

Confounding expectations

INTERVIEW WITH MERVYN DAVIES CBE

GROUP CHIEF EXECUTIVE, STANDARD CHARTERED



MERVYN DAVIES

was appointed Group Chief Executive of Standard Chartered PLC in November 2001, having joined the Board as a Group Executive Director in December 1997. Prior to his appointment, he was based in Hong Kong, with responsibility for Hong Kong, China and North East Asia. He is a member of the Hong Kong Association, Singapore Business Council, the UK-India Forum, the Corporate Board of the Royal Academy of Arts and also heads up the Finance Group of the UK-China Forum. Mr Davies is a Non-Executive Director of Tesco and a Fellow of the Institute of Bankers. He was awarded a CBE for his services to the financial sector and the community in Hong Kong in June 2002.

How important is Hong Kong to Standard Chartered, both historically and in terms of your bottom line?

I would say it's an absolutely integral part of our DNA. We opened our first branch there in 1859, we started issuing bank notes in 1862 and it has proved to be a cornerstone of the bank ever since. Its share of the bank's profits in percentage terms fluctuates between 25 and 35 per cent, and as we position Standard Chartered for the future it remains one of our top centres for profit and growth – particularly now that it's positioned as part of a rapidly expanding China.

What do you regard as its most important institutional strengths, and how successful has it been in leveraging these as China's economy becomes increasingly globalised?

There's no doubt that China and India are going to be the drivers of global growth over the next fifty years. There's also, therefore, no doubt that Hong Kong is brilliantly positioned as part of an integrated Pearl River Delta (PRD).

Obviously, it's the gateway to China but it's much more than that. It's got superb infrastructure; it's now a major tourist attraction for the Chinese and also for the rest of the world; it has a capacity to handle many different types of cultures; it has one of the world's greatest ports; it's a marketing, services and facilities centre, and it's a world class, international financial centre. So, for Asia and for China, I believe it is an integral part of their future economic success.

So would you say that all the talk about Hong Kong losing market share to Shanghai has been overdone?

When I was living there, people were always barking up the wrong tree; one minute the craze was one of Hong Kong versus Singapore, then it was Hong Kong versus Shanghai. The reality is that Hong Kong is one of very many very large cities in China and in Asia, but it's one of the very few that has this unique positioning.

It's got resilience, it's got energy, it's got entrepreneurial flair and it's able to recreate itself in an ever-changing market. It's also very strong in facilities management, sourcing, marketing, finance and tourism. And they're the strengths that China needs as its economy opens up and ploughs ahead.

China needs a number of financial centres, just like Europe has. If it takes London, Paris, Frankfurt and

Zurich to service Europe with its population of 350 million, China is going to need more than just Hong Kong and Shanghai. The question should not be one of Hong Kong versus Shanghai, but rather which other cities are going to be there alongside Hong Kong, Shanghai and Beijing.

What do you think it is about the people of Hong Kong that makes them so resilient?

I think it's down to a lot of people concentrated in a small place. Hong Kong people are hungry; they're very energetic, very entrepreneurial and I think that has come through generations of people who wanted to succeed.

It's also very international in its outlook. Hong Kong people talk openly about all different aspects of the world economy; it has a great many multinational companies based there and a wide variety of different cultures have added their contributions to the melting pot.

People are always writing Hong Kong's epitaph – they said it was finished in 1997, then again when the Asian financial crisis hit. But when you look back at the history of the place, it has had many crises over the years and it has weathered every storm. I think those who underestimate Hong Kong do so at their peril.

How much of your Hong Kong business is actually local and how much of it is re-exported?

I think virtually all of our wholesale business is done with companies that have connections either selling into or sourcing from China. Even if you look at our consumer business now – whether it's cars, mortgages, credit cards – many of those individuals are working for companies that are involved in service industries such as tourism, which are dependent on the spending power of Chinese tourists. So everybody is affected in some way or another and what we have to make sure of is that we remain very much a local player and part of the local community, but at the same time part of an international framework.

How significant was last year's localisation of your Hong Kong operations and what are the implications for the bank's business in the Mainland?

