How targeted policies have facilitated China's opening up and development

Speech by Mark Tucker
Group Chairman, HSBC Holdings plc

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Vice Mayor Ai, ladies and gentlemen, good morning and a very warm welcome to HSBC's 6th China Conference.

Over the next three days, we will give you our best sense of where China is going and our understanding of how it intends to get there.

We have an excellent line-up of distinguished guests who will also share their insights.

In these opening remarks, I would like to put these discussions in some context.

In 1978, before the start of the process of reform and opening up that has transformed China's economy, Deng Xiaoping is reported to have said:

"I am of the view that we should allow some regions, some enterprises, some workers and farmers, who because of hard work and good results achieved, to be better rewarded and improve on their livelihood … [T]hey will engender powerful demonstrative effects on their neighbors and lead people in other regions, work units to follow their examples. In this way, the national economy will, wave-like, surge forward with all the people becoming relatively well-off."

With the benefit of 40 plus years of hindsight, we can see how the kind of targeted policies of which Deng spoke have been instrumental to both China's broader opening up and development, and Shenzhen's transformation.

I would briefly like to mention three key examples of how this has come about.

The first is the establishment of five Special Economic Zones during the early 1980s, of which Shenzhen was of course the first and to date the most successful.

Had we been standing here 40 years ago, our surroundings would have been very different.

Back then, Shenzhen was a small fishing village, with a population of around 30,000 people and without a single traffic light!

Today we stand in a bustling metropolis, which has a population of around 12.5 million people, a skyline that soars into the clouds and is the birthplace and home of China's leading tech companies.

The value of Special Economic Zones comes from the unique bridging position they occupy between the rest of China and the rest of the world, and their freedom to experiment with policies that could be replicated more widely if proven successful.

Shenzhen capitalized by taking the boldest approach focused on private sector led growth.

At the outset, tax incentives attracted investment and enabled Shenzhen to build a strong manufacturing base, before companies started to invest more in their own R&D a decade or so ago.

In 2010, the Qianhai Pilot Free Trade Zone was also established.

As the connecting point between Hong Kong and Shenzhen, Qianhai combined the strengths of both by enabling new ideas like cross-border fund flows to be tested in particular areas.

This represented a new age of economic openness to the international community, a desire to welcome international investors to China and a commitment to building an economy with innovation at its heart.

HSBC is proud to have supported Qianhai since it first opened.

HSBC Qianhai Securities was launched in 2017.

At the time, it was the first Chinese securities joint venture majority-owned by an international bank.

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We are honoured that HSBC was the first international bank to be granted this privilege.

In the coming days, you will hear more about how it enables our clients in mainland China to access the full range of investment banking and securities market services, and how it connects our global clients to China's capital markets.

This brings me to the second example of the use of targeted policies, which are measures to open up China's capital markets to international investors.

Over the last decade, the world's exposure to China has increased.

Trade flows have shifted as products and services that were previously made in China are increasingly being made for China to meet rapidly growing demand from China's middle class.

Investment flows have also begun to change as Chinese authorities have responded to interest from international investors keen to make the most of opportunities in China.

After the Qualified Foreign Investor programmes, the Stock Connect linking Shanghai and Hong Kong opened in 2014, and gave overseas investors a chance to buy shares in Shanghai-listed companies via the Hong Kong stock exchange.

A similar link between Shenzhen and Hong Kong followed two years later.

Chinese bonds and equities are now being included in major global indices.

China's capital markets have moved into the global investment mainstream.

In 2018, international investors bought more than USD81 billion of Chinese bonds, making it the largest recipient of foreign investment among emerging bond markets globally.

HSBC expects another USD150 billion to follow over time and an additional USD600 billion to flow into Chinese stocks in the next five to ten years.

Foreign investors only own 2.2 per cent of China's domestic bonds, and 2.6 per cent of the total A-share market capitalisation.

This limited degree of influence previously insulated China's economy from volatility in global markets, and vice-versa.

