

立法會
Legislative Council

LC Paper No. CB(1)401/17-18(08)

Ref: CB1/PL/FA

Panel on Financial Affairs

Meeting on 5 January 2018

**Background brief on Hong Kong's participation
in the Asian Infrastructure Investment Bank**

Purpose

This paper provides background information on Hong Kong's participation in the Asian Infrastructure Investment Bank ("AIIB"). It also summarizes the major views and concerns expressed by Legislative Council ("LegCo") Members on the subject since the Fifth LegCo.

Background

Overview of the Asian Infrastructure Investment Bank

2. AIIB is a Multinational Development Bank ("MDB") designed to provide financial support for infrastructure development and regional connectivity in Asia. Its missions are to foster sustainable economic development, create wealth and improve infrastructure connectivity in Asia by investing in infrastructure and other productive sectors. It also aims at encouraging private investment in projects, enterprises and activities contributing to economic development in the region.

3. In December 2015, 57 countries signed the Articles of Agreement ("AoA") for establishing AIIB. AIIB is headquartered in Beijing and commenced operation in January 2016. Membership of AIIB is open to members of the International Bank of Reconstruction and Development or the

Asian Development Bank, and is divided into regional and non-regional members.¹

The Asian Infrastructure Investment Bank Project Preparation Special Fund

4. The operations of AIIB are funded by: (a) ordinary resources, such as authorized capital stock; and (b) Special Funds designed to serve specific purposes and functions. For the latter, a special fund, namely Project Preparation Special Fund,² was set up in June 2016 to provide grants for carrying out technical preparation (such as procurement advisory services and environmental and social assessment) for projects financed by AIIB in eligible member countries.³ The Project Preparation Special Fund is open to member contributions and as at March 2017, it has received a financial support from China and the United Kingdom in an amount of US\$50 million and £40 million respectively.

Hong Kong's membership in the Asian Infrastructure Investment Bank

5. According to the Government, Hong Kong should join AIIB as a member based on the following considerations:

- (a) 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 AIIB's operations;
- (b) as Hong Kong has experts in project negotiation, preparation of works and management contracts and international law as well as professional arbitration services, it can also take part in the planning, implementation and operation of infrastructure projects.

¹ Hong Kong is a member of the Asian Development Bank.

² The rules and regulations of the Asian Infrastructure Investment Bank Project Preparation Special Fund are at: https://www.aiib.org/en/projects/preparation-special-fund/.content/index/_download/rules-and-regulations.pdf.

³ Eligible members of the Asian Infrastructure Investment Bank ("AIIB") are those who are the funding recipients from the International Development Association, which is part of the World Bank providing help to the world's poorest countries.

Hong Kong's membership should stand local companies in good stead to participate in AIIB's projects;

- (c) the above developments will help reinforce Hong Kong's position as an international financial centre;
- (d) Hong Kong's membership and contribution to AIIB's capital will underline its commitment to the bank, which will strengthen Hong Kong's standing and credibility in its bid for AIIB to set up a sub-office as well as issuance of bonds in Hong Kong to support AIIB operations; and
- (e) AIIB is one of the few multilateral financial institutions in which Hong Kong can become a full member in its own right, albeit as a non-sovereign entity. This is a good demonstration of the working of the "One country, two systems" principle.

6. The Government indicated in December 2014 to the Central People's Government its intent to join AIIB as a non-sovereign member. AIIB announced on 23 March 2017 that its Board of Governors had approved the terms for Hong Kong's membership including the amount of capital subscription.

Hong Kong's subscription of shares in the Asian Infrastructure Investment Bank

7. According to Article 5.1 of AoA, "[e]ach member shall subscribe to shares of the capital stock of the Bank."⁴ The paid-in part of the subscribed capital should be 20% and the callable part 80%, and the paid-in capital shall be made in five equal installments (Articles 5.1 and 6.1 of AoA). Having regard to AIIB's advice on capital subscription, the Government submitted in mid-2017 a funding proposal seeking the Finance Committee's ("FC") approval for the creation of a commitment of HK\$ six billion (equivalent to US\$765.1 million) to enable Hong Kong to subscribe 7 651 shares of AIIB and become a member of AIIB ("the funding proposal on AIIB"). Among the 7 651 shares, 1 530 shall be paid-in shares amounted to HK\$1.2 billion (payable over five years starting

⁴ The authorized capital stock of AIIB is US\$100 billion, divided into one million shares having a par value of US\$100,000 each (Article 4.1 of AoA). The basic parameter for allocation of capital stock to AIIB members is the relative share of the global economy of the relevant member. The Administration indicated that under-subscription (but not over-subscription) of shares by an AIIB member was allowed.

from 2017-2018), and 6 121 shall be callable shares amounted to HK\$4.8 billion.⁵

8. FC approved the funding proposal on AIIB at the meeting on 12 May 2017. Hong Kong was admitted as a member of AIIB on 13 June 2017 after completing the necessary legal procedures.

