Economic Analysis of the Belt and Road Initiative
Preface

The Belt and Road Initiative is an important development strategy for our country. Much of it is closely linked to Hong Kong’s economic development. The resource pack is published to support the learning and teaching of concepts related to this Initiative in the Economics (S4-6). The Pack includes economic background and overview of the Initiative, analysis of the impacts of the Initiative on Hong Kong’s financial and trading sectors. Each unit is supplemented by related questions and suggested answers to facilitate the learning and teaching. The final part of the Pack outlines how the Initiative relates to young people in three short stories.

It is our honour to have Professor Michael Fung and Dr. Andrew Yuen from the Department of Decision Sciences and Managerial Economics, The Chinese University of Hong Kong to develop this resource pack for the Education Bureau.

This resource pack was uploaded to the website of the Education Bureau (http://www.edb.gov.hk) for teachers’ reference. If you have any comments and suggestions on this booklet, please send them to:

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I. Rebalancing Chinese Economy

Learning Objectives:
1. To have an overview of China’s economic development
2. To understand Chinese Government’s measures to rebalance Chinese economy

1.1 Background of Chinese Economic Development
1.2 Driving Forces for Chinese Economic Development
   1.2.1 Investment-driven Economic Growth
1.3 Unsustainable Economic Growth
   1.3.1 Weak Export Performance
   1.3.2 Imbalance Regional Economic Development
1.4 Chinese Government’s Measures to Rebalance Chinese Economy
1.5 Exercises
1.1 Background of Chinese Economic Development

Q1. What were the economic drivers of rapid economic growth in China in the past 40 years?

In the past 40 years, China has undergone the economic reform – a transition from planned economy to market economy – which resulted in rapid economic growth. Since 1978, the household contract responsibility system gradually carried out in the rural areas. Under the system, the farmers would assume sole responsibility for their profits and losses, bringing incredible incentives to produce more. In 1990s, the reform took place in state-owned enterprises (SOE). The focus of the SOE reform is to separate government from management in SOE, while some SOE were privatized.

In the economic reform, the Chinese Government also encouraged foreign investment to the country. The Government established several Special Economic Zones (SEZ), with emphasis on attracting foreign direct investment (FDI) into these regions. The FDI brought both capital and technology to China, which supported the Chinese economic growth. Due to low cost of production and preferential government policies, China has become the “World Factory.” Later in 2001, China joined the World Trade Organization (WTO), which further opened up the Chinese economy. As seen from Figure 1, the trade volume to and from China has been increasing at a rapid rate since 2002. The increase in trade also supported the rapid economic development in China.
In late 2010s, investment from the Chinese Government has become the major economic driver for the economic growth in China. Given the poor external economic environment, the Chinese Government increased its investment in infrastructure, for example, building the high speed rails, to support the economic growth in China. On the other hand, the expansionary monetary policy also encouraged companies in China to increase the physical investment.
Q2. Why was the economic growth unsustainable in China?

Figure 2 shows that the GDP growth rate has decreased since 2007 and has continued to follow the downward trend till 2015.

Figure 2. China’s GDP Growth Rate in 2000-2015

(Source: World Bank)

The slowing economic growth has been a major concern for the Chinese Government. There are three main reasons to the slowing economic growth experienced by China. First, the benefits brought from the economic reform have almost been exploited. Second, since China joined the WTO, the Chinese economy has become more relied on the exports. Thus it has become vulnerable to fluctuations in the global economy. Third, the investment-driven growth model is not sustainable in the long run. The rapid economic development in China also led to other problems, including income inequality. We will go into more detail below.
1.2 Driving Forces for Chinese Economic Development

1.2.1 Investment-Driven Economic Growth

Q3. How did government investment boost the Chinese economy in the past?

Investments by the government could lead to an economic growth in both short run and long run. In the long run, improving infrastructures through investment, such as roads and railways, will enhance the connectivity among cities in China, and between China and other parts of the world, allowing more efficient and cheaper means of transportation for goods or people. It will have a positive impact on the Chinese economy, as well as the living standards of people in the country.

In the short run, the government investment on infrastructure also creates demands in China. For example, the development of infrastructure leads to an increase in demand for raw materials such as steel and cement. The increased demand for production materials and machinery also encourage companies to invest into machinery to assist with their production. Hence the government investment can support the Chinese economic growth in short run.
1.3 Unsustainable Economic Growth

1.3.1 Weak Export Performance

Q4. What determines export performance of China?

There are two major factors determining the exports from China to other countries. The first factor is the competitiveness of goods produced in China. It may depend on the price and quality of these goods. The second factor would be the performance of external economies.

Q5. What are the effects of increased production cost on Chinese exports?

Increased production costs directly affect the price of goods produced. If the production costs increases in China, the goods produced would be charged a higher price in order to compensate the increased costs faced by the manufacturers. The increased price causes quantity demanded to drop internationally, causing a reduction in exports.

Furthermore, due to the increase in production costs in China, multinational companies may relocate their manufacturing sites to other countries, such as Vietnam, Laos and Cambodia, where production costs are lower. This reduces the amount of goods produced in China, which may further affect Chinese exports.
Q6. Why have the production costs in China increased?

One of the main reasons for the increase in production costs in China is the increasing labour costs. According to a report by Boston Consulting Group (BCG), it was found that the wage gap between China and the US workers has been gradually shrinking for the past few years. There are also other factors affecting the cost of production in China, such as increase in minimum wage as well as tightening environmental regulations. These policies lead to higher cost of production in order to comply with these policies.

1.3.2 Imbalance Regional Economic Development

Q7. How did Chinese economic development lead to inequality between provinces?

In the early stage of the economic reform in China, the Chinese Government had preferential policies, including establishing SEZs, to support the economic development in southeast coastal part of China. This partly led to the imbalance economic development among Chinese provinces. In terms of GDP per capita, the top three regions in 2014 were Tianjin, Beijing and Shanghai, which are located in the eastern part of China. The bottom three regions, namely Gansu, Guizhou and Yunnan, were located in the western part of China. The difference in GDP per capita between the two groups was almost three times\(^1\).

1.4 Chinese Government’s Measures to Rebalance Chinese Economy

Q8. What measures have the Chinese Government taken to rebalance the economy?

Rebalancing Chinese economy has been the main focal point in China.

The Chinese Government identified three major strategies to rebalance the Chinese economy. The three measures are: stimulating domestic demands, transitioning from low-level manufacturing sector to technology-based industry and service sector, and promoting outward investment on infrastructure projects overseas.

The stimulation of domestic demand aims to changes the Chinese economy from the one aimed at encouraging investments to one where demand and domestic consumption plays a more important role to the Chinese economic growth. Secondly, through the encouragement of domestic demand, it will resolve the overcapacity issue by balancing out demand and supply of domestic goods and addressing the issue of excess capacity.

Second part, the Chinese Government aims to promote the transition from a low-level manufacturing sector to a technology-based industry and service sector. Given the increasing cost of production, it is important for China to develop technology-based industry, which produces high value-added products for the markets.

Finally, the Chinese Government also wants to promote exports of infrastructure projects, involving the exports of construction materials such as steel and cement and their expertise and professional services in designing and constructing such as infrastructures. This would be a direct method in dealing with the excess capacity, especially for the manufacturing sectors.
1.5 Exercises

Exercise 1:
Background of Chinese Economic Development

a. China has experienced rapid economic growth over the past 20 years. How does the economic growth benefit the society’s well-being?

Answer:

The most important benefit due to the economic growth is to improve Chinese people’s living standards. In the rapid economic growth, there will be an increase in demand for labour, which increases wages as well as household incomes. As households become wealthier, people can afford not only necessities such as food and shelter, but also the luxury goods and services. The economic growth also increases the government revenue. With the increased revenue, the government will be able to provide more social services such as healthcare and education. On the other hand, there will be more investment in infrastructure projects such as building roads, and water and electricity facilities. The infrastructure also improves Chinese people’s living quality.

b. Below is an article dated November 2015 about Beijing’s air pollution.

“Beijing pollution hits extremely hazardous levels

Particle readings hit 976 micrograms per cubic metre in Beijing suburb; safe level is 25”

Beijing suffered its worst air pollution of the year on Monday, with monitoring sites throughout the city reporting extremely hazardous levels of pollutants.

City authorities issued a rare orange alert, the second highest of four danger levels. Schools suspended outdoor activities and polluting factories were required to reduce production.
Visibility was cut to several hundred metres, as buildings receded into thick smog. People complained of a smoky, pungent odour, and many wore tight-fitting face masks.

“I felt like my lungs were blocked,” said Xu Pengfei, a security guard at an office building in downtown Beijing. “We have to stand in the open for many hours a day, and the pollution really affects us.”

The city said the levels of hazardous tiny PM2.5 particles in the air exceeded 600 micrograms per cubic meter at several monitoring sites late Monday afternoon. The U.S. Embassy in Beijing reported 666 micrograms per cubic metre at 8 p.m.

Outside Beijing, the readings were as high as 976 micrograms in the suburban region of Liulihe.

Several cities in the northern province of Hebei also reported extremely polluted air.

The World Health Organization considers the safe level of PM2.5 particles to be 25 micrograms per cubic meter on a 24-hour average basis.


What are the reasons why the air pollution in China worsened in last few decades?

Answer:

There are many reasons contributing to the air pollution in China. One of the reasons is the expansion of the manufacturing sector. Some of the industries in the sector, such as coal industry and heavy metal industry, are heavily polluted, which also contributed to the air pollution in China.
c. Below is a graph showing the total greenhouse gas emission in China and China’s GDP. What can you tell from the graph?


![Graph showing China's Greenhouse Gas Emission and GDP from 1980 to 2012.](image)

(Source: World Bank)

**Answer:**

Greenhouse Gas Emission has been increasing year over year at roughly a similar rate as China’s GDP.
d. How are changes in the total greenhouse gas emission related to economic growth?

**Answer:**

Economic growth has led to the increase in production of goods and services in the economy. In China, most of this increase is related to the manufacturing sector, which demands more machinery and raw resources. However, one of the by-products of manufacturing goods, such as steel, cement, and other goods, is the increase in greenhouse gas emission.

**Exercise 2:**
**Imbalance Regional Economic Development**

a. The table below breaks down the per capita disposable income in four different regions of China in 2013 and 2014. Which of the regions has the lowest per capita disposable income and which region has the highest?

<table>
<thead>
<tr>
<th>Year</th>
<th>Eastern Region</th>
<th>Western Region</th>
<th>Central Region</th>
<th>Northeastern Region</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>23,658</td>
<td>13,919</td>
<td>15,264</td>
<td>17,893</td>
</tr>
<tr>
<td>2014</td>
<td>25,954</td>
<td>15,376</td>
<td>16,868</td>
<td>19,604</td>
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**Answer:**

The per capita disposable income is the lowest in the western region while the eastern region has the highest per capita disposable income.
b. Why does this happen?

