

Legislative Council House Committee

Latest Progress of the Work of the Hong Kong Special Administrative Region in Complementing the National 12th Five-Year Plan

PURPOSE

Following the special meeting on 20 May 2011, this paper updates Members on the latest progress of the work of the Hong Kong Special Administrative Region (the HKSAR) in complementing the National 12th Five-Year Plan.

BACKGROUND

2. The “Outline of the Twelfth Five-Year Plan for the National Economic and Social Development of the People’s Republic of China” (the National 12th Five-Year Plan) passed at the 4th Session of the 11th National People’s Congress held in March this year unprecedentedly includes a dedicated chapter (the Dedicated Chapter) on the Hong Kong and Macao Special Administrative Regions. This demonstrates the support given by the Central Government to Hong Kong in various aspects. The relevant highlights include the support for Hong Kong in –

- (a) further consolidating and elevating its competitive advantages, including Hong Kong’s status as an international centre for financial services, trade and shipping; and in developing into an international asset management centre and an offshore Renminbi (RMB) business centre, so as to strengthen Hong Kong’s global influence in the financial sector;
- (b) nurturing emerging industries and facilitating the latter in extending their fields of co-operation and scope of service in the Mainland; and
- (c) deepening its economic co-operation with the Mainland, including the on-going implementation of the “Mainland-Hong Kong Closer Economic Partnership Arrangement” (CEPA), deepening co-operation among Guangdong, Hong Kong and Macao and implementation of the “Framework Agreement on Hong Kong/Guangdong Co-operation” (the Framework Agreement).

LATEST PROGRESS

3. During his visit to Hong Kong in August this year, Vice Premier of the State Council, Mr LI Keqiang, announced a series of concrete policies and measures formulated by the Central Government under the requirements of the National 12th Five-Year Plan to support Hong Kong in further developing and deepening its co-operation with the Mainland. There are more than 30 policies and measures (the New Supporting Policies and Measures) (see **Annex**) covering areas such as economic and trade, finance, society and people's livelihood, tourism and co-operation between Guangdong and Hong Kong, with the overall objective of enhancing development in the following six major areas-

- (a) increasing the Mainland's opening to Hong Kong in trade in services significantly;
- (b) consolidating and upgrading Hong Kong's standing as an international financial centre;
- (c) supporting Hong Kong in developing into a centre for offshore RMB business;
- (d) supporting Hong Kong in its participation in international and regional economic co-operation;
- (e) helping enterprises in both the Mainland and Hong Kong to "go global" together; and
- (f) giving full play to Hong Kong's important role in Guangdong-Hong Kong-Macao co-operation.

4. The Dedicated Chapter and the announcement of the New Supporting Policies and Measures signify a landmark progress in the HKSAR's work in complementing the National 12th Five-Year Plan. The Dedicated Chapter enshrining the "One Country, Two System" principle highlights the important functions and positioning of Hong Kong in the national development strategy, maps out the direction of co-operation between the Mainland and Hong Kong during the National 12th Five-Year Plan period, and provides a solid policy framework for the coming implementation work. The New Supporting Policies and Measures announced by the Vice Premier LI Keqiang in August further crystallise the Central Government's three major directions of support to Hong Kong into concrete deliverables, enabling the HKSAR to implement the complementing work to the full.

5. The New Supportive Policies and Measures reflect the Central Government's firm resolve to support Hong Kong's development. They also open up new horizons and room for further development matching the practical needs of Hong Kong. On economic development, those measures relating to finance, economic and trade, as well as Guangdong-Hong Kong co-operation are the most important. The major contents and latest development in these three areas are summarised in the following paragraphs.

