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1. Introduction

China has rolled out the red carpet of the Belt and Road (BRI) back in 2013 drawing inspiration from the Silk Road in ancient times. The grand plan focuses on infrastructure development and investments to

enhance regional and global connectivity between China and the world. It includes a Silk Road Economic Belt on land and a 21st century Maritime Silk Road at sea. Given the cross-border nature of the projects and the sheer size of financing needed to accomplish its goals (estimated at around USD 5 trillion by Chinese authorities¹), it seems clear that major offshore centers should play a role in intermediating savings towards these projects along the BRI countries. In Asia, Hong Kong and Singapore are the clear choices given the proximity and relationship with Mainland China.

Hong Kong is well placed to finance the infrastructure projects under the BRI as it includes a large number of foreign banks which can intermediate foreign savings to that end (Garcia-Herrero, 2017). Other than the large asset pool in hard currency, Hong Kong is also the largest offshore RMB center in the world. Given that Chinese authorities have long tried to accelerate the use of the RMB as a financing vehicle for BRI projects, Hong Kong should benefit from its pole position in the offshore RMB market (Chan, 2015). Besides, Hong Kong's large stock market with the largest amount of IPOs globally by value in 2019 should serve as a platform to provide equity finance to companies operating in the BRI geographies (HKGCC, 2019). Finally, as part of the Greater Bay Area (GBA), Hong Kong can have more venues than Singapore to integrate BRI investment with that of GBA, which has long been the most dynamic part of China. This should make Hong Kong as the intermediary for BRI financing more appealing for investors (KPMG, 2018). Cheung and Hong (2019) pointed though Hong Kong had the potential to be a financial hub in the BRI thanks to its transparent legal framework among other reasons (EY, 2016), but this result hasn't happened partially due to the listing rule in Hong Kong. Infrastructure project companies are regarded as risky applicants by Securities and Futures Commission of Hong Kong. Therefore, several factors need to be fulfilled including but not limited to a large shareholding by state-owned enterprise in Mainland China, sovereign wealth fund, substantial listed company or globally active institutional investor.

In this paper, we look into the intermediary role of Hong Kong in financing cross-border BRI projects (excluding projects in Mainland China) and compare it with Singapore, a similar offshore financial center and competitor. The scope of the BRI and the scarcity of data, especially for financing, make it difficult to conduct a detailed analysis so that our findings should be considered preliminary as they are based on rather scarce data. To that end, we focus on four venues for financing of international projects, namely syndicated loans, offshore bond issuance, equity financing and asset management and look at how much attention is being paid to the BRI geographies for each of these venues in Hong Kong and Singapore.

The paper is divided as follows. Section 2 deals the objectives and data sources. Section 3-6 reviews the different channels, from syndicated loans to bond issuance, equity finance and asset management.

Section 7 draws some policy conclusions for Hong Kong to further expand its role as intermediary of funds under the BRI. Finally, the appendix offers a detailed account of the data sources for our analysis.

¹ http://www.gov.cn/xinwen/2018-08/28/content_5317000.htm

2. Objective and data sources

The objective is to analyze the intermediary role on funding the BRI for Hong Kong and Singapore. As Hong Kong's financial sector is increasingly dominated by Chinese banks and corporates in both lending and borrowing, the funding activities are also more related to Mainland China. The trend makes it difficult to know whether the money is being moved back to the onshore market or being spent along the BRI even though many Chinese banks and firms are supportive to implement the government policies. Therefore, we make a concession to include only direct financing from Hong Kong and Singapore towards the BRI region at a cost of underestimating Hong Kong's overall role in financing the BRI. That said, money lent to Chinese banks or corporates without a clear destination or usage in the BRI is not included in this paper.

While connectivity in the BRI mean infrastructure in both China and the world, we have also opted for a narrow definition of BRI projects, namely those outside of Mainland China. Part of the reasons the difficulties in classifying whether a project in China is BRI-related or not and tracing the liquidity. Another is the onshore liquidity condition may not be suitable for a direct comparison with the offshore markets in Hong Kong and Singapore, especially when the onshore market is supported by large state-owned commercial banks and policy banks.

To that end, we analyze the different ways in which projects may be financed internationally, namely through cross-border lending through syndicated loans as well as bond issuance and equity financing. In addition, we also explore passive finance's use towards the BRI projects through asset management. Any of these venues can provide the necessary funds whether equity or outright borrowing for BRI projects. We collect data on syndicated loans, bond and equity finance from Bloomberg and draw the fund data analysis from the Securities and Futures Commission of Hong Kong and the Monetary Authority of Singapore. The time period for all data is between 2011 and 2019 with sectoral analysis based on Bloomberg Industry Classification Systems (BICS) Level 1.

For banks' lending, we use syndicated loans as a proxy as it is the most transparent and readily available data, which allows us to analyze the overall, geographical and sectoral trend as well as the breakdown by currency and lenders. We select top 20 banks as mandated lead arrangers² and used Hong Kong, Singapore, Luxembourg and the Netherlands as target markets to collect syndicated loan data from

Bloomberg. We have also explored Ireland, Cayman Island, BVI and Bermuda but the availability of data is too small for any relevant comparison.

As for bond issuance, we analyze issuance of either government and corporate bonds in the Hong Kong and Singapore offshore centers using Bloomberg data. Certificate of deposits issued are excluded due to its short-term funding nature for financial institutions, which is not fit the goal of the paper. For equity

² Chinese banks include Industrial and Commercial Bank of China (ICBC), Bank of China, China Merchants Bank, China Minsheng Bank ing Corp, China Construction Bank, Agricultural Bank of China, China Everbright Bank, Shanghai Pudong Development Bank and China Citic Bank. Foreign banks include HSBC, Standard Chartered Bank, Mitsubishi UFJ Financial Group Inc, DBS Group, Bank of East Asia, Credit Agricole CIB, ANZ Banking Group, Mizuho Financial, Societe Generale, Goldman Sachs and BNP Paribas.

financing, we use initial public offering (IPO) data, including primary and secondary listings in Hong Kong and Singapore markets.

Data on assets under management in Hong Kong and Singapore are obtained from Hong Kong Securities and Futures Commission and Monetary Authority of Singapore. But these two jurisdictions do not have the same classification. Hong Kong categorizes the geographic distribution of investment as Hong Kong and Mainland China, Japan, the rest of Asia, North America, Europe and others. Singapore classifies the destinations as Asia Pacific, North America, Europe and the rest of the world. To make a consistent comparison between the two markets, we adjust the categories into Asia Pacific, the West and others.

Table 1: Types of financing covered in our report

	Destination	Sector	Currency	Lender
Syndicated Loans	√	√	√	√
Bond Issuance		√	√	
Equity Financing	√			
Asset Management	√			

√ indicates the topics covered in this paper.

3. Syndicated loans into the BRI intermediated by Hong Kong and Singapore

In order to analyze the cross-border direct financing, we distilled the data for each offshore center by removing loans towards the local market and Mainland China. The dataset is only a fraction of total loans, which could further include non-syndicated loans made by individual banks and corporates holding the capital in offshore financial centers before remitting to the BRI countries, but it is still indicative in seeing the capital flows with important implications on the financing patterns.

Comparing with other major offshore centers, such as the Netherlands and Luxembourg, it is clear that Hong Kong and Singapore have key advantages over the counterparts in terms of crossborder syndicated loans both to the BRI and the non-BRI counties. In Singapore, the BRI region has absolute advantage in terms of both value and number of deals (Figure 1.1 and Figure 1.2). But it is different in Hong Kong as non-BRI countries accounts for 68% of total deals.

