Navigator (1st Issue)

From prospect to practice
Forging new opportunities for Hong Kong along the Belt and Road
December 2017
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5.1 Talent attraction
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Summary and prospects
The advancement of the Belt and Road (B&R) initiative has brought fresh opportunities of overseas investments for Chinese companies. The initiative is built on intergovernmental policy coordination and communication, interconnectivity, and cooperation between financial institutions. It has provided Chinese companies with broader business prospects than ever before. The cooperation between China and the B&R countries is helping to develop a new model of regional economic collaboration and is facilitating economic globalization. Furthermore, led by the initiative, China will break new ground in pursuing further “opening-up”.

As one of the most international metropolitan cities in China, Hong Kong has inherent advantages and plays a pivotal role when it comes to participating in B&R initiative. The 19th National Congress of the Communist Party of China (CPC) held this year, further confirmed that the Central Government will support Hong Kong’s integration into the national development, give priority to creating synergies with the B&R initiative and develop the Guangdong-Hong Kong-Macau Greater Bay Area to promote mutual benefits and cooperation between the mainland and Hong Kong. Looking forward, Hong Kong will enjoy more opportunities to collaborate with the mainland and the countries along the B&R, advancing its own prosperity and development to bring win-win results among all three parties. We hope Hong Kong will take part in driving B&R projects and seizing the opportunity to create new engines for its own development.

In recent years, EY has accumulated extensive experience in providing professional services in the markets along the B&R. Over the past three years, EY has helped around 800 Chinese companies expand their business in the B&R countries. This year, we launched the “EY Belt and Road Navigator” – an information platform to share all B&R related markets and sectors insights, government policies updates, investment guides, country reports and seminar events. We hope to help Chinese enterprises navigate along the B&R to better understand the opportunities and challenges, and most importantly, achieve steady and sustainable growth.
Since the B&R initiative was proposed four years ago, people from different sectors in Hong Kong have gradually deepened their understanding of the initiative. It is an exceptional opportunity for Hong Kong to integrate its advantages - including a sound legal system and financial market, a leading integrated professional services platform, and the convergence of world-class talent - with B&R development and ensure it plays a full role serving as a “Super Engine” connecting with mainland China and countries along the B&R. The 19th National Congress of the CPC emphasized that facilitating the development of China’s real economy is becoming a key consideration for overseas investment. EY predicts, high technology, advanced manufacturing, high-end consumer goods, environmental protection, life sciences and education will become investment hotspots. In the coming days, Hong Kong is expected to deepen cooperation with the regions along the B&R and foster new growth drivers to further enhance its role as an international financial, trade, shipping and information center. It is moving toward sustainable development against the backdrop of China’s economic transformation and upgrading, driven by the B&R initiative.

To better understand the opportunities and challenges along the B&R, EY launched the Navigator series this time. In our inaugural edition, we offered insights on how Hong Kong can better improve its advantages and excavate more development opportunities along the B&R. EY believes that Hong Kong can leverage its advantages in industry, finance, institutional environment, government support and talent and culture, in line with the five cooperation priorities to create a unique ecosystem that generates synergies with the B&R initiative. In this report, EY provides practical recommendations on how to achieve further development across these five areas in Hong Kong.

**Hong Kong Belt and Road ecosystem**

EY provides a set of recommendations on how Hong Kong can participate in B&R development in five areas, including industry, finance, institutional environment, government support and talent and culture. A unique and sustainable ecosystem is created to be in line with the five cooperation priorities under the B&R initiative and endow Hong Kong with new impetus for its economic growth.

**Industry:**

Set up a B&R intelligence industrial park, develop engineering insurance and reinsurance services, optimize the policies on captive insurance companies, and expand shipping-related businesses to leverage and strengthen Hong Kong’s roles in the engineering and infrastructure construction areas.

**Institutional environment:**

Leverage institutional advantages, further improve the finance and taxation environment, set up a B&R legal service center, and make use of Hong Kong’s sound regulatory system to facilitate the implementation of the B&R initiative.

**Talent and culture:**

Further improve talent attraction and retention policies, develop a talent development plan for the B&R initiative, drive the coordination of global human resources, and develop diversified cultural industries.

**Finance:**

Establish a special B&R Board to facilitate fund raising, develop the infrastructure bond market and green finance, further consolidate Hong Kong’s position as a regional asset management center and global offshore RMB business center, and transform Hong Kong into a leading global center for infrastructure fundraising and financing and green finance.

**Government support:**

Introduce a top-down coordination plan by the government to seek synergies between the B&R initiative and policy implementation, promote Hong Kong’s value proposition and advantages, and enhance communication and cooperation with mainland China and the B&R countries to bring win-win results among all.

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1 Source: Xinhuanet
2 Source: Big Data Report of Trade Cooperation Under the Belt and Road Initiative 2017, State Information Center of China
3 Source: Belt and Road Portal
4 Source: Ministry of Commerce of China
5 Source: National Bureau of Statistics of China, EY analysis
6 Source: AIIB, Silk Road Fund, EY analysis
7 Source: Ministry of Commerce of China, EY analysis
8 Source: Ministry of Commerce of China, EY analysis
9 Source: Ministry of Commerce of China
10 Source: State Administration of Foreign Exchange
11 Source: people.cn
Overview of the Belt and Road

In 2013, Chinese President Xi Jinping proposed the building of the Silk Road Economic Belt and the 21st Century Maritime Silk Road. Since then, the B&R initiative has stepped into the international spotlight. Besides China, there are 65 countries or regions along the B&R, most of them are developing countries, with a combined population of 4.6 billion – nearly two-thirds of the world’s population. As both the total GDP and export volumes of these countries represent more than 30% of the global totals, they offer great potential for development. Since the B&R initiative was proposed, cooperation in various fields has been explored and has progressed from concept, framework and top-level design to full implementation. With promotion from the Chinese government and support from relevant countries, regions and international organizations, milestone achievements have been reached through widened and deepened cooperation.

The Report on the Work of the Government, announced in March 2017, officially upgraded the Guangdong-Hong Kong-Macau Greater Bay Area from the conceptual planning stage to become a national strategy. The Chinese government also pledged to turn the Greater Bay Area into an important pillar of the B&R initiative. Meanwhile, the Hong Kong Special Administrative Region (HKSAR) government is taking action to improve connectivity with the B&R initiative. In September 2017, Hong Kong hosted the second Belt and Road Summit to discuss how Hong Kong could better integrate with the B&R initiative, with “From Vision to Action” as its theme and infrastructure investment as its focus. In October 2017, the HKSAR Chief Executive’s Policy Address highlighted that in the years ahead, Hong Kong would improve bilateral and multilateral relations with mainland China and overseas countries and participate in the B&R initiative in a comprehensive way, including adding more people to its B&R office and seeking to enter into general agreement on B&R development projects with the National Development and Reform Commission (NDRC) by the end of 2017. At the same time, the HKSAR government plans to develop a green finance program and take the lead in issuing green bonds. EY believes that the B&R initiative and the Guangdong-Hong Kong-Macau Greater Bay Area will generate greater (“1+1 > 2”) synergy effects and present historic opportunities for Hong Kong.

