



Chapter 2

Opportunities for Hong Kong under the Belt and Road and the New Economy*

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Overview

The global economy features two major economic waves, namely “production globalization” during the thirty years before 2010, and “consumption globalization” in the three decades after that. When new economic development is combined with the second economic wave, two important phenomena can be noticed. First, emerging economies are becoming the core platform for the second global economic wave. Second, unlike the traditional economy, the development of the second economic wave does not require a vast quantity of land, substantial resources, or mass production. Instead, new values are created in large new markets by means of innovative ideas, patterns, and channels, which allows SMEs, micro enterprises, and even individual entrepreneurs to take part in the global competition. The reform of the global supply chain landscape under the Belt and Road Initiative presents three new trends, namely the transformation from one-way supply chains to multidirectional ones, from offline supply chains to omni-channel ones, and from services for large enterprises to those for SMEs. To seize opportunities in the two major economic waves and the Belt and Road Initiative, Hong Kong can work in three aspects: establishing a complete industrial chain in line with the “going global” aspiration of Mainland enterprises; vigorously developing the new economy; and striving to become Asia’s angel investment center through innovative financial services. In short, Hong Kong’s future development opportunities lie in the provision of services for the large number of consumers, SMEs, and micro enterprises along the Belt and Road by means of innovative models in the new economy.

I. New Trends in the World Economy and China's Economy and the Internet-Based New Economy Driven by Innovation

1. Two Major Economic Waves in the Thirty Years before and after 2010

The global economy features two major economic waves, with one during the thirty years before 2010, and the other in the three decades after that.

The first economic wave, occurring between 1980 and 2010, is what I call “production globalization.” During those three decades, different parts of consumer goods production scattered around the world, and manufacturers in different regions were linked together by supply chain management, thus forming a supply chain network covering the entire globe. At the same time, there were 1.5 billion new workers in the labor market, providing a lot of manpower and intelligent resources. A majority of them came from the Chinese Mainland, and others from Southeast Asia, India, Europe, and so forth, injecting fresh blood into the global supply chain network. During that time, production costs and consumer goods prices were low, and the global economy was booming. Hong Kong's economy was able to grow rapidly at that time as it became an important coordinator in the global supply chain.

After 2010, as the production globalization continues, the world's economy has ushered in the second economic wave, which I call “consumption globalization.” The quality of life in developing countries has been improving along with the wage hikes over the years. According to estimates by Fung Business Intelligence, the world's middle-class population will increase by three billion in the coming thirty years. These middle-class consumers have huge spending power and most of them are from Asia, including the Chinese Mainland, India, Southeast Asia, the Middle East, and other developing countries and regions.

The rise of the emerging middle class has caused consumer spending, which was originally concentrated in developed countries namely Europe and the United States (or the OECD), to spread to other parts of the world, thus resulting in the wave of “consumption globalization.” Between 1980 and 2010, the share of consumer spending in developed countries in the global total fell from 84 percent to about 78 percent.¹ The ratio is expected to decline further to about 65 percent in 2040. In other words, the middle-class population in developing countries is growing significantly and is becoming a new consumer power that cannot be neglected,

which has brought about the second economic wave. This shift in global spending power will bring along dramatic changes in the world economy.

2. The Internet-Based New Economy Driven by Innovation

The widespread application of the Internet and mobile communication technologies in the business world has not only triggered the Internet-based new economy driven by innovation, but also created new business channels and modes of operation based on the Internet. Besides, many traditional economic constraints have been overcome. Scale, space, or region is no longer a limit. When new economic development is combined with the second economic wave, two important phenomena are noticed:

First, emerging economies are rapidly emerging and becoming the core platform in the second global economic wave, partly because their traditional business channels are not sophisticated yet. Besides, the new Internet-based business channels both have the late development advantage and can provide broad space for development.

Second, unlike the traditional economy, the development of the second economic wave does not require a large quantity of land, substantial resources, or mass production. Instead, new values are created in large new markets by means of innovative ideas, patterns, and channels, which allows SMEs, micro enterprises, and even individual entrepreneurs to take part in global competition. As a result, Millennials, Generation Z, and even the generations after them can get a slice of the cake in the second economic wave.

In sum, the key to grasping opportunities in consumption globalization and the new economic wave lies in serving the large number of emerging consumers, SMEs, and micro enterprises in developing countries via the Internet and the mobile Internet.

II. Three Major Trends in Global Supply Chain Transformation under the Belt and Road

While the macroeconomic trends are important, we must also have in-depth understanding and knowledge of China's national conditions and its economic development. What will be China's needs in the process of further reform and opening-up? What role can Hong Kong play in the process? If Hong Kong is to

become an outstanding intermediary, it is imperative to understand what the Chinese Mainland think of itself and, more importantly, what it is like in the eyes of other countries and regions.

China's economy is shifting from high-speed to modest growth in the "New Normal." The nation no longer takes economic growth as its sole pursuit. Instead, it also pays attention to gender equality, energy conservation, environmental protection, and other important elements to promote social progress.