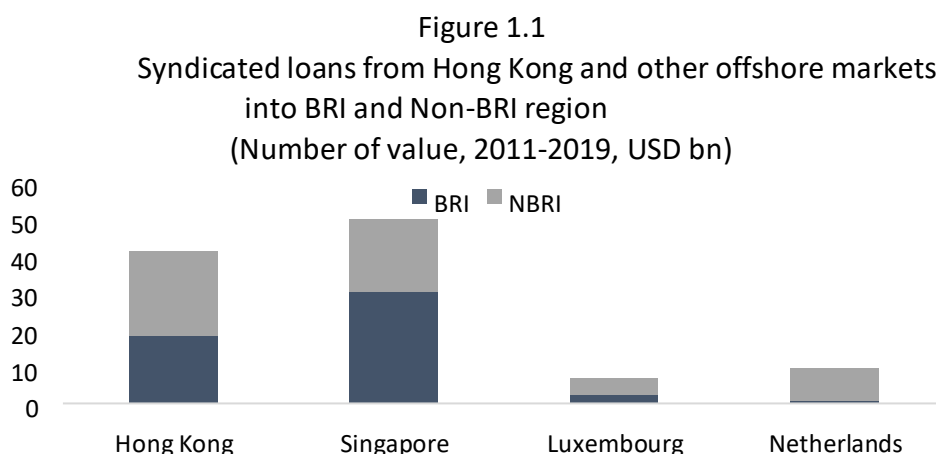
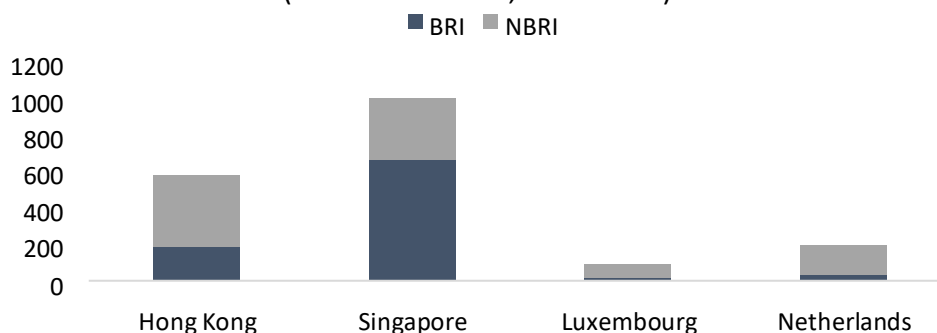


Figure 1.2
 Syndicated loans from Hong Kong and other offshore markets into
 BRI and Non-BRI region
 (Number of deals, 2011-2019)



Note: Mainland China is excluded from country of risk. Hong Kong, Singapore, Luxembourg and Netherlands are excluded in their own data sample Source: Bloomberg

3.1 Destination of such lending

Zooming in Hong Kong and Singapore, we see some similarities but also fundamental differences in the financing into the BRI. What is identical is that the number of syndicated loans towards the BRI region in Hong Kong and Singapore has increased after 2015, echoing the stronger push from China. But what is different is the composition and the level of increase.

For Hong Kong, although the loan amount may be growing in the past few years, the relative importance of BRI counties has remained volatile and declined after 2016 (Figure 2.1). From 2011 to 2015, cross-border syndicated loans in Hong Kong were dominated by BRI regions at the early stage, such as Thailand, Macau and South Korea, but the amount remained very small. In 2016, there was a one-off jump for cross-border syndicated loans towards the BRI but it has collapsed and is only growing slowly since then.

From the number of deals, it is obvious that the increase is mostly driven by specific large single deals (Figure 2.2). For example, the sudden increase for Hong Kong in 2015 was due to a single deal by MGM China Holdings Ltd., which accounted for 45% of total for the year. MGM China is a Macau-based company specialized in casinos and gaming classified as the consumer sector. In the next year, the two giant deals by Berli Jucker PCL and Inari S.a.r.l accounted for 77% of total. Berli Jucker PCL is a Thai company and the loan was syndicated for acquiring Big C Supercenter, a supermarket chain in Thailand. Inari S.a.r.l is a Luxembourg firm providing financial service acquired by Tencent. The amount of cross-border syndication loans through Hong Kong to the BRI region then dropped back to a low level.

Data has then showed that 2016 is only a year of exception. In the next year, the share of the BRI in total cross-border syndicated loans plummeted due to the sharp fall in the lending towards the BRI and massive growth in the non-BRI. While the trend is partially a consequence of the lower number of deal along the BRI, another driver is the higher number of deals in the non-BRI region,

especially in the United States (31), Australia (28) and the Netherlands (11). But there is indeed a divergence in the targeted sectors. In the United States, most of the deals went to the financial sector, while deals gathered in communications and technology in Australia and the Netherlands respectively. Even though there has been a pickup since 2017, this still draws a big contradiction towards the Chinese government push into the BRI and shows Hong Kong's role is still muted with room for improvement.

Figure 2.1
 Hong Kong syndicated loans in BRI versus Non-BRI region (Value of deals, USD bn)

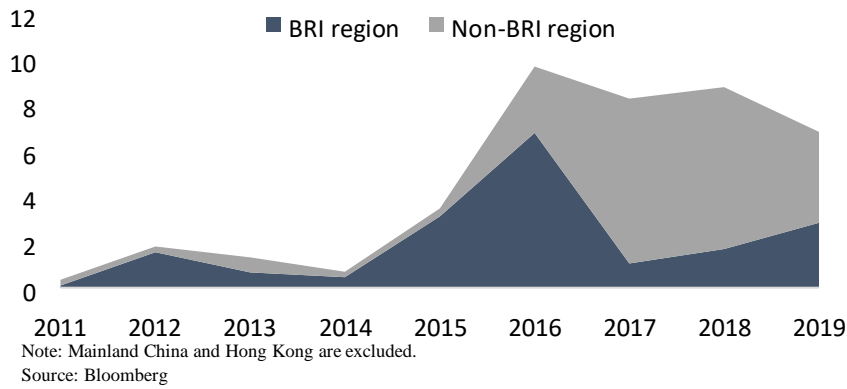
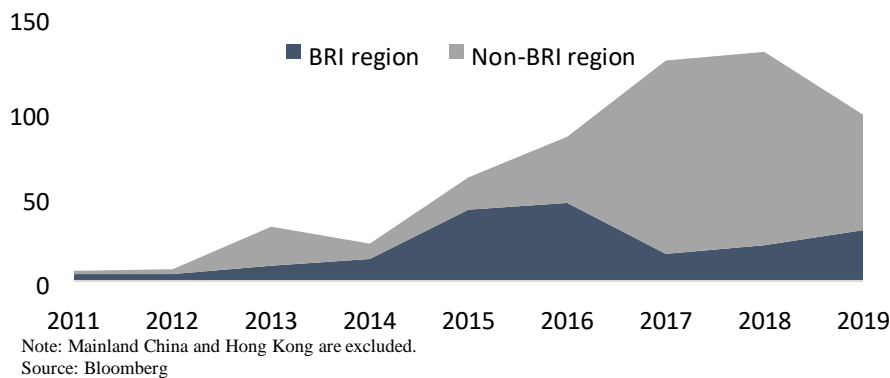


Figure 2.2
 Hong Kong syndicated loans in BRI versus Non-BRI region (Number of deals)



For Singapore, the surge of syndication loan in the BRI region has risen and become stable in recent years, in line with the higher number of deals (Figure 3.1 and Figure 3.2). The number of deals in the BRI region was only 25 in 2014 but surged to over 100 since 2015. The reason is the growing size of the syndicated loans for the ASEAN, which is very relevant in the BRI and also historically closer to Singapore in terms of economic and financial ties.

Figure 3.1
 Singapore syndicated loans in BRI versus Non-BRI region (Value of deals, USD bn)

■ BRI region ■ Non-BRI region

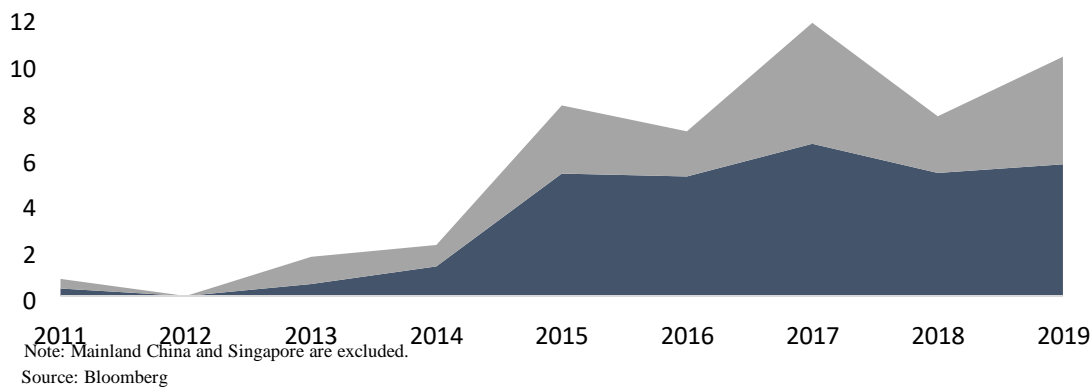
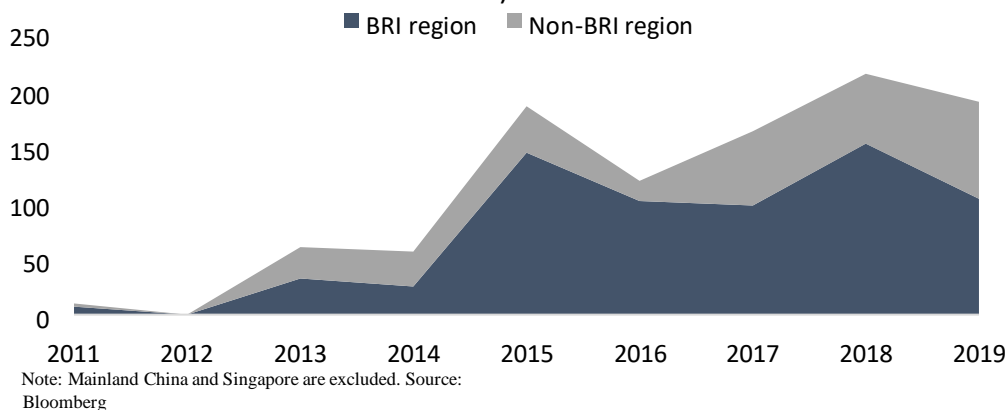


