

## How China and the UK can advance globalisation

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Your Excellency, my Lords, ladies and gentlemen, good afternoon and a very warm welcome to HSBC's Chinese New Year lunch.

'Xin Nian Kuai Le!'

I am delighted to welcome our guest of honour, His Excellency Liu Xiaoming, Ambassador of the People's Republic of China.

Your Excellency, we are all very much looking forward to hearing your thoughts in a few minutes time.

I hope I will not steal the Ambassador's thunder if I suggest that according to Chinese culture, people born in the Year of the Pig are diligent, compassionate and generous.

They are also calm when facing trouble, careful when overcoming problems and determined to always finish the job.

All qualities that will be highly sought after this year considering the uncertain external environment.

I look forward to trusting this illustrious and captive audience to be calm, careful and determined while I set out a few thoughts of my own.

For a number of years, the Chinese New Year has provided an opportunity to reflect on the links between China and the UK.

This year, placing this relationship in a global context is more relevant than ever.

First, because one of the opportunities that has been claimed for 'Global Britain' is a chance to strengthen economic and trade relationships outside Europe.

Irrespective of Brexit, I wholeheartedly agree that Britain has to seize these opportunities.

Indeed, I have long argued for the need to establish a strategic plan for trade and investment between the UK and China.

Second, because of the changing world around us.

Differences between China and the US will continue to influence sentiment in 2019.

While we all hope for a constructive outcome to the ongoing negotiations between Beijing and Washington, the protectionism at the core of their dispute poses a more fundamental question about globalisation.

Globalisation has advanced on the back of a broad consensus of support for the post-war, US-led rules-based system, with the greatest progress made in the 1980s and 90s when the Western model was accepted around the world.

In the last few years, largely as a consequence of weaker than expected global growth and rising inequality, there has been a backlash against globalisation.

This has effectively seen a shift from old left-right political divisions to those of globalists against nationalists.

At the same time, technology has been responsible for significant increases in living standards and productivity over the last 30 years. But AI and robotics are now lowering the bargaining power of workers as they begin to replace aspects of professional work in areas like finance, medicine and law.

This has created an opportunity – even a responsibility – for China to pick up the baton of openness and engagement, supported by key partners like the UK.

I want to use the rest of my remarks to outline three ways this can happen.

First, through bilateral trade and investment.

Last year, on one of my very frequent trips to China, I was honoured to take part in the first China International Import Expo in Shanghai, at which President Xi said: “China will not close its door to the world and will only become more and more open.”

In part, President Xi was recognising that China is already the world’s number one exporter, its number two importer, the second highest recipient of foreign direct investment and the third largest source of overseas investment.

The President was also acknowledging that with nearly 100 countries now counting China as a major trade and investment partner, Chinese measures to reform and open up the economy have a much broader and significant impact across the global economy.

In recent months, shifting economic sentiment has been a further catalyst for further Chinese domestic reform that is creating a more supportive environment for the private sector.

In particular, reforms to state-owned enterprises hold the key to creating a level playing field for both domestic and foreign enterprises within China. These reforms also support Chinese companies in their efforts to expand and compete internationally.

We are confident that further reform and opening up will form part of China’s response to changing external conditions.

The UK can – and should – be at the forefront of this.

Increased volumes of renminbi trading in London overtook those of the pound against the euro in October. This is a direct result of the commitment of both governments and the private sector.

The Shanghai-London Stock Connect will be a further step forward in financial and regulatory co-operation between the two countries.

I also look forward to further opportunities to strengthen links between the UK and Chinese financial sectors later this year, including at the Financial Services Summit that I will co-chair on the sidelines of the UK-China Economic Financial Dialogue.

And then at the second China International Import Expo, where I’m certain that His Excellency Ambassador Liu will once again work tirelessly to ensure UK companies are well represented.

The second way that China can support greater openness is through trade liberalisation.

Commerce has a very long history across the world – a history that is built on values, trust, rules and principles.

There is a frequent Western perception – particularly among people less expert than those in this room – that because support is fading for the old rules-based system, it must be fading everywhere.

In Asia, there has for many centuries been significant support for the values of openness and co-operation that underpin the current rules-based system.

The detailed writings of Guan Zhong in the 7th century BC recognised the positive function of the market and also stressed the need to regulate the market effectively so that everyone can benefit.

Finding the right way to handle the market – or ‘wu shi shi’ – was in some ways comparable to finding the right way in Daoist philosophy.

Today the Comprehensive and Progressive Agreement for Trans-Pacific Partnership – or CPTPP – and the EU’s landmark bilateral agreements with Japan and Singapore provide important counterweights to the political pressure being exerted on global trade.

China is also now leading efforts to ensure that the Regional Comprehensive Economic Partnership is concluded.

It may be necessary to show flexibility to get this important agreement over the line, but an approach where long-term gains are put above short-term optics and politics is exactly what is needed, as it becomes harder and harder to reach multilateral agreements.

It is therefore encouraging to hear the UK government pledge to help encourage the global trading system in the right direction, including through reform of the WTO.

This brings me to the third way that China can pick up the baton of openness, which is by putting the necessary economic infrastructure in place.

China has been building its own institutions and economic infrastructure for some years.

It has created new multilateral institutions like The Asian Infrastructure Investment Bank, which of course the UK was the first major Western country to apply to join.

In the Belt and Road Initiative, it has also put in place a multi-decade strategy to boost flows of trade, capital and services between China and the world.

If we accept that infrastructure development should have a generally positive economic and social impact, we need to consider what determines how positive this impact is.

It comes down to how the infrastructure is planned, how it is financed and its commerciality.

In terms of project planning, it is vital that new infrastructure is sustainable. That means it must draw on the best technology available to create resilient infrastructure that avoids carbon 'lock-in'.

In terms of financing, the involvement of multiple international partners – including banks, law firms and others – in a transparent procurement process, is the best guarantee that financing will meet the highest possible international standards.

And as President Jin of the AIIB and many others would say, this does not simply mean Western standards.

As I explained earlier, our shared values, rules and principles have underpinned global trade for thousands of years.

I am sure that UK firms have an important role to play in both the planning and financing of this infrastructure to fill the 26 trillion Dollar gap identified by the Asian Development Bank.

That is why I am delighted to welcome back an old friend – and someone who of course is no stranger to HSBC's Chinese New Year lunch – Sir Douglas Flint.

HSBC is very pleased to support Douglas' work through the Belt and Road Expert Board and Infrastructure Financing Exchange.

And the Belt and Road Initiative Forum in April – hosted by President Xi in Beijing – will provide a further important opportunity for the UK to engage strategically on this vital initiative.

Your Excellency ...

The more countries in the West reconsider their traditional role leading globalisation ...

... the greater the opportunity China has to contribute to those conversations.

But it cannot do so alone.

It needs key partners like the UK to share the responsibility.

In my view, this is an essential part of the role of a Global Britain.

I look forward to seeing the UK help China to advance globalisation for the economic and social benefit of both of our countries – and of our companies, customers, employees, suppliers and stakeholders during the Year of the Pig.

'Kung Hei Fat Choy!'

And I would now like to invite His Excellency Liu Xiaoming to share his thoughts with us.