Commencement Address
The School of Management and Economics
The Chinese University of Hong Kong (Shenzhen)

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Professor SHU Tao, Professor ZHANG Bohui, Vice Deans and Associate Deans of the School of Management and Economics, Faculty, Students, Parents and Friends, good afternoon, and my heartiest congratulations to you all on this very happy day! It is my honour and privilege to have the opportunity to share some of my thoughts with you today.

In the United States, the graduation ceremony is known as "the commencement." It signifies the beginning of a new phase of life, a new phase of adventure and advancement, for the graduates. As you go forth into the real world, I want to talk to you briefly about three things: first, whether your specialisation is finance or not, you should always remember that the ultimate purpose of finance is to support the real economy; second, you should realise that not all financial instruments are socially productive; and third, as professionals in management and economics, you need to master artificial intelligence, and make sure that it serves you as your agent, and not the other way around.

First, on supporting the real economy. The real economy is very important for China. We should learn from the current U. S. regrets of its out-sourcing and offshoring of much of its manufacturing in the past. China is too important and too large an economy to be dependent on offshore supply chains. The Chinese share of manufacturing value-added in its GDP has fallen from perhaps some 40% in 1980 to 32% in 2006, and to its current 25%, compared to 21% and 18% for Japan and Germany, respectively. For the United States, the share is now only 10%. There are many good and valid reasons for the decline in the share

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of manufacturing in GDP. However, in the long run, China should maintain manufacturing's share at no less than 20%, similar to those of Japan and Germany today, so that it can readily satisfy all of its national security needs domestically. And the manufacturing sector is likely to be able to support a higher average level of wages than the service sector.

How can the financial sector better support the manufacturing sector? For China, a shift from a debt-financed model to an equity-financed model should definitely help enterprises, especially private enterprises engaged in manufacturing, which are asset- or capital-heavy. Making cash dividends deductible before taxes for these enterprises can make a big difference in equalising the costs of the two different methods of financing. Moreover, the reduction of the degree of leverage of an enterprise can increase its resiliency and reduce moral hazard, and greater shareholder participation can improve corporate governance.

Second, not every financial innovation is positive from a social point of view. For example, the credit-default-swap (CDS) is an insurance on bonds. But unlike ordinary insurance, in the U.S., the purchaser of a CDS is not required to have an insurable interest. This is basically like allowing everyone to buy fire insurance on your home. It will give the buyer of such insurance an incentive to set fire to your home (secretly, of course) and claim compensation from the insurance company! It is therefore necessary to make sure that every publicly available financial instrument is actually not socially harmful. Properly structured, insurance should be win-win, for both the insurer and the insured (for example, in China, every purchaser of a CDS must own the underlying bond and hence has an insurable interest).

Third, artificial intelligence (AI) can be very useful to you professionally, especially those of you who consider yourselves to be "quants". The impact of AI on our economy's future is not something we can ignore. In the past few years, we have all been pre-occupied by the rise of artificial intelligence, especially the possibility of artificial general intelligence. AI can read much faster than all of us. It has a

much better memory than all of us. And it can summarise thousands of pages much more quickly than all of us. Is there still a future for us mere humans?

Yes, there is! We should always remember that AI is just an assistant to us and a tool for us to use. AI itself has no judgment, either technical or ethical. It does not know right from wrong. It also has no original creative capacity. Moreover, we are the principal, and AI is just our agent. There will therefore always be room for us humans. However, we should always be careful not to delegate full authority to our AI agents, just as we do not to our human agents. Yes, AI will reduce employment--many routine and repetitive jobs will be taken over by AI, automation, and robots. Yet we should expect that job-sharing arrangements will emerge, and that there will eventually be "universal basic income," financed by taxes on the incomes of the owners of robots and providers of AI and automation. So, AI is here to stay, but it is not something to fear but rather something to be mastered and controlled.

In closing, as you enter this new world, be brave, be experimental and also be patient and persistent. Do not be discouraged by temporary failures. The future is yours to create and shape. Goodspeed, everyone!