

**SPEECH BY THE SECRETARY OF STATE FOR SCOTLAND
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Introduction

Good Afternoon Ladies and Gentlemen, it's great to visit Hong Kong for the first time.

Of course, it always feels good to return to university – you can feel the hopes, ideas and energy that abound around the campus. This university's excellence is acknowledged, in Asia and across the globe. But I must say that today here in Hong Kong, just as yesterday in Shanghai, I have felt the energy and passion that is transforming China – and the world.

I am very excited to be leading the Scottish Council for Development and Industry delegation to the Mainland and Hong Kong this week. SCDI have been visiting China since 1971 – and like them, I certainly intend to return again.

Scotland's business links with Hong Kong go back so many years.

Consider the HSBC brand that is such a familiar sight across the globe. This modern corporation has its roots in The Hongkong and Shanghai Banking Corporation founded by a Scot, Thomas Sutherland, in 1865. Sutherland wanted a bank operating on 'sound Scottish banking principles'. Those principles have stood it in pretty good stead I think.

And of course the multinational corporation Jardine Mathieson Holdings Limited, based in Hong Kong, owes its origins to the 19th century Scottish traders William Jardine and James Matheson.

So Scots have played a very important part in making Hong Kong the thriving business centre it is today. More importantly, we want to be part of Hong Kong's future too.

Scotland and China

Scotland is a relatively small country that for centuries has managed to punch above its weight. And I mean a small country, Hong Kong has a population larger than that of Scotland. Shanghai has a population 4 times the size of my country. Indeed, China today has 14 cities whose population exceeds that of Scotland's population as a country.

But although vastly different in size Scotland and China share some common challenges. We both have experienced significant changes in the shape of our domestic economies during the last three decades, albeit on different scales. We were the second industrial nation anywhere in the world after England, and were a leading manufacturing country well into the early 20th century. In the last thirty years we have become a diversified post-industrial economy where financial services, tourism, education and whisky have replaced coal, iron and steel at the heart of our economy. Over the same time, Hong Kong and the Mainland have gone through changes. China has re-entered world markets with a vengeance. The Chinese economy has been an extraordinary engine for growth. Delivering double digit growth year on year, pulling over 400 million people out of poverty and being responsible for 30% of world growth since the year 2000.

The rich heritage of Scottish learning, literature, science and medicine produced breakthroughs which have contributed so much to the world since the dawn of the Scottish Enlightenment in the 18th century.

Scotland's economists, philosophers, writers, poets and scientists have helped shape our global world. From Adam Smith's vision of *The Wealth of Nations* in 1776 to John Logie Baird's invention of the television in 1925. And much else besides has been brought to the world by Scotland.

The Scotland of the past gave the world the inspiring, heartfelt words of our national poet Robert Burns and the flowing novels of Sir Walter Scott.

The Scotland of the present entertains the world with the witty African detective tales of Alexander McCall Smith and the phenomenal exploits of the boy wizard Harry Potter, the creation of JK Rowling, a fellow Scot.

Scottish sportsmen and women have also cemented the country's reputation overseas. David Coulthard has driven in the China Grand Prix, a welcome addition to the Formula One calendar since 2004, while Andy Murray has competed in the Shanghai Masters tennis.

And Scotland won the World Cup on Chinese soil – the World Cup of Golf at Mission Hills, not too far from here, in 2007.

And here in Hong Kong this week the Scottish Rugby 7s team is taking part in one of Asia's premier sporting events, the Hong Kong 7s. I wish them well.

As well as sporting success, Scotland has enjoyed an economic upturn in recent years. It has been part of a UK economy that enjoyed sixteen years of growth from 1992.

But we have been hit by the global slowdown – and that's the focus of the G20 next week.

The Global Slowdown

Many of us were hit by the global economic hurricane in the autumn of 2008. Bankers' recklessness has led to a global slowdown from Glasgow to Guangzhou.

The unprecedented international downturn which was induced by the global financial crisis has affected China and Scotland in different ways but the repercussions have been difficult for us all. I would like to make three points clear:

Firstly, we are experiencing the first international recession induced by a global financial crisis.

Secondly, no one country can solve this crisis by itself, no matter how big. Not China. Not the US. Even President Obama's \$800 billion dollar package comes with a health warning. We are observing China's fiscal stimulus, the largest of all, anywhere across the world, with great interest, assessing the impact of the huge investment programme and monetary measures designed to boost domestic demand. But despite these huge efforts even China will find it difficult to keep the economy running its now accustomed pace of growth if world demand remains depressed.

