

Foreign Policy Association Financial Services Dinner

Acceptance of Foreign Policy Association Medal

Speech by Sir John Bond
Group Chairman, HSBC Holdings plc

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Good evening Ladies and Gentlemen.

As you saw, I had dark hair when I lived in California; banking can be an onerous profession!

Thank you for those kind words Bill. My father would have been amazed, and my mother might have believed every word.

I also thank the Foreign Policy Association for this great honour. I do not deserve it, but I am delighted to accept it on behalf of my colleagues at HSBC whose talent and hard work do richly deserve it.

When I was asked to speak tonight I decided that my subject matter should be on a subject with foreign policy implications, and not solely financial services.

So let me begin with a paradox. It is this: just as more people than ever before in history are migrating to developed countries in search of work, so much of that work is beginning to move from developed to developing countries.

I believe a major beneficiary of both these trends will be China.

According to the World Migration Report, there are now some 175 million migrants globally, about one person in 35.

Although I should say people move one-by-one, family-by-family and often slip under the radar screen. Officially there are 40,000 French people living in London; actually it's around 200,000.

Why do people move?

Well I am sure the French don't go to London for the food or the wine; I suspect they mainly go for tax and financial reasons.

People have always migrated for the same reason: to find a better life for themselves and

their children. This applies just as much to the Chinese PhDs as it does to the dispossessed refugees of sub-Saharan Africa. The growth in migration is both fuelled, and aided by, other facets of globalisation: improved transportation, better communications – refugees can see their new world on CNN.

There is also a smaller number of people with skills much in demand – research scientists, medical consultants, university professors – who are very mobile geographically. These highly-prized people will choose to live where they see the best quality of life, which is why cities are going to have to get

to grips with crime, dirt, transport and poverty if they want to prosper.

The effect of immigration to developed countries will be – depending on your personal perspective – beneficial as it brings workers into countries with ageing populations who need to fund their pensions; or negative as wages in some countries, and therefore standards of living, are constrained by an ever more competitive employment market.

The effect on those states providing the mass emigrations will be salutary. Failing and failed states have a choice: stagnation and depopulation, or adjustment. In the long term, the majority will have to copy China, India, Mexico, or they will condemn their people to poverty.

The other side of this paradox is the movement of jobs to developing countries.

As the world's economies integrate further, for the first time ever, things that can be done more effectively in China and India, for example, will be done in China and India.

growth in migration

At companies like HSBC, this process has already begun. We have processing centres in India and China that perform work that was previously done in the UK, France, the USA.... We can perform our work more productively to the benefit of customers and shareholders.

As for HSBC, so for many others. I read an estimate in *BusinessWeek* magazine two weeks ago that said 3.3 million American service industry jobs could move offshore in the next 15 years – that’s 136 billion dollars in wages.

And, if you think about it, this is no more than a logical extension in services of what the manufacturing industry has done. We should remember that this is good for consumers overall, although it may not be for some of the people who were involved in producing domestically, it is good for developing countries.

Consequently the standards of living in Europe and America for people in some businesses may be constrained until, at least, the standards of living of non-rural China and India and other places around the world are in closer proximity to those of the West. And with more than a billion Chinese and a billion Indians, these are labour markets that will not run out anytime soon.

This movement of jobs will lead to increased incomes in developing countries, it will unleash a new wave of spending power there as they build consumer markets.

Much of that spending power is going to be in China and India as middle-class incomes move from 15,000 to 50-60,000 dollars or whatever it might be. This implies that there should be massive growth potential in these markets on a scale we don’t appreciate right now.

Clearly it will only be a segment of the population that moves quickly up the income scale. But the absolute numbers are vast. There is also a shift in spending as people increase their incomes. Food and drink accounts for 50 per cent of spending in developing countries; 19 per cent in developed.

This gives rise to so-called “sweet spots” in consumer markets when incomes reach

between 3,000 and 10,000 dollars and consumption of consumer goods increases sharply. Which is why China bought 1.1 million new cars last year compared to less than half that number five years before.

