***Speech by Mr. Clinton Morrow at the "Corporate Go Global Strategy and Legal Risks Prevention Summit Forum" (企业"走出去"战略暨法律风险防范高峰论坛) on 16 January 2017.***

## One Belt One Road and Hong Kong

Good morning ladies and gentlemen. I'm delighted to be here today to discuss Hong Kong's role as a fund-raising centre within the One Belt One Road Initiative.

## INTRODUCTION

China's One Belt One Road is possibly China's most ambitious project economically and diplomatically since the establishment of the People's Republic. Covering 65 countries, around 65% of the world's population and about a third of the world's GDP, the project looks set to confirm and accelerate the global shift in political and financial power to the One Belt One Road region.

So what does this mean for Hong Kong? As the interface between China and the rest of the world, Hong Kong stands to benefit from the numerous business opportunities which will arise out of the One Belt One Road initiative. Hong Kong's position is unique: it is a part of China, but Under the One Country Two Systems framework it retains its own political and legal system with control over its economic and financial affairs. It thus offers proximity to the world's second largest economy as well as historic, cultural and linguistic ties.

Most importantly, Hong Kong has become China's most cosmopolitan city and one of the world's leading international financial centres along with London and New York. Its independent legal system based on English common law has made it a very attractive place for Chinese companies to raise funds and for companies from around the world to invest in China.

All the world's major banks and fund managers have a presence in Hong Kong. The Hong Kong Stock Exchange raises more funds in initial public offerings than any other exchange world-wide. Starting in the 1990s, Hong Kong has become the primary stock market for Mainland Chinese companies to list and raise capital. In turn, investors worldwide have gained access to China's leading companies through investing in their Hong Kong listed-shares.

Hong Kong is also the world's largest centre outside Mainland China for issuing debt denominated in renminbi (RMB). With its ties to the Mainland, Hong Kong has been the city in which the Chinese Government has experimented with reforms aimed at internationalising the RMB and gradually opening its capital account. As seen with Hong Kong's establishment as an offshore RMB centre, a move since copied in some 14 other financial centres, including London, Sydney and Doha, Hong

Kong benefits from the first mover advantage – Hong Kong is the place China experiments with new opportunities before rolling them out elsewhere.

Perhaps the most interesting trend in recent years is that Hong Kong now acts not only as the gateway for foreign investment funds to enter China, but also as the gateway for Chinese funds to invest internationally. By way of example, in 2016, Chinese companies invested US$53.9 billion in the United States, a massive increase of 359% compared to 2015.[1] Chinese foreign investment is likely to slow as a result of the stricter controls China has implemented to rein in capital outflow and increasing protectionism in the United States under Donald Trump. Nevertheless, Chinese outbound investment looks set to continue in areas such as advanced technology, clean energy and brands.

Hong Kong is thus already a key connector between China and the rest of the world. Its long history of trade with China, its abundance of world-class professionals in financial, legal and accounting services, as well as its lack of restrictions on capital flow, currency convertibility and simple low tax regime will allow Hong Kong to play a key role in facilitating investment under the One Belt One Road initiative.

## One Belt One Road – the development over 2016

Looking briefly at One Belt One Road Initiative's progress to date.

The One Belt One Road initiative made considerable progress last year. In May 2016, the Asian Infrastructure Investment Bank made its first loan to Pakistan for the construction of its M4 highway along the China-Pakistan Economic Corridor. By the end of May 2016, more than half of the total value of China's overseas construction contracts came from countries along the Silk Road[2].

In September 2016, "Silk Road Bonds" were suggested and discussed at the Belt and Road Summit: Financing Through Silk Road Bonds in September 2016 co-organized by the International Capital Market Association (ICMA) and Dagong. Designed to be a new asset class recognised internationally, Silk Road Bonds may emerge as an integral source of financing for the Belt and Road Initiative in the near future.

By mid-December 2016, China had signed projects worth US$ 926 billion[3]. The initiative has also provided a huge boost to China's trade and investment in countries along the Belt and Road. Today Chinese exports to belt and round countries now exceed those to the United States and the European Union.

