

立法會
Legislative Council

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Finance Committee of the Legislative Council

Minutes of the 38th meeting
held at Conference Room 1 of the Legislative Council Complex
on Friday, 5 May 2017, at 5:10 pm

Members present:

Hon CHAN Kin-por, BBS, JP (Chairman)
Hon Michael TIEN Puk-sun, BBS, JP (Deputy Chairman)
Hon James TO Kun-sun
Hon Abraham SHEK Lai-him, GBS, JP
Hon Tommy CHEUNG Yu-yan, GBS, JP
Prof Hon Joseph LEE Kok-long, SBS, JP
Hon Jeffrey LAM Kin-fung, GBS, JP
Hon WONG Ting-kwong, SBS, JP
Hon Starry LEE Wai-king, SBS, JP
Hon CHAN Hak-kan, BBS, JP
Dr Hon Priscilla LEUNG Mei-fun, SBS, JP
Hon WONG Kwok-kin, SBS, JP
Hon Mrs Regina IP LAU Suk-yee, GBS, JP
Hon Paul TSE Wai-chun, JP
Hon LEUNG Kwok-hung
Hon Claudia MO
Hon Steven HO Chun-yin, BBS
Hon Frankie YICK Chi-ming, JP
Hon WU Chi-wai, MH
Hon MA Fung-kwok, SBS, JP
Hon Charles Peter MOK, JP
Hon CHAN Chi-chuen
Hon Christopher CHEUNG Wah-fung, SBS, JP
Dr Hon Fernando CHEUNG Chiu-hung
Hon IP Kin-yuen

Dr Hon Elizabeth QUAT, JP
Hon Martin LIAO Cheung-kong, SBS, JP
Hon POON Siu-ping, BBS, MH
Dr Hon CHIANG Lai-wan, JP
Ir Dr Hon LO Wai-kwok, SBS, MH, JP
Hon CHUNG Kwok-pan
Hon Alvin YEUNG
Hon Andrew WAN Siu-kin
Hon CHU Hoi-dick
Hon Jimmy NG Wing-ka, JP
Dr Hon Junius HO Kwan-yiu, JP
Hon LAM Cheuk-ting
Hon Holden CHOW Ho-ding
Hon SHIU Ka-fai
Hon SHIU Ka-chun
Hon Wilson OR Chong-shing, MH
Hon YUNG Hoi-yan
Dr Hon Pierre CHAN
Hon CHAN Chun-ying
Hon Tanya CHAN
Hon CHEUNG Kwok-kwan, JP
Hon LAU Kwok-fan, MH
Hon Jeremy TAM Man-ho
Hon Nathan LAW Kwun-chung
Dr Hon YIU Chung-yim

Members absent:

Hon LEUNG Yiu-chung
Hon YIU Si-wing, BBS
Hon CHAN Han-pan, JP
Hon LEUNG Che-cheung, BBS, MH, JP
Hon Kenneth LEUNG
Hon Alice MAK Mei-kuen, BBS, JP
Dr Hon KWOK Ka-ki
Hon KWOK Wai-keung
Hon Dennis KWOK Wing-hang
Dr Hon Helena WONG Pik-wan
Hon HO Kai-ming
Hon HUI Chi-fung
Hon LUK Chung-hung

Hon Kenneth LAU Ip-keung, MH, JP
Dr Hon CHENG Chung-tai
Hon KWONG Chun-yu
Dr Hon LAU Siu-lai

[According to the Judgment of the Court of First Instance of the High Court on 14 July 2017, LEUNG Kwok-hung, Nathan LAW Kwun-chung, YIU Chung-yim and LAU Siu-lai have been disqualified from assuming the office of a member of the Legislative Council, and have vacated the same since 12 October 2016, and are not entitled to act as a member of the Legislative Council.]

Public officers attending:

Ms Elizabeth TSE Man-yee, JP	Permanent Secretary for Financial Services and the Treasury (Treasury)
Ms Carol YUEN, JP	Deputy Secretary for Financial Services and the Treasury (Treasury) 1
Mr Alfred ZHI Jian-hong	Principal Executive Officer (General), Financial Services and the Treasury Bureau (The Treasury Branch)
Mr James LAU, JP	Under Secretary for Financial Services and the Treasury
Ms Jeanne FUNG	Assistant Secretary for Financial Services and the Treasury (Financial Services) 6

Clerk in attendance:

Ms Anita SIT	Assistant Secretary General 1
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Staff in attendance:

Ms Ada LAU	Senior Council Secretary (1)7
Mr Raymond SZETO	Council Secretary (1)5
Miss Queenie LAM	Senior Legislative Assistant (1)2
Mr Frankie WOO	Senior Legislative Assistant (1)3
Miss Yannes HO	Legislative Assistant (1)6

Item No. 1 — FCR(2017-18)2

CAPITAL INVESTMENT FUND

NEW HEAD — ASIAN INFRASTRUCTURE INVESTMENT BANK

New Subhead — "Capital Subscription in the Asian Infrastructure Investment Bank"

The Finance Committee ("FC") continued with the deliberation on item FCR(2017-18)2.