Today China is the world’s largest market for mobile phones; by next year it will be the world’s largest market for digital cameras and the second-largest for PCs.

As jobs go to China, the result is a pricing pressure on other economies in the world. We already hear this from our clients in Asia.

For HSBC, it’s also determining what work gets done where, and what people get paid. And we’re doing more and more work in China, and more in India – work that was previously done in the West.

The logical response to this in developed markets is increased investment in human capital, that allows you to move to and retain high-value added jobs. Although even here the West will be competing with the 465,000 science and engineering degrees granted by Chinese universities in 2001 – and it will be interesting to see how quickly China moves up the value chain.

Of course, there are many jobs that are geographically fixed: for example, public sector work, entertainment, hospitals, hotels, tourism, even agriculture. These will become ever more important in developed economies.

But the fundamental conclusion is that we are in for significant change in the employment market in developed economies.

Let me turn to China. It is easy to forget that today’s status quo is by no means to be taken for granted. For instance, for perhaps 90 per cent of the last 2000 years, China has been the world’s major economy.

China has developed to what it is today from a civilisation that dates back over 4,000 years. China has both a tradition of Buddhism – which promotes the growth of the individual – and of Confucianism – which places the well being of the family and of society above any individual’s needs. This ability to live with ambiguity is a trait often found in Asia, less so in the West.

movement of jobs

This cultural and ideological richness enabled the Chinese nation to absorb foreign rulers while remaining Chinese, as with the Mongols in the thirteenth century and the Manchus in the mid-seventeenth.

More recently, while the Cultural Revolution left its mark, China has met the challenge of re-building its economy by once again showing a remarkable ability to assimilate and adapt ideas from “outside”, to develop “socialism with Chinese characteristics”.

This resilience is nothing new, indeed, China’s continuity is what is startling. Sometimes the West does not pay enough attention to the underlying consistency in Chinese thought. In foreign policy for example, since 1949 China has had just six foreign ministers; the UK has had 23.

China has developed to what it is today from a civilisation that dates back over 4,000 years.

China’s character is shaped by a largely homogeneous culture that emerged out of a geography that was essentially locked by mountains to the south and west, the desert to the north and the ocean to the east – hence the name the Middle Kingdom. And in isolation, they developed an amazing civilisation.

When Marco Polo arrived in China a millennium ago, he found the greatest civilisation in the world, the largest population, the world’s first restaurants, printing and paper money.

The Chinese made steel 1,500 years before Europe; they have the dubious distinction of inventing taxation.

The Chinese people have a deep sense of their culture and heritage. When I was in Singapore in the 1960s I used to watch illiterate people in the streets pay their five cents to the storyteller, who would tell them the history and mythology of China – stories of emperors, of heroes, of hubris, of failure, of victory.

In fact, I would say that the two countries with the greatest sense of nationalism and

patriotism that I have seen are among the oldest and youngest: China and the USA.

The rude interruption to the huge sweep of Chinese history was the arrival of Europeans; Europeans with a history of practising warfare and empire building. The changes wrought by this led to two hundred years of relative instability and the adoption – and adaptation – of elements of a Western ideology, communism.

In the Chinese people, there is a deep-rooted confidence in their own culture, their own civilisation and that, in the long run, they will restore China to its rightful position in the world’s pecking order.

China, because of its size, has always been a – or the – major economy in the world. When China starts to approach the per capita standard of living of the West, we will see the most powerful economy ever.

Perceptions of China in the West, by and large, have not kept up with reality. Anyone like me who goes there regularly can see the changes

with their own eyes.

I first went to China in 1972 in Mao’s era when the population lived on vouchers issued by the Communist Party, and there was virtually no need for money. I was shadowed by an “interpreter” and loudspeakers at the border denounced “imperialism”.

Today you can see Arnold Palmer-designed golf courses, buy all the world’s top brands in the Nanking Road in Shanghai and travel through stunning new international airports.

