



Business and the world economy

*ICC statement
on behalf of world business
to the Heads of State
and Government attending
the G20 Summit in Seoul,
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International Chamber of Commerce

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The global economy today

The G20 Summit is taking place in Seoul after two years that have been the most difficult in living memory for business – as well as for governments and consumers – in large parts of the world. But it could have been much worse. Thanks to the rapid and sturdy response of governments in the G20 and other countries to the dangerous financial crisis that broke in the latter part of 2008, anything resembling a depression was avoided and the ensuing recession was more shallow than at first expected. Indeed, large parts of Asia bounced back quite quickly to regain impressive rates of economic growth. And world trade, which contracted by 12% in 2009 - the sharpest decline in 70 years – is currently forecast to rebound by 13.5% in 2010.

Nonetheless, the recession triggered by the global financial crisis (world output as a whole fell 2.3% in 2009) has done considerable and enduring damage in large parts of the world. This is notably the case in the developed world where - with a few prominent exceptions - recovery continues to be fragile and uncertain, unemployment shows little sign of falling, business credit is still squeezed, and financial markets remain extremely nervous in the face of the huge increase in public indebtedness built up as a consequence of the financial crisis and economic recession. Many governments face a delicate balancing act in designing exit strategies which reduce public debt without tipping their economies back into recession.

In the run-up to the Seoul Summit, ICC has become increasingly concerned by public talk of 'currency wars' as several nations have accused each other of manipulating exchange rates by a variety of means in order to gain competitive advantage for their exports. International tensions over exchange rates are hampering the rebalancing of global demand which is clearly necessary. They are also courting the dangerous risk of a degeneration into protectionism. Currency wars could rapidly become overt trade wars. As in the 1930s, that might well lead to a major slump in economic activity worldwide.

ICC has been heartened that the meeting of the G20 Finance Ministers in Gyeongju in October appeared to recognize the dangers of unilateral action by countries and agreed upon a policy framework aimed at addressing global economic imbalances through a collaborative, coordinated and multilateral approach. That is what is needed – and we hope that the ministers' aspirations will be successfully reflected in deeds as well as words.

On the occasion of the Seoul G20 Summit, ICC takes the opportunity to offer its views on a few key policy areas which are of particular importance to ICC member companies across the world.

International trade and investment

ICC is convinced that a buoyant expansion of international trade is a key element in the fight to improve the health of the world economy. To that end we make the following recommendations to the G20 leaders.



- *Resist protectionism and economic nationalism*

Governments must avoid the temptation to counter unemployment and other domestic problems through protectionist measures, including through financial measures, that restrict imports and foreign investment. The world has attained an extraordinarily high degree of economic integration over recent decades and any generalized lurch into economic nationalism would seriously dislocate commercial activity and risk making a bad situation much worse. The negative impacts would spread rapidly through global supply chains and hurt a lot of small producers as well as large ones.

ICC has therefore very much welcomed the pledge made and reaffirmed by the G20 leaders at their previous summits to keep their markets open in the face of global economic turmoil and to refrain from raising barriers to trade in goods and services and to cross-border investment. We have welcomed even more enthusiastically confirmation that the G20 countries have by and large adhered to this commitment so far.

Surely, an important lesson is that the multilateral trading system has again proved its value. WTO's rules, dispute settlement mechanism and trade policy monitoring function are providing vital insurance against trade protectionism and have strengthened the hands of governments in resisting protectionist pressures. Resistance has been less effective in a few areas like anti-dumping, government procurement, and countervailing and safeguard measures where multilateral disciplines are relatively weak or their coverage is limited. In other words, the crisis has proved that multilateral trade rules matter; they are a positive force in helping governments to keep markets open.

Job losses and stubborn unemployment in many countries will continue to underpin calls for measures that protect domestic industries and discriminate against imports. That the great financial crisis of late-2008 did not degenerate into a second Great Depression is partly because the lessons of the beggar-my-neighbour economic nationalism of the early-1930s were respected. Collectively, with the backing of WTO rules, the G20 countries have stood firm. We urge the G20 leaders to maintain that solidarity and determination, and we call on them to re-affirm their trade pledge at their summit in Seoul.

