The Belt and Road Initiative: What can Hong Kong do?

Mr Vincent HS Lo, Chairman, Hong Kong Trade Development Council

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It is my pleasure to be here.

The "Belt and Road Initiative" is a game-changing global development concept, conceived by President Xi Jinping and announced in 2013. Since then, this concept has been raised to the international stage and incorporated into the country's long-term development plan, with many visible and tangible achievements in the last 4 years.

But as with all large-scale development concepts, there are bound to be many different viewpoints on the risks and benefits, and implications and feasibility.

Since I took up Chairmanship of the Hong Kong Trade Development Council, I have been looking at the Belt and Road Initiative and its potential for the world. I have become more and more convinced that this is a once-in-a-lifetime opportunity to revitalise Hong Kong's economy, and reposition Hong Kong in the global arena.

Today I'd like to talk about how Hong Kong can play a role in maximising the potential of the Belt and Road Initiative, and what we can do.

Looking at our economic growth and resilience in the past three decades, we can see that working hand-in-hand with the Chinese mainland has given Hong Kong's economy the stimulus to sustain economic growth, and benefit from the success of the mainland's development.

As China continues to step up the momentum of the Belt and Road, we should make good use of, and maximise our close relationship with the Chinese mainland and use the Belt and Road Initiative to create more opportunities for our city – in business, in society and for our young people.

By capturing these opportunities and developing our potential, I believe we can achieve the diversification and change for Hong Kong that our Chief Executive mentioned in her recent Policy Address.

Since its first announcement till now, the Belt and Road has achieved remarkable progress.

Core G2G and financial structures have been put in place to kick-start the first phase of physical infrastructure development.

Financial institutions such as the AIIB (which now has 80 members) and the Silk Road Fund have established themselves with project investments spanning Central and Southeast Asia through to the Middle East.

According to the National Development and Reform Commission, up till August this year, 69 countries, regions, and international organizations have signed cooperation agreements with China to develop infrastructure construction, financial collaboration and cultural exchange. These agreements are significant because government policy coordination is crucial for such large, long-term developments.

One example of financial cooperation is that China has signed currency swap agreements with 22 countries and regions along the Belt and Road, with a total amount reaching about one trillion yuan (about US$150 billion).

On infrastructure development, rail networks connecting the Cambodia-Laos-Myanmar-Vietnam-Thailand region, road and bridge projects in Pakistan and Bangladesh, industrial parks in Belarus and Malaysia, energy facilities such as LNG transport in Myanmar, and many others are being built. Some projects like the China-Europe railway have also been completed – in fact, more than 4,000 cargo train trips have been made between China and Europe.

This month, the Chinese Ministry of Commerce announced that Chinese investment in Belt and Road countries made up 8.5% of China’s outbound FDI last year at US$14.5 billion, but this share has already grown to 12.4% (at US$8.55 billion) in the first 8 months of this year. Total investment by China into the Belt and Road countries thus far totalled US$515 billion.

But as the Belt and Road starts to enter into implementation stage, two important aspects need to be tackled to sustain the momentum:

First is the need for capital in order to continue financing the huge infrastructure needs. The ADB report in February this year estimated that developing Asia infrastructure will need to invest US$1.7 trillion per year from 2016 to 2030; and the OECD in July this year estimated that the world's infrastructure investment needs US$6.3 trillion per year, totalling US$71 trillion from 2016 to 2030. Over half of that would be in the Belt and Road countries.

With numbers like these, governments around the world have limited resources and capacity to achieve sustainable development on their own; nor can international development banks generate unlimited flows of fund. The private sector in the world has much of the needed resources.

Second is the demand for a whole range of professional work for these large-scale projects as investments are looked into, or secured and work begins.

This work includes risk management, advisory, planning, operational design and management, as well as financial, legal, accounting and business consulting expertise. And in the building of infrastructure, architectural, engineering, surveying, design and planning expertise are in high demand.

Hong Kong's role

When we look at where and what the Belt and Road requires right now, we can see clearly that Hong Kong's traditional strengths in international finance, trading and professional services are an ideal match to fulfil these demands.

Added to this is our special "One Country Two Systems" relationship with the Chinese mainland, because although the Belt and Road will need to be a world project in order to succeed, China is the key driver of this Initiative for the time being.

And of course our rule of law, freedom of movement with people, capital and information – all these give us significant advantage in supporting the commercialisation of Belt and Road projects.

Benefits to Hong Kong

Our contribution to the Belt and Road can be significant, so the next question is, how can Hong Kong benefit?

Basically the idea is to drive investment flow for the Belt and Road from Hong Kong, which will create jobs and business opportunities.

At the Hong Kong Trade Development Council, our Research Department has studied the Belt and Road Initiative, and have projected that by 2035, the Belt and Road can bring US$420 billion in annual trade flow into and out of Hong Kong, which will generate US$24 billion in value-added output, and about 215,000 in new trade-related jobs (or about 45% of current output and job level). This is assuming China's trade with Belt and Road will grow at the same rate of the 2010-16 period and Hong Kong accounts for the same share of that trade flow as China's trade with the world.

And in financing the Belt and Road, this can bring US$100 billion in annual fund flow into and out of Hong Kong, which will generate US$17 billion in financial service exports, and about 182,000 new financial sector jobs (or 85% of current exports and job level). This is assuming China's outward investment to Belt and Road countries will grow steadily and Hong Kong accounts for the same share of that flow at 60% of China's investment to the world.

What can Hong Kong do to prepare itself?

If this is the scenario, there are a few areas I'd like highlight for consideration:

Government coordination - For something as extensive as the Belt and Road, policy coordination across different government bureaus at all levels is needed to ensure policies are formulated and implemented effectively. The Belt and Road Office under the Commerce & Economic Development Bureau (CEDB) is a crucial move to overseeing this work. Does the Bureau have sufficient resources to work on this?