Finance

6. Hong Kong possesses unique advantages for developing into an international centre for financing, asset management and offshore RMB business, and as a focal point for attracting capital and talents. Riding on the clear direction promulgated in the Dedicated Chapter, the New Supportive Policies and Measures further set out the concrete policy of opening up the Mainland to Hong Kong in the financial area as a priority. We have already achieved substantive results in the area of offshore RMB business, for example –

- (a) In the first eight months of 2011, RMB trade settlement conducted through Hong Kong banks had already reached RMB1,138.8 billion, far exceeding the aggregate sum of RMB369.2 billion last year;
- (b) As at the end of August this year, RMB deposit in Hong Kong increased to RMB609 billion, representing an increase of more than 90% compared with the year-end figure of 2010; and
- (c) Including the RMB20 billion RMB sovereign bonds announced in August, RMB-denominated bonds totalling about RMB85.4 billion have been issued in Hong Kong this year, doubling the annual sum of RMB35.8 billion last year.

7. Among the New Supporting Policies and Measures announced, more than ten of them are related to finance. The key measures include –

- (a) supporting and encouraging Hong Kong enterprises to use RMB for direct investments in the Mainland;

- (b) allowing investments in the Mainland equity market by means of the RMB Qualified Foreign Institutional Investor (RQFII) scheme;
- (c) allowing more umbrella Mainland financial institutions to issue RMB-denominated bonds and Mainland enterprises to issue RMB-denominated bonds in Hong Kong; gradually expanding the scale of issuance of RMB-denominated bonds in Hong Kong by Mainland institutions;
- (d) launching of an Exchange-Traded Fund (ETF) constituted by Hong Kong listed stocks in the Mainland; and
- (e) providing continuous support to encourage the listing of Mainland enterprises in Hong Kong.

8. The relevant bureaux of the HKSAR Government are making their best endeavour to implement the new policies and measures. Take the measure of using RMB for direct investment in the Mainland as an example, the Ministry of Commerce and People's Bank of China have promulgated the "Notice on Cross-border RMB Foreign Direct Investment" and "RMB Foreign Direct Investment Settlement Rules" on 14 October 2011, both of which have taken effect on the same day. For bonds issuance by Mainland enterprises, the State Council approved last month the first non-financial institution in Hong Kong, Baosteel, to issue RMB6.5 billion worth of RMB-denominated bonds. Further, the Financial Secretary, Secretary for Financial Services and the Treasury, and Chief Executive of the Monetary Authority visited Beijing from 18 to 21 October 2011 to meet with the concerned ministries of the Central Government to follow up the implementation of the measures concerned. The response was very positive. Key progress includes –

- (a) We understand that the drafting of rules and regulations concerning the launching of an ETF constituted by Hong Kong listed stocks in the Mainland has reached its final stage, which are expected to be promulgated shortly;
- (b) The Hong Kong Stock Exchange is in discussion with their counterparts in Shanghai and Shenzhen to set up a joint-venture company. Possible co-operation areas include the development of index-based products, equity derivatives, and compilation of new equity indices;

- (c) The China Securities Regulatory Commission, People's Bank of China, and State Administration of Foreign Exchange are discussing the technical details of the RQFII scheme, which are expected to be implemented shortly; and
- (d) Both the Mainland and the HKSAR will proactively follow up the proposal to lower the threshold for Hong Kong insurance companies to enter the Mainland market, with a view to enlarging the scope of co-operation on insurance between the two places.

9. The above measures are conducive to further enhancing Mainland-Hong Kong co-operation on financial services. Leveraging the unique advantages of the "One Country, Two Systems" principle, the HKSAR plays an important role as a "firewall" and "testing ground" facilitating the process of RMB regionalisation and internationalisation, enabling the formation of a virtuous loop of RMB circulation between the Mainland and Hong Kong in a controlled manner and promoting further development of the two markets. Benefiting from these measures, Hong Kong's position as an international financial centre will also be further strengthened.

