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## "One Belt, One Road" Initiative: The Implications for Hong Kong

The "[One Belt, One Road](#)" Initiative – the Silk Road Economic Belt and the 21st Century Maritime Silk Road – is key part of China's development strategy. The *Vision and Actions on Jointly Building the Silk Road Economic Belt and the 21st Century Maritime Silk Road* (the "Vision and Actions") issued by the National Development and Reform Commission on 28 March 2015 outlines the initiative's framework, co-operation priorities and co-operation mechanisms.

The Belt and Road Initiative aims to promote connectivity in infrastructure, resources development, industrial co-operation, financial integration and other fields along the Belt and Road countries. These strategic objectives are also closely connected to the "[going out](#)" strategy of many Chinese businesses. In light of the Vision and Actions document, as well as other related information sources, the "One Belt, One Road" initiative, with its extensive reach across a number of regions, represent clear development opportunities for Hong Kong.

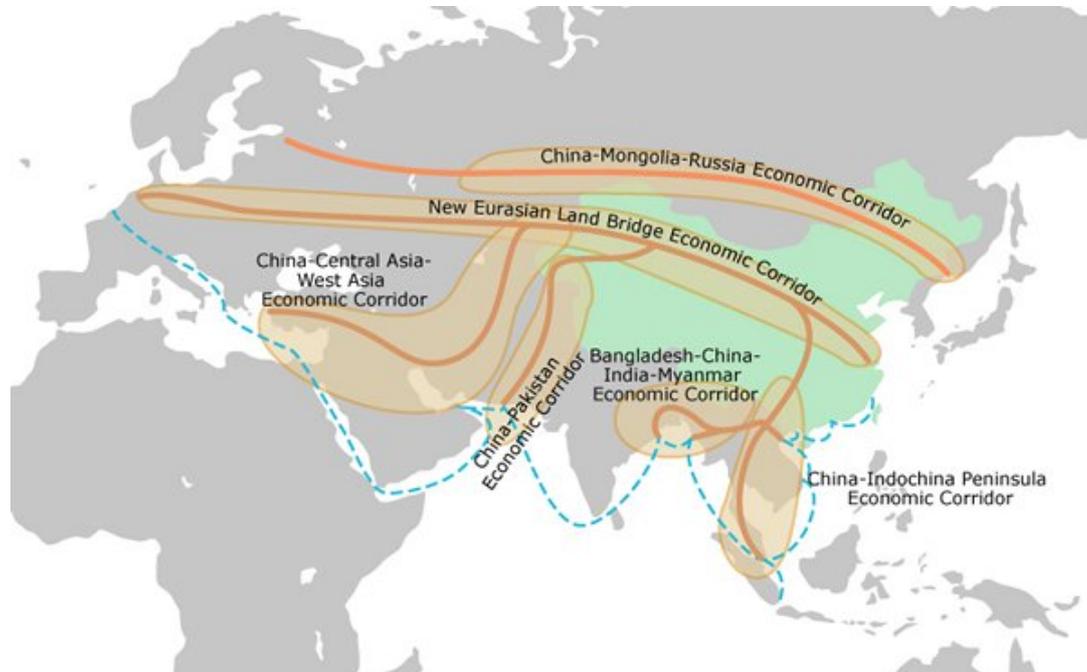
### Vision and Actions: The Key Points

The "One Belt, One Road" initiative aims to promote "connectivity in five respects": policy co-ordination, facilities connectivity, unimpeded trade, financial integration and people-to-people bonds. These may be summed up as follows:

- The Silk Road Economic Belt focuses on bringing together China, Central Asia, Russia and Europe (the Baltic); linking China with the Persian Gulf and the Mediterranean Sea through Central Asia and West Asia; and connecting China with Southeast Asia, South Asia and the Indian Ocean. The 21st Century Maritime Silk Road is designed to go from China's coast to Europe through the South China Sea and the Indian Ocean and from China's coast through the South China Sea to the South Pacific. On land, the initiative will take advantage of international transport routes, rely on core cities along the Belt and Road, and use key economic and trade zones and industrial parks as co-operative platforms. At sea, it will focus on jointly building smooth, secure and efficient transport routes, connecting major seaports along the Belt and Road.
- Facilities connectivity: Priority will be given to removing transport bottlenecks and promoting port infrastructure construction and co-operation in order to deliver international transport facilitation. Priority will also be given to the construction of regional communications trunk lines and networks in order to improve international communications connectivity.