- *Conclude the Doha Round multilateral trade negotiations*

ICC has long argued for the conclusion of the much-delayed Doha Round of multilateral trade negotiations and we were very pleased to see in the official declaration from the Pittsburgh Summit a clear and explicit expression by the G20 leaders of their determination to seek an ambitious and balanced conclusion to the Doha Round in 2010. We have since then become increasingly disappointed – and not only by the scant evidence that progress is being made towards that objective. Equally disturbing has been that the communiqué from the G20 Toronto Summit dropped any reference to a conclusion date, while the communiqué from the very recent G20 Finance Ministers' meeting in Gyeongju included a commitment to “seek to make significant progress to further reduce barriers to trade” without even mentioning the Doha Round by name! We find this progression profoundly regrettable and very much hope



that it will be reversed in Seoul. ICC believes that the best way to keep trade open is to keep opening trade. Concluding the Doha Round must be reinstated as an explicit priority of intergovernmental collaboration.

As ICC has said on many occasions since the global financial crisis broke, the present state of the world economy makes completing the Doha Round more necessary and more urgent than ever. A deal on Doha would send a strongly positive signal – when it is greatly needed – that governments can work together effectively to reinforce and update a central pillar of the international economic system. Moreover, bringing the Round to a successful conclusion would be the equivalent of a fiscally sustainable stimulus package for the world economy as a whole. After almost a decade of negotiations, 80 per cent of the work is done. There are many hard-won, trade- and wealth-creating offers already on the table. These must not be lost.

What is required to conclude the Round, more than anything else, is decisive leadership from the highest political level to make the compromises and break the logjams that have bedevilled the talks to date in some politically very sensitive areas. We call upon the G20 leaders - as a matter of singular urgency - to devote their personal intention to a sustained and intensive diplomatic effort to reach an ambitious and balanced conclusion of the Round in the interests of instilling new confidence in traders, investors and consumers and thereby boosting the recovery potential of the global economy as a whole.

- *Make it a priority to restore trade finance to more normal levels*

In the course of the global economic turmoil that has followed the financial crisis in late-2008, ICC has been particularly active in the task of restoring trade finance – on which international trade so heavily depends – to more normal levels. We very much welcomed the commitment of the G20 London Summit to ensure US\$ 250 billion of support for trade finance over the subsequent two years. This has proved a major step towards alleviating the shocks to trade resulting from the financial crisis.

As for the current market situation, ICC experts observe that business has been significantly improving since the last quarter of 2009 with the cost of trade finance falling and the volume of transactions rising. That said, trade finance volumes seem to have exhibited a high level of volatility around an upward trend and recovery appears to be uneven across countries. The recovery in market conditions is being mainly driven by increased trade within North America, Europe, Asia, and between Asia and the rest of the World.

It should be noted that significant differences persist in the cost of trade finance. And low-income countries continue to suffer from the lack of access to trade finance at affordable prices, particularly import finance. The same applies to small- and medium-sized enterprises (SMEs) in developed countries, which rely on small or medium-sized banks. Capital is still not available in all markets.

With respect to regulatory issues, there is a consensus among ICC members in the banking industry that too stringent regulation and regulatory asymmetries across jurisdictions may



have a negative impact on the cost and availability of trade finance. ICC experts believe that proposals from the Basel Committee on Banking Supervision to increase the risk weighting of trade finance under a new framework to limit bank leverage would adversely impact the supply of cost-effective trade credit to business.

Currently, low-risk trade instruments are being lumped together with higher-risk, off-balance-sheet instruments apparently without appreciation of the unintended consequences (trade finance transactions are being treated in the same light as longer-term, higher-risk forms of corporate lending, such as term loans, project finance, and derivatives). As a result, banks may be required to hold more capital reserves in order to provide trade financing. Such a regulatory environment may run the risk of creating market asymmetries where banks would see increasing opportunities for regulatory arbitrage, creating potentially more risk than the regulations are meant to control.

To define the nature and riskiness of trade finance, ICC has compiled data on loss default for trade finance in 2010 so far. The data support the view that trade finance is a relatively low-risk asset class (with a loss default rate of less than 0.02%, even in times of financial crisis). It seems clear that regulators should seek to adjust the risk weighting under the capital requirement to reflect the self-liquidating and low-risk nature of trade finance and thus maintain the availability and affordability of such financing for SMEs, in particular in less developed and emerging markets.

ICC has been at the forefront of market intelligence work to provide a clearer picture of conditions in trade finance markets. We will continue to address the challenges of trade finance with multilateral partners and regulators because inadequate functioning of trade finance markets could be as important a barrier to trade as more traditional ones. ICC believes that the current difficulties faced by a broad number of developing countries at the margin of the main routes of trade need to be carefully addressed by policy-makers and business leaders, especially in the context of formulating new financial regulations. Although it is crucial to improve regulation of the financial sector following the crisis that broke towards the end of 2008, it is also important to develop regulatory measures that will not be detrimental to global trade - and particularly to developing economies where trade finance is much needed.