Answer:

The provinces in eastern region of China, such as Guangdong, Jiangsu, Zhejiang, are relatively more developed compared to their western counterparts. The provinces in the eastern region are considered as coastal provinces, which near the sea and trading routes. The coastal provinces and cities have better connectivity with other countries, bringing in more trade and foreign direct investments, hence boosting the economic development in these provinces.

Additionally, the Chinese Government established special economic zones in the eastern region. These zones have preferential policies and regulations for foreign companies operating in these economic zones. Furthermore, similar arrangements were also in place at some coastal cities such as Shanghai, making it a lot easier to conduct business, for both foreign and local companies, in these cities compared to other cities located in central or western China.

On the other hand, the transport infrastructure in the western region of China was less developed. It hindered the regional economic development, hence resulting in a lower household income in these areas.

c. How does the income inequality affect the Chinese economy?

Answer:

The income inequality may lead to poorer people not being able to access goods and services, which may be considered necessities such as education and medical services, or even food and shelter. This will eventually lead to the low productivity of the poor, which may have serious impacts on a labor-intensive market such as China.
2. The Belt and Road Initiative (B&RI)

Learning Objectives:
1. To have an overview of the B&RI
2. To understand potential implications of the B&RI on China and B&R Countries

2.1 Overview of the B&RI

2.2 China’s Economic Considerations to Launch the B&RI
   2.2.1 Energy Security
   2.2.2 Export of Industrial Capacities
   2.2.3 Export of Consumer Goods
   2.2.4 Rebalancing Regional Economic Development in China

2.3 Potential Impacts of the Initiative on Related Countries

2.4 How to Implement the B&RI?
   2.4.1 Infrastructure Investment
   2.4.2 Trade Facilitating Measures

2.5 Exercises
2.1 Overview of the Belt and Road Initiative

Q1. What is “Belt”? What is “Road”?

“Belt” refers to “Silk Road Economic Belt” (「絲綢之路經濟帶」). “Road” refers to “21st Century Maritime Silk Road” (「21世紀海上絲綢之路」).

Q2. When was the Belt and Road Initiative announced?

In September 2013, President Xi Jinping announced “Silk Road Economic Belt” and in October, he announced “21st Century Maritime Silk Road”.

Q3. What do “Belt” and “Road” refer to geographically? What is the Belt and Road Initiative?

Geographically, the “Belt” refers to three land routes starting from China:

1) to Central Asia and Russia, then to Europe;
2) via Central Asia and Western Asia to the Persian Gulf and Mediterranean Sea; and
3) via Southeast Asia and South Asia to the Indian Ocean.

The “Road” refers to the sea route starting from Chinese coastal ports and running through:

1) the South China Sea to the Indian Ocean and then Europe; and
2) extends eastward to the South Pacific.

Taken together, the Belt and Road Initiative is an initiative for China to further cooperate with countries along the route in all economic, political and cultural aspects.
**Q4. What are the land bridge and economic corridors of the “Silk Road Economic Belt”?**

1) **The New Eurasia Land Bridge (新亞歐大陸橋經濟走廊):** The new land bridge starts at Lianyungang (連雲港) in Jiangsu Province, ends at Rotterdam in the Netherlands.

2) **The China-Mongolia-Russia Corridor (中蒙俄經濟走廊):** This corridor aims to connect China with Russia.
3) The China-Central Asia-West Asia Corridor (中國－中亞－西亞經濟走廊): This corridor runs from Xinjiang in China to join the railway networks of Central Asia and West Asia before reaching the Mediterranean coast and the Arabian Peninsula. The corridor mainly covers five countries in Central Asia as well as Iran and Turkey in West Asia.

4) The China-Indochina Peninsula Corridor (中國－中南半島經濟走廊): This corridor connects Southern China with the fast growing Indochina Peninsula countries, including Vietnam, Thailand, Laos and Cambodia.

5) The Bangladesh-China-India-Myanmar Corridor (孟中印緬經濟走廊): This corridor serves as an important route for China to connect India and South Asia.

6) The China-Pakistan Corridor (中巴經濟走廊): This corridor will give China a shortcut to the Middle East, and bypass the Strait of Malacca.

Figure 2: Economic Corridors and Land Bridge of B&RI

(Source: Hong Kong Trade Development Council)
Q5. What is Silk Road?

Throughout history, communication routes and paths of trade laid in Eurasia, which gradually linked up to form what are known as the Silk Roads; routes across both land and sea, along which silk and many other goods were exchanged between people from different parts of the world.

Maritime routes were an important component of this network, linking East and West by sea, and were used for the trade of spices in particular, thus becoming also known as the Spice Routes\(^1\).

Q6. What are the countries along Belt and Road?

First, in Southeast Asia, Belt and Road countries include Malaysia, Indonesia, Singapore, Brunei, The Philippines, Vietnam, Cambodia, Thailand, Laos, Myanmar, Timor-Leste (11). All of them are ASEAN (Association of Southeast Asian Nations) members, except Timor-Leste.

Second, in South Asia, Belt and Road countries include India, Pakistan, Nepal, Bhutan, Bangladesh, Sri Lanka and The Maldives (7).

Third, in Central and Western Asia, Belt and Road countries include Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, Uzbekistan, Afghanistan, Mongolia, Iran, Armenia, Azerbaijan and Georgia (11).

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\(^1\) “About the Silk Road”, United Nations EDUCATIONAL, SCIENTIFIC AND CULTURAL ORGANIZATION, http://en.unesco.org/silkroad/about-silk-road
Fourth, in the Middle East and Africa, Belt and Road countries include Bahrain, Egypt, Iraq, Israel, Jordan, Kuwait, Lebanon, Oman, Palestine, Qatar, Saudi Arabia, Syria, Turkey, United Arab Emirates and Yemen (15).

Fifth, in Eastern and Central Europe, Belt and Road countries include Albania, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Macedonia, Moldova, Montenegro, Poland, Romania, Russia, Serbia, Slovakia, Slovenia and Ukraine (20).

In total, there are more than 60 countries along Belt and Road.

**Q7. What are the goals of Belt and Road Initiative?**

1) **Policy coordination**

The Initiative aims to promote intergovernmental cooperation, build a multilevel intergovernmental macro-policy exchange and communication mechanism, expand shared interests, enhance mutual political trust, and to reach new cooperation consensus.

Besides, the Initiative aims to coordinate economic development strategies and policies, work out plans and measures for regional cooperation, negotiate to solve cooperation-related issues, and jointly provide policy support for the implementation of practical cooperation and large-scale projects.

2) **Facilities’ connectivity**

The second goal of B&RI is to improve the connectivity of infrastructure construction plans and technical standard systems, to jointly push forward the construction of international trunk passageways, and to form an infrastructure network connecting all sub-regions in Asia, and between Asia, Europe and Africa step by step.
3) Unimpeded trade

The third goal of B&RI is to improve investment and trade facilitation, and remove investment and trade barriers for the creation of a sound business environment within the region and in all related countries. This involves discussion with countries and regions along Belt and Road on opening Free Trade Areas so as to unleash the potential for expanded cooperation.

4) Financial integration

The next goal of B&RI is to deepen financial cooperation, and make more efforts in building a currency stability system, investment and financing system and credit information system in Asia.

5) People-to-people bonds

Finally, B&RI aims to carry forward the spirit of friendly cooperation of the Silk Road by promoting extensive cultural and academic exchanges, personnel exchanges and cooperation, media cooperation, youth and women exchanges and volunteer services.
2.2 China’s Economic Considerations to Launch the Belt and Road Initiative

Q8. How can the B&Ri help the development of Chinese economy?

First, China’s energy imports are very reliant on passages through Strait of Malacca. China’s level of energy security can rise when it has multiple sources and routes of imports of oil and natural gas, thanks to the launch of B&Ri.

Second, China faces the issue of excessive industrial capacity at home. B&Ri allows it more opportunities to export the overcapacity of capital goods abroad.

Third, B&Ri may open up markets for trade and create more export markets for consumer goods produced by China.

Fourth, having the platform of the Belt and Road, when there are more business opportunities between China and Belt and Road countries, more transactions and settlements may be denominated in Renminbi (RMB), encouraging more popular use of RMB especially in Belt and Road countries to facilitate RMB internationalization.

Today, China’s western and southwestern provinces are having significantly lower GDP than other coastal provinces and cities. Fifthly, regional economic development of Western and Southwestern China can be balanced with coastal China to reduce income disparity within China through the Initiative.
2.2.1 Energy Security

**Q9. How can the B&Ri increase the level of energy security of China?**

The International Energy Agency (IEA) defines “energy security” as “the uninterrupted availability of energy sources at an affordable price”.

China has been a net importer of energy since 2001. China’s infrastructure investments in energy sector can increase the level of energy security of China by diversifying import sources of oil and natural gas and direct investment into energy sector of Belt and Road countries.

2.2.2 Export of Industrial Capacities

**Q10. How can the B&Ri help China resolve its issue of industrial overcapacity?**

The Initiative can potentially ease the issue of China’s industrial overcapacity by directing and exporting new production abroad. The B&Ri creates a large demand for railways, pipelines, power stations and steel. The current steel production capacity in countries along Belt and Road is far from meeting their domestic demand. China’s overproduced cement companies may benefit from expanding to Central Asia.

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2.2.3 Export of Consumer Goods

Q11. How can the B&RI increase Chinese exports for consumer goods?

Firstly, the B&RI may open up markets for trade and create more export markets for consumer goods produced by China.

Moreover, costs of trade may be lowered following improved connectivity and removal of trade barriers (such as tariff and quota) along Belt and Road countries, trade volume between China and Belt and Road countries may increase.

2.2.4 Rebalancing Regional Economic Development in China

Q12. How can the B&RI help China balance its regional economic development?

By connecting the western part of China, e.g. Xinjiang, with Central Asia, and also the southwestern provinces with Southeast Asia via economic corridors, B&RI could provide more investment opportunities for these relatively underdeveloped provinces, open their markets for export and transform them to become crucial cities in internationalization of China’s economy. This can improve local people’s livelihood, increase their income and hence reduce the severity of uneven income distribution within China.
2.3 Potential Impacts of the Initiative on Related Countries

Q13. How can the B&RI help develop the countries along Belt and Road?

First of all, the B&RI aims to promote economic development of countries along Belt and Road to improve local people’s livelihood. With more investments and projects, more employment opportunities of Belt and Road countries can also be created to stimulate economic growth.

Secondly, B&RI introduces investments and projects which improve local transport infrastructure and international connectivity.