Economic and Trade

10. Since the reunification, the Mainland and Hong Kong have made remarkable progress in economic and trade co-operation. The signing of CEPA in 2003 has fostered closer ties between the two places trade in goods and services. Seven Supplements to CEPA have been signed. Some 280 market liberalisation and trade and investment facilitation measures in 44 service sectors have been promulgated so far. These measures have brought plenty of benefits and preferential treatments to businesses in Hong Kong. The Mainland and Hong Kong have also agreed on CEPA origin rules for over 1,600 Hong Kong products, which enjoy zero-tariff on importation into the Mainland.

11. CEPA is an important platform to promote the development of service industries in Hong Kong and in the Mainland, and to enhance the integration of service industries in the two places. The Central Government has clearly indicated that it will further open up its markets for Hong Kong's service sectors, and strive to sign Supplement VIII to CEPA within this year with a view to providing better market access for Hong Kong businesses entering the Mainland market, lowering the thresholds for Hong Kong service suppliers, substantiating trade and investment facilitation measures, and broadening the scope of CEPA beneficiaries. The further objective is to basically achieve, through

CEPA, liberalisation of trade in services between the Mainland and Hong Kong by the end of the 12th Five-Year Plan period.

12. The HKSAR Government will continue to follow up actively with the relevant authorities in the Mainland regarding the signing of Supplement VIII to CEPA within this year and the policy objective of basically achieving liberalisation of trade in services between the Mainland and Hong Kong by the end of the 12th Five-Year Plan period.

Hong Kong/Guangdong Co-operation

13. Hong Kong/Guangdong co-operation plays a crucial role in the overall co-operation between Hong Kong and the Mainland on account of the geographical proximity and close economic and trade ties between Hong Kong and Guangdong. The Dedicated Chapter emphasises, in particular, the need to deepen Hong Kong/Guangdong co-operation and to implement the Framework Agreement. It sets out the support for the opening up of Guangdong market to Hong Kong's service industries through CEPA early and pilot implementation measures, and the target for early implementation of major Guangdong-Hong Kong-Macao co-operation projects, with a view to accelerating economic integration and the flow of people, capital, goods and information between the two places. The common objective of Hong Kong and Guangdong is to fully leverage the relative advantages of the two places to elevate the economic and urban development of the entire Pearl River Delta Area, and to contribute to the development of other regions by sharing our experience with them.

14. The implementation of the Framework Agreement in 2011 has been satisfactory. A total of 71 priority projects covering a wide range of areas including cross-boundary infrastructure facilities, modern service industries, manufacturing industries and innovation and technology, global business environment, quality living area, education and personnel, major co-operation areas, and regional co-operation plans etc. The two sides have also signed five letters of intent and co-operation agreements. The development of the two key development zones identified under Hong Kong/Guangdong co-operation, namely Qianhai and Nansha, has also attained remarkable progress.

15. In respect of Qianhai, the National 12th Five-Year Plan has once again affirmed the positioning of Qianhai as the "Hong Kong-Guangdong modern service industry innovation and co-operation exemplary zone". The Shenzhen Municipal Government takes the lead in the development and management of Qianhai, while the HKSAR Government will continue to advise on the development planning as well as the

deliberations and formulation of related policies. The Guangdong Provincial Government has already agreed to extend the service area of foreign-invested enterprises engaging in service industries and operating in Qianhai to the entire province; to delegate some of the administrative approving powers to the Qianhai authorities; to support the early and pilot implementation of CEPA in Qianhai; and to assist in accelerating the development of transport infrastructure connecting Qianhai and neighbouring areas.

16. In respect of Nansha, the HKSAR Government and the Guangzhou Municipal Government signed the “Letter of Intent between Hong Kong and Guangzhou on Co-operation in Pushing Forward the Development of Nansha New Area” in August this year, and agreed to set up a working group on Hong Kong-Guangzhou co-operation to jointly take forward the development of Nansha. The working group will look into measures to facilitate the upgrading and transformation of Hong Kong-invested enterprises, establishment of a co-operation exemplary zone for early and pilot implementation of CEPA, and co-operation on social services and welfare etc. The objective is to tap into the opportunities offered by the development of Nansha to develop a larger hinterland for Hong Kong enterprises and service providers, so as to benefit the people of the two places.

