

## A Summary of Discussion

### CityU CSHK Book Launch Seminar

#### Hong Kong Professional Services and the Belt and Road Initiative – envisaging sustainable policy development

#### CSHK Working Paper Series No.15

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On 24 April 2023, the Research Centre for Sustainable Hong Kong (CSHK)<sup>2</sup> organized a book launch seminar to share the major findings of the new book *Hong Kong Professional Services and the Belt and Road Initiative: Challenges for Co-evolving Sustainability*<sup>3</sup> edited by Professor Linda Li and Professor Phyllis Mo. Local business leaders, professionals, government officials, and expert researchers from Hong Kong, Mainland China, and foreign countries attended this seminar. The speakers, panelists, and other participants discussed the latest developments on the Belt and Road Initiative (BRI) policy front and its implementations relevant to Hong Kong at this forum consisting of academia, business, and government representatives. Here is a summary of the sharing and panel discussions.

#### Part 1: Introduction to the Book

**Prof. Linda Chelan Li** - Professor of Political Science, City University of Hong Kong (CityU); Director, Research Centre for Sustainable Hong Kong; editor of the book

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Ms. Chao Yao is PhD Student Researcher at Department of Public and International Affairs, City University of Hong Kong.

Dr. Jerry Juying Zhang is an Adjunct Professor of CityU EMBA program. He is a Retired Managing Director of China Orient Asset Management (International), former Managing Director of CITIC Capital and Deutsch Bank, and former director of Goldman Sachs and Salomon Smith Barney.

<sup>2</sup> 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 (CityU). 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. Linda Chelan Li, Professor of the Department of Public Policy at CityU, is Centre Director. For more information, please visit [www.cityu.edu.hk/cshk](http://www.cityu.edu.hk/cshk).

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<sup>3</sup> To explore more information and purchase this book, please visit [https://www.routledge.com/...../Mo-Li/p/book/9780367747367?fbclid=IwAR3aY-tFjObEmUu2nI\\_5sdCIg74AjfX15sl4P\\_sP0TIudBnpjZltmYIqxNo](https://www.routledge.com/...../Mo-Li/p/book/9780367747367?fbclid=IwAR3aY-tFjObEmUu2nI_5sdCIg74AjfX15sl4P_sP0TIudBnpjZltmYIqxNo).

After a welcoming speech by Prof. CHAN Chi Hou, the Acting Provost of CityU, the editor Prof. Linda Chelan Li gave an introduction to the book *Hong Kong Professional Services and the Belt and Road Initiative: Challenges for Co-evolving Sustainability* and summarized the major findings and policy proposals.

This book scrutinizes the role of Hong Kong in the expansive, and contested, vision of China's BRI. It is the product of a 3-year research project by a cross-disciplinary team based on in-depth interviews, field work, and archival and documentary research. Utilizing an action research approach, the research team engaged and worked closely with research partners, peers, and practitioners in the policy and business circles in Hong Kong, the Mainland China, and in B&R recipient jurisdictions (e.g., Belarus, Cambodia, Myanmar, Sri Lanka, and Vietnam). This book examines the BRI visions and aims, identifies the sustainability risks, and elaborates on the unique roles that Hong Kong can play to address the risks and challenges.

The ambitious BRI aims at improving regional connectivity and strengthening economic collaborations with a vision of inclusive development. The massive infrastructure projects, however, have acquired a reputation for human rights violations and negative environmental impacts on the recipient countries and drawn suspicions of "Debt-Trap" diplomacy. The disputes reflect the stark discordance between visions and practices, and the sustainability risks of not only the specific projects but also the broader welfare of the region. Much of the challenges lies in translating a grand vision into an operational program of actions. The key issues in implementation are confusions over the roles and modalities, deficits in transparency and project governance, and communication gaps among project managers, Chinese SOE contractors and policy lenders, and various stakeholders in the recipient countries and beyond.

