

KC Wu Memorial Lecture

The Guild of International Bankers and the Sir John Cass Business School

Speech by Sir John Bond
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19 April 2004

Good Morning Ladies and Gentlemen.

Let me start by thanking the Guild of International Bankers and the Cass Business School for asking me to speak. It is a privilege to deliver the KC Wu memorial lecture.

And it is a particular honour to be asked to deliver this lecture in front of KC's widow, Daisy and his daughter, Ling. I knew KC from when I came back to the UK in 1993, and KC made a great impression on me, just as he did on everyone he met.

It is very rare in my experience to find somebody who bridged two cultures so brilliantly.

What a remarkable life KC led. Xiamen in Fujian province, as many of you know, is a port where many overseas Chinese began their journey. It is famous for its port and for pianos. KC was born there in 1922.

He studied at the Anglo-Chinese College until he was 16 when the Japanese occupied Xiamen. He left for what was then Burma and joined the Bank of China in Rangoon. When Rangoon was also occupied in 1941, he worked in Kunming, Calcutta and then Liverpool before ending up in London where he worked for more than 50 years.

His career in London saw the branch grow from a small operation with a few people to a large branch with assets in the billions. The Bank of China is firmly embedded in the City, as was KC. I should say that HSBC has great respect for the Bank of China, which is one of our oldest friends and competitors.

It is the mark of a true internationalist to be honoured by two governments as KC was, by both the Chinese and British governments for his contribution to the Chinese community here and to Anglo-Chinese relations.

And in a recent history of the City of London, he was described as a City legend, known and respected by all. On the occasion of the Bank of England's tercentenary conference in 1994, a former Governor chairing the opening session announced, "Ah, KC is here. Now we can start."

Here was a man who was a wonderful ambassador for his country in his adopted country, and who understood how China works and how the UK works.

My goal in life is for HSBC to be an institution that bridges the gap between the two cultures in the same way that KC did.

When I was at school I was taught a tremendous amount about the Roman Empire. But I was never told that at the same time as the glory that was Rome, there was another nation of equal prominence in terms of size and population – and that was the China of the Han Dynasty. And while the Mediterranean Empire may have been more advanced militarily – after all, its empire came by conquest – the Middle Kingdom was more advanced technologically, socially and economically.

China had a common language and broadly the same borders in 2,000 BC as it does today. For most of recorded history China was the world's largest economy. If we look at the continual change and upheaval in Europe over the same period, we get some sense of the amazing continuum of Chinese history.

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.

In the West, we sometimes view history from a rather selective and short-term perspective. We seem to forget that before Rome had an empire, China had nearly two millennia of civilization.

The seed drill was used in China 3,500 years before the West got there.

The Chinese produced steel 1,500 years before Europe. Iron a thousand years. And used it for pots and pans not weapons.

Stirrups were used in China about 500 BC, 1,200 years before Europe; paper at the time of Christ, a thousand years before Europe.

**remarkable
life**

China had a civil service based on meritocracy which existed 200 years BC. And it was open to anyone who passed the competitive exams. And this Mandarin system endured for 2,000 years – hence we in Britain have Mandarins stalking the corridors of Whitehall.

And, of course, with a developed civil service, the Chinese have the dubious distinction of inventing taxation.

The first suspension bridge was built in China in the first century AD.

So we should always remember the broad sweep of Chinese history. When Marco Polo arrived in China a thousand years ago – 500 years after the fall of Rome – he found the largest population, the world’s first restaurants, printing and paper money – in sum, the greatest civilisation in the world. So it is not surprising that he wrote that “if the Chinese were warlike they could conquer the world. Thank goodness they are not.”

Also at this time of year, I am reminded that many of the azaleas, magnolias and rhododendrons that we have originate from China; hence Magnolia and Azalea Sinensis.

My point is that there is a real knowledge imbalance in the world. China knows far more about the West than the West knows about China.

At HSBC we are trying to follow KC’s example and are determined to help Britain and, in our case, British schoolchildren and teachers, gain a working knowledge of China, its culture, its history, its language, its mores.

When I visit schools around the country, I don’t see very much being taught in this country about twenty per cent of the world’s population and what will inevitably become one of the world’s superpowers. I worry whether we are teaching the young generation in the UK what they will need to know about China, which will become such a major influence on their lives.

The rise of China is still only beginning to be understood in many Western countries. Nobody has a greater love for their country than the Chinese. Wherever in the world you meet Chinese people, you will find Chinese culture. And nobody attaches more importance to education than the Chinese.

We remember the Chinese proverb: If you are planning for a year, sow rice. If you are planning for a decade plant trees. If you are planning for a generation, educate the people.

