“Reflections on Conglomerates and the Transport and Logistics Sector in Asia”
Speech by Mr. James Hughes-Hallett, Chairman of the Swire group
to the Confucius Institute, 16th October, 2008

Looking at the freezing winds that are blowing around most of the world's commercial centres as I talk I briefly thought of abandoning the subject material of my speech altogether in order to speak rather more currently about the validity of the so-called decoupling argument and the effects of the financial crisis on Greater China. On balance, quite apart from the Trade Descriptions Act, though, I think we all need a rest from TARPS, Saints Hank and Alistair, virtuous anger about investment bankers' bonuses and angels on a pin arguments about whether we are dealing with illiquidity or insolvency, so instead I actually am going to talk about what I said I would, viz Conglomerates and the Transport Sector in Asia.

These topics are linked in my own life by the simple fact of having worked for 30 years in Asia for a conglomerate whose traditional businesses were in the logistics sector. I am not sure that I can create the same linkage in speech that I enjoyed in my own life, so this will be something of a rattle-bag of random personal reflections on these subjects.

First of all the Conglomerate. I decided to say a little about the conglomerate as this business model now runs the risk of being characterised as some sort of Abominable Snowman - rare, genetically suspect and potentially dangerous, at least to investors. The Swire Group, for whom I have worked most of my adult life - an unfashionable claim these days - is unquestionably a conglomerate. Perhaps I should give a brief word of introduction to our company. Swires is British, and although largely unknown in this country, one of the largest private companies still in founding family hands in the UK. In this country we do have a limited operating presence beyond our small global headquarters; we are the largest supplier of cut flowers and green beans to the supermarket chains, we have a 50% plus market share in supply of specialist containers to oil rigs in the North Sea and our airline, Cathay Pacific, flies five times a day from London and Manchester to Hong Kong. We also own four boutique hotels in secondary UK cities.

Really, though, we are a 21st century Asian conglomerate, and unashamedly so.

In China, for example, we have been active since the second half of the 19th century when our ships made us a dominant player in the Yangtze and coastal trades. Inevitably our activities went into remission, for all meaningful intents and purposes, from 1949 to the mid 1980s. In China today we now operate one of the largest Coca-Cola franchises in the world, selling 16 billion units of Coca-Cola product to 440 million Chinese; in Xiamen we own the world's largest aircraft maintenance facility on a single site and we own 20% of Air China, who in their turn own 20% of our own airline, Cathay Pacific; another Swire Group airline, Dragonair, flies to 19 cities in China; we are building 8 mn cu ft of retail and commercial space in Guangzhou, Shanghai and Beijing and have just opened a five star minimalist hotel in Beijing with a Japanese architect and wooden baths. In Kunming we grow flowers for the Chinese domestic and Japanese export markets, and we operate over 100 sportswear outlets throughout China. In joint ventures with Akzo Nobel and Crown Can we operate paint and can manufacturing enterprises. In Chinese ventures under our own management we have approximately 25,000 employees.

I will not dismay you with further lists of lists to demonstrate the diversity of our operations outside China but I should at least note that in Hong Kong we are one of the largest and oldest employers and, inter alia, operate Hong Kong's airline Cathay Pacific; we are Hong Kong's second largest landlord and largest operator of retail space and amongst many other smaller activities manage what we faithfully believe to be the world's largest Chinese laundry. Other Swire diversity facts include our role as the largest operator of refrigerated warehousing in Australia and Vietnam (and fourth largest in America), the largest wool grower in the world, likewise the largest trader of tea in the world. We are the largest private sector employer, landlord and hotelier in Papua New Guinea. And so on and so on.

Faced with this almost dizzying array of businesses that do not seem to boast even an unconnected dotted line you might ask how we justify something that in anthropological terms looks like a pushmi-pullyu, or a duck-billed platypus, in case some of you are unfamiliar with the Dr Doolittle books.

