SUPER CONNECTOR

Charles Li, ex-chief of HKEX turned digital entrepreneur, tells about the enduring allure of Hong Kong as a financial hub. The city remains, he says, the "most Chinese" market for international money, and the most international market for Chinese businesses. BY SHU-CHING JEAN CHEN

CHARLES Li has turned efficiency, creativity and connection in finance into an art form. As chief executive of the Hong Kong Exchanges and Clearing (HKEX) between 2010 and 2020, he has been a key player in the city's sustained growth as a global financial centre over the decade, in particular linking it closely with China's rise.

Until the end of last year, when he stepped down from his position, Mr Li had been the most visible, convincing and vocal spokesperson for Hong Kong finance. He describes Hong Kong's status in the world of international finance as a "super converter and connecter". And those words are also an apt description of his own role.

Mr Li's career orbit has coincided with the opening and internationalisation of China's economy, a rapid progression that he helped shape from his position near Hong Kong's power centre. In his office, top dealmakers from China met their counterparts from the rest of the world.

At the capitalist-communist fault line of Hong Kong, he catalysed and induced seismic changes by connecting two disparate worlds, deftly navigating legal, banking and regulatory differences.

"The role of the Hong Kong market has evolved quite a bit, from a capital formation centre, gradually, to a capital connectivity centre; and over time could become a currency connectivity centre," explains the lawyer-turned-stock exchange boss. "So it evolves along with the change that China is experiencing, and now the changes in the global market."

Mr Li is speaking from an office above the trading floors of the Hong Kong Stock Exchange, not far from his former executive perch at HKEX, the bourse's parent company. Sitting unmasked at one end of a conference table, he is dressed in the togs of his new identity as a born-again entrepreneur: smart casual, in a grey-blue polo shirt and matching trousers. He is scheduled to play football in the evening, a sport he, like many other Hong Kong residents, is passionate about.

Mr Li is not native to the city, however. He was born in Beijing in 1961, but grew up in a rural mining town in Gansu at the foot of the Qilian Mountains, where China discovered its very first oil field in the 1930s. As a teenager during the Cultural Revolution, he worked for a time at an offshore oil field. It was better than being sent to work on a farm in the remote countryside, like many of his contemporaries were. "It was the best that could have happened to me, vis-a-vis other alternatives," he says. "I loved it."

Like his entire generation, Mr Li missed out on high school, since schools were closed then. He learned English by listening to Voice of America on short-wave radio. When universities reopened, he took the examination and won admission to Xiamen University's English literature department. Upon graduation, he had scored high enough to get a job in Beijing as a journalist for *China Daily*.

The young Mr Li decided to pursue his long-term desire to study in the United States and, knowing nothing about US universities, started applying to schools in alphabetical order. Both he and his wife, who is also from China, were offered scholarships by the University of Alabama, where he earned a Master's degree in journalism in 1988.

Graduation did not land him a job, so he applied to study law at Columbia University, on the foundation of an undergraduate course in media law. It turned out to be a good move career-wise. Armed with a juris doctor degree, he had better luck.

PHOTO: CHARLES LI

"People would be disappointed if they assume that I was very calculated in making my career moves. Well planned, that's not the case," he says.

His first two jobs in law were in New York at two top legal firms, first with Davis Polk and Wardwell and then with Brown & Wood. His attention soon turned to China. The timing was perfect; it was the early 1990s and China had just opened the floodgates to its companies seeking to list stocks domestically and in Hong Kong.

"I quickly became focused on China listings; there were too many deals," he says.

One of his clients, Merrill Lynch, poached him from his law firm and diverted his career into investment banking. A boom in securities issuances, initial public offerings (IPOs) and mergers and acquisitions from China led to frequent travel between New York and Hong Kong.

But the personal toll of routine long-distance travel proved too great, and he relocated to Hong Kong, where he soon rose to head Merrill Lynch's China team as president. He stayed at the firm for nine years.

In 2003, a recruitment drive by JP Morgan to rebuild an Asia equity business landed him the post of chairman at JP Morgan China. Six years later, he got a call from a headhunter. The HKEX was looking for a chief executive officer (CEO). It was an exciting opportunity for yet another career move. The two previous CEOs had been local Cantonese speakers. But Mr Li, who does not speak Cantonese, convinced the HKEX board that it was important to gravitate towards China, and he won the job.

As HKEX CEO, he spoke to local reporters in Mandarin. "I felt my job was to be a good communicator," he explains. "If I did not speak the language effectively, I would compromise my ability to communicate. So I might as well stick with the language I was comfortable with and have a translator."

The result? The HKEX has grown, not only in size, but by every possible metric during his tenure. By the time he left at end-2020, the combined capitalisation of its listed firms had grown to HK$47.5 trillion (S$8.21 trillion), from HK$21 trillion in 2010, with 80 per cent from mainland firms. Daily turnover leaped to HK$129.5 billion, up from HK$69 billion. HKEX, whose stock is also listed, saw its own market capitalisation grow over the period from HK$190 billion to HK$579.4 billion, as the world's most valuable bourse.

"No matter how you look at it, it's a great success," he says matter of factly, without any trace of bragging.

The exchange diversified into fixed income, currency and commodities through a bold US$1.9 billion acquisition of the London Metal Exchange in 2012 and a push into clearing services for fixed income and currencies with the launch of OTC Clear in 2013.

Concurrently, it crafted an innovative, two-way channel to reach the onshore markets in China, Shanghai and Shenzhen, with a so-called Stock Connect scheme and a similar bond trading scheme called Bond Connect.

A structural overhaul in 2018 geared the exchange towards tech and new economy stocks, which today make up the bulk of its total market capitalisation. Previously, financials and property stocks accounted for the lion's share.

