Ladies and gentlemen, good morning.

German businesses have long been amongst the best in the world at succeeding in Asia’s markets.

Exporting cars, machinery, electronics and more.

Entering new markets.

And developing new partnerships with Asian firms.

That ability to recognise and to seize new opportunities in Asia will be more important than ever in a continent that is growing and changing rapidly.

And that is what I want to talk about today: what do these new opportunities in Asia look like?

How can businesses grasp them?

And what are the challenges that need to be overcome?

These questions go to the very heart of why HSBC exists.

We have been helping firms do business in Asia for 152 years, enabling them to understand a continent that is the largest on earth.

And today, that understanding is more relevant than ever.

Economic opportunity in the second half of the twentieth century existed predominately in catering to the rising tide of consumer demand in the developed world after the Second World War.

But the twenty-first century is the Asian century, where global growth is already underpinned by the advance of a continent of more than 4 billion people – where the rise of its middle classes; the opening of its markets and the development of its education and policy systems are pulling the world’s economic centre of gravity South and East.

At a time of weak global growth, with globalisation under unprecedented scrutiny and open trade in retreat, Asia’s economic potential is one of the reasons why we should be optimistic about the opportunities that exist for businesses.

Clearly – like the rest of the world – Asia faces challenges, not least anaemic growth in global trade and the impact of global political uncertainty.

But I’m optimistic about Asia for three reasons in particular.

First, and quite simply, Asian economies offer the strongest growth prospects.

Second, Asia is a beacon for trade openness at a time when parts of the developed world are turning to protectionism.

And third, Asia is taking control of its own destiny, reducing its reliance on western-built policy institutions and making it less susceptible to decisions made elsewhere.

These trends, allied to rapid improvements in technology and transport infrastructure, will create significant new opportunities for businesses and should give great cause for hope.

I will address each of these this morning.

[Asia’s economic strength]

Let’s start with Asia’s economy.

Above all else, opportunity in Asia is underpinned by the economic strength and potential of its markets.

2017 won’t be a breakout year for most Asian economies, but Asia’s combined GDP growth will still outpace the rest of the world.

HSBC forecasts that Asia’s economy is likely to grow at around 5 per cent in 2017.
India is projected to grow by 7.1 per cent, China by 6.5 per cent, and Vietnam, the Philippines and Bangladesh by more than 6 per cent.

But what’s really exciting about Asia is not where it is now, but where it’s going.

In the coming decades China will be the largest economy in the world, India the third biggest.

And Malaysia, Thailand and Indonesia will all rise to become major global economies.

A market of 4.3 billion people will grow to over 5 billion by 2050 - with not millions, but billions lifted into the middle classes, becoming major consumers with growing disposable income for the first time.

The American dream of the 20th century is becoming the Asian dream of the 21st. A house, a car, a smartphone, travel, banking services, healthcare – the prospect of unfettered upward social mobility for many more families.

And Asia’s biggest economies are driving through much of the financial and structural reforms needed to make this happen faster.

Across much of the region, state-owned company privileges are being cut; infrastructure spending is increasing, and distorting subsidies are falling. Local capital markets are growing and bearing greater capacity to support local economies.

Indonesia has transformed itself into one of the world’s fastest growing economies, with the government’s tax amnesty programme providing a crucial source of funding for infrastructure.

Thailand’s targeted investment programme is upgrading and replacing the critical infrastructure that underpins its economy.

And despite the challenges preoccupying China, its policy makers have continued to lay the foundations of structural reform: reducing industrial overcapacity; accelerating financial reforms to develop a multi-tiered banking system, and building more open and transparent capital markets.

There are some parallels to draw here with India.

We believe India recognises the need for structural reform and remains committed to it. The Government is looking at new ways to incentivise foreign direct investment, and has committed to further liberalisation efforts.

It is dismantling long-standing barriers, including a tax unification proposal that should allow companies to build supply chains across the country.

It is building a nationwide digital infrastructure, and promoting greater digital literacy.

Ambitious projects such as The Delhi-Mumbai Industrial Corridor will help turn India into an advanced manufacturing hub.

And the Government continues to push ahead with plans to make its states the engine of growth via land, labour and electricity reforms.

[Increasing trade liberalisation]

Importantly, Asia’s policy makers understand that increasing trade openness is good for the region.

The world is evolving into big regional trading blocs, with less global trade but vastly increased regional trade.

Asia is forging ahead with its own agreements to increase intra-regional trade.

The Regional Comprehensive Economic Partnership between China, India, Australia, New Zealand, Japan, South Korea and the ten members of ASEAN will boost cross-border trade and investment and give member nations access to some of the world’s biggest consumer markets.

