Ladies and gentlemen, good morning and welcome.

Our theme this year focuses on China’s global ambitions, which really reflects both China’s emergence as a genuine leader on the global stage and the very changed nature of geopolitics in the past year.

It’s been another remarkable twelve months.

The US has withdrawn from its traditional role as the driving force behind globalisation and multilateralism, creating a vacuum in global leadership not felt since the interwar period.

Tensions with North Korea continue to escalate, with the world watching on nervously.

And although recent elections in Europe have shown that western electorates still retain some faith in the politics of openness and integration, they also demonstrate that economic and political nationalism is resurgent on a scale not seen since the fall of the Berlin Wall.

It’s in this changed and febrile context that China is trying to capture a bigger role in the world.

So over the next 20 minutes I want to explain HSBC’s view of China’s global ambitions, and how those ambitions relate to what we believe China is trying to achieve domestically.

I want to look at what the implications are for the relationship between the UK and China – and what the opportunities and risks are for businesses and investors.

But what I really want to leave you with is a clear sense of why we believe China’s ambitions are positive for both the UK and the world.

The evolution of China’s strategy

In Davos this year - three days before President Trump’s inauguration - I listened to President Xi talk about the importance of defending economic globalisation and advancing it in the world’s interest.

That speech was met with a degree of scepticism by some, but actually it was very instructive of what China is trying to achieve on the world stage.

It wasn’t a tacit challenge to the US, or an indication that China means to supplant it as the world’s dominant power, but instead it was a very natural extension of the strategy that Beijing has pursued for decades.

Ever since Deng Xiaoping began the process of opening up, China’s goal in international affairs has been to manage its external environment in a way that aids its economic development, achieves stability at home and ultimately paves the way for it to become a high-income country.

It has sought to do that by gaining greater influence in the US-led institutions of globalisation, which has brought only limited success.

But that approach is evolving and in our view China is now pursuing a more expansive strategy, which Xi’s speech encapsulated.

We see that strategy as two-pronged.

The first is to continue to seek influence in the existing institutions of globalisation – a task now made easier by the enormous and increasing size of its economy.

That allows China to change the system from within.
The second is to build a Chinese-led system of multilateral institutions, which reduces its reliance on US-led institutions and is helping it carve out its own sphere of influence in Asia Pacific and beyond.

In doing so we believe China is trying to equalise the global balance of power – effectively changing the rules of the game in its own interest.

But it is also very deliberately placing itself at the centre of a coordinated global effort to reduce barriers to economic integration and working with, not against, the developed world.

The Belt and Road initiative and RCEP – the Regional Comprehensive Economic Partnership – and Chinese-led institutions like the Asian Infrastructure Investment Bank should be seen in this broader strategic context.

They are very overt demonstrations of China’s remarkable economic power, but also of its newfound ability to exert influence through both its own and existing multilateral institutions.

But while this new approach reflects China’s long-standing aims, it’s also clearly opportunistic.

The withdrawal of the US from its traditional global role has allowed China to deploy its strategy on a much broader scale and at a greater pace than looked possible several years ago.

**New axis of globalisation**

This all has potentially far-reaching implications for the world as we know it.

What I think we’re moving towards is a world where no one power dominates in the way the US has since the Second World War, or the British Empire did throughout much of the nineteenth century.

Instead distinct spheres of influence are emerging, and a new axis of globalisation is being formed between China and the US – with two very distinct multilateral systems that coexist, compete, but also complement one other in their shared goal of creating a more integrated global economy.

In our view this is nothing less than a fundamental realignment in both the nature and the institutional framework of globalisation.

Economically, philosophically and intellectually, the world is gradually returning to what we call a ‘pre-Columbus’ model of globalisation, driven by Eastern tastes and Eastern products, with China at its centre.

**Chinese leadership is positive for the world**

This is something to welcome, not fear.

China is already using its new global role to confront some of the most intractable issues that the world faces today – issues that the developed world has struggled to overcome since the global financial crisis.

The first and most visible of these involves advancing economic globalisation in the face of increased economic nationalism.

The Belt and Road initiative is the flagship example.

It’s the largest infrastructure project in the world right now…

…a multi-trillion dollar plan to build bridges, tunnels, ports and railways to create a more connected world, drive increased trade and encourage economies across Asia, Africa and Latin America to reform and open up.

But actually its longer term impact could be to build a global consensus around how best to plan and fund infrastructure in emerging markets - which is why it has the potential to be one of the most potent forces for international development this century.

It will also complement the proposed RCEP agreement, which is designed to liberalise trade on a scale never before seen in Asia Pacific and thereby promote economic integration.
It will remove barriers to goods trade, like tariffs.
It will reduce barriers to services trade.
And it will improve conditions for trade-related investment.
And by bringing nations side-lined by the US-led system into its economic and political orbit, China is aiding geopolitical stability by encouraging powerful countries to work collaboratively within an expanded multilateral system, rather than outside it.
The second area is Chinese leadership of the low carbon transition and the fight against climate change.
China is leading the world by the example it is setting domestically…
…through enforcement of tougher environment regulations…
…investment in sustainable infrastructure…
…and by cleaning up the pollution caused by its heavy industry.
It’s also leading at a global level, initially via its G20 Presidency in 2016, with its efforts to integrate sustainable development into financial system policies and regulation – which will ultimately help the world deliver the level of funding that the low carbon transition so urgently requires.
This is all evidence of how China is breaking new ground in areas like trade liberalisation, in international development, and in developing a more coherent global response to the challenges wrought by climate change.

