

大珠三角商務委員會

The Greater Pearl River Delta
Business Council

**Hong Kong's Roles and Positioning in the
Economic Development of the Nation**

Recommendation Report

The Greater Pearl River Delta Business Council

September 2010

The full report can be viewed and downloaded from this link :
http://www.cmab.gov.hk/doc/report_20100919_en.pdf

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The Greater Pearl River Delta Business Council

Study Report on Hong Kong's Roles and Positioning in the Economic Development of the Nation

Executive Summary

2010 is the final year for the implementation of the 11th Five-Year Plan for National Economic and Social Development (11th Five-Year Plan). The Central Authorities are now compiling the 12th Five-Year Plan for National Economic and Social Development (12th Five-Year Plan) to lay out the blueprint and the direction for future development. It is against this background that the Greater Pearl River Delta Business Council (GPRDBC) has proposed to make this report. The objective is to explore Hong Kong's (HK) roles and positioning in the economic development of the nation with a view to putting forward constructive recommendations for the long-term development of the nation and HK.

This report consists of seven parts. The first four parts illustrate the new economic landscapes (both domestically and abroad) to be faced by the nation during the 12th Five Year Plan period (2011-2015), the development history of HK's economy, our established advantages and the challenges ahead. In view of the existing foundation and new situations, we have made in Part V an analysis from sectoral and regional perspectives of HK's roles and positioning in the national economic development, and put forward in Part VI recommendations in terms of directions and initiatives that can reinforce the above positioning.

In accordance with the premise of "One Country, Two Systems" and the principle of "reciprocity and mutual benefits", we have summed up the expectations of the GPRDBC regarding the 12th Five-Year Plan at the end of the report in Part VII for reference by the government departments concerned. We hope that the Central Authorities will consider the following points when drawing up the 12th Five-Year Plan Outline:

From a Sectoral Perspective

- Consolidating and enhancing HK's position as an international financial centre, a trade centre, and a shipping (sea and air freight) and logistics centre; actively exploring HK's development into an offshore Renminbi centre; supporting and promoting the development of HK's services industry, especially the six priority industries (i.e. testing and certification services, medical services, innovation and technology, cultural and creative industries, environmental industries and education services); and proactively identifying new engines of economic growth.

From a Regional Perspective

- Supporting HK and Guangdong (GD) to make use of the "early and pilot implementation" arrangements in innovative domains and to continue under the principle of reciprocity and mutual benefits to serve as a testing field for and a pioneer in deepening the national reform, and thus exerting a positive and exemplary influence on the whole nation.
- Giving full consideration to the Outline of the Plan for the Reform and Development of the Pearl River Delta and the Framework Agreement on HK/GD Co-operation, and

elaborating on the topic of regional development with highlights on the positions and functions of HK and GD in the 12th Five-Year Plan Outline; further implementing and deepening Closer Economic Partnership Arrangement (CEPA), leveraging the strengths of HK's services industry, and promoting integration between the services industries of HK and GD with a view to facilitating PRD's development towards a higher-added-value economy, building jointly a world-class metropolis with a better quality living environment, and co-ordinating the pioneering development and reform of HK and GD with the development of the central and western regions of the nation.

- Moving towards seamless connections of the flows of people, vehicles and goods; improving the network of cross-boundary infrastructure; and reinforcing the position of HK and GD as a modern economic circulation sphere, a gateway for Asia to access global markets as well as a hub of regional headquarters for multi-national enterprises.

Follow-up Actions

We consider that:

- The government departments concerned may formulate implementation and execution plans in accordance with the parts relating to HK in the 12th Five-Year Plan Outline.
- Efforts should be made to persuade the Central Authorities to take full account of HK's roles and positioning when formulating major specific plans in the future, so that HK can participate and complement the planning as appropriate.
- HK should start during the 12th Five-Year Plan period to conduct preliminary preparations and studies for the 13th Five-Year Plan in order to garner more participation, support and recognition from all walks of society.
- With regard to the systemic obstacles hampering the development of individual service industries, the Governments and industries concerned of HK and GD should make recommendations to and solicit support from the Central Authorities, and then put forward concrete remedial and implementation measures so that the development of the services industry can be taken forward through a gradual improvement of the relevant laws and regulations of the nation and genuine enforcement of the implementation details and supporting policies of CEPA on liberalising various industries.

The Greater Pearl River Delta Business Council

Hong Kong's Roles and Positioning in the Economic Development of the Nation

Recommendation Report

I. Preamble

2010 is the final year for the implementation of the 11th Five-Year Plan for National Economic and Social Development (11th Five-Year Plan), and the Central Authorities are now compiling the 12th Five-Year Plan for National Economic and Social Development (12th Five-Year Plan) to lay out the blueprint and the direction for future development. In this new context, Hong Kong (HK) should build on its past successes and map out a bright future by capitalising on its special status and roles under the “One Country, Two Systems” framework and combining forces with the Pearl River Delta (PRD) Region in Guangdong (GD), with a view to playing a more active role in promoting the national economic development.

In view of the 12th Five-Year Plan under compilation by the Central Authorities, the Greater Pearl River Delta Business Council (GPRDBC) conducted a special workshop on the 12th Five-Year Plan in late June 2010 to lay down the outline, working arrangements and timetable of this report. The objective was to make an in-depth examination of HK’s roles and positioning in the economic development of the nation and put forward useful recommendations for the long-term development of the nation and HK. With Members’ support, it was decided in the workshop that the four standing Sub-groups under GPRDBC (i.e. Cross-boundary Passenger and Cargo Flow Sub-group; Services Industry Development and Human Resources Sub-group; Joint Investment and Trade Promotion Sub-group; and Sustainable Development Sub-group) would be tasked with putting forward key recommendations within their respective domains. (Please refer to the Annexes for the proposals of the four Sub-groups.)

To enhance the contents of this report, views and comments have been collected through consultations with the Mainland and government departments, academics and trade representatives in HK, and reference has been made to documents, reports and information published by various organisations on the National 12th Five-Year Plan.

The beginning parts of the report will illustrate the new economic situations arising domestically and abroad in the period of the National 12th Five-Year Plan (2011-2015), the development history of HK’s economy, our established strengths and the challenges ahead. On the basis of the existing foundation and new situations, we will examine from sectoral and regional perspectives HK’s roles and positioning in the national economic development, and put forward recommendations in terms of directions and initiatives that can reinforce the above positioning. In the conclusion, we will sum up GPRDBC’s expectations regarding the 12th Five-Year Plan for reference by the government departments concerned.

II. Macro-background - New Economic Situations Arising Domestically and Abroad in the Period of the National 12th Five-Year Plan

2.1 New Domestic Economic Situations

2.1.1 Changing the Approach of Economic Development and Adjusting and Optimising the Economic Structure

The financial tsunami hitting hard on Mainland's export trade has brought to light the problem of structural over-reliance on trade and investment in its economy. The Mainland is fully aware that it has to accelerate changes in its mode of economic development and optimise its economic structure in order to achieve sustainable development. We will sum up the way forward for the national future economic development with emphasis upon the two directions below:

(a) Deepening Economic Reform and Enhancing Capability of Self Innovation: While the Mainland is a major industrial country, the majority of its enterprises has long been at the bottom of the industrial chain. This has given rise to serious environmental pollution and social problems. In the Mainland, the major obstacle for upgrading its industrial structure lies in the lack of self innovation capability. Because of declining demographic dividend, the phenomenon of "peasant worker shortage" has emerged in some cities and provinces. Thus, the nation is vigorously assisting and encouraging enterprises to restructure and upgrade themselves with a view to moving to up the upper end or down to the lower end of the industrial chain which are higher value-added parts. Enterprises should attach importance to quality, brand name and standards setting. They should also be proactive in engaging themselves in emerging strategic industries, including those of new energies, new materials, energy conservation and environmental protection, biomedicine, information network and high-end manufacturing industries. The objective is to gain the first-mover advantages in future global economic competition, narrowing the gap between the Mainland and the developed countries.

(b) Boosting Domestic Demand and Expediting the Development of Services Industry: In 2009, Mainland's services industry accounted for 43.4% of its gross domestic product (GDP), lower than the average percentage of the services industry in middle-income countries according to information of the World Bank¹. As such, the future national policy will focus on the vigorous development of producer services industry, including, among others, finance, logistics, information, research and development (R&D), industrial design, commerce and energy conservation and environmental protection services. On top of this, facilitating integration of services industry and modern manufacturing industry; boosting domestic demand and improving people's livelihood will also be

¹ In 2009, Mainland's tertiary industry accounted for 43.4% of its GDP. According to the information provided by the World Bank, the GDP percentages of services industry in middle-income countries and high-income countries were 53% and 72.5% respectively in recent years.

important directions of development. Therefore, the GDP proportion of the services industry must be increased.

2.1.2 Strengthening Environmental Protection, Promoting Energy Conservation, Reducing Emissions and Developing Low-carbon Economy

30 years on since its reform and opening-up policy, the Mainland has attained spectacular achievements in economic development. Nevertheless, this has put enormous pressure on its environment, posing also a threat to sustainable development. As such, enhancing energy and resource conservation as well as ecological and environmental protection, and facilitating the development of green economy, low-carbon economy² and circular economy have become fundamental national policies in the process of the national socio-economic development.

2.1.3 Entering a Period of Rapid Urbanisation

Since 1996, Mainland's urbanisation rate has been rising at an annual average of 1.3% higher than the annual average growth rate of 0.3% to 0.5% for urbanisation in other parts of the world. By end 2009, the urbanisation rate of the Mainland has reached 46.6% with a township population of 622 million. Some experts have predicted that the Mainland will enter a stage of rapid urbanisation during the period of 12th Five-Year Plan, where a lot of investment and consumption demands will be created. This in turn will provide impetus for growth of Mainland's economy in the long run.