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[1] "China Investment in the US Hit an All-time High in 2016, But Don't Expect the Same in 2017". Forbes. Ellen Sheng. 18 December 2016.
[2] http://www.chinausfocus.com/finance-economy/belt-and-road-initiative-makes-strong-progress
[3] http://www.scmp.com/comment/insight-opinion/article/2054143/xi-jinpings-one-belt-one-road-strategy-showing-way-new-world

The indications so far are that the Belt and Road initiative is gaining momentum and that considerable progress has already been made.

The key areas in which Hong Kong stands to benefit are in:

- The provision of professional services (financial, legal and accounting);
- As a capital raising centre for companies involved in One Belt One Road projects – particularly funding infrastructure projects;
- Provision of infrastructure services;
- Information technology services

## HONG KONG AS SUPER CONNECTOR

As global businesses take advantage of the One Belt One Road initiative, Hong Kong has the potential to become a "Super Connector" between the Mainland and other countries along the Belt and Road Region and the rest of the world.

As an international financial centre with strong networks with China and internationally, Hong Kong is ideally positioned to manage One Belt One Road investment projects and act as a connector between investment projects, investors and service providers. Its fund raising and financing capabilities, expertise in infrastructure development, and independent legal system mean that Hong Kong can help build a bridge between Mainland China and other One Belt One Road countries and the rest of the world. This will enable the smooth and efficient flow of capital, goods and services and allow Hong Kong to play a major role as the Mainland's 'super-connector' in the 'One Belt One Road' initiative.

## HONG KONG AS A PROFESSIONAL SERVICES PROVIDER

The Hong Kong Trade Development Council and Mainland authorities carried out a survey of Guangdong enterprises and at the 13th China-ASEAN Expo in 2016[4]. 60% of the respondents indicated that they would first look locally for support services. A significant proportion of respondents, however, said that they would look for support services outside the Mainland. In relation to Belt and Road business opportunities, Hong Kong is by far the most popular offshore centre for seeking professional services, providing some 50% of professional services related to Belt and Road business.

In terms of professional services, Hong Kong provides world-class services in accounting, law and management consultancy through both international and local firms. With years' of experience in

[4] http://beltandroad.hktdc.com/en/market-analyses/details.aspx?ID=477197

China and Asia, these professionals can advise on tax, legal and risk and assist in dispute resolution, particularly in the area of arbitration. The Big Four accounting firms and the largest international law firms all have a presence in Hong Kong and China. Hong Kong local firms also have a wealth of experience in raising capital for Chinese and other Asian companies and infrastructure finance.

Hong Kong is also a place of considerable expertise. It has a large pool of professionals in the fields of banking, accountancy, law, insurance, property valuation, infrastructure development and construction, project management, engineering, technology and telecommunications. These professionals have extensive experience of operating and investing in Asia. Hong Kong can thus offer all the necessary professional services including legal, accounting, risk management, insurance etc. for investments under One Belt One Road.

## HONG KONG AS A CAPITAL RAISING CENTRE

A huge amount of capital will be needed for the One Belt One Road initiative.

Although China has promised that its public banks will take the lead in underwriting projects, the scale of One Belt One Road offers plenty of opportunities for private financing. The Asian Development Bank has estimated an annual funding shortfall for Asian infrastructure projects of US$750 billion through 2020.

As one of the world's leading financial centres, Hong Kong will be able to play a leading role in the fund raising that will be required for One Belt One Road. Hong Kong has a key role to play in assisting companies investing in Belt and Road infrastructure projects raise funds. In turn, this will consolidate Hong Kong's position as Asia's premier financial centre and as the primary gateway for funds to flow into China and One Belt One Road countries from the rest of the world. Hong Kong has long served as the entry point for overseas companies to gain access to the China market. More recently, increasing numbers of overseas companies have been looking to invest in infrastructure projects in China and that trend will accelerate under One Belt One Road.

A key Hong Kong initiative aimed at cementing Hong Kong's role in facilitating One Belt One Road infrastructure investments and their financing was the establishment of the Infrastructure Financing Facilitation Office (**IFFO**).