Statutory bodies working together as a Hong Kong team - Related to this, is making use of our statutory bodies and related commercial enterprises to form a “Hong Kong team” when going out.

Here, I’d like to touch on what the Hong Kong Trade Development Council is doing in this regard. The TDC has been proactive in taking the lead. We team up with other organisations such as the Hong Kong Monetary Authority, the Financial Services Development Council, InvestHK, etc. to showcase our city’s role in the Belt and Road to the local and international communities.

We do this through promotions, business matching, industry conferences and information.

Our Belt and Road Summit has been earmarked by the Chief Executive in her Policy Address as the anchor Hong Kong business event for the Belt and Road. September 11th this year was the 2nd Summit we held with the Hong Kong Government, and we organised over 600 one-on-one business matching sessions.

Our investment and outreach missions also focus on real business matching, such as a mission I led to Thailand and Vietnam. Our offices in Thailand and Vietnam had identified over 200 projects and selected 100 projects in each country before our visit. We suggested our delegation members to identify the projects of their interest before we embarked on our trip. So, during the mission, we discussed concrete issues on how to package the investments in order to make them attractive and bankable.

And to provide timely, accurate information, we also run a website on the Belt and Road, including listings of investment projects and Hong Kong service providers. Over 60% of the worldwide audience entering our site is from outside Hong Kong and the Chinese mainland, and our case studies featuring Hong Kong participation have generated business interest from governments and institutions.

Internationally, different G2G policy agreements are needed to facilitate coordination and to create a business-friendly environment. Our Government has been actively pursuing this, for example, and more is in the pipeline.

In trade, Free Trade Agreements, including the soon to be signed ASEAN-Hong Kong FTA, can work together with CEPA to maximise trade benefits. In investment, IPPA (investment protection agreements) can help attract investors. In tax, avoidance of double taxation agreements and in immigration, visa policies can all help to draw investments to come through Hong Kong.

Another crucial component is banking, financial and monetary policy. RMB internationalisation and financial reform are part and parcel of the initial infrastructure financing. Here Hong Kong has a natural role not only in attracting investments for Belt and Road, but also in being the hub for trade settlement in RMB and one of the major capital markets in the world. In fact, I believe in the future, the RMB can be used as the investment currency instead of just the US dollar.

Our regulators such as the HKMA and SFC are run according to the highest international standards. They may want to consider new configurations of financing structures to attract commercial investors of Belt and Road projects. How can these be applied to the large, long-term infrastructure asset class?

Our risk management and dispute resolution capabilities are especially crucial to the success of Belt and Road investments. If Hong Kong is to be the financial and risk management hub for the Belt and Road, our financial policies, regulators and the sectors need to support with relevant policies. Our professionals need to package these risks in a commercially viable way to attract investors. And in case of commercial disputes, can an arbitration centre for Belt and Road-related disputes be set up, with relevant expertise and guidelines and a framework? These are things we need to think about.

Open, transparent flow of information is another core advantage that Hong Kong offers businesses. For decision-makers in business and government, having access to transparent, timely and reliable information is essential.

And related to this are newer considerations such as data protection, rights to access data, security, data processing by third parties and the international transfer of data. To establish Hong Kong as a base for the Belt and Road, it is very important to ensure our traditional channels of information are open and transparent, but data is safe and secure.

Office rents and housing is another area we will need to consider. Hong Kong has the dubious honour of being one of the world's most expensive cities in terms of office rents. This can deter businesses from coming to set up a base here, as investors may need to use Hong Kong as the operation/control centre to start with. Belt and Road countries may want to establish representative office in Hong Kong to attract investors. But many of the Belt and Road countries are emerging or developing nations, and they may not be able to afford Hong Kong rents. While there is no instant solution to this long-standing problem, we should certainly develop incentive or preferential measures to make ourselves a more attractive proposition.

Related to this is housing. Although this may seem like an internal issue, we will need to balance development with social needs. If Belt and Road trade and investment can generate hundreds of thousands more jobs, many people will come, and Hong Kong needs to be affordable for new comers to live in. If we are tackling our current housing needs with a 5-to-10-year timeframe, we also need to factor in any additional inflow generated by Belt and Road opportunities.

With the new transportation links such as the high-speed rail and the Hong Kong-Zhuhai-Macau Bridge, can we plan to have enclaves in the Lok Ma Chau Loop area? Or can special schemes be built into future Bay Area policy coordination, with Hong Kong towns in Guangdong cities along the high-speed rail, like Zhuhai and Zhongshan with the Hong Kong-Zhuhai-Macau Bridge? These are viable ideas to consider.

Next is talent. Hong Kong not only is the hub for international professional services but it is also famous for quality executive training. And here I must congratulate the UST for being at the top of the Financial Times Executive MBA rankings for the eighth time.

Academic, professional and training institutions play a key role in helping to train up our current talent – such as you – and prepare our future talent. This preparation needs to be all-round, including hard knowledge and soft skills. For a large-scale plan like the Belt and Road, attracting, nurturing, training and retaining talent – both local and international -- will be a key issue to consider. In face of rapid advances in technology, the talent needs to be relevant today and in the future.

In closing

These are just some areas which we need to consider in public policy aspects. I'm sure in your area of expertise, you will think of many more.

If Hong Kong does not seize the opportunities offered to us here and now, and approach it with an open mind, we may miss this golden opportunity to reinvent ourselves.

We need to carve out a new role for Hong Kong while building and maintaining our traditional strengths.

Let us work together on making Hong Kong the commercial hub for the Belt and Road and forge a new path for our city.

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