

Speech by SFST at Asia Pacific Loan Market Association Annual Syndicated Loan Market Conference (English only)

Following is the speech by the Secretary for Financial Services and the Treasury, Mr James Lau, at the Asia Pacific Loan Market Association (APLMA) Annual Syndicated Loan Market Conference in Macao today (June 5):

Phil (Chairman of the APLMA, Mr Phil Lipton), distinguished guests, ladies and gentlemen,

Good afternoon. I am delighted to join you all today at your annual conference. Hong Kong has been seeing some exciting developments for its financial services sector. This should further enhance the vibrancy of our markets and I trust it should present more business opportunities for the syndicated loan market as well. Today, I would like to focus on the development of the Guangdong-Hong Kong-Macao Bay Area and the Belt and Road Initiative, and their implications for our financial services industry.

As you may know, the greater Bay Area is already a substantial economic powerhouse. The nine cities from Guangdong plus Hong Kong and Macao present a huge market of around 68 million people. This is greater than the population of Italy, France or the UK.

The GDP of the greater Bay Area is around US\$1.4 trillion, comparable to that of Australia and South Korea. Currently, the Tokyo Bay Area, with a population of 44 million, has a GDP of US\$1.8 trillion. The New York Bay Area has a population of 8.6 million with GDP of US\$1.7 trillion. The San Francisco Bay Area, with a population of 7.6 million, has a GDP of US\$0.8 trillion.

Traditionally, entrepreneurs from Hong Kong have played an important role in Guangdong's economic development. Cities in Guangdong, such as Dongguan, Shenzhen and Guangzhou, are important outward processing bases for Hong Kong businessmen, and there are around 140,000 Hong Kong-invested enterprises in the province. At end-2016, the cumulative value of Hong Kong's realised direct investment in Guangdong was estimated at HK\$1,984.5 billion (US\$253 billion), accounting for 63.8 per cent of Guangdong's total.

The rapid development of the new economy in the greater Bay Area presents an immediate opportunity for Hong Kong to join hands with other cities and with Shenzhen in particular, to create a super eco-system for innovation and technology. Importantly, the equity market is the crown jewel of Hong Kong's financial centre, and we have introduced listing reforms that will enable us to be an attractive listing platform for companies from emerging and innovative sectors.

Let me outline the latest developments in innovation and technology in Shenzhen and the Mainland before coming back to initiatives in Hong Kong. Shenzhen, which is often called the "new Silicon Valley", is home to large high-tech companies and rising start-ups. Familiar tech giants like Huawei and Tencent are headquartered in Shenzhen, which as a city spends over 4 per cent of its GDP on research and development (R&D). In fact, companies in Shenzhen file more international patents than those in France or Britain.

Indeed, Shenzhen has played a significant role in China's emergence as a major player in Internet finance. This is particularly true in the payments space, which is dominated by Tencent's WeChat Pay and Alibaba's Alipay. Official figures suggest that China had a total of 527 million mobile payment users at the end of last year. Online payment transactions totalled around US\$24 trillion (RMB150 trillion) for the first 10 months last year, ranking first in the world.

But while the likes of Baidu, Alibaba and Tencent are the biggest tech players in China, millions of medium-sized enterprises are seen as hidden champions that may become tomorrow's heroes. According to a report released by the Hurun Research Institute in April this year, China had more than 150 unicorns at the end of March, with a combined value of over US\$630 billion (RMB4 trillion). These include quite a few unicorns from Shenzhen. In comparison, data from CB Insights suggests that the US is home to around 235 unicorns worth US\$812 billion.

What is interesting is that the start-ups in China appear to be scaling up faster than those in the US. A report by the Boston Consulting Group suggests that Chinese tech start-ups on average take four years to reach the US\$1 billion mark for unicorns but their US counterparts would take seven years.

While the developments in Shenzhen and on the Mainland have been astounding, Hong Kong is also making good progress in embracing innovation and technology. To begin with, Hong Kong's world-class infrastructure in information communications means that we are starting from a good foundation. We have excellent satellite plus overland and trans-Pacific communication systems.

