

Speech by FS at Asia Private Equity Forum 2024 (English only) (with photo/video)

Following is the speech by the Financial Secretary, Mr Paul Chan, at the Asia Private Equity Forum (APEF) 2024 today (January 26):

Rebecca (Chairwoman of the Hong Kong Venture Capital and Private Equity Association, Ms Rebecca Xu), Eric (Co-Chairman of the APEF 2024 Organizing Committee, Mr Eric Mason), Kent (Co-Chairman of the APEF 2024 Organizing Committee, Mr Kent Chen), distinguished guests, ladies and gentlemen,

Good morning. It's a pleasure to join you, once again, for the annual Asia Private Equity Forum. It's the seventh year in a row I am addressing this high-powered gathering of venture capital and private equity professionals from Hong Kong, throughout Asia and around the world.

Headwinds, and the silver lining

I'm sure global headwinds have got everyone's rapt attention. The pace of lowering interest rates by major central banks remains unclear. The full impact of previous interest-rate hikes on the global economy has yet to fully play out. Geopolitical tensions continue to affect global investment flows, trade and commodity prices. And this year, countries with more than half the world's population will send their citizens to the polls. That can only add to the global market's complexity, volatility and potential risks. Not surprisingly, forecasts from major international organisations generally indicate slower global economic growth in 2024 compared to last year.

Here in Hong Kong, volatility has dominated our equities market. There is also no lack of negative rhetoric about China, our economy and financial markets, caused by geopolitics and misinformation.

That said, there is a bigger picture, and it should give you all good reasons to be optimistic.

First, our financial market is a good reflection of the state of the Chinese economy. And the Chinese economy is performing better than many people believe. As Premier Li Qiang said at the World Economic Forum meeting in Davos last week, China is firmly on track to reach a GDP (gross domestic product) growth of 5.2 per cent in 2023. The country has established solid fundamentals over the years, and its long-term growth trend will not change. As China continues to pursue high-quality development and high-level opening up, it is sure to present boundless opportunities for businesses everywhere.

I was also in Davos, and met with political leaders, CEOs of multinational corporations, entrepreneurs and investors. I can tell you that

they were optimistic about the Chinese economy and Hong Kong in the medium to long term. And they are keen to invest here; just waiting for the right time and opportunity.

Second, Hong Kong has all the distinctive advantages under the "one country, two systems" principle: the rule of law, trusted regulatory regimes, as well as the free flow of capital, information, goods and people. Our institutions, expertise and international connections will continue to underpin our unique role to connect investment opportunities in China and the rest of the world.

Third, Hong Kong continues to enjoy unfailing support and favourable policies from the Central Government. For a long time, Hong Kong is a testing ground and firewall for the gradual opening up of the Mainland's financial markets. For that, we enjoy priority access to the Mainland market. Just this Wednesday (January 24), at the Asian Financial Forum, Mr Li Yunze, the Minister of the National Financial Regulatory Administration, talked of further opening up the banking and insurance sectors to Hong Kong.

On the same day, Mr Pan Gongsheng, the Governor of the People's Bank of China, announced six new measures which will deepen bilateral financial connectivity and facilitate further investment flows. They range from enhancing the Northbound Bond Connect to the GBA (Guangdong-Hong Kong-Macao Greater Bay Area) Wealth Management Connect 2.0.

These measures are bound to further reinforce and enhance our position as an international financial centre and offshore RMB (Renminbi) business hub.

Finally, Hong Kong is actively developing new markets and attracting new capital from both advanced and emerging markets. That includes the Middle East, which is actively seeking investment diversification and is keen to invest in this part of the world. Then there is the booming ASEAN (Association of Southeast Asian Nations), which is on its way to becoming the world's fourth-largest economy, collectively, by 2030. Hong Kong has long established strong relations with ASEAN.

Consider Middle East sovereign funds and assets under their management, which stood at about US\$3.6 trillion at the end of 2022. Tapping even a modest proportion of that capital would mean a good deal of business for us.

And the good news is that our connections with the Middle East are rapidly growing. For example, Saudi Arabia's PIF (Public Investment Fund) has established an office here, and is already making investments. Last year, we recognised the Saudi Exchange and the Indonesia Stock Exchange, allowing companies in their markets to do a dual listing in Hong Kong. Last November, Hong Kong also launched the first Asian, and the world's largest, ETF (exchange-traded fund) tracking Saudi Arabian stocks. This is the first step. We are expecting more reciprocal investments.