**How China’s global role aids its domestic goals**

But this new global role clearly comes with an increased weight of expectation.
The world continues to look to China for strong and stable growth. But at the same time it also looks to China to demonstrate a willingness and capacity to push ahead with reforms that could harm its ability to grow.

It is this inherent conflict that has governed China’s economic policy for the last few years.
The first priority is – and always will be – maintaining strong and stable growth, a point that China has made repeatedly ahead of the 19th Party Congress that starts next week.

Reform cannot be pursued without a growing and stable economy.
And actually strong growth is just as important as economic reform as a means of escaping the middle income trap.
The experience of other Asian countries shows that middle income economies only graduate to the higher income bracket by achieving a fast enough escape velocity - and that means maintaining strong growth levels while simultaneously pushing forward with reform.

That’s why the fiscal measures that China is employing remain necessary to support the economy and provide jobs while reforms are enacted to create sustainable growth in the long term.

This strategy is actually helped, not hindered, by China’s active stance towards globalisation.
Initiatives like Belt and Road and RCEP are designed to increase China’s multilateral influence.
But equally they also help China manage its external environment and support growth by driving greater economic integration and opening up new markets for its increasingly high-tech exporters.

In the same vein, greater influence in the world should also give China more leverage over global policy and an increased ability to shape it in Chinese interests.
Critically, it means that China should be guaranteed a prominent role in any review of the post-crisis rules that govern the global financial system.

This should help China as it pushes ahead with its economic reform programme in President Xi’s second term, which begins formally after next week’s 19th Party Congress.

Reform will take place against a much more stable economic backdrop than eighteen months ago, when a combination of currency pressure and external challenges caused it to slow the pace of change and focus instead on guaranteeing economic stability.

Measures to slow capital outflows were imposed, the pace of financial liberalisation slowed, and restrictions were placed on outbound M&A activity.

That pragmatic approach drew criticism in some quarters, but it has clearly had the desired effect.

Fears about the renminbi have eased.

Private sector activity and investment has rebounded.

And HSBC expects growth to be a steady 6.7% this year.

Risks clearly remain, not least from the slowdown in global demand that’s expected later this year.

But for now economic stability has been secured, which is allowing policymakers to quicken the pace of reform once again.

Creating sustainable growth

We see that reform programme focusing on three areas.

The first is to boost the role of the real economy to improve the quality as well as the quantity of growth, which ultimately will help the economy generate its own demand without the need for significant stimulus.

Beijing has already made good progress on that front.

The loosening of FDI restrictions, the broadening of financing options for SMEs and reforms to the tax system have helped lay the foundations for a private sector revival, and have created the conditions in which entrepreneurs are now thriving.

Private companies have shed debt and moved quickly up the value chain, enabling them to capitalise on the recent upturn in external and domestic demand.

A new wave of businesses has emerged in the high tech, internet and services sectors, and it’s this new breed of AI firms, ride hailing companies and mobile payment providers that demonstrate China is no longer just copying western innovation but is now a global leader in its own right.

These businesses are developing at speed. The valuation of China’s unicorns now almost matches those of the USA.

Many are starting to go global, and international investment is picking up markedly.

This has tilted the balance of China’s economy overwhelmingly towards the private sector, which now accounts for almost three-quarters of economic output.

This makes it easier for Beijing to press ahead with the reform of state-owned enterprises.

This is critical to simultaneously addressing China’s debt issue and boosting the role of the real economy, because corporate debt is disproportionately concentrated in the state sector – and that’s a nuance that is often missed when commentators talk about debt levels in China.

The Government has been very vocal about the need to press ahead with the closure of zombie SOEs, and it has given clear direction on SOE reform, where the focus will continue to be on a
combination of M&A, private investment and management reforms.

Early signs of improvement are already there. SOE profits are up…

…debt is falling…

…and productivity is slowly increasing; and our analysts are increasingly optimistic about the state-owned sector becoming a source of growth once again.

These sit alongside further measures to support the real economy and boost productivity, including further relaxations to foreign direct investment rules that are designed to create more competition and dynamism, and plans to relax internal migration restrictions so businesses have access to the labour they need.

This is complemented by the second area of reform, which is the continued opening up of China’s financial sector and capital account.

This is vital to both reducing the reliance on the banking sector and providing the economy with the diversity and level of future funding that it needs.

Some capital flow measures still remain – and they should be seen in the context of prudent economic management – but there are now clear signs that Beijing is renewing the course of capital account liberalisation that it postponed in response to currency pressure last year.

