

Speech by SFST at Swiss International Finance Forum (English only)

Following is the speech by the Secretary for Financial Services and the Treasury, Mr James Lau, at Swiss International Finance Forum on October 25 (Zurich time):

Introduction

Good morning. I am delighted to join you all today at the NZZ Swiss International Finance Forum here in Zurich. This year marks the 40th anniversary of reform and opening up in China, a transformation that has lifted millions of people out of poverty and propelled China to become the second largest economy in the world.

Let me begin with a brief illustration 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. Last year, China's GDP was over US\$12 trillion, or 15 per cent of the world's GDP. China's economy grew by 6.9 per cent in 2017 and contributed to about a third of global economic growth. China's GDP per capita was around US\$309 in 1980, and this rose to US\$8,643 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 during the 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. Last year, 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.

I think it will be fair to say that China's development and growth in the last four decades will go down in history as one of the most significant economic events in the world. Today I will share a few thoughts on these developments from a Hong Kong perspective.

Channeling investment flows

In this spectacular growth of China, we in Hong Kong are proud to have played an important and irreplaceable role. To begin with, 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 to 60 per cent of all FDI into Mainland China, playing a major role in China's evolution into the "factory of the world." 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 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 to other regions for investment through Hong Kong.

Premier listing platform

Aside from its role in 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, becoming Hong Kong's first H-share listing. Today, there are over 1 000 Mainland enterprises listed on the Stock Exchange of Hong Kong, representing 67 per cent of its total market capitalization and 80 per cent of total equity trading volume.

In particular, I would like to point out that Hong Kong hosted the IPOs of China's "Big Four" banks, playing a historic role in the modernization of China's banking system. In 1994, China began to reform the state-owned banks into commercial banks.

As the bad debt ratio of the banking system was initially very high, China created four financial asset management companies as a bad bank for each of the top four state-owned banks, converted them into joint-stock commercial banks and subsequently listed these banks to raise capital and to improve governance, accountability, transparency, and risk management. China Construction Bank was listed in Hong Kong in 2005, Bank of China and Industrial and Commercial Bank of China in 2006, and Agricultural Bank of China in 2010.

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. The first issue of RMB bonds was launched in 2007, followed by the pilot scheme for RMB trade settlement in 2009. Thereafter, the Central Government announced a number of measures that support the development of offshore RMB business in Hong Kong by allowing a restricted window for capital account transactions.

In particular, the Shanghai-Hong Kong Stock Connect was launched in November 2014, and the Shenzhen-Hong Kong Stock Connect was launched in December 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 August was around RMB670 billion. The RMB liquidity management in Hong Kong's banking system also remains robust. In the first eight months of 2018, the average transaction volume of Hong Kong's RMB Real Time Gross Settlement system maintained a high level of around RMB900 billion daily.

Hong Kong also provides over 500 RMB-denominated insurance and investment products, including bonds, fixed income funds, currency futures, exchange-traded funds, real estate investment trusts, and stock and derivative products. Indeed, Hong Kong will continue to make important contributions to the internationalization of the RMB.

From quantity growth to quality growth

Ladies and gentlemen, I had just covered three roles played by Hong Kong in facilitating China's reform and opening up, namely our channeling of investment flows, our equity market providing an effective funding platform and our development of an offshore RMB market that supports the internationalisation of RMB. Now I would like to share with you my thoughts on the role of Hong Kong in the future development of China. I will also speak on how these developments present opportunities for Switzerland. As you may know, in recent years China has shifted from a quantitative growth model to higher quality growth. This encompasses growth in three areas, namely technology, sustainability and regional connectivity.

Technology

First, in terms of technology, China has emerged as a global leader in Internet finance and boasts one of the world's most dynamic scenes for start-ups and tech companies. A popular term in China today is the modern rendition of the "Four Inventions of China," which refers to the high-speed rail, mobile payment, e-commerce and bike-sharing schemes. Last year, more than half of the 406 blockchain related patent applications in the World Intellectual Property Organisation's database were from China.

Hong Kong is well positioned to grasp the opportunities arising from the new economy in Mainland China, and this is where our equity market takes centre stage. Hong Kong came first globally for total IPO funds raised in five out of the past nine years. We came first again for the first nine months of this year, having raised a total of around CHF 30 billion. We are hopeful 2018 would be another great year for our Stock Exchange among the peers.