Figure 3.2
Singapore syndicated loans in BRI versus Non-BRI region (Number of deals)



Beyond the better relative performance of Singapore versus Hong Kong in the number of syndicated deals into the BRI geographies, Singapore suffers from a higher concentration as nearly all syndicated loans remained in the ASEAN (Figure 4.2). The destinations of Hong Kong's syndicated loan in BRI regions are more diversified (Figure 4.1). Thailand, Luxembourg, Macao, South Korea and the United Arab Emirates are the top 5 destinations and they account for 72% of Hong Kong's syndicated loan market within the BRI region. In addition, the recent rebound for Hong Kong was largely driven by Luxembourg (Tencent raised USD 2.54 bn to acquire Inari S.a.r.l), which is another offshore center and it is difficult to know whether the capital was eventually invested in any BRI project in the real economy.

Figure 4.1
Top 5 BRI destinations of Hong Kong syndicated loan (USD bn)

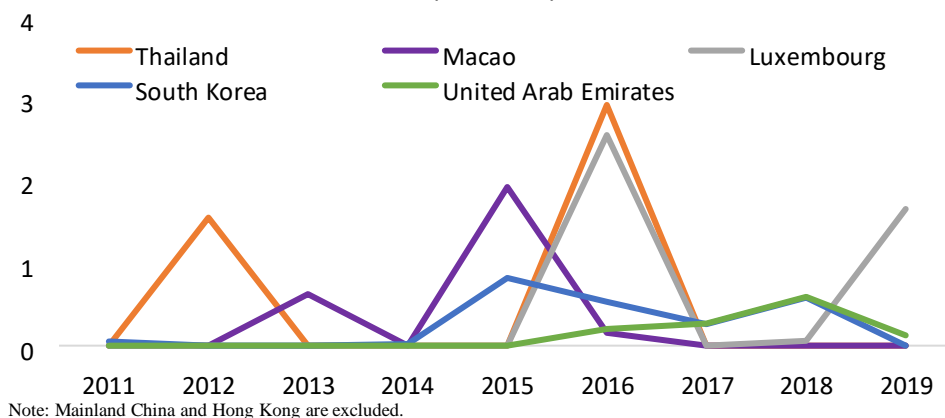
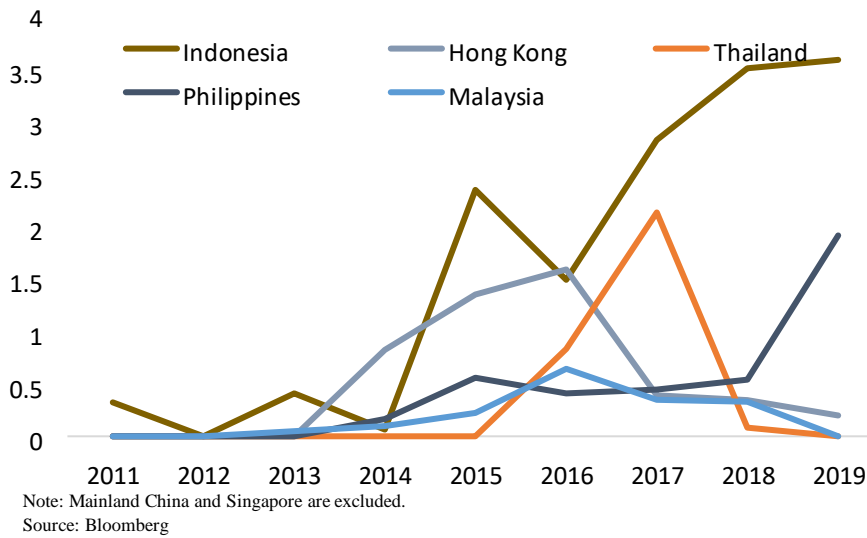


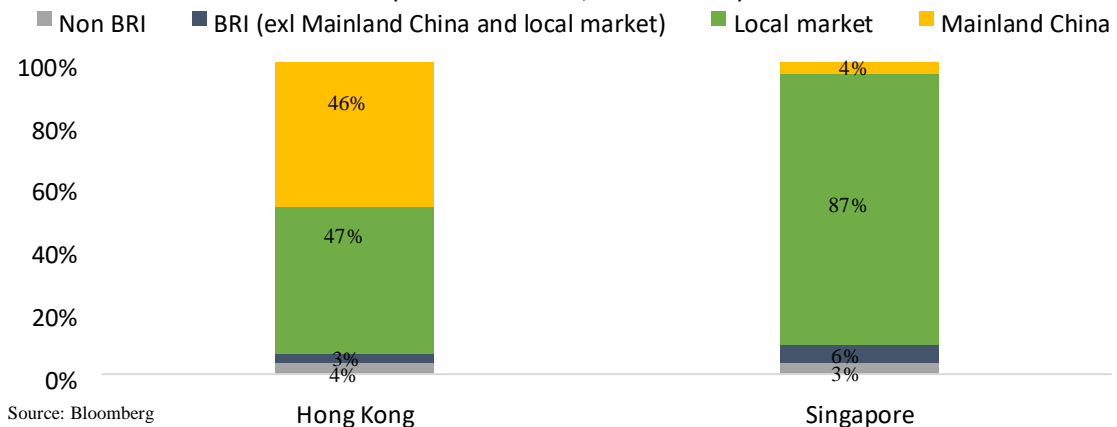
Figure 4.2
Top 5 BRI destinations of Singapore syndicated loan
(USD bn)



While the markets covered by the BRI may look huge from the surface, very few syndicated loans from Hong Kong and Singapore are directed towards those markets. Most of the loans syndicated in Hong Kong either remains in Hong Kong and relates to Mainland China. It should be noted that the definition of Hong Kong could include offshore subsidiaries from Mainland Chinese companies, which are classified as firms based in Hong Kong. In the case of Singapore, most of the syndicated loans remains in Singapore.

After excluding local financing (Hong Kong to Hong Kong or Singapore to Singapore) as well as Mainland Chinese entities as loan recipients, the remaining part is tiny both in Hong Kong (2%) and Singapore (12%). This means that Hong Kong and Singapore are yet not fully capturing this opportunity and remain either very domestic, as far as bank lending is concerned, or very concentrated on transactions with Mainland China especially for Hong Kong (Figure 5).

Figure 5
Composition of syndicated loan per market
(Value of deals, 2011-2019)

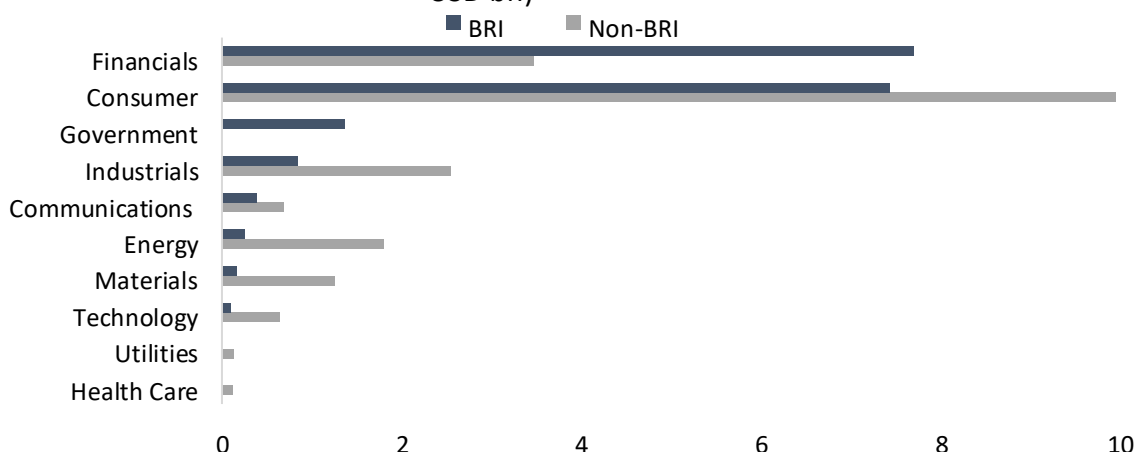


3.2 Sectoral composition

As for the sectoral composition, consumer and financials dominate the syndicated loan market in Hong Kong and Singapore (Figure 6.1 and Figure 6.2). Within the BRI region, the shares of consumer and financials for Hong Kong are 40% and 42% respectively, which are higher than 21% and 24% for Singapore.