2.1.4 Entering an Era of High-Speed Rail

During the 12th Five-Year Plan period, the Mainland will enter an era of high-speed rail³ when an express passenger rail network consisting of "Four Vertical, Four Horizontal"⁴ rail lines will basically take shape. By then, Mainland's passenger rail lines and intercity railways, mostly high-speed railways, will link up all its major areas such as Boihai-Rim, Yangtze River Delta, PRD, Changsha-Zhuzhou-Xiangtan, Chengdu-Chongqing, central plain city cluster, Wuhan city rim, Guanzhong city cluster and the city cluster of the west coast of Taiwan Strait, covering 80% of cities with over half-million population in the Mainland. As its railway networks expand, Mainland's regional economic layout and industrial structure will also change.

² The National Development and Reform Commission has issued a "notice on launching a pilot project of low-carbon province and city" which confirms that a low-carbon project will be implemented in five provinces: GD, Liaoning, Hubei, Shaanxi and Yunnan, and the eight cities: Tianjin, Chongqing, Shenzhen, Xiamen, Hangzhou, Nanchang, Guiyang and Baoding.

³ According to the Medium and Long-term Railway Network Plan of the Ministry of Railways, Mainland's length of railways in operation is expected to measure over 120 000 km by 2020.

⁴ Four Vertical: Beijing-Shanghai passenger rail line; Beijing-Wuhan-Guangzhou-Shenzhen passenger rail line; Beijing-Shenyang-Harbin passenger rail line; and Shanghai-Hangzhou-Ningbo-Fuzhou-Shenzhen passenger rail line. Four Horizontal: Hangzhou-Nanchang-Changsha-Guiyang-Kunming passenger rail line; Qingdao-Shijiazhuang-Taiyuan passenger rail line; Nanjing-Wuhan-Chongqing-Chengdu passenger rail line; and Xuzhou-Zhengzhou-Lanzhou passenger rail line.

2.2 New Global Economic Situations

Fragile Global Economic Recovery and Increased Trade Protectionism

While some economic indicators show that the global economy is stabilising, the recent Dubai debt crisis and the debt problem in the euro zone reflected that financial risks have yet to be eliminated. Besides, the exit policies of different countries may cause volatility in the investment markets, international commodity prices and exchange rates of major currencies, as well as increased protectionist measures targeting the Mainland. All these will lead to uncertainties in the global economic recovery. We are of the view that the following new economic situations on the global stage will arise during the 12th Five-Year Plan period:

(a) Regional Competition and Co-operation Becoming a World Trend:

Along with the formation of various free trade areas around the globe, such as the establishment and further development of North American Free Trade Area and European Union, and the full realisation of the ASEAN-China Free Trade Area in 2010, changes are taking place in the pattern of global economic competition. It is foreseeable that future competitions will be increasing between regions rather than between countries or cities.

(b) Global Economic Axis Shifting towards Asia and Uncertainties in Future.

The axis of global economic development is gradually shifting towards Asia, a trend of increasing prominence after the financial tsunami⁵. The financial crisis has affected all economies in varying degrees, but the economic performance in Asian markets has shown great resilience. In June 2010, the World Bank raised its forecast of global economic growth to 3.3% with developing countries taking the lead in the global recovery.

That said, the world economy is still subject to uncertainties, including the problems of sovereign debt risks unveiled one after another, rising camouflaged trade protectionism⁶ and the volatility likely to be caused by the exit policies of different countries, etc. Full recovery of global economy will be a slow and complicated process.

III. The Strengths of HK

During the past 30 odd years, HK has successfully metamorphosed from a light industry base into a centre of international finance, trading, shipping and logistics. Today, HK enjoys considerable competitive advantages worldwide, being among the top players in numerous competitiveness rankings in the world. According to a study of the Lucerne Institute of Management in Switzerland, HK is the second most competitive economy in

⁵ A number of rapid growing Asian countries have become the axis of global economic growth. As such, overseas enterprises have gradually shifted their focus towards Asia, increasing their operations within the region. Meanwhile, local enterprises in Asia and a slew of Mainland enterprises with solid foundation are ready to invest overseas. These overseas investments (including resources and financial investments) will require a service-intensive area to serve as an operational base. In view of the above factors, Asia will become a medium to long-term centre for global commercial activities.

⁶ Trade protectionism can take on myriad forms, including the linking of carbon emission with trade for levying a carbon tariff as contemplated by some countries.

the world in 2010. The Chinese Academy of Social Sciences, having compared the overall competitiveness of 294 Mainland cities above town level, found HK the most competitive city in the Mainland in 2009, ranking above Shenzhen, Shanghai, Beijing and Taipei. And it was the fifth consecutive year that HK was given the top ranking by the Academy. In 2010, the Heritage Foundation named HK as the world's freest economy for the 16th consecutive year. HK has its reasons for such remarkable achievements.

We believe that the strengths of HK lie mainly in its geographical location, international relation, services industry, human resources and technology, and standard systems etc. Nevertheless, when talking about HK's advantages, one should first make it clear that HK is implementing the principle of "One Country, Two Systems". According to the provisions of the Basic Law, HK's economic and social systems are different from those adopted in the Mainland cities. This is a very important premise.

3.1 Strategic Location within the Region

3.1.1 A Hub Connecting Northern and Southern Asia

The axis of global development is gradually shifting towards Asia. It is a worldwide trend of increasing prominence after the financial tsunami. As can be seen on a map, Asia looks like a large hourglass with HK and GD located at the waist, the Mainland, Japan, South Korea being the upper bulb, and the ASEAN countries, India and Australia the lower bulb. Viewing the entire Asia in this light, HK and GD are at a pivotal position that connects the upper and lower Asia, a mega hub linking the northern and southern parts of Asia. So as long as HK continues to improve its infrastructural co-ordination with GD, facilitating the flows of information, passenger, logistics and capital, its position cannot be easily replaced.

3.1.2 Close Ties with the Mainland

Historically, HK was a traditional entrepot providing services for the Mainland. However, during the period between 1949 and 1979, HK was segregated from the Mainland under the influence of embargo and other factors and could no longer play the role of conduit for the trading business with the rest of the world. Consequently, HK developed itself into a light industrial base. During HK's industrialisation process, the Mainland provided to HK a continuous and abundant supply of daily consumer goods of low price but good quality. This was an important factor that helped maintain HK's competitiveness as far as its wage levels and export products were concerned.

But from the 1970s onward, due to increasing land premium and labour cost, HK began to come under the competitive pressure from the other "three Asian tigers" and the ASEAN regions. It was at this critical time that the Mainland launched its reform and opening-up policy, giving HK a new drive for development. The opportunities afforded by the reform and opening-up of the Mainland since 1978 have allowed HK and PRD to develop close ties. With the relocation of manufacturing activities to PRD, the "front shop, back factory" model of division of work between the two places gradually took shape. Since then, PRD's light industrial development has grown exponentially, and the region has become the

most important base of export trade in the nation. Meanwhile, HK has resumed its traditional trading role, providing high value-added, production-oriented services for industries in the Mainland, particularly those in the PRD, and developing gradually into a major international financial, maritime and trade centre.

As shown in the historical development above, economic restructuring and division of work between HK and the Mainland have been essential to the sustained growth of both places over the past three decades. In the process of the Mainland's reform and opening up, the PRD has played the role of a "testing field" for exploring new directions for nation-wide economic development and acting as a positive role model for the rest of the nation.

As the Mainland and HK Closer Economic Partnership Arrangement (CEPA) deepens year by year, together with the promulgation of the Outline of the Plan for the Reform and Development of the Pearl River Delta, the signing and implementation of the Framework Agreement on HK/GD Co-operation, as well as the imminent formation of two regional co-operation plans of HK and GD, namely "Infrastructure Construction" and "Building a Quality Living Area", HK's role as the southern gateway to the Mainland will be strengthened. While assisting the national enterprises, capital and brand products to "go global", HK can also become the bridgehead for world enterprises and investments to enter the Mainland market.

Indeed, HK should not neglect its vast hinterland of the southwestern regions of the Mainland. In the Yangtze River area, the eastern regions of the Mainland fall within Shanghai's radius of economic interests; in the Pearl River area, the southwestern regions constitute an immense hinterland for HK and the PRD region. In this light, there will be a lot of opportunities and room for development for HK if it can strengthen its connections with the southwestern provinces and become their facilitator in accessing the global markets.

3.2 Well-Established International Networks

HK has always been an open economy, serving as a transportation, trading and communication hub of Asia. As an international gateway, it is closely integrated with other parts of the world. Through competing and co-operating with other nations, HK continues to improve, progress and innovate. Today, it has reached first-class international standards in various domains.

At present, HK has established an extensive international communication network that boasts very efficient flow of information. It has in hand an international clientele with sales orders coming from all over the world. In respect of maritime and air transport, HK has gained considerable market share or favourable transport routes/rights. Being an important financial, trading and logistics centre in the world, HK is a popular choice for multi-national enterprises to set up regional headquarters (See Annexes: Figure 1), and also a gateway to the Mainland for nations worldwide. When it comes to communication systems, HK possesses the most advanced electronic and fibre optic communication as well as satellite communication network systems in Asia. Its systems connect with Europe, United States, Middle

East and other regions in Asia in a more intensive way than the other cities in the Asia-Pacific region.