I should mention that, on 30 April this year, the Stock Exchange of Hong Kong launched a new listing regime that permits the listing of pre-revenue biotech issuers as well as companies from emerging and innovative sectors

with weighted voting right structures.

Hong Kong's regime is the first comprehensive, full-fledged regime for companies with weighted voting right structure and it includes a package of safeguards for investor protection. We have already seen five issuers list in Hong Kong under this new regime, and we expect more listings to come. We welcome Swiss companies to consider a secondary or perhaps even primary listing on our stock exchange to share in the vibrancy of the Asian market.

In addition, we would welcome Swiss institutions in innovation and technology to establish a presence in Hong Kong. In our most recent Budget, the Hong Kong Government earmarked 1.3 billion Swiss francs for setting up two research clusters in Hong Kong, one on healthcare technologies and the other on artificial intelligence and robotics technologies.

In fact, in recent years, we have attracted a number of renowned institutes from Europe. The renowned Karolinska Institutet of Sweden opened its first overseas research facility at the Hong Kong Science Park in late 2016. The facility focuses on stem cell biology, biomedical engineering, biotechnology and regenerative medicine.

In June this year, the Institut Pasteur, the University of Hong Kong and the Hong Kong Science and Technology Parks Corporation signed a Memorandum of Understanding (MoU) in Paris to set up a joint biomedical research centre for immunology, infection and personalized medicine at the Science Park in its healthcare technologies research cluster.

From Mainland China, the Chinese Academy of Sciences will arrange for the Guangzhou Institute of Biomedicine and Health and the Institute of Automation in Beijing to set up branches at the Hong Kong Science Park.

Ladies and Gentlemen, you can see there are many exciting developments and opportunities in Hong Kong in the technology space, especially biotechnology. Apart from the 1.3 billion Swiss Francs for setting up two research clusters in Hong Kong, in this year's government budget, we have allocated another 5 billion Swiss Francs to upgrade Hong Kong's innovation and technology capacity. Now, Switzerland has much to offer in the area of innovation and technology. Switzerland has been rated by Cornell University as the world's most innovative economy for the past seven years. Your universities and technical institutes are also consistently ranked among the finest in Europe.

Last year, venture capital firms invested close to half a billion francs in Swiss biotech start-ups, and one very successful biotech company was acquired for US\$30 billion. In addition, Switzerland was ranked first globally by Scopus as the most influential jurisdiction for research in artificial intelligence. So we are keen to see more Swiss participation to enrich the eco-system for innovation and technology in Hong Kong.

Sustainability

Secondly, China has embraced sustainability as a key component of its growth strategy. According to the International Renewable Energy Agency, China contributed 27 per cent of total global generation capacity for renewable energy in 2016. In particular, China accounts for around 60 per cent of global solar cell production, and China is also number one in the world in terms of both the growth rate and existing stock of electric vehicles.

Importantly, China has also emerged as a leader in green finance. Under China's presidency of the G20, green finance became a key theme at the G20 agenda for the first time. The China Green Finance Committee set up by the People's Bank of China is working with the European Investment Bank to provide a framework for harmonising green finance standards.

In 2016, China issued US\$23 billion worth of green bonds and was the world's largest issuer with over one-quarter of the global total. In 2017, China's green bond issuance also totaled around US\$23 billion. In Hong Kong, our Government has introduced policy measures to develop Hong Kong into a regional hub for green finance.

First, our government-backed non-profit organisation Hong Kong Quality Assurance Agency has launched a Green Finance Certification Scheme mainly for certification of green bonds to international standards. Second, the Government has a Green Bond Grant Scheme that provides subsidy up to around 100,000 Swiss francs per issuance to help meet certification expenses under the Green Finance Certification Scheme.

I am pleased to note that we have seen initial success. In the first half of 2018, at least 15 green bonds were issued in Hong Kong, with an aggregate size reaching US\$8 billion. These include issuers from multilateral development banks such as the World Bank and the European Investment Bank, as well as private sector issuers from Hong Kong, Mainland China and abroad. We are confident that this momentum will continue.

Switzerland has a rapidly growing green bond market, and we welcome Swiss enterprises to issue green bonds in Hong Kong. In Switzerland, energy company Repower issued the very first Swiss green bond in January 2017. Subsequently, green bonds have been issued in Switzerland to raise funds for waste management, energy efficiency improvements and lending on low-carbon buildings.

