

# **The Belt and Road – a Visionary Plan that will change the World**

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

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## **Introduction**

I am delighted to be here. When Professor Nancy Ip invited me to give a talk, I did not hesitate to propose the Belt and Road Initiative to be my topic.

Even though I was here just last week speaking to graduates from the Public Policy Programme, the Belt and Road is so vast and diverse that I'm sure there's no limit to the issues and things that we can explore at this early stage.

I hope by the end, you will understand why I am so excited about the Belt and Road, and that you will be as excited as me.

## **Global context**

The world is changing fast. These changes are also overturning many long-held values and creating instability to undermine certain long standing political establishments and our fragile economic recovery:

In this chaotic environment, the world needs stability and leadership. We have many dangerous areas, and co-operation is critically important for the world today.

Geopolitical risks are all around, for example in North Korea, Middle East, and security threats are escalating, with terrorist attacks happening everywhere.

Wealth gaps are widening. Income disparity is clear in Hong Kong – the pay scale for a university graduate now has not changed since 10 years ago, but property prices have increased several times over. That may also be the reason why we are seeing more drastic election and voting results in many countries.

Globalisation is upended by protectionism. And political, economic and social integration is challenged by nationalism. We can see this from Trump being elected in the US, Brexit happening in the UK, the crisis in Spain right now.

Technology is advancing but also creating risks. We are increasingly exposed to cyber-attacks that can affect everything we depend on and use. Then there's robotic development – what will happen to all the manual labour?

With the world in such a state of uncertainty, can the Belt and Road Initiative be a solution? Can it be a strong stimulus for closer co-operation and economic growth for all to share?

### **Huge opportunities, but huge challenges**

The other evening, a question was asked of me about the fundamental theory behind the Belt and Road concept.

There seems to be many interpretations: China's Marshall Plan, new model for globalisation, China's expansion ..... There is no definitive answer.

While I don't want to speculate, I think progress, stability and integration are key words to bear in mind. These are not only important to China's own development, but also to the world: in the words of President Xi: “人類命運共同體” – “Community of Shared Destiny for Mankind”.

The beauty of the Belt and Road lies in its scale and openness; there is no official route, and in the way in which the plan to achieve integration through connectivity can be shaped by participants along the way.

Another feature is the flexibility to fit into the national development plans of participating countries.

However, these features also present equally large challenges.

First is the geographical footprint. There are over 60 countries, which mean great diversity in language, culture, system and religion presents huge challenges to coordination.

Secondly there's the scale. The Initiative covers every aspect of development: financial, infrastructural, economic, social and cultural integration.

Then, there are the cost and timeframe. Not including other aspects, just in infrastructure alone, there is a huge funding gap. I am sure you have heard some of the figures: The Asian Development Bank and the OECD estimate infrastructure investment needs from 2016 to 2030 to be in the trillions per year: US\$1.7 trillion per year for emerging Asia from the ADB, and US\$6.3 trillion per year for the world from the OECD – and over half of this is in Belt and Road countries.

Who can pay for it? Who should pay for it? Certainly not China alone. The Belt and Road cannot be a China project. China cannot afford it and it is politically not feasible, and not even the multilateral and national development banks added together cannot afford this kind of spend just on infrastructure.

We must therefore tap into the private market for capital. But to attract private investors, we need to manage and package the risks to make projects viable and bankable. And bankable is the key here.

Developing infrastructure also takes a long time, so at this initial stage it is hard to attract investors.

Taking into account these factors, we have to deal effectively with the challenges of risk and implementation.

And because there is no instruction manual, because this is unprecedented, it is not easy to comprehend what exactly we have to do to make it all happen.

The way I see it, the key to the Belt and Road Initiative is collaboration.

This collaboration can build the foundation of co-operation and joint effort by all interested parties. It can bring opportunity, prosperity and stability to both the developing and developed parts of the world.

Many of the Belt and Road countries are developing countries which need to reduce poverty, and with improving infrastructure as the fundamental step, then industrialisation and growth will follow. If these are achieved through the Belt and Road Initiative, it will translate into profits, jobs, knowledge, better transportation and better lives for all.

Let us do a bit of projection:

If we look at trade, former Foreign Vice-minister He Yafei 何亚非 had estimated that the world economy will grow by 10-15% as a result of the global trade liberalisation and tariff reduction in countries on the Belt and Road, as opposed to an average growth of 5% <sup>(1)</sup>:

Looking at GDP per capita - in the past 40 years (1978-2016), China's economic reform and globalisation has raised its per capita GDP 40 times (from US\$200 to US\$8,000).