First of all it is easy to forget that conglomerates were from, say, 1960-1980 (and certainly earlier) a Big Thing, particularly in Scandinavia, the UK, Germany, but also in Canada and the USA. Some of these earlier models still survive, GE (just), Maersk, Procter & Gamble, Louis Vuitton Moet Hennessy, Anglo America, Unilever, Siemens and the Wallenberg group and, of course, Berkshire Hathaway. In Asia the conglomerate model is more common than it is in the developed world, so in Hong Kong our traditional competitors are still old colonial creations such as Jardine Matheson, the Wharf Company and Hutchison but now, in all but a few cases, under Chinese ownership and management. The Japanese trading houses, and the largely family-controlled Korean Chaebols, are probably the best known conglomerates of all. Family businesses throughout South East Asia tend to be engaged in diverse operations, with each child taking responsibility for a different business line. And now of course in China we can see a number of state owned enterprises, such as Cofco and CITIC, whose activities are almost kaleidoscopic. And finally in India we have the Tata Group, Reliance and others. This rich and varied field of living conglomerates suggests that we are not risking walking dead status by adhering to the model ourselves.

Nevertheless you will no doubt be well aware that investors in public companies do not like the one-stop shop that conglomerates, some at least, set out to be. Investor institutions believe that they can diversify risk and achieve better returns by buying across sectors to match their own perception of risk and return. They typically want focus and a rigour of capital structure that they believe is lost in the conglomerate model.

During the late 1990s, when I was Chairman of our principal Hong Kong listed vehicle, Swire Pacific, I had a tough time during roadshows in London and New York at the hands of investors who were dazzled by the wonders of dotcom, B2B auction sites and the motivational power of share options. Indeed at the beginning of one visit to a large American institution I was asked if it was indeed true that I was remunerated via a salary and a cash bonus but enjoyed no equity style compensation; on giving confirmation that this was indeed the case the interview was terminated by my hostess as being pointless.

During the collapse of the dotcom stocks, and in our part of the world at roughly the same time as the Asian crisis, investors grudgingly returned to modern but asset-heavy operators like ourselves who had been flatteringly rebranded as 'clicks and mortar' businesses.

Ten years on, investors, at least in our particular conglomerate, have a clearer view of what they like and do not like about our model; their likes are:

China - most investors like and want a China story but are unsure how to access it, whether direct or via proxy plays. Swire Pacific's range of businesses directly owned and managed in China help solve this problem.

Governance - the fact that we self-evidently believe in governance and transparency is again a big plus for those investors looking for a China profile.

Dividend Policy - We take dividends seriously and are loathe to cut; in fact we aim to ensure gradual increase. This is important to many, but not all, investment models and the balance in earnings over time provided by the conglomerate structure greatly helps in this regard.

Against this most investors dislike:

Our A and B share structures are what, in crude terms, enables JS&S to vote approximately 60% of the stock with an equity holding of only approximately 40%. This structure is also disliked as it discourages capital raising via rights issue or new equity. You are no doubt familiar with Scandinavian and German conglomerate structures where the voting and ownership profiles are significantly more distorted than our own.

And, investors still dislike conglomerate diversity of sector on principle.

To investors in our public company we can really only truthfully respond to these dislikes with the words 'caveat emptor' - not a winning roadshow leitmotif. We are what we are: relatively unique, possibly quite eccentric but absolutely proudly so. Carve us up, which would be the conventional advice of most consultants or investors, and we believe that we would be something totally different. Make a hole in anything and stuff tends to leak out. In our case we think the leaks would be a very strong sense of shared culture and integrity, pride in excellence of delivery, an unusual sense of corporate loyalty and passion for the firm.

We manage our own conglomerate model by following some very simple precepts:

First of all as the Group is at holding company level, and in the case of many of its subsidiaries and associates, privately held, we are able, and definitely inclined, to take a long-term view. Swire celebrates its 200th anniversary in 2016. So we have a background and perspective that does not need to be dictated by the tyranny of quarterly results or the volatility of analysts' expectations. Generally we invest for long-term growth and predictability of earnings. We are not faddy, and by the standards of business school or institutional thinking we are unfashionably under-leveraged. We believe this has served us well. Such conservatism may have acted as a brake on growth opportunities over the years but it has certainly, but unquantifiably, contributed to our longevity.