Established in July 2016 by the Hong Kong Monetary Authority (**HKMA**), the IFFO aims to collaborate with its partners on facilitating infrastructure financing. The IFFO is not an investor itself and it does not do deal matching. Instead, it provides a platform that enables interested partners to collaborate in identifying infrastructure investment and their financing opportunities.

The IFFO's mandate also includes promoting the advantages of Hong Kong as an infrastructure financing centre. Through this work, IFFO will identify any impediments to attracting infrastructure investments and their financing. Where appropriate, it will recommend ways to address these issues to help make relevant projects more feasible. IFFO also operates as a platform for providing and sharing information, experience and best practices to provide greater access to knowledge on infrastructure financing and investment.

In December 2016, the Hong Kong Monetary Authority signed Memoranda of Understanding with The Export-Import Bank of China and the China Development Bank Corporation establishing a strategic framework for co-operation on facilitating the financing of infrastructure projects via the IFFO platform. As at 28 December 2016, the IFFO already had more than 50 partners, including development banks, public sector investors, private sector investors including banks, insurers, asset managers, project developers and professional service providers.

IFFO's current partners include Chinese and international banks such as the Bank of China, the Export-Import Bank of China, Agricultural Bank of China Limited, China Construction Bank Corporation, Citigroup, HSBC, Bank of Tokyo-Mitsubishi, Sumitomo Mitsui Banking Corporation and Standard Chartered Bank. Funds which have become partners in IFFO include Blackrock, Blackstone Group and the Chinese state-owned Silk Road Fund. Infrastructure companies include MTR Corporation while insurance company partners include AIA Group Limited and Aon Hong Kong Limited.

Aside from the IFFO, Hong Kong also offers world-class fund-raising opportunities for infrastructure companies.

One platform Hong Kong offers infrastructure companies to raise capital is by listing on the Stock Exchange of Hong Kong (the "**Stock Exchange**").

*Equity Market*

Hong Kong's financial markets have a high degree of liquidity, and operate under effective and transparent regulations.

In 2016, Hong Kong raised the most IPO funds worldwide, raising US$24.8 billion, almost US$10 billion more than the Shanghai Stock Exchange which ranked second with US$14.9 billion of IPO funds raised.[5]

[5] Source: HKEx Market Statistics 2016 *https://www.hkex.com.hk/eng/newsconsul/hkexnews/2016/Documents/1612202news.pdf*

Listings on the Hong Kong Stock Exchange are dominated by Mainland Chinese companies which accounted for 80.5% of IPO funds raised on the HKEX in 2016, according to Thomson Reuters. [6] The depth of liquidity in the Hong Kong market and analyst expertise in the China market are key draws for Mainland companies looking to list offshore. Hong Kong thus plays host to some of the world's largest IPOs by Chinese companies – Postal Savings Bank of China, for example, raised US$7.4 billion in its September 2016 IPO in Hong Kong, the world's largest IPO since the Alibaba Group Holding's 2014 IPO on the New York Stock Exchange.

Between January and November 2016, Hong Kong ranked fifth in terms of total equity funds raised, having raised US$53.6 billion, after the Shenzhen Stock Exchange, Euronext, Shanghai Stock Exchange and NYSE with US$ 144.7 billion, US$132 billion, US$114.4 billion and US$106.3 billion respectively.[7]

A major initiative of the Chinese and Hong Kong market regulators in the last two years is the setting-up of channels for Mainland Chinese investors to invest in the Hong Kong market and for Hong Kong and international investors to invest in the Chinese market through Hong Kong.

The first step was the launch of the Shanghai-Hong Kong Stock Connect scheme in November 2014. This provided Hong Kong and international investors with direct trading access to Shanghai-listed shares for the first time, while Mainland Chinese investors gained direct access to Hong Kong-listed shares.

This was followed by the launch of the Shenzhen-Hong Kong Stock Connect scheme on 5th December 2016. This provides mutual market access allowing Hong Kong and international investors to make northbound investments in certain stocks listed on the Shenzhen Stock Exchange and mainland investors to invest southbound in stocks listed in Hong Kong through the Shenzhen Stock Exchange. The implementation of Shenzhen-Hong Kong Connect coincided with the removal of the aggregate limits on trading under Hong Kong Shanghai Connect which had previously applied.

