

SCMP Classified Post HR Conference 2017

Belt & Road - Challenges and Opportunities for the Hong Kong Workforce

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Distinguished guests, ladies and gentlemen,

I am delighted to be given this opportunity to speak to you on the challenges and opportunities the Belt and Road Initiative presents to the Hong Kong workforce.

What is the Belt and Road Initiative? In Kazakhstan on September 7, 2013, President Xi Jinping proposed building the “Silk Road Economic Belt” (“The Belt”). Shortly afterwards, on October 3, 2013, in Indonesia, President Xi proposed constructing the “21st Century Maritime Silk Road” (“The Road”). The Belt and Road Initiative has since become a platform for multilateral cooperation. It has also been the guiding policy for China’s economic and trade development. Three years have passed. The Belt and Road Forum for International Cooperation held in Beijing on May 14 and 15 marked a new phase for the Belt and Road Initiative.

Background of the “Belt and Road”

Historically, from the 15th and 16th Century, international commerce has been centred on Europe and America. The Belt and Road Initiative shifts the center to China.

Geographically, China faces the ocean in the east and neighbours many countries in the west, north and south. The “Silk Road Economic Belt” encompasses three routes: (i) from China via Central Asia and Russia to Europe; (ii) from China via Central Asia, West Asia to the Persian Gulf and the Mediterranean; (iii) from China to South East Asia, South Asia and Indian Ocean. The “21st Century Maritime Silk Road” includes two routes: (i) across the South China Sea from the coastal ports of China to the Indian Ocean, extending to Europe; and (ii) across the South China Sea from the coastal ports of China to South Pacific.

The Belt and Road Initiative represents the rediscovery of the Asian European continent with China as the main axle, and signifies the importance China attaches to its five neighbouring Central Asian countries (Kazakhstan, Uzbekistan, Kyrgyzstan, Turkmenistan and Tajikistan). In fact, these five countries possess a lot of natural resources, and they are situated at strategic locations. What they lack are capital to exploit the resources, infrastructure, professional expertise and management experience etc.

Many countries in South East Asia and South Asia are in a similar situation. They have plentiful natural resources and manpower, but lack the capital to develop these resources and build up the infrastructure. China seeks to establish closer economic relations with the Belt and Road countries.

Internal factors have led to the Belt and Road Initiative. While economic reform and opening have enabled China's economy to expand at an unprecedented pace for thirty years, the main propellants for growth, namely, China's population premium (abundant cheap labour) and exports of large quantities of industrial products to developed countries are facing challenges. Production costs, including salaries, have risen. Without adjusting its mode of economic development, China risks falling into the so called "Middle Income Trap" which, as seen in quite a few developing countries, is represented by economic stagnation and lackluster growth.

Since the peak in the 90's, China's GDP growth has been slowing as the engines for economic expansion were being shifted from investment and exports to consumption. However, increases in domestic consumption were constrained by inadequate social safety nets and people's preference to save for a rainy day. The coastal regions in the east were among the first to get rich during the reform and opening. The other regions are catching up, but they require investment projects and allocation of resources for economic development. Meanwhile, construction of the overall national infrastructure is nearly complete. Industries such as high speed rail, construction materials and ship building are in danger of excessive production capacity. Growth in traditional markets has peaked. There is a need to develop new markets and areas for economic and technological cooperation.

Even before the Belt and Road Initiative was launched, many Chinese enterprises have already been moving forward in response to their own developmental needs. The Belt and Road Initiative is a concept which integrated the various historical, geographical, political, economic and internal elements, and provides a holistic theoretical framework to take China's

economic development forward. The Belt and Road Initiative is a mega project that will likely take a century or more to complete.

The Belt and Road Framework

The Belt and Road Initiative sets itself apart from other multilateral or regional platforms. It is an open and inclusive. Its theoretical framework incorporates (i) advocating peace and cooperation, openness and inclusiveness, mutual learning and mutual benefit; (ii) promoting practical cooperation in all fields; (iii) building **a community of shared interests, destiny and responsibility** featuring mutual political trust, economic integration and cultural inclusiveness.