Thirdly, B&RI introduces investments and projects which serve to meet basic utility needs of people in some underdeveloped regions, especially the places with limited or no access to electricity, clean water supply and internet. In addition, when investment and projects increase, more employment opportunity can be created in those countries.
2.4 How to Implement the Belt and Road Initiative?

Q14. How to implement the B&RI?

The first strategy is China’s infrastructure investments along B&R. To facilitate this, trade facilitating policies including establishing Free Trade Area (FTA) and Customs Unions will be implemented as the further strategy.

2.4.1 Infrastructure Investment

Q15. What are major infrastructures in practice?

According to Merriam-Webster Dictionary, “infrastructure” means the basic equipment and structures that are needed for a country, region, or organization to function properly. Examples include:

1) Transportation infrastructures including railway, road, port and airport
2) Information and Communication technologies (ICT) e.g. cable pathways
3) Energy e.g. oil terminal
4) Power and electricity e.g. power transmission system
5) Water and sanitation e.g. water treatment facilities
Q16. What is the importance of infrastructure in economic development?

Infrastructure is a source of capital. When there are more infrastructure investments in an economy, capital inputs will grow and accumulate, which contributes to long run economic growth\(^3\).

Besides, infrastructure investments, if constructed economically, can reduce cost of trading, transportation of goods and tourists’ travel\(^4\). Job opportunities can also be created by construction of infrastructures to increase employment. These effects can also improve economic growth\(^5\).

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Q17. Identify some examples of infrastructure investments in the Belt and Road Initiative.

In the energy sector, Chinese companies invest in infrastructure to protect China’s energy security. For example, in Myanmar, China National Petroleum Corporation participated in the construction of the Sino-Burma oil and gas pipeline, which cost around USD 2.5 billion and has started in use since early 2015. The pipeline starts from deep water port of Maday Island, on Myanmar’s west coast, which consists of a 300-kilotonne crude oil terminal.

In the transportation sector, Chinese companies invest in infrastructure to improve facilities’ connectivity and promote trade. An example of infrastructure investment in this sector is in Kenya, where the China Road and Bridge Corporation invested US$3.8 billion in the construction project of the 480km-Mombasa-Nairobi Standard Gauge Railway which launched its service in June 2017.

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Q18. What are the examples of transport infrastructure investments along economic corridors/land bridge of Silk Road Economic Belt?

1) Along New Eurasia Land Bridge: an international railway line running from Lianyungang in China’s Jiangsu Province through Xinjiang to Rotterdam in the Netherlands.

2) Along China-Mongolia-Russia Economic Corridor: strengthening rail and highway connectivity and construction among China, Mongolia and Russia; the renovation of Russia’s Eurasia Land Bridge and the proposed development of Mongolia’s Steppe Road.

3) Along China-Central Asia-West Asia Economic Corridor: the corridor runs from Xinjiang in China and exits the country via Xinjiang to join the railway networks of Central Asia and West Asia before reaching the Arabian Peninsula and Mediterranean coast.

4) Along China-Indochina Peninsula Economic Corridor: the countries along the Greater Mekong River (Cambodia, Laos, Myanmar, Thailand and Vietnam) are engaged in building 9 cross-national highways, connecting east and west and linking north to south.

5) Along China-Pakistan Economic Corridor: building highways, railways, oil and natural gas pipelines and optic fibre networks stretching from Kashgar, Xinjiang to Pakistan’s Gwadar Port.

Q19. How can China and other countries finance the infrastructure projects in Belt and Road countries?

Infrastructure investments in Belt and Road countries are mainly supported and financed by Asia Infrastructure and Investment Bank (AIIB) and the Silk Road Fund.
Q20. What is Asia Infrastructure and Investment Bank (AIIB)?

AIIB, a new multilateral development bank (MDB), was set up to address and finance infrastructure needs in Asia and beyond in 2014, following China’s initiative. AIIB serves to improve the connectivity of infrastructure construction plans. Its registered capital is USD 100 billion. As at early July 2016, AIIB has 57 founding members. China is the largest shareholder of AIIB, holding about 29.9% of its shares. Hong Kong, China joined as a member in June 2017.

Q21. What is the Silk Road Fund?

The USD 40 billion Silk Road Fund was established as a limited liability company to finance the Belt and Road Initiative in December 2014. Its founding shareholders include China’s State Administration of Foreign Exchange, the China Investment Corporation, the Export-Import Bank of China and the China Development Bank.

The Silk Road Fund fulfils the goal of improving the connectivity of infrastructure construction plans and promoting economic cooperation among Belt and Road countries by providing investment and financing support. It will invest mainly in infrastructure and resources, as well as in industrial and financial cooperation.

In April 2015, the Silk Road Fund concluded its first deal to invest in the Karot Hydropower Station, a highly prioritized China-Pakistan Economic Corridor project. This project is currently underway 9.

In May 2017, President Xi announced that an additional RMB 100 billion will be added to the current Silk Road Fund 10.

10 China to contribute additional 100 billion RMB to Silk Road Fund”, Xinhua, 14 May, 2017, “http://www.xinhuanet.com/english/2017-05/14/c_136281304.htm”
2.4.2 Trade Facilitating Measures

Q22. What can be established to promote and facilitate trade in the Belt and Road Initiative?

A Free Trade Area (FTA) or Customs Union can improve investment and trade facilitation, and remove investment and trade barriers, as well as promote intergovernmental cooperation and further economic cooperation among Belt and Road countries.

A FTA eliminates tariffs and measures having equivalent effect for goods and services traded between the member states, and also quota and unnecessary inspection and quarantine measures at border. A Customs Union is a free trade union with a common policy regarding tariffs and measures having equivalent effect.

Q23. What are the current FTAs of China?

China has currently signed FTAs with neighboring countries/regions including: ASEAN countries, Pakistan and South Korea.

In the China-Pakistan FTA for instance, 70% of Chinese Tariff lines have been reduced to less than 5% of tariff since 2012. For Pakistan, 55.5% of Pakistan’s Tariff lines are also reduced to less than 5% since 2012.

Looking at the FTA between China and ASEAN, in 2015, nearly 95% of China and ASEAN trade-in goods has reached zero tariffs.
2.5 Exercises

Exercise 1:
Location of Belt and Road Countries

Which economic corridors or land bridge of the “Silk Road Economic Belt” or “21st Century Maritime Silk Road” do the following countries locate? (Hint: Some countries may be located in more than one.)

<table>
<thead>
<tr>
<th>Country</th>
<th>Economic Corridor / Land Bridge</th>
</tr>
</thead>
<tbody>
<tr>
<td>Singapore</td>
<td></td>
</tr>
<tr>
<td>India</td>
<td></td>
</tr>
<tr>
<td>Kazakhstan</td>
<td></td>
</tr>
<tr>
<td>United Arab Emirates</td>
<td></td>
</tr>
<tr>
<td>Czech Republic</td>
<td></td>
</tr>
</tbody>
</table>

Answer:

<table>
<thead>
<tr>
<th>Country</th>
<th>Economic Corridor / Land Bridge</th>
</tr>
</thead>
<tbody>
<tr>
<td>Singapore</td>
<td>The China-Indochina Peninsula Corridor</td>
</tr>
<tr>
<td>India</td>
<td>The Bangladesh-China-India-Myanmar Corridor</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>The China-Central Asia-West Asia Corridor</td>
</tr>
<tr>
<td>United Arab Emirates</td>
<td>The China-Central Asia-West Asia Corridor</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>The New Eurasia Land Bridge</td>
</tr>
</tbody>
</table>
Exercise 2:
Social Development in Belt and Road Countries

a. Please find the population and GDP per capita of the 6 selected countries from different regions along Belt and Road in 2014 (2011 USD Purchasing Power Parity) and complete the table below.

<table>
<thead>
<tr>
<th>Region</th>
<th>Country</th>
<th>Population (million)</th>
<th>GDP per capita (2011 USD PPP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Southeast Asia</td>
<td>Singapore</td>
<td></td>
<td></td>
</tr>
<tr>
<td>South Asia</td>
<td>India</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Central and Western Asia</td>
<td>Kazakhstan</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Middle East and Africa</td>
<td>United Arab Emirates</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Eastern and Central Europe</td>
<td>Czech Republic</td>
<td></td>
<td></td>
</tr>
<tr>
<td>East Asia</td>
<td>China</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Answer:**

<table>
<thead>
<tr>
<th>Region</th>
<th>Country</th>
<th>Population (million)</th>
<th>GDP per capita (2011 USD PPP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Southeast Asia</td>
<td>Singapore</td>
<td>5.5</td>
<td>76,628.2</td>
</tr>
<tr>
<td>South Asia</td>
<td>India</td>
<td>1,267.4</td>
<td>5,497.5</td>
</tr>
<tr>
<td>Central and Western Asia</td>
<td>Kazakhstan</td>
<td>16.6</td>
<td>20,867.4</td>
</tr>
<tr>
<td>Middle East and Africa</td>
<td>United Arab Emirates</td>
<td>9.4</td>
<td>60,868.3</td>
</tr>
<tr>
<td>Eastern and Central Europe</td>
<td>Czech Republic</td>
<td>10.7</td>
<td>26,660.3</td>
</tr>
<tr>
<td>East Asia</td>
<td>China</td>
<td>1,393.8</td>
<td>12,547.0</td>
</tr>
</tbody>
</table>

(Source: UNDP)
b. What were the life expectancy at birth, infant mortality rate (per 1,000 live births) and mean years of schooling of the 6 selected countries in 2014 respectively? Please complete the table below.

<table>
<thead>
<tr>
<th>Region</th>
<th>Country</th>
<th>Life Expectancy at birth (year)</th>
<th>Infant Mortality Rate (per 1,000 live births)</th>
<th>Mean years of schooling (year)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Southeast Asia</td>
<td>Singapore</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>South Asia</td>
<td>India</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Central and Western Asia</td>
<td>Kazakhstan</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Eastern and Central Europe</td>
<td>Czech Republic</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>East Asia</td>
<td>China</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Answer:**

<table>
<thead>
<tr>
<th>Region</th>
<th>Country</th>
<th>Life Expectancy at birth (year)</th>
<th>Infant Mortality Rate (per 1,000 live births)</th>
<th>Mean years of schooling (year)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Southeast Asia</td>
<td>Singapore</td>
<td>83.0</td>
<td>2.2</td>
<td>10.6</td>
</tr>
<tr>
<td>South Asia</td>
<td>India</td>
<td>68.0</td>
<td>41.4</td>
<td>5.4</td>
</tr>
<tr>
<td>Central and Western Asia</td>
<td>Kazakhstan</td>
<td>69.4</td>
<td>14.6</td>
<td>11.4</td>
</tr>
<tr>
<td>Middle East and Africa</td>
<td>United Arab Emirates</td>
<td>77.0</td>
<td>7.0</td>
<td>9.5</td>
</tr>
<tr>
<td>Eastern and Central Europe</td>
<td>Czech Republic</td>
<td>78.6</td>
<td>2.9</td>
<td>12.3</td>
</tr>
<tr>
<td>East Asia</td>
<td>China</td>
<td>75.8</td>
<td>10.9</td>
<td>7.5</td>
</tr>
</tbody>
</table>

(Source: UNDP)
c. Based on your answers above, answer the following questions.

i) Which of the selected countries had a larger population than China in 2014?

