

D(SG) Bruno Luk's opening address
Hong Kong Capital Markets
International Capital Markets Forum
(February 5, 2018, Marina One East Tower)

- Ladies and gentlemen, good afternoon. I am very happy to join you today at the International Capital Markets Forum, bringing together professionals from three important financial markets in the world. I would like to thank PwC and all partners for organising this event and inviting me to open the afternoon session on Hong Kong's capital markets.
- The Stock Exchange of Hong Kong has been among the top five global IPO listing markets for the past decade. The market capitalisation of Hong Kong's stock market has nearly doubled over the same period, which amounts to about 10 times of our GDP, a testimony to the depth and scale of our financial market.
- I am sure there will be fruitful discussions and experience sharing on the Hong Kong Exchange's latest proposed listing reform and the relevant legal issues --- I will leave these to the experts in the following sessions. Instead, coming from one of the representative offices of the Hong Kong Special Administrative Region Government in the ASEAN region, I would like to spend the next 10 minutes or so to highlight some of Hong Kong's latest developments and government policies on enhancing our business advantages.
- One of Hong Kong's greatest advantages has always been our close proximity to, and strong relationship with, mainland China. This is coupled with a unique competitive edge provided by the principle of "one country, two systems" enshrined in our constitutional document, the Basic Law. Under "one country, two systems", while Hong Kong is part of China, we are able to practise a social and economic system different from that of Mainland China. We also enjoy high degree of autonomy in all matters except foreign affairs and defence. So how are we going to leverage this institutional advantage to consolidate and enhance our traditional strengths while developing new areas of economic growth?

One Country

- First of all, under "one country", being an inalienable part of China, with the full support of the Central Government, Hong Kong will actively participate in the far-reaching Belt and Road Initiative. First announced by President Xi Jinping in 2013, "Belt and Road" refers to the land-based Silk Road Economic Belt and the seafaring 21st Century Maritime Silk Road. The

Initiative spreads across Asia, Europe and Africa, covering over 60 countries, accounting for 30 per cent of the world's GDP and more than 30 per cent of the world's merchandise trade. It is forecast that by 2050, the countries and regions along the Belt and Road will contribute 80 per cent of global GDP growth. Hong Kong will be a key link in the Initiative, capable of contributing to infrastructure investment as well as financing, and providing the professional and legal services needed to connect the many belt-and-road countries.

- In December 2017, the Chief Executive of our Government signed a document in Beijing with the National Development and Reform Commission (NDRC) of the Central People's Government of China on the arrangement for advancing Hong Kong's full participation in and contribution to the Belt and Road Initiative.
- Grounded on Hong Kong's strengths in finance, infrastructure, economic and trade, professional services and more, the Arrangement seeks to enhance communication and co-operation with the Mainland in different areas of connectivity, which includes financial integration. The relevant measures help reinforce and elevate Hong Kong's position as an international financial, transportation and trade centre. The Arrangement covers a wide range of areas, which include facilitating co-operation of all key stakeholders through the platform of Hong Kong to provide for the Belt and Road Initiative the funds required as well as a diversity of financing channels; fully leveraging Hong Kong's status as the global offshore Renminbi (RMB) business hub to facilitate cross-border investment; developing green finance; and supporting Hong Kong in providing diversified professional services for Belt and Road infrastructure projects.
- Hong Kong will also play an important role in the Guangdong-Hong Kong-Macao Bay Area development, another major initiative announced by Chinese Premier Li Keqiang in his annual work report last year. (Guangdong is the southernmost province of China, which is right across the boundary from Hong Kong in the north, and Macao is a city about 64km west of Hong Kong, and like Hong Kong, it is also a special administrative region of China after its return to the motherland in 1999.) This fast growing Bay Area covers Hong Kong, Macao and nine cities in Guangdong Province and has a total population of over 66 million. The GDP of this city cluster is over US\$1.3 trillion, comparable to that of Australia or the Republic of Korea. The Bay Area is also the most affluent region in China. With the enhanced connectivity through major transport infrastructure such as the Hong Kong-Zhuhai-Macao Bridge and the Guangdong-Shenzhen-Hong Kong high-speed rail, this development plan will further facilitate the flow of people, goods,

capital and information in the region, and presents enormous business opportunities for Hong Kong and overseas businesses.

Two Systems

- Next, on “two systems”. While we have full support from the Central Government under “one country”, the “two systems”, meaning the socialist system and policies of Mainland China shall not be practised in Hong Kong and we can continue with our capitalist system, enable Hong Kong to thrive with its own institutions and global connectivity. Here I wish to highlight our role as an international financial centre, as well as our effort in strengthening the connectivity with the ASEAN region.