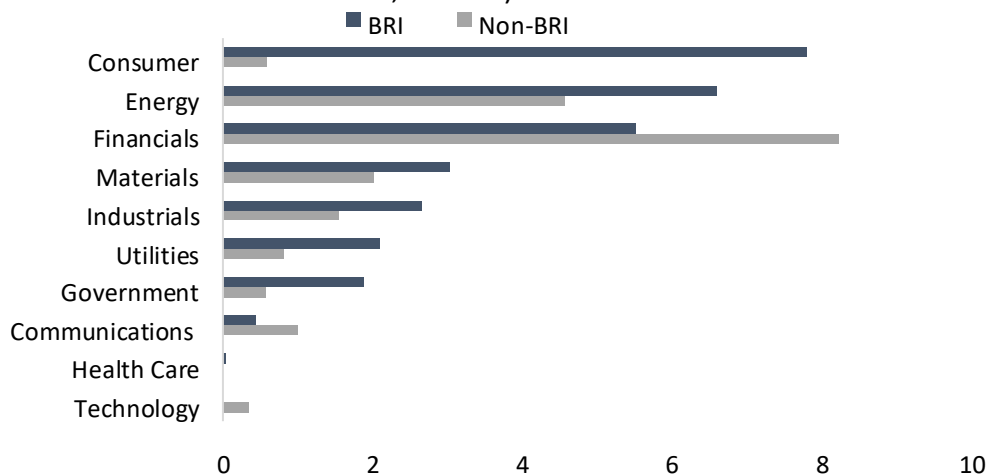
In Hong Kong, the key deal from the consumer sector came from Berli’s loan to fund the Big C Supercenter acquisition in Thailand in March 2016. For the financials, Inari S.a.r.l, a financial service company from Luxembourg linked to Tencent, is the key reason for the increase also in 2016. For Singapore, the leading deal in the consumer industry is BeerCo Ltd’s USD 1.95 billion loan in 2017. BeerCo is a distributor specialized in wines and alcoholic beverages. For financials, Singapore has a structure of high number of deals, leading a relatively high amount of syndicated loans not skewed by any single large deal. There are 166 deals in financials, and largest loan is issued by Malayan Banking Berhad (USD 0.46 billion) in 2016.

Figure 6.1
Hong Kong syndicated loans by sector (2011-2019, USD bn)



Note: Mainland China and Hong Kong are excluded.
Source: Bloomberg

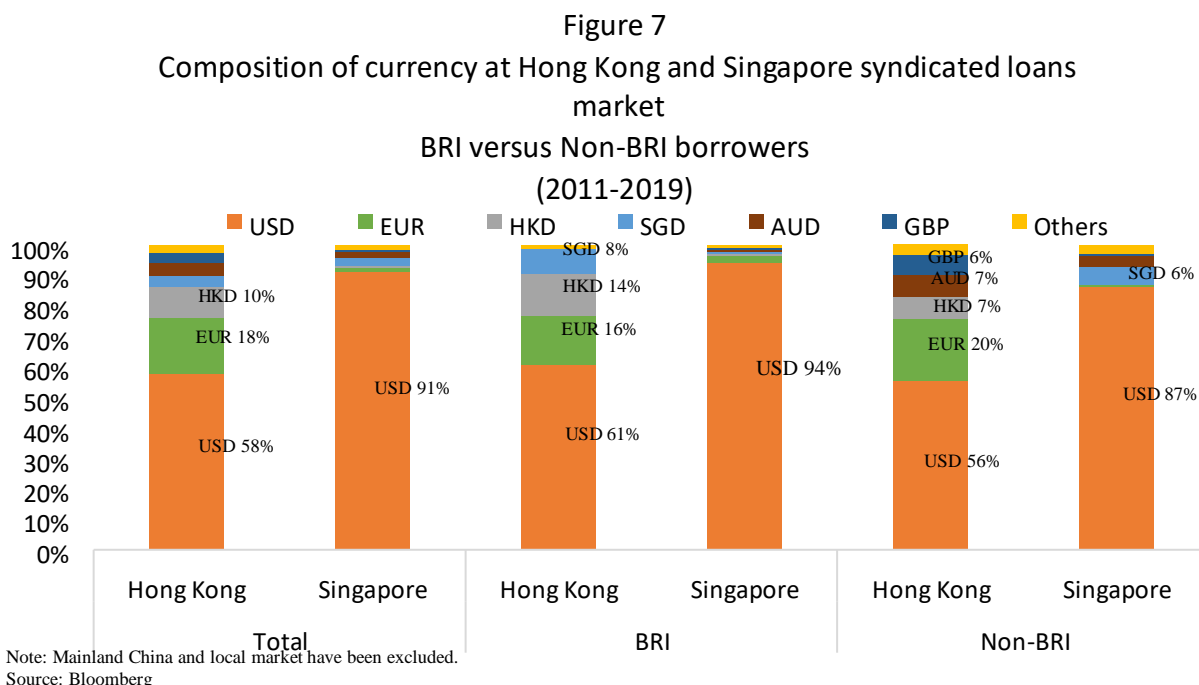
Figure 6.2
Singapore syndicated loans by sector (2011-2019, USD bn)



Note: Mainland China and Singapore are excluded.
Source: Bloomberg

3.3 Currency of denomination

Finally, the currency diversification of syndicated loans is larger in Hong Kong than Singapore (Figure 7). However, the loans towards the BRI in Hong Kong is still mostly dominated in the USD, the EUR and the HKD with a very limited role in the RMB.

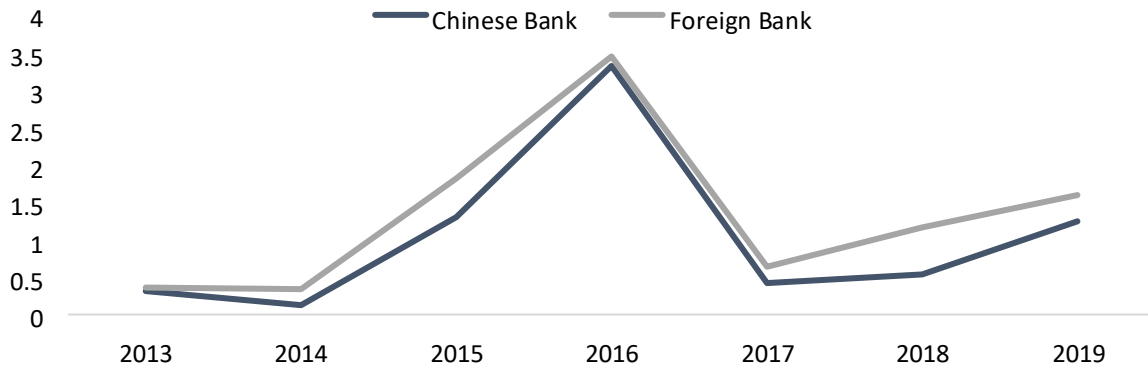


3.4 Origin of lenders

Finally, bank behavior changes as regarding the syndication for cross-border bank lending into the BRI geographies. Foreign banks have lent more to the BRI regions than Chinese banks despite the strong policy push (Figure 8.1 and Figure 9.1). This might be driven by the historic importance of BRI geographies for some foreign banks operating in Hong Kong, such as HSBC and Standard Chartered and, to a lesser extent, DBS and other Asia-based banks.

