

# Speech by SFST at European Financial Forum in Dublin (English only)

Following is the speech by the Secretary for Financial Services and the Treasury, Mr James Lau, at the European Financial Forum in Dublin on February 13 (Dublin time):

## Introduction

Good afternoon. I am delighted to join you all at the European Financial Forum here in Dublin. Today I like to talk about Hong Kong's role in China's reform and opening up, a role that is unique, irreplaceable, and of historical significance. Indeed, I will look first at a bit of history before sharing my thoughts on the present and the future.

In particular, I will show how Hong Kong's role has evolved from primarily a centre for investment flows and financial services to a broader role that encompasses leadership in innovation and technology, sustainable trade and finance, as well as regional connectivity and development.

## China's Reform and Opening Up

On China's reform and opening up, let me begin with some statistics. According to the IMF, China's GDP in 1980 was US\$305 billion, amounting to 2.7 per cent of the world's GDP. In 2017, China's GDP was over US\$12 trillion, or 15 per cent of the world's GDP. Its annual growth contributed to a third of global economic growth. In 2018, China's GDP grew by 6.6 per cent to around US\$13.6 trillion. China's GDP per capita was around US\$309 in 1980, and this rose to over US\$8,600 in 2017.

China's economic growth took place amidst massive migration toward cities; China's urbanization rate was around 18 per cent of its population of 956 million in 1978, and this rose to around 58 per cent of its population of 1 386 million in 2017. So the increase in the urban population in around forty years is some 632 million, which is impressive by any standard.

Furthermore, China's total trade was a mere US\$21 billion in 1978, or 0.8 per cent of the world total. In 2017, the total trade was over US\$4 trillion, accounting for 11.5 per cent of the world total, making China the largest trading entity out of 204 economies. In 2018, China's total trade increased further to around US\$4.6 trillion.

Having said that, China continues to face a number of economic challenges. Economists point to China's credit intensive growth and rising levels of debt after the global financial crisis. China also faces an ageing population. And while China has lifted hundreds of millions of people out of poverty, China's rural per capita disposable income was about RMB 13,400 in 2017. This means that they had a disposable income of around 1750 euros per

year.

Still, it is fair to say that China's growth has been nothing short of spectacular, and Hong Kong is proud to have played a pivotal role in three aspects, in the channeling of investment flows, in the listing of Mainland enterprises, and in the internationalisation of the renminbi.

### Channeling Investment Flows

First, Hong Kong has consistently been the largest source of Foreign Direct Investment (FDI) into China and the largest destination for Outward Direct Investment (ODI) out of China.

In the initial stage of opening up, China focused on attracting foreign investments, and Hong Kong businessmen were the first to move their manufacturing operations to Mainland China. Throughout the past four decades, Hong Kong has consistently accounted for 50 per cent to 60 per cent of all FDI into Mainland China. In 2017, China's total FDI amounted to US\$136.3 billion, of which 69 per cent was contributed by Hong Kong.

It is notable that, in the past decade, Mainland enterprises have begun to "go global" to invest and operate overseas. Hong Kong is the natural "springboard" for these companies to expand their overseas businesses. Similar to FDI, Hong Kong has consistently accounted for 50 per cent to 60 per cent of China's ODI. In 2017, China's total ODI reached US\$158.3 billion, of which 58 per cent was invested in Hong Kong or channeled through Hong Kong to other regions.

### Premier Equity Listing Platform

Aside from channeling China's investment flows, Hong Kong is also the premier listing platform for Mainland companies. Tsingtao Brewery entered the history books in 1993 as the first Mainland enterprise to list in Hong Kong. Today, there are over 1 100 Mainland enterprises listed on the Stock Exchange of Hong Kong, representing around 68 per cent of its total market capitalization and around 80 per cent of total equity trading volume.

Hong Kong has hosted the IPOs of China's "Big Four" banks, playing a historic role in the modernisation of China's banking system. These four banks are now among the world's top ten banks by market capitalisation.