At the same time, the ASEAN Economic Community is fostering deeper economic integration, trade openness and geopolitical stability in a region that was divided by conflict just a few decades ago.

We estimate that the new ASEAN single market will increase GDP across the region by an additional 5 per cent by 2030, reducing frictional transaction costs and increasing funding access to countries that currently struggle to get the investment they need.

[Less reliant on developed world institutions]

And Asia has started to build institutions and economic infrastructure that don’t sit within the Bretton Woods rules-based system - creating
multilateral institutions like The Asian Infrastructure Investment Bank, of which Germany and other developed nations are already members.

Taken together, this signifies an Asia that is becoming far more self-sufficient in delivering the potential of the east.

There is no more potent symbol of this than China’s Belt and Road Initiative – a project to bring east and west closer together by investing in rail, ports, power and other infrastructure along centuries-old trade routes.

Chinese money will drive much of the initiative, but the amount of infrastructure needed outstrips the money available to pay for it.

That creates opportunities for investors, and for foreign financial and professional services firms to build links with businesses and governments along the Belt and Road – in particular to help investors identify which projects are investable, legal, feasible and sustainable.

Together, these improved land and maritime routes will drive bigger and faster flows of trade and capital. German cars, computers or chemicals can now make the 8,500 kilometre journey to China’s eastern seaboard by direct rail, making it faster than sea and cheaper than air.

China anticipates its annual trade with countries along the Belt and Road will pass 2.5 trillion US dollars in the next decade.

But Belt and Road also enables Chinese firms to build partnerships and provide supply-chain support to local companies; to acquire and share machinery, technology and expertise; and to gain a stronger foothold in those local markets.

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

And in the first nine months of 2016, Chinese companies signed 4,000 engineering contracts along the Belt and Road, with a combined value of nearly 70 billion US dollars.

So Belt and Road may be a Chinese initiative, but it is a global effort involving developed and developing countries, and international organisations.

More than 30 countries along the route have signed cooperation agreements with Beijing, and China is working with more than 20 nations to expand their industrial capacity.

The scale of Belt and Road is opening up numerous new markets and accelerating social and economic progress across the whole of Asia.

[China]

I’d like to focus on China briefly, although I’m conscious my colleague Fred Neumann and others will cover this in more depth throughout the day.

China clearly plays a pivotal role in the new Asia, as it does – rightfully – in the global economy.

It is the focus of the most attention as a potential market for European goods – with good reason.

But I understand that there’s also a degree of scepticism about Beijing’s ability to overcome the challenges it faces in making the transition to a modern, consumer-driven economy.

So let me be clear that I still do not believe that China will have a hard landing.

China understands the complexity and the scale of the task it is facing in reforming its economy.

It is unrealistic – given the enormity of the challenge – to expect the reform process to be totally linear.

There will be times, as now, where it is prudent for China not to move too fast or too far – where it must master moments of difficulty when they do arise, slowing the pace of reform to stabilise growth, and picking up the pace again once that stability has been achieved.

It is in this context that the remaining restrictions on foreign businesses in China must be viewed.

At present, China imposes a number of restrictions on foreign companies entering its market – restrictions that rarely apply to Chinese companies investing overseas – and new controls on capital outflows make it more difficult for foreign firms to move money out of China.

This creates understandable frustration, but it also calls for a sense of perspective.
China has opened itself up dramatically to foreign investment in the past ten years, offering unparalleled opportunities for firms with the goods and services that the Chinese market demands.

And Beijing continues to push ahead with the progressive reform that it knows is required.

Just last month the State Council set out plans to further liberalise various sectors of the economy and make it easier for foreign companies to invest in China.

Changes to procurement practices will give foreign businesses increased access to Government tenders.

Foreign companies will now be subject to the same licensing standards as domestic companies.

And foreign investment in R&D will be encouraged by a programme of tax deductions and incentives.

In the longer term, there is further evidence that China recognises the need for a more open, more sustainable and more innovation driven economy.

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

Beijing unveiled its ‘Made in 2025’ policy in 2015, designed to move China away from its low-value manufacturing model by 2025 towards an economy built on advanced industries like IT, robotics and aerospace.

If anyone doubts China’s capacity to make such a transition then they need look no further than The Pearl River Delta – a dense network of cities in southern China with an economy bigger than Indonesia’s.

For years it has been the manufacturing workshop of the world, but now it is being transformed into a high tech innovation and R&D hub – a ‘Silicon Delta’, home to some of the world’s largest tech companies.

All of this reflects China’s considerable ability to move forward decisively with reform.

But China will run a tactical race rather than sprint for the finish.