Recent announcements suggest that China's leaders are now looking to open up its capital markets at a faster pace.

In particular, the commitment to adopt a broader 'negative list' framework means continued opening up of foreign investors' access to China.

The move in financial services is particularly significant, where there are plans to relax the cap on foreign ownership of banks, asset managers and insurance companies.

The third example of China's targeted policies is its new economic integration and development programmes.

There are two main elements.

The Guangdong-Hong Kong-Macao Greater Bay Area is the centre-piece of the new approach to China's economic expansion.

The region has a combined population of around 70 million people and a combined GDP of 1.5 trillion US dollars, which is expected to triple in size by 2030.

Two infrastructure projects have already enhanced physical connectivity within the Greater Bay Area.

The Express Rail Link from Hong Kong to Guangzhou via Shenzhen and the Hong Kong-Zhuhai-Macao bridge have both significantly reduced travel time into mainland China.

The Greater Bay Area Development Plan is built on the need to enhance economic connectivity that will make the most of the complementary strengths of each city in the region.

Hong Kong is an international financial, transportation and trade centre, and a global offshore RMB hub.

Macao will develop further as a world-class tourism and leisure centre.

Guangzhou's role is as an international commercial and industrial centre.

And Shenzhen is already China's world-leading technology innovation hub.

It will take time to achieve seamless integration, not least because of the different systems, currencies and legal used in Hong Kong, Macao and the Mainland.

But China's commitment is clear, and cities and regions can now develop plans to leverage their distinct competitive advantages.

The Greater Bay Area will be an important component of China's other major economic integration – the Belt and Road Initiative.

Our discussions suggest that at least 100 countries are now involved in the Belt and Road Initiative, which reaches as far south as New Zealand, as far west as the UK, and as far north as the Polar Silk Road.

Since the initiative was first announced more than five years ago, the focus has been on improved physical infrastructure and increased trade and investment along the Belt and Road routes.

You will all be aware of the concerns that have been expressed over Belt and Road infrastructure projects creating unsustainable debts for developing countries, and the BRI being an exclusive opportunity for Chinese enterprises.

China addressed these concerns directly at last month's Belt and Road Forum in Beijing.

President Xi reiterated that the Belt and Road Initiative should be open, clean and green.

He also specifically emphasized that it should conform to international rules and standards, while the government released a new analysis framework for debt sustainability.

The Belt and Road Initiative is already proving itself to be a powerful catalyst for growth in cross-border trade and investment.

In 2018, the value of trade in goods between China and other Belt and Road countries reached 1.3 trillion US dollars, growing by 16.4 per cent year on year.

Last year, Chinese businesses also made 15.6 billion US dollars of non-financial direct investment in Belt and Road, an increase of 8.9 per cent on 2017.

As it energizes business and investment, the Belt and Road Initiative is creating important ecosystems in everything from e-commerce to people-to-people ties.

This is reflected in the value of goods going through China Customs' e-commerce platform – which rose by 50 percent last year – and China signing mutual visa exemption agreements for different types of passports with 57 Belt and Road countries.

Critically, China also recognized that Belt and Road infrastructure must be green if the world is to meet the targets of the Paris Agreement.

Indeed Ma Jun – one of our speakers today – developed the Green Investment Principles for Belt and Road.

HSBC is pleased to support and recognise the principles. We are committed to working with our clients and other financial institutions to shape and implement standards for sustainable financing around the world.

In conclusion, over the last 40 years China has used targeted policies to facilitate the opening up of its economy.

China's experience has developed over time as it has paced growing foreign participation in its financial markets as part of its continued economic development.

While increasing China's exposure to the world is unquestionably in China's interests …

… it means that companies and investors around the world can also benefit from China's expansion.

Many of the companies that have captured these new opportunities are here with us today.

I hope this Conference gives you all the information and contacts you need to benefit from China's continued growth.

We look forward to supporting you all the way.