### Economic Corridors of the "One Belt, One Road"



- Investment and trade co-operation: Efforts will be made to resolve the problems of investment and trade facilitation; hold discussions on opening free trade zones; expand traditional trade and develop modern service trade and cross-border e-commerce; promote trade through investment, strengthen co-operation with relevant countries in industrial chains, promote upstream-downstream and related industries to develop in concert, and build overseas economic and trade co-operation zones; and encourage Chinese enterprises to participate in infrastructure construction and make industrial investments in countries along the Belt and Road.
- Financial integration: Efforts will be made to promote the development of the bond market in Asia and push forward the establishment of the Asian Infrastructure Investment Bank, the BRICS New Development Bank and the Silk Road Fund; support the efforts of Belt and Road countries and their companies/financial institutions in issuing RMB bonds in China; encourage Chinese financial institutions and companies to issue bonds denominated in both RMB and foreign currencies outside China; give full play to the role of the Silk Road Fund and that of sovereign wealth funds of the Belt and Road countries, and encourage commercial equity investment funds and private funds to participate in the construction of the key projects of the initiative.
- People-to-people bonds: Efforts will be made to strengthen educational and cultural co-operation, including cross-nation student and education exchanges; enhance co-operation in tourism; and support think tanks in the Belt and Road countries to jointly conduct research and hold forums.
- Fully leverage the comparative advantages of various regions in China:
  - Northwestern and northeastern regions: The initiative will give full scope to



Xinjiang's geographical advantages and make it a core area on the Silk Road Economic Belt, while giving full scope to the advantages of Inner Mongolia and Heilongjiang province with regard to their proximity to Russia and Mongolia, as well as improving the rail links connecting Heilongjiang with Russia.

- Southwestern region: The initiative will give full play to the unique advantages of Guangxi and Yunnan, speed up the opening up and development of the Beibu Gulf Economic Zone and the Zhujiang-Xijiang Economic Zone (also known as the Pearl River-Xijiang Economic Zone), and develop a new focus for economic co-operation in the Greater Mekong Sub-region.
- Coastal regions and Hong Kong, Macau and Taiwan: The initiative will support the Fujian province in becoming a core area of the 21st Century Maritime Silk Road; give full scope to the roles of Qianhai (Shenzhen), Nansha (Guangzhou), Hengqin (Zhuhai) and other locations in opening up and co-operation, and will help to build the Guangdong-Hong Kong-Macau Big Bay Area; will strengthen port construction in a number of coastal cities, such as Shanghai, Tianjin, Ningbo-Zhoushan, Guangzhou, Shenzhen, Zhanjiang, Shantou, Qingdao, Yantai, Dalian, Fuzhou, Xiamen, Quanzhou and Haikou, and will strengthen the functions of several international hub airports, notably Shanghai and Guangzhou.
- Inland regions: With a focus on city clusters along the middle reaches of the Yangtze River and around Chengdu and Chongqing, the initiative will establish Chongqing as an important pivot for developing and opening up the western region, while making Chengdu, Xian and Zhengzhou leading areas for opening up in the inland regions, and developing railway transportation in the China-Europe corridor.

Co-operation mechanisms and platforms: The initiative will make full use of existing multilateral co-operation mechanisms, such as the Shanghai Co-operation Organisation (SCO), ASEAN Plus China (10+1), Asia-Pacific Economic Co-operation (APEC), Asia-Europe Meeting (ASEM). In addition to existing forums and exhibitions, it is also proposed that an international summit forum on the Belt and Road Initiative should be established.

### **Infrastructure: Taking Precedence in the "One Belt, One Road" Initiative**

The Asian Development Bank estimated that the Asian economies would need to invest US\$8 trillion in infrastructure to bring their facilities up to average world standards between 2010 and 2020. According to reports, China is conducting feasibility studies on four outbound high-speed railways, including the Europe-Asia high-speed rail, the Central Asia high-speed rail, the Pan-Asia high-speed rail and the China-Russia-America-Canada line. The domestic sections of the first three projects are reportedly underway, while negotiations are still being carried out on the last project, as well as on the overseas sections of the first three projects.

Apart from railway networks, other cross-border projects and the building of port facilities, airports, highways, and even electricity and communications projects in the Belt and Road countries are also targets for China's "going out" funds. In addition to investment, there will also be a considerable number of opportunities for the



international contracting of construction and machinery exports.

### **Industrial Co-operation: Stimulating Trade Flows**

In terms of resource development, several provinces in China are planning to take advantage of the Belt and Road Initiative in order to encourage competitive industries to go global and undertake co-operation in advanced technologies. Chinese enterprises are also being encouraged to increase overseas investment in the exploitation of mineral resources in order to improve China's supply of energy resources.

According to the Department of Outward Investment and Economic Co-operation of the Ministry of Commerce, China has established 118 economic and trade co-operation zones in 50 countries around the world. (These are set up in the host countries, with Chinese enterprises forming the mainstay based on the market situation, the investment environment, and the host government's policies when it comes to managing investment to attract enterprises to set up production there.) Of these zones, 77 are established in 23 countries along the Belt and Road. These overseas economic and trade co-operation zones have become China's platforms for overseas investment co-operation, as well as platforms for the clustering of industries.

There are 35 co-operation zones in countries along the Silk Road Economic Belt, including Kazakhstan, Kyrgyzstan, Uzbekistan, Russia, Belarus, Hungary, Romania and Serbia. There are also countless economic and trade co-operation zones along the 21st Century Maritime Silk Road. There are, for example, Chinese industrial parks in Laos, Myanmar, Cambodia, Vietnam, Thailand, Malaysia and Indonesia, and in South Asia, as well as even in Pakistan, India and Sri Lanka. The Belt and Road Initiative, then, will generate more development opportunities, including the building of industrial parks, facilitating investment projects and boosting international trade by the private sector.

