

Box 3.2**Hong Kong's trade with selected regions along the Belt and Road**

Profound changes have taken place in the global economy since the Global Financial Crisis. World economic growth has become slow and uneven, with attendant shifts in international trade and investment landscape. Against this backdrop, the Central Government spearheaded the initiative of building the Silk Road Economic Belt and 21st-Century Maritime Silk Road (“Belt and Road”), which could become a key driving force of the global economy in the coming decades. This short note outlines some characteristics of the selected regions along the “Belt and Road” and gives an overview of Hong Kong’s latest trade positions with these regions in both goods and services.

The “Belt and Road” Initiative aims to promote the connectivity of Asian, European and African continents and their adjacent seas. Many economies along the “Belt and Road” Initiative are emerging and developing ones, with vast appetite for infrastructure and with different endowments ready for mutually beneficial collaborations. There are five proposed areas of connectivity⁽¹⁾ – policy coordination, facilities connectivity, unimpeded trade, financial integration and people-to-people bond, altogether promoting all-dimension co-operation among entailed economies.

The “Belt and Road” Initiative encompasses, but is not limited to, the area of the ancient Silk Road. It is open to all countries, and international and regional organisations for engagement, so that the results of the concerted efforts will benefit wider areas. In this note, the selected regions, which are not meant to be exhaustive, cover the emerging and developing Asia, Commonwealth of Independent States (CIS), emerging and developing Europe, Middle East, North Africa, and Afghanistan and Pakistan, as defined in the World Economic Outlook Database of the International Monetary Fund (IMF), alongside with a few additions which are deemed to be relevant⁽²⁾.

Table 1 summarises some characteristics of the selected regions. Several features stand out. *Firstly*, the selected regions generally demonstrate strong market potentials, given that many regions, particularly Asia, showed sustained economic growth above world average in the past decade. Also, South Asia has population size larger than the Mainland, and ASEAN together has an economic size of around one quarter of the Mainland’s. *Secondly*, most regions showed visible growth in goods trade during 2005-2014, surpassing those of major advanced economies, notwithstanding the setback in 2008 and 2009. The degree of openness in these regions, measured by the ratio of goods trade to GDP at current market value in 2014, is generally above those in major advanced economies, suggesting that they are receptive to new trade and investment opportunities. Given the large economic size, vast population, sustained economic growth and strong trade growth, there exists ample scope for Hong Kong to leverage on the market potentials in these regions to develop our economy.

(1) “Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road”, issued jointly by the National Development and Reform Commission, the Ministry of Foreign Affairs and the Ministry of Commerce of the People’s Republic of China, with State Council authorisation, March 2015.

(2) Singapore and Israel from the advanced economies as well as Estonia, Latvia, Lithuania, Slovakia and Slovenia from the eurozone are added.

Box 3.2 (Cont'd)

Table 1 : Characteristics of the selected regions

Countries / regions	Population in 2014		Real GDP growth 2005-2014	Nominal GDP in 2014 [^]		Total goods trade		
	Number (Mn)	Share of world total (%)	(% p.a.)	(US\$ Bn)	Share of world total (%)	Value in 2014 (US\$ Bn)	Ratio to GDP in 2014 [^] (%)	Cumulative growth 2005-14 (%)
Mainland China	1,368	19.2	10.0	10,357	13.4	4,302	42	273
ASEAN	621	8.7	5.4	2,518	3.3	2,530	100	134
South Asia ^(a)	1,484	20.8	7.5	2,335	3.0	900	39	319
Other emerging and developing Asia ^(b)	14	0.2	6.8	42	0.1	29	69	201
Middle East ^(c)	646	9.1	4.5	3,763	4.9	2,537	67	190
CIS	286	4.0	3.9	2,521	3.3	1,242	49	183
Central and Eastern Europe ^(d)	186	2.6	3.4	2,150	2.8	1,748	82	144
World	7,122	100.0	3.9	77,269	100.0			

Sources : The IMF, The World Trade Organisation and The United Nations.

