HSBC

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"FROM WEST TO EAST"

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Speech to the American Chamber of Commerce in Hong Kong

Good afternoon everyone. When the HSBC Board announced last year that we were moving the Group Chief Executive's main office to Hong Kong, it prompted a number of reactions.

Some asked if it was a first step towards moving HSBC's headquarters away from London. Some wondered if we were going to split the bank into two.

In fact, my move had everything to do with our Group strategy. At HSBC, we have long been convinced that the world's centre of gravity is steadily shifting east and south. It's a view we've held since several years BC – BC is after all 'before the crisis.' And, in my view, it is a shift which the crisis has just accelerated.

We have now reached a point of no return. In a few years time, who'll remember the G7? We'll remember the E7 – China, India, Brazil, Russia, Mexico, Indonesia and Turkey. These are the ones which will matter.

My coming to Hong Kong tells you where we believe the future lies for financial services. We aren't abandoning London. It remains an important nerve centre, for global finance and for HSBC. Three of my executive team are based there, along with three in Hong Kong.

We aren't splitting HSBC into 'two banks' either. But we do know that a global organisation in more than 80 countries and territories needs more than one 'home' – and, after all, we have been in our home of Hong Kong since 1865.

Hong Kong is perfectly located. Not only to tap into what's happening in mainland China, but also the flows of business in Asia and between Asia and the rest of the world. So I am now managing our global business from where the action is: Hong Kong.

And over the next twenty minutes or so, I want to share four personal convictions – about what the shift from West to East means for business and for finance in the coming decade.

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News Release

A new phase for the global economy

The first thing I'm convinced about is that we are entering a new phase for the global economy.

Fact number one: emerging markets are set to grow three times faster than developed ones this year. In other words, they are driving the global recovery. I do think the biggest jolt has now passed through the world's economy. But many Western nations will struggle for some time, and we could see further setbacks, particularly in Europe. It is now the emerging markets that are leading the way forward, in a way few would have thought possible only a few years ago.

Of course there is a lot of talk about asset bubbles. And there are questions about whether growth is sustainable. But I think those doubts are overblown. Everything I see suggests that – overall – the recovery in emerging markets is secure. And I'm in no doubt that governments when they need to act will act to reduce any bubbles.

Here's fact number two: within three years, for the first time, the economic firepower of emerging markets will overtake the developed world – measured by purchasing power parity. It's a defining moment.

It's hard to believe the term BRIC was invented only ten years ago. And what a ten years it has been. Brazil, India and China's roles are now secure on the world stage. As for Russia, the potential is there with its strong commodity base and its growing wealth. Its economic story will unfold, but probably at a different pace.

Since then, BRIC has become the mantra for every business expansion strategy. But in this decade to come, a new group of emerging market dynamos will also emerge. Personally, I like the prospects for the CIVETS.

CIVETS are named after the cat-like animals found in many of these countries. These are the new BRICS: Colombia, Indonesia, Vietnam, Egypt, Turkey and South Africa. Each has large, young, growing population. Each has a diverse and dynamic economy. And each, in relative terms, is politically stable. Each has a very bright future.

Any company with global ambition needs to act now in regards to these markets. In today's world, you can't afford to wait for business. You have to go where the business is.

This presents those of us based here in Hong Kong with a challenge, but also a unique opportunity. We are better placed than many to get out there and make things happen.

Hong Kong has been ranked the world's freest economy by the Wall Street Journal for the last 15 years – ever since they started the index. Its entrepreneurs and its trading spirit have made it what it is today, and it's a spirit we need to harness now more than ever.

What's more, our location couldn't be better for tapping into the Asian growth story. And at HSBC, we are excited by the opportunities in markets like Vietnam – where we were the first foreign bank to incorporate. And Indonesia, which has the world's fifth largest population, where we doubled our presence last year.

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But, as the list of CIVETS shows, the growth story is much wider than Asia. Companies that want to capture these opportunities need a global platform.