The launch of the two stock-connect schemes is significant as they created a controllable and expandable channel for cross-border renminbi flow for a wide range of investors. More importantly, they pave the way for the further opening up of China's capital account and greater internationalisation of the renminbi.

The two stock connect schemes do not currently allow investors to subscribe for IPO shares.

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6 http://www.scmp.com/business/companies/article/2057428/hong-kong-tops-global-ipo-markets-despite-total-funds-raised

7 Ibid

The Hong Kong and Chinese regulators plan to extend the mutual market access arrangements between Hong Kong and China markets to cover other products, such as Exchange Traded Funds (**ETFs**), listed bonds and convertible bonds. There are also plans to launch "Primary Equity Connect", a scheme to allow investors to subscribe for IPO shares through the Stock Connect schemes which is not currently allowed.

**Listing on the Hong Kong Stock Exchange**

The Hong Kong Exchange operates two markets, the Main Board and the Growth Enterprise Market (**GEM**). The Main Board caters for companies with a profitable operating track record or that are able to meet alternative financial standards. GEM, on the other hand, caters for smaller growth companies and has lower admission criteria. GEM also acts as a stepping stone to Main Board listing and provides a streamlined procedure for transfer to the Main Board once a company meets the Main Board admission criteria. ◦

The Listing Rules allow companies incorporated in Hong Kong, the PRC, the Cayman Islands and Bermuda ("Recognised Jurisdictions") to list in Hong Kong. Companies can also list in Hong Kong if they are incorporated in one of 24 "Accepted Jurisdictions" which are: Australia, Brazil, the British Virgin Islands, Canada (Alberta, British Columbia and Ontario), Cyprus, France, Germany, Guernsey, the Isle of Man, India, Italy, Japan, Jersey, Luxembourg, Republic of Korea, Labuan, Russia, Singapore, the United Kingdom and the United States (the States of California, Delaware and Nevada). Companies incorporated in other jurisidictions need to meet the requirements set out in the HKEx and Securities and Futures Commission's Joint Policy Statement Regarding the Listing of Overseas Companies (as amended in September 2013). These include a requirement to demonstrate that the standards of shareholder protection in the company's jurisdiction of incorporation are comparable to shareholder protection standards under Hong Kong law.

<u>Operating history and management requirements</u>

A Main Board applicant must have:

- a trading record of at least 3 financial years;
- management continuity for the 3 preceding financial years; and
- ownership continuity and control for the most recent audited financial year.

GEM applicants are required to have:

- a trading record of at least 2 full financial years;
- substantially the same management for the 2 preceding financial years; and

- continuity of ownership and control for the preceding full financial year.

As to the financial requirements, a Main Board applicant must satisfy one of 3 financial tests.

(i) Under the profit test, a listing applicant must have:

- profits of at least HK$ 20 million in the most recent year, and profits of HK$ 30 million in total for the 2 years before that; and
- an expected market capitalisation at the time of listing of HK$ 200 million.

(ii) The market capitalisation/revenue test requires listing applicants to have:

- a market capitalisation of at least HK$ 4 billion at the time of listing; and
- revenue of at least HK$ 500 million for the most recent audited financial year.

(iii) To meet the market capitalisation/revenue/cash flow test, the listing applicant must have:

- a market capitalisation of at least HK$ 2 billion at the time of listing;
- revenue of at least HK$ 500 million for the most recent audited financial year; and
- a positive cash flow of at least HK$ 100 million in aggregate for the 3 preceding financial years.

There is no profit requirement for GEM applicants. Instead, GEM applicants must have a positive cash flow of at least HK$ 20 million for the 2 preceding financial years; and a market capitalisation of at least HK$ 100 million dollars at the time of listing.

Both the Main Board and the GEM require at least 25% of companies' issued shares to be held by the public. The Exchange may lower to between 15% and 25% for large companies with a market capitalisation of over HK$ 10 billion.