3.3 Robust Services Sector

The services sector in HK is well developed. Its GDP contribution has increased from 71% in 1987 to over 90% in 2008. Among the four pillar industries, their respective percentages are: trading and logistics accounts for 25.9%, financial services represents 16.1%, tourism 2.8%, and producer and professional services 11.9% (See Annexes: Schedule 1). By 2008, HK has become the world's 13th largest trading entity⁷, the 15th largest banking centre, the 6th largest centre for foreign exchange trading, and the 3rd largest stock market in Asia. Besides, HK has also exported services to the Mainland, such as MTR and airport management.

Take as an example the mode of co-operation between HK and Zhuhai on airport development. In October 2006, the Airport Authority HK and Zhuhai Municipal People's Government jointly financed the setting up of the HK-Zhuhai Airport Management Company Limited, which solely operates the Zhuhai Airport in form of trusteeship. Over the past three years, the Zhuhai Airport has been increasingly capable in facilitating people and cargo flows as well as the development of aviation industry, and its management and service standards are widely recognised by the community. The joint venture of Zhuhai Airport is a successful case of leveraging the strengths of HK's services sector and business management in the PRD, a case for reference in deepening the co-operation between HK and GD in the future.

3.4 Educational, Human Resources and Technological Advantages

HK has a number of high ranking universities⁸. It is also the gathering place in the Asia-Pacific Region for world talents. In respect of R&D, the tertiary institutions and some research institutes in HK possess large number of independent R&D technologies. HK is also rich in R&D personnel who have operational experience

⁷ Trading is an economic lifeline of a nation. It is estimated that about 90% of world trade is done through shipping. Since 1970s, a cluster of maritime enterprises has been formed in HK which included ship owners, ship financing banks and companies providing marine insurance, ship management, arbitration and legal services. Ever since the 1970s, HK has already become one of the world shipping centres, standing side-by-side with London, Norway, Greece and New York. Until the 1990s, there were three major changes in the shipping industry. First, owing to the rapid development of the Mainland and other Asian countries, the region has become not only a world factory, but also a major importer of raw materials. Second, the shipping industry in HK was finely developed into a marine services centre in the Asia-Pacific Region. A large number of Mainland and overseas trading companies and freight forwarders set up businesses in HK. Shipping industry continued to expand. Third, the popularisation of internet and intensifying global competition has laid the ground for rapid development of the logistics industry in HK. Today, HK's shipping and logistics industry has been operating for nearly 40 years. Due to the speedy development in the last two decades, the cluster of maritime enterprises has grown in number and expertise. At present, the cluster serves also Mainland and overseas businesses. Hence, HK occupies a very significant position in the trading activities in Asia.

⁸ According to the World University Rankings 2009 published jointly by institutions such as the famous UK higher education research institution, Quacquarelli Symonds, and Times Higher Education, the University of Hong Kong (HKU) ranked 24th, marginally after Japan's University of Tokyo which ranked 22nd in Asia. This is the second time that HKU made it to the top 25 since 2007. The Hong Kong University of Science and Technology ranked 35th whereas the Chinese University of Hong Kong ranked 46th.

in enterprises in the Silicon Valley of the United States. They possess advanced technological knowledge and skills and are familiar with how international capital markets work.

3.5 Sound Systems and Standards

HK has a sound legal system and is a relatively robust intellectual property rights protection regime. Its government administration is transparent, fair, clean and efficient. The conduct of public servants is sufficiently monitored by the public. Besides, the enterprises in HK boast a relatively high standard of corporate management. Its professional services sectors, including inter alia healthcare, legal services, architecture, surveying and accounting, are all in line with international standards. Moreover, they are self-regulated by credible trade associations or unions to ensure their professional ethics.

IV. Challenges Confronting Hong Kong

Facing the challenges ahead and changes in global economic structure, in particular when regional economic co-operation and competition has become a worldwide trend, it will be difficult for any individual city to compete on its own. But HK must not be intimidated by such difficulties. We should empower ourselves to meet whatever great challenges, identifying our own strengths and not losing sight of any challenges and hidden hazards down the road.

4.1 Escalating Competition within the Services Sector and the Dire Need for New Growth Engines

HK's economy is highly reliant on the services sector. Among others, our financial, trading and logistics industries make up 50% of our GDP and 30% of our employment posts (See Annexes: Schedules 1 and 2). However, these pillar industries are facing keener competition. For example, the Regional Plan for the Yangtze River Delta⁹ approved by the State Council in 2010 has set out three targets for Shanghai's strategic positioning, including a major international gateway to the Asia Pacific region, a global major centre of modern services and advanced manufacturing industries, and a world-class city cluster with enhanced international competitiveness. Meanwhile, Singapore is also endeavouring to strengthen its status as a financial centre in South-east Asia. These may bring considerable pressure to HK's financial services sector.

Besides, with the implementation and furtherance of the Free Trade Agreement between the Mainland and the Association of South East Asian Nations (ASEAN), the finalisation of Economic Co-operation Framework Agreement (ECFA) and the formation of PRD port clusters, the traditional intermediary role of HK and its function as a bridge in the trade and economic spheres may be challenged. Key industries such as trading, finance, shipping and logistics, as well as the job opportunities created, may also be influenced.¹⁰ Therefore while HK is consolidating its traditional pillar industries,

⁹ The full text of the Regional Plan for the Yangtze River Delta can be viewed at:

<http://www.sdpc.gov.cn/zcfb/zcfbtz/2010tz/W020100622527425024197.pdf>

¹⁰ It is suggested that the relevant authorities of HK should conduct researches on a regular basis, comparing

new industries that are crucial to economic growth should also be developed. Recently, the Government has proposed the development of six industries where HK enjoys clear advantages, which include testing and certification, medical services, innovation and technology, cultural and creative industries, environmental industry and educational services. It is hoped that these industries will help explore middle to long-term economic opportunities.

4.2 The Prominent Issue of Structural Adjustments¹¹

HK's economy is facing structural unemployment. As HK's economy is restructuring towards higher value-added and knowledge-based activities, it becomes difficult for low-skilled workers to switch to other sectors or upgrade themselves academically, resulting in greater difficulty in tackling unemployment. In addition, the wealth gap in HK is wide¹². The size of population living in poverty keeps expanding, and upward social mobility is decelerating. These will engender more internal conflicts and series of social problems.

Another hidden risk threatening HK is its becoming increasingly introvert. Many businessmen have reflected that HK is getting less and less international. Before 1997, HK was a centre for overseas Chinese in the East Asia and had very close relations with other countries in the region. But in recent years, HK has gradually shifted its focus of development onto the Mainland, thus drifting slowly away from other Southeast Asian countries. Its position as the centre of overseas Chinese is also replaced by Singapore. In addition, society of HK is now more concerned about local issues and is not paying enough attention to regional and global affairs, which is unfavourable to HK's sustainable development.

4.3 Rising Development Costs and the Need to Step Up Integration with the Mainland

Business and living costs are high in HK¹³, a phenomenon that will undermine HK's

the ECFA and the related content of agreements signed by China and the ASEAN with CEPA. If provisions are found to be more superior than those in CEPA, in-depth studies should be made with a view to including similar provisions in CEPA.

¹¹ At the press conference after the closing meeting of the Third Session of the 11th National People's Congress, Premier of the State Council Wen Jiabao illustrated the major existing problems of HK's economy that needed to be addressed: 1) how to give further play to HK's advantages and strengths in order to maintain and further develop the status of HK as an international financial, shipping and trade centre; 2) how to develop industries where HK has comparative advantages, in particular the services sector, while maintaining HK's unique characteristics; 3) it is important to leverage HK's geographic advantage of being close to the Mainland and further strengthen the ties between HK and the PRD region. The vast market and rapid economic development in the Mainland will provide potential for HK's future development; 4) The people of HK should embrace inclusiveness, look for consensus and be united in order to maintain HK's prosperity and stability. Premier Wen has stressed that HK will not only enjoy tremendous economic development in the future, but will also make gradual progress in promoting democracy in accordance with the Basic Law; 5) Improving people's livelihood and developing education are the two major issues that must not be overlooked.

¹² According to the Human Development Report published by the United Nations Development Programme (UNDP) in 2009, the Gini Coefficient of HK has reached 0.434, which indicates that HK has the widest wealth gap among the 27 advanced economies in the world.

¹³ According to the research report published by CB Richard Ellis (CBRE), the rental level of retail outlets in HK was ranked the third highest in the world during the first quarter in 2010. Besides, a global survey conducted by a human resources institution, ECA International, on 390 countries or regions also shows that

competitiveness and hinder its development in the long run. HK has a total area of 1,104 square kilometers and a population of about 7 million people. Thus in market perspective, HK cannot achieve much alone as the room for development is limited. As such, how HK strengthens co-operate with the Mainland, in particular PRD in GD, in searching for larger market hinterland and space will be essential to its maintaining long-term competitiveness.

V. Hong Kong's Roles and Positioning in the Economic Development of the Nation

It is the view of many that the success of the reform and opening up of the Mainland is eroding HK's established strengths in a relative sense and diminishing its function in the overall development of the nation. We do not agree with this view. While it is a fact that the Mainland, after three decades of reform and opening up, has made spectacular achievements in many areas, its economy being one, a chain of associated problems have also arisen, such as over-reliance on exports and investments in the economy structure, environmental pollution in the ecology, and sluggish progress in management style, etc. Against this background, HK can still play a contributive role in the deepening of national reforms in future if it can optimise its advantages in services industry and merge with the strengths of PRD in GD. In fact, the Central Authorities have recognised the position of HK on several occasions. For example, the National 11th Five-Year Plan stated that support would be given to HK in the development of its services industries such as financial services, logistics, tourism and information services, and maintaining HK's status as an international centre of financial services, trade and shipping. Also, the government work report presented in the 3rd Session of the 11th National People's Congress has stated that "support would be given to consolidating and boosting HK's status as an international centre of financial services, trading and shipping. Support would also be given to the development of priority industries that enjoy competitive advantages so as to create new drivers for economic growth as indicated." (See Annexes: Schedule 3)

5.1 Exploring Hong Kong's Roles in the National Development: Leveraging Our Strengths for the Nation

Since reunification, the nation has been showing concern for the development of HK and providing policy support in various aspects. This has been an interactive process as HK has also been active in dovetailing with and participating in the national development with a view to achieving reciprocity, mutual wins and complementarity. Take the financial sector as an example, the nation has been preparing step by step for the internationalisation of Renminbi (RMB) and has launched a number of pilot measures. Throughout the process, HK has been engaged, serving as a testing field and a pioneer.