Thirdly, there is the realisation of just how close to collapse sections of the international banking system came in October last year.

Bubbling away beneath the enormous growth of the last two decades were the poisonous by-products of the market's most unrestrained excesses.

A minority of international bankers' recklessness and irresponsible risk taking resulted in the collapse of long established and much respected institutions. Scottish banks, built on

centuries of experience came within moments of collapse. US subprime mortgage debts and the subsequent collapse of Lehman Brothers triggered not just a global banking crisis but a global loss of confidence.

With the result that during the last six months the world has experienced a level of crisis of credit and confidence, not seen for 80 years. World trade has contracted, exports have dropped, output has fallen and unemployment has spiralled.

In face of international market meltdown governments across the globe have taken action in their own ways – an illustration of the necessity for a dramatic departure from the old orthodoxies.

From the outset of the crisis, the United Kingdom Government determined that doing nothing was not an option and we have acted in the public interest to protect savings and pensions.

But despite this renewed state intervention we are not returning to the interventionist model of the state from the 1970s. We need a strategically agile state. And my message is that we need markets where possible, government only where necessary.

In that context, in recent months in Scotland, and the United Kingdom more widely, we have followed a three-pronged approach by:

- intervening to stop banks collapsing,
- giving real help now to our families and businesses through fiscal stimulus and bringing forward infrastructure investment to support the economy.
- taking action to get banks to get lending again to businesses and families.

We have looked closely at what happened in previous recessions and we are determined to learn from mistakes and not repeat them.

In China you start from a strong situation. For although forecasts for China's growth have lowered, even the most pessimistic estimates are still talking about 6.5% growth. As the world's third largest economy and the only one of the Big Five to still be growing. In 2009 it remains a bright spot on the gloomy global economic landscape. Even the Mainland's stock market has grown by one-fifth in this most difficult of years.

The Chinese government, like the UK government, has embraced fiscal stimulus. For while China's banks have remained unscathed, the global downturn has depressed export markets leading to factory closures and growing unemployment which further exacerbates the disparity of wealth between countryside and coast.

As one of the world's most open economies and a major financial centre, it is perhaps unsurprising that Hong Kong has not escaped what your Chief Executive Donald Tsang, described as a 'financial tsunami' and the downturn in consumer demand in the US and Europe. And yet I sense that Hong Kongers do not see the current crisis in the same way that Europeans and Americans do. You have of course faced tough challenges since 1997, first the Asian financial crisis in the late 1990s and then SARS. And you overcame them and have prospered. We all look at this crisis from different perspectives and different experiences.

As I have said we know that one country cannot solve this crisis alone. The international community must take the collective action necessary to stabilise the world economy and secure recovery.

Prime Minister Gordon Brown told the US Congress earlier this month that the global economy is in crisis and the planet is imperilled. We have come to a point where change is essential. We cannot and must not stand aside.

That's why next week's London Summit of the G20 provides a vital opportunity for world leaders and international institutions to come together with the twin objectives of

- Firstly, agreeing to immediate action to support the global economy and protect the poorest
- and secondly, reforming the international financial system to prevent future crises of this type.

Coordinated reflation amounting to more than \$1.5 trillion has already been agreed by these 20 nations. Reflation to rebuild global demand. Next week the world needs a summit for stimulus.

The UK's proposed Global Deal is a plan to get the global economy back on track – internationally coordinated measures to restore stability and to set a course for sustained and environmentally sustainable development. Both the Chinese and UK governments want the London summit to demonstrate that world leaders are working together to stabilise financial markets and revive the world economy.

UK-China relations are very strong indeed, exemplified by the recent highly successful visit to the UK by Premier Wen Jiabao. And we know that on the big issues that face the world – such as the reduction of poverty, the resolving of conflict and the construction of an effective framework to combat climate change – we need China and China needs the rest of the world.

Both governments agree on a strong stance against protectionism. We don't want global leaders to learn the wrong lessons of history and turn inwards towards just their own country. We will work with you to oppose any attempts to use the global financial crisis as an excuse to slide back into that world – because the 1930s showed, when trade barriers rise, recession lengthens into depression.

We will trade our way out of this downturn. Let us never forget that it is free trade that has driven the rising levels of global prosperity that has defined the last two decades. Through the growth generated by open trade and global markets more people have been lifted out of poverty, more quickly, than ever before in human history – including an amazing 400 million citizens of China in the last three decades.

