HSBC China Forum – New York

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Thank you Pat for the kind welcome – and thank you everyone for being here.

I'd like to take my time here today to tell you how investing in and with China is changing, and how investors and companies from the US can be a part of it.

I understand that the previous China Forum was held here in New York City just over one year ago (1 August 2016), so I'll start off by recapping some of the major happenings since then.

And I'll begin with China's capital markets because this space has seen a slew of exciting developments over the past 12 months.

Capital market developments since last Forum (1 August 2016)

Last August regulators in mainland China and Hong Kong announced the establishment of the Shenzhen-Hong Kong Stock Connect – and this "mutual stock market access" scheme was formally launched in December.

The Shenzhen Connect allows international investors to trade shares on the Shenzhen Stock Exchange, which is home to China's smaller, more entrepreneurial companies – and the growth of these companies is a critical component of China's continuing economic reform.

Some of you will recall that this is actually the second Stock Connect: the first, which links Shanghai with Hong Kong, was launched back in November 2014.

Thanks to the two Stock Connects, investors around the world now have direct access to over 1,400 A-share stocks, which account for some 80% of the total A-share market capitalization.

This is a massive investment opportunity that was unavailable only three years ago.

In addition to Stock Connect, there is now Bond Connect.

Bond Connect was first mentioned by the Chinese Premier in March 2017 – and by July it had become a reality.

(Things can move very quickly in China!)

The concept behind Bond Connect is the same as that of Stock Connect – and that is to establish mutual market access between mainland China and Hong Kong.

Thanks to Bond Connect, investors around the world now have direct access to China's bond market – which is the world's third-largest, worth more than US$9 trillion.

Speaking of China's bond market, we envision much growth and development, with a key driver being China's Belt and Road Initiative – or "Belt and Road" for short.

Some of you are familiar with it: Belt and Road is an ambitious plan that aims to promote economic cooperation around the world – and one of its elements is to enhance global supply chain by building and upgrading infrastructure.

The funding needs for Belt and Road infrastructure projects are massive: between now and 2030, the Asian Development Bank estimates that US$1.7 trillion per year will need to be invested in developing Asia and the Pacific alone.

Capital markets in China – both offshore and onshore, as well as international financial centers such as New York and London – will play huge roles in raising the capital required to finance these projects.

Over the past year or so, China has – by opening up its stock and bond markets – presented exciting investment opportunities to international investors.

As I mentioned earlier, China has the world's third-largest bond market; it also has the world's second-largest stock market, worth about US$7 trillion.

What these two markets have in common is that foreign participation has been historically low.

We're talking about international investors owning, say, 2% of China's stocks and bond – miniscule by any measure.

Opening the door – even just slightly – to the rest of the world will have great implications for global capital markets.

Partly because of the progress China has made with regard to the Shanghai Connect and the Shenzhen Connect, two months ago (June) MSCI announced the decision to include A-shares in its Emerging Markets Index.

We estimate that over the next 5-10 years foreign fund flows into China will reach US$500 billion.

Yet MSCI inclusion is only the latest step in correcting a huge mismatch between China's economy and its stock market:

While China accounts for about 15% of global GDP, Chinese equities account for only about 3% of global equity fund allocations.

Bridging this gap is a matter of "when", not "if", and surely it'll serve up plenty of investment opportunities for investors around the world.

China's economic fundamentals remain sound

As I just illustrated, China is opening up its capital markets – but why should investors and companies from the US and around the world buy into China's growth story?

The answer is simple: China's economic fundamentals remain sound, and China is still one of the fastest-growing major economies in the world.

Two weeks ago (17 July) China announced second-quarter GDP growth that exceeded expectations, rising by 6.9% as its manufacturing industry gained strength. More important was that private business investment strengthened further, growing by 8.2% year-on-year.

Exports have also rebounded: in the first half of 2017, exports grew by 8.5% year-on-year.

After a sharp contraction in 2016, the rebound in China's export growth is nothing short of impressive.

The recovery in global demand is a key factor at play: we're seeing an increase in demand from developed economies such as the US as well as from emerging markets such as Latin America.

Another key factor is the structural adjustment within China's export sector: we're seeing a shift from labor-intensive and low value-added manufactured goods to higher value-added electrical and machinery goods.

My colleague Julia Wang, our expert on China's economy, will join me to share her insights about the country's transformation on a panel later. For now I'd like to highlight one more item:

We believe China's manufacturing sector will continue to lead the economic recovery – albeit with a stronger focus on higher value-added manufacturing. And because manufacturing is dominated by the private sector, this will help boost productivity and lead to more sustainable growth for China.

China is in the process of creating a "New Economy" – one that is driven by innovation and high-end technology. And the private companies leading this movement are already making a splash on the global stage.

In recent months, two of China's biggest tech companies – Alibaba and Tencent – have jumped ahead in market value and are now among the 10 most valuable companies in the world – ranking alongside American tech giants such as Apple, Alphabet and Facebook.

