

SPEECH BY MERVYN DAVIES
HONG KONG ASSOCIATION CHRISTMAS LUNCH
14 DECEMBER 2006

GOOD AFTERNOON ALL.

MANY THANKS TO THE HONG KONG ASSOCIATION FOR INVITING ME TO SPEAK TO YOU THIS AFTERNOON. IT IS A PLEASURE TO BE HERE AND TO SEE SO MANY FAMILIAR FACES.

ON TUESDAY MEMBERS OF THE COMMITTEE, INCLUDING MY CHIEF ECONOMIST AT STANDARD CHARTERED, WERE AT THE HOUSE OF COMMONS TO SPEAK TO PEERS AND MPS ABOUT THE RECENT REPORT, "HONG KONG 2007, TEN YEARS ON" - LOOKING AT HONG KONG TEN YEARS ON FROM THE HANDOVER TO CHINA. IT IS HARD TO IMAGINE THAT IT IS ALREADY ALMOST A DECADE SINCE THAT EVENTFUL DAY. I WAS LIVING IN HONG KONG AT THAT TIME. SO MUCH HAS CHANGED SINCE THEN. BUT ALSO SO MUCH OF WHAT WAS GOOD ABOUT HONG KONG THEN HAS REMAINED.

TODAY, I WOULD LIKE TO STEP BACK AND REFLECT ON CHANGE IN A WIDER SPHERE AND OVER A LONGER PERIOD OF TIME. AND CHRISTMAS IS AN APPROPRIATE TIME TO DO THIS, WHEN WE REFLECT ON THE YEAR AND LOOK AHEAD.

IMAGINE IF WE WERE SITTING HERE TWO HUNDRED YEARS AGO. WHAT WOULD WE HAVE BEEN DISCUSSING OVER OUR LUNCH THEN?

IN 1806, THE BRITISH EMPIRE WAS STILL GROWING. THE DUTCH IN CAPE TOWN SURRENDERED TO THE BRITISH, BUENOS AIRES WAS CAPTURED AND THE CAPE OF GOOD HOPE WAS OCCUPIED.

THE NAPOLEONIC EMPIRE WAS ALSO RISING, WITH NAPOLEON DEFEATING THE PRUSSIAN ARMY AND CAPTURING WARSAW.

AT THIS TIME, MUCH OF THE WORLD, INCLUDING ASIA, FEARED BEING COLONISED BY THE BRITISH AND FEARED THE RESULTING LOSS OF THEIR POWER AND INDEPENDENCE.

EVEN NAPOLEON WAS SO AFRAID OF THE BRITISH THAT IN 1806 HE DECLARED A CONTINENTAL BLOCKADE AGAINST THEM.

IN 1806 LIFE EXPECTANCY IN WESTERN EUROPE WAS 37. MACBETH-LIKE MEDICINES WERE MAINLY PLANT BASED, WITH PREPARATIONS OF MERCURY AND ARSENIC. DOCTORS MIGHT HAVE RECOMMENDED A 'CHANGE OF AIR' ALONG WITH THOSE OLD FAVOURITES, BLEEDING OR LEECHES. ALL IN ALL, NOT IDEAL.

THE WORLD POPULATION STOOD AT 1 BILLION, ONE-SIXTH OF TODAY'S. WITH APPROXIMATELY 1 MILLION RESIDENTS IN LONDON, WHERE WATER RESOURCES WERE UNDER PRESSURE. THE RIVER THAMES WAS PRACTICALLY AN OPEN SEWER AND AS IT WAS THE MAIN SOURCE OF DRINKING WATER FOR THE CITY, A HUGE SCANDAL AT THE TIME.

SO TWO CENTURIES AGO, GLOBAL EXPANSION, GEOPOLITICS AND WATER MAY HAVE FIGURED LARGE IN OUR DISCUSSIONS. MIND YOU, IF LIFE EXPECTANCY WAS ONLY 37 MANY OF US MAY NOT HAVE BEEN HERE!

