

Standard Chartered's Investor Event
China and rest of the world
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(Amended in places to improve accuracy and readability)

Delivered by:
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Ben Hung: Good morning. It's really a good idea to follow the central banker. Either cannot say something that contradicts his or is already covered everything in what he said. So anyway, I thought I would make a good attempt because this session really is a little bit of double thinking out on the macro theme, riding on what Eddie had just said, but Eddie's covered a lot of policies, directional travel. I think it's – for me, it's quite important for us to first think about what is on Beijing's mind, because that to me, draws a huge amount of direction of travel, where the policies are [inaudible].

And that's from my lens; there are three priorities in order that they are [inaudible]. Number one is to drive an element of self-sufficiency to remove any single points of order back to the – is right on top of the agenda.

Number two is have an element of unfettered development of growth that it's more within control that constantly being, potentially being interrupted and to intervene by others. And number three is to gradually increase the sphere of international influence, hopefully directionally for them to influence away global standards, global rules that are being written.

So if you think about these priorities, these are actually being manifested into the current 15th five-year plan, which again, Eddie talked about changes. What are the stark changes between 13th (*five-year plan*), 14th (*five-year plan*) and the 15th (*five-year plan*)? To me, the big one is shifting fundamentally from what was an export-led, investment-led growth towards now clearly to become consumption-led and innovation-led. That is a very, very stark change by China's standards.

And obviously, in the last few years, they've been doing a few things really looking at around 12 strategic supply chains and look at where are the weakest links and work hard to patch them up in terms of vulnerability. Okay? At the same time, invest heavily into areas that they believe will be the future, whether it's in AI, in robotics, in advanced manufacturing, in EV, in battery and storage, you name it. Right?

And right now, the objective is very simple, to make sure that we reduce again, the single point of vulnerability and to make sure that they're secure and international relevance of what matters going forward.

Now, one of these strategic supplies that they are now still having an acute sense of vulnerability is in finance. And that's why they're seeing Beijing's trying to use Hong Kong, both as a centre, to try to increase the usage of RMB in the usability in terms of the deploying the capital market to increase the kind of in and out flow and deploy the some of the connect schemes in order to directionally find ways to liberalise the capital account. That's on their mind. Okay.

So again, that's what we're seeing in the last, I would say 18 months and accelerated fragmentation of the world, we're seeing therefore flows manifesting in very, very different ways in terms of shifts. And I'm going to maybe use this slide just to have a sense of how the flows are being schematised.

Okay. So what I've done is split between China and the rest of the world and split between FDI and portfolio investment. So fundamentally, therefore flows rest of the world in FDI, rest of the world in portfolio, vice versa.

Within these dimensions of flows, then what are the compositions? And that's where RMB/digital assets come into play. Okay. And you can see three of the four boxes or quadrants are actually in accelerating mode. Okay. And within that actually, as is RMB and digital assets. I'll cover these very quickly.

Now, the post-war decades of globalisation has really led to one direction, which is significantly high level of FDI into China and also developing manufacturing prowess of China being second to none. That bit now has changed, given we have developed a huge concentration of manufacturing, that does not quite bode well in the current geopolitically fragmenting world. And therefore, the bits that are going into China for manufacturing now is moderating.

The bits that are going in, there are 80,000, I would say, companies investing for the domestic consumption is still very strong. In replacement will be therefore manufacturing going out all these China plus one, China plus two, China plus N. That is really manifesting in terms of China becoming one of the world's largest outbound FDI to diversify the supply chain. Okay.

And where are they going? Really fundamentally going into many of the global South, in particularly a lot of them into our footprint in ASEAN and South Asia and Africa and Latin America.

Notwithstanding these flows, you have to realise China still dwarfs the number two and number three, in terms of whatever they're – the key strategic industries are in terms of size and volume. So if you look at garments, number two is Bangladesh. But China is five times larger than Bangladesh. Shoes, Vietnam is number two, six times larger; electronics, seven times; laptops, 12 times. We haven't even talked about EV, solar, batteries, etc...

So do I think that this flow will continue? I do think so because of the enormity of the current concentration that we are seeing. Okay. And obviously, we have been positioning for this trend for quite some time, investing a lot of corridor bankers, etc., etc. And so the proof points, I'll leave it to read. But these are the corridors that we believe will continue to drive a huge amount of relevance and growth.

