a half. But I hope that in your discussions you will be able to explore comprehensively the rationale behind the rules-based economic system and how it can contribute to the global recovery.

40. I look forward to seeing the report Wilton Park will produce after the conference. We will study it carefully as we review our responses to these challenges.