AND WHAT IF WE HAD ASSEMBLED HERE A CENTURY AGO?

AMAZINGLY, THE FRENCH AND THE BRITISH WHO HAD BEEN BITTER ENEMIES BEFORE, WERE NOW THE BEST OF FRIENDS! THE ENTENTE CORDIALE HAD JUST BEEN SIGNED BETWEEN THE UK AND FRANCE,

MARKING THE END OF CENTURIES OF INTERMITTENT CONFLICT BETWEEN THE TWO, AND THE START OF THE PEACEFUL CO-EXISTENCE THAT CONTINUES TO THE PRESENT DAY.

LIFESTYLES HAD CHANGED DRAMATICALLY FROM A CENTURY EARLIER. MEDICAL DEVELOPMENTS BROUGHT THE WORLD OF MEDICINE TO A FORM RECOGNISABLE TODAY. PEOPLE HAD ACCESS TO NEW DIAGNOSTIC PROCEDURES AND TECHNOLOGIES INCLUDING X-RAYS AND STETHOSCOPES. DESPITE ALL THIS, THE AVERAGE LIFESPAN IN WESTERN EUROPE HAD ONLY INCREASED TEN YEARS TO 47 IN A CENTURY AS A RESULT OF INCREASING URBANISATION AND THE EFFECTS OF PANDEMICS SUCH AS SMALLPOX AND CHOLERA.

AS WELL AS A YEAR WHEN SPURS MADE
IT TO THE THIRD ROUND OF THE FA CUP, 1906 ALSO WAS A YEAR OF GLOBAL NATURAL DISASTER. MOUNT VESUVIUS ERUPTED, DEVASTATING NAPLES.

AN EARTHQUAKE ON THE SAN ANDREAS FAULT DESTROYED MUCH OF SAN FRANCISCO KILLING AT LEAST 3,000 AND LEAVING AROUND 300,000 HOMELESS. A TSUNAMI KILLED AN ESTIMATED 10,000 PEOPLE IN HONG KONG AND AN EARTHQUAKE MEASURING 8.6 ON THE RICHTER SCALE WAS RECORDED IN ECUADOR.

THE WORLD WAS BECOMING INCREASINGLY GLOBALISED, AS MONEY FLOWED OUT OF THE CITY OF LONDON, AND IMMIGRANTS FLOCKED TO THE NEW WORLD IN AMERICA. JUST AS A CENTURY BEFORE, THERE WERE MANY SIMILAR THEMES.

AND SO IT IS TODAY. WE HAVE MANY ISSUES TO TALK ABOUT OVER OUR LUNCH:

- THE GEOPOLITICS ASSOCIATED WITH US SUPREMACY

- GLOBALISATION ASSOCIATED WITH THE EMERGENCE OF CHINA AND INDIA
- ENVIRONMENTAL ISSUES
- AND HOW WE, AS BUSINESS PEOPLE IN CENTURIES BEFORE, CAN ADAPT AND CHANGE TO SUCCEED IN AN EVER CHANGING WORLD.

IT IS SAID THAT 'CHANGE IS CONSTANT, BUT HISTORY REPEATS ITSELF'. THERE ARE CLEARLY CONSISTENT THEMES:

- GEOPOLITICS
- PERSONAL ADVANCEMENT AND HEALTH
- THE EXTERNAL ENVIRONMENT

WITH THIS IN MIND, WHERE DO WE SEE THE WORLD IN 100 AND 200 YEARS TIME? IT IS FEASIBLE TO ASSUME THAT THE CONSISTENT THEMES WILL REMAIN, BUT HOW WILL THESE DEVELOP?

WITHIN GEOPOLITICS, THE TIDES HAVE TURNED FROM THE DAYS OF THE BRITISH EMPIRE AND NOW THE WORLD IS STANDING UP, NOTICING CHINA AND INDIA AND WITNESSING THEIR JOSTLING WITH THE US FOR SUPREMACY.