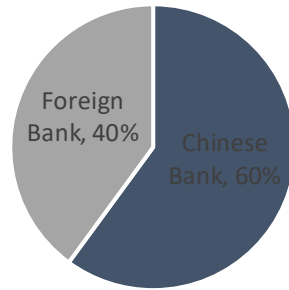
We provide an adjusted measurement to better evaluate the role of Chinese banks and foreign banks (Figure 8.2 and Figure 9.2) as the asset size of individual bank can affect the syndicated loan amount, and this using direct lending amount could under or over-estimate its relatively power in the market. We take the following approach to make the dataset comparable. First, we take an average of syndicated loan issued by Chinese banks and foreign banks between 2013 and 2019 respectively to get average bank-level syndicated loan. Then, we use regional asset data provided by Hong Kong Monetary Authority to calculate annual share of Chinese bank and share of foreign bank in Hong Kong's banking industry. Next, we acquire an overall bank share by taking an average of annual share between 2013 and 2019. Finally, we obtain an adjusted share using average banklevel syndicated loan divided by its respective overall bank share. As a result, the relevant importance of each bank type will be truly reflected.

Figure 8.1
Classification of Hong Kong syndicated loans by bank (USD
bn, BRI region)



Note: Mainland China and Hong Kong are excluded.
Source: Bloomberg

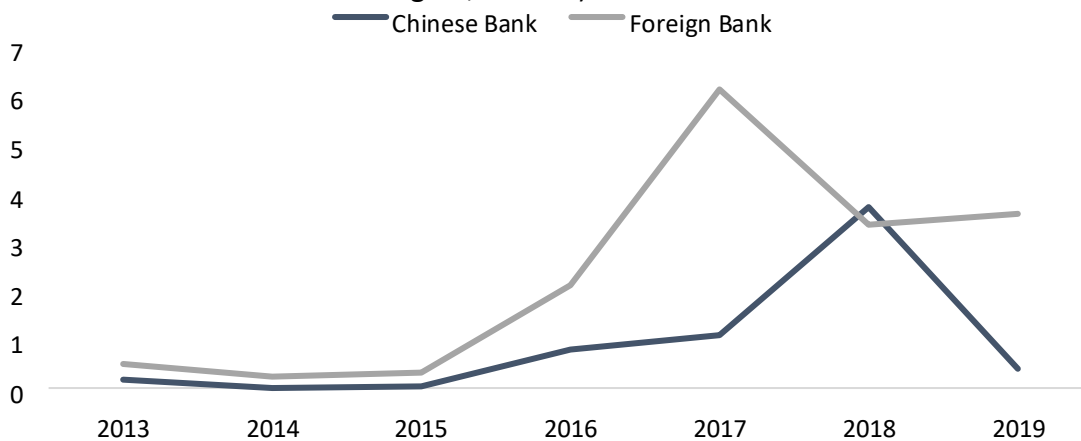
Figure 8.2
Classification of Hong Kong syndicated loans by bank
(Adjusted share, 2013-2019, BRI region)



Note: Mainland China and Hong Kong are excluded.

Data has been adjusted by the share of Chinese/Foreign bank share in HK banking Source: Bloomberg, Hong Kong Monetary Authority

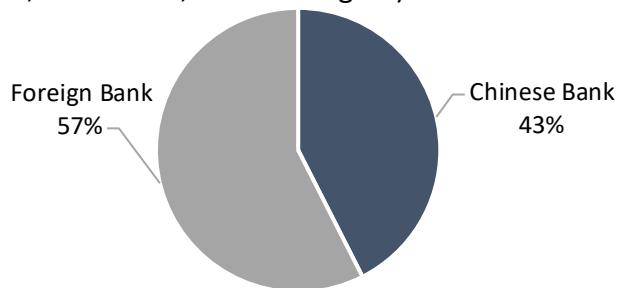
Figure 9.1
Classification of Hong Kong syndicated loans by bank (Non-BRI
region, USD bn)



Note: Mainland China and Hong Kong are excluded.
Source: Bloomberg

Figure 9.2

Classification of Hong Kong syndicated loans by bank (Adjusted share, 2013-2019, Non-BRI region)



Note: Mainland China and Hong Kong are excluded.
 Data has been adjusted by the share of Chinese/Foreign bank share in HK banking Source: Bloomberg, Hong Kong Monetary Authority

Our result shows syndicated loans carry only limited amount of data in total banks' lending, it gives a few implications. The BRI significance for Hong Kong is lower and more volatile while Singapore is much higher and steady mainly due to ASEAN. The decreasing relative importance of the BRI geographies in Hong Kong's syndicated loans market as compared to Singapore. RMB is a future option but it is still limited right now. Lastly, foreign banks are needed for the BRI.

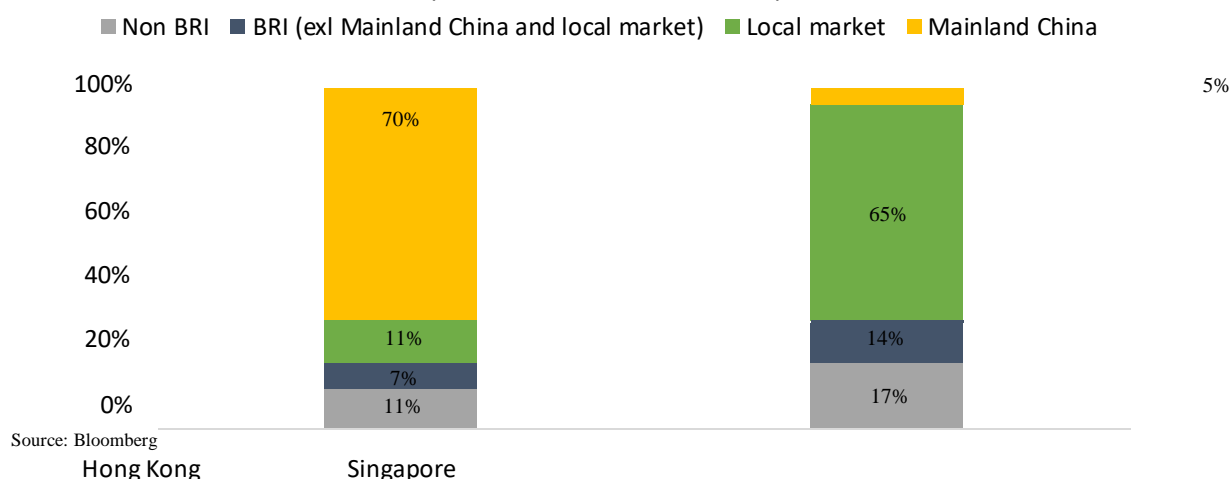
4. Offshore Bonds into the BRI intermediated by Hong Kong and Singapore

The bond market offers a comprehensive set of data to analyze the destination, sectoral distribution and the currency choices of funding for Hong Kong and Singapore. As in the case for offshore bonds, Hong Kong and Singapore are dominated by non BRI issuers after excluding Mainland China and local markets.

4.1 Geographical destination

Singapore has a larger direct exposure to the BRI countries than Hong Kong (Figure 10). For Hong Kong, the market is mainly dedicated to raise funds for Mainland China while Singapore has a large share for the local market.

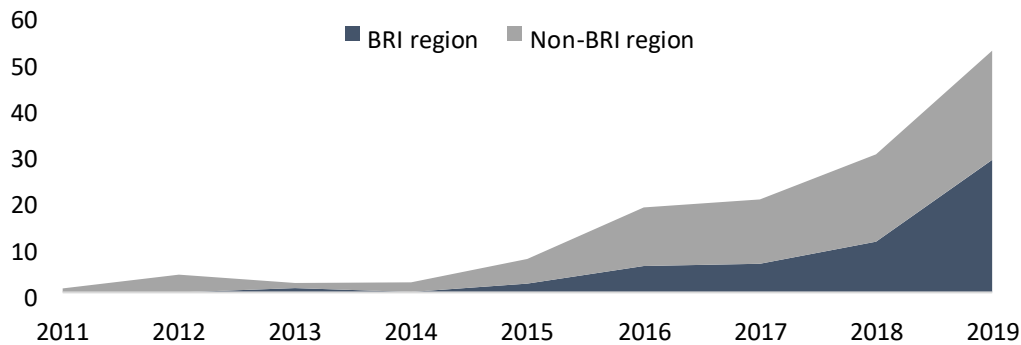
Figure 10
 Composition of bond per market
 (Value of deals, 2011-2019)