Obviously there will be bumps along the road, such as seen in Dubai recently. These hiccups have caused some companies to scale back. Yet between now and 2030, the population of the Middle East will nearly double. I have no doubt that the Middle Eastern economies will continue to grow at a robust rate.

Some companies are also overlooking the commodity-rich countries of Latin America, where I was based for a number of years. I think they are making a big mistake. I think they will regret their decisions later.

HSBC has great faith in the prospects of both the Middle East and Latin America.

Changing patterns of wealth

The second thing I'm sure of is that patterns of wealth will change radically in the decade ahead.

The economic shift I have been describing is creating a new middle class. Here's the first fact: in 2000, the emerging market middle class numbered 250 million people. By 2030, it will be 1.2 billion.

We have also entered the age of emerging market millionaires. Here's fact two: Asia-Pacific will become home to more millionaires than the USA or Europe soon. China already has more millionaires than the UK – and the average age of their millionaires is an enviable 43.

All of this has implications for any industry that relies on consumers. China's tourists are now the number one spenders in Paris, ahead of the Americans and even the Russians. China has also become the second-largest luxury goods market in the world, consuming 25% of luxury goods such as Louis Vuitton handbags and Rolls Royces.

As people become older and wealthier, they will clearly search out more sophisticated products. And in financial services, households tend to open bank accounts and ask for other products when income reaches around ten thousand dollars. Many Chinese households are about to hit this level. They number about 33 million now. But they will quadruple to 155 million by 2014. In India, the change will also be dramatic.

At HSBC, we therefore see huge opportunities in Private Banking, Also in the mass affluent sector, and we are building our Premier proposition in personal banking to meet that demand. 90% of our new Premier customers are new to HSBC.

As well we are seeing huge growth in insurance, an industry which has hit the headlines in Asia recently with the proposed sale of AIA and its high valuation. Here in Hong Kong, HSBC already has 30% of the life insurance market. We also have mature and healthy insurance businesses in Singapore and Malaysia. And we have growing and dynamic insurance businesses in China, India and Vietnam.

Of course, people will only spend their savings if pensions, social security and education infrastructure are available for all. And structural change is now well underway, not least China.

I believe the main challenge for many companies will actually be to keep up with demand that is out there in the decade ahead.

Changing trade routes

My third belief is that the world's trade routes are changing direction.

Fact one: HSBC's latest research shows that export orders are at their highest levels in emerging markets for five years. If anything, things are speeding up. And companies are taking on staff at the fastest rate for two years just to meet that demand.

Fact two: these exports are not all bound for the West. In India, two thirds now go to markets other than the US and Europe. And last year, China became the largest importer of Brazilian goods. And I'm certain this trend – 'south-south' trade – will accelerate. China has already become the largest trading partner for Africa.

Back in the West, some 'get it'. Others don't. It is Asian and other emerging nations who now seem the most comfortable with globalisation. Some in Europe and the USA now seem to be less keen on the idea of free trade.

We shouldn't write the West off just yet. For one thing, the USA is still the world's number one super-power. Indeed, the United States is recovering better that most developed markets. And our business there is performing better than anticipated. And there is clear evidence that the consumer is back spending in the malls each day.

I have heard some say that 'the American age is over'. Well, I know that's not true and HSBC is committed to the market there as part of its global bank strategy.

For another thing, this will be the decade of the emerging market multinational. Japan and Korea have long since won over Western consumers.

Now is the turn of other Asian and Latin American companies to tap the market, creating a whole new direction for international trade. And we will see more acquisitions of Western companies, as CEOs follow the lead of Tata in India and Geely in China.

HSBC is therefore focused on building its capabilities in trade and connectivity. In the decade ahead, the ability to support these new trade routes will be vital for any service company. Those people who have the deepest understanding of both emerging and mature markets will be in the highest demand. That includes everybody in this room.

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Redrawing the financial map

The fourth point is this is the decade when emerging market assets will come of age.