Answer: No country had a larger population than China in 2014.

ii) Which of the selected countries had a larger GDP per capita than China in 2014, in 2011 USD purchasing power parity (PPP)?

Answer: Singapore, Kazakhstan, United Arab Emirates and Czech Republic had a higher GDP per capita (2011 USD PPP) than China in 2014.

iii) People in which of the selected countries received more years of education on average than those in China in 2014?

Answer: People in Singapore, Kazakhstan, United Arab Emirates and Czech Republic had received more years of education on average than those China in 2014.

iv) Which of the selected countries had a higher infant mortality rate than that of China in 2014?

Answer: Kazakhstan and India had a higher infant mortality rate than that of China in 2014.

(Note: Human Development Indicators of most countries can be found here in UNDP’s website: http://hdr.undp.org/en/countries)
Exercise 3:
Infrastructure Investments in Belt and Road Countries

a. Match the following infrastructure facilities and the sector they belong to.

<table>
<thead>
<tr>
<th>Infrastructure facilities</th>
<th>Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coal-power plant</td>
<td>• Power and electricity</td>
</tr>
<tr>
<td>Railway</td>
<td>• Transportation</td>
</tr>
<tr>
<td>Airport</td>
<td>• Information and Communication technologies</td>
</tr>
<tr>
<td>Telecommunication infrastructure</td>
<td></td>
</tr>
<tr>
<td>Oil storage terminal</td>
<td>• Water and sanitation</td>
</tr>
<tr>
<td>Port</td>
<td></td>
</tr>
<tr>
<td>Oil and gas pipeline</td>
<td></td>
</tr>
<tr>
<td>Hydropower station</td>
<td></td>
</tr>
<tr>
<td>Road</td>
<td></td>
</tr>
<tr>
<td>Water treatment facilities</td>
<td></td>
</tr>
<tr>
<td>Underground cables</td>
<td></td>
</tr>
</tbody>
</table>
Answer:

<table>
<thead>
<tr>
<th>Infrastructure facilities</th>
<th>Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coal-power plant</td>
<td>Power and electricity</td>
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<tr>
<td>Railway</td>
<td>Transportation</td>
</tr>
<tr>
<td>Airport</td>
<td>Transportation</td>
</tr>
<tr>
<td>Telecommunication infrastructure</td>
<td>Information and communication technologies</td>
</tr>
<tr>
<td>Oil storage terminal</td>
<td>Energy</td>
</tr>
<tr>
<td>Port</td>
<td>Transportation</td>
</tr>
<tr>
<td>Oil and gas pipeline</td>
<td>Energy</td>
</tr>
<tr>
<td>Hydropower station</td>
<td>Power and electricity</td>
</tr>
<tr>
<td>Road</td>
<td>Transportation</td>
</tr>
<tr>
<td>Water treatment facilities</td>
<td>Water and sanitation</td>
</tr>
<tr>
<td>Underground cables</td>
<td>Information and communication technologies</td>
</tr>
</tbody>
</table>
Exercise 4:
Free Trade and Belt and Road Initiative

a. What are the pros and cons of free trade agreements to Belt and Road countries and China?

Answer:

Under the Initiative, China and other Belt and Road countries may form a free trade area. If it happens, Belt and Road countries and China can both benefit from reduced trading costs from reduced trade restrictions, e.g. tariffs and quotas. Barriers of entry into certain market sectors or markets may also be lifted. Free trade in the region could facilitate competition among suppliers and businesses in the region and provide more choices of products and services, which can benefit consumers. However, FTA may also lead to unemployment and keen competition to local companies.\(^{12}\)

b. What are the other considerations to promote free trade?

Answer:

As with globalization, free trade can foster exchange of diverse cultures as people from different races, religion and places have more cultural exchange. People have more opportunities to learn about other cultures and countries. Free trade may bring free movement of labour, i.e. labour mobility may also increase.

Health issues may however arise given more frequent contacts of people in different countries and regions. In case an epidemic breaks out, its outspread can be much quicker if border health check measures are insufficient.

3. Potential Impacts of the Belt and Road Initiative on Hong Kong Economy - Financial Sector

Learning Objectives:
1. To have an overview of the financial sector of Hong Kong
2. To understand potential impacts of the Belt and Road Initiative on Hong Kong’s financial sector

3.1 Background of Financial Sector in Hong Kong
3.2 Linkage between the Mainland’s and Hong Kong’s Financial Sectors
3.3 Potential Impacts of the Belt and Road Initiative on Hong Kong’s Financial Sector
3.4 HKSAR Government’s Preparation for the Belt and Road Initiative
3.5 Exercises
3.1 Background of Financial Sector in Hong Kong

Q1. What is the international status of Hong Kong’s financial industry?

Hong Kong is a well-known international finance centre, and has a competitive economic and business environment. Major international research reports also place Hong Kong in the top ranks.

<table>
<thead>
<tr>
<th></th>
<th>Year</th>
<th>Ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global Financial Centres Index (GFCI)(^1)</td>
<td>2016</td>
<td>4</td>
</tr>
<tr>
<td>Xinhua·Dow Jones International Financial Centers Development Index (IFCD)(^2)</td>
<td>2015</td>
<td>5</td>
</tr>
</tbody>
</table>

Besides, Hong Kong has a robust stock market. As at late June, 2016, Hong Kong Stock Exchange was the 8th–largest in the world in terms of market capitalization, and the fourth-largest in Asia, having a market capitalization of USD 2,972.5 billion \(^3\).

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Economic Analysis of the Belt and Road Initiative

Major Stock Exchanges of the World

<table>
<thead>
<tr>
<th>Major Stock Exchanges of the World</th>
<th>Worldwide Ranking (in terms of market value)</th>
<th>Market Capitalization (USD billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States (NYSE Euronext)</td>
<td>1</td>
<td>18,711</td>
</tr>
<tr>
<td>United States (NASDAQ OMX Group)</td>
<td>2</td>
<td>7,063</td>
</tr>
<tr>
<td>Japan (Japan Exchange Group)</td>
<td>3</td>
<td>4,686</td>
</tr>
<tr>
<td>China (Shanghai)</td>
<td>4</td>
<td>3,776</td>
</tr>
<tr>
<td>United Kingdom (London Stock Exchange Group)</td>
<td>5</td>
<td>3,600</td>
</tr>
<tr>
<td>Europe (NYSE Euronext)</td>
<td>6</td>
<td>3,286</td>
</tr>
<tr>
<td>China (Shenzhen)</td>
<td>7</td>
<td>3,190</td>
</tr>
<tr>
<td>China (Hong Kong)</td>
<td>8</td>
<td>2,972</td>
</tr>
</tbody>
</table>

(Source: HKSFC)

The volume of IPOs and funds raised in Hong Kong meant it continued to rank number one globally in first half of 2016, with HKD 43.5 billion of total funds raised, which was higher than the London Stock Exchange in second place (total funds raised HKD 31.6 billion) and the New York Stock Exchange in third place (total funds raised HKD 28.8 billion). This attests to the firm leading position that Hong Kong continues to hold in global capital markets.

Q2. What are the reasons behind the success of Hong Kong’s financial industry?

There are many reasons behind the success of Hong Kong’s financial industry, including world-class business infrastructure, sound regulatory structure and superb location.

4 “Hong Kong led globally in both number of IPOs and funds raised in ‘1H 2016’, PwC, 04 July 2016, http://www.pwchk.com/home/printeng/pr_040716_chi.html
1) Trusted Rule of Law and Transparent Regulatory Structure
Under “One Country, Two Systems”, Hong Kong is able to continue using common law upheld by an independent judiciary. In addition, Hong Kong has a transparent, clear and consistent regulatory structure. These make investors confident in investing into Hong Kong.

2) Free Capital Movements
Hong Kong has no capital control, which favourably contributes to the development of forex market and its close connection with overseas forex market.

3) Top Talents from Around the World
Hong Kong is full of employment opportunities with unemployment rate staying at a relatively low level. It also has a simple and relatively low income tax. These attract a lot of international talents and professionals. Besides, Hong Kong has a sound education system. Its tertiary institutions rank high internationally and train a lot of local talents. As a result, Hong Kong has a lot of domestic and overseas talents, which attract foreign investments and contribute to build Hong Kong to be an international finance centre.

4) Efficient Transport
Hong Kong is a transport hub. Hong Kong International Airport is one of the busiest airports in the world. Besides, Hong Kong’s marine transport is closely connected with Pearl River Delta. Together with mature local transport infrastructure, these factors make Hong Kong a convenient place for business.

5) Full-fledged Professional Services
Nearly all top international accountancy, legal, and other professional services firms have set up their office in Hong Kong, forming a strong support network for the entire financial sector.

6) Hong Kong is the Platform Connecting the Mainland and the World
Hong Kong is geographically proximate to the Mainland and has had close economic relation with the Mainland. Hong Kong has been the world’s gateway to the Mainland all along. Similarly, companies from the Mainland have chosen Hong Kong as the preferred destination
for raising international capital and as the first step of “going out”. As the second largest economy in the world and one of the fastest growing, the Mainland offers abundant market opportunities, from which Hong Kong can benefit.

7) Favourable Time Zone

Hong Kong is located between the time zones of Europe and Americas and can fill the time lag of trading hours such that the financial sector can operate 24 hours a day.

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Q3. What are the major financial services of Hong Kong’s financial industry?

Hong Kong’s major financial services include banking, insurance, securities, fund management, futures, gold trading and foreign exchange etc. to ensure the smooth flow of capital and market. Therefore, Hong Kong has a mature and manifold financial industry.

Q4. What is the contribution of financial services industry to Hong Kong economy?

Financial services industry is one of the Four Key Industries of Hong Kong. Value added of the financial services industry amounted to $365.9 billion in 2014, or 16.6% of nominal GDP at basic prices, making it the second largest industry of Hong Kong, only behind trading and logistics industry (23.4%). From 2012 to 2014, value added of the industry rose by 15%.

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In 2014, financial services industry employed 236,500 people, or 6.3% of total employment in Hong Kong, the smallest employment among the Four Key Industries. From 2012 to 2014, employment of the industry increased by 3%.

Within the financial services industry, the banking industry has been playing a pivotal role. In 2014, it accounted for 63% and 42% of the value added and total employment of the entire financial services sector respectively.