Source: Bloomberg

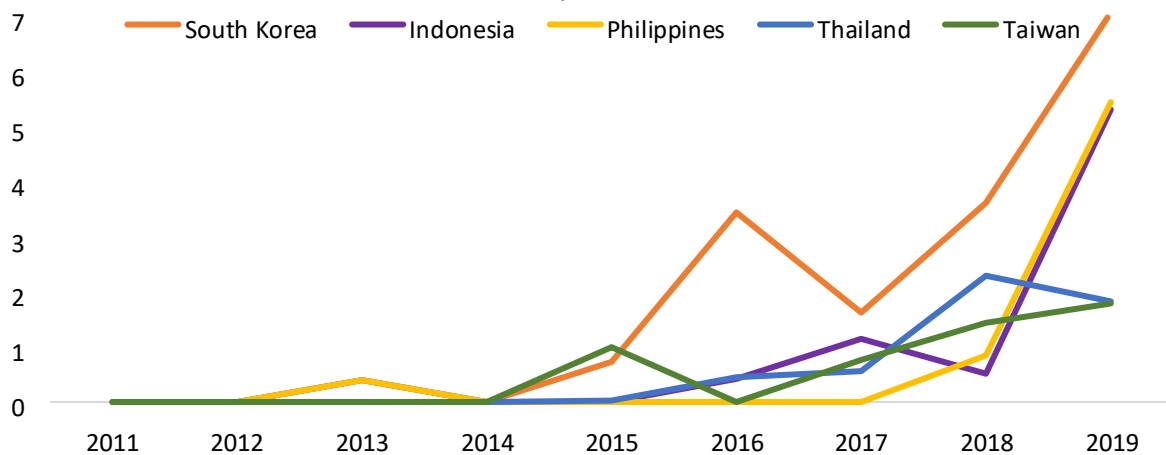
Bond issuance for both the BRI and the non-BRI for Hong Kong are growing steadily, but with the majority still in non-BRI in and before 2018 (Figure 11.1). However, the trend has changed in 2019 with a sharp increase in South Korea, the Philippines and Indonesia (Figure 11.2).

Figure 11.1
Hong Kong Bond market in BRI versus Non-BRI region (USD bn)



Notes: Mainland China and Hong Kong are excluded.
Source: Bloomberg

Figure 11.2
Hong Kong bond issuance of top 5 BRI destinations (2011-2019, USD bn)



Note: Mainland China and Hong Kong are excluded. Source: Bloomberg

In contrast, Singapore has higher share of bonds for the BRI of 48% of total, higher than 35% for Hong Kong. However, its size is much smaller than Hong Kong as the latter has a much bigger market for offshore bond issuance, especially since 2015 (Figure 12.1). The underlying reason is the boom in offshore bond issuance by Mainland Chinese firms in Hong Kong. The geographical concentration of bond issuance in Singapore follows closely than of syndicated loans. In Singapore, the top five issuers are Indonesia, Sri Lanka, Malaysia, Thailand and Hong Kong (Figure 12.2). More generally, ASEAN countries accounts for 72% of total issuance by the BRI geographies. As for nonBRI ones, India covers 21% of total bond issuance, followed by UK, Germany, France and Switzerland.

Figure 12.1

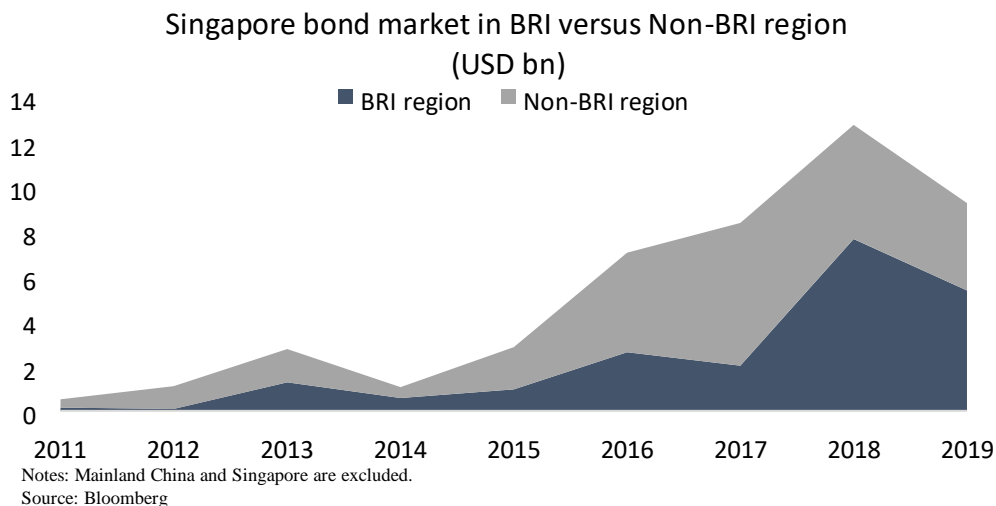
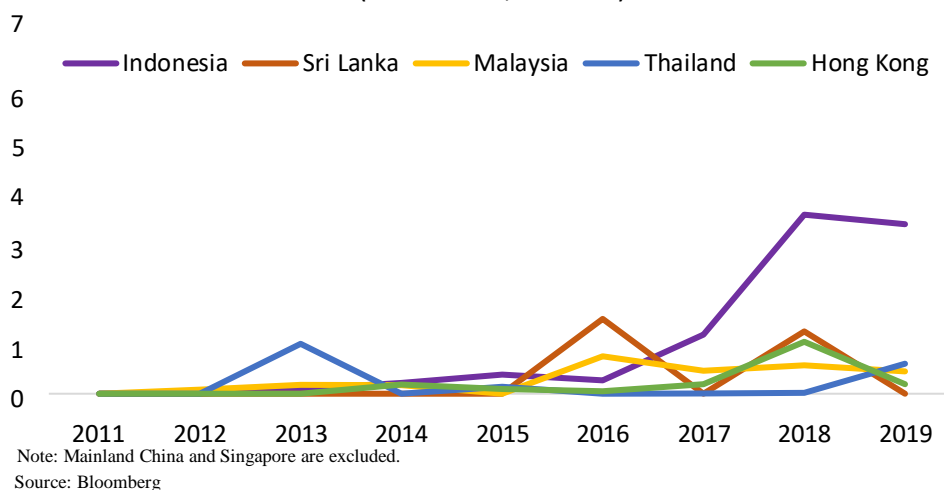


Figure 12.2
Singapore bond issuance of top 5 BRI destinations
(2011-2019, USD bn)



4.2 Sectors targeted

In terms of sectors, consumer is hardly relevant for the BRI geographies, which is different from syndicated loans. However, financials from the BRI still issue the largest share of bonds in Hong Kong, followed by governments (Figure 13.1). This is in line with the dominance of government and quasi-government bond issuance in emerging markets, which are the bulk of BRI geographies. The biggest issuer in financial sector is United Overseas Bank Ltd while Korea Development Bank raises the most fund among government. The situation in financial sector is similar in Singapore (Figure 13.2). GLL IHT Pte Ltd is the largest issuer while Sri Lanka Government International Bond forms an important part in the government portion, accounting for 13% of total BRI bonds issuance in Singapore.

Figure 13.1
Hong Kong bond issuance by sector (2011-2019,
USD bn)

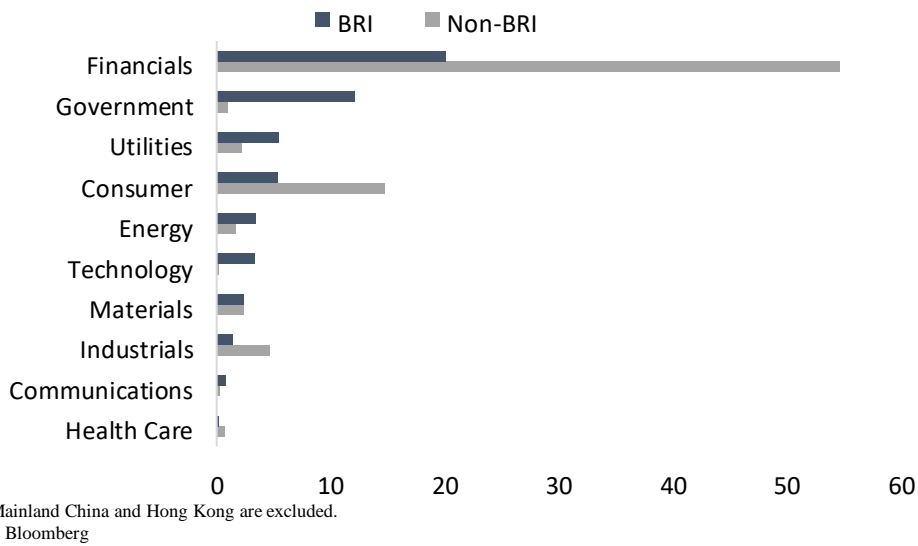
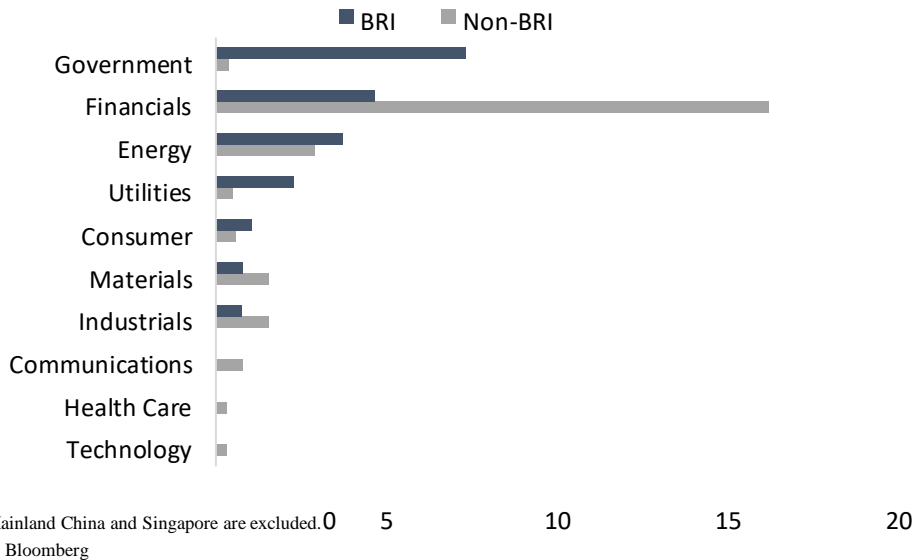