International financial centre

- We attach great importance to maintaining our long-standing cherished business advantages, such as a highly open and internationalised market, a regulatory regime aligned with major overseas markets, the rule of law, a rich pool of professional talents and robust infrastructure support, and the free flow of information and capital. All these allow Hong Kong to be a place to carry out global operations.
- As China has integrated itself into the world economy, the roles of Hong Kong and the functions we could uniquely offer as an international financial centre, underpinned by "One Country, Two Systems", have taken on increased relevance and importance as never before.
- First, Hong Kong is the world's largest offshore RMB business hub, with a leading position in RMB settlement, financing and asset management. Around 70 per cent of the world's offshore RMB payment transactions are processed via Hong Kong. We are best positioned and have a full suite of tools and talents in meeting the increasing demands for offshore RMB settlement, financing, capital management and risk management. Following the issuance of the first offshore RMB bond in 2007, the RMB bond market of Hong Kong has developed steadily with significant growth in size. The outstanding bonds amounted to RMB209 billion at end-November last year;
- Second, as I mentioned at the beginning of my remarks, Hong Kong is a preferred listing platform for IPOs. The rapid growth of Hong Kong's stock market in the past decade can be attributed to our attractiveness as a premier listing destination for companies from Mainland China. Half of our listed companies, and more than 60 per cent in terms of market capitalisation, are from the Mainland China; and

- Third, Hong Kong is a premier centre for asset management and risk management. The combined fund management business of Hong Kong has tripled over the past decade. Funds sourced from overseas investors accounted for 66 per cent of the total in 2016, signifying our attractiveness as an international asset management centre.

Connectivity with ASEAN

- We also attach importance to reaching out to the world for other business opportunities. To enhance Hong Kong's global connectivity, we will strengthen Hong Kong's relationship with countries along the Belt and Road, with priority accorded to ASEAN countries.
- Hong Kong and ASEAN share long-standing trade ties. Since 2010, ASEAN has been Hong Kong's second largest trading partner after Mainland China with annual bilateral goods trade amounting to about USD 107 billion (HKD 833 billion) in 2016. Coupled with the strategic location of ASEAN countries on the Belt and Road routes, no doubt ASEAN is one of our focal points.
- To demonstrate the importance that we attach to our ASEAN partners, our Chief Executive has chosen Singapore and Thailand as the destinations of her maiden official visit last August, just after a month in office. Subsequently she also visited Myanmar in September and Vietnam in November. Soon after her visit to Thailand, we started working on the establishment of a new Economic and Trade Office in Thailand, the third one in the ASEAN region after Singapore and Jakarta. This is part of our plan to expand our network of the Economic & Trade Offices along the Belt & Road countries. We are also planning to open new offices in Russia, India, the United Arab Emirates, and South Korea to strengthen our work on external promotion.
- After a few years of negotiations, we have signed a free trade agreement (FTA) with ASEAN last November. This FTA provides a solid platform to further enhance the flows of trade and investment between Hong Kong and ASEAN. More importantly, the FTA also allows Hong Kong to provide services in many areas to ASEAN, such as professional services, finance, tourism, logistics, etc. Being an open market, and in fact last Friday (February 2) Hong Kong was once again ranked by the Heritage Foundation of the US as the freest economy in the world for the 24th consecutive year, Hong Kong may not have a lot to offer in the FTA in terms of opening up our markets. But we have a lot to receive from ASEAN as a group as they need Hong Kong's services. ASEAN countries also need the FTA for their benefits because it provides the framework for highly complementary arrangements with Hong Kong as a service provider in addition to being a trader and also an investor for this growing and strengthening market.

Closing remarks

- To summarize, being the most international city in China, Hong Kong benefits from the advantage of "one country" and the convenience of "two systems". We are well placed to meet the rising demand for fund-raising and financial management services particularly for the Belt and Road projects. I believe Hong Kong has what you need from a strategic partner for the 21st century.
- We are well aware of the keen competition across the globe and we will constantly endeavour to keep ourselves within the global race. The Hong Kong Government will strive to uphold the free market principles and our institutional strengths, including the rule of law and judicial independence, a simple and low tax system, an open and free trade regime, a level-playing field for all businesses and an efficient public sector. We will also inject new impetus for economic growth by enhancing the business environment, promoting innovation and technology development and forging closer economic ties with major trading partners, so as to strengthen Hong Kong's leading position as an international city.
- Thank you very much.

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