When we look at the range of businesses in our publicly held conglomerate, Swire Pacific, we use some criteria to assess whether or not the business mix is appropriate. First, are all of the operating units recognised in our share price? This is important, as you will no doubt be familiar with the concept of the conglomerate discount which tends to mean conglomerates trade disproportionately below their net asset value. We do still, to varying degrees, but in the 1990s we reduced the quantum of this discount by rigorously applying this yardstick to all the Swire Pacific businesses. This sifting process was helpful, even though inevitably subjective, and at the end of three years of relatively intense introspection we emerged in the rather less cluttered form we have today. We sold, and in one or two cases closed, a number of companies. Some of these were, on their own, very good operations: two excellent sourcing and women's apparel businesses; and three insurance underwriting companies, all of them profitable and well placed in the fast growing Asian markets.

The second and probably more easily applied sifting process was to sell or close those businesses that were not achieving their cost of capital. This is a fairly straightforward mechanical exercise and spelled the end for some truly disastrous enterprises, including a Lloyds insurance broker, our share in Carlsberg Asia and a retail clothing business in the United States.

Another filter mechanism is simply one of geography. This is not always straightforward. Swire is a large company and we are an international business. But we are not, even in the case of Cathay Pacific, wholly global and nor do we believe that we have the brand or size to be so. So our own geography looks like a rather jagged slice of Swiss cheese with some very large holes in it; the biggest and most obvious holes are Continental Europe and Latin America. People tend to think of us as an emerging market player, but if you take the BRIC anagram of Brazil, Russia, India and China, we are completely absent from Brazil and Russia. And then I should mention India. In the 1990s, you will no doubt remember, there was vigorous debate in the business media about whether India or China would be the next Big Thing. By the end of the decade it was, I think, rather clear that in the short-term China was the hare and India, relatively speaking, the tortoise. These roles may well be reversed in future. India after all does boast some huge pluses that China does not, first and foremost being English language, a sophisticated body of law and, very slightly controversially, democracy: and it is, by most definitions, in Asia and hence should be, you might have thought, a natural for an Asian conglomerate like ourselves. We are indeed in India through Cathay Pacific and our marine operations but only relatively peripherally so, and the reason for this is that we have decided we do not have the size of balance sheet or depth of management to successfully take on two complicated giants like India and China and make a real go of it. In the end we decided that we should concentrate on China where we had closer cultural links and a deeper history, and so that we could make a real success of that. I believe this to have been the right decision.

Staff Management and Selection. We employ approximately 40 graduates a year from the best universities in China, Hong Kong and the UK. These graduates are expected to work across the range of our businesses and geographies, more or less without complaint. Few of them become specialists but all of them are exposed, throughout their career, to a diversity of industry and location. We believe this makes them better business people. It certainly makes them extremely loyal and creates what seems to me to be an unusually deep sense of shared culture.

De-centralised Management. Explicit trust in the quality of our management means that we are able to run our affairs with a light touch using only agreed financial controls and a relatively strict budgetary and plan process, particularly with regard to cash. The only area where the centre, a small office in Buckingham Gate with only three or four full-time executive directors, is interventionist is in HR strategy and refereeing the fight for capital between the operating units. Apart from that our main role, of course, is agreeing over-arching strategy with regard to geography, sectoral and balance sheet preference.

One final thought on conglomerates which is something we wrestle with, but have yet to really satisfactorily resolve, is the question of remuneration for that potential senior management group who are encouraged to embrace career diversity. Pay structures between, for example, the Shipping and Aviation industries, in the outside world, are really quite different but in order to transfer a manager from one to the other we have to make compromises that do not always reflect the competitive nature of the industry into which a manager from a Swire different industry is parachuted.

As threatened at the outset I am now going to share some thoughts with you on the extraordinary transformation of the logistics and supply chain sector, as I have observed it over the last three decades. For most of us I think logistics was a science, if I can glorify it as such, that lurked at the outer periphery of our vision until only a few years ago. Most of us probably thought of it as an unpraised branch of military grunt-work whose most spectacular triumphs were the troop trains of the First World War and the marches of Alexander the Great, whereas the science's most famous catastrophe was Napoleon's retreat from Moscow.

