The Importance of Capital Market to OBOR

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One of the core missions of One Belt One Road initiative was the export of China's infrastructure to its neighbouring developing nations. As related hardware and technology matured during 2008 economic stimulus program, the risk of infrastructure investment in Central Asia lies in the opacity and instability of these developing nations. Gleaning from their figures, with their young demographics, growing consumption market and rich natural resource, Central Asia should have been a magnet of foreign investment. However, 20 years since the collapse of Soviet Union, foreign direct investment (FDI) in Central Asia can be best described as non-existent. The perceived risk in Central Asia can be summed up as such:

1) Widespread corruption, political opacity and strict control on national currency has given foreign investors extremely limited information, on top of that little to none safeguard for foreign investors in these countries were very limited due to inherent political instability (with Uzbekistan ranking at 128 in 2015, the lowest of Central Asia) and under-development of commercial-legal system.

2) Most of the Central Asian nations, if not all, have racked up huge debts before the financial crisis, coupled with recent price fall in fossil fuel, it is very unlikely for them to repay their debt in the short term. In other words, if China were to invest in local infrastructure via loans, the risk would be much greater than of the western or even the internal market.

In recent years, backed with Developmental State theories, the Chinese government has instructed commercial banks to lease out huge loans to developing countries with very favorable rates and has grown to rely on bank loans to finance its projects. According to a report by the Economist in 2013, of the ten largest banks in the world, four of which were Chinese. Although China has been a major player on the stage of global finance, its initial public offerings (IPO) still have rooms of improvement. In 2016, the IPO of Shenzhen and Shanghai combined was 200 billion USD, still 40 billion behind Hong Kong. Structurally, debt financing is more suitable for low-risk investment. Mortgaging was backed by deed of the property yet infrastructural investment, especially in Central Asia does not enjoy this luxury. Debt-financing concentrated its risk on a few financiers and logically prevents private or foreign investors from enjoying its huge potential profit.

In fact, these high risk, highly profitable and highly necessary investments were not anything new. Back in Europe at the age of discovery, ocean trade were both highly profitable, yet risky trade. For a trip to the unknown to be financed, the risk must be spread from a dozen of investors to tens of thousands. The system that distributed risk gradually evolved into what is the stock market today. In its essence, One Belt One Road is reminiscent to sending fleets of explorers to the unknown, though there lies a crucial difference: the economic development model of contemporary China is structurally aversive to growth of the capital market.

This is where Hong Kong and Singapore can fill in the gap, to act as risk-decentralizer of China and as a magnet for individual investment. However, despite the Hong Kong Exchange's effort to attract foreign enterprise, only 6% of the net value were from foreign companies. On top of that, out of that 6%, the companies with most fund raised were from USA, Switzerland and Italy. For Hong Kong to utilize its IPO capacity, it, too, must look beyond China and connect with the global community.

Decades into Hong Kong's transition into Chinese hands, the commercial optimism among Hong Kongers toward China is crystallized into the proverbial line of 'Look North Towards China' (北望神州). Recently, however, there is a trend of looking only north to China and losing sight to the outside world, as China took up 39% of export in Hong Kong and for Hong Kong to aid Beijing's quest to spread its risk in Central Asia, it must first diversify its list of clientele.

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