WE ARE CURRENTLY SEEING HUGE INVESTMENT FLOWS BETWEEN CHINA AND AFRICA. IN MAY 2006 THERE WERE 1295 CHINESE PEACEKEEPERS WORKING IN 7 UN PEACEKEEPING OPERATIONS IN AFRICA. IN THE FUTURE CHINESE OWNERSHIP OF AFRICA COULD WELL BECOME A MAJOR ISSUE. ALTHOUGH IN MY VIEW, ANY INVESTMENT IN AFRICA IS POSITIVE.

BUT THE EMERGENCE OF CHINA AND INDIA WILL NOT ONLY IMPACT AFRICA. AS CHINA OPENS UP AND AS INTELLECTUAL PROPERTY RIGHTS HOPEFULLY STRENGTHEN IT WILL REVEAL A SUBSTANTIAL

CONSUMER BASE. AS A RESULT, WE WILL SEE A REPOSITIONING OF GLOBAL BRANDS TO SELL INTO CHINA AND ADDITIONAL INVESTMENT INTO EUROPEAN COUNTRIES BY INDIAN, CHINESE AND ASIAN COMPANIES ALIKE.

AND WHERE ELSE COULD THE CHINA STORY GO FROM HERE? IN 100 YEARS TIME, COULD CHINA BE FORGING PARTNERSHIPS WITH JAPAN? LOOK BACK TO THE NAPOLEAONIC WAR IN 1806 FOLLOWED BY THE ENTENTE CORDIALE OF THE EARLY 1900'S AND THIS SUDDENLY DOES NOT SEEM SO UNREALISTIC. IN FACT, ADD IN ENERGY NEEDS, AND RELATIONSHIPS COULD CHANGE SHARPLY. HOW WILL, FOR INSTANCE, THE BIG GAS PRODUCERS OF RUSSIA, IRAN AND QATAR VIEW THE DEMANDS OF CHINA?

IN THE AREAS OF PERSONAL ADVANCEMENT AND HEALTH, WE HAVE ALREADY MADE GREAT PROGRESS WITH LIFE EXPECTANCY IN WESTERN EUROPE INCREASING DRAMATICALLY FROM 47 IN 1906 TO A CURRENT AVERAGE OF 78 IN THE UK AND 82 IN HONG KONG. CLEAN WATER WAS A KEY FACTOR OVER THE LAST CENTURY IN THIS ADVANCE.

DEVELOPMENTS IN MEDICINE ARE EXPECTED TO CONTINUE, AND BECOME MORE CONTROVERSIAL THAN EVER.

STEM CELL THERAPY HAS THE POTENTIAL TO REVOLUTIONISE THE TREATMENT OF MANY DISEASES.

NANOTECHNOLOGY HAS THE POTENTIAL TO CHANGE OUR APPROACH TO MEDICINE.

SCIENTISTS WILL BE ABLE TO SNAP TOGETHER THE BUILDING BLOCKS OF NATURE A FEW ATOMS AT A TIME. ALTHOUGH NANOTECHNOLOGY MAY LEAD TO NEW TREATMENTS FOR DISEASES SUCH AS ALZHEIMER'S AND AIDS RELATED INFECTIONS, MANY

SCIENTISTS THEMSELVES BELIEVE WE ARE YET TO SEE A MUCH BIGGER IMPACT.

AS LIFE EXPECTANCY CONTINUES TO RISE AS A RESULT OF MEDICAL ADVANCEMENT, WE WILL ALSO BECOME INCREASINGLY AWARE OF THE NEED FOR SAVINGS AND PENSIONS.

WE WILL ALSO BECOME INCREASINGLY OBSESSED WITH TAKING RESPONSIBILITY FOR OUR OWN HEALTH AND LIFESTYLE. WE ARE ALREADY SEEING THE FIRST SIGNS OF THIS THROUGH THE POPULARITY OF ORGANIC FOODS, HEALTHY LIVING AND TV PROGRAMMES SUCH AS 'YOU ARE WHAT YOU EAT'.