But now the practice of securing and operating supply chains in a world where the far-flung BRICs have become an astonishing source of consumer product can no longer be considered a peripheral activity. Reverting to my comments of a few minutes ago about running the gauntlet at investor roadshows, it did not take us long to discover the somewhat perverse fact that generically rebranding our shipping, aviation, warehousing and distribution businesses as a unified logistics operation gave investors comfort that in truth was perhaps no more than semantic. Close proximity to this reinvented free-standing sector, as it now absolutely is, prompts some disconnected observations.

Firstly with the gigantic exception of IT, which perhaps most relevantly in the logistics sector refers to information transfer rather than information technology, technical advances in world transport businesses over the last half century have been surprisingly undramatic.

If you think, in this context, of shipping, there have been no real changes in terms of design or technology advance. Cargo ships have become relatively more fuel efficient, but not dramatically so. In recent years some ship types have actually shrunk in size, eg the ultra large crude carrier, the Seawise Giant built in 1979 and at 565,000 deadweight tonnes the biggest ship ever, was decommissioned after only 15 years service and has had no comparable successor. Today's cargo ships operate at much slower speeds than even many of their sailing ship predecessors; for example the liner ships we plan to build in China have a design service speed of 17 knots, whereas the fastest merchant tea clippers could reach 20 knots plus in the 1850s.

One thing that <u>has</u> changed is manning efficiency. The 10,000 deadweight tonne Liberty ship, the workhorse of the UK and the USA merchant marine, would have had a peacetime crew of 44, including 11 cooking and washing up in the galley, whereas the 565,000 deadweight tonne ULCC I referred to a second ago probably operated with a crew of only 19.

Aviation has also struggled for a really dramatic technological breakthrough. The last spectacular improvement was probably the Concorde in 1976 and that is sadly now just an

RIP footnote, so I suppose the greatest innovation of the last half century still flying is the Boeing Jumbo. The experience of air travel for the consumer has definitely depreciated, however, not so much in the air where there has been a cyclical reversion to in-flight luxury, at least on long-haul carriers, but on the ground and, uncontroversially, most particularly so in the UK and the USA. Fly by wire and the employment of on board computers has greatly improved safety records and, inter alia, has led to the gradual redundancy of the flight engineer. Nevertheless despite the use of composites and associated incremental engine improvements, huge challenges remain to the aviation industry with regard to noise, air pollution, air space control, runway congestion and the damaging and still unquantifiable effects of tourism on undeveloped countries.

Other logistics modes have almost certainly deteriorated in the last few decades. In this country most obviously rail and road, which are under invested, polluting, congested and dirty. This need not be the case, as may be seen by comparing the UK road and rail systems with those of France or Japan.

So compared with other sectors, eg media, manufacturing or office construction, I would say that were it not for the IT revolution the logistics industry would still be firmly in the Dark Ages. The fact that it is <u>not</u> is wholly attributable to the changes wrought by information transfer and the certainty with which cargo or passengers can be tracked on an hourly basis. Cargo moves on ships and trucks that are more or less indistinguishable between service providers and the differentiator now is surely in the quality of information tracking, particularly as branding in the logistics sector, outside transport of people by sea or air, is largely irrelevant. The logistics industry's greatest gift to mankind since the invention of the wheel has most probably been the electronically transmitted manifest.

Last year The Economist published an article on the "Golden Age of Growth" and ascribed the birth of the Golden Age to first and foremost "improvements in inventory management". The article went on with words that might have seemed controversial in 2007 but are sadly only too obvious in 2008: "the dull but irreversible conclusion is that inventory management improvement outranks credit market innovation and wiser monetary policy on a global scale". If only it did not.

Obviously Asia's emergence as a global manufacturing sector has transformed the logistics industry. And has transformed it at speed. I lived in Taiwan in 1977. At that time there were no container cranes in the country (and indeed there were none in mainland China) and the now mighty Evergreen operated three small ships to Panama and nowhere else. Asian logistics has changed at dizzying speed. This is most easily observed by tracking the wandering path of the sports shoe factory. At the beginning of my Asian career in 1976 Japan was close to the end of its sports shoe manufacturing days and manufacturers chased the cheapest hourly wage from Japan to Korea to Taiwan to the smaller Asian tigers to Sri Lanka to Botswana and now back to Indonesia, Thailand and China itself. It is hardly surprising that early on in this period Nike had its own shipping line to chase its product around Asia, until a wise manager spotted that ships sat fairly heavy on a sports shoe company's balance sheet.