Advantages of joining the Asian Infrastructure Investment Bank

2. Mr Abraham SHEK and Mr Holden CHOW spoke in support of Hong Kong joining the Asian Infrastructure Investment Bank ("AIIB") and indicated that Hong Kong's membership in an international multilateral financial institution as a non-sovereign entity was a good demonstration of the working of the "one country, two systems" principle.

3. Mr Holden CHOW, Dr Elizabeth QUAT and Ms Starry LEE queried that other members objected to Hong Kong's membership in AIIB because they did not understand the Belt and Road Initiative and were complacent about the present situation, which was not conducive to the development of Hong Kong.

4. Mr LAU Kwok-fan and Dr Junius HO pointed out that albeit without the participation of the United States and Japan, the fact that many countries outside Asia had joined AIIB bore testimony to the strategic value of AIIB. Hong Kong would enjoy promising prospects by joining AIIB. Dr HO considered that the item had been deliberated extensively at the Panel and urged members of the pan-democratic camp to stop filibustering and support the item.

5. Mr Jeffrey LAM expressed support for the item. He considered that Hong Kong, as an international financial centre, should take measures to facilitate the raising of funds in Hong Kong. If Hong Kong joined AIIB and bid successfully for AIIB to establish a treasury centre in Hong Kong, the additional fundraising and other opportunities that would be created could bring a lot of benefits to Hong Kong. Under Secretary for Financial Services and the Treasury ("USFST") concurred with Mr LAM.

6. Mr LEUNG Kwok-hung, Mr Nathan LAW, Dr Fernando CHEUNG, Mr SHIU Ka-chun, Ms Claudia MO and Ms Tanya CHAN said that it was not apparent that Hong Kong's membership in AIIB would bring about substantive benefits, they therefore queried that it was a political decision to curry favour with the Mainland authorities. Mr LEUNG criticized that the Administration had, on the one hand, frequently claimed that it did not have sufficient funds to strengthen social welfare and medical services, but it would spend \$6 billion of public money to join AIIB on the other. Dr CHEUNG queried that there was no proof that AIIB members had a competitive edge over other countries and regions in securing contracts for AIIB projects, and therefore there was no justification to say that joining AIIB would create business opportunities. These members objected to the funding application.

7. Dr YIU Chung-yim queried that the expected returns from AIIB loans were low since AIIB loans were charged a fixed spread to the London Interbank Offered Rate ("LIBOR"), but the sovereign credit rating of some AIIB projects was BBB-, the high-risk category. In addition, while the Administration stressed that it would not expect to have a real return from its membership in AIIB, the operation of AIIB had a target rate of return, and cost-benefit analyses were conducted on AIIB projects. It ran contrary to the Administration's remark. Sharing a similar view, Ms Tanya CHAN considered that Hong Kong should not hastily take part in high-risk investment projects.

8. Mr CHU Hoi-dick pointed out that unlike the Asian Development Bank ("ADB"), representatives of members of AIIB's Board of Directors ("BoD") were not stationed in AIIB's headquarters and had to travel a long way to Beijing to attend meetings. Therefore, he considered that the decision-making process might be led by AIIB's administration team which was headed by representatives of China and AIIB's President. He also queried that Hong Kong, with its small amount of shares, would not have the chance to substantively participate in the decision-making process.

9. Mr Jeremy TAM asked whether the Administration would apply to AIIB for financing to build the three-runway system at the airport. He pointed out that there had been a precedent in which a member state (India) applied to AIIB for financing. The Administration should give favourable consideration to that option.

10. Mr CHAN Chi-chuen and Mr James TO were worried that AIIB might in future ask Hong Kong to increase its capital subscription. Mr TO asked what the consequences would be if, by that time, Hong Kong did not increase its capital subscription.