So HSBC helps send Chinese teachers to schools in the UK. We support the teaching of Putonghua at schools in the UK. And we have sent English headteachers to China to see how education works there.

I recently attended a Putonghua lesson at the Lincoln Christ’s Hospital School – I have to say the pupils were better linguists than I was!

We are fortunate at HSBC to have 140 years of history in China. And we are very fortunate to witness the resurgence of China today. China has caught the world’s attention in a major way. KC’s life spanned a tumultuous period for China and how I wish he was alive today to see China reclaiming its position on the world stage.

Everywhere I travel, people want to hear about China; about what is happening there.

Very few people today understand, or indeed have any experience of, what it is to govern a nation of 1.3 billion people; let alone a nation of that size that is in transition from a planned economy to a more market-oriented economy, and from a rural society to a more urban one.

This is unprecedented in the history of humanity and therefore it is not surprising that the Western political structures, arising historically from the transition from monarchy to democracy and in smaller states, are not necessarily the most appropriate for this scale of development.

In a very real sense, the Chinese leadership are writing the book on how to do this and all of the evidence so far suggests that they have been able to overcome massive challenges. Of course, massive challenges remain.

The transition to a market economy, to an urban society, the restructuring of the State-Owned Enterprises – we in Britain have our own smaller-scale and somewhat mixed experience of restructuring SOEs over the last 20 years. The scale of these challenges should humble those who would dictate how China should approach them.

For China there is, I think, the opportunity to learn from the West, not just from our successes but from our failures, and by avoiding our mistakes, to leapfrog the West in many respects.

Those of us that know the thinktanks in China that are around the universities that advise the State Council, know how assiduously the wider world is studied to learn from other’s experience. I have heard a senior World Bank/IMF official say that they have never seen research translated so effectively into policies as in China. One reason why China may only be 20 years

**greatest
civilisation**

into what could be a period of forty or fifty years of extraordinary growth.

We see structural changes in the world economy which will benefit China. In the West, people sometimes forget that it is only comparatively recently that they have moved from fixed exchange rates to floating exchange rates; and that exchange controls have been removed; which has enabled financial capital to flow in an unfettered way around the world.

These changes have altered – and continue to alter – the shape of the global economy. And we have also seen major changes in the geo-political environment, which impact on the global economy.

After the end of the cold war, there may not have been a peace dividend in the way that the West obviously hoped. But what did happen was that there was a thaw in the attitude of major corporations and financial institutions to the reduction in political risk. This has further encouraged the trend for Western manufacturing companies to invest capital in the form of plant and manufacturing facilities; and to distribute them around the world wherever they see receptive governments and competitive prices.

So the world is now more interconnected than ever before. Today, there is more economic co-operation, and more trade, between more countries than we have ever seen.

HSBC's view of the world is that over the next 25 years we will see the growth of major consumer markets in countries such as China, in particular, but also India, Brazil and Mexico, as manufacturing and now services work moves from the West to these countries which, in turn, will create high-value jobs which will create the income to stimulate consumer demand.

We see a bifurcated world between mature Western economies, by-and-large with ageing and static populations, and emerging markets with young and growing populations.

The present situation where America with less than 5 per cent of the world's population, accounts for 30 per cent of global GDP and nearly 60 per cent of global stock market capitalisation, is a tribute to American dynamism, but we need a more balanced world.

And I think the world sees China as the inevitable counter-weight as it moves toward reclaiming its position as the world's largest economy.

We are seeing work that used to be local in nature is now international and free to move to where it can be done most efficiently; China is high on that list.

We have seen this in manufacturing and the next phase is for those services jobs that are geographically mobile to move to the most efficient location. In fact what we are seeing today is the globalisation of labour.

The reason for this is straightforward. In an interconnected world, some of the work in developed countries that costs US\$50 an hour can be done in a developing country for less than US\$6 an hour.

Many international companies are investing capital and creating jobs, but not necessarily in their domestic markets. The development of consumer markets is an important part of this process. Because two-thirds of most economies are driven by consumer spending. If China succeeds in driving up rural incomes, it has the potential to create the consumer markets which will underpin massively further economic growth.

With the emergence of new consumer markets in countries such as China, India, Brazil, Mexico; all these countries have the potential to move very rapidly up the GDP-per-capita scale. We would put China firmly at the top of the list. All of this will, of course, help address inequality in the world today.

Everywhere I go, I see tangible signs of China's progress: in manufacturing, in technology, in infrastructure, for example the airports, the transport systems. And there is much more to come.

Getting the right products in the right people's hands at the right price is the fundamental task of a consumer economy. Putting in place the distribution systems that facilitate the creation of consumer markets is going to be hugely important in the years ahead.