The new China-Hong Kong bond connect will help fulfil the enormous potential of a bond market that is already the third largest in the world.

The removal of reserve requirements for onshore FX purchases is a signal that China remains committed to promoting greater international use of the renminbi – a point underlined by supportive comments made by the Governor of the PBoC as recently as July.

And the MSCI’s decision to include Chinese mainland shares in its emerging market index – which paves the way for greater foreign participation in its onshore markets – should actually be seen as the culmination and vindication of China’s strategy of incremental reform.

The third area concerns strategic investments that are designed to drive innovation, accelerate urbanisation and encourage greater regional integration.

And there are three really big ones.

An enormous project to integrate the urban areas around Beijing – the Jing-Jin-Ji project – is realigning the regional economy around high-tech industries, high-end services, and high-grade research and development, with environmental as well as economic benefits.

The Yangtze Economic Belt is accelerating the development of strategic emerging industries, boosting services and modernising the agricultural sector in the extended region around Shanghai.

And the recently announced Greater Bay Area of Hong Kong, Macau and Guangdong will rapidly accelerate the development of the ‘Silicon Delta’, increasing the pace of technological, structural and economic integration throughout the region.

Taken together, they represent a staggering level of investment in domestic economic integration.

We believe they will increase the role of the private sector and the real economy, and provide the quality and quantity of jobs that will help China achieve the ‘escape velocity’ it needs to become a high-income country.

A new UK-China relationship and a chance for the UK to lead on trade policy

This all has massive potential implications for the UK.
Clearly the UK-China relationship has strengthened in recent years.

London has become the largest centre for RMB internationalisation outside Asia, which has led to a more strategic partnership between the two countries and created deeper economic links - and that’s reflected by the Minister being with us here today.

But HSBC’s view is that an even greater degree of cooperation could serve the long-term priorities of both countries and bring the relationship into a new era.

The UK financial sector – and particularly the City of London – is unrivalled in its ability to provide both the financing and the expertise that are critical to initiatives like Belt and Road, and to China’s ambitions of advancing the global climate change agenda.

That remains the case regardless of the outcome of Brexit.

The UK’s soft power, too, may prove valuable to China as it looks to wield greater influence in the existing institutions of globalisation.

And for the UK, a closer relationship is not just a growing economic necessity, but also an opportunity for it to retain an outsized influence in global affairs and remain a country that leads the world by its example and its actions.

One area it could do that in the longer term is with trade policy, and specifically via a trade agreement with China.

It would be wrong of course to underestimate the challenges involved in what would be an incredibly complex set of negotiations, and the UK clearly needs to finalise the terms of its departure from the EU before any formal negotiations can begin.

But a good starting point, and something that can be worked on now, is to understand what both sides have to gain from a potential deal.

The UK is the world’s leading services nation…China is the world’s leading consumer of services.

The City of London is a world-leading sustainable finance hub…and China is the new global leader of the Paris climate agreement.

So clearly the foundations for an agreement exist.

For China specifically, a trade deal that breaks down non-traditional barriers in areas like services, data sharing, and labour and environmental standards could be a chance to build on RCEP, which although innovative in scale, is less innovative in the barriers it addresses and the depth of liberalisation it pursues.

It’s also a chance to gain preferential access to the UK’s prized services industry and to the City Of London – which will be critical as China builds a consumer-led economy and internationalises its currency.

For the UK, a trade agreement with China could give its companies greater access to what will become the largest consumer market in the world, and is a potential gateway to high-growth markets in ASEAN and the rest of Asia.

Improved access to imports from China should deliver gains to UK consumers, and provide an expanded range of goods, parts and services for UK producers that will boost their competitiveness on the global stage.

It’s also a way for the UK to show its citizens that it is capable of addressing some of the popular concerns about globalisation and free markets.

Any prospective deal could include labour standards that offer greater protections for vulnerable workers. And it could adopt higher environmental standards, demonstrating that trade and globalisation can be a positive force in the fight against climate change.
For both countries, a deal would ultimately represent a chance to break new ground in global trade policy and develop provisions that other nations can adopt and replicate – showing the world that they have the capacity and willingness to lead in confronting barriers to economic growth.

**Conclusion**

Regardless of whether this happens or not, what I think we are moving towards is an era of greater collaboration between China and the developed world, and between China and the UK.

China is already very deliberately placing itself at the centre of a coordinated multilateral effort – working with countries like the UK – to remove barriers to economic development.

That is creating enormous opportunities both now and in the future, which is already apparent in areas like infrastructure investment and sustainable development…

…in the opening up of new consumer markets in areas like Asia and their integration into the global economy…

…and of course in the rapid development of China domestically and its emergence as a consumer-driven economy.

The challenge is to understand what the risks and opportunities are, which is where I hope today’s Forum can help - providing you with the insight and the information you need to capitalise on China’s rise on the global stage.

That’s reflected in the calibre of speakers we have with us today, not least with Stephen Barclay, the current Economic Secretary to the Treasury in the UK Government.

It’s my pleasure to introduce him now.

Minister…