Most significantly, 63 per cent of the HK$398 billion in IPO funds raised in 2020 came from the new economy, up from 35 per cent of 2017's HK$128 billion in IPO funds. The 2018 reform also paved the way for listings by money-losing biotech startups and turned the HKEX into the world's second largest biotech fundraising centre.

"We permanently changed the DNA of the Hong Kong exchange to new technology, new economy exchange," he says.

This was not without criticism. Mr Li had inherited a Growth Enterprise Market that did not quite take off. A break from the exchange's long-standing governance rules to allow weighted voting rights for Alibaba, Xiaomi, Meituan and other tech firms to list on the bourse received mixed reactions.

"We overcame our fundamentalist view of governance. We took the risk simply because the prevailing dominant market in the US had done so. There was no reason why we should not," he said.

These days, Mr Li is busy reinventing himself as a digital entrepreneur. With Gary Zhang, a friend of over 25 years, he co-founded the Numa Group, and in August launched the company's first product, Micro Connect, in front of a packed ballroom. The company's mission, he says, is to provide Chinese small businesses with funding that is tailored to their needs, "replicating the great agricultural success of drip irrigation".

"All the trees are connected with these plastic tubes, where water and nutrition can get to the roots of every single plant," he explains.

"China today is like that. We are simply finding a new way for finance to work wonders with these little guys simply because the network of digitisation finally allows us to do that, which means there is great transparency about revenue and cash flows of all these little companies. We are simply leveraging the network that is already there by working with the enterprises that control different knots of this digital network."

The new business will evolve in three phases. Micro Connect comes first, involving raising private equity funds from international investors and funnelling this capital into the "little guys" – street corner entrepreneurs, restaurant owners, barbershops, pharmacies or chain store franchises. Third-party digital platform operators like Tencent or Alibaba, or even franchisors like McDonald's, could act as a go-between and collect any revenue for investors daily.

The second and third phases will see a trading exchange for the listing of investment portfolios consisting of micro-enterprises. Instead of trading company stocks, institutional investors would trade revenue-distribution rights (a sort of certificate) to receive a percentage of daily cash earnings from portfolio companies. On bad days when a portfolio fails to yield profits, nothing would be shared.

It will be a race in numbers. In the first year, Mr Li aims to invest in 1,000 to 5,000 micro-enterprises. Within a year, he hopes to expand to 10,000, eventually reaching 100,000. The end goal is to reach a few hundred thousand companies – the cream of the crop in China's universe of 18 million small-and-medium enterprises, a sector that contributes nearly 50 per cent of the nation's tax revenue, 60 per cent of its gross domestic product (GDP), and 80 per cent of urban employment.

"Essentially, you'll have the revenues of these companies listed on this exchange, on a transparent platform," he adds. "With traditional companies, you don't know what's happening until the end of each quarter. With this one, every day you know what's going on. Nothing like that exists in the world today."

China's relentless crackdown on homegrown tech giants in recent months does not worry him.

"We are on the right side of the regulations. A lot of the financing activity that is on the receiving end of the regulatory action now typically has two fundamental faults: one is the source of funding, the second is the use of funding," he says.

The pitfalls lie in using Chinese banks' money and in providing credit. His solution is to tap global capital and provide financing in the form of equity, not debt.

"It's equity, in essence; permanent capital for the little guys. We will take more when they make more; take less when they make less. It's suitable for the little guys because credit is too rigid," he says.

Some investors are unsettled by the sweeping political changes in Hong Kong, fearing uncertainty, but Mr Li says he is unfazed about the long term. On the margin, people's sentiments may be affected; they may feel more constrained. But since most people come to Hong Kong for commercial business purposes, as long as the combined pie of opportunities from the East and the West continues to grow, he says it's irrelevant if one side is dominant at one time or another.

"Hong Kong's role relative to China and international markets has fundamentally not really changed, in the sense that it has always been the most Chinese market for international money, and the most international market for Chinese companies," Mr Li says.

"Hong Kong is a good place to live in, a good place to do business. It used to be a good place for people to play politics. It's probably not a great place for overtly political people, whatever their agenda. If you want to live here, you can live here freely, continue to do good business, but if you want to be here to cause political trouble, this is no longer a friendly place for you," he adds.

On one wall of his conference room hangs a painting, a colourful collage of more than 1,000 pictures on a backdrop of five Chinese characters, the Chinese name of the Hong Kong Stock Exchange. It is a retirement gift from his former staff, and captures the highlights of his 11-year run as the longest serving CEO at the exchange.

"Hong Kong allows me to do the two things that I enjoy most. I enjoy being Chinese, part of the China success story, and I enjoy being a global citizen. Hong Kong allows me to do that without any constraints. That's why people like me consider that nowhere in the world can be a better home than Hong Kong," he says.

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CHARLES LI

Founder and Chairman Numa Group, HK

1961: Born in Beijing, China

EDUCATION

1984: BA in English Literature, Xiamen University, China
1988: MA in Journalism, University of Alabama, US
1991: JD, Columbia Law School, US

1984-1986: Editor-reporter, China Daily, Beijing
1991-1993: Lawyer, Davis Polk & Wardwell, New York
1993-1994: Lawyer, Brown & Wood, New York
1994-2003: Merrill Lynch China, Hong Kong (President, 1999-2003)
2003-2009: Chairman, JP Morgan China, Beijing
2010-2020: Chief Executive, Hong Kong Exchanges and Clearing Limited, HK
Since 2021: Founder and Chairman, Numa Group and Micro Connect, HK

OTHER ROLES

Since 2018: Delegate, National Committee of the Chinese People's Political Consultative Conference
Since 2020: Member, The Council, University of Hong Kong
Since 2021: Member, Board of Directors, Nasdaq-listed Market Axess