

Press Release

LCQ18: Hong Kong to join the Asian Infrastructure Investment Bank

Wednesday, April 12, 2017

Following is a question by the Hon Kenneth Leung and a written reply by the Acting Secretary for Financial Services and the Treasury, Mr James Lau, in the Legislative Council today (April 12):

Question:

The Asian Infrastructure Investment Bank (AIIB) announced on the 23rd of last month that Hong Kong would become a new member of AIIB upon deposit of the first installment of capital subscription with the bank. According to Article 3.1 of the Articles of Agreement of AIIB, "membership in the Bank shall be open to members of the International Bank for Reconstruction and Development (one of the member organisations of the World Bank Group) and the Asian Development Bank (ADB)". As Hong Kong is a member of ADB, it is eligible to become a member of AIIB. In this connection, will the Government inform this Council:

(1) whether it has studied in detail how Hong Kong will participate in AIIB's operations after becoming a member of AIIB, as well as the role, positioning, powers and responsibilities of Hong Kong as a member of AIIB and the manpower involved for carrying out the relevant work; if not, the reasons for that;

(2) of the role, powers and responsibilities of Hong Kong in the World Bank Group and ADB at present; whether the authorities have assessed if Hong Kong's continued participation in the work of the two organisations after joining AIIB will give rise to a mismatch or duplication in relation to its role, positioning or manpower; if they have assessed and the outcome is in the affirmative, of the details; if the outcome is in the negative, the reasons for that;

(3) given that on joining AIIB, Hong Kong shall subscribe 7 651 of its shares, of which 1 530 shall be paid-in shares payable over five years, amounting to about HK\$240 million a year, whether the authorities know the investment projects on which that sum of money will be used; if they cannot provide the relevant information, whether they will provide the relevant information when

they seek funding approval from the Finance Committee of this Council; and

(4) as the authorities have stated that the professional services and financial services sectors of Hong Kong will stand to benefit from AIIB's operations, and that Hong Kong's joining AIIB should stand Hong Kong companies in good stead to participate in AIIB's projects, whether they have assessed the substantive benefits that will be brought to Hong Kong in terms of boosting job opportunities and promoting economic development by its joining AIIB; if so, of the details; if not, the reasons for that?

Reply:

President,

I would like to respond to the four parts of the Hon Kenneth Leung's question as follows:

(1) The Board of Governors (BoG) is the highest decision-making body of the Asian Infrastructure Investment Bank (AIIB). After Hong Kong has become a member, we will be entitled to appoint a Governor and an Alternate Governor just like other members.

The Board of Directors (BoD) is responsible for the direction of the general operations of the AIIB, e.g. establishing AIIB's policies; making, co-financing or participating in direct loans; investing in the equity capital of an institution or enterprise; supervising the management of the AIIB; approving the strategy, annual plan, budget of the AIIB; and submitting the audited accounts to the BoG for approval.

The Under Secretary for Financial Services and the Treasury has been an Advisor of the China constituency (Note), and participating in the BoD meetings in that capacity. We have put forward our views and comments on various AIIB's matters through the constituency's Director to the AIIB's BoD. The constituency's Director has also consulted Hong Kong on matters affecting our interests, e.g. the admission process of new members. We are confident that after Hong Kong has formally joined the AIIB, our representative can continue to be an Advisor of that constituency, and sit in the BoD meetings as necessary. We can take part in the AIIB's decision-making, and reflect our views and

interests at the BoD under this constructive working relationship. The work will be undertaken by the existing manpower of the Financial Services and the Treasury Bureau.

(2) Hong Kong is not a member of the World Bank. On the other hand, although Hong Kong is a member of the Asian Development Bank (ADB), the AIIB and ADB have different missions. The AIIB is designed to promote infrastructure development and regional connectivity in Asia; while the main objective of ADB is to support poverty reduction in the Asia-Pacific region. The ADB has set up an Asian Development Fund to help poor families escape poverty through implementing infrastructure projects for road improvement, power distribution, water supply and sanitation, and development programmes in education, health, agriculture and finance sectors in the poorest countries in the region. Our participation in the AIIB will not give rise to any issue of duplication. In fact, many ADB's members are also members of the AIIB.

(3) The AIIB's capital is provided through members' subscription of its shares, and each member shall subscribe to shares of the capital stock of the Bank. The basic parameter for allocation of capital stock to the AIIB's members is the relative share of the global economy of the relevant member. Like other members, our subscribed shares will become part of the AIIB's total capital and operating funds, and will not be earmarked for specific investment projects.

(4) Given the depth and breadth of Hong Kong's financial markets and availability of financial sector professionals, the professional services and financial services sectors of Hong Kong (e.g. project financing, bond issuance, investment management, financial management and foreign exchange management) will stand to benefit from the AIIB's operations. As we have experts in project negotiation, preparation of works and management contracts and international law as well as professional arbitration services, Hong Kong can also take part in the planning, implementation and operation of infrastructure projects. However, the exact extent of benefits will be subject to a number of variables (e.g. the investment amount of the AIIB, the capital raised by the AIIB in Hong Kong, the role played by Hong Kong companies in different projects, etc.) and hence are difficult to be quantified.

Note: The Board is composed of 12 members returned from 12 constituencies, nine of whom representing regional members of the AIIB and three

representing non-regional members. Each Director is entitled to appoint three Advisors as observers who can also sit in a BoD meeting.

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