This has contributed to 20% of the world's economic growth over the past four decades (one-third more than the US' 15% contribution).

If the Belt and Road manages to repeat China's success in even 10% of the Belt and Road economies, it could boost world growth by another 15% in the next four decades.

For developed countries, this will mean new markets, new trade flows and tremendous business opportunities across sectors or markets.

Looking at the pace of global economic growth (estimated at 3.5% in 2017 and 3.8% in 2018 by IMF in July), the slow, fragile recovery in the US, and the state of the EU, we can see why a stimulus is needed to keep these economic engines humming.

## **Progress made**

If you have been keeping a close watch on Belt and Road news, you may notice that over the past four years, much progress has actually been made on building physical connectivity:

So far, China has made US\$515 billion investment in Belt and Road countries on infrastructure and others.

The Silk Road Fund, AIIB (80 members now) are both building momentum on Belt and Road investments.

China has signed currency swap agreements with 22 countries and regions along the Belt and Road, with a total size reaching about one trillion yuan (about US\$150 billion).

And according to the National Development and Reform Commission, 69 countries and organisations have signed cooperation agreements in trade, technology, investment and infrastructure development with China.

And more importantly, the Belt and Road Initiative has now gained the recognition and support of many countries worldwide.

### **What happens next?**

Global developments may accelerate Belt and Road government coordination, for example:

Brexit may encourage the UK government to look East.

US is beginning to show interest. A senior representative was present at the Beijing Summit in May this year and they have shown interest to come and speak in the Hong Kong Belt and Road Summit in September this year, but unfortunately we couldn't accommodate because our programme was filled.

Geopolitical and security threats in the Western world and the Middle East may push business and investors to Asia, especially Southeast Asia, South Asia and Central Asia – which are growing fast and are relatively stable. Of course this needs to take into account North Korea, but countries see the benefits of cooperation over conflict.

The Hong Kong Government is also actively laying the groundwork to facilitate business and exchange, for example signing an FTA with ASEAN next month (November), expanding its Investment Protection Agreements and Double Taxation arrangements etc.

New models of cooperation and new platforms will emerge – Belt and Road-oriented and regulations may emerge to cater to the hugely diverse operating landscape.

One thing I know for sure – the Belt and Road has set things in motion and this momentum will only continue to grow.

So slowly but surely, the world is moving towards better and closer connectivity despite President Trump's call for U.S. withdrawal or a re-think on multilateral arrangements. The Belt and Road is a key factor in driving this change - for the better.

### **What should we do then?**

When I first heard about the Belt and Road, I asked myself what and how I can participate.

As a businessman, I began to think how I first entered the China market back in the early 1980s when the country first opened up. I began to see some parallels between China then, and many Belt and Road countries now.

I also began to see a change of mindset was needed – because for a huge undertaking like this, we need to share the risks and the return. Competitors need to and can collaborate because the pie is big enough for all. The key is to find common ground and mutually beneficial areas to work on.

Armed with this insight, as Chairman of the Hong Kong Trade Development Council, I considered how Hong Kong can play a crucial role in helping to commercialise the Belt and Road to make it sustainable.

I also considered how we can help businesses and help Hong Kong itself benefit from the Belt and Road, by building a commercial, market-oriented platform for Belt and Road projects.

### **First step - Defining and establishing Hong Kong's role in the Belt and Road**

One of the first things was to identify Hong Kong's strengths and match them with the needs of the Belt and Road; we also looked at the benefits this can bring to Hong Kong.

Here you see the core strengths of Hong Kong: we are a global financial hub for offshore RMB, and an international hub for trading, logistics, dispute resolution and arbitration and international talent.

We have major strengths in professional services which are critically important in facilitating business.

We have been the freest economy in the world for many years and one of its safest cities.

Under One Country, Two Systems, we have access to the resources of mainland China but also an international operating framework.

Now if we look at the Belt and Road at this stage – they cannot rely on sovereign and multilateral capital alone. Hong Kong's financial clout can help make development projects viable and bankable by managing and packaging the risk and aggregate capital using innovative financing tools.

Our strong pool of professionals are well-versed in international law, accounting and business practice.