The Belt and Road Cooperation Priorities

Under the overall principle of openness and inclusion, the Belt and Road Initiative has the following cooperation priorities:

- a) **Policy coordination** – To build a multi-level intergovernmental macro policy exchange and communication mechanism;
- b) **Facility connectivity** – To facilitate connectivity of transport, energy, and communication infrastructure;
- c) **Unimpeded trade** – To promote cooperation in investment, trade and emerging industries, and to eliminate investment and trade barriers;
- d) **Financial integration** – To build a currency stability system, investment and financing system and credit information system in Asia; and
- e) **People-to-people bond** – To promote cultural and academic exchanges, cooperation in areas such as sports, tourism, technology and medical development, as well as communication among youth and political organizations.

Participation by China's Various Regions

The Belt and Road Initiative is a national strategy that is undergoing enrichment and development. There is plenty of room for local areas to participate in and promote the Belt and Road, taking into account their own unique circumstances. Geographically, we can roughly classify the target cooperation areas of China's various regions as follows:

- i. **Northwestern and Northeastern Regions** – Cooperation with Central, South and West Asian countries, and Russia;
- ii. **Southwestern Regions** – Cooperation with South Asian and Southeast Asian countries;

- iii. **Coastal Regions, and Hong Kong, Macao and Taiwan** – Pacesetter and main force in the Belt and Road Initiative; and
- iv. **Inland Regions** – Advocating internal and external communications and connecting the eastern, central and western regions.

Hong Kong's Role and Advantages

Against the relative strengths of China's different regions, what does the Belt and Road Initiative mean for Hong Kong? What role should Hong Kong play in the Belt and Road Initiative? What is Hong Kong's competitive edge vis-à-vis other regions?

(I) The "Reform and Opening" Era

In the 1980's, Hong Kong, as a British colony, participated actively in China's economic reform and opening. Throughout this process, which lasted thirty years, Hong Kong not only contributed to the reform and opening on the strength of its unique historical conditions and developmental status, but also helped itself transform from a labour intensive light industrial economy into a service economy. Excess labour was fully absorbed, and the quality of the labour force has improved. In other words, economic reform and opening provided timely environmental conditions that allowed Hong Kong to escape the Middle Income Trap and successfully transit into a developed economy. Hong Kong took advantage of its international exposure, economic situation, infrastructure development, managerial expertise, financial know how, and legal system to amplify its role as the "gateway to China". In order to optimize Hong Kong's role and its edge, the Hong Kong Government implemented a series of measures, including –

- 1) Splitting the "Trade, Industry and Customs Department" into "Trade Department", "Industry Department" and "Customs & Excise Department" to better carry out the respective functions;
- 2) Setting up overseas "Investment Promotion Offices" in developed industrialized countries to complement the newly established Tai Po Industrial Estate and Yuen Long Industrial Estate, which offered preferential terms to attract inward industrial investment;
- 3) Strengthening Hong Kong as the springboard to China and allowing overseas enterprises which could not immediately adjust to the investment environment in the Mainland to operate in Hong Kong first, accumulating experience in the process;
- 4) Making good use of the quasi-official "Trade Development Council" and its many representative offices across the globe as

intermediaries to actively assist overseas companies in gaining access to the Chinese market.

In the 1980's, investments from Hong Kong and overseas gave birth to numerous manufacturing operations in the Mainland. They generated a great deal of employment, exported much needed managerial talent, increased tax revenues at various levels of government in the Mainland, and contributed to economic development. In the 1990's, Hong Kong was the financial centre of China. Many mainland enterprises were listed in Hong Kong.

(II) **The “Belt and Road” Era**

Hong Kong's intermediary role has not changed since the return of its sovereignty to China. In the “Belt and Road” era, Hong Kong is still irreplaceable relative to other regions, provinces and cities in the Mainland.

The biggest edge enjoyed by Hong Kong is the “One Country, Two Systems” status conferred to it by the Basic Law. As a “Special Administrative Region”, Hong Kong enjoys an extremely wide degree of economic freedom. This included having its own freely convertible currency; maintaining public finance autonomy; keeping the status of a separate customs territory; the ability to negotiate and conclude on its own new air services agreements and to maintain a shipping registry (all under the authority delegated by the Central People's Government); and participating in various international conferences, organizations and competitions in the name of “Hong Kong, China”. Hong Kong has a lot to offer under the Belt and Road Initiative.