- *Improve governance of the world economy*

Governments must develop more effective ways of governing an interdependent world with an integrated global economy. Better international cooperation is vital to tackle major challenges which transcend national boundaries and which governments are increasingly unable to resolve on their own. Today's global economic turmoil is clearly in that category. And so are several other very big issues: climate change, water scarcity, food security, poverty alleviation.

ICC welcomes the decision taken at Pittsburgh to designate the G20 as the "premier forum" for international economic cooperation. We have argued for some while that countries with big emerging markets should be brought more actively into the international decision-making



process if problems of global proportions are to be effectively addressed. Governments need to modernize the institutional structure created to help manage international economic relations after World War II. What today's world requires are new arrangements to facilitate the development of more global rules and better governance.

Climate change

The G20 leaders have made climate change a key priority, and will no doubt continue to do so. Only through the collective engagement of all countries can the world hope to overcome this forbidding challenge.

Climate change

Climate change is a global problem that requires collective actions by all nations. The private sector is a critical partner in devising solutions to the climate change challenge and is strongly engaged on many fronts. Despite the absence of a post-2012 global framework agreement, companies worldwide will maintain their already substantial efforts to reduce greenhouse gas emissions. However, sustained climate solutions capable of stabilizing GHG concentrations at the ambitious levels under discussion will require closer cooperation between governments and business.

The business role is crucial. According to the International Energy Agency (IEA), over 80% of the estimated US\$1 trillion that will be required annually to halve global emissions by 2050 will have to come from the private sector.

Climate finance

At the 2009 U.N. Climate Change Conference in Copenhagen, several governments committed to mobilize a total of \$100 billion a year for climate finance by 2020. In addition, governments agreed to deploy \$30 billion in 'fast start' financing over 2010-2012 for vulnerable developing countries. Mobilizing such large sums, however, necessitates the active participation of the private sector; business invests when there is a clear and predictable policy framework. ICC has recently produced a public policy roadmap on climate finance to help policy-makers develop institutional structures and frameworks to govern financial flows to help the transition towards a low-carbon economy.

Green growth

ICC supports a vision of sustainable development (and transition to the "green economy" or "green growth") which balances environmental, social and economic concerns and encourages approaches through international cooperation and public-private sector partnership. The private sector is a major source of innovation and resources for promoting a green economy. Business innovation, policy, practices and management will be indispensable to greening economies, as will business investments to address sustainability challenges.



Governments play a significant role both in defining the conditions for greener economies and in enabling the transition towards them. Enabling policy frameworks will be necessary for companies to make continuous improvements in greening products, services and production processes while also remaining competitive.

While measures at the domestic level to stimulate greening are a necessary first step, this objective will be most effectively achieved in the context of globalized markets, becoming more integrated and self-sustaining. Open trade that enables greener technologies to enjoy lower or zero tariffs will be crucial.

The International Chamber of Commerce

ICC is the world business organization, a representative body that speaks with authority on behalf of enterprises from all sectors in every part of the world.

The fundamental mission of ICC is to promote trade and investment across frontiers and help business corporations meet the challenges and opportunities of globalization. Its conviction that trade is a powerful force for peace and prosperity dates from the organization's origins early in the last century. The small group of far-sighted business leaders who founded ICC called themselves "the merchants of peace".

ICC has three main activities: rules-setting, dispute resolution and policy. Because its member companies and associations are themselves engaged in international business, ICC has unrivalled authority in making rules that govern the conduct of business across borders. Although these rules are voluntary, they are observed in countless thousands of transactions every day and have become part of the fabric of international trade.

ICC also provides essential services, foremost among them the ICC International Court of Arbitration, the world's leading arbitral institution. Another service is the World Chambers Federation, ICC's worldwide network of chambers of commerce, fostering interaction and exchange of chamber best practice.

Business leaders and experts drawn from the ICC membership establish the business stance on broad issues of trade and investment policy as well as on vital technical and sectoral subjects. These include financial services, information technologies, telecommunications, marketing ethics, the environment, transportation, competition law and intellectual property, among others.

ICC enjoys a close working relationship with the United Nations and other intergovernmental bodies, including the World Trade Organization, the G20 and the G8.

ICC was founded in 1919. Today it groups hundreds of thousands of member companies and associations from over 120 countries. National committees work with their members to address the concerns of business in their countries and convey to their governments the business views formulated by ICC.

For information on how to join ICC, visit the ICC website (www.iccwbo.org) or contact the ICC Membership Department in Paris.

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