- Notes : (a) South Asia includes India, Sri Lanka, Bangladesh, Bhutan, Maldives and Nepal.
(b) Other emerging and developing Asia is the emerging and developing Asia as defined by the IMF after excluding Mainland China, members of ASEAN within it and South Asia.
(c) Middle East is the "Middle East, North Africa, Afghanistan, Pakistan" as defined by the IMF with the addition of Israel.
(d) Central and Eastern Europe includes "Emerging and developing Europe" in the country grouping by the IMF, together with Estonia, Latvia, Lithuania, Slovak Republic, Slovenia, which are categorised as part of the euro area by the IMF.
(^) Nominal GDP for Syria is not available in 2014 as per data from IMF's World Economic Outlook Database. Syria is therefore also excluded in the calculations of share of world total nominal GDP and ratio of goods trade to GDP in 2014 of Middle East.

In terms of goods trade in 2015 (*Table 2*), the Mainland was Hong Kong's most important goods trading partner, accounting for 54% of our total goods exports and 49% of total goods imports in 2015. ASEAN, as a whole, was Hong Kong's second largest goods trading partner, even surpassing the European Union. Vietnam and Singapore were the largest markets for Hong Kong's goods exports within ASEAN. In South Asia, if ranked by individual economies, India was our fourth largest goods export market in 2015. Indeed, our goods exports to India registered phenomenal growth in the recent past. As to the other selected regions, the values of Hong Kong's goods trade with them were not as significant, but the cumulative growth for goods trade with these regions during 2006-2015 were generally visible and higher than that of our trade with the major advanced economies over the same period.

Box 3.2 (Cont'd)**Table 2 : Value of goods trade between Hong Kong and the selected regions**

	Goods trade in 2015 (HK\$ Bn)	Cumulative growth in the 10 years to 2015 (%)	Share of Hong Kong's total goods trade (%)
Mainland China	3,921	90	51.2
ASEAN	823	92	10.8
South Asia	204	206	2.7
Other emerging and developing Asia	1	131	*
Middle East	158	131	2.1
CIS	22	163	0.3
Central and Eastern Europe	48	134	0.6
World	7,652	67	100.0

Source : Hong Kong Merchandise Trade Statistics, Census and Statistics Department.

Note : (*) Share of less than 0.05%.

Table 3 shows Hong Kong's trade in services with these selected regions in 2014. The patterns broadly resembled that of goods trade. The Mainland again topped the list and was our largest services trading partner in 2014. ASEAN was also a prominent services trade partner, accounting for 9% of our total services trade. South Asia accounted for around 1% of our total services trade, but the growth pace was rapid during 2005-2014. Our services trade with the other selected regions was again not as significant, but the cumulative growth for some of them in the ten years to 2014 was spectacular, indicative of the low base as well as their potential.

Table 3 : Value of services trade between Hong Kong and the selected regions⁽⁺⁾

	Services trade value in 2014 (HK\$ Bn)	Cumulative growth in the 10 years to 2014 (%)	Share (%)
Mainland China	538	84	39.3
ASEAN	123	145	9.0
South Asia	19	219	1.4
Other emerging and developing Asia	1	321	0.1
Middle East	14	95	1.1
CIS	4	451	0.3
Central and Eastern Europe	3	65	0.2
All regions	1,368	94	100.0

Source : Hong Kong Trade in Services Statistics, Census and Statistics Department.

Note : (+) Financial intermediation services indirectly measured (FISIM) have no geographical breakdowns. Hence, figures by country/region breakdown do not include FISIM, and the percentage shares of individual countries/regions are calculated based on figures with the exclusion of FISIM.

Box 3.2 (Cont'd)

Hong Kong is a world-class business and financial hub along the “Belt and Road”, enjoying distinctive advantages under “One Country, Two Systems”. The city will no doubt benefit significantly from the opportunities arising from the “Belt and Road” Initiative in the years to come. As outlined in the 2016 Policy Address by the Chief Executive, Hong Kong could serve as an important platform to complement the “Belt and Road” Initiative in a wide range of areas, including capital formation and financing, trade and logistics and professional and infrastructure services.

The Government will play a proactive role to facilitate the implementation of the “Belt and Road” Initiative and seize the opportunities. A steering committee for the “Belt and Road” chaired by the Chief Executive will be set up for formulating strategies and policies for Hong Kong’s participation in the “Belt and Road” Initiative. A “Belt and Road” Office will be established to coordinate work between government departments and with other organisations, and will take forward related studies. The Government will also strive to strengthen trading and investment ties and people-to-people bond with the economies along the “Belt and Road”.