Eddie talked a lot about this whole – this is – this chart is more about global portfolio investment into China. And we're seeing a very active IPO. Eddie talked about some of the bond issuances being a record high with the dim sum, wonton, sustainability, etc. The northbound – if you think about one of the charts saying northbound, these will be overseas through Hong Kong, which is a kind of monopoly gateway into China that has doubled and, on the rise, as well. Okay?

Again, that reflects globally and a really strong, I would say, underlying trend of rebalancing their portfolios. And re – I would say redistributing where assets are being invested simply because the last 15 years we have seen a significant kind of one way from EM to DM building an element of concentration, whether this will reverse and we're seeing the beginning of it. And I do think if we look at the top five IPO last year, a lot of the cornerstones are from a lot of these Western institutions.

So again, we are really trying to invest and we are attracting a huge amount of inbound, FI, broker dealers, China access products, the demand for yield, etc., etc.. This is one that we believe is, again, it's on the structural rebalancing trend.

Eddie did not cover wealth, but Judy did two days ago. So the couple points I do want to highlight here, one is around the – again, the enormity of China's household savings. It's currently standing at around \$25 trillion, okay, sitting in banks, and this is almost like two times of US, which is a far bigger economy. And that trend in the last ten years have been growing at around double-digit rate. So it's not only big, it's actually growing very, very fast.

And the more important thing is where are the households distributing their assets? In China, 75% would be between property and deposits, which contrasts significantly with what we see in the US. So the next chapter has got to be a financialisation of these assets. And then – and also around diversification of these assets. And diversification can primarily be done only via offshore. It's an element of onshore, but onshore is quota bound because of QDII.

But bringing them out, you can then have access to global instruments, bonds, equities, private equity, etc., etc... That's why the flow, I believe, is structural.

Now, many of you will also ask what if China will really put the shutters down? I get these questions all the time. Again, you've got to go back to what's on Beijing's mind. Last ten years, China has seen repeated versions and variations of bubbles. Many years ago, you've seen a stock market bubble. Probably five, six years ago, we've seen a P2P lending bubble. And of recent you've seen the CRE bubble. That's a common theme. The common theme is around accumulation of huge amount of surplus with no way to distribute and diversify. Okay?

And if you're not allowing some of these flows to orderly flow out, you're going to be suggesting and creating the fourth and the fifth if you're not careful. And that's something that we believe are structural. You're seeing some of the proof points here. We think this is going to be just the beginning.

Everyone has been talking about RMB. I think the more important theme to think through is really fragmentation is having a lot of corporates and investors think about alternatives and kind of just in case, is there a backup plan? What if the dollar were to be weaponised? And I think that's why it's being manifested into now trade being done more in RMB, payments being done, CIPS being kind of laid down as an alternative clearing platform. We have mBridge, which is a blockchain based.

These are all maybe national policy. But more importantly, from a user standpoint, it's always good to have optionality, right, should the moment arise. So if I were a corporate treasurer, I keep on telling them, "If you don't have a backup plan, you are not doing your corporate treasurer's job properly." Okay? Not necessarily you shift everything, but you also have to have that backup plan.

And likewise digital assets. Whether these will be in stablecoins, tokenised deposits, CBDC, mCBDC. Which one will take off? We don't know yet. It's really a matter of demand/supply and how the market behaves. However, for us, it's important for us to be well-positioned ahead of curve to make sure that we provide optionality. Okay? And very happy to say, last week we minted our first coin ever. So we have that coin. I don't know, there's – I don't think there's a serial number, but at least we have a 001 licence and 001 coin out there somewhere. Right?

So that's the kind of thinking that we have to be ahead of the curve. And I don't think there are a lot of banks who are as far advanced in both sides of the equation. Okay?

So typically nobody will remember a single thing I say in last ten minutes. So if there's one thing I want you to just have this schematic is an hourglass. Okay. Fundamentally, the world is very underweight China. China is equally very underweight the world. And we are really at the neck of the hourglass, obviously here, but also including Singapore from a treasury centre, from a wealth centre perspective, we are holding a very, very strong position in the hourglass.

Increasingly, I believe the sand in the hourglass will increasingly become RMB, digital and green. And that's the kind of schematic that I think will be structural and providing a huge amount of opportunity for the next five, ten years.

Okay, so I'm going to pass it over to Jean and Mary to talk about what are we doing to make sure that we capture this big hourglass opportunity. So thank you.