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Speech by Sir John Bond
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Good Morning Ladies and Gentlemen. Thank you for giving HSBC this opportunity to explain our thinking and how we intend to position our business for the years to ahead.

For most people the world looks a healthier place economically today than a couple of years' ago. The recession wasn't as bad as we thought it might be. Many of the world's economies are recovering. There are clearly some troublespots around the world, but for most people in this audience I would hazard a guess that life seems pretty normal.

But the reality is that behind this, there is the potential for one of the biggest shifts in economic gravity in history.

There are as many definitions of globalisation as there are speakers about it. According to Jagdish Baghwati:

"Economic globalisation constitutes integration of national economies into the international economy through trade, direct foreign investment, by corporations and multinationals, short-term capital flows, international flows of workers and humanity generally, and flows of technology."

Inevitably and tragically, development in emerging markets will happen unevenly. But for those countries that succeed, the economic and human benefits will be profound.

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 for harmonious co-existence. Over one billion people live in extreme poverty; nearly three billion in poverty: this is the real challenge for responsible capitalism.

And the determining factor for overcoming poverty will be good government, which tends to be a precursor of good education systems. When you think about it, good government is not as easy to find as it should be.

Educational standards are, perhaps, the major force for change over the long term. And there is increasing evidence that the primary and secondary education systems in Asia in many key disciplines are surpassing those of the West. I think of maths, I think of the

sciences. We can see it within HSBC where we are, for want of a better word, consumers of education from 79 countries and territories.

HSBC is, of course, a service company. We don't have to invent a Walkman or find oil. Our business is to look after the financial needs of those who do, both companies and individuals. Banking, in essence, is about people's money, and money grows in importance in an economy in a fairly direct relationship to economic development.

So a key decision for HSBC is to select the right countries to grow in; and then within the economy, to look for the best customers.

And we share a view with Goldman Sachs that developing markets will provide about half the growth in demand in the world economy over the next thirty years.

And, to be even-handed, we are grateful to Merrill Lynch for the insight that what they call the "mega-banks", those with a market cap over US\$100 billion, may generate annual cashflow in excess of US\$60 billion. Assuming distribution to shareholders of US\$30 billion, the remaining US\$30 billion will capitalise loans close to US\$400 billion a year. Which, as Merrill puts it: "in the absence of organic deployment opportunities will need to find a home somewhere".

If you accept these two forecasts, you are inevitably led to conclusions that will affect the shape of your business. HSBC's 25-year world view is that the areas with the highest propensity for growth are an America-led NAFTA, China, India and Brazil.

That doesn't mean to say we are turning our back on Europe. Clearly Europe has many strengths: great wealth, a very strong social infrastructure. What it may not have is the flexibility of institutions or the flexibility of labour that allows migration to growing industries from declining ones.

In my judgement, one of America's unique advantages is a political class, by and large, with business experience. And it has a longstanding tradition of breeding entrepreneurs and a culture of risk taking.

**human
benefits**

This means that we think America will maintain higher growth rates than Europe over the long term, buttressed by the Western world's only growing population.

Perhaps it is not unrealistic to suggest that the biggest "emerging market" of the next decade will be the growing Hispanic immigrant community in the US. Serving this community may well require a greater identity with Mexican banking practice than with traditional US banking procedures. Our acquisition of Grupo Financiero Bital, followed by its re-branding to HSBC, reflects this.

We also see the re-emergence of China, and then India, as economic superpowers. For most of recorded history China was the world's largest economy. In 1820, China and India had about half of the world's population and income.

In the last 200 years, we have seen the relative ascendance of the West as Europe and America underwent their industrial revolutions, and as Asia entered a period of relative political instability, in part caused by dynastic change and in part by the dysfunctional impact of its encounters with the West.

That gap is now beginning to close again. Since China took the decision to liberalise its economy 25 years ago, its progress has been astonishing, and, of course, widely discussed.

Today, China is the world's manufacturer. There is hardly a manufacturer in the world that is not either manufacturing in China, sourcing in China, or thinking about it.

The variety of goods manufactured in China now ranges from the most basic through to the most sophisticated. China makes half the world's cameras, a third of the world's televisions, a quarter of the world's washing machines.

China is now the second-largest importer of oil and last year consumed 40 per cent of the world's cement. The investment in the future is breathtaking.

In a very real sense, the Chinese leadership are writing the book on how to move from a planned economy to a more market-oriented economy, and on making globalisation work for them. And all of the evidence so far suggests that they have been able to overcome massive challenges.

One of my personal challenges is to build infrastructure in China which will probably not pay off until after I have departed HSBC.