Main Board applicants must have a minimum of 300 shareholders on listing while GEM applicants must have a minimum of 100 shareholders. The 3 largest public shareholders cannot hold more than 50% of the publicly held shares.

**Post-Listing Fundraising**

A major advantage of a Hong Kong listing, is the ease with which further funds can be raised after listing. In 2016, companies listed on Hong Kong's Main Board raised HK$145.9 billion through share placings and HK$45.8 billion via rights issues. The mechanism of top-up-placings provides a very convenient method of fundraising for listed companies. Typically the controlling shareholder will place part of its shareholding to new investors. The listed company then issues new shares to the controlling shareholder in the same number transferred to the places. There is no requirement for an offering document and if the number of shares involved is within the company's existing mandate to issue new shares, there is no need for shareholders' approval. The fund raising can thus be completed extremely quickly.

**A New Third Board**

There have been calls for the establishment of a new third board in Hong Kong to attract more tech companies to list in Hong Kong. In 2014, Hong Kong missed out on the listing of Chinese tech giant Alibaba Group because its management structure which was considered to breach Hong Kong's "one share one vote" principle. There are no concrete proposals yet and the regulators have not said whether they would be prepared to allow companies with so called "weighted voting rights structures" to list on the new board. A weighted voting rights structure is one which gives certain shareholders voting or other rights which are disproportional to the number of shares they hold.

In summary therefore, a listing on the Hong Kong stock exchange would offer companies involved in One Belt One Road projects a way to raise funds through the IPO and opportunities to continue to raise funds via placings and/or rights issues.

**Commodities**

Since 2012, the Stock Exchange has owned the London Metal Exchange (**LME**), which is the world's largest market in metals futures contracts.

According to the Stock Exchange 2016-18 Strategic Goals, the Stock Exchange plans to extend its existing global price benchmarks in commodities that it owns through the LME, and attract international and Mainland investors to those products. In order to attract new Asian liquidity to the LME, the Stock Exchange will list LME products in Hong Kong in the near future. The Stock Exchange is also in the early stages of establishing "London-Hong Kong Connect"[8], a trading link between Hong Kong Futures Exchange ("**HKFE**") and the LME, as well as a clearing relationship between HKFE Clearing Corporation and LME Clear.

The establishment of the London-Hong Kong Connect will provide intermediaries and investors in Hong Kong with fast, stable and low cost access to the LME. Priority will be given to the trading and clearing of LME products for HKFE Participants, so that Qualified Domestic Individual Investors and Asian corporations will have increased access to international metals markets.

**Fixed Income and Currency**

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[8] https://www.hkex.com.hk/eng/newsconsul/hkexnews/2015/Documents/151021FAQ_e.pdf

The internationalisation of the Renminbi and the Belt and Road Initiative are in some ways complementary. Along with Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect, the Belt and Road Initiative will further drive the internationalisation of the Renminbi which will in turn encourage greater cross-border investment.

The Belt and Road Initiative offers a backdrop for the continued development of the offshore Renminbi market to establish an Asian bond market covering a more extensive area. The Stock Exchange's 2016-18 Strategic Goals include the establishment of a 'Bond Connect' scheme to facilitate cross-border capital flows in the underlying Renminbi cash bond market. It is hoped that this scheme will provide cross-border cash bond trading and settlement connectivity with China's major onshore bond market infrastructures, with a focus on the institutional bond market.

**Hong Kong Law and Legal System**

As you all know, Hong Kong operates under the "One Country, Two systems principle" and has a legal system based on English common law. The rule of law is upheld by an independent judiciary and is widely recognised by the international community.

While based largely on common law, the legal system in Hong Kong also incorporates aspects of the Basic Law and concepts of rule of law derived from different societies and legal practices.

Why is this important? A large number of contracts between parties in different parts of the world, such as infrastructure and financing contracts, will be entered into under the Belt and Road initiative. With its trusted legal system, Hong Kong stands to benefit as Hong Kong law is an obvious choice for the law governing Belt and Road initiatives. Hong Kong also has a key role to play in dispute resolution and has particular expertise in arbitration.

