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**| RESEARCH ARTICLE**

## **The Role and Position of Hong Kong in the Belt and Road Initiative**

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**| ABSTRACT**

Situated between mainland China and Southeast Asia, Hong Kong serves as a crucial node and gateway city for the Belt and Road Initiative. With a mature financial system encompassing a robust banking sector, well-developed capital markets, diversified financial services, and a professional workforce, Hong Kong is strategically positioned. This research aims to uncover the pivotal role of Hong Kong's financial industry in the Belt and Road Initiative and evaluate its internal and external factors and competitive advantages. Leveraging its unique strengths and contributions, Hong Kong will continue to be a vital partner in the Belt and Road Initiative, promoting mutually beneficial and sustainable development across various domains such as the economy, education, and culture.

**| KEYWORDS**

Belt and Road Initiative; Hong Kong's role and position; risks and challenges; advantages and potential; "One Country, Two Systems"

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### **1. Introduction**

President Xi Jinping introduced the Belt and Road Initiative in 2013, drawing inspiration from the historical achievements of the ancient Silk Road to construct a modern platform for interconnected cooperation. The initiative aims to drive shared prosperity and development among countries along the routes, fostering global economic stability and growth. Hong Kong, as an international financial center, plays a pivotal role as a bridge and nexus in the Belt and Road Initiative. Its participation contributes to facilitating exchanges and cooperation between Belt and Road countries and the global community, jointly advancing open, inclusive, balanced, and secure economic globalization. This research employs systematic study and analysis to uncover the future key role of Hong Kong in the Belt and Road Initiative, exploring its impact on regional economic cooperation and international trade.

### **2. Hong Kong's Role and Contribution in the Belt and Road Initiative**

Hong Kong, as an international metropolis, a global financial and trade center, and a commercial bridge connecting mainland China and the world, plays a crucial gateway role. With its international financial ranking at third place worldwide, as of June 2022, Hong Kong hosts 9,049 multinational corporations. Supported by the "one country, two systems" policy, Hong Kong serves as a "super connector" and a high-value-added service platform for the region. Secretary for Commerce and Economic Development Edward Yau Hoi-chuen mentioned in a press conference, "Hong Kong's connectivity makes it a springboard for Belt and Road enterprises to seize opportunities in the mainland and beyond" (Qiu, 2023a). It contributes to mutual benefit and win-win outcomes in international project financing, offshore RMB business, professional services support, trade cooperation, and advancing fintech cross-border collaboration.

### **3. Policy Support and Collaborative Mechanisms**

#### **3.1 Government Policies Supporting Hong Kong's Participation in the Belt and Road Initiative**

In legal and arbitration services, the Hong Kong Special Administrative Region (SAR) Government is committed to providing high-quality legal and arbitration services, ensuring legal protection for Belt and Road cooperation. The government actively promotes the establishment and improvement of arbitration institutions related to the initiative, facilitating cross-border business dispute resolution. In December 2017, the SAR Government signed the "Arrangement between the National Development and Reform Commission and the Government of the Hong Kong Special Administrative Region for Advancing Hong Kong's Full Participation in and Contribution to the Belt and Road Initiative" (Hong Kong In Review, 2023). In financial cooperation, the SAR Government formulates financial policies to support Hong Kong's positioning as an international financial center in the Belt and Road Initiative. The government encourages financial institutions to provide financing, investment, risk management, and other financial services related to the initiative, promoting cross-border capital flow. The arrangement focuses on six key areas: financial and investment cooperation, infrastructure and shipping services, trade cooperation, cultural exchange, driving the development of the Guangdong-Hong Kong-Macao Greater Bay Area, and strengthening cooperation and dispute resolution services (Hong Kong In Review, 2023). In collaborative projects, the government actively promotes cooperation projects related to the initiative, such as cross-border investments and collaborative research. The SAR Government, together with China's Ministry of Commerce, established a dedicated working group for the Belt and Road Initiative under the Mainland and Hong Kong Economic and Trade Cooperation Committee in 2018, coordinating Mainland-Hong Kong cooperation in economic and trade fields to promote the initiative. In September 2021, the SAR Government and the Ministry of Commerce signed a memorandum of understanding on promoting the high-quality development of overseas economic and trade cooperation zones, enhancing exchange and cooperation on the development of these zones (Hong Kong In Review, 2023). Additionally, the Hong Kong government places a strong emphasis on talent development. Through education and training programs, Hong Kong nurtures and attracts talents related to the Belt and Road Initiative, providing professional skills and knowledge support. Since the 2016/17 academic year, the government has introduced the Belt and Road Scholarship, encouraging students from Belt and Road countries and regions to pursue higher education in Hong Kong. The scholarship offers 100 annual places for full-time undergraduate and postgraduate students from all Belt and Road countries and regions. A special quota is allocated to specific countries (Indonesia, Malaysia, Thailand, Myanmar, and Mongolia) that have signed education cooperation memorandums with Hong Kong. Since its launch, the scholarship has benefited 333 students from 36 Belt and Road countries and regions (Hong Kong Government, 2022).