Against these challenges, Hong Kong can play a 'unique role' with its advantages in institutions, talents and skills, and capital markets resources. As an international hub of finance, arbitration, maritime services, education, and innovations, Hong Kong has a large potential role not only in promoting international investment in Belt and Road (B&R) projects as a 'super-connector' but also, critically, in enhancing the financial, social, and environmental sustainability of Chinese overseas investments. On the one hand, Hong Kong can provide the soft skills for enhanced sustainability of the BRI and the national and regional development through strategic use of its professional services. As detailed in Chapters 3-5 in this book, Hong Kong can contribute to the BRI mission in, for example, organizing financing and risk management, improving transparency, resolving disputes, and providing ongoing project management, with its competitive advantage in financing, accounting, legal and arbitration services, supply chain management, and project management and architects. On the other hand, Hong Kong can foster innovations and reforms in Mainland China and cross-border investments through cooperation within the Guangdong-Hong Kong-Macao Greater Bay Area (GBA), which is a mechanism of reform and regional cooperation program promoted by the Chinese Central Government.<sup>4</sup>

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<sup>4</sup> For more discussion, please refer to Li, LC & Kwok, M 2019, 'Unpacking the Plan for the Guangdong-Hong Kong-Macao Greater Bay Area: A Mechanism for Reform', *China and the World: Ancient and Modern Silk Road*, vol. 2, no. 2, 1950010, pp. 1-20. <https://doi.org/10.1142/s259172931950010x>

## **Part 2: Panel Discussion**

The panel discussion is moderated by Mr. William Tsang, the Assistant Head of Chief Executive's Policy Unit, HKSAR Government, and Prof. Linda Li.

**Dr. Peter Chan** - Associate Professor from CityU's School of Law; a contributor of the book

Dr. Chan was invited by Mr. William Tsang to elaborate on how GBA can play a role as a testing field as far as legal services concerned. Dr. Chan emphasized that Hong Kong is the only jurisdiction that applies common law in China, which could facilitate the risk management of Chinese cross-border investments and B&R projects. He shared two examples to demonstrate how Hong Kong's legal system and profession can help. One is that the Qianhai in Shenzhen City has introduced Hong Kong judges to jointly decide the cases that Hong Kong parties are involved for improving the confidence in the Mainland's legal systems. The other is a cooperative programme between CityU's School of Law and the Supreme People's Court, whereby the senior Chinese judges came to Hong Kong to study for LLM and PhD degrees. The Chinese judges had dialogues with Hong Kong legal academia, visited the Hong Kong courts, and learnt about the common laws. They would spread their knowledge and influence the operation of the Mainland legal system upon their return. Besides, Hong Kong's arbitration is still very competitive internationally, with the HKIAC ranking first place in the world. Dr. Chan appealed for relaxing the constraints on the third-party funding for arbitration as Singapore has done because the services are very expensive, making justice less accessible now.

**Dr. Jerry Zhang** - Retired Managing Director, China Orient Asset Management (International); author of *Chinese Business and the Belt and Road Initiative: Institutional Strategies*

Dr. Jerry Zhang shared an observation that major Central Government policy documents have all designated Hong Kong as a B&R financing centre, while most projects and money flows from Mainland China to those projects have bypassed Hong Kong. This situation should be noticed and changed in order to take advantage of HK's institutional, professional, and capital resources and to improve B&R investments' transparency and financing and risk management efficiency.

**Dr. Linda Tjia** - Assistant Professor, Department of Public and International Affairs, CityU; a contributor of the book

Dr. Linda Tjia indicated that even though many developing countries welcome foreign investments to boost their economy, their concerns and priorities vary from country to country and even within the same country. Through communications with local stakeholders in her field trip in Sri Lanka, she noticed that equality, environment, and localization are their major priorities while they put different weights on them. For instance, at the Hambantota Port project, the Chinese side was very proactive introducing the best practices in port development, while many local stakeholders may

prefer a relaxing lifestyle, showing different priorities. When investing in the B&R countries, more

attention should be paid to engagement with local communities and cultural differences.