In the next 30 years, the Mainland will gradually develop its "software" power, upgrade its industrial structure, speed up the construction of a modern industrial system, and further develop its tertiary industry. All of which can be translated into opportunities for HK to capitalise on its advantages and contribute to the nation. For instance, HK is experienced in regulatory systems and social development, corporate

HK is in 2010 the most expensive city in the Greater China Region and ranks 34 globally in terms of cost of living.

governance, city management and human resources development, and such experiences can provide valuable references for the nation in the long run.

As ties between HK and the Mainland are getting closer, it is observed that the community has begun to think and be concerned about HK's positioning in the macro strategy of the nation. Reciprocity and multiple wins are their primary and important concern. We will continue to support the HK Special Administrative Region (HKSAR) Government's promotion in the Mainland of HK's value and contribution to the nation. In parallel, HK should take the initiative to enhance understanding and knowledge of the development of the nation with a view to acting appropriately and leveraging our strengths in contribution to the nation.

5.2 The Principles Underlying Hong Kong's Positioning

We should explore the positioning and roles of HK in the national economic development on the basis of the following principles:

5.2.1 Achieving Reciprocity and Multiple Wins

HK must position itself upon its existing strengths and achievements rather than unrealistic ambitions. It must also observe the principles of reciprocity, equality and multiple wins. It means that any measures benefiting HK should also bring benefits to the nation as well as other regions in order to strengthen their overall competitiveness.

5.2.2 Implementing Sustainable Development and Emphasizing Talents, Innovation and High Added Value

HK's positioning should also embody sustainable development in promoting closer co-operation between the Mainland and HK. The emphasis should be nurturing and attracting talents, self innovation and high added value with the aims of enhancing overall competitiveness and building HK, PRD and the nation into a place with a pleasant environment, a sound regime and a strong pool of talents - a harmonious society for better living.

5.2.3 The Fundamental Concepts of Scientific Development and Pilot Implementation

HK should, as in the past 30 years when the Mainland was on the path of reform and opening up, continue to support the national reform and opening up policy. It should abandon old ideas and be bold in taking innovative initiatives. Given the latest developments of the nation, apart from capitalising on its traditional advantages like finance, HK should actively take responsibility to assist the nation in implementing the fundamental strategy of governing the nation by law.

Under the Outline of the Plan for the Reform and Development of the Pearl River Delta and the Framework Agreement on HK/GD Co-operation, HK and GD are allowed to make "early and pilot implementation" arrangements. HK should seize such opportunities to put forward groundbreaking and yet feasible suggestions with a view to taking HK-Mainland co-operation to new heights.

5.2.4 Emphasizing the Relations between People's Livelihood and Industrial Developments

All industrial developments are driven by people's needs with a purpose of improving people's livelihood. HK therefore should be far-sighted and comprehensive-minded in order to get a right understanding of the people's needs and preferences, predict future market changes, and lead industries to develop accordingly. Together we can build a more pleasant society to live in.

5.2.5 The Essential Role of the Government

Unlike the Mainland, HK has a free economy, and our Government has for years been upholding the policy of active non-intervention and the principle of "small government, big market". In 2009, the HKSAR Government set up the Task Force on Economic Challenges (TFEC) in response to the global financial tsunami. The TFEC recommended the development of six industries where HK enjoyed advantages as a new direction for HK's economic development in future. The financial crisis revealed that market economy was not perfect and flawless, and the community began to rethink the relations between the Government and the market.

Despite the fact that the continuous development of HK's economy hinges upon the Mainland, the two places have different economic systems. It is, therefore, of paramount importance to ensure that the Government plays a better role in the economic development so as to guide the market forces of both places to overcome the system obstacles and speed up integration for creating a bigger market.

According to the above principle, we will explore from the sectoral and regional perspectives the positioning of HK as well as that of HK and GD in the whole nation. In general, we consider that HK should work towards betterment by consolidating, upgrading and instilling innovation into its existing pillar industries, including finance, trading, shipping and logistics. HK should also actively develop its industries with clear advantages and foster new areas of economic growth. Besides, HK should combine strengths with PRD in GD in seeking breakthrough and "early and pilot implementation" in priority areas with a view to contributing to the future economic development of the nation.

5.3 Analysis from a Sectoral Perspective of Hong Kong's Positioning in the National Economic Development

During the period of the 12th Five-Year Plan, HK should continue to consolidate and enhance its position as an international financial, trading, shipping and logistics centre. In parallel, HK should proactively identify new engines of economic growth, in particular the long-term development of the six priority industries (i.e. testing and certification, medical services, innovation and technology, cultural and creative industries, environmental industry and educational services). Only by so doing can HK perform to its functions and achieve a win-win situation in line with Mainland's endeavour for deeper structural reform and economic restructuring.

5.3.1 Consolidating and Enhancing the Status of Hong Kong as an International Financial, Trading and Shipping & Logistics Centres

5.3.1.1 Consolidating and Enhancing HK's Development as an International Financial Centre

(a) Building HK into an Offshore RMB Centre: To align with Mainland's progressive liberalisation of its capital accounts, HK should continue to push ahead for the expansion of RMB business in the territory (See Annexes: Schedule 4) in order to develop itself gradually into an offshore RMB centre. Meanwhile, HK should also strengthen co-operation with Shanghai to achieve complementarity and a win-win situation.

To enhance HK's role as an offshore RMB financial centre, HK needs to further consolidate its functions in RMB financing, investment, trading and hedging:

(1) Financing: HK can develop into an RMB fund-raising platform serving Mainland enterprises. It can also provide a channel of RMB financing for foreign enterprises to support their businesses in the Mainland.

(2) Investment: Given the intense market interest in RMB-denominated investment products, if HK can provide a comprehensive and diversified range of RMB financial products and services, including RMB bonds and funds, and facilitate RMB-denominated trading of H-shares in HK, it will increase the incentive of local and foreign companies in holding RMB, thus consolidating HK's role as an offshore RMB centre.

If the RMB deposits in HK can be used to purchase Mainland investment products, it will mean more investment choices and hence higher attractiveness for depositing RMB in HK. That said, to avoid causing any adverse impact on Mainland's financial system and its macroeconomic control policy, the related measures should be cautiously considered before implementation.

(3) Trading and Hedging: It is proposed to allow non-HK residents to open RMB accounts and to relax the exchange limit of RMB20,000 per person per day. With the extension of the pilot scheme for cross-border trade settlement in RMB, together with more RMB-denominated financial products to be introduced by the financial industry, the trading volume and value of RMB investment in HK will increase correspondingly. Therefore, HK has to develop markets of RMB foreign exchange and interest rate futures and options in order to provide a channel for international trading companies and investors to hedge their currency exposure of RMB.

(b) Sharing Market Experience and Strengthening Monitoring Co-operation: We should encourage Mainland enterprises to list in HK in order to share our experiences in, inter alia, corporate governance and in global capital market operation with a view to helping the national industries, talents and capital go international.

From past financial crises, HK has accumulated considerable experience in market risk management as well as financial monitoring and regulation. It is therefore beneficial for the financial institutions of both places to strengthen co-operation in financial monitoring and regulation for the purpose of jointly preventing financial risks, promoting investor education and nurturing talents in financial regulation.

At present, quite a number of Mainland enterprises are registered in offshore centres like Bermuda and Cayman Islands. As their enormous assets and wealth are out of the Mainland's control, the underlying risks should not be ignored. HK has a well-developed financial infrastructure, a sound legal system and a large number of financial and professional talents. In this light, the authorities should actively explore the feasibility of developing HK into an offshore centre in order to attract more enterprises to register in HK, provided that the relevant risks have been fully considered and taken into account.

(c) Diversifying Financial Products: The Mainland and HK can explore co-operation in areas such as financial futures and commodity futures. In parallel, HK should facilitate the development of bond market to provide more diversified investment tools and funding channels, thus enhancing the balance and stability of its financial system.

(d) Enhancing the Role of HK as a Platform for Mainland's Investment: In view of the huge demand of Mainland capital to "go global", the Central Government launched the Qualified Domestic Institutional Investors (QDII) Scheme in 2004. Nevertheless, Mainland investors investing in HK are still subject to many restrictions. For example, Mainland individuals and organisations can only invest in overseas markets through financial management institutions inside the Mainland, and the investment quotas of these institutions are also subject to restriction. The authorities concerned are recommended to implement a "free-walk" scheme for funds with a view to exploring the feasibility for Mainland individuals and organisations to directly invest abroad, in addition to the previous practice of allowing investments through authorised financial institutions in the Mainland.

(e) Maintaining the Internationalisation of HK's financial market: In strengthening co-operation with the Mainland, HK's financial market should maintain its connections with international financial markets in order to attract international investors, institutions and capital to use HK as a financial platform.