The West sees China in black and white – or maybe red! – as a communist country, a totalitarian state. But the Chinese leadership is experimenting with the evolution of the political and economic order.

The leadership today is well aware that its mandate – as for the dynasties of the past – comes from the will of the Chinese people. There are no alternatives to reform in China; the only debate is the pace of change.

deep-rooted confidence

It is certainly an excellent sign that China is about to complete its first orderly transition of power from one generation of leaders to the next since the 1949 revolution, given the enormous challenges China faces in its transition from a rural to a more urban society; from a state-run to a private enterprise-based economy; and in establishing the rule of law and contracts and, in common with many countries, of eliminating corruption.

You can clearly see the signs of progress, politically and economically.

In China, we should remember one-party rule is not always undemocratic. Already 800,000 Chinese villages directly elect their heads and you cannot become village party secretary unless you have been elected village head first.

And China is not averse to learning from the West. When President Jiang Zemin visited the USA during the Clinton administration, he asked to visit IBM. The immediate assumption was he wanted to Deep Blue, the supercomputer, or visit their research laboratories. In fact, he wanted to meet Lou Gerstner and some of his board members to learn about corporate governance and how you manage an international business in today's world.

I have first hand experience of this thirst for knowledge. As a member of the Mayor of Shanghai's international advisory council, I entertained the vice-chairmen of the top four banks in China, and they asked to meet me and a non-executive director of HSBC for us to explain the difference between an executive and non-executive of role, and how we manage a business with 185,000 employees in 81 countries and territories around the world, and where half the profits are made when I'm asleep.

We can now see theory being put into practice. This year, China is planning corporate governance legislation that limits people to five directorships and mandates one non-executive director must be a qualified accountant.

And in Shenzhen – the economic powerhouse next to Hong Kong – reforms are being put in place to separate the powers of party and government from business activities, and to develop the legislature in a conscious attempt to echo Western systems of corporate governance and a legal system compatible with a fully developed economy.

During the process of planning these reforms, they studied models from the UK, Singapore and Hong Kong.

Incidentally, Shenzhen now has 300 companies run by Silicon Valley returnees and 1,000 foreign-educated Chinese move there each year.

People left China steadily during the past 200 years, but these emigrants never lost their love of their country. The return of the overseas Chinese is likely to be one of the great migrations of the 21st century. That is why I said at the beginning that China would benefit from both the trends I have talked about.

The number of Taiwanese living in mainland China has grown from 300,000 to 500,000 in the past two years. While their political leaders still have many issues to resolve, 2.5 per cent of Taiwan's people have sought employment in China.

And the 55 million overseas Chinese around the world – the bamboo network – are responsible for about two-third's of China's FDI, about 200 billion dollars over the last 20 years.

The journey to China becoming a world power will not be entirely smooth, but the direction is inexorable and the only judgement is how long it will take. For the West, engagement is the only sensible strategy and any attempts to isolate China will be counter-productive.

We stand on the threshold of the 21st century; we can already see some of the dominant trends.

People will move on an unprecedented scale. More and more people will choose where to live because of the quality of life they can obtain.

thirst for knowledge

There is a pressing need for the peoples of the OECD countries to find ways to share their standards of living with the developing world.

Technology and communications will connect people around the world in a way that politics – which remains essentially domestic – finds hard to accommodate. The West is in for a sustained period of price pressure on any goods or services that can be produced in an emerging economy; this is good for consumers, tough for domestic producers.

The mass consumer markets of tomorrow are in China and other developing economies: India, Mexico, Brazil. Goldman Sachs

estimates that developing markets will provide about half the growth in demand in the world economy over the next thirty years – those consumer sweet spots like China's cars.

So we will see the rise of China as a new or, they would say, restored power. I am excited by the prospect. And I believe the West today has a great opportunity to engage with the new China. I always remember the Chinese character for threat is the same as the one for opportunity.

Let me conclude by thanking the Foreign Policy Association once again for this great honour. Thank you.