

HSBC China Forum – New York

Speech by Pat Burke
President and CEO, HSBC USA

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Thank you David [Westin of Bloomberg] for your introduction.

And thank you – our clients, members of the media, and distinguished guests -- for coming to the HSBC China Forum. I'm confident that you're going to find this to be a very fulfilling afternoon. We have a number of speakers who will illuminate a number of vital issues related to China and the U.S.-China relationship.

We started organizing these Forums in 2015 for a simple reason: It was increasingly clear that the United States and China represented one of the most important – and I believe *the* most important – economic relationships in the world. Certainly important to many of our clients, here and there.

And the relationship is one that HSBC has been a part of ever since our founding in 1865. While our first offices were located in Hong Kong and Shanghai – just a few months later we began serving customers in San Francisco.

And for the past 150-plus years, our activity in the United States and China has been driven by the same purpose that motivates us everywhere we operate: serving as a commercial bridge between nations and regions, to better connect

customers to opportunities, enable businesses to thrive and economies to thrive.

Next year marks the 40th anniversary of China's economic reforms, and the progressive opening-up to foreign investment set in motion what some have called the greatest increase in living standards in human history. It's safe to say it also transformed the global economy and the US economy.

You'll hear from my colleague David Liao that we remain optimistic about China's economic future.

The private sector is the country's engine of growth, accounting for 70% of economic output, and the resulting marketplace profit incentives are spurring decisions that will enable long-term expansion. For example, we're seeing a surge in corporate spending on research and development, which is giving rise to world-class innovators. Last year, the number of patent applications by Chinese companies increased 45 percent over the prior year, and two such companies – ZTE and Huawei – filed more international patent applications than any other companies worldwide. And two weeks ago, the government announced a comprehensive strategy to develop its artificial intelligence sector –

another positive sign that they're investing for the future.

What we see happening in China leads us to deepen our engagement there, and that includes investing our own capital to grow our business in China.

1. We launched our first consumer credit card in China last December, complementing our years-long investment to China's consumer market. We've built the largest retail network of any foreign bank, with 178 branches.
2. Also in December, we won the designation of custodian bank in China for the first RQFII license in the United States, which extended our track record of being 100 percent successful when pursuing quota applications on behalf of clients. Since the RQFII license was granted, HSBC has led two major deals in this space – Blackrock and Guggenheim.
3. And this June, we received government approval to establish the first-ever securities firm that's majority-owned by a foreign bank. This JV will reinforce our unique position in China: technically a foreign bank but with long history and deep in-country expertise, backed by an unmatched global presence.

HSBC's expanding presence in China is an important development for us, and for you, our clients, and they are sign posts of the exciting changes underway there. China's gradual opening-up is contributing to the country's economic development while also facilitating deeper economic ties with the United States.

Consider a few facts and figures:

- U.S. foreign direct investment in China last year totalled about 14 billion dollars, and it included some landmark announcements, such as Apple announcing the opening of two new R&D centers in the country, and Cisco signing an agreement to open an innovation center in Guangzhou.
- Last year was also a milestone for Chinese investment in the United States. It rose to a record 45 billion dollars, a 3-fold increase from the prior year. Chinese investment in the U.S. now far exceeds U.S. investment in China.
- And China's investments, which are being made across a wide range of industries, have benefits on both sides of the Pacific. In fact, investment in the US from China contributes to the U.S. economy to the tune of jobs for about 140,000 Americans, according to the National Committee on US-China Relations.

One Chinese company that has been explicit in its desire to provide many more opportunities for Americans is the e-commerce giant, Alibaba. In January, the company's founder and CEO, Jack Ma, pledged to create one million jobs for Americans over the next five years. Six weeks ago, Alibaba hosted an expo in Detroit, which drew thousands of small American business owners, eager to learn how they could benefit from selling into the Chinese market.

The optimistic attitude at that Detroit event comes against the backdrop of headlines out of Washington – and that's a reminder that the US-China relationship is complex and multi-faceted.

We have a number of speakers today who have a great deal of experience in the ways of Washington and Beijing to shed some light on the state of the political relationship.

We have our finger directly on the pulse of one important part of the US-China relationship: the flow of goods, services and capital. And from our vantage point at HSBC, the commercial and financial relationship is thriving. Indeed, our business in serving clients in the U.S.-China corridor is booming – growing about 33% so far this year. For Chinese clients into the U.S., +71%. And for US clients into China, +22%.

There are a variety of explanations for these growth figures. For starters, we are relentlessly

focused on meeting the needs of US-based clients pursuing opportunities abroad, including in China, and on HSBC's clients in China looking to invest, grow and raise capital in other nations, including the US.

Businesses and investors are able to turn to HSBC USA for a range of financial services: trade finance, cash management, FX, capital financing, commercial lending, and so on.

And most significantly, in-country expertise on both sides of the Pacific. We bring to bear HSBC's global network and the unique insight into a market that comes from universal banking. We serve the banking needs of both American and Chinese consumers, small businesses, mid-market, large corporate and institutional clients.

And our role as a bridge between the two nations intersects with the momentum driven by the optimism among business leaders in both nations in the long-term commercial relationship.

Americans see a market of more than one billion people, with a rapidly-expanding consumer class that is embracing new technologies. Consider this: Last year, China processed 5.5 *trillion* dollars of mobile payments. That's about 50 times more than was recorded in the United States. We see that China's consumers are leap-frogging ahead of counterparts in other nations

in terms of how they ship and pay for what they buy.

From the Chinese perspective, the United States is a market opportunity that remains one of the biggest, most developed and most open in the world. It's like the line from the famous song about New York: if you can make it here, you can make it anywhere.

And by operating in the United States, Chinese companies also see an opportunity to raise their game – to tap into the know-how of the American workforce.

Similarly, our American clients are telling us that they're excited by the Belt and Road Initiative, which my colleague David will cover in more detail.

While the main project contracts are likely to be awarded to Chinese companies, they will need to subcontract some portion of the work. Even with some of that work going to local firms in the host countries, established US firms with a history of operating globally will be in demand, particularly those focused on engineering, construction, maintenance, logistics architecture, and business services.

As China develops, and as its economic relationship with the United States deepens,

HSBC is ready to help our clients maximize the opportunities.

My partner in supporting you today is my co-host, David Liao -- President and CEO of HSBC China.

He and I share the responsibility for serving HSBC clients in our respective markets, as well as HSBC clients operating and investing in the other's home country.

David brings a wealth of experience to his role, having worked in Chinese markets for HSBC since 1997. This experience, coupled with his understanding of economic and financial issues, has helped cement HSBC's leadership in China and throughout Asia.

I am honored to have him as a colleague and pleased to call him a friend.

Please join me in welcoming David Liao.