In India, liberalisation of trade and investment regulation, an increase in FDI and a well educated and English speaking workforce have all combined to create

something of a boom in areas like business process outsourcing, forecast to employ over a million people within five years, up from 171,000 in 2002.

After all, we cannot be surprised that India, which is producing something like 70,000 English speaking IT graduates a year, is seeing growth in this sector when Britain produces less than 5,000 graduates a year in computer science.

The fact is that we are in the foothills of a revolution of services' internationalisation, which will change the face of G7 economies just as the first wave in manufacturing did.

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.

And advances in communications, in bandwidth, in image technology, mean work that was local in scope can now be done anywhere in the world. We have seen it in manufacturing, now we are seeing it in service industries.

At companies like HSBC, this process started over 10 years ago and we now have global resourcing centres in India, Malaysia and China that perform work that was previously done in the UK, France, the USA.... And we are

opening new centres in Sri Lanka and the Philippines.

HSBC and others have been criticised in some quarters for "exporting jobs" from developed countries. Actually, we believe that we are preserving jobs in the West by doing what is necessary to ensure HSBC's long-term success. And we also believe that we are creating high-value jobs in economies that desperately need them, and reducing global inequality.

As for HSBC, so for many others. Deloitte Research estimates that over US\$350 billion of costs for the global financial services industry will be relocated offshore within five years, potentially two million jobs. You can debate the timescale, but not, I think, the numbers.

This is an inevitable process. Trying to reverse it would be – as the FT put it – "like trying to preserve buggy whip-making after the advent of the Model T Ford".

We should also remember that in many industries the flow has been in the opposite direction. The world has "offshored" its investment banking needs to Wall Street or the City of London; the world has "offshored" the entertainment industry to Hollywood; the software industry to the West Coast of America; much of mobile phone technology to Finland; consumer electronics to

the world's manufacturer

Japan and so on – these are much more valuable jobs than those presently flowing the other way.

For companies – one consequence of the internationalisation of labour, not yet much discussed – is the management challenge that HSBC and others will face, with the front office meeting with customers in one country and the back office managing the resulting process in another. Country CEOs will inevitably need to be focused on revenues, while many of the costs will be managed Group-wide.

That is why our response at HSBC is collective management. And why we believe diversity is a crucial competitive advantage for managing an international organisation. A generation ago, we recruited the majority of our international management cadre from the UK – today a typical induction course would have around 40 young executives comprising maybe 25-30 nationalities.

HSBC is a diverse organisation; 225,000 people: a quarter white European; 20 per cent Latin American; 15 per cent Chinese; 15 per cent white American; 7 per cent Indian; 4 per cent black; 2 per cent Arab; 2 per cent Hispanic; and 9 per cent none of the above.

And when you attend a dinner for new executives and see Muslim delegates waiting half an hour before starting their meal out of courtesy to a New York female Jewish delegate who is finishing her Yom Kippur fast, you sense the real opportunity in globalisation may be well beyond economics alone.

As the globalising effect of changing employment patterns take effect, so we must also deal with the profound changes in demographics that the world faces, especially in the developed nations. Most Western countries have declining populations and are faced with a rising grey vote and an increasing ratio of retired people-to-workers.

The consequences of this age-wave are far-reaching and much debated today. You are all, I am sure, well aware of the pension debates in Europe and the healthcare issues in the US.

There are other less obvious potential consequences, which may lead to either political tension or migration. For instance, there is a real likelihood that private-sector taxpayers will become a democratic minority in some countries around the world, with the possible consequence that the majority will vote for government expenditures which the taxpaying minority are reluctant to fund.

For HSBC, the sum of all these changes in demographics mean opportunities in wealth management in developed countries, based on savings

and pensions. Clearly the old world will remain a repository of wealth and the intergenerational transfer of capital that we are about to see creates huge opportunities for our industry.

Equally, in developing countries, the combination of demographic and changing work patterns mean huge opportunities in new consumer markets with new demand for financial products, especially consumer finance like mortgages, credit cards, auto loans and so on as people climb the economic ladder.

Among the strategic reasons for HSBC's acquisition of Household International were obtaining world-class talent in consumer finance in all its forms, in areas like data mining, point-of-sale technology, marketing and experience dealing with consumer education and consumer activist organisations.

As the rest of the world catches up with the US and Europe, we expect today's emerging markets to put in place consumer lending regulations in response to political pressure. For example, we expect to see the widespread use of data-sharing via credit reference bureaux. The value of existing expertise and experience will be significant.

There is one other demographic factor to bear in mind. As the world is more connected in a human sense, far more people than ever before are moving around the world – huge waves of migration.

According to the World Migration Report, there are now some 175 million migrants globally, about one person in 35. Most migration goes unrecorded in government statistics; people vote with their feet and tend not to leave footprints.