Major views and concerns expressed by Members

9. The Government consulted the Panel on Financial Affairs ("FA Panel") on the funding proposal on AIIB at the meeting on 16 March 2017. FC discussed the funding proposal on AIIB at its meetings on 2, 5 and 12 May 2017. Members also enquired about the progress of Hong Kong's participation in AIIB during the briefing on relevant policy initiatives in the Chief Executive's 2017 Policy Address at the FA Panel meeting on 6 February 2017, and the special meeting of FC on 3 April 2017 for the examination of the Estimates of Expenditure 2017-2018. The major views and concerns expressed by Members at the above meetings are summarized in the ensuing paragraphs.

Justifications and benefits for Hong Kong to become a member of the Asian Infrastructure Investment Bank

10. Some Members supported Hong Kong's application for AIIB membership, which could help Hong Kong tap the opportunities arising from the Belt and Road Initiative, maintain Hong Kong's status as an international financial centre, and served as a good demonstration of the working of the "One country, two systems" principle. They sought the Administration's assessment on the benefits to Hong Kong after becoming a member of AIIB, and the Administration's measures in assisting local companies and industries to tap the various opportunities. Some other Members were not convinced that Hong Kong's membership in AIIB could bring substantive benefits to Hong Kong and queried if the proposal was a political decision to please the Mainland authority. These Members raised concerns about the high level of risk of projects financed by AIIB and the possibility that Hong Kong would be asked to increase its capital subscription in AIIB.

11. On the benefits for Hong Kong after joining AIIB, the Government advised that these would depend on the investment appetite of local industries

⁵ The Administration indicated that the callable shares would become Hong Kong's contingent liability. No payment would actually be made for the callable shares unless AIIB needed to call on its members' callable subscriptions.

and companies for AIIB's projects. While it would be difficult to quantify the anticipated benefits at the moment, the Government observed that a number of Hong Kong companies including the Airport Authority Hong Kong and the MTR Corporation had been engaging in overseas infrastructure projects. At Members' request, the Government provided supplementary information on the costs and benefits of Hong Kong's participation in AIIB.⁶

12. As for the risk of AIIB projects, the Government pointed out that AIIB's objective was to fund countries with development needs to develop their economies, and this naturally gave rise to higher risks. AIIB had put in place a Risk Management Framework and the Board of Directors would conduct due diligence to identify project risks. Should Hong Kong have any views, enquiries or concerns about AIIB projects, it could inform the representative of its constituency who would then voice them to the Board of Directors.

13. Regarding the need for Hong Kong to increase its capital subscription in AIIB, the Government advised that while a multilateral financial institution could request its members to increase their capital subscription in case of liquidity deficiencies, the Government was not aware of any multilateral financial institution had ever requested its members to increase their capital subscription or had to draw on its members' callable subscription. Hong Kong would only be required to make payment for its callable shares upon AIIB's request. If, after the payment on the callable subscription, AIIB still requested Hong Kong to increase its capital subscription, Hong Kong could choose to increase its capital subscription or allow its shares to be diluted. If the Government chose the former, it would submit relevant funding proposals for FC's consideration.

Establishment of a sub-office of the Asian Infrastructure Investment Bank in Hong Kong

14. Members enquired about the progress of discussion with AIIB on the proposal to establish its corporate treasury centre ("CTC") in Hong Kong. Members further urged the Administration to seek the Mainland's support on the matter and the relevant bureaux/departments to examine the provision of auxiliary facilities (like housing and international schools for expatriates) in order to complement the establishment of AIIB's CTC in Hong Kong.

⁶ LC Paper Nos. FC89/16-17(02) and FC122/16-17(04) to (06) issued on 31 March and 28 April 2017 respectively, and LC Paper No. CB(1)763/16-17(02) issued on 3 April 2017.

15. The Government advised that it had been maintaining close contact with the Ministry of Finance (which led the work in the establishment of AIIB) on the proposal to set up an AIIB sub-office in Hong Kong. Hong Kong had a competitive edge owing to its proximity to the Mainland and strengths in the financial services sector. As many members (both regional and non-regional) of AIIB had expressed interests in the matter, apart from liaising with the Mainland authority and AIIB, the Government would adopt other strategies including the secondment of civil servants at the request of AIIB's management to assist the latter's operations, which would help strengthen Hong Kong's standing and credibility in the bid for set up an AIIB sub-office in Hong Kong.