Thanks to the reform and opening up starting in 1978, China has now become the second largest economy in the world and is expected to become the biggest economy in the near future. It must be pointed out that the two global waves of consumption globalization and the new economy overlap geographically with the national policy of the Belt and Road proposed by Chinese leaders in 2013. They all focus on the huge emerging market in developing countries, which will play an essential role in the global economic trends and development in the next three decades.

In terms of scale, the Belt and Road covers 4.4 billion people in more than sixty countries, accounting for about one-third of the global GDP and the total consumption at present. Among countries along the Belt and Road, those along the Belt in the north, namely the land route of the Silk Road, account for about 25 percent of the total economic volume and the total population, while those along the Road, that is, the sea route, account for 75 percent.

In terms of strategic layout, the land route in the north serves as a channel through which resources and commodities are transported to China, while the sea route in the south enables the export of Chinese products and industries to related countries. In other words, the Belt and Road will provide the resources and markets needed for China's transformation and development in the future.

Besides, the Initiative will have a far-reaching impact on the global industry segmentation and development landscape. On the one hand, the infrastructure construction along the Belt and Road will give rise to new production and consumption bases. On the other, the new financial system intended to serve the Belt and Road, including the AIIB, will greatly promote the internationalization of the renminbi and rectify inadequacies in the current international financial system. It will also facilitate diversification in the world's economic and political landscape and enhance China's international influence.

There is no doubt that the successful implementation of the Belt and Road strategy will accelerate the transformation of the global supply chain landscape. I can observe three trends as follows:

1. From One-Way Supply Chains to Multidirectional Ones

First of all, the rise of the emerging middle class and the wave of consumption globalization have changed the traditional supply chain model of “production in the East for consumption in the West.” The global supply chain is becoming more subtle, complex and multi-directional. In the past, products manufactured in Asia, especially in China, were exported to Europe and the United States. The global supply chain was basically unidirectional. Now, thanks to the rapid rise of consumer power in countries along the Belt and Road, a new network-based supply chain landscape is coming into shape, with “global production for global consumption.” Emerging non-OECD countries such as China and India are becoming important sources of consumption that cannot be ignored in the global supply chain, which presents new opportunities and challenges to global companies.

2. From Offline Supply Chains to Omni-channel Ones

While the direction of the supply chain has changed, so has its pattern. On the retail side, we can see clearly that the rise of the digital economy and e-commerce is reshaping the entire retail industry. The omni-channel model combining both online and offline services will replace the traditional “brick-and-mortar” stores and become a future development trend of the retail industry.

Such a shift in retail terminals will have a huge impact on every aspect of the upstream of a supply chain. The trends we have noticed so far include the fragmentation of orders, more challenging logistics requirements, the transition from mass production to mass customization, and so forth.

In the past, producers and consumers were connected through traditional channels, and the global supply chain was basically a single-channel one. Now, countries along the Belt and Road are eagerly embracing the wave of the new Internet-based economy, in which China has become a global leader. Therefore, it is necessary to find new solutions for different parts of our global supply chain, including demand forecasting, production layout, inventory management, warehousing and logistics, distribution model, and technology integration, so that online and offline distribution channels can be closely integrated to form a new model with an omni-channel supply chain.

3. From Services for Large Enterprises to Those for SMEs

As a third important trend, the rise of non-OECD countries and the rapid development of their e-commerce are enabling the participation of more SMEs and even micro enterprises into the global supply chain. In the past, many of China's foreign trade companies, including Li and Fung, mainly served relatively sophisticated and well-organized enterprises with a good payment system, especially larger ones in OECD countries. Now, in China, India, and other non-OECD countries along the Belt and Road, millions of SMEs and micro enterprises are becoming major players. Their models of procurement, distribution, retail, and logistics are quite different to the sophisticated ones that we are familiar with, which undoubtedly poses a huge challenge for supply chain management. Therefore, it is also necessary to explore effective ways to serve SMEs and even micro enterprises under the Belt and Road.

III. Proposed Measures for Hong Kong to Seize Opportunities in the Two Major Economic Waves and the Belt and Road

1. Establishing a Complete Industrial Chain in Line with the "Going Global" Aspiration of Mainland Enterprises

On the whole, consumption globalization, the second economic wave and the Belt and Road will be major setting for Hong Kong's future development. Young people in Hong Kong should see the big picture and gain a foothold in the landscape. To do so, they must have in-depth knowledge of China's national conditions, effective connections with neighboring countries, and a thorough understanding of global trends.

The 1980s witnessed the beginning of international funds flowing into China and Chinese products being exported to the international market. Hong Kong seized the opportunity and has successfully developed into a financial, trade, shipping, and professional service hub in the Asia Pacific region.

More than three decades later, Chinese capital has begun to "go global" along the Belt and Road, while products from all over the world have started to flow into the Mainland consumer market. Faced with this tremendous change, Hong Kong should actively adjust its development direction, facilitating the economic transformation of the entire country and that of its own, in the process of Mainland