#### **3.2 Cooperation Mechanisms with Belt and Road Countries**

In the realm of financial collaboration, Hong Kong, as an international financial center, engages in extensive cooperation with financial institutions from Belt and Road countries. Hong Kong's banks and financial institutions provide financing, risk management, and investment advisory services to enterprises from Belt and Road countries, promoting the development of cross-border investment and trade. Lee Ka-Ching met with Amin H Nasser, the Chairman and CEO of Saudi Arabian Oil Company (Saudi Aramco), and his team introduced the unique advantages of Hong Kong as a major international financial center under the "one country, two systems" policy and in the context of Greater Bay Area development. Hong Kong can also offer comprehensive financial and professional services to Saudi Aramco, including assistance with listings, fund arrangements, and investment opportunities. Lee Ka-Ching also highlighted Hong Kong's status as the world's largest offshore RMB hub, playing a proactive role in asset diversification and security (Lam, 2023a).

In terms of investment cooperation, Hong Kong investors actively participate in economic projects and industrial investments in Belt and Road countries, providing financial and technological support to local economic development and infrastructure construction.

In terms of trade cooperation, as a free trade port, Hong Kong engages in frequent trade collaboration with Belt and Road countries. Hong Kong provides essential trade routes for Belt and Road countries, facilitating the cross-border circulation of goods and services. Secretary for Commerce and Economic Development Edward Yau Hoi-chuen mentioned that Hong Kong maintains a close bilateral trade relationship with Hungary. In 2022, the bilateral trade volume between Hong Kong and Hungary reached HK\$17.8 billion. Hungary is Hong Kong's seventh-largest trading partner among European Union member states. About 11.4% (HK\$13.3 billion) of trade between mainland China and Hungary is transshipped through Hong Kong (Qiu, 2023b).

In the field of infrastructure development, Hong Kong's construction and engineering companies participate in infrastructure projects in several Belt and Road countries, providing technical and experiential support to local infrastructure development. Lee Ka-Ching and his team visited Abu Dhabi's real estate developer Aldar Properties PJSC to learn about local real estate development and investment. They then visited the sovereign wealth fund Mubadala Investment Company and met with its Managing Director and CEO Khaldoon Khalifa Al Mubarak, introducing Hong Kong's unique advantages of being backed by the motherland and connected to the world under the "one country, two systems" policy. They explored opportunities for cooperation between the company and Hong Kong enterprises (Lam, 2023b).

In the field of cultural exchange, Hong Kong collaborates extensively with Belt and Road countries, promoting cultural exchange and mutual understanding. Lee Ka-Ching led a delegation from the Hong Kong Special Administrative Region to visit the Dubai Future Museum. Established by the Dubai Future Foundation, founded by Mohammed Al Maktoum, the museum combines traditional exhibitions, theaters, and thematic attractions, enabling visitors to explore how society will utilize technology in the future. Lee Ka-Ching emphasized that the central government explicitly supports the construction of an international innovation and technology hub in Hong Kong. Hong Kong has already released the “Hong Kong Innovation and Technology Development Blueprint” last year, setting clear development paths and strategic plans for the next five to ten years of innovation and technology development. He expressed the hope that Hong Kong and the Dubai Future Foundation could enhance cooperation in the field of innovation and technology (Lam, 2023c).

In terms of policy communication, as a Special Administrative Region, Hong Kong maintains close policy communication with the central government, ensuring that Hong Kong plays an appropriate role in the Belt and Road Initiative and provides support and coordination for cooperation with Belt and Road countries.

