



## Outlook of financing along the road from the perspective of international cooperation in “One Belt One Road” strategy

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As the top initiative developed by China against the backdrop of a new global economy pattern, “One Belt One Road” breaks through the traditional concept about regional cooperation that focuses on trade and investment facility. It supplies international public goods for Road countries, provides new impetus for the still sluggish global economy, and provides new ideas and Chinese solution to solve the current global trade difficulties and to maintain the position of multilateral trade system. In the five key respects emphasized by “One Belt One Road” strategy including policy co-ordination, facilities connectivity, unimpeded trade, financial integration and people-to-people bonds, financial integration lends important support to “One Belt One Road” construction, which is vital to the success of the policy.

### Firstly, financial integration is of systematic importance

In the five key respects emphasized by “One Belt One Road” policy including policy co-ordination, facilities connectivity, unimpeded trade, financial integration and people-to-people bonds, financial integration is of systematic importance. The establishment of efficient and smooth network of financial integration is essential to the success of “One Belt One Road” strategy.

In a word, financial integration is inextricably linked with policy co-ordination, facilities connectivity, unimpeded trade, and people-to-people bonds.

First of all, financial integration is the basis for realizing facilities connectivity. The initial stage of “One Belt One Road” strategy gave priority to facilities connectivity and established the basic framework of Asian infrastructure connectivity backed by the transportation channels and the economic corridors. Focusing on infrastructures such as transportation, electricity, communications and other projects conducive to the improvement of people’s living standard along the Silk Road, “One Belt One Road” strategy has carried out a series of key projects. According to comparative advantage in the natural resources and labor costs in different Road countries, “One Belt One Road” strategy promotes the construction of international transportation and accelerates the development of high-speed railways to complement for the geographic disadvantage of some inland countries. Construction of traffic network propels the solid growth of infrastructure investment along the Silk Road and results in a large funding gap.

Secondly, the unimpeded trade brings forward higher demand for financial integration. The construction of transportation infrastructure has promoted the exploitation and utilization of resources and energy, which further promotes the all-round trade and service contacts along the Silk Road, and continuously strengthens investment and trade cooperation in the region. It is estimated that China’s trade with the Road countries will increase by more than 10% per annum over the next ten years, and bilateral trade will reach nearly US\$3 trillion, accounting for one third of China’s total foreign trade. Financial integration plays an important role in facilitating investment and trade, eliminating investment and trade barriers, and actively building free trade zones with Road countries.

Thirdly, financial integration is closely related to policy co-ordination. Road countries encounter policy incompatibility, geopolitical risk, cultural and religious conflict, terrorism and other risk factors in varying degrees. Therefore, policy co-ordination helps to build the Silk Road into a road of peace. To promote political mutual trust and reach a new consensus of cooperation, collaboration among governments and multi-level communication mechanism of macro policies are needed. Commercial organizations also need to strengthen communications and negotiations when participating in the construction of Silk Road to realize their function as cooperation platform.

Finally, People-to-people bond is the motivation for “One Belt One Road” strategy. Only by strengthening cultural exchanges can the Silk Road countries develop through economic cooperation, and build a solid public and social foundation. At present, great diversity exists in some Road countries and thus greater efforts should be made in these countries.

## **Secondly, further enhance the service ability of diversified financing system of “One Belt One Road”**

In order to satisfy the “One Belt One Road” financing demand, China took a lead in establishing major financial platforms, including The Asian Infrastructure Investment Bank (AIIB), The Silk Road Fund, The BRICs New Development Bank and the Shanghai Cooperation Organization (SCO) Development Bank to inject abundant liquidity into Silk Road construction. At present, AIIB has provided US\$1.7 billion loan for 9 projects of participating countries, while The Silk Road Fund has invested US\$4 billion. In addition, with the “16+1” financial holding company between China and Central and Eastern European countries established, various types of regional financial institutions have joined the “One Belt One Road” funds platform, further enhancing the representativeness of this platform.