Protectionism is a nasty word that tends to become more current in times of economic dislocation. Protectionism is, of course, the ultimate poison to the logistics sector and unfortunately it is still alive and kicking and may indeed come back to haunt us, fuelled by populist politicians with a poor understanding of economics, eg those non passport carrying senators who vetoed the Unocal purchase by CNOOC and of P&O's container ports in America by Dubai Port World. The logistics industry as a whole has been hamstrung by decades of various forms of protectionism, eg Imperial preference, national cargo preference, the 40:40:20 formula of shipping conferences and aviation traffic rights. America, the land of the free, is the most egregious and hypocritical offender, viz their so-called Open Skies policy and the Jones Act. In this context it is perversely reassuring, just, that protectionist regimes eventually devour their own children, viz the collapse of the xenophobic Australian National Line and the mighty American container giants such as US Lines, Sealand, Seatrain, Lykes and Farrell, all of whom became historical footnotes within less than 30 years of the invention of their industry. Protectionism and a disastrous combination of regulation and consequent lack of competitive pressure is to blame for the almost total collapse of the American shipping industry to the extent that less than 1% of American cargos are now carried by US flag.

Moving sideways to the aviation industry for a moment; I became Chairman of Cathay Pacific in 1998 having had minimum working exposure to the airline system. The differences to, and similarity with, the shipping industry I had grown up with came as quite a surprise. Shipping is highly entrepreneurial, largely unregulated and fast moving - Nick and I could have Byrne-Hallett Shipping in business by tomorrow. If we could find a cash backer in the audience we could be the owners of a ship by 10 o'clock tonight and have booked a cargo before we went to sleep. The aviation industry on the other hand is heavily regulated, which of course it should be encompassing as it does the safety of so many travellers, but safety apart it is also the victim of much government interference with regard to traffic rights, national security and fare structures. Airlines have become an international symbol of national pride and it took a long time for 20th century countries to realise that it is not compulsory to have an airline, eg Switzerland and Belgium and perhaps if the law of gravity prevails, Italy. Things are going the opposite way in the Gulf where Emirates has the largest long-haul order book of any carrier, serving a population of only 1.3 million people.

The aviation sector's consistently poor financial returns are in great part attributable to the sector's vexed industrial relations record. At Cathay Pacific we consider ourselves lucky to only have to deal with three unions, whereas BA at Heathrow on the ground alone, I think, has to deal with seven. This problem is by no means a Western monopoly and is a very much a live issue in, for example, Japan, Korea (in particular) and Taiwan. Part of the problem of aviation sector industrial relations is the fact that union membership tends to be highly educated, already well paid and with a shortage of manpower compared with other unionised industries. Indeed as far as cockpit crew are concerned there is a looming shortage of pilots worldwide, most particularly in China.

A peculiarity of the aviation industry is the fact that there are, to all intents and purposes, only two suppliers, the obvious duopoly of Boeing and Airbus. Both receive state subsidies, implicitly or explicitly, neither are able to accept orders much less than close to half a decade in advance and both operate opaque pricing systems. The Japanese government and MITI threatened an integrated competitor in the 1980s but this has proved a toothless tiger. China is now making similar noises and, unlike Japan, may have the domestic demand that would provide a launch pad for such a venture. Certainly the world's airlines would welcome the price competition provided to the shipping industry by the multiplicity and diversity of shipyard supply.