17. Governments of the HKSAR and Guangdong will continue to liaise closely and work together to draw up the work plan on key initiatives for 2012 and will further deepen co-operation between the two places by making good use of the Framework Agreement.

Conclusion

18. To conclude, the HKSAR Government has been proactively taking forward the implementation work in complementing the National 12th Five-Year plan. The HKSAR Government has also strengthened the existing cross-bureau steering committee to oversee the overall co-ordination of bureaux’ efforts and follow-up work. We will continue to liaise with the relevant ministries of the Central Government and the provincial and municipal governments to implement the various supporting policies and measures.

Constitutional and Mainland Affairs Bureau
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(Unofficial English translation for reference only)

Measures supporting the economic and social development of Hong Kong promulgated by the Central Government during the “Forum on 12th Five-Year Plan and Mainland-Hong Kong Economic, Trade and Financial Co-operation” on 17 August 2011 –

1. Economic and Trade

- (1) Further increase the opening of the Mainland to Hong Kong in trade in services. Striving to basically achieve full liberalisation of trade in services for Hong Kong via CEPA by the end of the 12th Five-Year Plan period; simplifying the approving procedures and implementing the various preferential arrangements in CEPA and its relevant supplement agreements; expediting discussion on the signing of Supplement VIII to CEPA by the end of 2011, with a view to further intensifying the liberalisation of the trade in services, further beefing up the substance of investment facilitation measures and pushing forward the implementation of the early and pilot measures in Guangdong and other provinces (municipalities).
- (2) Continuing to support Hong Kong in actively participating in multilateral and regional economic co-operation. The recent focus is to support Hong Kong in participating in the regional co-operation in East Asia, and in this regard, exploring the possibility for Hong Kong to join the free trade agreements already signed by the Mainland. Consideration will also be given to support Hong Kong in directly negotiating with trading partners which have already signed free trade agreements with the Mainland. In the future, when negotiating free trade agreements with foreign countries, more consideration will be given to Hong Kong’s interests and concerns. Efforts will also be made to step up co-ordination and interaction between the Mainland and Hong Kong in the World Trade Organisation and the Asia Pacific Economic Co-operation, with a view to enhancing Hong Kong’s involvement in economic co-operation at both multilateral and regional levels.
- (3) Helping enterprises in both the Mainland and Hong Kong to “go global” together. Encouraging enterprises of the two sides to leverage Hong Kong’s competitive edges in services in the areas of

finance, law, accounting and investment consultation etc. and jointly explore the international investment and infrastructure development markets by means of joint investment, joint bidding and joint contracting of projects and other schemes.

- (4) Supporting the stable development, transformation and upgrading of Hong Kong-funded processing industries in the Pearl River Delta Region. Continuing to maintain a consistent policy on processing trade; promoting the establishment of exemplary zones for industrial transformation and upgrading in the Pearl River Delta Region, and promoting innovative management model; establishing a sound mechanism on facilitating domestic sales by processing industries; strengthening employment services and guidance; providing financial and insurance support etc; encouraging Hong Kong-funded enterprises to upgrade and restructure.
- (5) Supporting outside-Mainland enterprises (including Hong Kong enterprises) to use RMB for direct investments in the Mainland; revising the rules governing foreign direct investment projects.
- (6) Supporting the deepening of co-operation between the Mass Transit Railway Corporation and its counterparts in Beijing, Shanghai and Shenzhen in railway construction and operation, and its expansion to other cities including Hangzhou.