(For the recommendations on consolidating and enhancing HK's position as an international financial centre, please refer to the proposal of the Services Industry Development and Human Resources Sub-group at the Annex.)

5.3.1.2 Consolidating and Enhancing HK's Development as an International Trading Centre

(a) Reviewing HK's Intention and Positioning in Regional Economic Co-operation and Participating Proactively in East Asian Trade Co-operation: HK should take the initiative to participate in more East Asian economic activities and explore the feasibility of strengthening bilateral or multilateral regional economic co-operation with countries outside the region. At the same time, HK may seek the support from the Central Government to let it participate where appropriate as a separate customs territory in the free trade negotiations between the nation and other regions or economies.

HK can also grasp the opportunity of the signing of the cross-strait ECFA to pursue a comprehensive agreement on trade co-operation with Taiwan. It can even consider the interchangeability and interoperability of ECFA and CEPA to give rise to the formation of multilateral co-operation mechanisms like the Greater China Economic Ring, Common Market and Free Trade Area etc.

(b) Increasing HK's Participation in International Economic Affairs and Reinforcing HK's Influence as a Cosmopolitan City: As trading connections between the Mainland and the rest of the world are getting closer, HK should take the initiative to maintain the Mainland's international image and expand the Mainland's influence in the world trade. HK should also take forward and actively participate in the reform of multilateral trading mechanism, and exert positive effects in different domains such as formulating and implementing environmental standards as well as intellectual property rights protection etc.

(c) Strengthening HK into a Headquarters Economy for Mainland Enterprises Intending to "Go Global"¹⁴ and Performing the Function of Supply Chain Management: HK should focus efforts in attracting Mainland enterprises, particularly private enterprises, to set up their operational base in HK for commanding and coordinating their global production, R&D, marketing, logistics and supply chain management. Mainland enterprises can tap into HK's advantages as an international financial, trade, shipping and logistics centre for entering overseas markets, raising capital and managing assets. These will help accelerate

¹⁴ According to the findings of the *2009 Annual Survey of Companies in HK Representing Parent Companies Located outside HK* conducted by the HKSAR Government, the major advantages of setting up regional headquarters/regional offices/local offices in HK include: simple and low tax regime; free flow of information; absence of foreign exchange controls; corruption-free government; communication, transport and other infrastructure; rule of law and independent judiciary; political stability and security; free port status; geographical location; and availability of financial service, etc.

their pace of globalisation.

Service outsourcing has become a global trend. HK boasts an advanced and efficient logistics system, well-developed infrastructure, a full-fledged financial system, a well-established regulatory system and free flow of information. If all these advantages can be linked up to the huge market in the Mainland, HK is well capable of developing into a global supply chain management centre that can meet the needs of Mainland enterprises seeking upgrading and added value. HK can work with these enterprises to optimise the processes in the supply chain with a view to facilitating in the long run the integrated development of the Mainland's internal and external trade.

In fact, the axis of HK's supply chain management has gradually shifted from trading intermediation, Mainland production management and cost control in the past to higher value-added services such as brand designing, international marketing planning, trade financing and export credit guarantee at present.

(d) Promotion of Brand HK and Quality and Safety Marks: When enhancing trade flows with different Free Trade Areas, HK may explore the possibility of further optimising the CEPA rules of origin, such as inclusion of products manufactured with Mainland raw materials and relaxation of the 30% value-added requirement. HK's strengths in rule of law, goodwill, information, expertise and quality of products, etc., can be leveraged to attract manufacturers to retain manufacturing processes in HK and boost domestic employment through long-term promotion of "HK Brand".

Currently in HK, there are some local quality and safety mark schemes with long history. They are operated by individual industry support organisations or public bodies. These marks are familiar to HK people, but are not well recognised outside HK. It is proposed that efforts should be made, initially in the PRD region, to accredit, promote and publicise these quality and safety marks in order to enhance consumer confidence. This will also contribute to the development of domestic markets in the long run.

(e) Widening the Exhibition Market: During the period of the 12th Five-Year Plan, the Mainland will shift its economic growth model from export-oriented to boosting domestic demand. As such, HK should grasp the future trend of rapid growth in Mainland's import trade and make timely adjustment to the direction of development of the exhibition sector with a view to creating more business opportunities in exhibition targeting the Mainland market.

(f) Upgrading HK into an Intellectual Property Trading Centre: HK has a well-established legal framework which provides protection to copyrights, patents, trademarks and registered designs. The sound legal

system and appropriate policy on intellectual property rights protection are conducive to a favourable business environment, allowing right owners to freely transfer their intellectual property rights or grant concessions. To meet Mainland's needs arising from its industrial upgrading, development of consumer market and low-carbon industry, HK can step up collaboration with the Mainland in the area of intellectual property rights protection.

(g) Becoming an International Trade Disputes Resolution Centre: As a sound legal system and the rule of law are essential to any economic growth, our well-established legal system is also the bedrock of HK's development. HK boasts a long history of and is internationally renowned for its highly efficient judiciary and legal professionals. HK has a common law tradition which is also widely followed in international trade. This stands HK in good stead for a more important role in the national development for "going global" and aligning with international standards, and also facilitates HK's development into a mutually-accepted trade disputes resolution centre mediating between the nation and the international community.

(For the recommendations on consolidating and enhancing HK's position as an international trade centre, please refer to the proposal of the Joint Investment and Trade Promotion Sub-group at the Annex.)

5.3.1.3 Consolidating and Enhancing HK's Development as an International Shipping (Aviation and Maritime) and Logistics Centre

International Shipping (Aviation and Maritime)¹⁵ Centre

(a) Attracting Shipping and Logistics Companies to HK for Provision of Higher Value-Added Port Services: HK can provide a one-stop services platform and consider offering concessions to attract more Mainland and foreign shipping and logistics companies to set up businesses in HK in accordance with relevant laws and regulations. In parallel, HK should continue to take further steps in providing higher value-added services, including maritime insurance, ship financing, maritime studies, consultation, international arbitration and logistics management etc. with a view to forming a stronger industrial cluster.

Apart from uplifting the efficiency and service quality of its existing ports, HK should also co-ordinate the developments of local ports with those in the PRD and continue to enhance its ports and related facilities to avoid disorderly development and vicious competition.

¹⁵ An international shipping centre offers a broad range of services. Maritime services include maritime insurance, law, arbitration, ship financing, brokerage, management, ship registration, vessel survey and port services etc. Aviation services cover air transport and back-up services, and they include logistics, distribution, marketing, overseas tourism marketing, and professional services such as aviation and aircraft maintenance, aero medical services, as well as administrative and management services concerning insurance, law and finance etc.

(b)(i) Clear Positioning of PRD Airports and Better Co-ordination in Air Space Planning and Airport Management in PRD: The positioning of the HK International Airport and other airports in the PRD region should be determined in accordance with their functions as mentioned in the Framework Agreement on HK/GD Co-operation.¹⁶

(ii) Further Co-ordination and Improvement of PRD Air Space Resources Arrangements and Relevant Policies: Formulating a long-term and strategic development plan for the future air space capacity of the HK International Airport with a view to meeting the aviation development needs and strengthening the economic ties between HK and the Mainland.

(c) Optimising HK's Cross-boundary Transport System: We should capitalise on HK's sophisticated information technology systems and its sound legal and policy frameworks to provide efficient, seamless and convenient point-to-point/interchange passenger and cargo transport services. We should also implement cross-mode transport in our sea, land, air and railway transport systems with a view to further enhancing HK's efficiency as a transport hub.

Logistics Centre

Providing Professional Logistics Management Services with Our Advanced International Network: To consolidate HK's functional positioning as a regional logistics management centre, we should make full use of HK's extensive shipping network and full-fledged service system to provide a spectrum of high quality and professional logistics services that are efficient, comprehensive and multi-functional.

In view of increasing trading activities between the Mainland and Southeast Asia, HK can provide the Mainland and the Southeast Asia region with professional logistics services including storage, cargo consolidation, devanning and inspection etc., particularly for high value goods and goods that are time-sensitive and require professional management (e.g. dangerous goods).

Tracing the path of HK's development, shipping and logistics industry has been facilitating and supporting the economic development of HK. Thus, its contributions to HK should be acknowledged.

¹⁶ In Chapter 2 on Cross-border Infrastructure of the Framework Agreement on HK / GD Co-operation, it is stated that HK and GD should improve the mechanism of the Joint Meeting of Airports in the PRD region; proactively seek national support for enlarging the air space in the Greater PRD region; and support the consolidation of the HK International Airport as an international aviation centre. In parallel, the Guangzhou Baiyun International Airport should be developed as a gateway aviation hub of the Mainland; the Shenzhen Airport should be positioned as a major backbone airport; and the Zhuhai Airport should be developed into an aviation industry area.

(For the recommendations on consolidating and enhancing HK's position of an international shipping (aviation and maritime) and logistics centre, please refer to the proposal of the Cross-Boundary Passenger and Cargo Flow Sub-group at the Annex.)

5.3.2 Promoting the Development of the Six Priority Industries

Over the past 30 years, the relocation of a large number of HK industries to the north created an industrial vacuum in HK. Some businessmen worry that as a predominantly service economy, HK's sustainable development may be hindered without the support of activities in real economy. Hence, while consolidating and enhancing the development of the pillar industries, such as finance, trade, shipping and logistics, HK should also actively identify and develop industries with good potential, make good use of the advantages of its legal system and professional services, and meet the needs of the state's development during the period of the 12th Five-Year Plan.