AND WHAT WILL BECOME OF OUR EXTERNAL ENVIRONMENT?

I BELIEVE THE ENVIRONMENT IS AN ISSUE THAT COULD UNITE THE WORLD RATHER THAN DIVIDE US.

BUT WHILST THE FOCUS IN 1906 WAS ON MEASURING THE SCALE OF A DISASTER AND IN REPAIRING DAMAGE, TODAY WE ARE BEGINNING TO LOOK AT THE ENVIRONMENT IN A FORWARD THINKING AND PROACTIVE WAY.

TODAY, THE PACE OF URBANISATION IS RAPID. ACROSS ASIA, TWO MILLION PEOPLE EACH MONTH MOVE FROM THE LAND INTO CITIES. TRAVEL TO KL OR BEIJING TODAY AND THE LEVELS OF AIR POLLUTION ARE SHOCKING. CURRENT ENVIRONMENTAL STRESS IN CHINA IS SEVERE – SIXTEEN OF THE WORLD'S TWENTY MOST POLLUTED CITIES ARE IN CHINA AND A NEW, LARGE COAL-FIRED POWER STATION IS OPENED EVERY FIVE DAYS. ALL TRAFFIC AND INDUSTRY WILL HAVE TO BE STOPPED BEFORE AND DURING THE BEIJING OLYMPICS TO ENSURE CLEAR AIR. 72% OF CHINA'S RIVERS ARE POLLUTED.

THERE IS NO DOUBT THAT TACKLING CLIMATE CHANGE ON A GLOBAL BASIS IS NO SIMPLE TASK. BUT IT ALSO PROVIDES THE OPPORTUNITY FOR THE WORLD TO UNITE AROUND A COMMON CHALLENGE. HONG KONG, IN PARTICULAR, HAS TO BECOME TOUGHER ON ENVIRONMENTAL ISSUES AND TAKE A LEADERSHIP ROLE FOR THE REGION IN DEMONSTRATING THE LONG TERM POSITIVE ECONOMIC EFFECTS OF TAKING ACTION ON THE ENVIRONMENT.

I BELIEVE THE ENVIRONMENT WILL STILL VERY MUCH BE ON THE AGENDA IN 100 AND 200 YEARS TIME. AS CITIES BECOME MORE AND MORE CONCENTRATED, POLLUTED AND EXPENSIVE, WE WILL HAVE TO TRY AND FIND A BALANCE BETWEEN PACKAGING AND RECYCLING.

AS POPULATIONS GROW AND LIFE EXPECTANCY RISES, WATER WILL ALSO, ONCE AGAIN, BE A MATTER OF GLOBAL IMPORTANCE.

WHAT DOES ALL THIS MEAN FOR BUSINESS?

I BELIEVE THAT OPPORTUNITIES ARE GREATER NOW THAN THEY HAVE EVER BEEN IN THE LAST FIFTY YEARS. THE OPENING UP OF CHINA TO REVEAL AN ADDITIONAL 1.3 BILLION CONSUMERS IS SIGNIFICANT. IN FACT, ACROSS ASIA WE ARE SEEING THE EMERGENCE OF A HUGE MIDDLE-CLASS, AS JOBS ARE CREATED AND WEALTH RISES.

ASIA IS IN THE EARLY STAGES OF MOVING FROM EXPORT-LED TO DOMESTICALLY DRIVEN GROWTH. AND IN DOING SO, WE ARE SEEING THE EMERGENCE OF NEW TRADE CORRIDORS, AS INTRA-ASIAN TRADE SOARS, AND AS TRADE BETWEEN ASIA AND AFRICA, THE MIDDLE-EAST AND LATIN-AMERICA RISES. FLOWS OF COMMODITIES,

OF GOODS, OF PEOPLE AND OF FINANCE ARE RISING. IN FACT, THE WHOLE REGION IS CHANGING. IN SOUTH-EAST ASIA, FOR INSTANCE, ASEAN PLANS AN ECONOMIC COMMUNITY OF 500 MILLION PEOPLE BY 2015. BUSINESS MUST ADAPT TO THESE OPPORTUNITIES.