It was extremely significant. We've been there a long time but we've never incorporated, and so we wanted to send a signal of our support for, and commitment to

Hong Kong. It's the largest business that we have internationally, it underpins our strategy for Greater China and it gives us an opportunity to capitalise on CEPA and the process of economic integration, so it was a very significant step. It's added a layer of cost in terms of running a subsidiary board, but it has sent a signal that we are serious about our long-term commitment to China and to Hong Kong.

How significant an impact has CEPA had to date and what opportunities do you see arising from closer union with the Mainland?

It has had a huge impact. The more Hong Kong cooperates with Guangdong Province and the rest of the PRD the better it is for all concerned. If you look at what's happening in Macau and Zhuhai, and even further westwards, this is an economic zone that is becoming hugely significant. Hong Kong is pivotal to this process and is brilliantly placed to work with all parties.

Hong Kong has not had an easy time of it since 1997, with the Asian financial crisis, deflation and SARS all taking their toll. Have the fundamentals of the economy changed significantly as a result?

Hong Kong's industry had long since migrated to the Mainland, but there was no doubt that people had got used to Hong Kong property being a one way bet, and that was always dangerous. Looking at it today, I think confidence has been restored. The overall shape of the economy is good, trade is buoyant and I think the fundamental change of the last few years is that it's not just China exporting to the US or Europe, it's actually that intra-Asian trade is building up.

China is beginning to trade in a big way with India and with other partners in Asia, and one of the key reasons we bought in Korea is because we see Korea becoming an integrated part of a very large Asian trading bloc – and we aim to be a very large bank within that bloc. We are already the largest bank in India, we aim to be one of the top three in China, and Hong Kong is very well positioned for that. But it is important that people don't get over-excited. What we want now is for Hong Kong to gradually improve and to make sure that it does not become a boom and bust economy.

Do you see any clouds on the horizon?

No, I'm very bullish on the future of Hong Kong, but I think there are much wider issues involved. I think the WTO trade talks in Hong Kong are going to be very important for the world. It's very important that they move forward and that we don't have any more hiccups. We've had a lot of unexpected events and shocks in the world recently – the tsunami, the South Asian earthquake, Refco, Hurricane Katrina – and at the moment the capital markets are taking them in

their stride. There's a sense that world trade has slowed down a bit as a result, but providing that doesn't become a major downturn, which would obviously affect everybody, I think Hong Kong is very well placed. GDP growth is strong, there are some major capital projects being developed, and I think the governance there is strong. And if you had predicted in 1997 that tourism in Hong Kong would be booming like it is, that GDP growth in 2004 would hit 8 per cent, that Disneyland would be up and running and that the Pearl River Delta would be such an integral part of Hong Kong's future, no-one would have believed you – but you'd be a very rich man.

Given the changes that have taken place over the last ten years in Hong Kong, where do you see the economy ten years from now?

It's important that the English language is maintained and strengthened, although inevitably there will be more and more Mandarin spoken. I think that Hong Kong will build on its position as the international capital markets centre for China and I think tourism will continue to grow as well. I believe Hong Kong will also continue to flourish as an entry port to China and as a design and marketing centre.

In terms of the wider outlook for the region, I think that you'll see more and more co-operation between Asian governments and central banks. The Renminbi will become increasingly important as a currency in the next decade and you'll see the strategic importance of China really come home to roost across the world. The same goes for India. I believe that India and China have a seat at the top table in the world and their influence on trade corridors, policies, practices and world behaviour is only going to increase.

Do you see many complementarities between India and China?

Yes, I do. I don't see it as a competition between the two, although there will be overlaps. I think India will upscale itself in manufacturing and I think China will upscale in technology and systems development – that's inevitable. I don't think that's bad, I think that they'll come closer together, and the big opportunity for Asia is if China and India really come together in trading terms. It's a great opportunity for Hong Kong, for Singapore, for Thailand, you name it.

And for Standard Chartered, presumably.

Absolutely. It's ironic that the first two branches we ever opened were in India and China, and at that stage they were the two biggest economies in the world. So when people talk about the emergence of China and India it's actually their re-emergence. They were very powerful then, they just lost a hundred years. ■

Hong Kong has faced many crises over the years and it has successfully weathered every storm