Newly established multilateral institutions focus on the infrastructure financing along the Silk Road, and complement with The AIIB, The European Bank for Reconstruction and Development, The World bank and The International Monetary Fund and other traditional multinational financial institutions. These emerging multilateral institutions are becoming important international financing and financial services platform, to provide financial support for the long-term development of Silk Road, to improve regional infrastructure, and to achieve connectivity.

Recently, the Silk Road Fund adds 100 billion yuan, while the Export-Import Bank of China and the China Development Bank add 380 billion yuan of special loans for supporting “One Belt One Road” infrastructure construction and financial cooperation. This, to some degree, will enhance the financial strength of The AIIB, The Silk Road Fund, various Sovereign funds and other emerging multilateral development platforms.

“One Belt One Road” multilateral financial institutions cooperate with The World Bank and other multilateral development institutions to promote related projects, and to jointly develop “One Belt One Road” financing guidelines. These financing guidelines mean the mentioned multilateral institutions can fully display their roles in leading the market, and to direct the commercial equity investment funds and social funds to the construction of “One Belt One Road” key projects.

## **Thirdly, improve “One Belt One Road” financial arteries through market instruments**

Albeit funds provided by The AIIB and The Silk Road Fund, “One Belt One Road” construction still faces a huge funding gap. To ensure the sustainability of funding, it is necessary to expand financial cooperation, to build a strong financing channel, and to expand the feasibility of cooperation between The AIIB, The Silk Road Fund and the market-oriented financial institutions.

Therefore, it is also necessary to make “One Belt One Road” financing mode the important connotation of the innovative Silk Road, to improve the “One Belt One Road” financial arteries, and to provide vast room for Chinese financial industry to engage in the construction of Silk Road.

In order to meet the financial needs of “Going-Out” enterprises, China’s financial institutions have set up branches in Road countries. By the end of 2016, 9 Chinese banks had set up 61 tier one institutions in 25 countries. These financial institutions timely grasp the opportunities from overseas mergers and acquisitions, capital operation, and foreign direct investment and etc. They provide one-stop integrated financial services solutions, improve the success rate of projects, and finally accumulate a lot of successful experience.

In the future, the further construction of financial arteries can be promoted from the following areas.

(1) Financial institutions can be encouraged to carry out overseas RMB funds business, and the scale is expected to be approximately 300 billion yuan. Financial institutions can also provide new currency alternatives for the existing financial products system, and to finance the infrastructure projects along the Silk Road with syndicated loans, project loans and etc.

Relevant financial institutions will provide more diversified financial services for Silk Road countries. Silk Road countries own abundant national resources such as oil and gas, with substantial development value. Also, petrochemical industry, metallurgy and deep processing, mining, machinery manufacturing and electronics industry face broad development opportunities. China has signed capacity cooperation agreements with many countries, and a large number of key projects have been launched. The Capacity Cooperation Fund established by China has been over hundreds of billions of US dollars, which will give rise to the demands for financial services, and provide a useful supplement for the innovative financing.

(2) Create a brand-new financing model. By fully leveraging the PPP model (public-private-partnership), syndicated loans and infrastructure bonds, innovations can be achieved in investment and financing models to promote cooperation between the governments and the public capitals. This will help provide financing for various infrastructure projects along the Silk Road, and strongly support investment and financing.

(3) Create an integrated financial services platform for “One Belt One Road” industrial parks and the economic corridors. To promote the “One Belt One Road” platform, China has successively set up a number of industrial parks in ASEAN, Central Asia, South Asia, and Eastern Europe. Chinese banks provide credit support and develop comprehensive financial services programs to qualified industrial parks and the park enterprises. Diversified financial products and asset allocation tools can be provided, including foreign exchange and position squaring, interbank lending, bond investment and clearing etc.

(4) Establish multi-level capital markets. To further deepen the “One Belt One Road” financial market system, it is necessary to attract mature investment projects to list in the capital markets, to issue infrastructure bonds and funds, and to create an international financing platform.