3.2 Linkage between the Mainland’s and Hong Kong’s Financial Sectors

Q5. How is Hong Kong’s financial services industry connected with the Mainland?

Hong Kong is the largest foreign investment source of the Mainland. By end of 2015, among all overseas-funded projects approved in the Mainland, 44.7% were tied to Hong Kong.

Hong Kong is the key offshore capital-raising centre for Chinese enterprises. As of December 2015, 951 companies from the Mainland were listed in Hong Kong, comprising H-share, red-chip and private-owned companies with total market capitalization of USD 1.97 trillion, or 62.1% of the market total.
As at January 2016, there were 11 licensed banks and six representative offices, incorporated in the Mainland, operating in Hong Kong. Big lenders including the Bank of China and Industrial and Commercial Bank of China etc. have opened their branch operations in Hong Kong. Mainland commercial banks including Bank of Beijing and Bank of Dongguan etc. have representative offices in Hong Kong. Finally, Hong Kong has remained the leading offshore RMB business centre. Therefore, Hong Kong's financial services industry has a close relation with the Mainland.

### 3.3 Potential Impacts of the Belt and Road Initiative on Hong Kong’s Financial Sector

#### Q6. What is the role of Hong Kong in Belt and Road Initiative?

Hong Kong can invest and finance Belt and Road projects, and facilitate the internationalization of RMB and outward direct investment of the Mainland.

Hong Kong has multiple channels for raising capital. The city has world-class and leading stock market and banks, and is a major private equity capital market in Asia. It also has a flourishing bond market. Public and private organizations over the world can freely raise capital in Hong Kong by public offerings, issuing bonds and obtaining syndicated loans. Hong Kong’s channels for raising capital can match the large amount of capital required in Belt and Road infrastructure projects.

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Charles Li, the chief executive of Hong Kong Exchanges and Clearing Limited, said earlier that Hong Kong could in three ways help invest Mainland capital abroad: Firstly, Hong Kong’s stock market can distribute Chinese capital to the emerging markets through the Belt and Road Initiative; Secondly, the mature financial market of Hong Kong can help manage inshore financial risks during the reform of the Mainland’s financial market, which might create a lot of volatility in interest rate and foreign exchange rate etc.; Finally, Hong Kong can be the pricing centre for companies, commodities and foreign currencies. For example, Hong Kong Stock Exchange is preparing for London-Hong Kong Stock Connect to lubricate non-ferrous metals pricing in the Mainland.

Therefore, Hong Kong’s financial services industry can help develop Belt and Road Initiative in many aspects.

Q7. How does the banking sector prepare for the Belt and Road Initiative?

A large number of banks have started preliminary work for the Initiative.

Bank of China (Hong Kong) said amount of capital raised related to the Belt and Road Initiative had double digit growth compared to 2015. BOCHK would strengthen its business of investment banking, and had already set up dedicated teams in IPO and debt financing in emerging markets\(^\text{14}\).

HSBC pointed out that the Asian Infrastructure Investment Bank (AIIB) took the lead in Belt and Road finance so that the risk of bad debts would reduce, and it would invest in the relatively developed countries\(^\text{15}\). HSBC has had branches in 70% of areas along the Belt and Road Initiative. This year, the bank set up a taskforce, led by Peter Wong Tung-shun, Deputy Chairman and Chief Executive, and members comprised by local CEOs, with an aim to explore business opportunities along Belt and Road\(^\text{16}\).

ICBC (Asia) was optimistic of the future of finance on the Belt and Road Initiative. It estimated the amount of capital demanded for might reach USD 2 trillion (HKD 15.6 trillion), and would therefore provide more lending channels\(^\text{17}\).

Samuel Tsien, CEO of OCBC Bank Group, said the bank had already set up office for China business in Singapore and Indonesia, and planned to do so in Myanmar and Malaysia to cater for Belt and Road projects\(^\text{18}\).

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\(^{14}\) 中銀香港：「一帶一路」融資雙位數增長” · NOW新聞台，2016年5月17日，http://news.now.com/home/finance/player?newsid=179151

\(^{15}\) “王冬勝撐一帶一路 「有一半成功已不得了” · 蘋果日報，2016年6月20日，http://hk.apple.nextmedia.com/financeestate/art/20160620/19661375

\(^{16}\) “一帶一路料需資46萬億” · 東方日報· 2016年6月20日，http://orientaldaily.on.cc/cnt/finance/20160620/00202_016.html

\(^{17}\) “工銀亞洲：料一帶一路融資涉15萬億元” · 東網，2016年4月5日，http://hk.on.cc/hk/bkn/cnt/finance/20160405/bkn-2016040500132902-0405_00842_001.html

3.4 HKSAR Government’s Preparation for the Belt and Road Initiative

Q8. How does the HKSAR Government prepare for the financial sector’s participation in the Belt and Road Initiative?

The Hong Kong Monetary Authority (HKMA) set up the Infrastructure Financing Facilitation Office (IFFO) in July 2016. IFFO, a platform spearheaded by the HKMA, aims to bring together the relevant stakeholders for infrastructure financing to promote and facilitate investment and financing in infrastructure projects in the countries along the Belt and Road 19.

Q8. What are the functions of IFFO?

IFFO has four major functions: (1) providing a platform for information exchange and experience sharing; (2) building capacity and knowledge on infrastructure investments and financing; (3) promoting market and product development; and (4) facilitating infrastructure investment and financing flows 20.

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3.5 Exercises

Exercise 1:

a. What is Global Financial Centres Index (GFCI)?

Answer:

The Global Financial Centres Index (GFCI), produced by Z/Yen Group, examines the major financial centres' global competitiveness. The index covers six major areas of competitiveness: business environment, financial sector development, infrastructure, human capital, taxation and reputation.¹

b. How did Hong Kong’s GFCI ranking change in last 5 years?

<table>
<thead>
<tr>
<th>Year</th>
<th>Ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>4</td>
</tr>
<tr>
<td>2015</td>
<td>3</td>
</tr>
<tr>
<td>2014</td>
<td>3</td>
</tr>
<tr>
<td>2013</td>
<td>3</td>
</tr>
<tr>
<td>2012</td>
<td>3</td>
</tr>
</tbody>
</table>

Answer:

Hong Kong’s ranking of GFCI has remained about the same in the last 5 years.

¹ Z/Yen group, http://www.zyen.com/research/gfci.html
c. How did Hong Kong’s GFCI rating change in last 5 years?

<table>
<thead>
<tr>
<th>Year</th>
<th>Ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>753</td>
</tr>
<tr>
<td>2015</td>
<td>758</td>
</tr>
<tr>
<td>2014</td>
<td>761</td>
</tr>
<tr>
<td>2013</td>
<td>761</td>
</tr>
<tr>
<td>2012</td>
<td>754</td>
</tr>
</tbody>
</table>

**Answer:**

Hong Kong’s GFCI rating dropped slightly in last 5 years.
Exercise 2:
Linkage between Mainland’s and Hong Kong’s Financial Sectors

In the period between 2002 and 2015, how did the Mainland change as the source of Hong Kong's foreign direct investment?

Position of Hong Kong’s Inward Direct Investment at end of 2015

- British Virgin Islands 35%
- Mainland China 27%
- Cayman Islands 7%
- The Netherlands 6%
- Bermuda 5%
- Others 21%

(Source: HKCSD)
Answer:

The share of the Mainland as the source of Hong Kong’s FDI increased from 23% in 2002 to 27% in 2015.
Exercise 3:
Potential Impacts of the Belt and Road Initiative on Hong Kong’s Financial Sector

How did employment and value added (at current prices) of the Hong Kong’s financial industry change in the period from 2010 to 2014?

<table>
<thead>
<tr>
<th>Year</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employment (persons)</td>
<td>216,700</td>
<td>226,300</td>
<td>228,800</td>
<td>231,700</td>
<td>236,500</td>
</tr>
<tr>
<td>Employment as a share of the total employment in Hong Kong (%)</td>
<td>6.2%</td>
<td>6.3%</td>
<td>6.3%</td>
<td>6.2%</td>
<td>6.3%</td>
</tr>
<tr>
<td>Value added at current prices (HK$ Mn)</td>
<td>283,800</td>
<td>305,300</td>
<td>319,300</td>
<td>346,000</td>
<td>365,900</td>
</tr>
<tr>
<td>Value added as a percentage of GDP in Hong Kong (%)</td>
<td>16.3%</td>
<td>16.1%</td>
<td>15.9%</td>
<td>16.5%</td>
<td>16.6%</td>
</tr>
</tbody>
</table>

(Source: HKCSD)

Answer:

The number of employees and value added of Hong Kong’s financial industry was increasing in the period between 2010 and 2014. Its share of the total employment and value added as a percentage of GDP in Hong Kong were about the same in the period.
4. Potential Impacts of the Belt and Road Initiative on Hong Kong Economy - Trading Sector

Learning Objectives:
1. To have an overview of the trading sector of Hong Kong
2. To understand potential impacts of the Belt and Road Initiative on Hong Kong’s trading sector

4.1 Background of Trading Sector in Hong Kong
4.2 Trade Relationships between China and the B&R Countries/Territories and the Role of Hong Kong
4.3 Potential Impacts of the Belt and Road Initiative on Hong Kong’s Trading Sector
4.4 HKSAR Government’s Preparation for the Belt and Road Initiative
4.5 Exercises
4.1 Background of Trading Sector in Hong Kong

Q1. What is the overview of import and export industry in Hong Kong?

Hong Kong is the world’s 8th largest trading economy. In 2014, Hong Kong’s export and import (in terms of trade value) ranked 9th and 7th respectively, accounting for 2.8% and 3.1% of world merchandise trade.

<table>
<thead>
<tr>
<th>Rank</th>
<th>Exporters</th>
<th>Value (Billion)</th>
<th>World Share (%)</th>
<th>Rank</th>
<th>Importers</th>
<th>Value (Billion)</th>
<th>World Share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>China</td>
<td>2342</td>
<td>12.3</td>
<td>1</td>
<td>United States</td>
<td>2413</td>
<td>12.6</td>
</tr>
<tr>
<td>2</td>
<td>United States</td>
<td>1621</td>
<td>8.5</td>
<td>2</td>
<td>China</td>
<td>1959</td>
<td>10.3</td>
</tr>
<tr>
<td>3</td>
<td>Germany</td>
<td>1508</td>
<td>7.9</td>
<td>3</td>
<td>Germany</td>
<td>1216</td>
<td>6.4</td>
</tr>
<tr>
<td>4</td>
<td>Japan</td>
<td>684</td>
<td>3.6</td>
<td>4</td>
<td>Japan</td>
<td>822</td>
<td>4.3</td>
</tr>
<tr>
<td>5</td>
<td>Netherlands</td>
<td>672</td>
<td>3.5</td>
<td>5</td>
<td>United Kingdom</td>
<td>684</td>
<td>3.6</td>
</tr>
<tr>
<td>6</td>
<td>France</td>
<td>583</td>
<td>3.1</td>
<td>6</td>
<td>France</td>
<td>678</td>
<td>3.5</td>
</tr>
<tr>
<td>7</td>
<td>Korea, Republic of</td>
<td>573</td>
<td>3.0</td>
<td>7</td>
<td>Hong Kong, China</td>
<td>601</td>
<td>3.1</td>
</tr>
<tr>
<td>8</td>
<td>Italy</td>
<td>529</td>
<td>2.8</td>
<td></td>
<td>Retained Imports</td>
<td>151</td>
<td>0.8</td>
</tr>
<tr>
<td>9</td>
<td>Hong Kong, China</td>
<td>524</td>
<td>2.8</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Domestics exports</td>
<td>16</td>
<td>0.1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Re-exports</td>
<td>508</td>
<td>2.7</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(Source: World Trade Organization)
Remark: The data for China in the above table do not include Hong Kong SAR; Macao SAR and Taiwan.