**Mr. Nicholas Ho** - Chair, Ho & Partners Architects<sup>5</sup>

Mr. Nicholas Ho described the promising prospects of Hong Kong's engagement with B&R projects. China has invested up to over US\$1 trillion over 3000 projects in 200 countries and regions. Despite these investments in large infrastructure projects, such as highway networks, ports, industrial parks, and high-speed railways, one of the challenges is how to translate such industry, the employment, and the high-quality operation into tangible benefits to the local people. Hong Kong should continue to play a role as a hub that provides professional services to help improve these B&R projects. For instance, there are many resource extraction projects like coal mining. These projects can be listed in Hong Kong to raise money and adopt the Hong Kong requirements on ESG and green mining. This is where Hong Kong professionals and institutions can help. As far as Mr. Ho knows, quite some successful B&R projects have Hong Kong entities like accountancies and financing institutions as partners or service providers. The Hong Kong professional services of international standards have proved to be valuable assets to these projects. He believed that in the next ten years there would be smaller and quality projects that are highly feasible and bankable, such as small renewable energy plants, waste management plants, and digital infrastructures. These small and high-quality projects will be welcomed by the recipient countries and Hong Kong parties can and will play a critical role in them. That means golden opportunities for Hong Kong professional services sectors as well as the private enterprises to engage through Public-Private Partnership (PPP). Besides, at the overlapping point of GBA and BRI, Hong Kong can not only facilitate Chinese investments going abroad but assist those investors from B&R countries in accessing the Chinese market as well.

Responding to the question posed by Prof. Linda Li that what the bottleneck is preventing Hong Kong's engagement in the BRI and leveraging its potential as indicated by the panelists, Dr. Jerry Zhang pointed out that there has been a misperception among the policy makers as well as market participants that leveraging HK's international financial center capabilities to serve the BRI needs only means securing the financing required for B&R projects, and many of those projects are deemed 'non-commercial'. In fact, in addition to fund raising, the financial centre has other important functions to play, such as risk diversification, dispute resolution, project monitoring, investor protection, non-performing asset disposal, etc. Not only can Hong Kong facilitate the implementation of B&R projects, as expected by the policy makers, but also take advantages of the opportunities unleashed by the BRI to HK's benefits.

He shared a case of Djibouti port development to illustrate how it works. In 2013, China Merchants Port became a partner with Djibouti Ports Authority to build a multipurpose terminal and the Export-Import Bank of China (EXIM Bank) provided the Djiboutian Government with a loan of US\$405 million that was further on-loaned to the project. The terminal went into operation in 2017 and has been managed primarily by China Merchants Port. The business has been doing well. With

the US\$405 million debts, Djibouti government's foreign debt to GDP ratio rose to around 85% in

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<sup>5</sup> Ho & Partners Architects is a strategic partner with Hong Kong Trade Development Council on Belt & Road Initiative. It has a strong involvement in more than a dozen of B&R countries since 2013.

2016, receiving IMF's alarm for overleverage and making it one of the top 8 "Debt Trapped" countries by some research. To ease the debt pressure caused by the COVID-19 pandemic, Chinese government in mid-2020 announced to exempt the payment of principals and interests of intergovernmental loans owed by 77 B&R countries, including Djibouti. If the Chinese loan was arranged as a project finance deal like the earlier practice of DP World and the Djibouti Port Authority in building their joint venture container terminal, by following international or HK capital markets practice, entering loan contract in HK, and purchasing insurance from World Bank's insurance arm MIGA, with EXIM Bank and others as syndicate members, then the loan's principal and interest payment should be safe due to the strong cash flows generated by the well-operated terminal and MIGA's insurance as additional safety cushion. In the worst event, the lenders could take possession and dispose of the collateral assets or pursue arbitration and legal recourse available in Hong Kong when needed. With the project finance strategy, the Djibouti government's foreign debt pressure would be reduced to about 65% of GDP, possibly avoiding the IMF warning or "Debt Trap" threat.

In all, Dr. Zhang suggested that the policy makers and key stakeholders should distinguish between commercial and non-commercial projects and have commercial projects executed and financed through Hong Kong, and gradually nurture a BRI financial ecosystem in Hong Kong.

Addressing the same question, Dr. Linda Tjia indicated that the BRI is often framed as a state-led and centralized programme while many B&R projects actually arose from local initiatives and later were captured by Central Government as signature B&R projects. Understanding BRI as a centralized program, Hong Kong participants tend to perceive that they can hardly help in these grand projects of government to government nature. Also, B&R projects are often perceived to have higher risks and Hong Kong market participants are unwilling to take on non-market risks. There are absolutely work to be done by HK professional services providers to delineate the true risk profiles and bankability of these projects and develop market based strategies and alternatives to facilitate the trade and investments under the BRI. The bottleneck can be bridged and fixed through, for example, communications by and engagement of Hong Kong professional services providers.

