

Investing in a Greener Future

In response to its escalating environmental crisis, China has found itself leading the charge in green finance initiatives across the region. Meanwhile, perched on its doorstep, open, free-trading Hong Kong is well placed to facilitate China's goals while reinventing its own image as a green finance hub

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Photo: pixabay

At the annual G20 summit in September 2016, China announced plans to make “green finance” a pillar issue of its presidency, and with good reason. The nation’s environmental crisis is intensifying with unprecedented speed each year, with levels of pollution that can no longer be tolerated or ignored.

According to the Green Finance report released in May 2016 by the Hong Kong Financial Services Development Council (HKFSDC), China’s air quality is satisfactory in only 8 out of 74 major cities, and just 25 percent of the country’s drinking water reaches national quality standards.

The solution isn’t simple or cheap. In March 2015, the People’s Bank of China (PBOC) estimated that China would need to invest over US\$1.5 trillion (US\$305 billion each year over five years) in order to meet its environmental goals outlined in the pledge it made to the 21st Conference of Parties (COP21) at the Paris Climate Conference in 2015.

These goals, which China hopes to achieve by 2030, include the peaking of carbon dioxide emissions, and to increase the share of non-fossil fuels in its primary energy consumption by 20 percent. Of the US\$1.5 trillion investment amount, China’s government has said it can only contribute 15 percent, leaving an annual deficit of US\$260 billion to be met by the private sector, locally and abroad.

The global green bond market

Fortunately for China, investor demand for green investment opportunities is growing throughout the region and globally. Still, the challenge lies in developing the necessary financial infrastructure to efficiently match investor capital (demand) with new and existing green investment opportunities.

In its report, the HKFSDC recommends the issuance of green bonds to kick-start green financing activity in Hong Kong’s private sector. Under this scheme, issuers can issue “green bonds” (labelled as such) to fund their green projects, and in return, investors are given opportunities to support low-carbon or sustainable projects with low-risk financial returns.

Hong Kong would certainly not be the first; many countries have entered the green marketplace over the last few years. In 2015, the value of the global green bond market was worth approximately US\$42 billion, nearly doubling in 2016 as anticipated, under the impetus of China’s green financing requirements [see Chart 1].

China leading the way

As evidence of its commitment to a greener economy, China’s government has taken several steps towards



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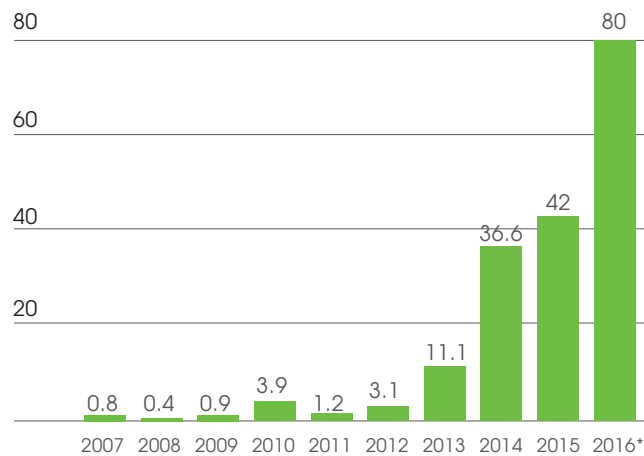


Photo: G20 China official website



Green bond issuance by year

In US\$ billion



*Estimate

Source: Climate Bond Initiative, Moody's

improving the facilitation of green financing within the country, starting with an announcement in 2015 of its intention to merge seven carbon trading pilot programs into a national market by 2017. If successful, this will create the world's largest carbon exchange.

With RMB75 billion (US\$11 billion) worth of green bonds issued in the first half of 2016 alone, China is already the world's largest green bond market and growing, fueled by demand that is estimated to be worth twenty times as much as the current financing, according to research published by the PBOC.

In spite of its progress, China still struggles with international concerns regarding the integrity and transparency of its financial reporting processes, and frequently fields doubt about whether investor finances are genuinely flowing into green projects.

Hong Kong's role

Due to Hong Kong's status as the world's second



Photo: Thinkstock

largest recipient of foreign direct investment, its role as China's principal offshore RMB center, and its special relationship with the mainland; along with its well-regulated financial markets, its free flow of information and rule of law; the Special Administrative Region (SAR) is uniquely placed to help China raise the funding it needs to meet its environmental goals, while establishing itself as a leading green finance hub at the same time.

But for the special territory, honing a reputation in green finance is about survival over face. For a city in which the Financial Services sector makes the highest contribution per capita to GDP, and provides business for other important service sectors such as law and accountancy, maintaining a leading position and steady rate of growth in the industry is crucial to its future.

This involves being at the forefront of the shift from a "brown," fossil-fuel reliant economy to a sustainable "green" one, in acknowledgment of the increasing awareness and interest in environmental protection

across the region.

Investor behavior in recent years reinforces this trend, with a growing number choosing to avoid carbon-intensive investments.