But Chinese tech companies are probably still far from their full potential. Take Shenzhen-based Tencent. At the end of March 2017, its WeChat/Weixin messaging app had almost 940 million monthly active users. When WeChat started six years ago, it was a mere messaging app. Today, it also offers video calls, payments, dating, news – even microloans.

Think WhatsApp, Skype, Instagram, PayPal, Facebook, Tinder and Apple Pay all rolled into one. WeChat can even show you a real-time heat-map of how crowded a shopping mall is before you go there.

Alibaba, meanwhile, is expanding its electronic world trade platform outside of China.

In March, Alibaba announced it will complete a project in Malaysia by 2019, and will include facilities for customs clearance, warehousing, and fulfillment.

Alibaba's CEO Jack Ma described the Malaysian park as part of a modern, electronic version of the ancient Silk Road, something that will help small and medium businesses to conduct cross-border trade without cumbersome bureaucratic hurdles. Alibaba announced a similar project in Thailand, also to be built by 2019.

Pearl River Delta, AKA Silicon Delta

Tencent and Alibaba are two of the "Big Three" tech giants in China. The third is Baidu, and together they're colloquially referred to as "BAT".

There was a time – not long ago, actually – when Chinese tech companies were dismissed as mere copycats.

But not anymore.

When Google's AlphaGo arrived in China in May and thrashed the world's best player at the game of Go, it sent a shockwave through the country about the potential of artificial intelligence. Just two months later, the Chinese government unveiled a major plan to make AI an important economic driver, and for China to become a global leader in the technology.

BAT are all investing heavily in AI, and recently both Baidu and Tencent opened AI labs in Silicon Valley.

We truly believe that the next game-changing idea in global technology is as likely to come from Silicon Valley as it is from the Pearl River Delta – which is an region located just north of Hong Kong that we like to call "Silicon Delta".

Whereas it was once the factory floor of the world, making everything from garments and toys to shoes and electronics, the Pearl River Delta – or "PRD" for short – is now home to increasingly high-end and high-tech manufacturing and design.

The entrepreneurial and innovative spirit found in the PRD is real.

Look at the Shenzhen Stock Exchange: 75% of the listed companies are privately owned enterprises; and 70% are certified high-tech companies from sectors such as IT, high-end manufacturing and green.

And Shenzhen itself is the most innovative city in China: it spends over 4% of its GDP on research and development, double the national average – and companies there file more international patents than those in France or Britain.

The PRD represents China's future in more ways than one: there's the tech aspect that I just mentioned; then there's the consumer aspect.

If you want to catch a glimpse of China's future as a consumption power, look no further than the PRD.

The region accounts for about 4% of China's total population – but about 8% of China's total retail sales of consumer goods. It should come as no surprise that the PRD is one of the most affluent regions in the country: its GDP per capita is more than twice the national average.

Imagine the consumption power of China when the affluence already present in the PRD spreads to the rest of the country?

I'll use the iPhone as an example: China is already the main market for the iPhone – accounting for more than 20% of the number sold worldwide last year – and China's GDP per capita is only about three-fifths the size of America's.

Think about how many more iPhones, how many more Teslas, how many more tickets for American movies will be sold in China as the Chinese become wealthier.

The PRD is helping to drive this increase in wealth in China – and we're seeing it in the banking arena, our area of specialty.

The people living in the PRD are becoming more affluent, so their appetite for retail banking, wealth management, and private banking will increase.

The companies operating there – whether they're local or international – are growing in size and in number, as are their business and corporate banking needs.

This is part of the reasoning behind our Group's "Pivot to Asia" strategy – in particular, why we are increasing our investment in the Pearl River Delta region.

This increased economic activity will lead to a greater demand for financial services.

And we are proud that we recently received regulatory approval to establish a majority-owned joint venture securities company – based in Shenzhen.

Under the JV, we will be able to offer clients a broad spectrum of investment banking and financial markets solutions in China – from equity research to bond and stock underwriting to advising on mergers and acquisitions.

And once operational – we expect to begin operating by the end of the year – both our Chinese and foreign clients will be able to enjoy more comprehensive financial services, and we will all benefit from the continuing growth of China's economy and the further liberalization of its capital markets.

Conclusion

Ladies and gentlemen, I have spent most of my banking career in mainland China. I can say with confidence that we are at a most exciting period for investing in China.

With the transformation of the Chinese economy, its services sector will present attractive opportunities for you.

There will be plenty of new avenues for cooperation – in capital markets, in technology and innovation, in retail and consumption.

And with our position as China's leading foreign bank, with more than 150 years of experience in the country, we will be able to help you achieve your China ambitions.

We've been connecting our American clients with China since 1865 – that was when we first opened our doors in Hong Kong, in China, and in the US – so we're well positioned to help you identify and capture the opportunities in the world's second-largest economy.

Thank you.