The Belt and Road Initiative will involve multilateral negotiations between Mainland Chinese and foreign enterprises. Hong Kong lawyers are experienced in serving multi-jurisdictional clients in complex cross-border matters. The Hong Kong legal profession is thus well placed to assist in the structuring of investment projects under One Belt One Road.

**Hong Kong's Debt Market**

Hong Kong has an active and liquid private sector bond market. Although relatively small compared to its equity and banking markets, the debt market has grown rapidly in recent years.

In 2016, the Hong Kong dollar-denominated bond market did well raising a total of US$21.4 billion, an increase of some 74% on 2015 and the highest amount raised since 2007. The dim sum market, that is the issue or renminbi-denominated bonds in Hong Kong, dropped to 146.8 billion renminbi in

2016, down 17.6% from 2015, due largely to the devaluation of the yuan against the US dollar. Hong Kong nevertheless remains an important market for the issue of renminbi denominated debt.

Hong Kong is the premier offshore RMB centre and has the largest pool of renminbi outside China. It is thus in a prime position for fund raising denominated in RMB.

Hong Kong can provide Chinese and international companies with renminbi services ranging from cross-border trade settlement to bond issues. As trade along the One Belt One Road increases, the demand for settling trade in renminbi should increase to minimise exchange rate risks. Hong Kong already benefits from highly efficient renminbi trade settlement systems.

Hong Kong is also well positioned as the primary offshore renminbi debt centre for infrastructure investments, which include structured debt and infrastructure bonds.

In recent years, the growth of Hong Kong's debt market has been driven by the growth of the renminbi bond market – the issue of so-called Dim Sum bonds in RMB outside Mainland China. The first offshore RMB bond was issued in Hong Kong in 2007 and Hong Kong's RMB bond market is now the largest outside Mainland China.

**RMB Debt Market**

The growth of RMB bonds as an asset class was first triggered by China's continuing financial reforms policy initiatives to internationalise the RMB. An increasing amount of China's offshore trade is now settled in RMB. Overseas companies want to trade with China in RMB thus issue dim sum bonds to fund their trade in RMB.

Hong Kong is the dominant centre for offshore RMB bond issuance and with RMB deposits of 662 billion in October 2016, Hong Kong has the largest pool of offshore RMB, significantly more than other offshore RMB centres such as Taipei, London, Sydney, Seoul, Doha and Toronto.

Dim sum bonds are bonds issued in Hong Kong by Chinese and international companies and are designed to avoid triggering China's securities laws. In order to issue bonds in the Hong Kong dim sum market,  all that is necessary is a Hong Kong Monetary Authority settlement account.

Since 2010, a variety of issuers have tapped the market including: banks, PRC state-owned enterprises, private companies from the Mainland and Hong Kong as well as foreign companies such as McDonalds and Caterpillar. The investor base is highly diversified, and includes local banks, insurance companies, global asset managers with an Asian focus and regional private banks.

The proceeds can be used freely outside China and remitting RMB proceeds into China for trade purposes does not require regulatory approval. If the proceeds are to be remitted to China as foreign investment, appropriate approvals and registrations from PRC regulators are required.

The key advantages of issuing dim sum bonds in Hong Kong for Chinese companies are that there are no restrictions on who can purchase the bonds. The Hong Kong debt market is open to investors of all nationalities. The bonds can be cleared through Hong Kong's Central Moneymarkets Unit, or through Clearstream or Euroclear.

It is expected that offshore RMB will follow the course set by the Eurodollar as the RMB becomes more internationalized. Just as the onshore RMB market is developing, the offshore RMB is expected to develop further as more offshore RMB are accumulated, managed, traded, borrowed and lent in the offshore market.

Hong Kong has an active and liquid private-sector bond market and most private sector bond trading occurs in the OTC market. The two key options for offering debt without having to obtain authorisation from Hong Kong's regulatory authorities are "professionals only" offers (i.e. an offer made only to "professional investors" as defined under Hong Kong law) or by way of a private placement – i.e. an offer to a limited number of investors.

Recent years have seen increasing numbers of debt securities listed on the Stock Exchange of Hong Kong Limited (**Hong Kong Stock Exchange** or **Exchange**). In 2016, Hong Kong listed debt issues raised HK$774.6 billion.