Businesses should expect the pace and intensity of reform to ebb and flow, and should be prepared to ride with the tide in a market that will ultimately become the most powerful consumer-driven economy that this planet has ever seen.

As Chinese companies in particular set their sights on new markets, and Chinese consumers develop a taste for new kinds of goods and services, developed nations like Germany will benefit increasingly from the flow of Chinese capital that is already starting to travel from east to west.

Where once Chinese overseas investment focused almost exclusively on the commodities and infrastructure it needed to build its economy, it is becoming much more diverse – reflecting China’s ‘going out’ policy and its need to boost private sector investment, turbo-charge consumer spending and accelerate innovation.

Chinese firms are acquiring advanced technology and services brands at an increasing pace and scale.

Information transmission and IT services accounted for almost one quarter of all China’s outbound M&A activity in the first nine months of last year.

The domestic service industry – and traditional industries of strength like manufacturing – are being enhanced through more cross-border M&A with advanced sectors in developed countries.

Last year, German companies were involved in deals with Chinese companies in sectors ranging from utilities, to robotics, to high-end chemical manufacturing.

But as China grows it will need to do so in a sustainable way.

Beijing has charted a clear path to a low carbon economy domestically by introducing market-based reforms which will align its financial system with its green targets, recognising that sustainable infrastructure investment and decarbonisation is central to China’s economic development.

And as a world leader in that field, that represents a significant opportunity for Germany.
[Changes in domestic consumption in Asia will bring new opportunities]

The march towards consumerism – both inside and outside China - will inevitably create significant opportunities for foreign businesses with the goods and services that Asian consumers increasingly demand.

Growing incomes will lift billions of Asians into the consumer middle classes in the next thirty years – a revolution that will pull the geography of consumption away from the West and towards Asia.

China alone will add more than half a billion people to its middle classes by 2030, the equivalent to a market twice the size of the United States - and with that comes significant purchasing power.

By 2050 the average Chinese worker’s income will increase seven fold; the Philippines nine fold; and India six fold.

As their incomes rise and discretionary spending increases, Asia’s middle classes will demand huge volumes of low value added manufacturing goods - but also higher-end goods and services.

We have already seen China and others begin to open up their economies to foreign services providers and technology firms in order to upgrade their domestic industries.

These are enormous opportunities for foreign brands and service providers, not least because the tastes and habits of the Asian middle classes are yet to be fully defined, giving a significant advantage to any brands who are able to be first movers into those markets.

HSBC research has found that more than nine in ten 18-34 year olds in China consider foreign brands as higher or comparable quality to domestic brands.

China is already Gucci’s number one market, and other big multinational brands expect Asia to become their largest market in the decades to come.

Demographics will underpin much of this.

Whereas populations in the West are ageing, Asia is much younger – India, Pakistan, and the Philippines all have populations with an average age of 25 or under, and these younger populations are more likely to spend disposable income than their older counterparts.

[Conclusion]

Of course, capturing all these opportunities is not as easy as finding them. Each Asian market carries unique and particular challenges, and the answer is rarely as straightforward as transplanting western products into eastern markets.

China, for example, is still fundamentally a low-income country.

With per capita GDP of less than 8000 US dollars, its current developmental stage is on par with Japan in the 1950s and Korea in the 1980s.

So the upside is huge – but any company seeking a foothold in the Chinese market has to think about how it competes on price as well as quality – with potential consequences for cost control, business efficiency and supply-chain management.

The greatest challenge is arguably understanding the various customs and cultures throughout Asia, and gaining adequate visibility of the risks specific to each market.

That may sound obvious, but it’s no easy task in a continent stretching from Astana to Jakarta, from Ankara to Tokyo, spanning eleven time zones, with 48 nations and many more languages.

This increases the value of finding the right advice from someone with experience of both ends of the Europe-Asia trade corridor, because opportunity in Asia really is a two-way street. The world wants to seize opportunity in Asia, but Asia also wants to engage more with the wider world.

That’s why businesses shouldn’t see Asia as some sort of frontier to be crossed, but as a partner willing to engage.

Equipping our clients with the knowledge, the insight and the expertise to deal with challenges and seize opportunities is what HSBC has done in Asia for more than 150 years. Whether that be trade finance, cross border M&A support, or risk management – our local knowledge and network across Asia means we stand ready and able to help.
So if I leave you with one thought today it’s this: Asia is where the growth is. But that growth won’t just come unsolicited. Businesses need to seek it out, and to understand the changing nature of Asia and the implications of doing business with it.

I hope the rest of what you hear today gives you the insight you need to do that.

I wish you a constructive, informative and illuminating day.