Recently, developments in regional debt market and Asian bond market can be expedited to improve the “One Belt One Road” financing network system. By helping foreign government and high creditworthy companies to issue RMB bonds onshore and helping qualified Chinese financial institution to issue RMB bonds offshore, China can encourage RMB usage in Road countries. By strengthening the construction of financial market system and the construction of investment and financing channels for efficient resources allocation and superior risk management mechanism, problems about shortage of funds and financing during the construction of Silk Road can be solved.

## **Fourthly, focus on key currency, and maintain the stability of RMB in the global monetary system**

“One Belt One Road” not only focuses on the key channels, key cities and key projects, but also, in the financial level, focuses on key currency. Accelerating the organic integration of “One Belt One Road” strategy and RMB internationalization strategy helps to further enhance the RMB’s international usage and make RMB a critical regional currency, which can effectively make up for the insufficient liquidity along the Silk Road and provide liquidity to the Road countries.

Due to the huge demand for funds from Road countries, increasing the usage of RMB can provide more RMB denominated investment tools, and promote the development of financial markets along the Silk Road. In the first quarter of 2017, China’s foreign investment amounted to US\$20.54 billion, 48.8% less than last year. Among them, Chinese enterprises invested US\$2.95 billion in 43 Road countries, accounting for 14.4 percent of Chinese firms’ total outbound investment and representing an increase of 5.4 percentage points over the same period in previous year. Chinese enterprises signed 952 project contracts with 61 Road countries with a turnover of US\$14.39 billion, nearly half of the total value of contracts in Q1. Obviously, influx of Chinese capitals to the Silk Road provides a rare opportunity for the promotion of RMB circulation in the local market. At present, the RMB is mainly used for loans and settlement etc. It is expected that with the economic growth and wealth accumulation, a variety of institutions, enterprises and individuals are willing to hold diversified assets in RMB. The surging demand for RMB asset management will shift the function of RMB to offshore lending, offshore bonds, exchanging, financial derivatives and hedging tools.

The developments of investment, as well as trade, between China and Belt and Road countries provide new room for international currency cooperation. The People’s Bank of China has entered currency swap agreements with many offshore monetary authorities, including 21 countries along the Belt and Road. Moreover, 6 Belt and Road countries have been authorized RMB Qualified Foreign Institutional Investor (RQFII) quota.

The construction of clearing network is essential for promoting the RMB usage along the Belt and Road. At present, seven countries along the region, such as Malaysia, the Philippines, Thailand, Indonesia, etc. expand the coverage of the RMB clearing through utilizing the RTGS in Hong Kong. After launching the Cross-Border Interbank Payment System (CIPS), it will gradually optimize the RMB clearing system in the Asia-Pacific region with higher efficiency and convenience. As a result, it will propel the RMB usage by banks and corporations in the ASEAN, supporting the growth of RMB clearing scale. The RMB usage can fulfill liquidity needs along the Belt and Road, which helps ease tightening liquidity condition.

To propel the RMB usage along the Belt and Road, we should explore the possibility of establishing energy-related financing market, in order to confront the challenge of volatile energy price in global market and enhance energy safety. Furthermore, we should seize opportunities to develop the Petro-RMB, expanding the use of RMB in petroleum price fixing and transaction.

The 2017 Government Work Report stated “to persist with liberalization in the foreign exchange market and to maintain the RMB’s stable status in global monetary system”. Apparently, the ultimate goal of the RMB internationalization is to provide new products and solutions to address the drawbacks under existing global monetary system, which is dominated by the US dollar. With deepening integration between China and global financial system, China has to undertake more responsibilities for maintaining global financial stability.

Following the inclusion of RMB into the SDR, the systematic dividend will be gradually unleashed. While the depth and breadth of the RMB market is increasing, central banks and sovereign institutions become more willing to hold RMB assets. The RMB will play a more active role in global financial governance now that it has become a critical regional currency along the Belt and Road.