There are two principal types of debt securities which can be listed on the Hong Kong Stock Exchange: (i) debt securities which can be offered to public investors in a retail offering which are listed under Chapters 22 to 36 of the Main Board Listing Rules; and (ii) debt securities which can only be offered to professional investors which are listed under Chapter 37 of the Main Board Listing Rules.

The increase in the number of listings of debt securities in the last few years is due in part to a simplified regime for listing debt securities that are offered only to professional investors under Chapter 37 of the Listing Rules which came into effect in November 2011. Another factor is the increasing number of RMB (dim sum) bonds issued in Hong Kong by foreign and Hong Kong issuers as well as Chinese issuers, which are increasingly being listed on the Exchange.

## Foreign Exchange

Hong Kong is also a hub for foreign exchange transactions – in US$, RMB and many other currencies. Hong Kong can thus assist companies and investors in their cross-border investment transactions. Hong Kong's foreign exchange capabilities can also facilitate companies' cross-border trade payments. 20% of Mainland China's merchandise trade is billed and completed in renminbi. In September 2016, the International Monetary Fund's decided to include the renminbi in its Special Drawing Rights currency basket. This was an important step in terms of internationalising the renminbi. It signalled the acceptability of the renminbi as an international reserve asset. This is expected to lead to increased RMB trade and funding.

**Asset Management**

The Chinese government established a US$40 billion Silk Road Fund in 2014 along the lines of a long-term private equity venture. Hong Kong is Asia's premier asset management centre and these funds also provide a source of finance for companies looking to raise capital. Most of the world's largest fund managers have offices in Hong Kong.

Hong Kong's asset management industry has seen considerable growth in recent years, almost doubling from US$1.2 trillion to US$2.2 trillion between 2011 and 2016. Growth has been driven largely by demand for renminbi investment opportunities and Hong Kong's growth as the major offshore renminbi centre.

Particularly noteworthy is the Mutual Recognition of Funds Scheme established between Hong Kong and China which enables Hong Kong domiciled funds which have been authorised by the Hong Kong authorities for retail distribution to be sold in China under a lighter Chinese regulatory approval process (and vice versa for Chinese authorised funds).

Hong Kong has a number of other advantages as a centre for raising capital for Belt and Road projects.

Geographically, Hong Kong is located at the mouth of the Pearl River Delta Region and it stands on the major trade routes that run through Asia. As the major gateway between the Mainland and the world, Hong Kong is ideally situated for fund-raising activities to finance Belt and Road projects.

Hong Kong has a good transportation network and a relatively free economic system. With no restrictions on capital flow, many tax advantages and currency convertibility, Hong Kong provides an attractive fund raising venue for fund raisers and investors alike. Hong Kong is already an important conduit for foreign direct investment. The value of direct investment made from Hong Kong to Mainland China and overseas markets is almost 5 times its annual GDP[9]

[9] CY Leung's Speech at Boao Forum for Asia Financial Cooperation Conference opening on 5 July 2016.

In terms of its cultural advantage, Hong Kong is also a cultural centre populated by many different nationalities and speaking a number of different languages. To succeed, the Belt and Road initiative ultimately requires connectivity not only economically. Hong Kong's unique position under One Country Two Systems means that Hong Kong shares cultural and linguistic ties with the Mainland, while its free and open culture, the strength of its rule of law and the transparency of its corporate activities, make it a centre in which overseas investors can feel confident.

Infrastructure Development

One Belt One Road is set to develop infrastructure throughout the region and increase industrial development in those countries. For China the project offers opportunities to strengthen ties with countries along the road. As its high-speed rail network extends through this region, China will open up new export markets for its goods.

China already has more than 20,000 km of high-speed railway. This is more high-speed railway than the rest of the world combined. China is already transforming smaller Southeast Asian countries with railway, power plant and property investment.

Malaysia, Thailand, Laos and Indonesia already have railway construction projects with China under One Belt One Road. The new projects include:

- a new high-speed rail line which will run from southern China, through Laos, to Thailand's industrial east coast.
- China has made new pledges to Laos for the construction of a US$6 billion railway line between Laos' capital Vientiane and China's Yunnan province by 2020.
- China has a contract to build Indonesia's first high-speed rail link. The US$5.1 billion project will build 150 km of railway to link Jakarta to Bandung (Indonesia's third city).