5.3.2.1 Promoting the Development of Testing and Certification Services

(a) Facilitating Export Certification for the Mainland: At present, many countries make use of the technical barriers and rules of the World Trade Organisation to restrict imports, and problems concerning testing and certification very often become a bottleneck in export trade. In this regard, HK can utilise strengths of its systems as well as good reputation in testing and certification to develop into a nationally-recognised testing and certification centre for food products, gemstones, Chinese and Western medicines, construction materials and red wine. This can facilitate the export of Mainland products, proprietary Chinese medicines and food products etc. to overseas countries upon testing and certification in HK.

(b) Joint Formulation of International Standards: For areas without any widely recognised standards, such as jewellery, jade and pearls etc., HK can work with the Mainland authorities to explore the formulation of certification standards with a view to having a say in international markets. In the long run, this will also promote the co-ordination and formulation of the Mainland, Asian and international standards.

(c) Facilitating the Certification of Products for Domestic Sale: In view of the policy of boosting domestic demand, enterprises running domestic sales business are facing difficulties of ensuring product quality and gaining consumers' confidence. The Mainland may make reference to the more developed testing and certification system in HK with a view to further enhancing the industry awareness of quality and fostering a more mature domestic market.

(For the recommendations on promoting the development of testing and certification services, please refer to the proposals of the Joint Investment and Trade Promotion Sub-group and Services Industry Development and Human Resources Sub-group at the Annex.)

5.3.2.2 Promoting the Development of Medical Services

(a) Enhancing HK-Mainland Co-operation on Healthcare Management: To tie-in with the healthcare system reform in the Mainland, HK should fully utilise its existing public healthcare management system, operating system (e.g. electronic health record sharing system) and management experts in order to improve the HK-GD-Macao notification and collaborative prevention and control mechanism for infectious diseases, and the co-operative response mechanism for public health emergencies.

(b) Enhancing HK-Mainland Co-operation on Chinese Medicine Services: HK should actively pursue the modernisation of Chinese medicine, exploring the opportunities for local graduates of Chinese medicine programmes to have internship in Mainland's Chinese medicine hospitals, and exchange programmes for HK and Mainland Chinese medicine students.

(For the recommendations on promoting the development of medical services, please refer to the proposal of the Joint Investment and Trade Promotion Sub-group at the Annex.)

5.3.2.3 Promoting the Development of Innovation and Technology¹⁷

(a) Leveraging HK's Management Strengths to Step Up the Industry-University-Research Co-operation between HK and the Mainland, particularly the PRD in GD: To move in line with the national development of emerging strategic industries, HK should continue to build up its innovation and technology capability and make use of its management model, technological equipment and R&D capabilities, which are on par with international standards, to work with Mainland institutions to commercialise R&D deliverables, translating them into applications to meet market demands in the Mainland and abroad. HK should also leverage its strengths in business environment, tax regime, rule of law, professional and financial services as well as intellectual property rights protection with a view to becoming a supporting base for the Mainland's development of innovation and technology industries. In this regard, HK should position itself to provide one-stop supporting services catering for the early-stage development and late-stage marketing of knowledge-intensive industries in the PRD and the whole nation. Take environment-friendly electric vehicles as an example, HK may provide services on production design, component parts and marketing to facilitate the Mainland's, particularly the PRD's, development of the electric vehicle market. In doing so, HK will also facilitate the development of low-carbon products as well as the R&D and use of low-carbon technologies.

¹⁷ According to the studies conducted by the INSEAD and Confederation of Indian Industry, HK ranked third (after Iceland and Sweden) out of 132 economies in the Global Innovation Index. Ranking of the Index is compiled according to criteria including the number or amount of patented goods, scientific periodicals and R&D expenditure, etc.

At present, many Mainland enterprises commission HK's scientific research institutions to provide testing services, but tested goods are encountering customs barriers when being shipped back to the Mainland. Also, Mainland's foreign exchange control also causes difficulties for HK's research institutions in receiving payment. In the long run, adjustments should be made to the mechanisms concerned to facilitate goods and capital flows.

Moreover, the Mainland and HK should continue to promote industry-university-research co-operation for the purpose of integrating the R&D resources of both places and facilitating industrial upgrading as well as proprietary R&D. Besides, we can explore opportunities for HK's research institutions, universities and technology companies to participate in Mainland's scientific research projects, so that HK can perform a more positive function in terms of innovation and research during the period of the 12th Five-Year Plan.

(b) Developing HK into an Asia Pacific Data Centre: HK possesses the prerequisites for becoming a data centre hub, such as proximity to the Mainland, good business environment, political stability, high transparency and independent judicial system, stable electricity supply, excellent telecommunication infrastructure and low risk of natural disasters, etc. In view of the development of cloud computing, HK should develop into a data centre. The HKSAR Government can provide land for data centre development, and explore incentives measures to attract more international companies to establish a presence in HK and set up data centres.¹⁸

(For the recommendations on promoting the development of innovation and technology, please refer to the proposal of the Joint Investment and Trade Promotion Sub-group at the Annex.)

5.3.2.4 Promoting the Development of Cultural and Creative Industries

Working with the Mainland to Promote Abroad the Soft Power of Chinese Culture: Apart from playing a role in assisting Mainland enterprises and funds to “go global”, HK should also work with the Mainland to promote the soft power of Chinese culture in the international community. For example, HK has strengths in creating original animation whereas the Mainland has advantages in animation production ability and at low cost. Co-production making use of these advantages can produce animation works with modern aesthetic appeal and strong oriental style. In the area of music, HK can fully utilise its strengths in promotion, distribution and Cantonese music to promote the Mainland's popular and folk music to South East Asia and the rest of the

¹⁸ Currently, many countries, out of risk management considerations, are requesting their financial institutions to relocate their data centres back to their own countries. This trend is detrimental to HK's development into a regional data centre. In this connection, the HKSAR Government should make publicity and lobbying efforts to persuade and encourage other governments to set up data centres in HK.

world. In the area of software, interactive co-operation between the Mainland and HK enterprises should be strengthened.

The authorities concerned should also explore forming an international cultural and creative base and a regional distribution centre of digital films in the PRD; developing a cluster of new media and creative industries in the PRD; and organising a world exposition for global cultural and creative exchange. Also worth considering is the possibility of arranging through CEPA such that HK's animation works can be gradually allowed to be marketed in the Mainland under the same conditions for domestic production; the entry restrictions for HK companies to invest in Mainland cultural and creative industries can be relaxed; HK and the Mainland can jointly consider implementing a cross-regional intellectual property database, etc.

(For the recommendations on promoting cultural and creative industries, please refer to the proposals of the Services Industry Development and Human Resources Sub-group and the Joint Investment and Trade Promotion Sub-group at the Annex.)

5.3.2.5 Promoting the Development of Environmental Industries

(a) Assisting the Regional Recycling Industry to Achieve Economy of Scale: HK's experience in attracting capital and technology can be combined with GD's strengths in land, human resources and production to help the regional recycling industry achieve economy of scale, corporatisation, technological upgrading and optimal use of resources. HK should also co-build with the Mainland a co-operation platform focusing upon energy and environmental management, capital and technology with a view to promoting the development of circular economy and creating business opportunities.

(b) Making Use of the Technology and Experience of HK's Environmental Industries to Facilitate the Upgrading of Corresponding Industries in the Mainland: HK's strengths in urban water treatment, electric vehicle promotion, energy saving in buildings and environmental impact assessment technology services can be used to facilitate the industrial upgrading of Mainland enterprises, particularly those in the PRD. With the said strengths, HK can also assist the Mainland to explore ways for guiding and supporting enterprises to achieve technological improvement and better performance in energy saving¹⁹.

(c) Promoting Energy Efficiency and Conservation: The Mainland has set a national target to reduce carbon emission intensity by 2020²⁰.

¹⁹ HK is now implementing a five-year Cleaner Production Partnership Programme with the GD Province. Under the Programme, the Hong Kong Productivity Council is leading over 100 environmental technology service providers in PRD to provide professional services to PRD factories on the use of cleaner production technology.

²⁰ In 2005, China's energy consumption per unit of GDP dropped by 47% from 1990. Its target is to reduce

Apart from improving energy structures and using more zero carbon/low carbon energy, enhancing energy efficiency and stepping up energy conservation are also important means to support the nation to achieve this target.

Policy support is vital to encouraging and promoting energy efficiency and conservation. In the Mainland, an effective energy service market is yet to be established. As such, HK's experience in energy efficiency and conservation, such as the mandatory implementation of the Building Energy Code, can serve as a reference for the Mainland.

In addition, HK's professional service providers with local and international experience and professional skills in consultation, planning and engineering are able to assist Mainland cities to launch energy efficiency and saving programmes with a view to developing the markets of professional energy service and energy contract management. This is in line with the Mainland's policy of promoting energy efficiency and saving.

In promoting the use of environmental-friendly vehicles, a national standard in electric vehicle charging should be worked out to promote a wider use of zero pollution vehicles (such as electric vehicles). Air pollution is a cross-boundary problem, so in the long run, the development of a standardised environmental protection standard and supervision mechanism should be considered.

(For the recommendations on promotion of environmental protection industry, please refer to the proposal of the Sustainable Development Sub-group at the Annex.)

5.3.2.6 Promoting the Development of Educational Services

Elevating the Development of HK as a Regional Education Hub to a National Strategic Level: HK and the Mainland need to enhance research efforts in the development of basic education, higher education and continuing education and to strengthen resources integration with a view to nurturing more talents with international perspective and improving the efficiency of educational leadership and implementation as well as the quality of school education. In this connection, different modes of co-operation should be explored such that higher education institutions in both HK and the Mainland can develop their respective advantages and maximise their strengths. The recommendations on promoting the development of educational services are as follows:

(a) Joint Efforts in Nurturing Professional Talents: HK should seek the support of the Ministry of Education and discuss with GD's Department of Education, universities and municipal governments with a view to reaching more consensus on running educational establishments under a mutually-beneficial principle, expanding student enrolment, and

nurturing professional talents in subjects with clear advantages. The departments concerned can consider introducing special measures and specific regulations on HK-Mainland educational co-operation, as distinct from the existing Regulations on Sino-Foreign Co-operative Education.

