HSBC

HSBC China & RMB Forum: Introductory remarks

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Your Excellency Ambassador Liu Xiaoming, Madam Jin Mei of the People's Bank of China, ladies and gentlemen, good morning, and a warm welcome on behalf of HSBC.

We're here today to talk about investing in China through its companies and markets, and engaging with China as it globalises its economy.

Over the next few hours the various sessions will explore both of these strands in considerable detail.

But I want to start by talking about the context around these discussions.

China's relationship with the world – whether political, social, economic or financial – is currently in a period of extended transition.

Part of this transition, around channels of investment, economic development and financial reform, is taking place inside China.

But the other part, around trade openness, market access and pathways to renminbi internationalisation, is happening beyond China's borders – in governments and boardrooms around the world.

Each of these strands carries far-reaching consequences for China's development and for the opportunities that it presents, and they are already shaping the global financial and economic landscape.

So this morning I'm going to talk briefly about two things.

What China's experience over the last twelve months means for its future economic development; and

What China's continuing reform programme means for the globalisation of its economy.

Twelve months ago, in the autumn of 2015, when we held our first London-based HSBC China and RMB Forum, the spotlight was firmly trained on the impact of China's slowdown on global markets.

The decision in August 2015 to allow the renminbi to move more in line with market forces had surprised investors, causing a chain reaction which had disrupted global equities, foreign exchange and bond yields.

Sluggish demand, slowing commodity prices and weak industrial data were making markets and investors nervous.

And some commentators were speculating that China's reform programme was therefore drawing to a premature halt.

One year on, these fears have yet to materialise.

The renminbi has largely stabilised; stimulus has moderated the slow-down in Chinese growth; and China has pressed forward with its programme of reform.

Whilst many of China's challenges remain, securing a platform for stable growth has laid a foundation for the structural changes that China now needs to carry forward.

The next stage of China's economic development – to make a transition to a more sustainable economy – depends on its ability to build on this foundation.

Reducing debt, resolving over-capacity and reining in shadow banking are not straightforward, and progress will inevitably require patience.

However, a good deal of the indications are that Beijing understands the complex issues it faces.

Measures to cut over-capacity in key sectors are starting to work, and actually the rising non-performing loans ratios in the banks partly reflect the closure of inefficient state-owned enterprises.

Indeed, the recent performance of the banking sector shows that some banks are already digesting corporate debt write-offs, and debt-equity swaps and securitisation of non-performing loans are helping the banking system to wind down debt in a controlled and measured way.

In other areas, the necessary structures exist to tackle China's underlying problems, but are probably not yet sufficiently equipped to have the necessary impact.

The municipal bond market is helping local governments refinance debt, but the lack of a broad investor base continues to limit its effectiveness.

And while steps to limit shadow banking helped slow lending growth in 2015, the need to shore up stability and minimise sharp market corrections has made it harder to rein in new forms of shadow banking in 2016.

There is a great deal more that China needs to do, particularly to reform state-owned enterprises and rebalance investment between the public and the private sectors.

But the last twelve months have demonstrated Beijing's ability not just to exert control over the levers of the economy, but to manage the pace of reform while laying the groundwork for future progress.

China is not just navigating its own transformation, but trying to do so in a global environment that is increasingly sensitive to each and every change of direction that China takes.

Delivering it safely requires not only calculated caution from Beijing, but accommodation and understanding from investors, overseas policymakers and all those with an interest in China's sustainable development.

Let me turn to my second theme – China opening up.

China's financial markets continue to mature.

Progressive, controlled reform is accelerating the speed of capital flows in and out of China, while the inclusion of the renminbi in the IMF's Special Drawing Rights has confirmed it as a global reserve currency.

Since the IMF's announcement late last year, China has opened up the onshore interbank bond market to foreign private investors; streamlined QFII and RQFII regulations; announced the launch of the Shenzhen-Hong Kong Stock Connect, which we expect before year-end; and clarified the dollar-yuan fixing mechanism, making it more market oriented and transparent.

Inward investment is recovering as new inbound channels open up.

Ownership of onshore government bonds by foreign investors has actually increased by more than 15 billion dollars since March, with the promise of more to come.

At HSBC, we expect the proportion of the onshore government bond market owned by foreigners to increase from around 2 per cent today to 10 per cent in the next two years, which will equate to a boost in inflows by as much as 100 billion dollars.

Achieving a source of reliable portfolio inflows should pave the way for looser restrictions on ownership of overseas assets by Chinese residents – just like China's companies who are already actively seeking partnerships overseas.

Chinese firms announced more than 600 overseas M&A deals worth over 100 billion US dollars last year. And in just the first nine months of 2016, Chinese companies have already announced 170 billion dollars of overseas acquisitions - a 70 per cent increase year-on-year.

The size of China's economy and the shift towards consumption and services are changing the nature of those acquisitions, from basic resources to services, technology, luxury goods and foodstuffs that meet the demands of increasingly affluent consumers.

At the same time, the Belt and Road initiative is bringing Asia and Europe closer together by investing in rail, ports and power along centuries-old trade routes.

Last year, half of China's overseas deals happened along the Belt and Road routes.

And so far in 2016, Chinese companies have signed nearly 4000 engineering contracts along the Belt and Road, with a combined value of nearly 70 billion dollars.

While the direct benefits of Belt and Road accrue to China and the countries along both routes, there are clear gains available for corporates with the expertise to contribute.

British firms have decades of experience delivering international infrastructure projects and financing structures.

Belt and Road is creating opportunities throughout the infrastructure supply chain, from the largest construction firms to small specialist providers.

And British financial and professional services firms have a critical role to play in helping countries and investors identify which projects are investable, legal, feasible and – given China's commitment to the COP21 agreement on climate change – sustainable.

It will be the countries and the companies that position themselves to channel China's progress that will be the greatest beneficiaries of what is clearly the biggest shift in global economic power in the last seventy years.

So our discussions today take place at a genuinely transformative time for the world economy.

China is continuing along its path of economic transition and delivering its promise of controlled reform.

China's capital flows are accelerating in both directions and the renminbi is taking its place as a fully-fledged global currency.

And as the world's emerging economic power, China's overseas investment is transforming the economies of both emerging and developed nations, and creating opportunities for firms of all kinds with the vision to seize them.

It's true that the global investment environment is in a state of flux – socially, politically and economically.

But this should neither diminish the wisdom of exploring the pathways to engage with China, nor mask the potential opportunities to work with China and Chinese companies as they develop, globalise and grow.

We believe that today's event will help you to seize those opportunities, and I wish you an informative, constructive and illuminating morning.