### Internationalisation of the RMB

Hong Kong has also played a critical role in the internationalisation of the renminbi. RMB business in Hong Kong started in 2004 with personal banking business, followed by bond issuance in 2007 and RMB trade settlement in 2009. A restricted window for capital account transactions was begun in 2014 with the Shanghai-Hong Kong Stock Connect, and the Shenzhen-Hong Kong Stock Connect was launched in 2016.

These two schemes allow eligible Mainland investors to trade eligible

shares listed on the Stock Exchange of Hong Kong. They also allow Hong Kong and overseas investors to trade in eligible shares listed on the Shanghai Stock Exchange and the Shenzhen Stock Exchange.

Today, Hong Kong accounts for over 70 per cent of global RMB payments. The overall amount of Hong Kong's RMB deposit in November last year was around RMB 660 billion. The RMB liquidity management in Hong Kong's banking system also remains robust. In the first eleven months of 2018, the average transaction volume of Hong Kong's RMB Real Time Gross Settlement system maintained a high level of around RMB 1 trillion per day. Hong Kong also provides over 500 insurance and investment products denominated in RMB.

### Hong Kong as a Competitive Economy

Ladies and gentlemen, having reviewed the past, let us look at the present and future. Without a doubt, Hong Kong has continued to thrive as one of the most competitive economies in the world.

The "One Country, Two Systems" principle is the bedrock of Hong Kong's stability and prosperity. While Hong Kong is a Special Administrative Region of China, we continue to maintain a capitalist system, free economy and trusted legal system. Hong Kong also continues to actively participate in international organisations as a separate member.

Hong Kong takes pride in our rule of law. Hong Kong's judicial system is based on common law and independent of that of China. If you look at our Basic Law, which is the constitutional document of the Hong Kong Special Administrative Region, the section with the largest number of provisions is about the judicial system.

Notably, in Article 82 of the Basic Law, it says that the judges from other common law jurisdictions may be invited as required to sit on the Court of Final Appeal, which holds the power of final adjudication of Hong Kong. At present, a total of 14 world-renowned judges from other common law jurisdictions sit on Hong Kong's Court of Final Appeal. This is a very strong indicator of Hong Kong's independent judiciary.

On the economic front, we take pride in being the world's freest economy. This is a position we have held for 25 consecutive years as ranked by the Heritage Foundation based in Washington D.C. The Canada-based Fraser Institute has also ranked us first in economic freedom since 1996. In the 2018 World Competitiveness Rankings published by IMD, the International Institute for Management Development based in Switzerland, Hong Kong was ranked second place.

Hong Kong is China's most international financial centre. And we rank third in the world, after New York and London. In banking, we are home to almost 80 of the world's top 100 banks, second only to Japan in Asia. Our asset and wealth management sector manages about US\$3.1 trillion, with two-thirds of that coming from non-Hong Kong investors.

Our stock market boasts a market capitalisation of US\$3.8 trillion, which is about 11 times our GDP. In 2018, we topped the world in initial public offerings (IPOs), taking in some US\$36 billion. In fact, for six out of the past 10 years, Hong Kong ranked first in the world for IPO funds raised.

As much as we are proud of our accomplishments, Hong Kong is reinventing itself beyond traditional financial services to take on a broader role of what I call IFC Plus, or International Financial Centre Plus.

#### International Innovation and Technology Centre

First, Hong Kong the IFC is evolving as an International Innovation and Technology Centre.

Hong Kong's vibrant stock market is an ideal listing platform for new economy firms from Mainland China and across the world. In fact, we introduced a new listing regime on the Stock Exchange of Hong Kong last April that permits the listing of pre-revenue and pre-profit biotech issuers as well as companies from emerging and innovative sectors with weighted voting right structures. We have already seen seven issuers list in Hong Kong under this new regime, and we welcome European companies to consider a listing on our stock exchange to tap the Asian and international investors in Hong Kong.

