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Bank Of East Asia Chairman David Li Talks About China's Economy, P2P Lending And The RMB

Few bankers in Asia have the rich experience of David Li, chairman and chief executive of the Bank of East Asia, Hong Kong's largest independent local bank. I interviewed Li at the bank's Hong Kong headquarters recently about the outlook for China's economy, currency, rapid growth in P2P lending, and stock market. Adrian Li, the bank's executive director and deputy chief executive, also joined the interview. Excerpts follow.

Q. What's ahead for China's economy?

A. (David Li) China cannot have a growth rate of 9 or 10% forever. They said that it was 7% for the first half, and a lot of people do not believe it is 7%. I do. But I also believe that China is going through a period of transition from an investment-led to consumption-led economy. It takes time. This is the period of transition.

Q. What does that mean for your bank's business in China?

A. (David Li) We are definitely adjusting to it. We see more and more of our clients investing overseas, outside of China. They see more value in investing outside China at this period in time.

Q. What do you make of the renminbi's fall?

A. (David Li) I'm not surprised that the renminbi was devalued, but 3% is very little compared to others. The Australian dollar has slumped about

20% over the past two years, the Japanese yen about 12%, the Malaysian ringgit 25% and the Indonesian rupiah some 15%. If you look around the Asia-Pacific, you see the same story. While everyone depreciated their currencies, China kept up the renminbi.

Q. So you expect the renminbi to depreciate?

A. (David Li) I expect the renminbi will continue to be stable and not depreciate dramatically. China has also learned a lesson in trying to support the stock market. I think the stock market will find its own level.

Q. How important is China to the bank?

A. (Adrian Li) We have been investing in China for a long period of time. We have 128 branches on the mainland. Of course the macro environment affects the China operation, and we are facing more NPLs at this juncture. Having said that, we are a firm believer in the long-term prospects for the country. We believe that China will continue to have a stronger growth rate than the rest of the world in the medium to longer term horizon.

Q. What do you make of the growth of P2P lending in China?

A. (Adrian Li) It is very interesting but there is some limitation to the P2P space. Ultimately, there should be roles for the traditional banks to play. In the financial industry, the relationship between banks and customers is very important. Trust is built over many, many years. In the good times, people may not place a lot of importance on it. But in bad times, regulators and customers see the value of trust.

I think following the fall of A-shares, they (China's authorities) are looking at more supervision of P2P lending. I think the margin lending has been excessive on their A-share market. They also have to look at different areas of excessive lending.

(David Li) I think they are looking at regulating P2P lending. We are living under very strict regulation in the banking industry.

Q. How do you expect China's economy to perform further out – say three years?

A. (David Li) I think it will be stronger than today. Next year will be a year of consolidation for China.

Q. Apart from China, where do you see the bank's business growing?

A. (David Li) Southeast Asia.

(Adrian Li) We are also seeing renminbi internationalization in different hubs like London and Hong Kong. These offshore hubs are flourishing; Chinese companies are coming out and investing overseas.

Private banking is also a great business. As we have a strong franchise in China, we have a lot of individuals coming to open accounts with us in Hong Kong. In the past we helped a lot of overseas companies going to do business in China. Now we see a lot of mainland companies coming out of China and investing overseas.

Q. Valuations for banks have come down in Asia. Will there be more M&A in the banking industry?

A. (David Li) In the region, definitely. I think there will be a big consolidation in Japan, with some of the regional banks getting bigger and bigger. I see a lot of consolidation in Indonesia and Malaysia.

Q. Will you be part of that?

A. (David Li) We are always looking.

Q. What's ahead for Hong Kong? Hong Kong seems to be going through a tough stretch – tourism has been down, there's anti-mainland sentiment, Occupy Central had a big impact and political reform has stalled.

A. (David Li) I'm always optimistic about Hong Kong. I think now is a good period to invest. For those who remember 1967 when we had the riots, a lot of money was made then. Now is a good time to look at investing in real estate, in the stock market and in people.

Q. Where will Hong Kong's growth come from in the future?

A. (David Li) Hong Kong's growth will always come from finance, because of our justice system and the rule of law. Even Chinese companies look to come to Hong Kong to be incorporated here.

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