#### **4. Advantages and Potential Expansion Areas of Hong Kong**

Under the framework of “one country, two systems,” Hong Kong enjoys unique dual advantages as both a part of China and possessing its own distinct economic, social, and legal systems. Its robust common law system, supported by a wealth of legal experts with extensive international experience, positions it as a major hub for international legal services and dispute resolution in the Asia-Pacific region. Hong Kong's reputation in arbitration and mediation services is particularly noteworthy. Its open and liberal environment allows for the free flow of capital, goods, and information, solidifying its status as an international hub for finance, trade, shipping, and logistics. It provides a fair competitive environment for foreign and local enterprises alongside well-established anti-corruption mechanisms. Hong Kong boasts world-class infrastructure, transportation, and communication networks, as well as high-quality business services. It is well-versed in Mainland Chinese culture and business models while maintaining an international outlook, all while possessing extensive international experience and networks (Hong Kong In Review, 2023).

In summary, Hong Kong possesses unique advantages and potential within the Belt and Road Initiative. It can play a greater role in areas such as finance, investment, infrastructure development, innovative technology, and cultural exchange. Collaborating with Belt and Road countries, Hong Kong can contribute to regional development and prosperity, aligning with the overarching goals of the initiative.

Risks and Challenges

#### **5. Risks and Challenges**

##### ***5.1 Risks and Challenges Faced by Hong Kong in Participating in the Belt and Road Initiative***

Within the Belt and Road Initiative, Hong Kong also faces various challenges. Firstly, there is competition between the Hong Kong region and mainland areas. From Mainland China's perspective, “openness” has always been an advantage exclusive to the Guangdong-Hong Kong-Macao Greater Bay Area. In fact, the initial concept of establishing Special Economic Zones originated from Hong Kong (Cheng et al., 2008). Hong Kong's true competitors in mainland China include the Yangtze River Delta region centered around Shanghai and the Bohai Bay Economic Rim centered around Beijing and Tianjin. A comparison of per capita GDP trends for Hong Kong, Shanghai, and Beijing since the initiation of the Belt and Road Initiative is depicted in Figure 1.

Based on the per capita GDP values and trends in the curve, it is evident that the overall economies of the three regions have been on the rise under the Belt and Road Initiative, with the gap gradually narrowing. While Hong Kong maintains its advantage, the passage of time has led to a gradual weakening of its position relative to the other two regions.

Hong Kong also faces challenges on an international level. Firstly, security is of paramount importance. Countries along the Belt and Road route have diverse national conditions, resulting in uncertainties. For instance, some regions face challenges in areas like terrorism, energy security, transnational crime, maritime rescue and search, water resources, and environmental security (Wei, 2016). Secondly, differing legal systems and regulations across different countries could give rise to legal disputes and risks in cross-border cooperation. Lastly, cultural and societal differences among countries and regions could impact cross-cultural collaboration and communication in projects.

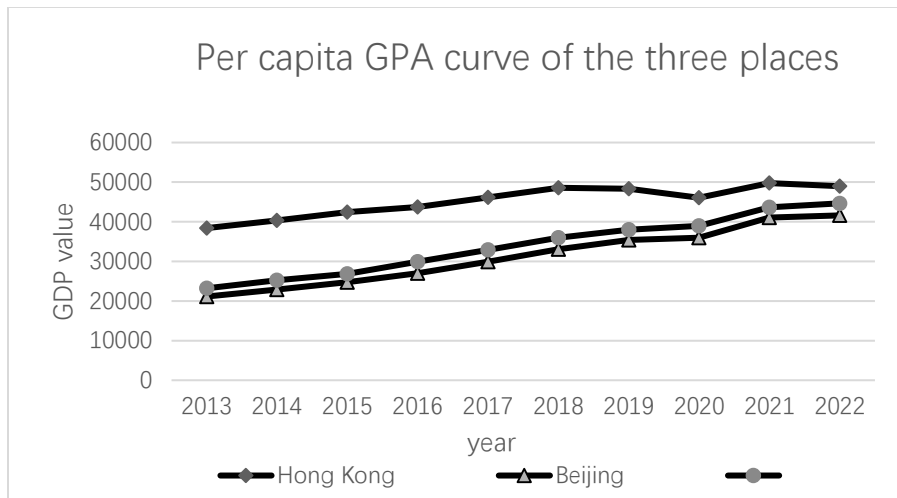


Figure 1. GDP per capita curve for Hong Kong, Shanghai and Beijing since the Belt and Road Initiative.