2. Finance

- (7) Launching of an Exchange-Traded Fund (ETF) constituted by Hong Kong listed stocks in the Mainland.
- (8) Providing continuous support to encourage the listing of Mainland enterprises in Hong Kong.
- (9) Allowing Hong Kong-funded corporate banks in the Mainland to engage in mutual fund business.
- (10) Vigorously implementing the various facilitating measures under CEPA; continued enhancement of opening to Hong Kong-funded banks in terms of both depth and width; supporting Hong Kong-funded banks in establishing a reasonable and balanced presence in Guangdong in the form of “cross-location” sub-branches;
- (11) Encouraging Hong Kong’s insurance companies to access the

Mainland's insurance market by setting up office or taking up stakes with a view to enhancing their participation in the development of the Mainland insurance market and enabling them to share the related opportunities; enhancing Mainland-Hong Kong co-operation in the development of insurance products, business operation and management etc.

- (12) Extending the Pilot Scheme for Cross-border Trade Settlement in RMB to cover the whole country, with a view to facilitating enterprises to use RMB to conduct trading and direct investment activities in Hong Kong, and enhancing Hong Kong status as the centre for RMB trade settlement.
- (13) Launching pilot projects for foreign-funded banks to replenish capital with RMB, with a view to facilitating Hong Kong enterprises and banks to invest in the Mainland.
- (14) Allowing more umbrella Mainland institutions to issue RMB-denominated bonds in Hong Kong. Allowing Mainland enterprises to issue RMB-denominated bonds in Hong Kong; gradually expanding the scale of issuance of RMB-denominated bonds in Hong Kong by Mainland institutions.
- (15) Carrying on the Pilot Scheme for Eligible Institutions (including non-Mainland central banks, RMB clearing banks in Hong Kong and Macao, and non-Mainland participating banks) to invest in Mainland's interbank bond market".
- (16) Promoting the innovation in the diversification of offshore RMB financial products in Hong Kong.
- (17) Allowing investments in the Mainland equity market by means of the RQFII scheme.

3. Livelihood and Social Issues

- (18) Adopting measures to safeguard supplies to Hong Kong. Co-ordinating the efforts of all concerned parties and taking necessary measures to ensure the stable supply of quality agricultural products, including staple food, meat, fruits, vegetables, as well as electricity and natural sand for the Hong Kong market.

- (19) Accelerating the construction work of the Hong Kong branch line of the Second Pipeline of the West-East Gas Transmission Project, with a view to commencing the supply of natural gas in the second half of 2012, and supplying a total of 3 billion cubic metres of natural gas to Hong Kong by the end of the 12th Five-Year period.
- (20) Allowing some Mainland universities to waive the entrance examinations for Hong Kong students. From 2012 onwards, some Mainland universities will, on a pilot basis, waive the requirements for results obtained in the “Joint College Entrance Examination for Hong Kong, Macao and Taiwan Students”, and will consider applications from Hong Kong students on the basis of their results obtained in the “Hong Kong Diploma of Secondary Education Examination”.
- (21) Enhancing co-operation between the Mainland and Hong Kong on innovation and technology by integrating the initiative with the related implementation plans on science and technology under the National 12th Five-Year Plan, with a view to speeding up the merging of Hong Kong’s resources on technology development with the overall national innovation regime.
- (22) Strengthening support in the development of innovation and technology industries in Hong Kong, further extending new modes of co-operation between the two places, such as supporting Hong Kong in establishing sub-branches of the Chinese National Engineering Research Centre, and bases for high-tech industries in suitable forms Hong Kong etc.
- (23) Further relaxation to allowing Hong Kong service providers to set up wholly-funded hospitals in all municipalities directly under the Central Government and provincial capital cities.

4. Tourism

- (24) Jointly promoting the quality of tourism services in the Mainland and Hong Kong; setting up a sound tourism market regulatory mechanism in both places; regulating the tourism enterprises to ensure honest and trustworthy business operation; protecting the legal rights of tourists; jointly promoting healthy and orderly development of the inbound tourism market from the Mainland to Hong Kong.
- (25) Taking forward joint overseas promotion on tourism; jointly developing multi-destination itineraries covering both Hong Kong and

the Mainland; effectively utilising overseas tourism exhibition activities to conduct joint promotion; further enhancing closer co-operation among overseas tourism offices of the two places.