An aviation model under the microscope in recent years has been the low cost carrier. The outstanding success in this area is America's South West Airlines, but in the UK we also have two little cherished but convenient success stories in Ryanair and Easyjet. To date Asia has seen around 50 LCC start-ups. The majority of these are no longer in business and those that are have been largely unsuccessful to date. The reason for this surprising failure is probably due to a shortage of local pilots, so that costly expatriate alternatives, whose packages must include housing, are hard to avoid; also the shortage of cheap secondary airports that have been such an important part of the take off of the European LCC, and finally the fact that intra Asian routes are, by European standards, relatively long-haul and arguably have more passenger demand for the hot meals and in-flight entertainment that LCC travellers from developed countries prefer to forego in return for a cheaper ticket.

Apart from the low cost carrier another potential competitor to so called legacy carriers such as ourselves is the virtual competition provided by video conferencing. To me it remains slightly surprising that this mode of communication has not achieved greater traction despite some quite considerable technical advances in recent years. During the dark days, for us at least, of the SARS epidemic in Hong Kong a number of investment bankers told us that they were largely foreswearing air transport for good and would be, in future, relying on more frequent use of video conferencing. This nasty threat, though, proved ephemeral as businesses found that there was no substitute for the out-of-hours bonding and real eye contact in meetings that could only be provided by physical, rather than virtual, presence. In the present financial crisis we are again seeing a steep fall-off in long-haul travel, inevitably particularly from the financial sector, and teleconferencing is again being touted as an aviation replacement. We shall see. But, on the whole, I would expect this to be once more ephemeral.

Contrary to most lay expectations financial returns from the aviation industry is generally very low. Most people will have heard the line, usually attributed to Warren Buffet, that the quickest way to lose a US$1 billion is to own an airline and, sadly, there is something in this. In the period 2000-2005 the world's 400 airlines lost US$44 billion. The industry made some of this back in 2006-2007 but I dread to think what sort of loss the sector as a whole will have to endure in 2008. The current combination of strong fuel prices and plummeting loads is about as toxic as you can get. Cathay Pacific Airways regularly ranks in the top five profitable airlines globally, principally as a result of our geographic positioning and the excellence of our product. Nevertheless we would regard a double digit return on equity as signalling a very good year, whereas our American competitors regularly and, to my view unfairly, take refuge in Chapter 11 and it is genuinely hard to remember who is in and who is out at any particular time. Nevertheless we are committed to the business, which we have grown from two DC3s in 1949 to the 170 wide-bodied aircraft we have today. Really only those based in the growth cockpit of Asia could have justified, on financial grounds, airline operation in the last three decades and it is true that if we were to choose to step off the capital expenditure treadmill that steady growth entails we would subsequently own a machine that would throw off an enormous amount of cash. This is not our plan but it may in part help to explain why we choose to stay with the sector.

Finally, working in aviation imposes social peril as most of your friends will turn out to be aviation experts who will be only too keen to tell you about the quality of the food on their latest flight. I have learnt to dread any sentence that starts with the words "I am sure you would like to know ......".

Let me finish with some random thoughts on Asia itself. First of all the word Asia is one of the most confusing catch-alls in common speech today. Australia confusingly claims to be part of Asia, India certainly does, and by historical definition certainly is, and those of us who are old enough to have studied the Old Testament and Latin history at school will remember that Asia Minor stretches as far as the Bosphorus. So the broadest possible definition of Asia leaves only Africa, Continental Europe, the Americas and Iceland as non Asian. This is rather unhelpful and I suggest that we all try and act as word police in restricting the use of the term to Greater China, Japan, Korea and the South East Asian Tigers.

Looking at this more limited constellation of economies I still believe the presumably uncontroversial assertion that the 21st century will be the century of Asia, just as, which is possibly more controversial, the 20th century was the century of America.

Picking winners and losers amongst these agreed Asian runners, though, is not quite as easy as one might expect. For example it is to me rather extraordinary that Japan, still by any benchmark the second or third largest economy in the world, hardly ever shows up on the media radar these days. Looking back to the early 1980s, however, when I was living in Tokyo, hardly a week passed without the publication of a book proclaiming the end of the West and the second coming of the Rising Japanese Sun. Some of you will remember a time when the Gardens of the Imperial Palace in Tokyo were thought to be worth more than the whole of California, or when the smashing of Toshiba ghetto blasters on the steps of the US Capitol building by protectionist senators scared the free trading world. Few then would have imagined the hollowing out of Japanese industry and the loss of heavy industry market share to South Korea, and now to China, nor perhaps would we have guessed that Japan's failure to become a financial centre, or to put it more kindly, to become more than a domestic financial centre would have been so complete. And yet now it all seems rather inevitable as the Japanese population ages and shrinks whilst immigration and cheap labour is still so strictly discouraged.

