

**City University of Hong Kong
Research Centre for Sustainable Hong Kong¹**

**Policy Paper No. 31
Four Ideas for seizing Belt and Road opportunities for Hong Kong**

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July 2024

Introduction

As an international financial center, Hong Kong has been expected by the Belt and Road Initiative (B&R or BRI) policymakers to make a significant contribution to financing B&R projects. However, international financial markets do not operate as policy banks, and it is important to appreciate the appropriate pathways of financing B&R projects in international capital markets. A sustainable B&R financing strategy should work to Hong Kong's advantages and interests, while still meeting the objectives of the policy calls.

This paper proposes four ideas on financing strategies that fit the above criteria. We hope these initial thoughts will provide a spur to the market for more elaborate ideas.

Idea 1: Expand the dual currency trading list

In mid-2023, Hong Kong Stock Exchange (HKEX) launched the dual currency trading counter. The initial list included 24 stocks and covered approximately 40% of the Hong Kong market capitalization. These stocks are mostly household names, including AIA Insurance, Bank of China, China Mobile, Heng Seng Bank, PetroChina and Tencent. It makes sense to use stocks with good liquidity and large capitalization to jumpstart the new scheme. For B&R investors

¹ Established in June 2017 by a cross-disciplinary research team, the Research Centre for Sustainable Hong Kong (CSHK) is an Applied Strategic Development Centre of City University of Hong Kong (CityUHK). CSHK conducts impactful applied research with the mission to facilitate and enhance collaborations among the academic, industrial and professional service sectors, the community and the government for sustainable development in Hong Kong and the Region. If you have any comments on this policy paper, email us at sushkhub@cityu.edu.hk.

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who have idle RMB deposits as a result of exporting to China and settling their trades in RMB and look to diversify their investments, the scheme is not attractive.

The 2023 Hong Kong Monetary Authority Annual Report discloses that RMB deposits at Hong Kong banks stood at over one trillion at the end of 2023. *There is a huge contrast between the number of RMB quoted stocks and RMB deposits, therefore, adding more names and industry variety to the dual currency trading list could be one of the low-hanging fruits for both Hong Kong and potential B&R investors.*

Idea 2: Promote and facilitate Hong Kong to become a global asset and investment allocation center for corporations, families, and individuals

Since the Trump Administration increased tariffs on mainland Chinese imports and attempted to ban TikTok in the US in 2018, international geopolitical tensions and supply-chain reshuffling have intensified. The trend is followed by the recent tariff hike in Mexico on Chinese imports and EU's new tariffs on Chinese electric vehicles.

These events should have prompted Chinese multinational corporate (MNC) decision-makers, cross-border investors, even families and individuals to restructure their businesses and investments drastically. However, most Chinese MNCs seem to have underestimated such risks and taken very limited measures.

Alternative corporate strategic options include separating corporate assets, investments, and operations into more distinct portfolios, or 'asset baskets', to differentiate the risk profiles: the emerging vs. developed markets, or China vs. global markets. *Corporates may register, manage, and list the latter group in the capital markets of Hong Kong*, to leverage Hong Kong's financial, legal, and infrastructure connectivities for the implementation of their asset and investment allocation strategies on a global scale.

Hong Kong has played similar roles throughout its history in facilitating cross-border investments and managing divergent operational and asset allocation and risk management objectives. For example, Taiwanese company Tingyi (Cayman Islands) Holding Corp. (康師傅控股) (0322.HK) has leveraged Hong Kong's resources and capabilities to achieve a more efficient management, financing, and monetization of their China and global investments and operations, and to address potential regulatory issues and other challenges as well.

Idea 3: Attract listing or issuing candidates from B&R countries

Over the past few years, Vietnam's economic reform and growth, coupled with relocations and investments from MNCs, has gained worldwide attention. This has caused a great demand for access to international capital markets by Vietnam's homegrown business models and MNCs' branches and affiliates. The Vietnamese government aspired to make Hong Kong become its offshore listing destination for Vietnamese companies and a venue for locating overseas Vietnamese talents, who are expected to serve the growing investment flows between Vietnam and the rest of the world. Hong Kong has played such a role for mainland China in the open-door era and should be able to perform those tasks for Vietnam and other neighbouring economies as well.

Separately, as the BRI has been implemented for more than a decade, many B&R projects are mature enough to be listed or raise debt and equity capital in the international capital markets. Examples of these issuer candidates could be a well-run port owned by a Chinese conglomerate, or the operational section of the Jakarta-Bandung High Speed Rail. Or a Hong Kong based MNC may carve out its B&R asset or project portfolios for listing and monetization.

However, these potential issuers or listing candidates may not automatically come to Hong Kong due to stiff competition from other international financial centers. For example, the New York Stock Exchange and the NASDAQ set up offices in China to attract Chinese issuers to list in the United States as early as in 2007.

Hong Kong should step up its cultivation of business opportunities unleashed by the BRI and review its current regulations and practices to update and recalibrate rules that inhibit B&R and international issuers from accessing Hong Kong's capital markets.

Idea 4: Consolidate Hong Kong as B&R Commodity and Financial Exchange

We observe that most of what Hong Kong offers are the traditional and generic, for example, listing venue for offshore companies, without customization and specificity. *Hong Kong should develop a specialized commodity exchange focused on key B&R resources and products.* This would provide a centralized platform for trading commodities like energy, metals, and agricultural goods from B&R countries. Hong Kong can leverage its robust legal/regulatory framework, trading expertise, and convenient time zone to become the premier

destination for B&R commodity trading. Financial settlement can take place in Hong Kong, while physical delivery can occur at international ports, such as Sri Lanka, Hainan, or Pakistan.

Meanwhile, *Hong Kong should position itself as the leading international market for B&R-related bonds and sukuk.* The city can attract high-quality bond issuances from B&R governments, state-owned enterprises, and companies by offering a liquid, transparent, and well-regulated market. This will provide B&R countries access to diverse international capital.

In addition to debt financings, *Hong Kong should aim to become the preferred listing and trading venue for B&R-focused stocks and equity funds.* This can include encouraging B&R companies or projects to list/dual-list in Hong Kong and facilitating specialized B&R investment funds, taking advantage of the favourable tax and registration rules in Hong Kong. A vibrant B&R equity market can channel global capital into B&R growth opportunities.

Conclusion

On 12 July 2024, The Government of the Hong Kong Special Administrative Region (HKSAR), the National Development and Reform Commission (NDRC) and relevant central ministries held the seventh Joint Conference on Advancing Hong Kong's Full Participation in and Contribution to the Belt and Road Initiative in Beijing. The meeting focused on the 12 work proposals on further promoting the BRI that the HKSAR Government put forward for consideration by the central ministries.

With a potentially trillion dollar cross-border investment scheme triggered by the BRI, there should be plenty of opportunities for Hong Kong. To monetize these opportunities and in view of acute competition from other markets in the region, Hong Kong's industry participants and regulators are well advised to further step up improvements of the financial market infrastructures and talent capacity.