And China and the UK agree on the need to provide assistance to those least developed economies and the least developed countries states most adversely affected by the crisis.

Gordon Brown has stressed that the principles of integrity, responsibility and fairness should govern our economic life just as they govern other aspects of a good society.

That is why we need international agreement on the need to significantly strengthen the regulation of the global financial sector.

And we welcome the contribution which Hong Kong is making, through its participation in the G20 process, as part of the China delegation, and its involvement in the Financial Stability Forum. As global financial centres, the interests of the UK and Hong Kong are closely aligned, particularly on trade and global supervision.

Financial crises in an interwoven global economy can only be addressed by co-ordinated international action. A network of good bilateral relationships underpinned by multinational agreements and shared beliefs are vital for triggering this action.

Scotland's Future Prosperity

In this context it's also important to reflect that despite the difficulties we face. Scotland and the UK is forging ever closer business and economic links with China – links that have made China the UK's biggest market outside Europe and the United States for goods. UK exports to the Mainland rose 29% in 2008. UK exports to Hong Kong rose 31% in the same period.

We have a challenging bilateral trade target, set by the Prime Minister and Premier Wen in 2008, of \$60 billion in goods and services by 2010

I want to see a Scottish target for increased trade too. Despite the downturn and possible short term dip, over the next decade I believe that Scottish trade with China could – indeed should – double. That would bring new jobs to both our countries, new connections, new friendships.

The UK is the largest EU investor in China, while the UK is the number one destination within the EU for Chinese outward investment. Indeed, over 80% of Hong Kong investment in Europe comes to the UK and Dr Li Ka Shing's Cheung Kong Holdings is the largest single foreign investor in the UK.

Scotland has strong ties with China. Scotland's future prosperity lies in areas where we already have built the foundations of strong links with China and we seek to strengthen these ties this week and in the future. And we need to spot the areas where Scottish and British expertise matches Chinese demand.

That's about human relationships and today I invite you to come to Scotland.

The warmth that I hope will flow from this experience of Scotland, our people, our history, our heritage, will produce the long lasting links, mutually beneficial to the Chinese and Scottish economies and societies. So I am calling today on the rising generation both here in Hong Kong and across China to come to study in Scotland. Come as undergraduates and as post-graduates. And because of the changing rules of new visa arrangements, take advantage of our 'Fresh Talent' scheme to stay and work in Scotland after graduation – and play your role in helping to shape twenty-first century Scotland. Scots, as I mentioned earlier, played their part in shaping Hong Kong and the Mainland. A new generation of Chinese entrepreneurs are returning the favour. Scotland is open for business – and for knowledge. Come and see Scotland for yourself.

Financial Services

You will see that Scotland's diverse 21st century economy is much wider than our traditional heavy industry and manufacturing past, our sources of excellence in the First Industrial Revolution two centuries ago.

Despite the downturn, Scotland has a thriving financial services industry covering the fields of banking, insurance and fund management. A world-class infrastructure is already in place.

Fund values may have taken a tumble worldwide but the corporate knowledge is retained. Scotland is the UK's second largest financial hub after London and Edinburgh is the world's 9th biggest centre for fund management. Scotland is a global player.

Some 10% of the Scottish workforce is employed in financial services and half of the world's top 20 financial organisations have substantial operations in Scotland.

Scotland's financial services sector already generates around £7 billion annually and we know that the World Bank estimates that the Chinese middle class will expand by 350 million by 2030. I hope that these newly prosperous businesses and consumers will want to work alongside Scottish financial institutions and purchase Scottish financial products.

Conclusion

Scotland's future lies in here in Hong Kong and the Mainland. For we know that since China re-emerged as a world economy in the 1980s it has been the motor of world economic growth. The last three decades have seen great changes in the economic landscapes, particularly in my home and in yours. And our global world will not stand still, nor should we want it to. It will continue to evolve at breakneck speed, with China at the forefront. For Scotland and China science, and free trade will be the driving forces of recovery.

I am confident that Scotland, China and Hong Kong will be up for the challenges of the 21st century. I know that the financial crisis we are all facing in our towns, our cities and our nations cannot be solved by anyone of those towns, cities or nations on their own. It will only be solved by all our world leaders working together in a way we have never seen before,

I look forward to seeing the UK government and the Chinese government playing a key role in the G20 next week, working together in defeating the downturn and moving towards shared future prosperity for our people.

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