Policy coordination:
- By the end of Sep 2017, China has signed B&R cooperation documents with more than 74 countries, regions and international organizations.
- Heads of state and government from 29 countries, along with 1,400 representatives from over 140 countries and 90 international organizations, attended the first Belt and Road Forum for International Cooperation.

Unimpeded trade:
- In 2016, the total trade volume between China and the B&R countries was close to US$1 trillion, representing 25.7% of China’s foreign trade volume.
- China has developed 75 overseas economic and trade cooperation zones in 29 B&R countries; 3,412 companies settling in the zones have paid US$32.2 billion in taxes to the host countries and generated 210,000 new job opportunities.

Facilities connectivity:
- By the end of Nov 2017, more than 30 service lines and 6,000 China-Europe freight trains have shuttled between China and over 30 cities in 28 European countries.
- Since 2015, the total value of Engineering, Procurement and Construction (EPC) contracts signed by China along the B&R has exceeded US$320 billion.

Financial integration:
- Since 2014, Chinese enterprises’ non-financial direct investment along the B&R has exceeded US$60 billion.
- The Asian Infrastructure Investment Bank (AIIB) and the Silk Road Fund have approved US$9 billion to finance more than 30 projects.
- In 2016, cross-border capital investments between China and B&R countries reached US$178.4 billion, up 9% from 2013.

People-to-people bond:
- In 2016, the total tourism turnover in B&R regions accounted for over 70% of total global tourism turnover.
- The Ministry of Education of China is pushing forward the Silk Road education program. In 2016, 226 researchers on country and regional studies were selected for further study in 34 countries.
- The Chinese government’s Silk Road Scholarship Program offers scholarships to an additional 3,000 or more new entrants from B&R countries each year.
1.1 B&R intelligence industrial park

Setting up overseas economic cooperation zones and industrial parks is an important channel for Chinese companies to establish their global presence. These areas serve as valuable platforms for overseas investment and cooperation. EY suggests Hong Kong establish a B&R intelligence industrial park which plays a platform role to enhance Hong Kong’s connectivity with mainland China and B&R countries in projects matching, investment and cooperation, and talents exchange.

In the years ahead, Hong Kong can provide one-stop online (joint working platform) and offline (physical presence) support in an efficient, convenient and professional manner to exploit its advantages in professional advisory, investment, financing, trade, logistics, project management and legal services. The development model of the B&R intelligence industrial park will open a new chapter for Hong Kong in its cooperation with the B&R initiative going forward.

Figure 1: Design of B&R intelligence industrial park

- Integrate with the B&R coordination departments of the HKSAR government (e.g., the Commerce and Economic Development Bureau and the Infrastructure Financing Facilitation Office of the Hong Kong Monetary Authority), the Hong Kong Trade Development Council (HKTDC), other B&R-related organizations, think tanks and research institutes
- Set up a B&R project coordination office to lead and coordinate government projects in B&R countries (e.g., public-private partnership projects) and further the connectivity of enterprise investment projects (e.g., mergers and acquisitions, green investment) and Chinese investors
- Cooperate with universities, colleges, academies and research institutes specializing in engineering to engage in cultural exchanges between Hong Kong and B&R countries, urban planning projects
- Invite relevant authorities in charge of the overseas investment, trade and investment promotion agencies of provinces, municipalities and regions (especially the Guangdong-Hong Kong-Macau Greater Bay Area) to set up offices
- Match projects for Chinese companies intending to invest in B&R countries; support Chinese companies seeking to “go abroad”
- Invite professional service organizations (e.g., accounting, investment, law, insurance and engineering consulting firms) to set up offices in the park; and to facilitate better one-stop services for companies

Note: Under the PPP (Public-Private Partnership) model, the government, by way of franchise authorization, fair pricing and fiscal subsidies, cooperates with social capital to invest and operate urban infrastructures for the public good. The PPP model is characterized by both benefit- and risk-sharing. It can improve the quality of public goods and services and increase efficiency by taking full advantage of both the public and the private sectors.
1.2 Insurance services

Most B&R countries are developing economies that are experiencing unstable economic development and complex geopolitics. How to manage investment risks will therefore become the greatest concern for many companies as they implement B&R projects. Insurance is the most effective way to prevent risks by most companies. However, there is still improvement opportunity for the insurance product and service capacity in mainland China.

Therefore, Hong Kong can leverage its experience in risk and project management to provide insurance and reinsurance services for B&R projects and motivate mainland’s companies to establish captive insurers in Hong Kong to manage business risks along the B&R.

1.2.1 Insurance and reinsurance services

Hong Kong is one of the key insurance centers in Asia, but restricted by market size, there is not much room for premium increases in direct business. It is therefore necessary to develop the reinsurance market to create additional growth for the insurance industry. Without fully leveraging its experience and advantages in its financial system, Hong Kong’s reinsurance business has been sluggish in recent years. According to the Organization for Economic Co-operation and Development (OECD), reinsurance business only represents 4.5% of all insurance business in Hong Kong, much lower than the 19.7% represented by Singapore. Despite support from mainland China, a large number of premiums have been ceded to offshore markets such as Bermuda, Europe and Singapore.

EY recommends that Hong Kong discuss with the China Insurance Regulatory Commission (CIRC) the possibility of adding the special administrative region to the existing onshore and offshore jurisdictions. By doing so, the preferential policies of mainland Chinese insurers can be extended to Hong Kong insurers, allowing them to engage in more insurance and reinsurance business from mainland China. However, relevant policies are still at the preliminary discussion stages, while the Financial Services Development Council (FSDC) needs to accelerate its study on the benefits and implications of those policies.