### **Part 3: Q&A and interactive discussions**

**Q1: Sustainability is a key consideration in today's global development and in the BRI. How Hong Kong is advancing on sustainability policy and what is the role of Hong Kong in bringing international perspective to China's sustainability agenda?**

Prof. Linda Li acknowledged that the ESG standards in Hong Kong still need improvement. The Hong Kong Stock Exchange recently released a consultation paper on the ESG reporting system. Hong Kong should remain open to the world to bring good ideas and practices to the city and Mainland China. In other words, Hong Kong should play its traditional role as a 'super-connector' in the aspect of sustainability. Responding to this question from the audience, Dr. Liang Dong (Assistant Professor of the Department of Public and International Affairs and School of Energy and Environment, CityU) agreed that Hong Kong as a financial hub can promote the sustainable investment through making testimony of carbon-neutral technologies, providing insurance services

for the overseas business on the carbon neutral technology exports to other countries and regions, and improving ESG reporting system. Hong Kong is behind somewhat other developed economies in sustainability and needs to catch up.

Dr. Jerry Zhang highlighted the current efforts Hong Kong has made, using the case of MTR Corporation. MTR could actively participate in the export of its ESG technologies to other regions when managing projects elsewhere. Also, for example, China Merchants Port has exported port-related technologies. A good example is the Colombo International Container Terminal in Sri Lanka, where China Merchants Port helped introducing energy saving technologies in port management into the country. Hong Kong firms can really export high-standard ESG to the project where they could participate and operate.

Mr. Nicholas Ho pointed out that Hong Kong has made successful advances in the issuance of green bonds. The application of standards is not a clear-cut issue given the variations in endowments and priorities across jurisdictions. Hong Kong is well positioned to play an instrumental role in this process of standard development.

**Q2: Hong Kong is not yet ready to support the Belt and Road investment. The investors in Belt and Road regions like Africa find it hard to open a bank account in Hong Kong and move to Singapore. The overseas investors often get services from London and Singapore but not from Hong Kong. Are we ready to offer services globally, not only for ASEAN countries, but also those in Africa or Central Asia?**

Prof. Linda Li emphasized that Hong Kong professional services faced substantial bottlenecks in supporting the BRI. The bottlenecks are exactly the starting point of the book *Hong Kong Professional Services and the Belt and Road Initiative: Challenges for Co-evolving Sustainability*. Hong Kong has been expected to be a strong player in the BRI but the pathways to participation have been opaque. This book asks a simple question: why is that? It has identified bottlenecks within Hong Kong professional services sectors, within the authorities, and in the recipient countries. [Details discussed in the book]

Dr. Peter Chan argued that Hong Kong professionals are very adaptive. Hong Kong lawyers cannot provide businesses in Mandarin twenty years ago but now many of them are doing so. In spite of the needs for policies to help them engage in the BRI, he believed that Hong Kong professionals can learn quickly and break the bottlenecks. In terms of the challenges that some B&R countries apply civil law rather than common law, he indicated that civil law actually has some advantages over the common law and we should be open minded. Now more lawyers are qualified in practicing in the regions in civil law.

**Q3: Recently a Hong Kong court set aside the impugned parts of an arbitral award while the Singapore court is more reluctant to do so. Can we conclude that the Hong Kong high court is more flexible in setting aside arbitration?**

A: We cannot conclude based on that one incident. We need to wait and see when we have more cases coming to our courts.

**Q4: Please identify several issues that could be done in the short term to break the bottlenecks.**

Dr. Jerry Zhang suggested that the HKSAR Government can work or convince Beijing to distinguish between commercial projects and government-aid projects and try to have as many commercial projects executed through HK as possible. If the capital bypasses Hong Kong, then the professionals cannot offer their services. Dr. Peter Chan agreed that the capital has to come through Hong Kong before they can advise. Dr. Linda Tjia stressed that Hong Kong's experienced NGO sector and consulting firms could offer more support in enhancing the effectiveness of community engagements in recipient countries, for example through training programmes to SOEs. In aspects of architecture and project management, as Mr. Nicholas Ho revealed, the problem is the shortage of talents. In addition, Hong Kong needs vivid successful cases to demonstrate its facilitating role to B&R countries.