In a market, you need measures to protect consumers, but not in such a heavy-handed way as to discourage investment. Drawing the line between the interests of the people who consume and the interests of the people who produce is a delicate task for governments and business people.

The investment which is happening in China today is therefore hugely important. Unlike some other countries, it is not generally portfolio investment, or capital invested in stock and shares, which can move in and out of a country, almost overnight; and which, uncontrolled, can be hugely damaging to an economy.

Rather it is Foreign Direct Investment which, almost by definition, is long term in nature and therefore the best form of foreign investment. It is investment in plant, in manufacturing, in the creation of physical assets which cannot be moved. It also often brings technology and know-how with it. You do not have to travel very far in

major consumer markets

China before you see the huge amount of investment there that is being turned into productive assets.

Increasingly we will see this across Asia as standards of living rise, helped by the growth of consumer markets created by the income of workers from the new industries that are being started today.

These changes produce a number of challenges for countries participating in the global economy. Every country faces the need to develop the appropriate policies to harness the power of globalisation and to avoid the pitfalls.

And every country needs the financial infrastructure that suits its own particular circumstances. For developing countries, I would not feel at all under any pressure to adopt Western ways.

I said earlier that China has a chance to leapfrog the West by avoiding the traps that the West has fallen prey to. One of the major opportunities is to examine the different forms of regulation around the world and distill the best, while ignoring the rest. History tells us that regulation tends to flow and never to ebb. And one of the traps we see in the West is increasingly heavy-handed regulation.

Self regulation by people with integrity is the ideal form of regulation, but unfortunately not all people behave well. Regulations have only been introduced in response to excesses by some of the people who run corporations and sell financial services. Sensible regulation is fine, not all regulation is sensible. We should remind ourselves occasionally that commerce and finance have been carried on for millennia without regulation.

When I joined HSBC, to the best of my knowledge we didn't have a single regulator in the world. Today we have over 370. Maybe it is a tribute to HSBC that its values have enabled it to prosper in both scenarios.

The next area where there is no need to copy the West is in the area of capital and exchange controls – or lack of them. The UK had exchange controls until 1979; floating exchange rates are a relatively recent phenomenon.

I mentioned the speed of international capital flows today. You don't want to stand up in front of this financial whirlwind unless you have built a very strong edifice. It is clear when you look at the experience of some other countries that exchange rate volatility can be very damaging. And therefore China is to be applauded for maintaining stability.

Because today there is a huge tendency in a globalised world for opinion to be all on one side. You have international news agencies: Reuters, Bloomberg; you have the internet. News travels very quickly and people interpret the world using the same analytics, the same software. So when opinion turns, many market participants react to the same news in the same way which can cause a quick, and potentially dangerous over-reaction.

We have seen this happen to a number of economies with damaging results. So a policy of control – whether that be exchange controls, or regulatory levers - that ensures the flow of capital can be managed in a sensible way is vital for a developing economy. It is up to the host country to set the rules which suit it.

In the West, there is much comment, even advice, on China's exchange rate. But if there is one thing that is entirely a sovereign decision, it is the exchange rate. I personally think that China's exchange rate policy has served it well. And I wouldn't let other countries solve their own problems through another's exchange rates. My father told me years ago "you get two things for free in life: good advice and trouble".

Looking ahead, it is apparent that the renminbi will become the world's third major currency with the US dollar and the euro.

And there is no earthly reason why the world's savings, predominantly from Asia, should be recycled through London or New York. There will come a time when they are recycled in Asia on a major scale. Domestic financial centres there will have the potential to become international financial centres. And China certainly has the potential to build the infrastructure to recycle savings from savers to investors.

And this is a huge opportunity for China to create high value jobs as well as to make sure its funds are used productively for its development.

I think of an observation made to me by a senior Chinese diplomat.

"If you want to understand 2,000 years of Chinese history go to Xian. If you want to understand a thousand years of Chinese history go to Beijing. And if you want to understand the last 150 years go to Shanghai."

Perhaps I should add if you want to understand the 21st century, you have to understand China.

China and Britain need to find more KC Wu's. We need people to bridge the gap between our two cultures. This is important for Britain because there is a terrific

China's development

opportunity for Britain to play an important role in China's development.

And because China will become ever more important to Britain as it will to the world at large. There was an article in the Times last week that forecast that China will overtake Britain in foreign trade this year, and in GDP in 2005 or 2006.

In an interconnected world, more than ever, we need people with the ability to understand different cultures and use that knowledge to enrich them. In this we could not do better than try to emulate KC's example.

Thank you.