

## Ambassadors' Dinner, Canning House

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Mr President, Your Excellencies, My Lords, Ladies and Gentlemen: good evening.

Thank you, Lord Garel-Jones, for that kind introduction. It's an honour for me to join you in these congenial surroundings, and I am grateful to Canning House for inviting me to this prestigious gathering. Yours is a singularly important institution for fostering understanding between the UK, Iberia and Latin America, and HSBC is proud to be a patron member.

While considering what to say tonight, I turned to a certain François de Callières for advice. A special envoy to Louis XIV, de Callières wrote what became the standard text for 18th-century ambassadors keen to learn the art of diplomacy. Almost 200 years may have passed since he published *De la Manière de Négocier avec les Souverains*, but some aspects of statecraft endure, not least the importance of fine dining – which, de Callières insists, 'is the best and easiest way of keeping [one]self well informed. The natural effect of good eating and drinking is the inauguration of friendship and the creation of familiarity.'

Which is my cue to applaud Canning House for providing an excellent dinner and facilitating good conversation. De Callières offers a further pearl of wisdom, however. 'When people are a trifle warmed by wine,' he adds, 'they often disclose secrets of importance.' Now, I'm not one to frown on such indiscretion – so long as my HSBC colleagues are gathering trade secrets without disclosing ours!

Indeed, it is Latin American trade that I would like to discuss this evening – a subject on which our knowledge at HSBC has grown enormously over the past decade.

We have expanded from a mere 10 operational offices across Latin America in 1997 to more than 4,000 offices today – with last year's acquisition of Grupo Banistmo extending our network to serve customers throughout the region.

Thanks to this latest investment in Central America and Colombia, more than one fifth of HSBC's 312,000 staff now work in the region, and it has been one of the great pleasures of my job to learn about each of the markets between the Rio Bravo and Patagonia where we are building our business.

But, as you know, HSBC started life in Hong Kong and Shanghai, so I thought I would offer some reflections this

evening on the rise of Asia as it affects the development of Latin America.

The opening-up of China and India's reforms have brought hundreds of millions of extra people into the global market place, as these nations regain the relative economic status that they've enjoyed for most of recorded history; in 1820, for example, China and India together were worth almost 50 per cent of world trade. Today, China's annual GDP growth rate is running at over 10 per cent and trails only the US, Japan and Germany in terms of economic output. To the south, Indian growth is now tipping eight or nine per cent.

In China's case, this represents a quite astonishing transformation for a country I first visited in the 1980s. Although reform was then underway, China's economy was still tiny. It now has a nascent middle class some 250 million strong, whose playgrounds are the shopping malls of Beijing and Shanghai – potent symbols of consumerism in the developing world.

If one thinks of the global economy – very crudely – as a triangle, with manufacturers at one corner, commodity producers at another, and consumers at the third, then globalisation has shifted its trigonometry. In particular, the voracious appetite for resources in China means huge opportunities for producers in Russia and the Middle East, but also in several Latin American countries.

Brazil, of course, is China's leading trade partner in Latin America, thanks to its massive exports of iron ore and soya beans. All told, the value of their bilateral trade has increased by more than 600 per cent since 2000. And with the recent discovery of the major Tupi oil field, Brazil can reasonably anticipate another substantial source of foreign exchange earnings in the not-too-distant future.

Argentina, meanwhile, has had a positive trade balance with China since 2001 – its exports to China totalling US\$3.5 billion last year. Like Brazil, Argentina is capitalising on Chinese demand for a range of commodities, including leather and wool, soya and sunflower oil.

China's manufacturing might, however, poses challenges as well as opportunities. In Mexico, for example, there is concern that China has overtaken it to become the USA's second largest trading partner. The textile industry has certainly suffered, but those maquiladoras producing chemicals, electronics, machinery and furniture have done well. Moreover, Mexico should not lose sight of the

huge  
opportunities for  
producers

tremendous economic progress it has made in recent years. Trade with the US and Canada has tripled under Nafta – and that 3,000 kilometre border represents a permanent comparative advantage. Equally, Mexico has signed more than 40 trade agreements, making it one of the world's most open economies.