Governance and operation of the Asian Infrastructure Investment Bank

16. Members enquired about the composition of AIIB's Board of Governors and Board of Directors, their respective voting mechanisms, and the appointment of Hong Kong's representatives in AIIB as well as how Hong Kong's views and interests could be represented in the Bank.

17. The Government advised that each AIIB member including Hong Kong could appoint one Governor and one Alternate Governor on its own to AIIB's Board of Governors, which was the governing body of AIIB and had powers, among other things, to admit new members and make amendments to AoA. The Board of Directors, which was composed of 12 members elected by the Governors of AIIB with one Director returned from each of the 12 constituencies, was responsible for the daily operation of AIIB. Each Director shall represent one or more members in a constituency. It was envisaged that Hong Kong would join the constituency covering the Mainland, and could participate in the election of AIIB Directors. At Members' request, the Government had provided supplementary information on the governance of AIIB and Hong Kong's role in AIIB.⁷

18. In response to Members' enquiry about the procedures in inviting tenders for AIIB's projects and awarding the contracts, the Government advised that the project proponent of an AIIB project would determine both the tender arrangement for and the award of contract of the project. AIIB would develop procedures and guidelines for compliance by project proponents ensuring the conduct of tender exercises in an open and transparent manner. The information on approved projects would be uploaded onto AIIB's website and

⁷ LC Paper No. CB(1)763/16-17(02) issued on 3 April 2017, LC Paper Nos. FC89/16-17(02) and FC122/16-17(04) and (05) on 31 March and 28 April 2017 respectively.

accessible by the public. The Government would participate in relevant events of AIIB to promote Hong Kong's strength in financial and professional services.

The Asian Infrastructure Investment Bank Project Preparation Special Fund

19. Members enquired about the financial implications on AIIB and Hong Kong if there were defaults on the Project Preparation Special Fund, and the difference in the return rates and associated risks of projects financed by AIIB's authorized capital stock and the Project Preparation Special Fund respectively.

20. The Government advised that the purpose of the Project Preparation Special Fund was to provide grants to its less developed members to support and facilitate the preparation of projects to be financed by the bank. The Project Preparation Special Fund was independent from the authorized capital stock of AIIB and members' contribution to the Fund was voluntary. The funding proposal on AIIB was about subscription of AIIB's capital, not donation to the Project Preparation Special Fund.

Council questions

21. Since mid-2016, Members have raised a number of questions on the progress of Hong Kong's participation in AIIB at Council meetings. Details of the LegCo questions are given in the hyperlinks in the **Appendix**.

Latest development

22. The Government will consult FA Panel on its proposed contribution to the Project Preparation Special Fund at the meeting on 5 January 2018. The Government will also brief member on the work progress of AIIB.

Relevant papers

23. A list of relevant papers is in the **Appendix**.

List of relevant papers

Date	Event	Paper/minutes of meeting
6 February 2017	The Panel on Financial Affairs ("FA Panel") was briefed on the policy initiatives in the 2017 Policy Address	Administration's paper (LC Paper No. CB(1)459/16-17(04)) Minutes (LC Paper No. CB(1)788/16-17)
16 March 2017	The Administration briefed FA Panel on the funding proposal regarding Hong Kong's application for AIIB membership ("the funding proposal")	Administration's paper (LC Paper No. CB(1)660/16-17(03)) Fact sheet prepared by the Research Office of Legislative Council Secretariat (LC Paper No. FS03/16-17) Minutes (LC Paper No. CB(1)1178/16-17) Administration's follow-up paper (LC Paper No. CB(1)763/16-17(02))
3 April 2017	Members raised questions relating to the progress of Hong Kong's participation in AIIB during the examination of the Estimates of Expenditure 2017-2018	Minutes (Chapter 8 on financial services)
12 April 2017	Hon Kenneth LEUNG raised a written question on "Hong Kong's joining the Asian Infrastructure Investment Bank"	Hansard (pages 6017 – 6020)

Date	Event	Paper/minutes of meeting
2, 5 and 12 May 2017	The Finance Committee scrutinized and approved the funding proposal	Administration's paper (FCR(2017-18)2) Further information papers provided by the Administration 1 , 2 , 3 and 4 (FC89/16-17(02), FC122/16-17(04), (05) and (06))