EY suggests that Hong Kong seize the opportunities presented by the B&R initiative to develop the reinsurance market and engineering insurance businesses, through a number of measures including:

- Rolling out RMB-denominated reinsurance services and turning Hong Kong into an offshore RMB reinsurance center
- Further enhancing preferential tax treatments for professional reinsurers (profits derived from reinsurance of offshore risks are currently taxed at 8.25%, being 50% of the prevailing corporate tax rate of 16.5%) by cutting the tax rate for reinsurance businesses for B&R-related projects to 5% (the prevailing tax rate is 8.25%), or developing a multi-tiered system based on risk ratings to allow Hong Kong to gain access to more businesses and increase its competitiveness in and share of global reinsurance markets
- Focusing on developing construction insurance services, as such services in mainland China develop slowly, which is not good for Chinese enterprises seeking to engage in B&R infrastructure projects. A wide range of insurance products can help companies to reduce risks effectively, increase investors’ confidence and raise capital. The insurance industry in Hong Kong needs to identify opportunities to meet market demands, expand its presence along the B&R by leveraging its extensive experience in engineering insurance and develop engineering insurance services for Chinese infrastructure companies

11 Source: Hong Kong Financial Services Development Council
1.2.2 Policies on captive insurance companies

As Chinese companies speed up the pace of “going abroad”, they are demanding better risk management. More and more multinational companies are considering establishing captive insurance companies instead of insuring through a traditional insurance company, because they can manage risks more effectively due to their deep understanding of their own risks. Thus, on group level, the enterprise can better structure itself and reduce costs by leveraging the existing operations network within the group.

In recent years, Hong Kong has developed into a captive insurance center in the Asia Pacific region and targets to become a global leader in captive insurance by 2020\(^\text{11}\). Under the framework released by the CIRC in 2015, EY suggests the insurance industry in Hong Kong leverage its advantages in captive insurance, in the following ways:

- Maintaining its emphasis on the importance of the policies that allow mainland Chinese companies to manage risks and encouraging more companies to follow the examples of CNOOC and Sinopec in setting up captives in Hong Kong
- Considering cutting the preferential tax rate further to 5% (the prevailing tax rate is 8.25%) for authorized captive insurer that provide captive insurance services in B&R countries
- Allowing authorized captive insurer to qualify for tax deductions in respect of bad debts provisions, so as to encourage mainland Chinese companies to establish captive insurance companies in Hong Kong

1.3 Shipping-related services

Considering Hong Kong’s unique geographical advantage, preferential tax policies, convergence of shipping service organizations and world-class infrastructure, many foreign ship owners register their vessels in Hong Kong. By deadweight capacity, the Hong Kong Shipping Register is now the world’s fourth largest shipping register. In addition, all ships and cargos require insurance before voyages are complete. Therefore, marine insurance is an integral part of the shipping industry.

EY suggests that Hong Kong make good use of its marine insurance experience and strong network to provide relevant shipping companies with high quality services and establish its pivotal role in the offshore shipping industry to help facilitate B&R projects. Furthermore, as Hong Kong does not have its own shipping exchange, it could consider setting up or acquiring a shipping exchange, and developing an internationally-recognized freight index to gain more bargaining power in shipping pricing.

- 88 marine insurance service companies that provide a wide range of marine insurance offerings allow Hong Kong to have a wealth of resources and experience\(^\text{12}\)

The International Group of Protection and Indemnity Clubs provides liability cover (protection and indemnity) for around 90% of the world’s ocean liners. Among its 13 principal underwriting members, 12 have offices in Hong Kong, which not only demonstrates Hong Kong’s leading role in international maritime insurance, but also facilitates insurance and claim activities for vessels from various countries\(^\text{12}\).

\(^\text{11}\) Source: Hong Kong Trade Development Council
1.4 Infrastructure business

1.4.1 Public-Private Partnership (PPP)

There is a huge capital need for infrastructure projects in B&R countries, as well as a lack of a complete construction mechanism. However, the governments of these countries face great fiscal pressure due to limited economic development, making the PPP model a suitable way to drive forward the initiative. Hong Kong has rich experience in applying the PPP model, with its successful track record including projects such as the cross harbor tunnel and Hong Kong Disneyland. EY suggests that the HKSAR government transform its experience into benefits by setting up a B&R PPP project team that will be responsible for program negotiation and implementation, and for facilitating cooperation among public and private capital from mainland China and B&R countries.

1.4.2 Project evaluation service for infrastructure construction

Engineering construction is one of the core aspects of the B&R infrastructure projects. It involves various aspects such as risk assessment, cost accounting and management control. Hong Kong has accumulated considerable experience of program management and the management of large construction projects. Since the 1980s, Hong Kong’s enterprises have participated in the development, construction and management of local, mainland China, Asian and European projects across the energy, power, road, railway, wharf and telecommunication sectors. These enterprises have not only reached an international level in design, standards, technology and operations and management, but have also gathered many talented professionals who are familiar with international standards and rules, bidding and tendering, financing and the management and operation of interdisciplinary projects. For example, CLP Holdings develops and operates infrastructure projects such as natural gas and coal, wind power and solar power in India, Australia, Thailand and other countries; MTR Corporation runs an inter-city railway business in Sweden and has been granted the operating rights to the South Western Railway franchise in the UK. EY suggests Hong Kong make good use of its professional advantages in quality monitoring, risk assessment and environmental consulting to encourage, as well as support, professional construction institutions to participate in B&R infrastructure programs. This participation could include areas such as project proposals and feasibility assessment; design, cost and final accounts management; acceptance and evaluation; environmental consultation and assessment; and developing a combined consulting system. At the same time, enterprises and industries should play a part throughout the implementation process in embedding the concept of environmental protection throughout the entire cycle, from design and implementation to operations, and should provide intellectual support to assist with the delivery of projects.

Figure 2: EY Infrastructure Services Framework

Working with a single provider across the entire project enables our clients to achieve consistency, operational efficiency and accountability, while reducing their risk. Our approach to infrastructure services focuses on the entire infrastructure life cycle. It incorporates a key understanding of the capital agenda needs and program control necessary to deliver successful project outcomes.

- Our infrastructure services focus on supporting infrastructure development through five phases of its life cycle, from strategic planning to exit
- The EY Capital Agenda is a robust framework for delivering infrastructure projects that balances time, cost and project quality with the availability of capital and competing projects
- The program control framework establishes and identifies the potential risks in delivering complex infrastructure projects, and implements an effective strategy across the business and program environment for managing them

Source: Official websites of CLP Holdings and MTR Corporation
2.1 B&R fundraising and financing platform

2.1.1 Establish a special B&R Board for listing and fundraising

In the first three quarters of 2017, the Stock Exchange of Hong Kong (SEHK) ranked third in the world by both IPO volumes and fundraising, with 105 IPOs and US$11 billion in proceeds. Under the B&R initiative and the strong promotion by SEHK, the construction and infrastructure sectors see a soaring IPO volume increase. Recently, the Securities and Futures Commission (SFC) and SEHK introduced a series of measures to encourage enterprises, especially those related to B&R infrastructure projects, to go public in Hong Kong.

In May 2016, the SEHK published a number of guidance letters on major issues relating to market quality and listed issuers, as well as an interpretation of the Main Board/Growth Enterprise Market (GEM) Listing Rules and the Main Board. According to the rules, the exchange may accept a shorter trading record period and/or vary or waive the profit or other financial standards requirements for “infrastructure projects”. The exchange also set out profit exemption provisions in mineral companies’ conditions for IPO.