But what are the broader challenges for Latin America in seeking to reap the benefits of growing demand in Asia's emerging markets and of globalisation as a whole? Allow me to make four brief points.

The first concerns economic management. What arguably differentiates the Latin America of today is a greater degree of macroeconomic stability. Tough – and indeed politically courageous – policies have been implemented in a number of countries. In Brazil, for instance, the government's decision to transfer debt into local currency has made it much less vulnerable to fluctuations in the international capital markets.

In Mexico, central bank autonomy and a peso-denominated corporate bond market have increased stability, while Chile has registered spectacular growth since 1990 through trade liberalization and deregulation.

Long may this trend continue, although this focus on healthy public finances, appropriate deregulation and – most immediately – controlling inflation must be supplemented by further initiatives that address deep-seated issues like income inequality and financial exclusion.

Secondly, changing times call for adaptability. There are towns in Mexico where all virtually all men aged between 16 and 60 have migrated to the US for work, and where local businesses, households and farms are all managed by women.

Such circumstances reflect considerable social disruption, but they also denote opportunity – certainly by empowering these very women, but also in terms of the remittance flows that boosted Mexico's economy to the tune of US\$23 billion last year. The economies of Brazil, Colombia and Guatemala are also significant beneficiaries of remittances.

This age of unparalleled mobility – of capital and labour – is redefining economic patterns. Take Panama, which some people now refer to as the 'Singapore of Latin America'. It has reached free trade agreements with the likes of Taiwan and Singapore itself, but more importantly, it is really starting to leverage its strategic geographic location, attracting foreign investment – not to mention retirees – and facilitating international trade flows. As a regional financial centre, it has become a hub for Andean, Central American and Caribbean businesses – with clear offshore advantages compared to Miami. As a port, it is now second only to Buenos Aires in Latin

America, and the Canal expansion project should deliver further long-term growth.

A third issue that affects almost all the Latin American economies is the need to improve infrastructure. For all its progress, Panama must offer hotel accommodation that matches its aspirations as a financial centre. Elsewhere, Mexico's five-year plan to invest resources equivalent to between 4.5 and six per cent of GDP in the construction and modernisation of roads, railways, air and sea ports is a welcome development.

And in Brazil – where trucks laden with the soya bean harvest create some of the longest traffic jams on earth and delay exports by sea – it is encouraging to see the increasing focus on public-private initiatives for tackling substandard highways and congested ports. Relieving such bottlenecks is essential for creating more high-value growth – which, in turn, should raise incomes across the social spectrum.

And finally, I would emphasise education: investment in a nation's human and intellectual capital. Providing effective public schools, increasing numbers of graduates and skilled workers – such policies are crucial to enabling future generations to compete. According to a recent World Bank report, the proportion of adults that had completed upper secondary education in 1960 stood at seven per cent in Latin America and 11 per cent in East Asia. Today it is 18 per cent in Latin America, against 44 per cent in East Asia. If I may cite a Chinese proverb in this regard: 'If you are planning

for a year, sow rice; if you are planning for a decade, plant trees; if you are planning for a lifetime, educate the people.'

In conclusion, ladies and gentlemen, globalisation will have its winners and losers, but it is ultimately a force for good. It has dealt a telling blow to protectionism and autarky, and as the world's resources are allocated more efficiently, global output should rise – with the potential to benefit us all. Indeed, we are already living through the greatest worldwide reduction in poverty ever recorded.

The rise of Asia will test Western hegemony and the capacity of other regions to evolve, yet economic growth is not a zero sum game. The emerging markets and trading blocs of Latin America have cause for genuine optimism: the small and medium enterprise sector has good prospects; intraregional trade is healthy; positive demographics will attract further investment. At HSBC, we look forward to participating in Latin America's bright future.

Thank you for your kind attention and enjoy the rest of the evening.

## an age of unparalleled mobility