- (26) Encouraging expanded scope of co-operation between the tourism enterprises of the two sides; encouraging and inducing capital flow and mutual investment among tourism enterprises of both sides; focused support for Hong Kong to set up travel agents in the Mainland; enhancing technology development on tourism and co-operation on development of tourism spots; discussing the way forward on the industrialisation of tourism business.
- (27) Taking measures such as joint personnel training and developing new operational modes in the Mainland with a view to stepping up the support for development of cruise vessels homeporting in Hong Kong.

5. Hong Kong/Guangdong Co-operation

- (28) Monitoring the implementation of the various initiatives under the Framework Agreement; vigorously pursuing the development of the Hong Kong/Shenzhen Modern Service Industry Co-operation Zone in Qianhai Area; and actively developing innovative finance, modern logistics, information services, science and technology services and other professional services.
- (29) Advising Guangdong, Hong Kong and Macao on the drafting and implementation of Guangdong-Hong Kong-Macao Regional Tourism Plan with a view to mapping out a long term development strategy on regional tourism co-operation; strengthening the development of barrier-free regional tourism; and vigorously developing world-class tourism and leisure destinations.
- (30) Incorporating the connection of the Mainland, Hong Kong and Macao into the National 12th Five-Year Plan on Comprehensive Traffic and Transportation System; completing the construction of the Mainland section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link by the end of 2011, and advancing step-by-step the connection of the latter with the Beijing-Guangzhou Passenger Line, Hangzhou-Fuzhou-Shenzhen Passenger Line and other eastern coastal express rail links. Pushing forward the construction of the Hong Kong-Zhuhai-Macao Bridge project with a view to realising the expressway connection among Hong Kong, Zhuhai and Macao. Priority will be given to joint-venture co-operation with Hong Kong

enterprises in taking forward the Yantian and Dachanwan Container Terminal development projects.

- (31) Promoting co-operation between the aviation industries of Hong Kong and the Mainland, including the Pearl River Delta region; improving the air traffic mechanism between the Mainland and Hong Kong; enhancing the regional air transport capacity.
- (32) Actively studying the construction of the Hong Kong-Shenzhen Express Rail Line linking the two airports of Hong Kong and Shenzhen.
- (33) Allowing Hong Kong professionals who have obtained professional qualifications in the Mainland in the area of construction through mutual recognition of qualifications to register and practise in Guangdong. They will enjoy the same treatment as Mainland professionals with the same professional qualifications.
- (34) Exploring ways to enhance the mode of association between law firms of the Mainland and Hong Kong under the Guangdong-Hong Kong and Qianhai Shenzhen-Hong Kong co-operation framework, with a view to deepening co-operation between the two sides on legal services.

6. Others

- (35) Expanding the scope of pilot product testing and certification undertaken by those Hong Kong testing organisations which possess the relevant capability to perform product testing and certification under the China Compulsory Certification (CCC) system and accredited by the accreditation body of the HKSAR Government (i.e. the Hong Kong Accreditation Service), to perform testing and certification for all products processed in Hong Kong which require CCC testing and certification.
- (36) Supporting Hong Kong to implement action plans to tackle climate change and take part in the national endeavour on the issue; supporting Hong Kong enterprises to launch clean development mechanism projects in the Mainland.

Note: In addition to the above 36 supporting measures, the Central Government has also announced or confirmed the following three supporting measures in mid-August 2011 –

- (a) Setting up of a joint-venture company being conceived by the Hong Kong Stock Exchange and its counterparts in Shanghai and Shenzhen with a view to developing index-based products;
- (b) Supporting the development of Hong Kong into an international arbitration centre, for the Asia Pacific region; allowing Hong Kong arbitration to provide services in Qianhai; and
- (c) Setting up a dedicated fund to sponsor 1 000 students and teaching staff of the University of Hong Kong to study in the Mainland each year from 2012 onwards.