11. In response, USFST said that:

- (a) as a multilateral development bank ("MDB"), AIIB set an objective of assisting in regional development, rather than making investment profits. After Hong Kong had joined AIIB, the direct return to Hong Kong's equity capital, if any, was expected to be limited, but AIIB itself would set rates of return for AIIB-financed projects;
- (b) the sovereign credit rating of AIIB's individual projects, being a BBB- investment grade, was actually not a low rating. Moreover, AIIB's objective was to fund countries with development needs to develop the economy, which naturally gave rise to higher risks. AIIB had also put in place a Risk Management Framework;
- (c) while representatives of AIIB's BoD members were not stationed in Beijing, this arrangement would not affect the actual powers enjoyed by BoD members;
- (d) despite its relatively small proportion of shareholding, Hong Kong, as a member, could convey its views to the representative of its constituency who would then voice them to BoD;
- (e) in terms of the level of economic development, Hong Kong was not AIIB's financing object;
- (f) if Hong Kong joined AIIB as a member, it stood a better chance in its bid for AIIB to set up a sub-office and to conduct its financing and bond issuance activities in Hong Kong. The chance of Hong Kong participating in relevant infrastructure projects would also be higher; and

- (g) it had so far not come to the attention of the Administration that there would be a chance for AIIB to request for an increase in capital subscription. In case some large and newly-developed countries joined AIIB, the possibility of requests for increase in capital subscription might then arise. By that time, the Government could choose to increase its capital subscription or allow its shares to be diluted. If the Government chose to increase its capital subscription, it would submit relevant proposals to FC for consideration. The Administration could not make an undertaking that it would not increase its capital subscription.

Operation of AIIB

12. Mr CHU Hoi-dick pointed out that unlike the World Bank, AIIB did not have a complaint mechanism to handle complaints from indigenous inhabitants affected by the development plans carried out in borrowing countries. He asked the Administration whether, after Hong Kong had joined AIIB, it would propose to AIIB the introduction of such mechanism under its Environmental and Social Framework.

13. In response, USFST pointed out that the implementation of the Environmental and Social Framework required multilateral discussions and the reaching of a consensus. If the Hong Kong Government hoped to express views on AIIB's Environmental and Social Framework, it must, first of all, join AIIB and become a member of AIIB's Board of Governors.

14. Mr Nathan LAW noted that upon AIIB's request, the Administration had seconded three civil servants to AIIB which Hong Kong had not yet joined. He queried that it was not appropriate for the Administration to deploy civil servants to Beijing without consulting the Legislative Council ("LegCo") and the public. He considered that AIIB should pay for the expenses incurred during the period when these civil servants worked in AIIB. Mr CHAN Chi-chuen shared a similar concern.

15. In response, USFST pointed out that three civil servants had been seconded to AIIB to take part in administrative support, human resources management, budgeting system development, etc. Under the existing mechanism, there was no need to consult LegCo on the deployment of civil servants, which came under the purview of the Administration. The Administration considered that the secondment of civil servants to AIIB could broaden the international insights of the civil servants concerned, which was beneficial to their professional development.

Meeting arrangements

16. At 6:37 pm, the Chairman declared that as the Committee had scrutinized the item for more than seven hours and nearly 30 members had spoken for over 70 times, he considered that members had been given sufficient time to speak and express their views. He directed that after all the members on the list of members waiting to speak had spoken, the Committee would proceed to the last round of speaking in which each member might speak for not more than three minutes. The questioning session would then come to a close.

Last round of speaking

17. Mr LEUNG Kwok-hung and Dr Fernando CHEUNG once again criticized that the Administration had, on the one hand, frequently claimed that it did not have sufficient funds to strengthen social welfare and medical services, but it would spend \$6 billion of public money to join AIIB on the other. They considered that AIIB's investment initiatives sought to meet the policy objective of the Mainland authorities to export surplus production capacity, and that Hong Kong should not use public funds to serve such purpose.

18. Mr SHIU Ka-fai said that the Liberal Party supported Hong Kong's participation in AIIB and agreed with the Administration that the investment of \$6 billion public funds should not be pegged with its expenditure on social welfare and medical services.

19. Mr Nathan LAW and Dr Fernando CHEUNG criticized that the Administration had so far failed to elaborate, in concrete terms, the practical advantages that would be brought to Hong Kong by its membership in AIIB. The explanations offered by the Administration were mostly hypotheses. They opined that AIIB and the Mainland's Belt and Road Initiative were meant to complement each other, but the Belt and Road Initiative's practical benefits were questionable. Therefore, they considered that joining AIIB was an investment decision with low returns and high risks, a mistake that would cost \$6 billion public money. They also queried how Hong Kong could benefit from AIIB-funded development projects which were mostly carried out in underdeveloped regions, such as Myanmar and Bangladesh.

20. USFST pointed out that Hong Kong enterprises had made various types of investment in the regions mentioned by members, Hong Kong could therefore benefit from the AIIB-financed infrastructure projects in these regions. In addition, Hong Kong's experience with ADB was testimony to the benefits that could be brought to Hong Kong enterprises by participating in MDB projects.

21. At 7:09 pm, the Chairman declared that the meeting ended.

22. The meeting ended at 7:09 pm.

Legislative Council Secretariat
9 March 2018