Source: Hong Kong data from the World Bank database and Shanghai-beijing data from the National Bureau of Statistics of the People's Republic of China.

**5.2 Strategies and Risk Management Measures**

In order to address the potential international risks and challenges in the context of the Belt and Road Initiative, various sectors in Hong Kong can adopt the following strategies and risk management measures:

**Government Enhancing Political Risk Analysis:** To address projects involving political instability, Hong Kong can strengthen its analysis of political risks, promptly understand and evaluate changes in the political situation, and be prepared to respond. In the case of sudden events or risks, an emergency response mechanism can be established to promptly take action and mitigate potential losses.

**Establishing Emergency Response Mechanisms:** Hong Kong can establish mechanisms for emergency responses to effectively mitigate possible losses resulting from unexpected events or risks.

**Emphasis on Environment and Sustainable Development:** During project implementation, it's important to prioritize environmental considerations and sustainable development and avoid potential environmental and social risks.

**Effective Financial Risk Management:** For project financing and investment, effective financial risk management measures can be implemented to reduce the impact of financial risks.

**Enhancing Financial Literacy for the Public:** The public can enhance financial literacy and make rational investment decisions to minimize individual losses due to investment risks.

**Continuous Learning and Skill Enhancement:** Continuous learning and skill enhancement can help individuals adapt to changes in economic structures and market demands.

**Raising Awareness of Emergency Preparedness:** Enhancing awareness of emergency preparedness allows for timely responses to potential risks.

**Diversification of Partnerships and Markets for Enterprises:** Enterprises can seek diversified partnerships and markets to reduce the risks associated with overreliance on a single market or partner.

**Adhering to International Standards and Regulations:** Following international standards and regulations and strengthening compliance management can reduce legal and reputational risks resulting from non-compliance.

**Promotion of Technological Innovation:** Promoting technological innovation can enhance industry competitiveness, enabling better responses to potential changes and challenges.

## 6. Conclusion

Hong Kong will continue to leverage its position as an international financial center and serve as a regional financial hub for the Belt and Road Initiative. Its advantages in finance, financing, investment, innovation, and cultural exchange, along with the potential for further industry development, have bestowed upon Hong Kong a unique role within the initiative. Its robust financial infrastructure, rule of law environment, and financial markets will attract more capital and investment, facilitating financing and investment activities for projects.

Additionally, Hong Kong will further evolve into a financing and investment platform for the Belt and Road Initiative. Through innovative financial products and services, it will offer diverse financing channels and investment opportunities to meet the funding needs of various projects. In the future, Hong Kong will strengthen technological innovation cooperation, introduce advanced technologies and innovative models, and provide digital and intelligent solutions for the efficient and sustainable advancement of Belt and Road projects.

Furthermore, by promoting cultural and educational exchanges, Hong Kong will act as a bridge within the initiative. Through cultural exchanges and talent development, mutual trust and cooperation among countries along the route will be enhanced, facilitating cultural exchange and mutually beneficial development of projects. As the importance of environmental protection and sustainable development grows, Hong Kong will drive green finance and sustainable investment in the Belt and Road projects, offering financial support for ecological conservation and sustainable development.

Looking ahead, Hong Kong will continue to actively participate in multilateral mechanisms on the international stage, collaborate with all parties, and promote compliance and sustainability in the Belt and Road Initiative, working towards shared development. Despite challenges such as risks and competition in the future, Hong Kong can achieve broader development prospects through strengthening government policy support, enhancing international cooperation, and advocating green finance and innovation while also enhancing financial literacy across society to minimize losses.

Hong Kong will persist as a significant partner in the Belt and Road Initiative, contributing its unique strengths and efforts to jointly drive the successful advancement of the projects, achieving mutual benefit, win-win outcomes, and sustainable development goals. This article synthesized and analyzed the existing literature and data using literature review and statistical methods to summarize Hong Kong's current position and the various risks and challenges it faces, predicting its crucial role in economic development, technological innovation, cultural exchange, and sustainable development under the Belt and Road Initiative. While the article integrated and analyzed information from various sectors of Hong Kong's participation in the initiative, the future remains uncertain due to unpredictable factors. Therefore, ongoing discussions about Hong Kong's role in the Belt and Road Initiative should closely follow current events, comprehensively explore topics, and expand perspectives.

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