Source: The Securities and Futures Commission of Hong Kong, Hong Kong Exchanges and Clearing Limited, Caijing.com.cn

2.1.2 Improve listing regulatory methods

In April 2017, the Statement on the SFC’s approach to certain project companies seeking a listing in Hong Kong and the exercise of powers under the Securities and Futures (Stock Market Listing) Rules specified that B&R infrastructure project companies can give rise to special investment risks that reflect the nature of the project or its location. However, if related companies have sufficient risk mitigation factors*, the SFC will take this into account when reviewing the proposed listing.

*Risk mitigation factors include:
- A large shareholding by a relevant Mainland state-owned enterprise, sovereign wealth fund, substantial listed company or substantial and globally-active institutional investor
- A sizable Mainland, Development or International Bank committed to providing ongoing project finance
- A direct involvement or shareholding by the relevant state government (i.e., where the project assets are located)

In September 2017, the SFC and the Hong Kong Exchanges and Clearing Limited (HKEX) published the conclusions of their consultation on enhancements to SEHK’s decision-making and governance structure for listing regulation. A new Listing Policy Panel will be established as an advisory, consultative and steering body outside the SFC and SEHK. The new arrangement is expected to ensure that Hong Kong’s listing policies and approval procedures respond to market changes more efficiently, improve Hong Kong’s competitiveness as a listing platform, and maintain its role as an international financial center.

Source: EY Global IPO Trends: Q3 2017
Besides the measures mentioned above, EY suggests that Hong Kong could consider setting up a special B&R Board on SEHK to attract more companies from the mainland and B&R countries to seek a listing in Hong Kong. Based on the principle of "less restrictions and stronger regulation", special listing requirements could be formulated, taking into consideration the actual status and income distribution cycle of the B&R projects to promote Hong Kong’s development into an international center for infrastructure project IPOs, such as:

1. **Easing the limitation on the registration location of listing applicants** for companies related to the initiative (the SEHK now only grants listing approval to companies from a small number of countries and regions – mainly developed countries)

2. **Formulating a special set of review standards** for infrastructure project companies

3. Creating a special review team or assigning special personnel for infrastructure projects to facilitate approval of listing applications; **opening a fast-track channel** for any listing applicants under the initiative that meet the requirements, to reduce the waiting time involved in going public

4. Setting up an independent counseling institution for any companies and projects from B&R countries, to provide special support for companies on the waiting list that are not familiar with the Laws of Hong Kong and listing procedures.

2.1.2 Bond financing platform

Hong Kong’s highly dynamic and liquid bond market is a diversified center for bond investment and issuance, with rich experience of issuing various types of bonds, including dim sum bonds. However, compared with other global financial hubs, Hong Kong still has room to develop its international bond market and the HKSAR government has made clear its commitment to driving such growth.

At present, Sections 14A and 26A of Hong Kong’s Inland Revenue Ordinance provide concession or exemption from profits tax for interest receipts and trading profits from several types of debt instruments, which include RMB bonds issued by the Central People’s Government of the People’s Republic of China in Hong Kong, foreign exchange fund instruments and bonds, HKSAR government bonds, and Hong Kong dollar denominated debt instruments issued by multilateral agencies. EY suggests that the HKSAR government consider extending the aforesaid scope of tax concession. For bonds issued for investment in specified B&R country projects (e.g., infrastructure, transportation, equipment manufacturing, raw materials, finance, consumption, environmental protection, and culture and media projects), the government could provide profits tax exemption in respect of interest receipts and trading profits derived from such debt instruments. This would not only attract bond issuers to Hong Kong for such projects, but also encourage companies to invest bonds, further promoting the development of the Hong Kong bond market.

In the future, the implementation of the B&R initiative will bring about considerable financing opportunities to support the ongoing expansion of the Hong Kong debt market. The Asian Development Bank estimates that Asia-Pacific’s infrastructure needs will rise to US$1.7 trillion per year between now and 2030, which will create a huge funding gap. To seize the opportunity, Hong Kong could **issue infrastructure bonds** based on its financial services strengths to fund B&R projects, as well as to drive the local bond market.

With the establishment of the B&R Board, Hong Kong could further develop into an international center of infrastructure fundraising and financing.
2.1.3 Corporate treasury centers (CTCs)

As more global trading is conducted in RMB, Hong Kong is becoming the ideal destination for the corporate treasury centers (CTCs) of multinationals. For Chinese companies expanding businesses globally or along the B&R, Hong Kong is also one of the best choices for CTCs. EY recommends that Hong Kong attract enterprises to set up CTCs here via tax benefits, and customize CTCs for the B&R initiative.

The HKMA is building a favorable tax environment to encourage more enterprises to set up CTCs in Hong Kong. The Inland Revenue (Amendment) (no. 2) Ordinance 2016 (the “Revised Tax Regime”) enacted last year allows, under specified conditions, the deduction of interest expenses when calculating profits tax for the intra-group financing business of corporations, and reduces the profits tax rate for specified treasury activities by 50% (i.e., to 8.25%) for qualifying CTCs. The Revised Tax Regime removes the asymmetry in taxation and provides tax benefits that encourage domestic and foreign companies to set up CTCs in Hong Kong, bringing more opportunities to Hong Kong’s financial and related industries.

Furthermore, the HKMA is actively advocating the advantages of setting up CTCs in Hong Kong. According to data from the HKMA, by the end of 2016 it had conducted broad communications with around 400 corporations, financial institutions and industry associations, and signed a memorandum of understanding (MOU) with the Hong Kong Chinese Enterprises Association to encourage Chinese enterprises in Hong Kong to further leverage Hong Kong for their CTCs.

EY notes that, driven by the “Going Abroad” strategy and the B&R initiative, an increasing number of Chinese enterprises are setting up CTCs in Hong Kong for overseas investment and financing to support their B&R development. We have helped our clients set up window enterprises in Hong Kong as their overseas CTCs in accordance with the Revised Tax Regime. These CTCs have supported their parent companies’ overseas development and investment activities through bond issuance, bank loans and fund raising in Hong Kong. This arrangement forms a complete capital cycle through fundraising and financing in Hong Kong and investing globally to drive the development of the B&R initiative.

2.2 Development of green finance in Hong Kong

Many B&R projects involve resource exploitation, infrastructure construction and energy development and utilization, which lead to the issues such as resources waste and ecological damage. Thus, cooperation under the B&R initiative should follow the principles of green and sustainable development. In order to improve the ecological environment and avoid the same mistake seen in developed countries - controls being introduced after environmental pollution has occurred - B&R countries need huge investment in environmental protection, energy conservation and clean construction. This will create broad opportunities for green finance development.

China is now promoting a series of reforms on green finance, including researching and developing a plan to establish a national green development fund, further improving disclosure requirements for environmental information from listed companies, establishing innovation and testing zones for green finance reforms in certain regions, and developing international cooperation on green finance.