And Hong Kong's start-up scene has seen similar promising growth in the past few years. Some estimates put the number of start-ups in Hong Kong at more than 2,000. Cyberport boasts more than 300 Fintech start-ups and companies, making it a leading Fintech cluster in Asia. These companies are engaged in a wide range of applied R&D, including payment and remittance, cyber security, WealthTech, InsurTech and solutions based on artificial intelligence (AI), big data and distributed ledger technology.

The start-up scene has been supported by a growing number of accelerators and co-working spaces, as well as funding options. For instance, the Hong Kong X-Tech Startup Platform which was built partly by Sequoia Capital China and jointly run by university professors, invested almost US\$20 million in 18 Hong Kong-based start-ups last year.

Also active in the local start-up scene is the Alibaba Entrepreneurs Fund, with a fund size of around US\$128 million. It has invested in promising young companies in online logistics, B2B e-commerce, robo-advisory, digital health and more. Just last week, the Alibaba Entrepreneurs Fund joined hands with our homegrown AI unicorn SenseTime and the Hong Kong Science Park to launch the Hong Kong Artificial Intelligence Lab.

The Lab aims to advance the frontiers of AI with cutting-edge technologies, empower start-ups to commercialise their new inventions, and enable knowledge sharing among academics, scientists and entrepreneurs. The first programme rolled out by the Lab is a six-month Accelerator Program, which will provide funding, AI technologies, network and working space to prospective AI start-ups in Hong Kong.

We are also seeing a growing cluster of international R&D institutions in Hong Kong. In October 2016, the celebrated Karolinska Institutet of Sweden opened its first overseas research facility for reparative medicine at the Hong Kong Science Park.

In September last year, the Massachusetts Institute of Technology (MIT) opened its first overseas Innovation Node in Hong Kong, providing entrepreneurial education and training for students and researchers from MIT and also from Hong Kong. MIT has also established a consortium in Hong Kong for R&D collaboration.

The Government's strong fiscal position also enables us to allocate considerable resources to the development of innovation and technology. In the Budget this year, nearly US\$6.5 billion (HK\$50 billion), was earmarked for supporting the development of innovation and technology in Hong Kong.

In particular, US\$1.27 billion or HK\$10 billion has been set aside to support the establishment of two research clusters in the Hong Kong Science Park – one on healthcare technologies and the other on artificial intelligence and robotics. The goal is to attract to Hong Kong more world-class scientific research institutions and technology enterprises to conduct midstream and downstream R&D projects with local researchers and scientists.

What's more, to meet the manpower needs, the Government has rolled out a Technology Talent Admission Scheme to provide a fast-track arrangement for the admission of R&D talent. The scheme will run on a pilot basis for three years, and up to 1,000 persons will be admitted in the first year. The scale of intake will of course be reviewed, depending on the take-up rate.

As a start, the Scheme will be open to tenants and incubatees of the Hong Kong Science Park and Cyberport that are engaged in the areas of biotechnology, artificial intelligence, cyber security, robotics, data analytics, financial technologies and material science.

The Central People's Government of China is strongly supportive of Hong Kong's mission to become a global innovation hub. Just three weeks ago, the

Ministry of Science and Technology and the Ministry of Finance announced that Hong Kong-based universities and R&D centres would be able to access and leverage state-level technological research funding. This is a new initiative to promote collaboration on innovation and technology between Hong Kong and Mainland China, and the funds made available can be used for cross-border development and applications as well as for R&D logistics and infrastructure development.

All of the above developments would help build Hong Kong's start-up ecosystem and R&D capabilities, and there is much potential for collaboration between Hong Kong and other cities within the greater Bay Area in terms of innovation and technology.

In order to provide more space in Hong Kong to house innovation and technology work, we are joining hands with Shenzhen to develop an 87 hectare Hong Kong-Shenzhen Innovation and Technology Park, which is four times the size of the existing Hong Kong Science Park and is expected to inject more than US\$7 billion a year into Hong Kong's economy once it is up and running.

In June 2017, Hong Kong's central bank and banking regulator, the Hong Kong Monetary Authority, and the Office of Financial Development Service of the Shenzhen Government agreed to strengthen co-operation in Fintech between Hong Kong and Shenzhen. The goal is to create a more favourable environment for banks and other financial institutions to develop and use Fintech applications.