(b) Applying HK's Experience to the Mainland's Education System Reform: In stepping up educational co-operation with the Mainland, HK should promote its strengths in certain basic education areas where it has rich experience and achievements, such as system reform, school leadership, curriculum reform and teacher team building. For example, HK can step up efforts in providing training courses in primary and secondary curriculum reform, assessment, pre-primary education, special education, as well as pre-service and in-service teacher education to the education management institutions, school principals and teachers in the Mainland.

(c) Steering HK's Higher Education towards Internationalisation: HK should support its renowned higher educational institutions to develop education services and set up branch campuses in the Mainland and overseas. The aim is to build HK into a leading education city in the world. Besides, HK should actively encourage the organisation of international academic conferences in the territory, and take more initiatives in encouraging the publications of the Mainland and international academic literature.

(d) Exploring the Alignment of the Examination Standards of HK and the Mainland and Providing Students with a Platform with Two-way Choice: HK should explore the feasibility of offering its professional and international examinations in the Mainland. The HK Examination and Assessment Authority and the HK Council for Accreditation of Academic and Vocational Qualifications can play a role in studying with the Mainland examination authorities and the Ministry of Education in the Mainland the issues concerning the alignment with standardised national examinations and academic accreditation standards, the adoption of HK's standards and the introduction of HK's examinations into the Mainland. This will provide students in HK and the Mainland with a two-way choice in further studies.

Meanwhile, HK should assume an intermediary role in the accreditation of international qualifications, certifications and examinations with a view to facilitating international acceptance of the Mainland standards.

(e) Promoting Exchanges between the Teachers and Researchers of HK and the Mainland: A review should be conducted on the problem of double taxation affecting HK's teachers and R&D workers who are engaged in teaching and scientific research activities in the Mainland. In parallel, measures should be considered to relax the control on R&D workers and encourage them to participate in teaching and R&D activities in the Mainland.

Besides, multi-level exchanges and co-operation should be encouraged between the education management authorities and schools at various levels in the Mainland and the Education Bureau, school sponsoring bodies and schools in HK. The aim is to raise the level of education liberalisation and encourage resources sharing.

(For the recommendations on promoting the development of education services, please refer to the proposal of the Services Industry Development and Human Resources Sub-group.)

5.4 Analysis from a Regional Perspective of the Positioning of Hong Kong and Guangdong in the National Economic Development

HK's future development is closely interwoven with the PRD in GD. Therefore, HK-GD co-operation is surely one of the crucial factors to be considered. The PRD is HK's hinterland. HK, currently with a market population of 7 million people, can expect to access a market of 20 million people²¹ if it is combined with GD. Geographically connected, the two places have a similar culture and a symbiotic relation between their people. HK and GD can strengthen co-operation under the principle of reciprocity and mutual wins. If the two places can be developed in the long run into a metropolis with strong flows of information, people, logistics and capital, it will uplift the overall competitiveness of the whole region in the global economy, and the possibilities for development will be boundless.

Regional co-operation has become a major trend. In this light, the GD authorities have taken early action by pursuing urban integration proactively with a slew of co-operation framework agreements being signed between a number of cities. For instance, Guangzhou and Foshan have signed the Framework Agreement on Guangzhou-Foshan Urban Integration, after which the conclusion of the Co-operation Framework Agreement on Establishment of Guangzhou-Foshan-Zhaoqing Economic Circle has followed. Similarly, Shenzhen, Dongguan and Huizhou have also put forward the development concept of Shenzhen-Dongguan-Huizhou integration. The concept comprises the creation of a tripartite joint conference system, formation of tasks groups on 10 priority areas, and development of an Integrated Economic Circle of the East Coast of Pearl River Estuary. Zhuhai, Zhongshan and Jiangmen are also undergoing the process of integration as the three cities have signed a co-operation agreement on tourism to implement integration in tourism.

Recently, the GD Provincial Government has further initiated five integrated planning items, namely the Integrated Planning for Basic Utility Services of the PRD, the Integrated Planning for the Industrial Layout of the PRD, the Planning for Urban-rural Integration of the PRD, the Integrated Planning for Environmental Protection of the PRD and the Integrated Planning for Infrastructure Construction of the PRD. The aim is to integrate resources, strengthen co-operation and co-ordination, and enhance economic strength with a view to forming three economic circles, namely the Guangzhou-Foshan-Zhaoqing Economic Circle with Guangzhou as its core city; the Shenzhen-Dongguan-Huizhou Economic Circle, which encompasses the eastern PRD region with Shenzhen as its core city and the Zhuhai-Zhongshan-Jiangmen Economic

²¹ GD's total population with Residence Registration

Circle comprising the western PRD region with Zhuhai as its core city. A rail transport network featuring three circular and eight outbound routes²² will connect all PRD cities above county level and thus materialise a “one-hour intercity circle”. In parallel with the enhanced co-operation among the three Economic Circles, the Government and people of HK should make a concerted effort to explore opportunities for co-ordination and co-operation, so as to maintain the competitive edge of HK.

As a matter of fact, HK and GD have already a solid foundation for co-operation. Since the Mainland’s reform and opening up, HK and GD have been enterprising in their co-operative ventures. Their economic and social developments, ranking among the best in the nation, have served as front-runners and positive role model nationwide. At this juncture, our nation is at a crucial stage of economic restructuring and social development with unprecedented opportunities and challenges ahead. At this new historical moment, HK and GD should be enterprising like before. Upon the basis of their co-operative achievements of the past 30 years, both places should continue to pilot new developments in order to explore a new direction for the nation’s future.

Under the common vision of becoming the most vibrant and internationally competitive city cluster in the Asia-Pacific region and the region’s first new world-class economic zone with the greatest development growth potential, we believe that HK-GD co-operation should move forward in the following four major directions under the foundation of the Framework Agreement on HK/GD Co-operation²³:

5.4.1. Positioning Hong Kong and Guangdong as Demonstration Zones of “Early and Pilot Implementation”

HK and GD should be enterprising like before in making use of the "early and pilot implementation" arrangements in innovative domains. Under the principle of reciprocity and mutual benefits, the two places should co-ordinate in the developments of the major co-operation zones, such as the Qianhai area in Shenzhen, the Shenzhen-HK River Loop and Nansha in Guangzhou (See Annexes: Schedule 5). The success in these developments can bring about an overall enhancement in the level of HK-GD co-operation and speed up the pace of collaboration of the two places. And HK and GD will continue to serve as a testing field for and a pioneer in deepening the national reform with emphasis on seeking breakthrough and innovation in respect of the various systems of both places.

²² Circular Route One is the Guangzhou-Foshan route, which will enlarge the commuting radius from major passenger nodes like the Guangzhou Baiyun International Airport and New Guangzhou Station and connect closely with the rail network radiating from Guangzhou. Circular Route Two combines three intercity rail lines (Guangzhou-Dongguan-Shenzhen line, Zhongshan-Nanshan-Humen line and Guangzhou-Foshan-Zhuhai line) into a mid-level circular route that travels along the Pearl River Estuary. Circular Route Three is the major circular route that encircles the Pearl River Estuary by combining Guangzhou-Dongguan-Shenzhen line, the Shenzhen-Zhuhai line and the Guangzhou-Foshan-Zhuhai line. The eight outbound routes include the Guangzhou-Foshan-Zhaoqing, Guangzhou-Qingyuan, Guangzhou-Huizhou, Dongguan-Huizhou, Shenzhen-Huizhou, Zhuhai-Doushan, Jiangmen-Enping and Zhaoqing-Gaoming-Nansha routes.

²³ Framework Agreement on HK/GD Co-operation has outlined six ways forward for future co-ordinated development of HK and GD, including a new world-class economic zone; co-operation in building an international financial centre; a manufacturing and modern services base; a modern economic circulation sphere; a high quality living area; and a world-class city cluster.

In 2008, the Mainland and HK announced 25 “early and pilot implementation” measures in GD. Subsequently, CEPA Supplements VI and VII have respectively added nine and seven measures concerning areas of banking, securities, maritime transport, rail transport, convention and exhibition, public utility, telecommunication, legal and healthcare etc. We believe that in-depth HK-GD co-operation in future will, to a very large extent, depend upon the expansion and implementation of the “early and pilot implementation” measures of CEPA.

5.4.1.2 Substance of the “Early and Pilot Implementation” Arrangements for HK and GD

(a) Testing Field for Financial Reform: HK has a sound financial infrastructure. With advanced payment and settlement systems, HK provides a safe and efficient platform for trading of major international currencies. What is more, HK has accumulated considerable experience in market risk management as well as financial monitoring and regulation from past global financial crises. Under the precondition of ensuring national financial security, HK and PRD can serve as a testing ground for the Mainland in its gradual liberalisation of the capital account and RMB internationalisation. The two places can also help the Mainland nurture talents and accumulate experiences. The relevant liberalisation measures, when they are properly developed, can be extended to other provinces and then nationwide.