EY expects Hong Kong to seize these historical opportunities in China’s reform and development to play an important role in international cooperation on green finance.

2.2.1 Formulation of green credit guidelines

"Green" is one of the three goals of the Asian Infrastructure Investment Bank (AIIB) and is a key factor for B&R projects. Green investment takes economic, social and environmental bottom lines into consideration by adopting guidelines regarding the environment, society and financial gains to provide sustainable value for investors and society. At present, green credit is one of the most regularly used green financial instruments. Mainland China has issued several related policies, including Guidelines on Credit Underwriting for Energy Conservation and Emission Reduction, Green Credit Guidelines, Energy Efficiency Credit Guidelines and Guidelines for Establishing the Green Financial System. By February 2017, the green credit borrowed by 2.1 major Chinese banking and financial institutions totaled RMB 7.5 trillion, accounting for 8.8% of total credit.

Hong Kong has not issued relevant green credit guidelines yet. EY suggests that the HKSAR government, given Hong Kong’s status as an international financial hub and talent pool, and with its mature testing and authentication system, should work with related parties to formulate green credit guidelines so that B&R projects can receive better financing:

- Taking the lead in creating a green credit statistics system, in line with international standards, to better monitor and evaluate the implementation of green credit
- Leveraging Hong Kong’s financial strengths to explore measures to support the development of green credit, such as re-lending and building a professional guarantee mechanism
- Promoting the asset securitization of green credit, including standardizing the selection of underlying assets for green credit, exploring efficient and low-cost ways to register the change of hypothecation and pledge, increasing the liquidity of the green credit securitization market, and enhancing the management of information disclosure, to help businesses develop in a healthy manner

Note: According to the Guidelines for Establishing the Green Financial System issued by the People’s Bank of China and six other authorities on 31 August 2016, green finance refers to financial services provided for economic activities that support environmental improvement, climate change mitigation and more efficient resource utilization. These economic activities include the financing, operation and risk management of projects in areas such as environmental protection, energy savings, clean energy, green transportation and green buildings.
2.2.2 Development of green bond in Hong Kong

Green bond is an effective way to provide better access to finance for medium- and long-term green projects, reduce financing costs, and open a channel through which institutional investors and other private capital can participate in green investment\textsuperscript{17}. From January to September 2017, China issued RMB denominated green bonds worth RMB135 billion, accounting for 24% of the global volume\textsuperscript{1}. The People’s Bank of China estimates that China will need to invest US$1.5 trillion into green projects during the 13th Five-Year Plan period. However, only 15% of this amount can be funded by the government\textsuperscript{18}, leaving a large gap. Green financing therefore offers a great opportunity for Hong Kong to consolidate its position as a financial center.

Hong Kong is making an active effort to issue green bonds. The Chief Executive’s 2017 Policy Address, presented in October, stated that the government will take the lead in issuing green bonds in the next fiscal year as part of its endeavor to develop green finance, in the hope of attracting investors from the mainland, B&R countries and other foreign regions to Hong Kong’s capital market to raise funds for green projects.

EY suggests Hong Kong create a financing platform for green bonds to attract investment from local and overseas funds, including:

\begin{itemize}
  \item Establishing an advisory committee on green finance or a similar institution to define long-term focus and provide assistance.
  \item Designing a “green finance labeling scheme” for green financial programs and securities, and evaluating whether the requirements of green finance have been met through a sound testing and authentication system, so as to attract new issuers and investors to Hong Kong.
  \item Providing legal services for Hong Kong-based funds that can invest in the mainland green bonds market to assist foreign investors in accessing investment opportunities in this market.
  \item Leveraging Hong Kong’s advantages in traditional financial businesses and product development to develop green finance products, such as a green bond index and green funds, with which to establish Hong Kong’s role as a green finance center.
\end{itemize}

From January to September 2017, China issued RMB denominated green bonds worth RMB\textbf{135 billion}, accounting for \textbf{24\%} of the global volume.

The People’s Bank of China estimates that China will need to invest \textbf{US$1.5 trillion} into green projects during the 13th Five-Year Plan period.

\textsuperscript{17} Source: xinhua08.com
\textsuperscript{18} Source: 21st Century Business Herald
2.3 Asset management platform

Hong Kong has recently launched a series of policies to deepen its financial cooperation with the mainland, such as the Shanghai-Hong Kong Stock Connect, the Shenzhen-Hong Kong Stock Connect, the Mainland-Hong Kong Mutual Recognition of Funds (MRF), and the Bond Connect\textsuperscript{19}.

Figure 4: Measures to promote the development of Hong Kong’s asset management business

May 2015

**Embarked on Mainland-Hong Kong Mutual Recognition of Funds Initiative**

Promote financial cooperation and development between the mainland and Hong Kong by giving new momentum to both fund markets and providing more diverse fund investment products to investors from these two markets. The scheme requires the registration locations to be in Hong Kong or the mainland, ruling out offshore registered companies and promoting Hong Kong as the registration destination for more overseas funds.

January 2016

**Published the Securities and Futures (Amendment) Bill 2016**

Introduce a new open-ended fund company structure to diversify Hong Kong’s fund domiciliation platform and create a more flexible business environment for fund managers, which will be conducive to Hong Kong’s further development as an international asset management center.

July 2017

**Launched Bond Connect**

Facilitate investment into the mainland bond market, attract more capital inflows, increase the attraction of RMB assets to foreign investors, and help China win inclusion in global bond indices.

November 2014

**Launched Shanghai-Hong Kong Stock Connect**

Enhance capital market connectivity between the mainland and Hong Kong, open broader mainland stock market for foreign investors, and promote RMB internationalization to help Hong Kong reinforce its position as the center of offshore RMB business.

July 2015

**Formulated Inland Revenue (Amendment) (No.2) Ordinance 2015**

Expand the scale of the assets managed by Hong Kong private equity funds to facilitate the financing of B&R projects through such funds.

December 2016

**Launched Shenzhen-Hong Kong Stock Connect launched**

Expand the scope and quota of investment targets and further increase the scale of mutual market access between the mainland and Hong Kong stock markets, deepen the internationalization and marketization of Chinese stock markets, and promote RMB internationalization.