1 “Import and Export Trade Industry in Hong Kong”, Hong Kong Trade Development Council, 26 January 2016, http://hong-kong-economy-research.hktdc.com/business-news/article/%E9%A6%99%E6%B8%AF%E8%A1%8C%E6%A5%AD%E6%A6%82%E6%B3%81/%E9%A6%99%E6%B8%AF%E9%80%82%E5%87%BA%E5%8F%A3%E8%B2%BF%E6%98%93%E6%A5%AD%E6%A6%82%E6%B3%81/hkip/ct/1/1X000000/1X006NJK.htm
Q2. What are the major services of Hong Kong trading industry?

Apart from export, import and re-export of goods, Hong Kong trading industry also includes sourcing and export of services.

There are three major types of sourcing activities: (1) sourcing goods produced in Hong Kong; (2) sourcing goods from neighbouring region for re-exports; and (3) sourcing goods from one country to be shipped directly to a third country without passing through Hong Kong.

In the first 9 months of 2015, Hong Kong exported business and trade-related services in the amount of US$26.4 billion, accounting for 26.3% of total services exports.

3 “Import and Export Trade Industry in Hong Kong”, Hong Kong Trade Development Council, 26 January 2016, http://hong-kong-economy-research.hktdc.com/business-news/article/%E9%A6%99%E6%B8%AF%E8%A1%8C%E6%A5%AD%E6%A6%82%E6%B3%81/%E9%A6%99%E6%B8%AF%E9%80%B2%E5%87%BA%E5%8F%A3%E8%B2%BF%E6%98%93%E6%A5%AD%E6%A6%82%E6%B3%81/hkip/tc/1/1X000000/1X006NJK.htm

4 “Import and Export Trade Industry in Hong Kong”, Hong Kong Trade Development Council, 26 January 2016, http://hong-kong-economy-research.hktdc.com/business-news/article/%E9%A6%99%E6%B8%AF%E8%A1%8C%E6%A5%AD%E6%A6%82%E6%B3%81/%E9%A6%99%E6%B8%AF%E9%80%B2%E5%87%BA%E5%8F%A3%E8%B2%BF%E6%98%93%E6%A5%AD%E6%A6%82%E6%B3%81/hkip/tc/1/1X000000/1X006NJK.htm
Q3. What is the principle of trade policy adopted by Hong Kong?

Hong Kong is a free port and pursues a free trade policy. It does not have any barriers on trade. No tariff is imposed neither on import or export of goods. Although licensing is required for the import and export of some goods, it is only to fulfil obligations undertaken by Hong Kong to trading partners, or to meet the requirements of public health, safety or internal security. The licensing procedures are as simplified as possible in such cases.

Through participating in multilateral, regional, and bilateral trade agreements, Hong Kong secures, maintains and improves access to foreign markets for our goods and services.

Q4. What are the contributions of trading industry to Hong Kong economy?

In 2014, the trading and logistics sector contributed HKD$515,700m (value-added at current price) to Hong Kong’s GDP, accounting for 23.4% of total GDP, which was the highest in 4 key industries in Hong Kong. The employment in the sector was 765,000 in 2014, accounting for 20.4% of total employment, which was also the highest among the 4 key industries in Hong Kong.

4.2 Trade Relationships between China and the B&R Countries/Territories and the Role of Hong Kong

Q5. Who are Hong Kong’s principal trading partners?

<table>
<thead>
<tr>
<th>Rank</th>
<th>Country/Territory</th>
<th>Total Trade</th>
<th>Value (HK$ Mn)</th>
<th>Share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Mainland</td>
<td>3,860,300</td>
<td>50.8</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>USA</td>
<td>530,684</td>
<td>7.0</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Taiwan</td>
<td>366,587</td>
<td>4.8</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Japan</td>
<td>363,444</td>
<td>4.8</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Singapore</td>
<td>322,979</td>
<td>4.3</td>
<td></td>
</tr>
</tbody>
</table>


Q6. What is the relationship between Hong Kong re-export and the Mainland?

Hong Kong is the most important entrepot for the Mainland. In 2015, 59% of re-exports originated from the Mainland and 54% of them destined for the Mainland.  

Q7. What are the characteristics of the regions along the “Belt and Road” in terms of trade and economy?

The B&R Initiative covers the emerging and developing Asia, Commonwealth of Independent States (CIS), emerging and developing Europe, Middle East, North Africa, Afghanistan and Pakistan 9.

Firstly, the selected regions generally demonstrate strong market potentials, given that many regions, particularly Asia, showed sustained economic growth above the global average in the past decade. Also, South Asia has a population size larger than China’s, and ASEAN together has an economic size of around one quarter of the China’s. Secondly, most regions showed visible growth in goods trade in the period between 2005 and 2014, surpassing that of major advanced economies, notwithstanding the setback in 2008 and 2009. The degree of openness in these regions, measured by the ratio of goods trade to GDP at current market value in 2014, is generally above that of major advanced economies, suggesting that they are receptive to new trade and investment opportunities. Given the large economic size, vast population, sustained economic growth and strong trade growth, there exists good opportunities for Hong Kong to leverage on the market potentials in these regions to develop its economy10.


Q8. What is the current situation of the goods trade between Hong Kong and these regions?

In terms of goods trade in 2015, the Mainland was Hong Kong’s most important goods trading partner, accounting for 54% of our total goods exports and 49% of total goods imports. ASEAN members as a whole was Hong Kong’s second largest goods trading partner, even surpassing the European Union. Vietnam and Singapore were the two largest markets in ASEAN for Hong Kong’s goods exports. In South Asia, if ranked by individual economies, India was Hong Kong’s 4th largest goods export market in 2015. However, the values of Hong Kong’s goods trade with other regions were not very significant: 0.6% with Central and Eastern Europe, 0.3% with Commonwealth of Independent States, and less than 0.05% with emerging and developing Asia 11.

Q9. What is the current situation of the services trade between Hong Kong and these regions?

The pattern broadly resembled that of goods trade. The Mainland topped the list and was Hong Kong’s largest services trading partner in 2014, accounting for 39.3% of the total. ASEAN was also Hong Kong’s prominent services trading partner, accounting for 9% of total. South Asia accounted for 1.4% of the total service trade. Hong Kong’s service trade with the other regions was again insignificant: 0.2% with central and the Eastern Europe, 0.3% with Commonwealth of Independent States, and less than 0.1% with emerging and developing Asia 12.

Q10. What is the total trade value of China?

In 2015, both exports and imports of China’s goods trade was among the top of the world. The total trading volume of China reached 3.95 trillion USD (24.55 trillion RMB). Exports of goods reached 2.27 trillion USD (14.12 trillion RMB), imports of goods reached 1.68 trillion USD (10.44 trillion RMB) \(^\text{13}\).

Q11. Who are the principal trading partners of China?

In 2015, the Europe Union, US and ASEAN were the top 3 trading partners of China, the volume of the bilateral trade between China and the three regions were 564.75 billion USD, 558.28 billion USD and 472.16 billion USD respectively, account for 14.3%, 14.1% and 11.9% of China’s total trade volume \(^\text{14}\).


4.3 Potential Impacts of the B&R Initiative on Hong Kong’s Trading Sector

Q12. How does the B&R Initiative affect Hong Kong trading industry?

During Hainan Boao Forum for Asia, President Xi Jinping mentioned that the B&R Initiative would bring the total trade value with those regions involved to more than 2.5 trillion USD in the coming 10 years. The continuous growth in trading sector will likely bring enormous business opportunity, and if Hong Kong can seize the opportunity, it will maintain its leading position in the field. There is a view from the industry that the B&R Initiative can help the industry to explore new markets, increase the source of new products and expand current distribution network.

Q13. What are the advices given by the trading industry after taking part in the B&R Initiative?

According to project manager Roy Lee of iQ Energy, the Kazakh government encourages SMEs to be involved in development and infrastructure projects by providing financial support. Given the specific conditions of the Kazakh market, he thought Hong Kong companies could excel in understanding local culture, “translating” international documentation standards and trade practices to local partners, and creating a sustainable market for products made in the Mainland and elsewhere.

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15 “「一帶一路」年貿易額可達2.5萬億美元”，BBC中文網，2015年3月29日，http://www.bbc.com/zhongwen/trad/china/2015/03/150329_belt_road_china

16 “一帶一路機遇 香港豈止金融”，經濟日報，2015年5月13日，http://paper.hket.com/article/627891/%E4%B8%80%E5%B8%B6%E4%B8%80%E8%8B%89%E7%9A%8F%E6%99%96%E6%B8%AF%E8%B1%88%E6%AD%A2%E9%87%91%E8%9E%8D


4.4 HKSAR Government’s Preparation for the Belt and Road Initiative

Q14. What is the view of HKSAR Government’s in promoting the B&R Initiative for the trading industry?

Among the B&R countries, Hong Kong has closer economic link with the Mainland, Europe and Southeast Asia, while it does not have much linkage with South Asia, Central and West Asia, the Middle East and Africa. Given limited resources, the Government thinks that during the early stage of the Initiative, Hong Kong should put more effort on the major economies along the 21st Century Maritime Silk Road. After acquiring sufficient experience, Hong Kong can then explore into other regions. Different government departments have already carried out their work to foster communication and collaboration at governmental levels between Hong Kong and countries involved, with an aim to help the industry enter the emerging markets.

There are several principles adhered to during the collaboration of the Government and industry to push forward the B&R Initiative. First, the HKSAR Government will adopt the market principle: resources allocated by market, looking for reasonable return and prudent risk-management. Also, the major role of the Government is to seek intergovernmental cooperation to foster and protect trade and investment. Second, the B&R Initiative aims for long term cooperation and “win-win” situation. Services provided by the Government should maintain sustainability. Third, Hong Kong’s edge is connecting local, the Mainland and foreign capital, enterprises and talents concurrently. When making use of Hong Kong as an efficient platform to participate in the B&R Initiative, the Government should be impartial to capital from different sources 19.