Swiss companies issuing bonds in Hong Kong for the first time can also take advantage of our Pilot Bond Grant Scheme launched in May this year. The amount of grant for each bond issuance is equivalent to half of the issuance expenses, capped at 318,000 Swiss francs for a rated bond. Each issuer can have two bond issues eligible for this special grant.

I like to add that the last panel on sustainable finance discussed Switzerland's strong desire to move forward on this front. As Hong Kong is also developing itself as a regional green finance hub, there is room to explore a bilateral MoU between Switzerland and Hong Kong on co-operation in

the area of sustainable finance.

Regional connectivity

Ladies and gentlemen, now I come to my third theme on regional connectivity. In this context, I will share with you my thoughts on a very exciting initiative, the Greater Bay Area.

The Greater Bay Area in the south of China represents a huge market spread over 9 cities in Guangdong Province plus Hong Kong and Macau. 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.

The essence of the Greater Bay Area initiative is to leverage the comparative advantages of the eleven cities to deepen cooperation, facilitate in-depth and organic integration, and to drive coordinated regional development. By doing so, the Greater Bay Area will become an international first-class bay area ideal for living, working and travelling.

Among the major cities in the Greater Bay Area, Hong Kong, as you know, is an international financial centre, a transportation and logistics hub, and a major city for trade and commerce. Shenzhen is a leading innovation and technology centre in China, where the new economy accounts for 38 per cent of its GDP, encompassing information technology, high-tech equipment manufacturing, green technology, and more. In Germany, Deutsche Telecom's implementation of their 5G network uses commercial 5G equipment from Huawei, as well as software and terminals.

Indeed, Shenzhen is home to familiar tech giants like Tencent and Huawei, as well as a number of rising start-ups. Shenzhen is often called "China's Silicon Valley" and it spends over 4 per cent of its GDP on research and development, and its companies 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, mobile network, smart power grid equipment, bio-medicals, video gaming and industrial design.

The Hong Kong Government strives to develop an international innovation and technology centre in the Greater Bay Area. This is where cooperation with Shenzhen is crucial. The Hong Kong Fintech Week, which is happening next week, will include a day in Shenzhen, making it a unique cross-boundary Fintech Week.

We are also developing a 87 hectare Hong Kong Shenzhen Innovation and Technology Park. Around CHF 2.5 billion has been earmarked for the initial infrastructure development, and the goal is to attract top-tier enterprises, research institutions and higher education institutes from both sides of the

Shenzhen River as well as those across the globe.

With the opening of the Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link on September 23, 2018, 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, 55km across the Pearl River Delta province (which just opened yesterday on October 24) shortens the travelling time between Hong Kong and the western part of Guangdong from four hours to only 45 minutes.

As I mentioned earlier, Hong Kong has already attracted a variety of overseas innovation and technology institutes, and a number of these see our city as a hub to the Greater Bay Area. We encourage Swiss institutions to come to Hong Kong to take advantage of the exciting opportunities in the region.

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 Hong Kong. In particular, the MIT Entrepreneurship and Fintech Integrator (MEFTI) is an immersive Fintech startup boot camp in Hong Kong and Shenzhen.

Most recently, two top German research and development institutes, namely the Fraunhofer Institute for Production Technology and the RWTH Aachen Campus embarked on their first overseas venture by opening a new centre in Hong Kong this month. Through teaming up with the government-backed Hong Kong Productivity Council, they hope that the centre will be a springboard for cooperation with Mainland China in innovation and technology.

Conclusion

Ladies and gentlemen, at this juncture I should add that Hong Kong's unique advantages, distinctive features and core values include not only our proximity to and understanding of China, but also our international connections, our low and competitive tax regime, our openness and connectivity, our rule of law, our status as a global financial centre, and our unrivalled geographical location in the heart of Asia. With over 8 700 overseas and Mainland companies in Hong Kong, Swiss professionals will no doubt find themselves in good company in our cosmopolitan and international community.

In conclusion, over the past forty years, Hong Kong has played a pivotal role in the reform and opening up of China. We will continue to be the world's gateway to China, and China's springboard to the world. I invite you to participate in China's economic development through Hong Kong, the most vibrant and competitive financial hub in Asia, and I hope to welcome you next time in my home city! Thank you.