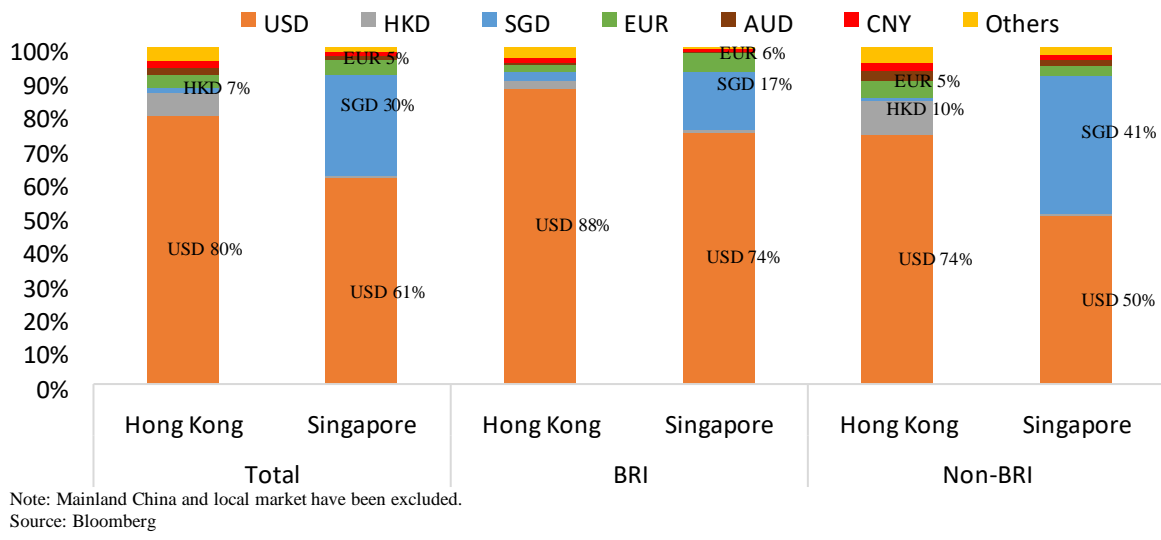
Figure 13.2
Singapore bond issuance by sector
(BRI region, 2011-2019, USD bn)



4.3 Currency of denomination

Finally, the US dollar dominates bond issuance by BRI players both in Hong Kong and in Singapore (Figure 14). But the SGD plays a much bigger role in Singapore for BRI related issuance, which is different from the case of the HKD in Hong Kong.

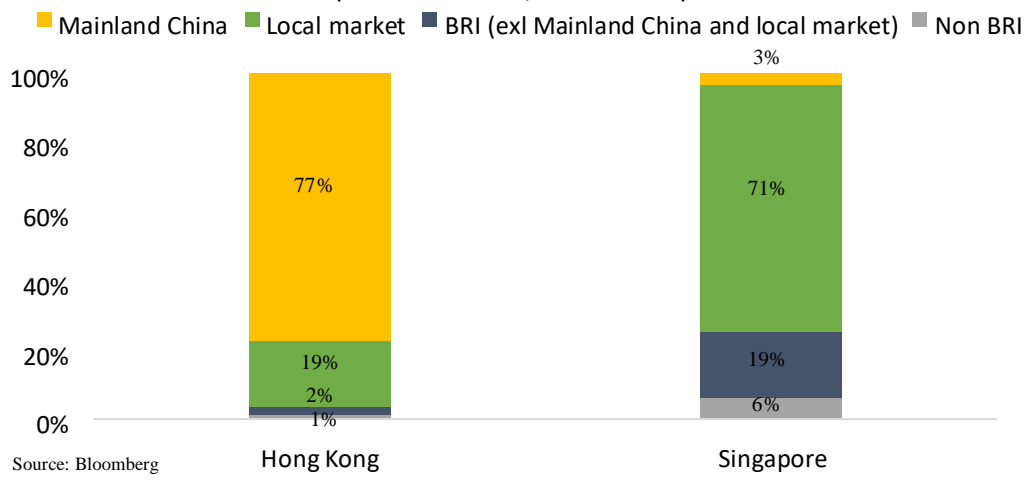
Figure 14
Composition of currency at Hong Kong and Singapore bond market
BRI vs Non-BRI borrowers
(2011-2019)



5. Equity financing

Equity finance in Hong Kong or Singapore markets by BRI companies is very limited (Figure 15). In fact, key issuers are local and Mainland Chinese companies. But the share of issuers in BRI regions is higher in Singapore than in the Hong Kong's stock market.

Figure 15
Composition of IPO per market
(Value of deals, 2011-2019)



For Hong Kong, the direct exposure to the BRI has been increasingly small with previous deals driven by Macau and Singapore, which are very concentrated in specific industries (Figure 16.1 and Figure 16.2).

Figure 16.1
Hong Kong equity market in BRI versus Non-BRI region (USD bn)

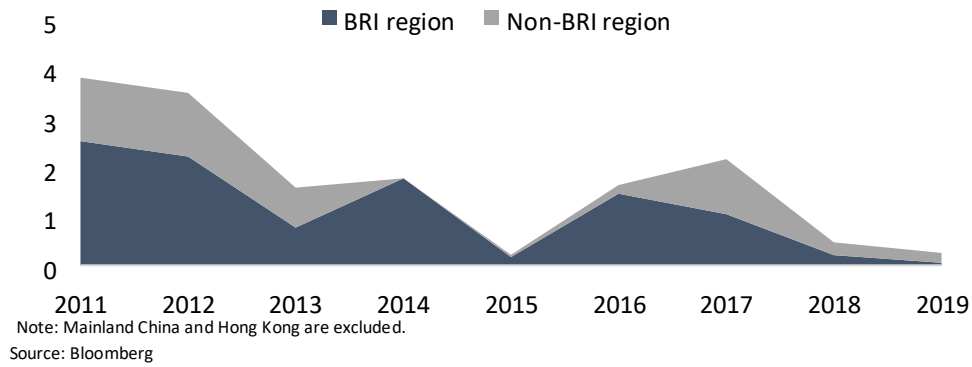
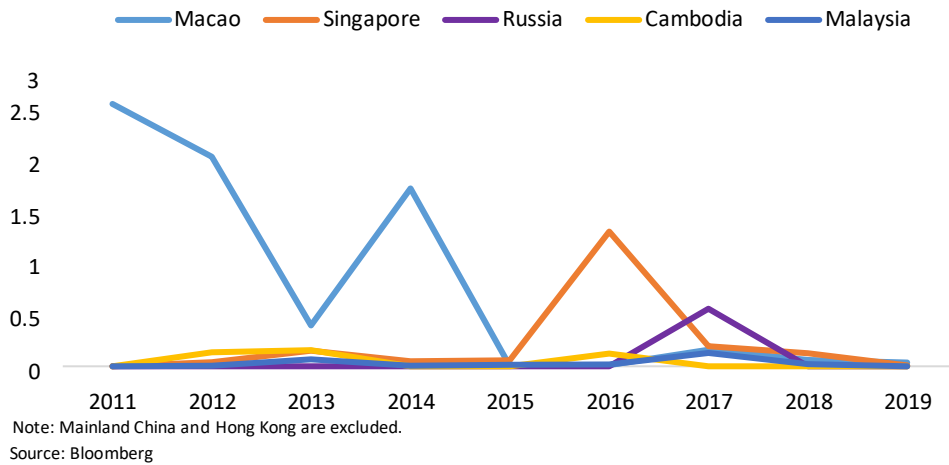


Figure 16.2
Top 5 BRI destinations at Hong Kong equity market
(2011-2019, USD bn)



Interestingly, the peak in the BRI equity financing in the Singapore stock market happened in 2011, when Hutchison Port Holdings Trust did a USD 5.4 billion IPO (Figure 17.1). If Hong Kong were to be excluded from our sample in Singapore, the equity financing for the BRI would be even more insignificant. All in all, the amounts are limited, and within the BRI geographies, it is really all about Asia.

