

Speech

Speech by SFST at 2nd ASEAN Development Forum (English only)

Monday, December 14, 2015

Following is the speech by the Secretary for Financial Services and the Treasury, Professor K C Chan, at the 2nd ASEAN Development Forum today (December 14):

Distinguished guests, ladies and gentlemen,

Good morning. I am very pleased to join you all today at the 2nd ASEAN Development Forum. I would like to thank the organisers for bringing this timely event to Hong Kong. And a warm welcome to you all, especially those flying in to join us here today.

The theme of this year's forum is the "Belt and Road" initiative and regional connectivity. And I would like to take the opportunity to talk about "Belt and Road: Opportunities for Hong Kong". The "Belt and Road" initiative is a development strategy, a blueprint to integrate China with the rest of the world. It is also a vision to help Asian economies integrate more closely together.

The "Belt and Road" stretches across a range of Southeast Asian countries, including of course the 10 ASEAN members. As an initiative to promote investment infrastructure in the region, the Asian Infrastructure Investment Bank (AIIB) was established last year with all ASEAN members joining as founding members. This shows the unswerving support ASEAN has given to furthering development against the "Belt and Road" backdrop.

Infrastructure development can improve intra-regional connectivity within Asia which helps deepen and widen regional production networks. According to an estimate made by the Asian Development Bank (ADB) in 2010, Asia's overall infrastructure investment need amounts to about US\$8.5 trillion between 2010 and 2020, or an average annual infrastructure investment need of about US\$780 billion.

Due to the capital-intensive and long-tenor nature of infrastructure projects, it is always a challenge to meet this financing need. In this connection,

I wish to applaud the leaders of the ASEAN countries for having the foresight to set up an ASEAN Infrastructure Fund with the ADB in 2012 to finance projects that promote infrastructure development within the territories of ASEAN member countries by mobilising regional savings.

The imminent establishment of the AIIB is another timely initiative in this regard. With a subscribed capital of US\$100 billion, the AIIB intends to lend US\$10 to US\$15 billion during its initial years and the first project may be approved in the second quarter of 2016, according to the President-designate, Mr Jin Liqun, of the AIIB.

The financing need as you can imagine cannot be met by the AIIB alone, nor solely by multilateral development banks. Therefore, the AIIB also has plans to raise funds from the market to encourage the private sector to participate in these projects. Going forward, Hong Kong, with our well-developed capital markets and financial professionals, will have an important role to play - here allow me to summarise in three-fold.

First, as home to a highly efficient capital market, Hong Kong is an ideal platform for enterprises along the "Belt and Road" to conduct fund-raising activities. Hong Kong has the seventh largest stock market in terms of market capitalisation, and ranks the first in terms of equity funds raised through initial public offerings so far this year. Today, almost a thousand Mainland Chinese enterprises are listed in Hong Kong, accounting for over 60 per cent of the market capitalisation. Apart from raising funds, a listing in Hong Kong also helps promote the companies' brand and attract investors with different demographic profiles.

Second, bonds issuance is another viable and useful channel for enterprises to raise funds. Hong Kong's Renminbi (RMB) debt market renders another channel for enterprises to meet their financing requirements. Markets for these RMB-denominated bonds, dubbed the "dim sum" bond, have been growing rapidly with remarkable progress. Since 2007 when the first "dim sum" bond was issued in Hong Kong, the cumulative amount of bonds issued totalled more than RMB660 billion.

Apart from issuing "dim sum" bonds, Hong Kong is also building its Islamic finance infrastructure. With many Islamic countries along the "Belt and

Road" region, the potential for Islamic financial services is promising. With the successful issuance of two sukuk by the Government in Hong Kong in the past two years, we have demonstrated the flexibility of Hong Kong's Islamic finance platform. We welcome more sukuk to be marketed and listed in Hong Kong, and more Islamic financial institutions to establish a presence here, whether to conduct Islamic banking or Islamic asset management business, leveraging on Hong Kong's financial platform to tap into investment opportunities available along the "Belt and Road".

With stronger economic and trade ties between China and other countries in the world, together with the inclusion of RMB into the International Monetary Fund's Special Drawing Rights basket, RMB will be more widely accepted and circulated in the international markets. As a unique offshore market that is also part of China, Hong Kong is the place where the Chinese Central Government could experiment with reform initiatives in a risk-controlled manner. To reinforce our first-mover advantages as the global hub for offshore RMB business, we continue to actively engage with overseas markets, including of course those from the ASEAN, in order to further promote our RMB infrastructure and financing platforms as well as enrich the provision of RMB services and investment products.

The "Proposal on Formulating the 13th Five-Year Plan" promulgated recently in November 2015 confirmed that Hong Kong will continue to play a significant role in the internationalisation of RMB in the next Five-year Plan of China from 2016 to 2020. Looking ahead, Hong Kong and ASEAN countries shall join hands to work together to promote awareness on the growing proliferation of the international use of RMB. With the increasing percentage of trade settled in RMB, the global pool of offshore RMB will continue to grow and generate business for financial centres around the world. As the global hub of offshore RMB business, Hong Kong could leverage on its historic foundation and strategic relationship with the ASEAN economies, with a view to achieving a higher level of integration and collaboration under the "Belt and Road" direction.

With this in mind, the Hong Kong Government has announced a plan to set up an office in Jakarta, Indonesia. ASEAN countries have always been our close partners. Just recently in November, the 2nd HK-Thailand RMB Business Forum was held in Bangkok. Over 200 representatives from public institutions,

corporates, banks, asset management and insurance companies in Thailand attended the event.

On the trade front, the ASEAN-Hong Kong Free Trade Agreement (FTA) is no doubt an important initiative. Last year, the total value of merchandise trade between Hong Kong and ASEAN exceeded US\$106 billion - up 10 per cent over the previous year. The FTA will strengthen economic ties between ASEAN and Hong Kong by facilitating the flow of goods, services and investments. It will certainly bring more business opportunities and stimulate further economic growth in the region. The fourth round of negotiations took place in July in Singapore. I look forward to the FTA's successful conclusion in the coming year. It will no doubt draw closer economic ties and co-operation between Hong Kong and ASEAN countries.

Ladies and gentlemen, today's forum is an ideal platform for us to explore the vast opportunities arising from the "Belt and Road" strategy. Looking forward, I am confident that building on the years of mutual trust and confidence we share, as well as the common goal we have in future, we could all contribute to the furtherance and success of the "Belt and Road", in which everyone can benefit.

Thank you very much.

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