South East Asia has, on balance I think, been very slightly disappointing. The Tigers have not yet fully lived up to the fantastic promise almost all of us thought lay there in the 1970s, although this may very well change. I think almost certainly will change with the arrival every year of new cohorts of well-educated graduates.

The Philippines has, sadly, been a massive disappointment despite the bilingual skills of the middle class, some decent educational institutions and an open island mentality with regard to travel and foreign influence.

Indonesia, the world's largest Muslim country, has been held back by a succession of divisive regimes. This is improving, and, on balance, I think Indonesia's prospects are good. A large cheap workforce, improving standards of education, an unferocious approach to Islam and a good source of natural minerals all play in its favour.

Vietnam is promising, has an excellent and always improving workforce and tremendous tourism potential. Against this are frightening current levels of inflation and a mysterious, still rather arcane, mode of government.

Singapore continues to be an astonishing success and Lee Kuan Yew would certainly be high on my list of top 20th century leaders, and certainly top of any list of leaders who straddled the recent millennium.

Korea is interesting: advanced engineering and electronic skills, highly educated cadre of young management, and a culture of extremely difficult industrial relations. Looking over its shoulder, though, what Korea must worry about is the possible cost of reunification with North Korea.

Taiwan has been an extraordinary success but is now hollowed out to the extent that in industrial terms it is hard not to see it as a satellite of the mainland.

Hong Kong is our home base so I can only be biased. It is though certainly the leading financial centre in Asia (Singaporeans may disagree) and, still, the best entry-point for would-be newcomers to China. Half the world's population live within four hours flying time.

This, of course, brings us to China and, if the 21st century is Asia's century, I suspect, most unoriginally, it is really China's century. We are all China watchers now and it is interesting that the possibility of a drop in GDP growth from, say, 9½% to 7½%, as is quite widely suggested at the moment, should so alarm the world as a whole. Again who would have imagined this even in, say, 1990, and who would have conceived that it would be almost conventional wisdom that it would be China that would lead us out of the current recession. China faces some quite spectacularly challenging problems: urban unemployment, the widening gap between rich and poor and the coastal east and barren west, a financial sector that has yet to be properly overhauled and capitalised to reflect true levels of indebtedness, tension between Beijing and the provinces. ("The Emperor is far away and over the mountains"). Huge and largely inadequate issues with regard to pensions, health care and energy. And finally, but perhaps most importantly, environmental issues that are more challenging than those faced by the rest of the world.

Despite all this we as a group have firmly hitched our flag to the Chinese masthead. I believe that the new generation of leader represents an interesting progression from the strong men who brought modern China into being. We now have bureaucrats, not necessarily engineers and not necessarily from Shanghai, and who do not practise personality cults. They are, however, most impressive and appear extremely cognisant of the challenges that face them. China is a source of university graduates of tremendous ability, hungry for success and with a willingness to challenge conventional wisdom. I am a Japanophile, but cannot help but be struck by the determination to embrace change as evidenced by Chinese graduates when compared with the Japanese equivalent who, to me at least, seem less willing to break the old model of Japanese hierarchy in education. The Chinese economy is now switching rapidly, both naturally and with very strong nudges from the current leadership, to move from a purely export led path to a more balanced domestic and export driven model. There will be bumps along this road viz the present smouldering ruins of the Shanghai Stock Market and falling luxury apartment prices in some of the major cities, but regular bursting of asset bubbles along the way will be no bad thing and I do not think it will be long, at all, before growth resumes in both these sectors in the China markets.

I am sure LSE students are nothing less than visionary and that this rather upbeat, I hope, picture of Asia, and in particular, of China, is one that you will have already embraced. If you have not I would be delighted if you would challenge it in the Question and Answer session which I think will follow, on the wild assumption that I have left enough time for this.