

**Forum on 12th Five-Year Plan and Mainland-Hong Kong
Economic, Trade and Financial Cooperation
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**Sharing Opportunities for Common Prosperity
Forum on 12th Five-Year Plan and Mainland-Hong Kong
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1. Preamble

I would like to thank the organiser for inviting me to the forum. This is a very good opportunity that brings us together to explore new mode of trade and economic development and development directions of Hong Kong and Guangdong in the coming 30 years under the 12th Five Year plan. I have been engaged in international trade for over three decades. Coupled with my involvement in the work of the International Chamber of Commerce and the Greater Pearl River Delta Business Council in recent years, I have had more opportunities to deal with the local and international business and industry sectors. I will therefore speak more from the perspective of the businesses and share with you my observations based on my own business experience in Hong Kong and on the Mainland.

2. Foundation for global economic recovery is still weak

We could all feel from the past few weeks, the lingering presence of credit risks in Europe and the US. Global economic recovery is far from robust. At present, inventory level of businesses is on the low side, orders received are small and short-term orders have increased. This shows that consumer confidence in Europe and the US has not fully recovered. We have to remain vigilant. I can foresee another round of restructuring in European and American businesses with more mergers and take-overs taking place. Businesses will put more emphasis on high-value added and research and development. Corporations with strength will grow even bigger.

3. Global increase in operating cost, particularly in China

Another inevitable trend is the rise in operating costs. This is particularly prominent on the Mainland. Much pressure will be brought to the tens of thousands of Hong Kong manufacturers operating in Guangdong. The rise in cost can be attributed to various factors, including increase in prices of raw

material, rise in wages and improvement in staff benefits, the appreciation of RMB as well as higher customer expectation in relation to environmental protection and sustainable development and so forth. I notice that with rising costs, more overseas buyers are adopting the strategy of “China plus one”: suppliers are asked to outsource more of the production process to countries other than China, say, Indonesia, Vietnam, Bangladesh and so on. The aim is to reduce risks and costs.

4. A key theme in 12th Five Year plan is from “Made in China” to “Sold in China”

There is currently a global trend of shifting the economic axis towards Asia. Brands are attaching increasing importance to the development of the Asian market. From the perspectives of many multi-national corporations and Hong Kong, China will no longer be a mere production and procurement base but an enormous market with immense potential. The key theme in the 12th Five Year will be a shift from “Made in China” to “Sold in China”.

5. Integration of services industries – mode of economic cooperation of Hong Kong-Guangdong in the coming 30 years

Now, I would like to move on to the future development of Hong Kong and Guangdong in the context of the macro trade and economic environment mentioned above. In fact, the 12th Five Year plan does more than just giving support to Hong Kong in consolidating and enhancing its pillar industries of finance, trade and shipping and in nurturing the six industries where Hong Kong enjoys clear advantages. It also highlights support for the enhancement of Hong Kong-Guangdong cooperation and the opening up of the services industries through early and pilot implementation. Many Hong Kong entrepreneurs and I very much agree to that. The close cooperation of Hong Kong and Guangdong in the services and manufacturing industries in the past three decades serve as an example from which our country could draw reference in its reform and opening up. In the coming 30 years, I believe Hong Kong and Guangdong will continue to work closely together especially in strengthening cooperation in the services industries to add higher value to the economies of Hong Kong and Guangdong and to serve the market in the whole of China. During the 12th Five Year period, Guangdong proposes to expedite the transformation of the mode of economic development, adjust its economic structure and increase the weighting of the services industries. In Hong Kong, our services industries already account for over 90% of our GDP; and we would like to extend our service hinterland. We can see that there is strong complementarity between Hong Kong and Guangdong in the services industries. Cooperation will be conducive to strengthening the combined competitiveness of the Greater Pearl River Delta region in the international arena in the long run.

6. Making full use of the strong manufacturing base of Guangdong Businesses should be encouraged to switch from export to domestic sales

Guangdong has strong manufacturing industry and export capabilities. Given the development of China's domestic market, the key to the future development of Guangdong and Hong Kong lies in whether we could help manufacturers in Guangdong to upgrade in-situ, develop the domestic market, combine production with sales and coordinate the integration of domestic and external trade. Hong Kong has rich experience in developing overseas markets, supply chain management, wholesale and distribution as well as logistics. We should leverage our advantage to serve the Mainland market, thereby making Hong Kong and PRD the logistics, distribution and retail centre of the country as well as of the Asia-Pacific region.

7. Policy suggestions: Promoting the flow of four elements, making use of CEPA and cherishing talents

To coordinate the cooperation of services industries of the two places and to promote the integration of domestic and external trade under the principle of 'One Country Two Systems', the two sides may consider the following:

First, flows. It is an important element in the creation of an economic area. Guangdong and Hong Kong should improve the connectivity of their transport infrastructure. Customs and immigration formalities should also be streamlined and there should be co-location of clearance facilities at suitable boundary control points to facilitate the free flow of talents, capital, information and goods.

Given the pressure brought about by the slack European and US markets, we should further implement the 12th Five Year plan and the Framework Agreement on Hong Kong-Guangdong Cooperation, capitalise on CEPA in gaining access to the Mainland market, make the most of the demonstration zones of Qianhai in Shenzhen, Nansha in Guangzhou and Hengqin in Zhuhai and take forward early and pilot implementation in areas such as the harmonisation of standards in services industries and the policy of turning exports into domestic sales. We could then build a platform to vigorously promote domestic sales. In view of the institutional obstacles encountered by individual services industry, Guangdong and Hong Kong could make joint proposals to improve relevant legislation and regulations as well as supporting policies with a view to taking forward development of the services industry so that more overseas businesses will set up headquarters in GPRD thereby generate demands and creating jobs.

Last but not least, we should focus more on training our talents. This includes university education and staff training by businesses. The quality of the workforce is the deciding factor of the long-term competitiveness of a region. In the 12th Five Year, China aims at increasing the GDP percentage of the services industries from 43% to 47%. The importance of talents is all the

more pronounced as we develop modern services industries. It is also the basis for moving up the value chain. The two sides can promote cooperation and exchange in R&D and education to attract talents from all over the world and thus achieving a congregation of talents in the Greater Pearl River Delta.

8. Conclusion

In the 12th Five Year, our country is in a crucial stage of economic restructuring and social development, facing unprecedented opportunities and challenges. In this new historic stage, Hong Kong and Guangdong should seize the opportunities that are presented to us and take up the role of “testing ground” like they did in the past. On the success achieved and foundation laid in the past three decades, we should continue to press ahead “early and pilot implementation” and we must be courageous with innovation so we could chart a new direction for the future development of Hong Kong and the country. I believe that through the work of governments, businesses and communities, we can take economic development of Hong Kong and Guangdong to new heights and make new contributions to our country. Thank you.