# 主要經濟指標 (Key Economic Indicators)

	2015	2016	2016/Q4	2017/Q1
<b>一. 本地生產總值 GDP</b>				
總量 (億元) GDP(\$100 Million)	22,464	23,586	6,786	6,274
升幅 (%) Change(%)	2.4	1.9	3.2	4.3
<b>二. 對外貿易 External Trade</b>			<b>2017/3</b>	<b>2017/1-3</b>
外貿總值 (億元) Total trade(\$100 Million)				
港產品出口 Domestic exports	469	429	42	102
轉口 Re-exports	35,584	35,454	3,177	8,494
總出口 Total exports	36,053	35,882	3,219	8,596
進口 Total imports	40,464	40,084	3,642	9,705
貿易差額 Trade balance	-4,411	-4,201	-423	-1,109
年增長率 (%) YOY Growth(%)				
港產品出口 Domestic exports	-15.2	-8.5	16.8	4.9
轉口 Re-exports	-1.6	-0.4	16.9	10.4
總出口 Total exports	-1.8	-0.5	16.9	10.3
進口 Imports	-4.1	-0.9	13	10.7
<b>三. 消費物價 Consumer Price</b>			<b>2017/3</b>	<b>2017/1-3</b>
綜合消費物價升幅 (%) Change in Composite CPI(%)	3	2.4	0.5	0.5
<b>四. 樓宇買賣 Sale &amp; Purchase of Building Units</b>			<b>2017/4</b>	<b>2017/1-4</b>
合約宗數 (宗) No. of agreements	76,159	73,004	8,984	27,424
年升幅 (%) Change(%)	-6.5	-4.1	60.1	89.5
<b>五. 勞動就業 Employment</b>			<b>2016/12-2017/2</b>	<b>2017/1-2017/3</b>
失業人數 (萬人) Unemployed(ten thousands)	12.2	12.2	11.9	12.5
失業率 (%) Unemployment rate(%)	3.3	3.3	3.3	3.2
就業不足率 (%) Underemployment rate(%)	1.4	1.4	1.2	1.2
<b>六. 零售市場 Retail Market</b>			<b>2017/3</b>	<b>2017/1-3</b>
零售額升幅 (%) Change in value of total sales(%)	-3.7	-8.1	3.1	-1.3
零售量升幅 (%) Change in volume of total sales(%)	-0.3	-7.1	2.7	-1.7
<b>七. 訪港遊客 Visitors</b>				
總人數 (萬人次) arrivals (ten thousands)	5,931	5,665	459.0	1424.0
年升幅 (%) Change(%)	-2.5	-4.5	8.8	3.7
<b>八. 金融市場 Financial Market</b>			<b>2017/2</b>	<b>2017/3</b>
港幣匯價 (US\$100=HK\$)				
H.K. Dollar Exchange Rate (US\$100 = HK\$)	775.1	775.6	776.3	777
貨幣供應量升幅 (%) change in Money Supply(%)				
M1	15.4	12.3	11	7.3
M2	5.5	7.7	9.7	10.1
M3	5.5	7.7	9.8	10.1
存款升幅 (%) Change in deposits(%)				
總存款 Total deposits	6.7	9.1	10.4	10.1
港元存款 In HK\$	10.7	9.4	13.2	14
外幣存款 In foreign currency	3.1	8.8	7.7	6.4
放款升幅 (%) in loans & advances(%)				
總放款 Total loans & advances	3.5	6.5	10.5	11.6
當地放款 use in HK	3.5	7.4	10.3	11.5
海外放款 use outside HK	3.6	4.5	11	11.8
貿易有關放款 Trade financing	-16.3	0.2	-2	4.3
最優惠貸款利率 (%) Best lending rate (%)	5.0000	5.0000	5.0000	5.0000
恆生指數 Hang Seng index	21,914	22,000	23,741	24,112