Along with Cyberport, which is Hong Kong's "creative digital community", the two regulators in Hong Kong and Shenzhen are exploring the feasibility of establishing cross-border soft landing facilities in Shenzhen, encouraging Hong Kong Fintech firms to expand their business to the Mainland, and Mainland firms to establish themselves in Hong Kong.

A good example of the synergies between Hong Kong and Shenzhen in nurturing start-ups is DJI, the first unicorn drone company which now ranks as the world's largest drone maker with a 70 per cent global market share for civilian and commercial use drones. This company was founded by Frank Wang, a Mainlander who graduated from the Hong Kong University of Science and Technology. His start-up was first conceived in Hong Kong, which is strong in research and development, and it is now based in Shenzhen, which gave it support for making prototypes and commercialising the products.

When talking about the tech opportunities in the greater Bay Area, let me speak briefly on the changes that our Stock Exchange has just put in place for companies from emerging and innovative sectors. The changes took effect on 30 April 2018 and we are already seeing some sizeable applications under the new rules.

One major change to our listing requirements is tailor-made for biotech companies, taking into account their long and costly journey of turning research into effective products and applications. Biotech companies with no prior record of revenue or profit are now allowed to list on the Main Board

of Hong Kong's Stock Exchange, subject to certain requirements. There is specific guidance for biotech sectors such as pharmaceuticals, biologics and medical devices.

The second change is to permit high growth and innovative companies with weighted voting rights (WVR) structures to list on the Main Board of our Stock Exchange, subject to requirements in market capitalisation, business model, role of research and development and track record in business operations.

Since companies with WVR structures potentially carry additional risks to investors, we have also put in place certain safeguards, such as requirements for WVR beneficiaries, limits on WVR powers and enhanced corporate governance and disclosure. Our safeguards introduce a higher standard of corporate governance and investor protection, and we believe this will attract more investor interest in such WVR companies.

In short, with appropriate safeguards in place, our listing reforms will deepen and broaden our fundraising platform and increase our overall competitiveness in attracting companies from emerging and innovative sectors to list in Hong Kong.

Now let me turn to my second topic, the Belt and Road Initiative, which refers to the Silk Road Economic Belt and the 21st Century Maritime Silk Road. They cover over 70 economies, account for 65 per cent of the world's population, one-third of world GDP and one quarter of global trade in goods and services, representing a large market with huge potential.

The Initiative aims at increasing trade in goods, movement of capital and interaction among peoples along the Belt and Road, with the goal of building an inclusive and balanced co-operation framework that delivers benefits for all.

As the leading financial hub in Asia, Hong Kong's experience, expertise and international outlook enable us to be the pre-eminent financial centre for the diverse economies along the Silk Road.

To begin with, Hong Kong can be a hub that connects regional and international stakeholders in infrastructure investments. According to the Asian Development Bank, as much as US\$1.7 trillion a year will need to be invested in infrastructure in Asia until 2030. The Asian Infrastructure Investment Bank puts the estimate at an even higher figure of US\$2.7 trillion per year. To that end, our central bank and banking regulator, the Hong Kong Monetary Authority, has set up an Infrastructure Financing Facilitation Office, which provides a platform for collaboration.

To date, around 80 key stakeholders, including multilateral development banks, financiers, pension funds, insurance companies, commercial banks, infrastructure developers and operators, as well as professional services firms, have joined us as partners. In addition, in September last year, the Hong Kong Monetary Authority signed an agreement with the International

Finance Corporation (IFC), a member of the World Bank Group, committing up to US\$1 billion to the Managed Co-Lending Portfolio Program with the IFC for investment in infrastructure projects globally.

Another area where Hong Kong can play a major role is as the preferred location for corporate treasury centres. Corporations expanding into the economies along the Belt and Road will face a complex operating environment, including the challenges of multiple currencies and interest rate fluctuations. A need may arise to set up a corporate treasury centre to centralise financing, liquidity and risk management.

Hong Kong's world-class financial infrastructure, availability of professional services and deep pool of financial talents make us an ideal place for the setting up of a corporate treasury centre. What's more, our legislature has passed a law providing tax concessions for corporate treasury centres, which are taxed at only 8.25 per cent of their qualifying profits.