This is true for both dispossessed economic migrants in search of a better life and for highly-skilled, highly-educated workers. Politicians will have to learn that the highest value jobs will be done where the individuals want to live; quality of life will be a key competitive strength of cities and countries.

Let me give a few examples.

Over two million Californians left the state between 1995 and 2000 with a net de-population of 750,000. 1.6 million people left New York; at least partly because of the combination of high taxes and reduced job opportunities. Some of the fastest-growing states, like Nevada and Florida, have no state income tax.

Officially there are 40,000 French people living in London; actually it's around 200,000. The French don't go for the food; I suspect it is mainly for tax and financial reasons.

changing work patterns

Canada's sixth-largest city – measured by the number of Canadians – is Los Angeles.

Hispanics will displace whites in America as the largest ethnic group sometime in the next two decades.

The internationality of HSBC means that we will have a competitive advantage where we have an on-the-ground presence in two economies with strong links like the USA and Mexico or, within China, Hong Kong and the Mainland.

Of course, part of the international dimension of globalisation is that the world is ever more interconnected technologically. The internet has meant a huge shift in power from producer to consumer, and an increased need for consumer recognition on an international basis.

And just as technology and telecommunications have made new labour markets accessible to Western companies at relatively low cost; so they have also – together with global media – created nascent mass consumer markets which will enrich the value of developed brands.

And whether it is the aspirational teenager drinking Coca-Cola; or the businessman with a Rolex watch and his wife's Hermès scarf, the value of branding in a globalised world is enormous. Brand value will be much more profitable than the value gained through offshoring service jobs.

In financial services we believe brands that stand for quality and fairness will prevail. The emergence of the internet propelled HSBC to move quickly to a global brand. Five years ago we introduced the brand HSBC. Last year, we were delighted to be rated, for the first time, in the top 50 most valuable global brands.

To be successful in this globalised world demands unrelenting focus on brand. But as the power of the brand becomes ever greater in a world of broadband, 'bloggers and Bloomberg, so does the reputational risk. An event which twenty years' ago would have affected a brand in only one market, now has the potential to destroy a company.

So we believe that brand is vital. But we also believe that you cannot sustain a brand that is not a true reflection of a company's character. So in our view at HSBC, therefore, a company's character is going to be the over-arching success factor in the 21st century. It used to take years of dedicated bad management to destroy a company. Now it can be done almost overnight.

I have to say that I am disappointed that companies that have high standards of behaviour do not yet command a real premium in the stock market.

And I was very interested in Alan Greenspan's remarks last month on "Capitalizing Reputation" where he said: "we should not be surprised to see a re-emergence of the market value placed on trust and personal reputation in business practice."

He went on to say: "I hope and anticipate that trust and integrity again will be amply rewarded in the marketplace as they were in earlier generations. There is no better antidote for the business and financial transgressions of recent years."

You cannot legislate trust and integrity. You cannot impose it from without.

Certainly strong corporate governance should be part of a company's character formation. But this does not mean box ticking. It means the way a company behaves, at all levels: the board, colleagues, the whole company, every day. Words are not enough. Your real reputation depends on deeds.

In 1961 when I joined HSBC, to the best of my knowledge, we didn't have a single regulator in the world and certainly no external pressure for corporate governance.

Today we have 370 regulators around the world and a growth industry in corporate governance guidance. We spend US\$400 million a year in compliance. We are not

necessarily a better institution as a result.

What is the correct response for a company? One of my predecessors as Chairman, Mr R M Gray, put it this way to shareholders at an AGM:

"A bank wants three things, viz, good character, good management and solid resources of its own. In the absence of any of these, pronounced success would be impossible (Applause)."

That was in 1899. I wouldn't change a word today.

Let me finish by saying that in HSBC's business, diversification of risk is the key factor for sustained survival and success.

One way HSBC reduces threat and maximises opportunity is by the recognition of the importance of diversification in an uncertain world. We are undoubtedly the most international financial institution in the world.

Today we draw roughly a third of our business each from Europe, NAFTA and Asia-Pacific, in particular Hong Kong.

**high standards
of behaviour**

We are also diversified by line of business. We have one of the world's largest personal banking franchises which accounts for 30 per cent of our profits; consumer finance accounts for around 20 per cent; we have, we believe, the largest international middle market franchise in the world, which accounts for 20 per cent of our profit; and our corporate and investment banking business contributes 25 per cent.

My final conclusion is that, as we balance the sometimes conflicting interests of customers, shareholders, colleagues and others with a claim on us, the challenges facing leaders of companies have never been greater than they are today. I am not complaining; I joined HSBC for an exciting life. Which only goes to show the truth of the Chinese proverb: "be careful what you wish for, you just might get it".