We have also been planning to establish more Economic and Trade Offices

in the Middle East and the ASEAN countries.

New opportunities for PE and VC

Ladies and gentlemen, Hong Kong will continue to be a globally attractive investment hub and hold tremendous opportunities for private equity (PE) and venture capital (VC) practitioners.

Our private equity sector is strong and vibrant, second in Asia, just behind the Mainland. The capital under management stood at more than US\$220 billion. That accounts for more than 15 per cent of the region's total.

And looking to the future, there will be even more opportunities. Let me tell you why.

The current high-interest environment has spurred a shift in capital-seeking prospects to upstream industries, at a time when global secondary markets face pressure. PEs and VCs have become increasingly active as a result. They're looking for investment opportunities in tech start-ups and new businesses. Once again, capital is the instrumental force driving inventions and catalysing new business models.

Hong Kong is there. Over the past few years, we have invested heavily in innovation and technology. It will be a new economic engine that spurs our high-quality economic development. We have set our sights on developing four sectors: artificial intelligence and data analytics, life and health technology, fintech and advanced manufacturing, new energy and new materials.

As a result, the ecosystem in Hong Kong is getting more vibrant. There are more than 4 200 startups in Hong Kong, many of them located in our Science Park and Cyberport. But we want to jumpstart our innovation and technology industries. Simply relying on the organic growth of local industries will not go fast enough.

That's why we established the Office for Attracting Strategic Enterprises. It is to attract outstanding companies, particularly those engaging in advanced technologies, to settle in Hong Kong. To date, more than 30 strategic enterprises partners have committed to establishing a presence here. Most of them are in the medical and health sector. Together, they will invest more than HK\$30 billion and create more than 10 000 R&D (research and development) and managerial jobs in the initial years.

We are determined to develop our city into a premier health and medical innovation hub. A key pillar to this vision is to establish Hong Kong as an internationally recognised drug and medical device regulatory authority. To that end, we have launched the new "1+" mechanism in drug approval, which will accelerate the development of new drugs and enable earlier patient access to them. We are also making progress in establishing the Hong Kong Centre for Medical Products Regulation. All these will complement the many other efforts that we are taking forward to create a booming life and health technology industry in Hong Kong.

All in all, for those looking to invest in the next wave of unicorns, Hong Kong is where you want to be.

Another key milestone is that we have set up the Hong Kong Investment Corporation (HKIC) Limited to play a proactive role in driving innovation and future growth. The company will not only invest in, but also help channel other possible capital sources into enterprises and projects, with a view to maximising Hong Kong's support to innovative technologies, new business models, and new sectors. I am sure many of you in the market have already met with our HKIC team, which is very dedicated to working with potential partners and corporates across the entire spectrum of both the public and private markets. For the latter, the reach of the HKIC is far and broad, ranging from VC, to growth and also to buyout stages. We believe that this agile and creative approach is important in bringing the best out of the Hong Kong investment ecosystem.

So is the Hong Kong Monetary Authority (HKMA) which has long engaged PE firms in making investments. To support small to medium-cap GPs (general partners) in Hong Kong, I have asked the HKMA to set up a fund-of-funds mandate targeting general partners that raise smaller funds or have smaller assets under management.

What's more, we are actively developing Hong Kong into a premier hub for asset and wealth management and family offices. At the end of 2022, assets under management amounted to US\$4 trillion, with two thirds thereof coming from outside Hong Kong. In March 2023, we launched a policy statement outlining our vision and action plan in this regard. Last month, we further announced the details of the new Capital Investment Entrant Scheme. All these are expected to bring in more ultra-high net-worth individuals and capital. In other words, a new wave of business opportunities for the PE and VC sector is coming.

Closing remarks

Ladies and gentlemen, I have just touched on some of the initiatives we're working on. These and other policies and plans will ensure that Hong Kong enhances its ecosystem as an international financial centre comprehensively.

We are just over two weeks away from Chinese New Year – the Year of the Dragon. It promises dragon-size opportunity – for Hong Kong and for each and every one of you. I wish you all a rewarding Forum and the best of business, investment and health in the New Year.

â€‹Thank you.