Q15. How does HKSAR Government foster trading development among B&R countries?

The Government will strengthen the research and information collection about business environment of the B&R countries, and share the results with industry. The Hong Kong Trade Development Council (HKTDC) is consolidating the information about the strategies of the B&R Initiative and the market situation of the B&R counties. HKTDC will prepare related reports and establish website for the B&R Initiative to help industry make suitable business planning. Meanwhile, HKTDC will organise seminars and industry organisations to introduce business opportunities under the B&R Initiative to industry, and to Hong Kong enterprises to strengthen connections with the Mainland and overseas companies and expand their business network.

The Government will also strengthen understanding and linkage with the B&R countries in different policy areas. It will make use of visits of top-ranking officials and overseas road shows to promote Hong Kong as the major services platform.

Furthermore, the Government is actively seeking opportunities with the B&R countries to sign free trade agreements and investment promotion and protection agreements (IPPAs) to facilitate goods, services and investments from Hong Kong entering the countries. At the meantime, Hong Kong has concluded 17 IPPAs with some relatively mature economies. The network of IPPA will further expand to more emerging economies.

The Government is also committed to promoting Comprehensive Double Taxation Agreements with Hong Kong’s major trading and investment partners as well as emerging economies with huge potentials in bilateral trade and investment.

To facilitate trading between Hong Kong and the B&R countries, Hong Kong is going to strive for the Mutual Recognition of Authorized Economic Operations (AEOs) with the countries.
Meanwhile, the Hong Kong Customs is investigating the possibility of “Trade Single Window” to provide one-stop services of documentation and custom check. In the long run, it connects to similar facilities in the B&R countries, which can make the customs process could be faster and more convenient.

The Government supports Hong Kong enterprises to take part in the trade seminars and meetings for the B&R Initiative organised by the Mainland Government and industry. In order to promote Hong Kong as a services platform in the B&R Initiative, the Government will strengthen the cooperation in exhibition, trade and investment promoting activities with the countries in Southeast Asia, South Asia, as well as Central and Western Asia. Further, it will encourage the Mainland and overseas companies using Hong Kong as a stepping stone when they develop the markets in the B&R countries.

Serval major international forums and exhibitions organised Hong Kong, such as the Asian Financial Forum, the Asian Logistics and Maritime Conference, the Business of IP Asia Forum, the World SME Expo, the Hong Kong International Film & TV Market, have included sections about the B&R Initiative. The HKSAR Government is arranging a mega exhibition solely for the B&R Initiative, to highlight the role of Hong Kong in the Initiative 20.

4.5 Exercises

Exercise 1: Background of Trading Sector in Hong Kong

a. In the past 5 years, what were the changes in number of employment of trading and logistics industry?

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trading and Logistics Industry</td>
<td>778,200</td>
<td>774,400</td>
<td>764,900</td>
<td>767,200</td>
<td>765,000</td>
</tr>
<tr>
<td>Trading Industry</td>
<td>587,500</td>
<td>584,000</td>
<td>581,700</td>
<td>579,400</td>
<td>578,800</td>
</tr>
<tr>
<td>Logistics Industry</td>
<td>190,700</td>
<td>190,500</td>
<td>183,200</td>
<td>187,800</td>
<td>186,100</td>
</tr>
</tbody>
</table>

(Source: Census and Statistics Department)

Answer:
Number of employment of trading and logistics industry slightly decreased.

b. In the past 5 years, what were the changes in percentage share of employment of trading and logistics industry to total employment of Hong Kong?

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trading and Logistics Industry</td>
<td>22.4%</td>
<td>21.6%</td>
<td>20.9%</td>
<td>20.6%</td>
<td>20.4%</td>
</tr>
<tr>
<td>Trading Industry</td>
<td>16.9%</td>
<td>16.3%</td>
<td>15.9%</td>
<td>15.5%</td>
<td>15.4%</td>
</tr>
<tr>
<td>Logistics Industry</td>
<td>5.5%</td>
<td>5.3%</td>
<td>5.0%</td>
<td>5.0%</td>
<td>5.0%</td>
</tr>
</tbody>
</table>

(Source: Census and Statistics Department)

Answer:
The percentage share of employment of trading and logistics industry slightly decreased.
c. In the past 5 years, what were changes in value added (at current price) of trading and logistics industry?

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trading and Logistics Industry</td>
<td>439,600</td>
<td>485,400</td>
<td>495,400</td>
<td>500,500</td>
<td>515,700</td>
</tr>
<tr>
<td>Trading Industry</td>
<td>357,100</td>
<td>417,800</td>
<td>428,200</td>
<td>432,600</td>
<td>440,900</td>
</tr>
<tr>
<td>Logistics Industry</td>
<td>82,500</td>
<td>67,700</td>
<td>67,100</td>
<td>67,900</td>
<td>74,800</td>
</tr>
</tbody>
</table>

(Source: Census and Statistics Department) (Unit: HK$ Mn)

**Answer:**
Value added (at current price) of trading and logistics industry increased continuously.

d. In the past 5 years, what were the changes in percentage share of value added of trading and logistics industry?

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trading and Logistics Industry</td>
<td>25.3%</td>
<td>25.5%</td>
<td>24.6%</td>
<td>23.9%</td>
<td>23.4%</td>
</tr>
<tr>
<td>Trading Industry</td>
<td>20.6%</td>
<td>22.0%</td>
<td>21.3%</td>
<td>20.6%</td>
<td>20.0%</td>
</tr>
<tr>
<td>Logistics Industry</td>
<td>4.7%</td>
<td>3.6%</td>
<td>3.3%</td>
<td>3.2%</td>
<td>3.4%</td>
</tr>
</tbody>
</table>

(Source: Census and Statistics Department)

**Answer:**
Percentage share of value added of trading and logistics industry decreased continuously. The decrease mainly attributed to logistics sector while trading sector remained stable over time.
e. What were the percentage changes in imports value from Hong Kong’s 5 main Countries/Regions in 2014 and 2015? Please also calculate the percentage of imports from the 5 places to total imports from 2013 to 2015.

<table>
<thead>
<tr>
<th>Year</th>
<th>Mainland</th>
<th>Taiwan</th>
<th>Japan</th>
<th>Singapore</th>
<th>USA</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013*</td>
<td>1,942,131</td>
<td>261,895</td>
<td>286,343</td>
<td>246,441</td>
<td>219,678</td>
</tr>
<tr>
<td>2014*</td>
<td>1,986,964</td>
<td>300,278</td>
<td>288,891</td>
<td>260,801</td>
<td>219,599</td>
</tr>
<tr>
<td>2015*</td>
<td>1,984,048</td>
<td>274,385</td>
<td>260,294</td>
<td>245,867</td>
<td>210,933</td>
</tr>
</tbody>
</table>

*2013 Import from all suppliers: 4,060,717
*2014 Import from all suppliers: 4,219,046
*2015 Import from all suppliers: 4,046,420
(Source: Census and Statistics Department)

**Answer:**

Percentage change in import value:

<table>
<thead>
<tr>
<th>Year</th>
<th>Mainland</th>
<th>Taiwan</th>
<th>Japan</th>
<th>Singapore</th>
<th>USA</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>+2.3%</td>
<td>+14.7%</td>
<td>+0.9%</td>
<td>+5.8%</td>
<td>0.0%</td>
</tr>
<tr>
<td>2015</td>
<td>-0.1%</td>
<td>-8.6%</td>
<td>-9.9%</td>
<td>-5.7%</td>
<td>-3.9%</td>
</tr>
</tbody>
</table>

(Source: Census and Statistics Department)
Percentage of total imports:

<table>
<thead>
<tr>
<th>Year</th>
<th>Mainland</th>
<th>Taiwan</th>
<th>Japan</th>
<th>Singapore</th>
<th>USA</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>47.8%</td>
<td>6.5%</td>
<td>7.1%</td>
<td>6.1%</td>
<td>5.4%</td>
</tr>
<tr>
<td>2014</td>
<td>47.1%</td>
<td>7.1%</td>
<td>6.9%</td>
<td>6.2%</td>
<td>5.2%</td>
</tr>
<tr>
<td>2015</td>
<td>49.0%</td>
<td>6.8%</td>
<td>6.4%</td>
<td>6.1%</td>
<td>5.2%</td>
</tr>
</tbody>
</table>

f. What were the percentage change in domestic exports to 5 main Countries/Regions in 2014 and 2015? Please also calculate the percentage of exports to the 5 places in total domestic exports from 2013 to 2015.

<table>
<thead>
<tr>
<th>Year</th>
<th>Mainland</th>
<th>USA</th>
<th>Singapore</th>
<th>Taiwan</th>
<th>Vietnam</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>24,784</td>
<td>5,401</td>
<td>2,533</td>
<td>2,433</td>
<td>1,815</td>
</tr>
<tr>
<td>2014</td>
<td>23,195</td>
<td>4,475</td>
<td>2,512</td>
<td>3,001</td>
<td>2,113</td>
</tr>
<tr>
<td>2015</td>
<td>20,433</td>
<td>3,897</td>
<td>2,266</td>
<td>2,088</td>
<td>1,948</td>
</tr>
</tbody>
</table>

*2013 Domestic exports to all destinations: 54,364
*2014 Domestic exports to all destinations: 55,283
*2015 Domestic exports to all destinations: 46,861
(Source: Census and Statistics Department)
**Answer:**

Percentage change in domestic export value:

<table>
<thead>
<tr>
<th>Year</th>
<th>Mainland</th>
<th>USA</th>
<th>Singapore</th>
<th>Taiwan</th>
<th>Vietnam</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>-6.4%</td>
<td>-17.1%</td>
<td>-0.8%</td>
<td>+23.4%</td>
<td>+16.4%</td>
</tr>
<tr>
<td>2015</td>
<td>-11.9%</td>
<td>-12.9%</td>
<td>-9.8%</td>
<td>-30.4%</td>
<td>-7.8%</td>
</tr>
</tbody>
</table>

Percentage of total domestic exports:

<table>
<thead>
<tr>
<th>Year</th>
<th>Mainland</th>
<th>USA</th>
<th>Singapore</th>
<th>Taiwan</th>
<th>Vietnam</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>45.6%</td>
<td>9.9%</td>
<td>4.7%</td>
<td>4.5%</td>
<td>3.3%</td>
</tr>
<tr>
<td>2014</td>
<td>42.0%</td>
<td>8.1%</td>
<td>4.5%</td>
<td>5.4%</td>
<td>3.8%</td>
</tr>
<tr>
<td>2015</td>
<td>43.6%</td>
<td>8.3%</td>
<td>4.8%</td>
<td>4.5%</td>
<td>4.2%</td>
</tr>
</tbody>
</table>

(Source: Census and Statistics Department)
g. What were the percentage change in re-exports to 5 main Countries/Territories in 2014 and 2015? Please also calculate the share of re-exports to the 5 places in total re-exports from 2013 to 2015.