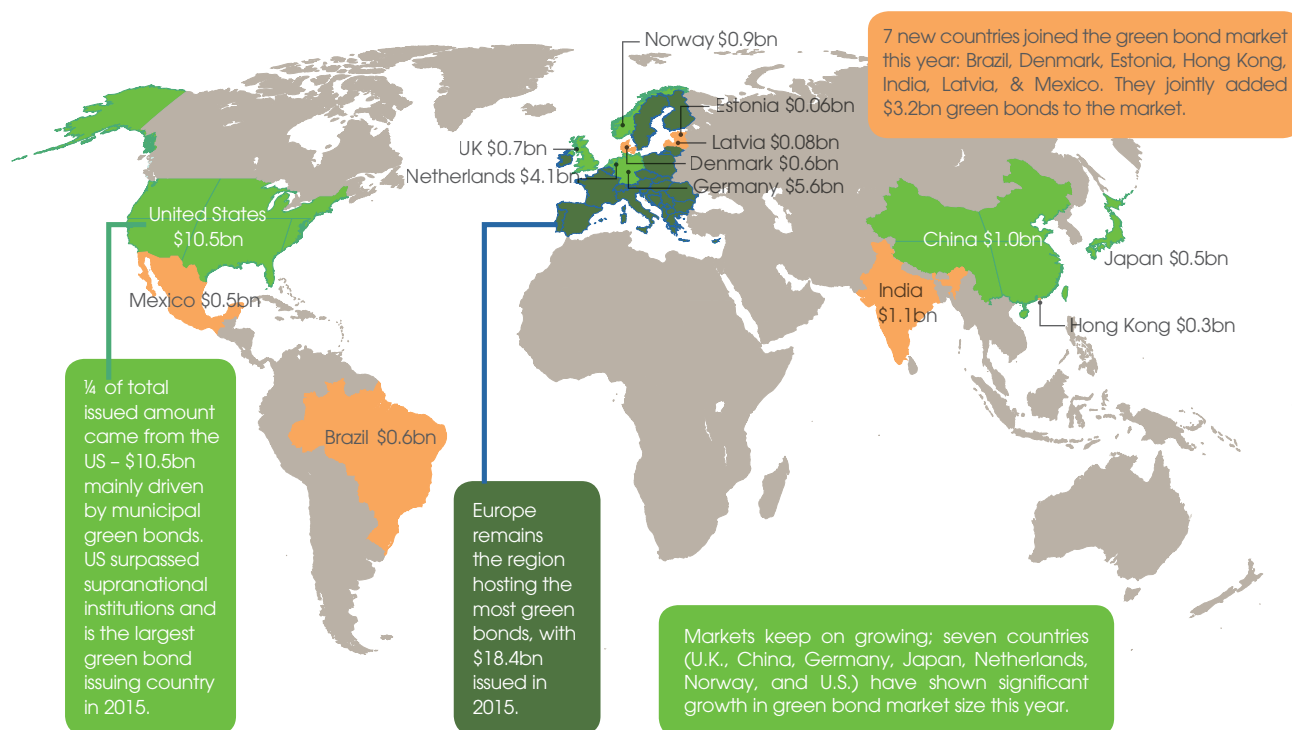
In June 2015, Hong Kong saw its first green bond issued by Chinese wind energy firm Xinjiang Goldwind Science & Technology. Receiving orders of US\$1.4 billion, the US\$300 million green bond was nearly five times over-subscribed, indicating the extent of new demand for green investment opportunities.

Playing catch up

For a city of its economic influence and potential, Hong Kong still lags disappointingly behind on the green finance front; the issue of sustainability remains a mere afterthought for many businesses in the territory.

With the exception of Xinjiang Goldwind's US\$300 million issue, the city hasn't had much action in the green bond market compared to rival financial centers

From tall trees to green shoots: green bonds are spreading across the world



Source: Year 2015 Green Bonds Final Report, Climate Bond Initiative

What is Green Finance?

According to the HKFSDC, green finance is “a broad term that refers to capital raising and financial investments flowing into projects, products and companies that support the development of a more sustainable, low-carbon and climate resilient economy.”

Examples of green projects include: Clean energy; pollution control; green buildings, transportation and infrastructure; energy efficiency; sustainable resource management; and environmental services such as waste management and sustainable forestry.

What is Carbon Trading?

Carbon or emissions trading, also called “Cap and Trade,” refers to a regulatory, market-based system designed to control global pollution levels by providing companies with economic incentives to lower their carbon emissions.

like New York and Singapore. Even the locally-listed Industrial and Commercial Bank of China (ICBC) chose to issue its RMB-denominated green bond out of London at the end of 2015.

According to the FSDC report, any progress made has been driven mainly by market opportunities rather than as a result of deliberate government policy or regulations. This is how Hong Kong’s financial services sector has traditionally evolved, with the government merely responding to market developments throughout the years.

But in order for the territory to remain competitive, the government must play an active role in stimulating green growth within the private sector, starting with a commitment of its own funds towards green projects currently in need of capital investment.

A flourishing green finance sector would bring a multitude of benefits to Hong Kong, including – but not limited to – the creation of more employment opportunities, a locally-based source of finance for the city’s own projects, and attracting entrepreneurs in green industries to raise capital and seek listings here.

If the economic reasons alone aren’t enough to convince Hong Kong people to “go green,” perhaps the prospect of better air quality will change their minds. 🇭🇰