Sources: Shanghai Stock Exchange, China Securities Regulatory Commission, Hong Kong Monetary Authority, Press releases of the government of HKSAR, Hong Kong Financial Services Development Council, Hong Kong Economic Times, summarized by EY

\textsuperscript{19} Note: Launched in July 2017, Bond Connect is a new mutual market access scheme that allows investors from the mainland and overseas to trade in each other’s bond markets through connection between the related mainland and Hong Kong financial infrastructure institutions. Northbound Trading will commence first in the initial phase, allowing overseas investors to invest in the China interbank bond market through Hong Kong. Southbound Trading will be explored at a later stage.
2.4 Biggest global offshore RMB center

In October 2016, the RMB was included in the International Monetary Fund’s Special Drawing Right Basket. This will create greater demand for offshore RMB assets in the medium and long term. The B&R initiative also further promotes the use of RMB in international deals and increases the need for RMB products and services. As the central government continues to drive RMB internationalization and open more capital programs, Hong Kong will gain ongoing momentum for offshore RMB business.

EY suggests that Hong Kong should seize the opportunity to reinforce its advantage as an international asset management platform by matching projects and capital and promoting the connectivity of stock and commodity markets for B&R countries, in turn consolidating Hong Kong’s position as an international financial hub.

The government can also offer further tax incentives by extending the profit tax exemption under the Inland Revenue Ordinance for offshore funds to onshore funds investing in specified B&R country projects (e.g., infrastructure, transportation, equipment manufacturing, raw materials, finance, consumption, environmental protection, and culture and media projects). In addition, the Inland Revenue Department (IRD) should simplify the procedures for the application of certificate of tax residence for these onshore funds so that they can enjoy tax relief in the relevant countries under the Comprehensive Double Taxation Agreements.

EY suggests that Hong Kong take full advantage of its position as the offshore RMB center to further facilitate the B&R projects:

1. Enhance cooperation with B&R countries and promote RMB internationalization by improving RMB’s position as the settlement currency for regional trade through industrial cooperation and commercial intercourse. Hong Kong can also provide RMB financing to initiate infrastructure projects through syndicated loan and bond issuance, and facilitate RMB capital cycling and cross-border circulation through its offshore RMB market.

2. Streamline the settlement procedure for cross-border RMB business and step up RMB liquidity in the local market by simplifying RMB flows into and out of the market, as well as issuance, sales and settlement procedures for RMB bonds so that initiative projects can raise funds in Hong Kong.

3. Facilitate RMB financing in Hong Kong for B&R countries by increasing RMB-denominated financial instruments such as equities, bonds, syndicated loans and financial derivatives to strengthen Hong Kong’s role as the offshore RMB center.

4. Continue to develop derivative instruments and advance its foreign exchange market to safeguard RMB investment. With RMB internationalization, Hong Kong is expected to become the bellwether for offshore RMB deals. At the same time, investors and companies need more effective ways to manage foreign exchange and interest rate risks as various investment products under the initiative are developed, stimulating the development of, and demand for, related derivatives.

These figures not only highlight Hong Kong’s great strengths and promising outlook as a crucial asset management platform worldwide, but can also contribute to attracting more B&R countries to use Hong Kong as their priority asset management center, and drive Hong Kong’s role in facilitating financial integration along the B&R.
From prospect to practice — Forging new opportunities for Hong Kong along the Belt and Road

In the future, the HKSAR government can create a relaxed business environment by reducing the tax burden for B&R enterprises and improving the local finance and tax environment, thereby attracting more relevant domestic and overseas enterprises to do business in Hong Kong. EY believes the following aspects could be taken into consideration:

1. The HKSAR government could actively conduct negotiations with B&R countries that have not yet signed Comprehensive Double Taxation Agreements (CDTAs) with Hong Kong, to encourage and support the investment and efforts made by Hong Kong’s enterprises and individuals in these areas. Meanwhile, such agreements can also support Hong Kong as an investment platform that attracts domestic and overseas enterprises running businesses along the B&R.

2. Further enhance the existing tax incentives in relation to professional reinsurers, authorized captive insurers and CTCs, to attract more such enterprises to set up businesses in Hong Kong.

3. The HKSAR government could consider allowing regional headquarters with CTC functions qualify for CTC tax incentives (such benefits are currently limited to Special Purpose Vehicles dedicated solely to carry out specified corporate treasury activities, unless the safe harbor rules are satisfied), as long as they play the role of CTCs. In addition, such regional headquarters companies would be granted the certificate of Hong Kong resident issued by the IRD upon application, which would facilitate them applying for preferential treatment CDTAs in contracting countries that have signed CDTAs with Hong Kong, thereby attracting more enterprises to set up regional headquarters here.

4. Provide tax exemption in respect of royalties licensed for use in B&R jurisdictions, if the underlying intellectual property is created or developed by a taxpayer carrying on business in Hong Kong, in order to assist Hong Kong enterprises in expanding into B&R markets.

5. The IRD should re-examine the existing approval procedures and standards for the application of certificate of tax residence, and simplify the application procedure lodged by Hong Kong tax residents pursuant to CDTAs entered into between Hong Kong and B&R countries, to help these enterprises enjoy benefits under related CDTAs in contracting countries.

6. Consider introducing regional headquarters tax incentives (such as a preferential tax rate or discounted tax loss), thereby attracting more enterprises to set up regional headquarters in Hong Kong and further leveraging Hong Kong’s advantageous role and position as an international financial and trade center.

7. Expand tax incentives related to the financial sector, including extending the tax benefits of exempting offshore funds from profits tax to onshore funds that invest in specific B&R projects, and exempting the interest and trading profits of bonds issued for specific B&R projects from profits tax, in order to enhance the financing role of Hong Kong for the B&R.

8. Relax the scope of section 39E of the Inland Revenue Ordinance by granting tax depreciation allowances in respect of plant and machinery used in B&R jurisdictions, thereby encouraging and supporting Hong Kong enterprises in the area to invest in infrastructure projects or production, manufacturing and processing, and other industrial activities.

Note: CDTAs provide certainty to investors on the taxing rights of the contracting parties, helping investors to better assess their potential tax liabilities on economic activities, and providing an added incentive to relieve individual or local company tax liabilities along the B&R.
3.2 Leveraging Hong Kong’s advantages as a legal hub

The independence and integrity of its judiciary has made Hong Kong a hub for regional dispute resolution services. Hong Kong has a sound court arbitration system. It is familiar with Chinese and Western legal systems, and has maintained close ties with mainland China. This has made it a trustworthy legal services provider for B&R projects, especially when it comes to aligning local laws with international and universal laws. Hong Kong is also one of the most popular arbitration centers in Asia. The Hong Kong International Arbitration Center has been rated as the best mediation location outside Europe and has extensive experience in dealing with international arbitration cases.

Hong Kong’s legal system has the form and connotation of the common law system and is widely recognized by the international community. At present, there are more than 20 common law jurisdictions among the B&R countries. As countries sign cross-border agreements and related contracts, Hong Kong may convince them to apply its laws and to choose Hong Kong as a location for dispute settlement.