<table>
<thead>
<tr>
<th>Year</th>
<th>Main destinations (HK$ Mn)</th>
<th>Mainland</th>
<th>USA</th>
<th>Japan</th>
<th>India</th>
<th>Vietnam</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013*</td>
<td></td>
<td>1,924,463</td>
<td>325,902</td>
<td>133,967</td>
<td>82,965</td>
<td>56,766</td>
</tr>
<tr>
<td>2014*</td>
<td></td>
<td>1,955,821</td>
<td>336,980</td>
<td>130,238</td>
<td>92,462</td>
<td>64,690</td>
</tr>
<tr>
<td>2015*</td>
<td></td>
<td>1,916,082</td>
<td>338,296</td>
<td>121,724</td>
<td>101,284</td>
<td>74,665</td>
</tr>
</tbody>
</table>

*2013 re-exports to all destinations: 3,505,322
*2014 re-exports to all destinations: 3,617,468
*2015 re-exports to all destinations: 3,558,418
(Source: Census and Statistics Department)

**Answer:**

**Percentage change in re-export value:**

<table>
<thead>
<tr>
<th>Year</th>
<th>Main destinations</th>
<th>Mainland</th>
<th>USA</th>
<th>Japan</th>
<th>India</th>
<th>Vietnam</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td></td>
<td></td>
<td>+1.6%</td>
<td>+3.4%</td>
<td>-2.8%</td>
<td>+11.4%</td>
</tr>
<tr>
<td>2015</td>
<td></td>
<td></td>
<td>-2.0%</td>
<td>+0.4%</td>
<td>-6.5%</td>
<td>+9.5%</td>
</tr>
</tbody>
</table>

**Percentage of total re-exports:**

<table>
<thead>
<tr>
<th>Year</th>
<th>Main destinations</th>
<th>Mainland</th>
<th>USA</th>
<th>Japan</th>
<th>India</th>
<th>Vietnam</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td></td>
<td>54.9%</td>
<td>9.3%</td>
<td>3.8%</td>
<td>2.4%</td>
<td>1.6%</td>
</tr>
<tr>
<td>2014</td>
<td></td>
<td>54.1%</td>
<td>9.3%</td>
<td>3.6%</td>
<td>2.6%</td>
<td>1.8%</td>
</tr>
<tr>
<td>2015</td>
<td></td>
<td>53.9%</td>
<td>9.5%</td>
<td>3.4%</td>
<td>2.9%</td>
<td>2.1%</td>
</tr>
</tbody>
</table>

(Source: Census and Statistics Department)
Exercise 2:
Trade Relationships between China and the Countries/Economies along the B&R

Which countries/regions were China’s major trading partners in 2015?

Mainland China’s Major Trading Partners in 2015

- EU 14%
- USA 14%
- ASEAN 12%
- Taiwan, China 5%
- South Korea 7%
- Japan 7%
- Hong Kong, China 8%
- Brazil 2%
- India 2%
- Australia 3%
- Others 26%

Source: Ministry of Commerce of People’s Republic of China Comprehensive Department

**Answer:**

In 2015, EU, USA and ASEAN were the top 3 trading partners of China.
5. B&RI and You

5.1 Story 1

Background:

Every year, Northwestern University invites alumni to return to hold lectures and speeches. One of the alumni that returned was Mr. Wang Ziqing, a famous designer for the China High-speed railway.

Mr. Wang: Greeting students, it is my honour to be able to return to my mother school, and have the opportunity to share my life experience with you all. Although I do not expect everyone to relate or to be inspired by my experience, I will be greatly humble and delighted should you find my experience useful.

Tonight, I will be discussing about China’s economic reforms and opening their economy to international markets. Since 1978, the Chinese Central Government have been reforming the economy, aimed at boosting the wealth of a small group of people residing at coastal cities. For example, Shenzhen was a small city during the 80s with a population of around 300 thousand. However, up to 2015, the population of Shenzhen has risen to over 10 million and with a total GDP of 2 trillion Hong Kong dollars, which is on par with Hong Kong. Although the growth rate was unprecedented, only a handful of cities have experienced this kind of extreme growth, which is impressive.

Thinking about it, in the past 30 years, China’s Economic development has indeed been a miracle, creating opportunities for industries regardless of size. As perfectly described by Lei Jun, the founder of Xiaomi Inc., hero’s could be made by just standing at the pinnacle of a trend, and riding the trend to success. I see one of you have a question for me, let’s hear his question.
Li: Hello Mr. Wang, I am Li Jun, currently studying engineering and is currently in the 4th year of my studies. I am slight skeptical regarding what you have told us so far. As an upcoming graduate, I am unable to see any golden opportunities in the current market, but instead, an extremely competitive and volatile market. If possible, could you give us some insight regarding your career? Thanks.

Mr. Wang: I was just about touch upon this. The incredible speed in which the Chinese economy has developed leads to several social benefits, however, it also brings about challenges that may have been overshadowed by the social benefits. Some examples include, food safety, employment opportunities for the next generation, agricultural issues, increasing inequality between cities, overcapacity and others. With growth rates at such high level, we may ignore the costs. What we currently could do is to address and potentially resolve these issues.

Regarding my career, although I would like to self-proclaim myself as railway specialist, however, nowadays, specialists have been extremely common and has lead me to become more of a researcher. After my graduation in the 80s, I joined the National Railway Authority, mainly studying and developing railway systems. Within 3 years, we constructed our first High speed railway, does any one recall which one? Yes, it was the Beijing-Tianjin Intercity railway, which was officially running in 2008. After making our first step, the railway industry started to boom and entered the golden stage, resulting in collaborations with international companies on high speed railway projects. If I recall correctly, you (the student) were studying in engineering? The railway industry may well be a viable option for you after your graduation.

Although I would love to share more of my knowledge and experience with you all, it looks like my time is up. I look forward to sharing more of my experience with you all next time.
5.2 Story 2

Background:

The following dialogue is a conversation between LI Jun’s and a new exchange student during orientation day in a university in the Mainland.

Li: Hi there, let me help you with your luggage. Where are you from? Apologies, my name is Li Jun, currently in my 4th year studying engineering.

Aiman: Thank you for your help, Chinese men are such gentlemen! I'm Aiman Saduakassova, I'm from Almaty, Kazakhstan. You can call me Aiman.

Li: Wow, your Chinese is great. Are you attending Northwestern University as an exchange student?
Aiman: Yup. I have always been interested in China as a country, especially with the increasing cooperation between China and Kazakhstan. Once I had the chance, I applied for this exchange program hoping to learn and understand more about China in this upcoming year.

Li: You must be talking about the “Belt and Road” Initiative. As I just mentioned, I’m currently studying engineering and aim to specialise in high-speed railways. I believe that the “Belt and Road” Initiative has the most potential by far. By the way, with Kazakhstan being so close to China, you must have a good understanding of Chinese culture! What’s it like in Kazakhstan? I have never been there.

Aiman: I think it is better to come to China once to have a personal experience than hear about it from others.

Almaty is the largest city in Kazakhstan and has been well developed while minimising environmental consequences, however, other cities still have a lot of room for development. Despite Kazakhstan being the ninth largest country in terms of area, we rely too heavily on fossil fuel exports and heavy industry to support our economy. Since 2014, our economic growth has been on the decline, mainly due to relying heavily on western markets as well as a linear industry.
Li: According to what you have mentioned about Kazakhstan, it seems that through the “Belt and Road” initiative an outlet for Kazakhstan to export fossil fuels to China will be provided, in return, China would be able to assist Kazakhstan with the development of different industries, such as railway. Not only that, the “Belt and Road” initiative will allow more collaboration such as exchange programs, not to mention you are the fifth person I have met this week coming from member countries of the “Belt and Road”. Once I graduate, I must visit your country at least once.

By the way, I hope to learn more about Kazakhstan in the future, if you don’t mind, could I add you on WeChat?

Aiman: Of course, I hope to discuss more with you about China and Kazakhstan as well.
5.3 Story 3
Background:

Wai Ho and Jia Ren are both fourth year students in a university in Hong Kong, and are currently enjoying dinner with Li Jun after a career talk and are currently discussing their career options.

Wai Ho: Hello Jia Ren, you were at the career talk just now as well? Where were you sitting? I didn’t see you.

Jia: Yea, since I’m graduating soon, might as well start preparing myself by attending these talks and hopefully step up my resume and competitiveness! There were so many people at the talk, only the back row was available when I arrived. After working hard in order to be admitted to university, I thought that landing a job after graduation should be straightforward, however, the competition becomes keener, we need to get prepared earlier in order to get a decent job.

Wai Ho: Stay positive! Oh yea, do you remember Li Jun? Wasn’t he at our school the day before promoting the “Belt and Road” Initiative? At the time, I thought it was a superb initiative and was hope to discuss with him in detail. However, there were too many people at the time. I’m having tea with him later this afternoon, if you are interested, you should join!
**Li:** Hi Wai Ho, seems that you brought a friend with you.

**Wai Ho:** Hi Li Jun, sorry for not letting you know beforehand, I hope you don’t mind. This is Jiaren, he was also at the “Belt and Road” talk the day before, we are both extremely interested in the details regarding your previous talk, especially, how the Hong Kong’s next generation individuals be able to contribute to the “Belt and Road” Initiative.

**Li:** Don’t worry about it, the more people the more ideas! According to my understanding of the “Belt and Road” Initiative, Hong Kong acts as a unique role. Due to Hong Kong’s understanding in both eastern and western companies’ operations, allowing Hong Kong to act as the lubricant, resolving misunderstandings and knocking down potential language barriers, allowing for a smoother progression of the “Belt and Road” Initiative. As you may know, from now till 2020, the amount required for the development of Asia regions is roughly at USD 800 million, if Hong Kong is able to take advantage of its unique position as the International Financial Hub, providing funding and other financial services, the future of Hong Kong will have infinite potential. Of course this is only a speculation and whether this could be obtained will lie solely on the people of Hong Kong.
Wai Ho: I have complete confidence in Hong Kong, especially at times when people of different religions are able to sit down and engage in peaceful conversations, nothing seems impossible! Hong Kong started off as an ambitious port, eventually developing into a major contributor similar to New York and London. Although we have missed the golden age of the 80s and 90s, I believe that if we are able to take advantage of upcoming opportunities, we will always be the Pearl of the East.

Li: You have such a vibrant look on your face. I wish you all the best and hopefully we will have the opportunity to work together in the future.