THE CURRENT GEOPOLITICAL CLIMATE HAS LED TO THE EMERGENCE OF AN 'INTERNATIONAL RACE' AS A RESULT OF THE INCREASED MOVEMENT OF PEOPLE AROUND THE WORLD, MULTICULTURAL FAMILIES AND INTERNATIONAL BUSINESS.

FOR EXAMPLE, AT STANDARD CHARTERED IT IS NOT UNUSUAL TO FIND A CHINESE NATIONAL WORKING IN OUR MANDARIN SPEAKING BRANCH IN DUBAI. OR AN INDONESIAN WORKING IN UGANDA.

BUSINESSES NEED TO ADAPT TO THIS AND TAKE ADVANTAGE OF THE BENEFITS OF A DIVERSE WORKFORCE AS WELL AS UNDERSTANDING THEIR LOCAL BASE. THE ABILITY TO RESPOND TO CHANGE IS KEY.

AND WHAT DOES THIS MEAN FOR HONG KONG?

MANY OF US IN THIS ROOM ARE HERE BECAUSE WE ARE SPECIALISTS IN HONG KONG. THIS IS OUR TIME. I BELIEVE HONG KONG WILL BECOME ONE OF THE WORLD'S GREAT CITIES. HONG KONG WILL BECOME A CAPITAL MARKETS CENTRE FOR ASIA.

AND A RENMIMBI CLEARING CENTRE AS THE RENMIMBI BECOMES ONE THE WORLD'S TOP THREE CURRENCIES. ONCE SEEN AS A GATEWAY TO CHINA, HONG KONG HAS EVOLVED. IT IS STILL A GATEWAY, BUT NOW IT IS MUCH MORE. IT IS A REGIONAL HUB FOR MANY FIRMS, IT IS HOME TO THE WEALTH OF MUCH OF THE OVERSEAS CHINESE AND, CRUCIALLY, IT IS A STEPPING STONE FOR MAINLAND CHINESE FIRMS WHO ARE NOW GOING GLOBAL.

EARLIER THIS YEAR, CHINA UNVEILED ITS LATEST FIVE YEAR PROGRAMME. IT EXPLICITLY RECOGNISED THE IMPORTANCE OF HONG KONG AND IT WAS CLEAR FROM MY RECENT MEETING WITH ACTING PARTY SECRETARY AND MAYOR HAN IN SHANGHAI THAT CHINA IS SEEKING PARTNERSHIP WITH HONG KONG, NOT COMPETITION. HONG KONG'S INFLUENCE, ESPECIALLY IN THE PEARL RIVER DELTA WILL BE HUGE.

ASIA'S TRADE WILL BE CENTERED AROUND HONG KONG AND SHANGHAI.

BUT FOR HONG KONG TO TAKE ITS PLACE AS ONE OF THE WORLD'S GREAT CITIES AND FOR US TO TAKE ADVANTAGE OF THE OPPORTUNITIES PRESENTED BY HONG KONG, CHINA AND THE REST OF ASIA, BUSINESSES NEED TO EVOLVE AND ADAPT.

SINCE THE START OF CIVILISATION THE SUCCESSFUL HAVE NOT BEEN THE SMARTEST OR THE STRONGEST BUT THOSE WHO HAVE SEEN CHANGE AS AN OPPORTUNITY, NOT A THREAT.

AND I THINK THIS IS JUST AS RELEVANT TODAY AS IT WAS 200 YEARS AGO. EMBRACE CHANGE! HONG KONG HAS AND I EXPECT THAT IT WILL CONTINUE TO DO SO!

I WOULD LIKE TO FINISH BY WISHING YOU ALL A VERY MERRY CHRISTMAS AND A HAPPY NEW YEAR.