It says a lot that it now costs more to insure Greece against default than it does Brazil.

Of course, there is still plenty of room for growth. Financial and capital markets in most emerging markets are small relative to GDP. Even now, only a quarter of the value of Chinese corporations is publicly listed. This compares to more than 70 per cent in the USA.

And as you may have heard, it's no secret that HSBC would like to be one of first international companies listed in Shanghai. We are now making preparations and we will be ready when the regulations are in place.

China's currency is also coming of age. I'm not one of those who thinks the dollar has had its day. But it's clear that emerging market currencies will become preferred stores of value in the years ahead. I can certainly see the opportunity. And just as HSBC has helped the development of capital markets in Asia in the past, we intend to be at the forefront of trade, settlement and bond issuance in renminbi.

It's also clear that since the crisis started, the financial centres like Hong Kong and Singapore have been closing the gap on London and New York. And this gap is likely to continue to narrow, with many Western markets facing years of austerity ahead as they attempt to regain control of their fragile fiscal positions.

Now of course things have been difficult for banks everywhere, but particularly for those based in the West. No-one there has come through the crisis unscathed. HSBC has done better than most. And we remain a leader in the paying of dividends in the industry. In fact, we have paid over 24 billion dollars over the three years of the crisis.

The world needs a stronger banking system, and we need stronger banks. I am in absolute agreement with that. But the West shouldn't be setting the agenda in isolation of the emerging markets.

It's clear to me that policymakers in Asia and the other BRIC economies must have a much greater role to play in the world's financial future. And not before time. They should not be too modest about their achievements and others should learn from their successes. The world needs Asia to stand up and contribute to the debate about the future of finance.

I was in the UK and USA last week. They are still arguing about whether London or New York is the best financial centre. Candidly, that's yesterday's news. And the policy debate suggests the reality of what's happening in emerging markets really hasn't hit home yet.

Joseph Stiglitz, the Nobel prizewinning economist, once asked the question: *"Asia has become the source of finance, the source of savings. Why doesn't it take advantage of that opportunity to… create financial markets that work better for the people of Asia?"*

Well, three months after returning to Hong Kong, I can tell you, from everything I am seeing, that Asia now needs to seize the opportunity head-on.

Conclusion

Personally, I believe the twenty-tens will bring about the close of the Western-centric mindset.

Why? Because emerging markets are full of new ideas. When Ratan Tata watched an entire family trying to balance on a scooter, he set his company the task of making a car for 2,200 dollars. Impossible they said in the West. Well, it would have been impossible for many, but not in India where today it is a reality.

This is just one example of how Asian entrepreneurs refuse to be constrained by the old business perceptions and instead see new opportunities.

Emerging markets are also finding new ways of doing things. In doing so, they are leapfrogging the technology and infrastructure which served the West so well.

Who needs fixed phone lines in China when more than three-quarters of a billion mobile subscribers are present? And Africa is leading the world in mobile phone money transfers.

In short, the emerging markets will change the way we all do business. The Western view of business has been turned on its head.

To recap, we have already entered a new phase for the global economy:
- We will see a new set of dynamic economies – the CIVETS joining the BRICs.
- We will see the rise of a new middle class and the emerging market millionaire.
- We will see trade routes continue to shift in direction.
- We will see emerging markets' financial centres come of age.

All this spells the continuing decline of the Western-centric mindset. All this marks a new beginning for the way the world does business.

After three months back here, I am more convinced than ever that this is the decade for Asia's economy. And I know that Hong Kong is absolutely the right place for me to be, as HSBC prepares for the future with you, our most important advantage.

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Note to editors

The Hongkong and Shanghai Banking Corporation Limited
The Hongkong and Shanghai Banking Corporation Limited is the founding and a principal member of the HSBC Group which, with over 8,000 properties in 88 countries and territories and assets of US$2,364 billion at 31 December 2009, is one of the world's largest banking and financial services organisations.

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