And when it comes to building things, we have a wealth of experience in building and managing infrastructure – our Mass Transit System, highways, Cross-Harbour Tunnel, the Hong Kong-Zhuhai-Macau Bridge -- these are all pioneering projects that overcame numerous challenges.

With generations of expertise being built up from international, regional and local experience, Hong Kong can apply these quality standards to Belt and Road projects.

### **What about benefits to Hong Kong?**

Basically the idea is to drive investment flow, which will create jobs and business opportunities.

At the Hong Kong Trade Development Council, our Research experts have projected that by 2035, we estimate 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 the Belt and Road to 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 finance the Belt and Road 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 to grow steadily and Hong Kong accounts for the same share of that flow as China's investment to the world.

## **Enter HKTDC**

The Hong Kong Trade Development Council is a non-profit organisation working hand-in-hand with the Hong Kong Government to facilitate trade and investment through Hong Kong.

Over the past 50 years, we have built up a network of 46 offices globally, with 28 along the Belt and Road.

## **Mapping out a strategy**

We set out to study the business opportunities of different regions and markets, and mapped out eight priority markets initially for infrastructure development:

- Asia – Indonesia, Thailand, Vietnam
- Middle East – UAE, Saudi Arabia
- Europe – Czech Republic, Hungary, Poland

At the same time, we realised that information is key to helping businesses understand what to do, so we launched a website ([www.beltandroad.hk](http://www.beltandroad.hk)), which now has 3 million visitors, of which over 60% comes from outside Mainland China and Hong Kong.

We use our network to strike up alliances and strategic partners including setting up a new Belt and Road Global Forum – to link up with government, academic and commercial organizations from around the world to facilitate business opportunities and exchange information on the Belt and Road.

We also established networking and business matching platforms, for example our annual Belt and Road Summit which is now the anchor business event for Belt and Road investment opportunities.

Earlier I mentioned finding common ground and mutual benefits. A great example is our Thailand-Vietnam Infrastructure Investment Mission this year.

We did a lot of preparation work, including finding a focus (infrastructure investment); identifying suitable parties such as Hong Kong professionals, Shanghai companies and investors, Thai/Vietnam businesses and government departments, and sourced over 200 projects that can potentially be packaged into bankable projects.

We discussed with all parties on their expectations, requirements, constraints, pre-matching before eventually meeting up on-site with a common goal of discussing opportunity. We received a high-level and warm welcome from the Prime Ministers of both countries.

I think it was because we showed that we were there to discuss business – not politics, and we were keen to develop the country while creating mutual benefits.

### **Where can we start?**

With the upcoming plan to develop the Pearl River Delta region into a Greater Bay Area, we will become a super-hub for the Belt and Road between China and the rest of Asia and beyond.

Compared to other Bay Areas around the world, the Guangdong-Hong Kong-Macau Bay Area has the largest population at 66.7 million – bigger than the UK's 65 million.

And the Greater Bay Area has the largest area at 56,000 sq km – more than 3 times the San Francisco Bay Area's 17,900 sq km, with a GDP of US\$1.3 trillion p.a., ranking 13 or 14 in the world. At the current growth rate, the Greater Bay Area will overtake the Greater Tokyo Bay Area to become the largest Bay Area in terms of GDP in the world.

And we are probably the most diverse – with manufacturing, logistics, tech and innovation, finance, tourism and even gaming – you name it, we have it.

Imagine if deeper integration is achieved – this area can be a powerful engine to drive economic growth for China and for the world.

### **What should we do?**

Ask yourselves what you want to do, what are you good at, what is your aspiration? Then, you have to objectively assess which markets and what opportunities are out there, what are the risk and return, whether there is a political, economic and cultural fit, and then decide what is best for you.

Then you need to consider how you need to change and adapt to the new environment.

We should all work on establishing Hong Kong as a commercial hub for Belt and Road development. By doing that, we can further build on our core strengths and carve out a new path for growth.

### **Closing**

Today I have covered a lot but this is only the starting point.

The Belt and Road Initiative, now incorporated into the constitution and national development plan of China, is something that can, and is, changing the world.

I must salute the UST for having the vision to integrate the Belt and Road into its academic programme.

Your work on business modelling, economic and social impact and in-depth market themes will help shed light on the Belt and Road, and give us much-needed information to make important, long-term decisions.

I hope you will join me and start planning to go on this exciting journey together. Thank you.

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(1) (中国经营报 2017-9-11, B09)