Figure 17.1
Singapore equity market in BRI versus Non-BRI region (USD bn)

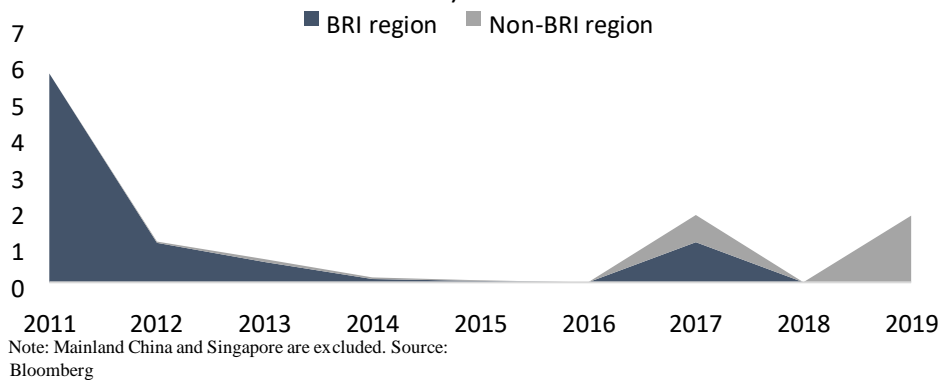
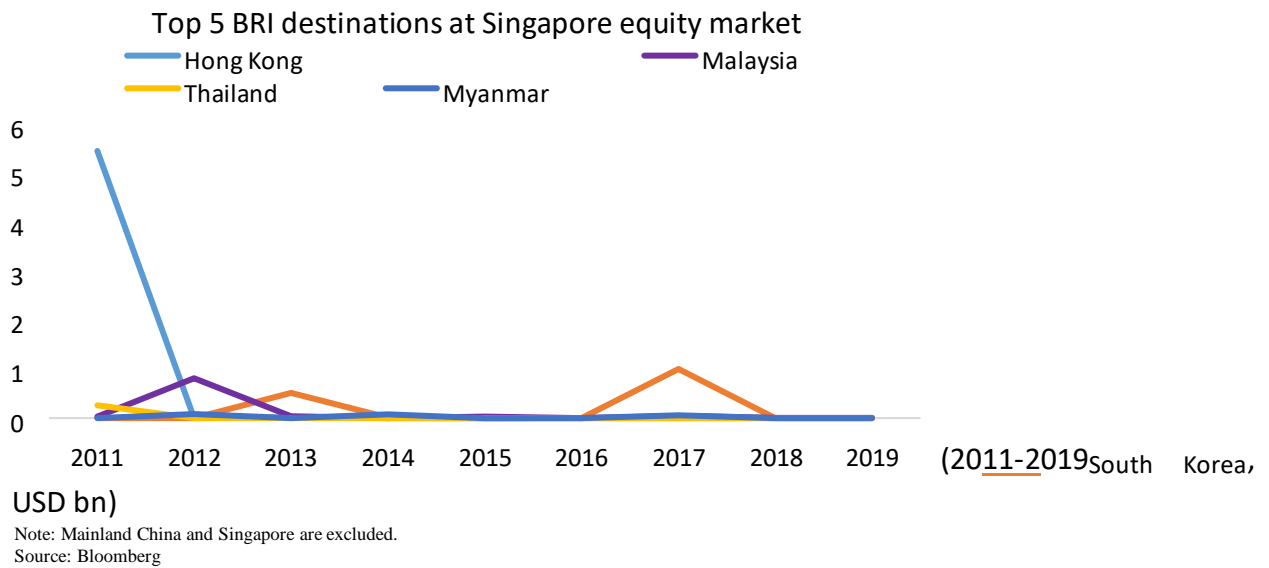


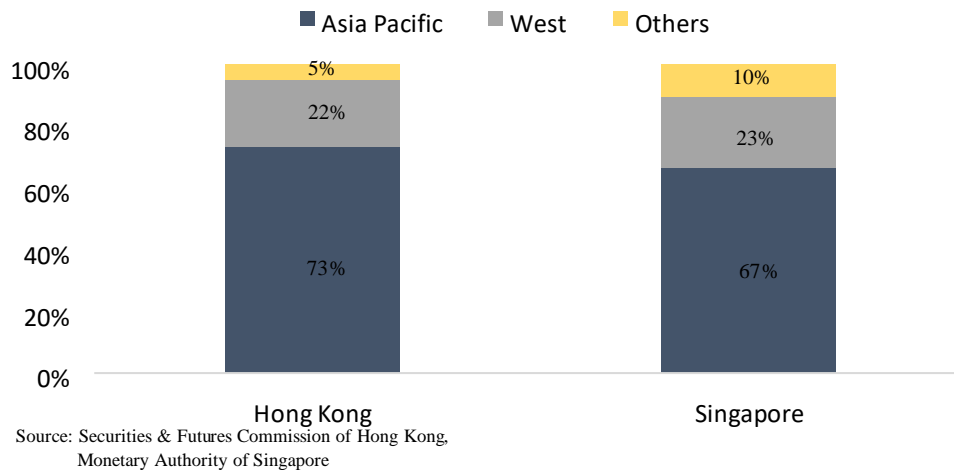
Figure 17.2



6. Passive funding of BRI projects through asset management

For passive investment through institutional asset management, the data availability is very scarce to determine how many funds are channeled to the BRI projects. However, we can already see that Asia is the largest part, even more so in Hong Kong than in Singapore (Figure 18) although many may be unrelated to the BRI (such as investment in Japan, Korea, etc). The reason why Asia dominates for asset management than in Singapore is probably related to the inclusion of China, which was not the case for syndicated loans, bond issuance or equity finance.

Figure 18
Composition of region at Hong Kong and Singapore fund market
2011-2018



7. Conclusions

Hong Kong is very well placed to have a central role to intermediate overseas funds into projects related to the Belt and Road Initiative. This is both because of its massive size in terms of assets under management and bank deposits to be intermediated but also its linkages with Mainland Chinese companies in the driving seat of this initiative.

The reality is that most of the financing of BRI projects has been done so far from Mainland China or through Mainland Chinese companies. This paper focuses on the rest of the universe in financing, namely offshore centers financing of BRI countries – or their financial or non-financial institutions. To that end, we review the key cross-border tools to finance BRI-related projects, namely syndicated lending, bond finance, equity finance as well as passive investment through institutional asset management.

Within the rather small role of offshore centers, Hong Kong and Singapore really stand out in terms of financing. However, Hong Kong does not seem to play a larger role than Singapore, according to our evidence. This is true for syndicated lending and equity finance while Hong Kong's role is indeed somewhat bigger for bond issuance for BRI companies or governments. In particular, loans may be relevant as the BRI initiative is largely project based in terms of infrastructure and related investment, but the role of Hong Kong has been very volatile without significant growth with the exception of 2016 driven by one-off large deals. In contrast, Hong Kong seems to perform better in syndicated loans in the non-BRI countries excluding Mainland China, which are mainly comprised by the developed world. As regards passive funding through institutional asset management, investment into Asian assets dominates institutional investors' strategies, both in Hong Kong. However, the lack of data for BRI geographies as such does not allow us to draw more specific conclusions.

Given the above, it seems clear that Hong Kong has a long way to go to play a leading role in the cross-border financing of the BRI. While the direction for Hong Kong to enhance financing for the BRI is clear, there are obstacles preventing Hong Kong from playing a more significant role, which could be the availability of financial products, the risk appetite associated and the generally less developed BRI region and the transparency of the projects. This might not have been as urgent in the past, as Chinese policy banks were doing most of the financing, but the situation might start to change as those banks need to turn inwards to support China's fledgling growth in the aftermath of the Covid-19 pandemic.

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