EY suggests Hong Kong build on its advantageous role as an international legal hub in the following areas to maximize its value to B&R projects:

1. Establish a B&R legal services center, taking advantage of the extensive experience that Hong Kong’s legal community has on cross-border investment law and due diligence, as well as the large number of high-quality local and foreign lawyers able to participate in the legal due diligence on national investment affairs in B&R countries.

2. Leverage the advantages of Hong Kong’s legal environment and common law, to provide professional legal and dispute resolution services.

3. Encourage the legal community in Hong Kong to set up a B&R legal database in the short term, with the goal of integrating the different laws along the B&R to develop a set of international legal standards dedicated to B&R infrastructure development and finance, and even to standardize the format of legal files.

4. Set up a “one-stop” HKSAR government building for dispute resolution services, which houses a B&R court to handle disputes arising from B&R infrastructure projects.

3.3 Leveraging Hong Kong’s rigorous regulatory framework

Hong Kong has many advantages when it comes to its business environment, including mature rule of law, a highly open and free economy, comprehensive infrastructure, a stable financial system, well-developed professional services, clean and efficient government, advanced social management and low taxation. These advantages can fully support international investors and project owners seeking to grasp B&R opportunities.

In terms of financial regulation, Hong Kong has a rigorous regulatory framework to protect investors and maintain market quality. Taking the SFC as an example, its first priority is to enhance the stability and competitiveness of Hong Kong as a financial market. The key point is that the SFC recognizes that the regulatory system is an important cornerstone of Hong Kong being seen as an outstanding international financial center. EY suggests Hong Kong improve its finance ordinance, regulations and regulatory framework, not only facilitating enterprises’ financing activities through bond issue but supporting enterprises to enhance risk control and expand businesses and investments along the B&R. At present, the SFC continues to focus on strict regulatory standards to ensure that Hong Kong is able to maintain its inherent advantages in a rapidly changing market situation. It has entered into cooperative agreements with other jurisdictions’ regulators and strengthened international and regional cooperation, in order to mitigate the market impact from other jurisdictions on Hong Kong.

Source: 2015 International Arbitration Survey, School of International Arbitration, Queen Mary, University of London

Source: The Chinese General Chamber of Commerce, Hong Kong
The 19th National Congress of the CPC stated that Hong Kong, Macau and the mainland share a close development bond. The government will support Hong Kong and Macau to integrate into the overall national development. It will fully promote mutual cooperation between the mainland, Hong Kong and Macau by focusing on building the Greater Bay Area of Guangdong-Hong Kong-Macau and promoting cooperation within the area. Going forward, Hong Kong will drive integration with cities in the Greater Bay Area to enhance mutual understanding and trust, and explore international exchanges together.

Furthermore, at the early stage of B&R projects, the HKSAR government can undertake general coordination duties among all the relevant partners, and, adopting a top-down approach to promote Hong Kong’s role in supporting construction projects and building comprehensive connectivity among the B&R countries. Specifically, the government can:

- Coordinate government departments and other institutions to arrange all activities relating to the B&R initiative.
- Lead the promotion of Hong Kong’s value propositions and strengths when it comes to participating in the B&R initiative.
- Coordinate the market promotion, branding and communications of the B&R initiative across all fields in Hong Kong.

### 4.1 Government coordination

The HKSAR government is taking comprehensive steps to coordinate and deploy resources to facilitate the B&R initiative and increase Hong Kong’s participation.

Figure 5: How the HKSAR government participates in the B&R initiative

- **HKSAR Government (Chief Executive)**
  - Works to sign the Comprehensive Agreement for Hong Kong to Participate in the Belt and Road Initiative with the NDRC by the end of 2017.

- **Financial Secretary**
  - Sign the Investment Agreement and Agreement on Economic and Technical Cooperation with the Ministry of Commerce under the CEPA framework to deepen cooperation on the B&R initiative in the areas of economics and trade.

- **Guangdong-Hong Kong-Macao Bay Area Development Office**
  - Maintain responsibility for coordination among related central ministries and departments, Guangdong province, the Macau SAR government, and related policy bureaus and departments of the HKSAR government, as well as helping Hong Kong companies explore more growth opportunities.

- **Offices in the Mainland**
  - Upgrade the network and functionality of Hong Kong’s offices in the mainland, where five offices cover 31 provinces, municipalities and autonomous regions, providing at least two liaison officers for each office, to improve communication with the central government and gain better knowledge about the policy direction and implementation of B&R projects, as well as cooperating with companies and chambers of commerce to explore business opportunities.

- **Hong Kong Monetary Authority**
  - The mission of IFFO is to facilitate infrastructure investments and their financing: 1. providing a platform for information exchange and experience sharing; 2. building capacity and knowledge on infrastructure investments and financing; 3. promoting market and product development; 4. facilitating infrastructure investment and financing flows.

- **Commerce and Economic Development Bureau (CEDB)**
  - HKSAR government appoints CEDB as the policy bureau to coordinate work related to developing the B&R initiative.

- **Other official organizations**
  - **HKTDC**
    - Launch the Belt and Road portal; organize Belt and Road Summit; facilitate B&R project matching.
  - **SEHK**
    - Introduce multiple measures to enhance investors’ confidence in companies from countries along the B&R, especially those involved in infrastructure construction.
  - **SFC**
    - Introduce multiple measures to enhance investors’ confidence in companies from countries along the B&R, especially those involved in infrastructure construction.

Source: news.gov.hk, the Chief Executive’s 2017 Policy Address of HKSAR, summarized by EY.

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Note: CEPA (Closer Economic Partnership Arrangement) refers to the “Mainland and Hong Kong Closer Economic Partnership Arrangement”

Note: IFFO: Infrastructure Financing Facilitation Office
In addition, the HKSAR government is actively seeking to sign free trade agreements, investment promotion and protection agreements, and CDTAs with the B&R economies, to open markets along the B&R and further strengthen Hong Kong's role as a center for international trade, business and finance. To date, the HKSAR government has signed CDTAs with 38 tax jurisdictions globally, and is striving to increase this number to 50 within the next few years.29 EY believes it is vital for the HKSAR government to delegate a department to coordinate B&R works overall. Such a move would not only enhance the coordination of B&R promotion, but also increase the scope and strength of policy implementation, making the HKSAR government an initial participant and rule-maker in the B&R development, giving it a stronger voice, and entitling it to greater benefits.

At the same time, EY suggests the B&R organizations (e.g., the AIIB or Silk Road Fund) open regional offices in Hong Kong to deal with project financing issues more proactively and effectively, thereby deepening Hong Kong's involvement. Hong Kong could also provide exclusive spaces for such organizations, to encourage them to set up branches.

