

## The Year of the Snake is the Year of the RMB

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HSBC Chinese New Year Lunch  
London, 26 February 2013

Ladies and gentlemen, I'm delighted to welcome you all to HSBC's Chinese New Year Lunch.

Shin Ni-en Kwai Ler! [Happy New Year]

It is a great privilege to welcome His Excellency Liu Xiaoming.

HSBC was founded in Hong Kong and Shanghai nearly a century and a half ago, and has maintained an unbroken presence in China ever since.

We are headquartered in London and have two home markets, Hong Kong and the UK.

HSBC is by some way the leading international bank for trade finance. We see our purpose as connecting customers to opportunities, and financed half a trillion dollars' worth of international trade in 2011.

It is with this perspective – our heritage, and our expertise and trade - that I want to reflect on a significant moment for the relationship between China and the UK.

This year's Chinese New Year celebrations in London were some of the busiest on record.

Tens of thousands of Londoners and visitors from around the country, in fact from around Europe, gathered to see the parade.

In the space of just 12 years, London's Chinese New Year festival has established itself as the largest celebration outside Asia.

London is not the only city in this country to mark the New Year.

Birmingham, Cardiff, Edinburgh, Glasgow, Liverpool and Manchester have all held festivals and organised exhibitions of their own.

The success of these events; the widespread coverage in local media; and the lively interest of schools and businesses stand as testament to the growing bond between the UK and China.

It is a bond that is cultural and economic, bringing benefits to both countries – opportunities to learn, to invest, to trade.

China, its official organisations, private firms and individuals, have long recognised this.

There are more than 100,000 Chinese students in UK; most recent figures from UCAS show a near 10% growth in applications from China in the most recent year.

China Investment Corporation has taken stakes in UK firms including Thames Water and Heathrow Airport Holdings.

Huawei has announced its intention to invest in the UK over the next 5 years, creating around 700 new jobs.

In Britain, the official body that seeks to support trade and investment, the UKTI, names China among its priority markets – and there are notable export successes, from sports cars to bikes, from whisky to cheese.

And although the numbers show how far UK's trade and business relationships with China have grown, there is still much more we should aspire towards.

Over the last 10 years the value of UK goods exported to China has risen from US\$2.5 billion to US\$9.5 billion. In 2011 that represented 0.4 % of UK GDP, a marked increase from 0.1% in 2000.

But it is behind other European countries such as: Italy, which exports goods to China equivalent to 0.6% of its GDP; France at 0.7%; and Germany, at 2.0%.

As well we know, Mr Ambassador, in recent years, China has played an increasingly pivotal role in the global economy.

Last year, some commentators expressed fears that China was heading for a "hard landing." In fact, growth at 7.8% was above the target of 7.5%; the economy rebounded in the final quarter; and we are optimistic about 2013, anticipating growth of 8.6%.

This is a story of long-term success: China's performance is supported by its fundamental transition – its move up the value chain, and its continued urbanisation.

By 2014, we expect China's GDP will be three and a half times bigger than it was in 2000. It will contribute a greater proportion of global growth than ever before. China's leadership has set a target of doubling GDP and GDP/capital over the decade to 2020.

Just as, over the past ten years, nations with strong links to China have benefited from its growth, so for the next ten years, nations who increase their exposure to China will reap the rewards.

It is hugely in the UK's interests to live up to its ambitions and reinforce its trading ties with China, and its ability to do so may materially influence the country's overall economic success for years to come.

While some choose to comment on points of difference, we point to the huge shared goals of the UK and China, a passion for education, in co-operation in scientific research and on technological advancement, focus on efficient and sustainable energy, great co-operation in financial services, with London now building up to service the growing market in off-shore RMB. On top of this there are deep cultural ties and together we are of course the two best countries in the world at staging the Olympic Games.

A number of organisations have a role to play and many do good work already in support of British exporters, notably the China Britain Business Council, UKTI, Chambers of Commerce and the City of London.

In HSBC financing trade, and connecting East and West, has been at the heart of our business for 150 years.

Just as we have invested in 'China outbound' desks to help Chinese businesses reach new markets, so we want to ensure that our network supports UK businesses 'going out.'

We have 230 International Commercial Managers providing dedicated expertise to UK businesses looking to expand in new markets.

We regularly take groups of businesspeople into fast-growing markets to meet potential partners and gain insights into different commercial cultures.

Let me illustrate with a couple of examples from the very recent Cathay Pacific Business Awards, for which we have the privilege of being one of the judges.

The Continued Commitment Award, which recognises ongoing sustainable and ethical investment in China and/or Hong Kong, was awarded to the British Standards Institution, which has been helping organisations improve, capturing best practice and shaping the standards of excellence in product specification, business processes and businesses potential since 1901. BSI's first direct presence in China was in 1995 and today it employs 300 employees across the country.

And to prove that even the oldest links still resonate today; recognising initiatives from any company or not-for-profit organisation that has benefited China in a socially responsible manner, the Social Responsibility Award was given to Herbal Health – a family-run business based in Kent, producing a range of Organic, Fairtrade and Natural China Teas.

The business model has served over the last 15 years to transform the lives of the local people who have been involved in this project.

And we seek to help our clients understand the great changes reshaping the world economy.

That is why for us, the Year of the Snake is also the year of the RMB.

The Chinese currency, the RMB, burst onto the world stage at the end of the last decade. In a few short years it has rapidly begun to establish its international credentials.

At HSBC, we saw RMB denominated trade settlement increase 56%, year on year, over the first nine months of 2012.

Multinational firms including Volkswagen and Tesco have already raised funding in RMB, and many more will follow.

A growing number of countries, including Japan, South Korea and Russia, are holding RMB in their reserves.

We strongly support the further internationalisation of the RMB as envisaged in the 12th Five Year Plan. We believe that by 2015 the RMB could account for a third of China's international trade, and take its place among the world's top 3 trade currencies.

Further internationalisation would reflect China's status as a global economic power, and support its burgeoning trade and investment relationships around the world.

Discussions between the Bank of England and the People's Bank of China to establish a swap line are a positive step, supporting London's ambitions to be a major offshore RMB centre, and facilitating the internationalisation process.

For British traders and business who wish to cement their relationships with China, the RMB presents opportunities. Settling accounts with Chinese partners in RMB could help both parties better manage currency risk, and reduce intermediation costs. Some Chinese sellers offer better terms in RMB. An HSBC survey found half of Chinese corporates were willing to offer discounts of 3% or more.

And if a Chinese buyer is choosing between two firms who offer similar products at similar prices – say, a German manufacturer of machine parts and a British one - the ability to settle in RMB could be the differentiating factor.

The longer perspective is that in 5 years' time, using the RMB is going to be an absolute must for any firm serious about establishing an international presence.

Those who delay risk being left behind, while early adopters can get a head start.

As the leading international bank for the RMB worldwide, we will be ready to help all our clients understand and seize the opportunities.

Mr Ambassador, despite its fearsome reputation in the West, the Snake is a symbol of good luck in Chinese tradition.

Embracing the RMB is one of the most effective means that our clients have at their disposal to make their Year of the Snake a prosperous, auspicious and plentiful one.

Thank you all for joining our celebration today. I would like now to invite His Excellency to say a few words.

Gong Hei Fat Choy. [Good fortune]