In an essay discussing the “Thirteenth Five-year Plan” and Hong Kong published on Bauhinia Magazine¹, Professor Zhang Baohui, Director of the Center for Asian Pacific Studies, Lingnan University pointed out that, with the rise of China, the country has started to look for asserting its influence in the global system as a rule maker. The Belt and Road is an instrument for China to assert itself. China is making use of its abundant resources and strong national power to shape the international environment. When we look at Hong Kong along this line, we will realize that Hong Kong excels in many ways:

- i. In the next ten years, China's external investment will reach US\$1.25 trillion. China will become a net exporter of capital. Relative to other mainland regions and cities, Hong Kong's comparative advantage (nationally and globally) is in finance. How Hong Kong should work on its financial edge and develop more services to take advantage of the

¹ “Bauhinia Magazine” Issue No. 293, March 2015: Dr. Zhang Baohui, Director of Center for Asian Pacific Studies, Lingnan University – “Has Hong Kong lost the comparative advantage?”

- massive external investment from China is a topic worthy of further study.
- ii. Hong Kong should have a role to play building the Belt and Road. “The Belt” has little impact on Hong Kong as Hong Kong has no distinct regional advantage on the land route which extends through Middle Asia, Middle East all the way to Europe. However, on “The Road” or the “21st Century Maritime Silk Road”, which involves the relationship between China and South East Asia, South Asia, and the Gulf countries, Hong Kong should have an important role to play as a result of its long historical ties and close pragmatic link with these regions.
 - iii. The internationalization of Renminbi. The U.S. dollar is one of the most important measures supporting the United States’ international hegemony. Internationalization of the Renminbi can reduce US control in the international financial structure. During this process, Hong Kong can play an active part developing into an off-shore Renminbi business centre.
 - iv. How to effectively deploy Hong Kong’s edge as an international city. China would like to exert stronger influence in the international system and has begun creating some international mechanisms. For instance, the BRICS Development Bank is based in Shanghai and the headquarters of the Asian Infrastructure Investment Bank is in Beijing. Is there any other role for Hong Kong to play? We can foresee China setting up more international mechanism that it would lead. As an international city, Hong Kong already has an edge in languages, the rule of law, and talents. Under the “One Country, Two Systems” arrangement, Hong Kong possesses not just systemic flexibility. It is under Chinese sovereignty and trusted by the Central Government. Therefore, Hong Kong should make good use of its own advantages in China’s development to strive for opportunities that would allow international or regional mechanisms created and led by China to be headquartered in Hong Kong.

Enterprises and Individuals Harnessing Hong Kong’s Role and Advantages

From Professor Zhang’s essay, especially Point (4) of the essay, we can see that Hong Kong, based on its special constitutional status under “One Country, Two Systems”, holds an irreplaceable edge over other areas of the country and plays a unique role in the Belt and Road Initiative. Such a role and the comparative advantages are also reflected on the enterprise and individual levels.

At the enterprise level, we note that since the launch of the Belt and Road Initiative more and more mainland enterprises, especially private enterprises, are keen to take advantage of Hong Kong as the bridgehead for outward investment and expansion. The situation is similar to that of the early stages of economic reform and opening when overseas companies made use of Hong Kong to enter the mainland market. This is a very good trend. Hong Kong enterprises, whether or not they have invested in the Mainland, should take the opportunity to ride on the “Belt and Road” vessel and set sail abroad, on its own or in partnership with mainland enterprises.

On the individual front, the Hong Kong workforce should equip themselves and ride on the Belt and Road bandwagon. Our workforce, individually and collectively, should be the Zhang Qians of the 21st Century, willing to explore, willing to adventure, and willing to take up responsibilities to reap life’s fruitful rewards!

To conclude, I would like to share an acronym with you. It is the three-letter first name “ADA”. The first “A” stands for “awareness”. We should open our eyes and be aware of what is going on. The age of the Belt and Road has dawned upon us. The “D” stands for “drive”. The Hong Kong workforce prides itself as being one of the most determined, aggressive and productive workforces in the world. We should keep these virtues up. The second “A” stands for “attitude”. Only with a positive and forwarding looking attitude can we motivate ourselves and fully rip the benefits of the Belt and Road Initiative.

Thank you.