### **Supporting Development Through Financial Co-operation**

In order to provide financial support for the development of the Belt and Road Initiative, China is actively promoting the establishment of the Asia Infrastructure Investment Bank, the BRICS New Development Bank and the Silk Road Fund. The Silk Road Fund was officially established at the end of December 2014. According to Silk Road Fund chair, Jin Qi, the fund will mainly invest in infrastructure, energy development, and industrial and financial co-operation, and will support the export of high-end technologies and production capacity. The Belt and Road Initiative does not have strict geographical boundaries and the fund will participate in any project relating to connectivity.

The Silk Road Fund may set up sub-funds for investment in particular industries. Some of these sub-funds may have particular industries as entry points. For example, an electricity sub-fund may be established as many companies may choose to invest in electricity projects. Another sub-fund may target particular regions. Where there are enough qualified people well familiar with a particular region, a sub-fund may be established for that region.

According to Zhou Xiaochuan, Governor of the People's Bank of China, the Belt and Road Initiative will generate development and investment opportunities as it has diverse financing needs, with the role of the investment bank being to match investment demand and supply through proper financial arrangements. In terms of the demand for



qualified personnel, Zhou said that staff members must have experience in investment and international exposure, in addition to a sound understanding of particular countries. They must also have expertise and social connections, together with an engineering background (especially in financing for engineering projects), possess considerable knowledge or experience in key industries, and speak a relevant foreign language.

### Driving Increased Levels of Domestic Investment

Chinese provinces are responding positively to the Belt and Road Initiative. According to reports, as of 5 February 2015, more than two-thirds of the 28 mainland provinces that had held their local people's congresses and political consultative conferences have made their own plans for the initiative. In infrastructure planning, for instance, Chongqing has issued its *Opinions on Implementing the Belt and Road Strategy and Building the Yangtze Economic Belt* and is expected to invest Rmb1.2 trillion in infrastructure before 2020. This will generate opportunities for co-operation in construction, planning, management, finance and other related fields.

### Implications for Hong Kong

In terms of industry sector, infrastructure may be the first stage in the development of the Belt and Road Initiative. It requires investment, project contracting and will drive demand for relevant services. In this connection, Hong Kong should be able to find a considerable array of opportunities in financing, project risk/quality management, infrastructure and real estate services (IRES), as well as several other related fields.

A number of Chinese enterprises may become involved in mergers and acquisitions in the course of "going out". According to some analysts, China's aviation industry should also plan to "go out" through mergers and acquisitions. To date, Hong Kong has been the key platform for the mainland's outward investment. By the end of 2013, Hong Kong accounted for 57.1% of China's outward investment stock, with the cumulative value standing at US\$377.1 billion. The increase of investment and merger and acquisition activities will increase the demand for the respective professional services in Hong Kong.

The launch of the Belt and Road Initiative will increase people-to-people exchanges between China and the countries concerned, as well as boost demand for international logistics. Hong Kong has a leading edge in global logistics links and operation. In addition to freight services, Hong Kong can give further leverage to its functions as a maritime services centre. As Nansha in the Guangdong Free Trade Zone also intends to develop maritime services, Hong Kong may explore co-operation possibilities with the district.

Another area in which Hong Kong can play a substantial role is financial services. Hong Kong can provide additional services here, including fund raising, financing, bonds, asset management, insurance and offshore RMB business. Hong Kong can also seek to play a bigger role in the Asian Infrastructure Investment Bank, BRICS New Development Bank and Silk Road Fund, including encouraging these institutions to set up their headquarters and branches in the territory and make greater use of Hong Kong's international talent, as well as inviting the Silk Road Fund to set up sub-funds in Hong Kong. In addition, passenger and freight transport, aircraft leasing and other aviation-related financial services also represent a considerable number of opportunities.

In terms of industrial co-operation, China's overseas economic and trade co-operation



zones will become platforms for overseas investment and co-operation for Chinese enterprises, as well as platforms for the clustering of industries. Southeast Asia, South Asia and Central Asia may further develop into a more extensive network of bases for industrial relocation and even open up as consumer markets. The demand for logistics, supply chain management, consumer products and services may increase with the growth of these regions. Following the opening of logistics hubs in Central Asia, there will be railways linking China with the region. For example, Hong Kong businesses may consider using the Chongqing-Xinjiang-Europe railway to transport goods directly from Chongqing to the Central Asian market, thus saving time and money.

With regard to regional development, apart from Southeast Asia, South Asia, and even Central Asia, Central and Eastern Europe, the demand of mainland provinces for infrastructure investment and logistics services in support of the Belt and Road Initiative will also generate business opportunities for the relevant industries.

Hong Kong can also play a more proactive role in the Belt and Road co-operation platform. For example, Hong Kong may strive to regularly host international summits/forums and work with think tanks and cultural and educational institutions in the Belt and Road countries in conducting research, training, co-operations and exchanges. It could also act as a platform for personnel exchanges/training in relevant fields, such as logistics, infrastructure and finance.

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