But Hong Kong is not just a listing platform. We are also seeing amazing momentum in Hong Kong as a centre for research and development. In recent years, the Karolinska Institutet of Sweden, the Institut Pasteur from France, University College London from the U.K., the fintech accelerator The Floor from Israel, and the Fraunhofer Institute and the RWTH Aachen Campus from Germany have all opened research centres or entered partnerships with counterparts in Hong Kong.

From the U.S., Harvard Medical School, Stanford University School of Medicine, the Massachusetts Institute of Technology and the University of Chicago have also set up presence in Hong Kong. Going forward, we would welcome even more European and overseas institutes to join our growing community in innovation and technology.

Hong Kong is one of the 12 founding members of the Global Financial Innovation Network (GFIN) that was launched just last month. The GFIN facilitates cross jurisdiction testing of financial innovation products and can prove very instrumental in promoting regulatory cooperation in financial innovation. There are now 29 members and the IMF and World Bank are observers.

#### Regional Hub for Sustainable Trade and Finance

Let me now turn to my second theme, which is how Hong Kong is firmly establishing itself as a regional hub for sustainable trade and finance.

Hong Kong was ranked first out of 20 economies in the Hinrich Foundation

Sustainable Trade Index, which measures the capacity to achieve economic growth, environmental protection and social capital development through international trade. This puts us ahead of South Korea, Singapore, Japan and the United States.

For sustainable finance, the Hong Kong Government has also rolled out measures such as establishing a Government green bond programme with a ceiling of over 11 euro billions, and our Green Bond Grant Scheme to support the use of green finance certification. In 2018, green bonds issued in Hong Kong totalled about US\$11 billion.

European banks have acted as lead managers for green bond issuances in Hong Kong. Some have created dedicated teams in green finance, moving specialists from Europe to Hong Kong and providing a variety of green products and solutions. On the investment side, we see Dutch and Swedish asset managers in Hong Kong that are focused on sustainable investing.

Hong Kong is open for business and we would welcome continued European participation in sustainable trade and finance in our city.

#### Gateway City to the Greater Bay Area

Ladies and gentlemen, now I come to my third theme on regional connectivity and development. Hong Kong is poised to build on its current role as an IFC to become a gateway city to the Greater Bay Area (Guangdong-Hong Kong-Macao Greater Bay Area) in the south of China.

The Greater Bay Area represents a huge market spread over 9 cities in Guangdong Province plus Hong Kong and Macao. In Europe, Germany is the only country that has a population larger than that of almost 70 million in the Greater Bay Area. The GDP of the Greater Bay Area is currently around US\$1.5 trillion, comparable to that of South Korea and greater than Australia.

Among the major cities in the Greater Bay Area, Shenzhen is often called "the new Silicon Valley." The city spends over 4 per cent of its GDP on research and development, and the new economy accounts for 38 per cent of its GDP. In fact, companies in Shenzhen file more international patents than those in France or Britain.

Aside from Shenzhen, four other cities in the Greater Bay Area form a high-tech industrial belt, with expertise in artificial intelligence and robotics, software, integrated circuit design, and more.

With the opening of the Hong Kong section of the Guangzhou- Shenzhen-Hong Kong Express Rail Link in September last year, it now takes only 14 minutes to reach Shenzhen from the terminus in Hong Kong.

I should also add that the Hong Kong-Zhuhai-Macao Bridge, which opened in October last year, shortens the travelling time between Hong Kong and the Western part of Guangdong from four hours to only 45 minutes.

Hong Kong is the most international city in the Greater Bay Area and can serve as a gateway for European and international businesses, institutes and professionals. There are currently more than 450 European companies with regional headquarters in Hong Kong, and another 700 European companies that have regional offices in Hong Kong. There are also around 29 000 European nationals residing in Hong Kong. So you will find yourself in good company!

## Conclusion

Ladies and gentlemen, in conclusion, Hong Kong is China's springboard to the world, as well as the world's gateway to China. We are evolving beyond our traditional role as an International Financial Centre to assume leadership as an international centre for innovation and technology, regional hub for sustainable trade and finance, and gateway city to the Greater Bay Area. I hope to welcome you next time in Hong Kong! Thank you.