4.2 Hong Kong's strengths and value proposition

By helping the public understand Hong Kong's expertise in financial, legal and other areas, and a value proposition that includes freedom, the rule of law and inclusiveness, the city can highlight its key role in promoting connectivity among B&R countries. To promote Hong Kong's strengths and value proposition, EY suggests the HKSAR government take the following actions:

► Ensuring financial regulators (such as the SFC) can focus on promoting the value proposition of Hong Kong as an international financial center and major capital market, so as to maintain and enhance Hong Kong's leading status in international financial services

► Promoting the laws of Hong Kong as applicable law and highlight Hong Kong’s strengths as a dispute resolution center for the Asia-Pacific region and B&R countries

► Promoting Hong Kong's sound legal system, simple tax system, efficient regulatory system, and superior business environment

4.3 Branding and communications

EY has noticed that different groups, including governmental agencies, non-governmental institutions and academic organizations, are currently doing things in their own ways when it comes to participating the B&R initiative. The uniformity and coordination of these actions therefore need to be enhanced. EY suggests that Hong Kong could:

► Set up a department for promotion and coordination, focused on coordinating major promotional activities and communication strategies in relation to Hong Kong's role under the B&R initiative, as well as the promotional activities of different groups (ranging from the government to non-government groups and academics) in relation to the initiative, and striving to maximize the effect of these communications

► Underline its strengths in participating the B&R initiative, focusing on successful cases where local industries, people and society benefited from the initiative

► Organize regular B&R cultural exchange events, introducing the customs, cultures and major industries of B&R countries to Hong Kong's citizens and enterprises

► Strengthen cooperation with the mainland and B&R countries and actively organize international conferences, seminars and forums to enhance Hong Kong’s influence over, and awareness of, the B&R initiative

29 Source: the Chief Executive’s 2017 Policy Address of HKSAR
5.1 Talent attraction

EY suggests that Hong Kong can further advance its talent mobility and talent pool programs in the future, to further highlight its inclusive and international status, in the following ways:

- **Strengthening the promotion of the “B&R Scholarship Program”,** to expand the scope of applications (these currently only cover Malaysia, Indonesia, Thailand and a few other countries). In the future, Hong Kong can further expand this coverage, to attract more high-quality talent from B&R countries.

- **Further improving personal taxation system** and promoting personnel exchanges. Hong Kong can enter into more CDTAs with B&R countries to help taxpayers more accurately assess the tax burden arising from their economic activities and reduce the likelihood of both Hong Kong residents and residents of other contracting countries being double-taxed.

- **Continuing the promotion of the “Funding Scheme for Exchange in B&R Countries”** to help more young people in Hong Kong participate in B&R exchange activities.

- **Strengthening the cooperation between Hong Kong’s professional and tertiary institutions to promote the “B&R Talent Training Program”,** to implement target-oriented joint training and to attract more people to take part in B&R projects.

- **Improving immigration policies:** relax the visa requirements on project evaluation consulting, engineering project management, research and other sectors; and expand the scope of the special “Quality Migrant Admission Scheme” that targets the roadside regions, to facilitate cooperation between Hong Kong enterprises and B&R countries, to strengthen personal and business relations, and to attract enterprises in B&R countries to set up companies and send staff to Hong Kong.

Hong Kong has not only accumulated a wealth of international experience in dealing with countries around the world, but has also attracted and cultivated a large number of international professionals. In the coming days, Chinese enterprises’ explosive growth in demand for international talent will be the determining factor in their incremental overseas investment. Therefore, Hong Kong’s “soft power” will enable it to better participate in the B&R initiative and to provide indispensable professional services and a cultural exchange platform for enterprises seeking to “go abroad”. Hong Kong will continue to improve its advantages in terms of talent and cultural experiences, helping to achieve the “people-to-people bond” sought by the B&R initiative.
5.2 Diversified cultural industries

As an interchange for cultural exchanges between China and western countries, for centuries Hong Kong has had an inherent advantage in developing diversified cultural industries. EY suggests Hong Kong grasp the B&R opportunities to actively develop diversified cultural industries and become a place of "cultural integration" along the B&R. In addition, Hong Kong could also establish a multi-level cultural exchange platform and promote the inclusive development of different cultures, in the following ways:

► With an inclusive and diverse cultural background, Hong Kong, where the East meets the West, is an ideal buffer zone between the mainland and other B&R countries. It can reconcile any misunderstandings caused by insufficient communication or cultural differences.

► Hong Kong can serve as a multi-layered cultural exchange platform, promoting inclusive development between different cultures. Hong Kong can expand the content and form of its cultural exchanges with B&R countries, and look into tourism projects in those countries. It can also diversify the content and form of cultural exchanges with B&R countries by holding cultural exchange activities such as arts festivals, film weeks and tourism weeks.
From prospect to practice — Forging new opportunities for Hong Kong along the Belt and Road
Summary and prospects

2017 marks the 20th anniversary of the return of Hong Kong to Chinese sovereignty, and is also the year of Hong Kong’s full participation in the historical process of the B&R initiative. In June, Hong Kong became a member of the AIIB, further consolidating its status as an international finance center; in September, it held the B&R summit, with the theme "From Vision to Action", focusing on the investment opportunities brought about by infrastructure and ASEAN; in October, HKSAR’s Chief Executive, Carrie Lam, presented her first Policy Address after taking office, stating that the B&R initiative is the new engine for Hong Kong’s economic development.

As an international finance center, a trade center and a shipping center, Hong Kong is constantly exploring new economic growth points and development strategies. The B&R initiative is exactly the new opportunity required for Hong Kong’s economy, which is facing many challenges. In this regard, EY suggests Hong Kong leverage its strengths and create a unique B&R ecosystem from the five major aspects of industry, finance, institutional environment, government support, and talent and culture that align with the five priorities under the B&R initiative, thereby participating more effectively and smoothly in the B&R and Guangdong-Hong Kong-Macao Greater Bay Area development plan.

The B&R initiative needs Hong Kong, and vice versa. Hong Kong should seize this historic opportunity to help realize the connectivity among B&R countries, creating a pattern of comprehensive, multi-field and high-level cooperation, and bringing new vitality into its own economic development, to achieve a new pattern of win-win development.
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The current wave of globalization continues to transform the business landscape and impact companies around the world. With the B&R initiative, China will undoubtedly play an increasingly mature and globalized role in the global economy. The global economic situation is still uncertain and challenges may arise due to cultural differences, language barriers, financing difficulties and regulatory issues. Chinese companies need to respond in a timely manner to these challenges while navigating a complex and dynamic outbound transaction environment.

The China Overseas Investment Network (COIN) links EY professionals around the globe, facilitates collaboration, and provides consistent and coordinated services to our Chinese clients making outbound investments. Building on the existing China Business Group in the Americas, EMEIA, Asia-Pacific and Japan areas, COIN has expanded our network into over 70 countries and territories around the world.

China Overseas Investment Network helps Chinese businesses navigate through global markets
From prospect to practice — Forging new opportunities for Hong Kong along the Belt and Road

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