The Philippines is another country looking to China and One Belt One Road to fix its infrastructure problems. The Philippines needs US$127 billion a year up to 2020 to finance its infrastructure needs, according to projections of the Asian Development Bank (**ADB**). Pivoting away from traditional ally, the United States, Philippine president Duterte has said he will look to China for funding. The AIIB and the World Bank have already agreed to lend US$470 million to build a flood control project in Manila. With the ADB, the AIIB will also lend US$756 million for developing a bus system in Manila.

There is huge need for better roads and railways throughout much of the OBOR region. Better infrastructure will improve trade between nations and enhance development. In the Philippines for example, new infrastructure is expected to double or triple its agricultural exports to China and an increase in the number of Chinese tourists visiting the Philippines is expected to rise.

Africa has been a destination for Chinese investment for some time. The demand for new infrastructure is huge and its development will transform these countries. In October 2016, a new 750 kilometre electrified railway line opened linking the Ethiopian capital Addis Ababa to the port of Djibouti. The US$3.4 billion project was funded by a Chinese bank. Djibouti can now export its minerals and precious stones to new markets at lower prices.

China is leading the way in infrastructure construction in the developing world. In a recent article in the South China Morning Post, Erik Prince, an American businessman and philanthropist said:

"The Chinese are leading the way [in infrastructure investment in Africa and Asia] and the West has much to learn from how the ancient Middle Kingdom does business in the modern world."

These developments clearly offer tremendous opportunities for Hong Kong as well as international companies to become involved in infrastructure development throughout the huge region covered by One Belt, One Road.

As China leads the way, this offers vast opportunities to Hong Kong as a super-connector in the One Belt One Road initiative.

Hong Kong already offers the platform, manpower support and legal support for the integration of industry and finance under the One Belt, One Road strategy.

As a general overview, the opportunities I see for Hong Kong include the following:

1) Hong Kong can develop as the international financing centre for companies involved in One Belt, One Road projects.

2) Hong Kong can support the internationalisation of the RMB and the gradual easing of controls of China's capital account.

3) Hong Kong can respond to One Belt, One Road's capital demands by developing an Asian bond market and establishing greater bond market connectivity.

4) Hong Kong is the obvious market to launch the "Silk Road Bonds" which have been proposed as a fund-raising source for One Belt, One Road projects.

5) Hong Kong can capitalise on its position as the premier offshore market for the listing of Chinese companies. The Hong Kong Stock Exchange is going to conduct a public

consultation on establishing a new third board for listing tech companies. If this goes ahead, it could offer an important source of funds for tech companies interested in getting involved in One Belt, One Road projects.

6) One Belt One Road offers tremendous opportunities for Hong Kong companies involved in construction, engineering and infrastructure development to get involved in regional infrastructure development projects like building railways, roads, gas pipelines, ports and maritime facilities in countries along OBOR. Opportunities also exist for its telecommunications and technology firms.

7) For overseas construction and engineering companies, Hong Kong can provide a key link to investment projects and finance providers.

8) Hong Kong law is based on English common law. It has been used for many years as the governing law for financing and commercial contracts for trade and infrastructure development in Asia. Hong Kong law provides confidence to investors. Hong Kong also has first class dispute resolution and arbitration capabilities.

9) More than any other international financial centre, Hong Kong offers access to the world's banks and investment funds. They in turn offer access to the world's investors.

10) With numerous experienced professionals in project management, financing, legal, accounting, construction and engineering, Hong Kong is the one-stop-shop for companies looking to take advantage of the opportunities offered by China's One Belt, One Road Initiative.

Finally, if you wish to contact us for further information or enquire about the capital market in Hong Kong, we have our offices in Hong Kong, Beijing, Shanghai, and Yangon, Myanmar.

Charltons will be happy to advise on Hong Kong law and on international corporate finance transactions for you. That will conclude my presentation. Thank you

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