In addition, the Renminbi is a potential currency of choice for the financing of many Belt and Road projects, and this translates into a growth opportunity for Hong Kong. Hong Kong is the world's largest offshore Renminbi centre, managing 70 per cent of global offshore Renminbi payments.

Importers and exporters in Belt and Road countries can settle their trade in Renminbi in our payment system through more than 200 participating banks from all over the world. Investors in Belt and Road projects can tap our Renminbi liquidity through bank loans or "dim sum" bond issuance. They can also invest their surplus Renminbi liquidity in a wide range of Renminbi products available here in Hong Kong.

Hong Kong is also the leading centre for offshore Renminbi asset management. The Renminbi Qualified Foreign Institutional Investors Scheme, launched in Hong Kong in 2011, provides a channel for foreign portfolio investments in the equity and bond markets in Mainland China. More recently, the Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect began in November 2014 and December 2016 respectively, opening up new channels for two-way investments in our respective stock markets.

Last Friday, 1 June 2018, the MSCI's Emerging Market Index for the first time included close to 230 A-share counters from China's stock markets. This is expected to generate substantial flow of international capital into China's stock markets. And Hong Kong expects to be playing an important role in the intermediation of such flows, especially with our Shanghai and Shenzhen Stock Connect channels.

Finally, there has been much discussion about promoting green finance along the Belt and Road economies. The United Nations Environment Programme uses the term "a quiet revolution" to describe the way in which the global financial system is becoming aligned to sustainable development.

In China, a sustainable development strategy was one of the seven key strategies highlighted by President Xi Jinping last year. Greenness was also

one of the five major development concepts outlined in China's 13th Five-Year Plan covering 2016 to 2020, along with innovation, co-ordination, openness and inclusiveness.

In Hong Kong, we are also taking active steps to promote sustainable development and green finance in particular. We aim to be a regional hub for green bonds issued by local, Mainland and overseas companies, including those in Belt and Road economies.

The Hong Kong Quality Assurance Agency launched its Green Finance Certification Scheme in January this year, providing third-party conformity assessments for issuers on their green debt instruments.

To support this initiative, the Financial Secretary announced in the 2018-19 Budget that the Government will subsidise eligible green bond issuers using this certification scheme. The subsidy per issue is up to HK\$800,000 (US\$102,000) to cover certification expenses and the issuance would need to carry a minimum size of around HK\$500 million (US\$64 million).

Another new policy initiative this year is a three-year Pilot Bond Grant Scheme that covers eligible enterprises issuing bonds in Hong Kong for the first time. Eligible debt securities must be issued in Hong Kong, with an issuance size of at least HK\$1.5 billion (US\$191 million). The grant amount for each bond issue would be up to HK\$2.5 million (US\$319,000). Each issuer can apply for a grant for two bond issuances at most, and these arrangements apply to green bond issuances as well.

In addition, our Government plans to launch a green bond issuance programme with a borrowing ceiling of HK\$100 billion (US\$13 billion) for green projects under the Government's public works programme. We hope this programme will help provide benchmark pricing for the market and stimulate market development.

As a vote of confidence in Hong Kong, multilateral development banks have already been tapping Hong Kong's platform for green bonds. The Asian Development Bank issued green bonds of US\$12.7 million and US\$50.9 million consecutively in Hong Kong in March this year. The World Bank followed with its first ever green bond denominated in Hong Kong dollars in April. These issuances attest to the strengths of Hong Kong's financial platform and the growing importance of Hong Kong as a centre for green finance.

Indeed, whether it is infrastructure investment, risk management through corporate treasury centres, increased use of the Renminbi, or the development of green finance, what is certain is that Hong Kong will play a central role in enhancing connectivity among the economies along the Belt and Road.

Ladies and gentlemen, in conclusion, I have given you an overview of the development of a super eco-system for innovation and technology in the greater Bay Area, and the listing reforms we have taken forward to attract companies from emerging and innovative sectors. I have also shared our vision for the multifaceted role that Hong Kong can play as the leading

international financial centre along the Belt and Road economies. All these mean there will be tremendous opportunities and financing needs, which should be very relevant to the audience present today. I wish you all a successful conference. Thank you.