In accordance with the direction of the Framework Agreement on HK/GD Co-operation²⁴, “early and pilot implementation” can be practised emphatically on the banking, security and insurance industries:

- (1) Banking Industry:** Measures should be considered to relax the existing ceiling for HK banks’ shareholding in GD banks and progressively allow HK banks to develop a full spectrum of business operations in the Mainland under the same conditions and treatments for GD banks.
- (2) Securities Market:** The authorities concerned should support the Shenzhen Stock Exchange and the Stock Exchange of HK to step up strategic co-operation through share swap, co-listing, staff exchange, etc. between the two Exchanges. Separately, consideration can be given to gradually allowing HK’s securities companies (including investment banks) and fund management companies to develop a full spectrum of business operations in the GD Province through their solely-owned companies, subsidiaries or joint venture companies established in partnership with Mainland organisations, and to enjoy

²⁴ As mentioned in the Framework Agreement on HK/GD Co-operation, one of the way forward for the development of GD and HK is to enhance HK’s position as an international financial centre and expedite the development of financial services industries in GD with a view to building a greater and more competitive international financial centre steered by HK’s financial system and supported by the financial resources and services of the PRD cities like Guangzhou, Shenzhen, etc.

the same conditions and treatments for similar organisations in the Province, including, inter alia, the right to participate in corporate debt issuance, listing and other financing activities in the Mainland.

- (3) **Insurance Industry:** Opportunities should be explored under the implementation of the Framework Agreement on HK/GD Co-operation for allowing HK's insurers (through their wholly-owned subsidiaries, branches, or joint-ventures with Mainland counterparts) to have a wider scope of business and penetration in geographical markets in the areas of reinsurance, life, property and medical insurance and pension, etc. In parallel, the total assets requirements for HK's insurance companies to enter the insurance market in GD should be lowered commensurately to facilitate provision of insurance services by HK's insurance companies in GD.

As regards the expansion of RMB trade settlement scheme, opportunities should be explored for allowing RMB trade settlement between PRD enterprises and HK-invested enterprises.

- (b) **“Early and Pilot Implementation” for Services Industries:** At present, three major obstacles are hampering HK's services industries in entering the Mainland market, including the lack of mutual recognition of professional qualifications, high market entry thresholds and complicated approval procedures. Designating PRD as the pilot region, the Governments of the two places can put forward concrete amendments and implementation measures targeting the systemic obstacles encountered by individual services industries. Through gradually improving the relevant laws and regulations of the nation, the authorities concerned should execute the implementation details and supporting policies for liberalisation under CEPA in respect of the relevant industries with a view to promoting the development of the services industries.

- (c) **Refining the Pilot Policies Facilitating the Transition from Export to Domestic Sales and the Development of Testing and Certification Services:** In encouraging Mainland enterprises to switch their orientation from export to domestic sales and facilitating an integrated development of both domestic and foreign trade, the Central Government can implement in the PRD of GD²⁵ a pilot scheme which aims to refine the existing policies for facilitating transition from export to domestic sales through HK-GD co-operation under the “early and pilot implementation” arrangements. When such policies are properly developed, they can be extended to other provinces nationwide.

In addition, HK and GD should seek approval from the Central Government for piloting in GD the mechanism of “certification in one place, recognition

²⁵ The Outline of the Plan for the Reform and Development of the Pearl River Delta has put forward that GD should expedite the establishment of a national demonstration zone for the transformation and upgrading of the processing trade. Guangzhou, Shenzhen, Foshan, Huizhou, Dongguan and Zhongshan have been confirmed to be the key municipalities to implement transformation and upgrading of the processing trade.

in both places” (i.e. the same certification being recognised in both HK and GD) and accepting HK’s certification reports as possessing the same status as those issued by Mainland testing centres.²⁶

(d) Demonstration Zone for the National Comprehensive Education Reform: HK and GD can contribute to the national education reform by, inter alia, optimising the mechanism for exchanges, unifying standards, enhancing training collaboration, relaxing the restrictions on establishing educational institutions and emphasizing training of scientific and technological talents.

- (1) Optimising the Mechanism for Exchanges:** The education authorities and institutions of HK and GD can consider setting up a standing and multi-level communication mechanism to discuss collaboration issues and take pilot measures in areas that are significant to university management, such as policy, administration, research, teaching and back-up, and progressively extend the mechanism to the whole nation. Also, the authorities can examine the possibility of strengthening the function of the Coalition of Teacher Education Institutions in the Pan-PRD with a view to enhancing regional co-operation and HK’s role in training teachers in the Mainland.
- (2) Mutual Recognition of Certificates and Standards:** HK can liaise with the Ministry of Education or GD’s relevant departments (such as the Department of Education and the Department of Human Resources and Social Security) with a view to establishing common standards for various vocational qualification certificates and designating the same institution to administer unified examinations and confer mutually recognised certificates. The current communication channels should also be strengthened.
- (3) Enhancing Training Co-operation with Enterprises in the Region:** Institutions with relative strengths in specific fields can work with leading enterprises of relevant domains in the region. In this connection, HK’s experiences in education and management can be harnessed in integrating resources, developing the training industry, and training talents for various industries in GD. In turn, this will create opportunities for HK’s students to obtain practical experience and employment in GD.
- (4) Relaxing the Restrictions on Establishing Educational Institutions and Seeking Innovative Education Model with GD:** Consideration

²⁶ According to the liberalisation measures under CEPA Supplement VII, testing organisations in HK accredited by the HKSAR Government can co-operate with designated Mainland organisations to undertake testing of selected products listed in the China Compulsory Certification (CCC) Catalogue and processed in HK. The trade considers that this measure can be further extended, and the crux of the matter is whether the Mainland Authorities recognise the testing results of HK’s testing organisations and their certificates.

should be given to relaxing the restrictions on educational co-operation between the tertiary institutions of the two places and allowing more independence and dimension for provision of education. In parallel, more thoughts should be given to the pattern and approach for HK's tertiary institutions to establish institutes in GD.

(e) Exploring Breakthrough Measures to Facilitate People and Logistics Flows

- (1) Exploring the Feasibility of “Two Customs, One Checkpoint”:** HK and GD can consider the feasibility of pioneering a unified electronic communication platform in order to implement a common customs clearance mechanism for “Two Customs, One Checkpoint”. The related measures can be introduced in Qianhai in Shenzhen and Nansha in Guangzhou for “early and pilot implementation”.
- (2) Improving Container Freight Efficiency:** HK and GD should seek co-ordination on the issue of container flow by increasing customs clearance points in the Mainland and improving container freight efficiency. Both sides should also make efforts to reduce emissions.
- (3) Joint Efforts for Improving Logistics Efficiency:** Consideration should be given to introducing HK's barging management and services to GD for better efficiency in transshipping goods to different parts of the world. Besides, as barges serving piers and terminals of the PRD are getting bigger, the authorities concerned should study the feasibility of allowing foreign imports/exports and goods for domestic trade in transit to be carried by the same barge in order to optimise service costs and increase barging utilisation rate.
- (4) One Travel Card for the Mainland, HK, Macao and Taiwan:** Consideration should be given to setting up a working group for introducing a new electronic smart card acceptable as travel document in the Mainland, HK and Macao with which people of the three places will be able to use for customs clearance. Under this mechanism, the respective immigration departments can operate their systems independently using the same technical standards. Their computer systems need not be interconnected, and visitors' information will be encrypted and categorised separately in such a way that only the designated immigration authorities can have access to the necessary information. A trial scheme can be implemented in the Mainland, HK and Macao first. In the long run, it can be extended to Taiwan for reducing the costs of interflow of talents among the four places.

(f) Facilitating the Development of Major Co-operative Regions: The Framework Agreement on HK/GD Co-operation has positioned Qianhai in Shenzhen, river loop area of Shenzhen and Nansha in Guangzhou as major co-operation regions of HK and GD. We believe that different sectors of society should be actively engaged in exploring the room for development in these major co-operation regions with a view to enhancing HK-GD

co-operation in a more comprehensive manner (See Annexes: Schedule 5).

To follow up more closely on issues affecting the community and people's livelihood of HK and GD, a specific agency should be formed to strengthen co-operation between both places.

(For the recommendations on positioning HK and GD as demonstration zones of "early and pilot implementation", please refer to the proposals of the four Sub-groups at the Annex.)

5.4.2 Positioning Hong Kong and Guangdong as a Modern Services Base

Further implementing and deepening the Outline of the Plan for the Reform and Development of the Pearl River Delta, the Framework Agreement on HK/GD Co-operation and CEPA etc., leveraging the strengths of HK's professional services industry, promoting integration between GD's manufacturing industries of HK's services industries with a view to facilitating PRD's development towards a higher-added-value economy and building jointly a world-class metropolis.

Details of Positioning HK and GD as Modern Services Base

(a) Leveraging the Strengths of HK's Service Industries and GD's Manufacturing Industries: It was clearly stated in the 17th National Congress that to fulfill the objectives of future economic development, the key lies in expediting the change of economic development pattern and promoting the development of modern services industries. As a matter of fact, a target has been put forward for PRD of increasing the share of its services industries in the regional GDP from about 47.3% in 2008 to over 60% by 2020. Mainland's manufacturing industries are undergoing a critical stage of industrial upgrading and restructuring. During this period, HK should give full play to its strengths in professional services industries (including legal, financial, accounting and insurance services, etc.) to provide production-oriented services to PRD enterprises, assisting them in their upgrading and restructuring as well as their entry into the domestic market.

(b) Promoting HK-GD Joint Economic and Social Development and Building a New World-Class Economic Region: The pattern of global economic competition is changing. In future, competition will not only be among countries or cities, it will be increasingly among regions. In this light, HK and GD should seek to optimise their co-operation mechanism to further establish their regional co-operation for reciprocity and mutual benefits with a view to integrating effectively the resources of both places; promoting regional economic unity; and facilitating joint development in social, cultural, living and other aspects. Both places should also join hands in building their cities into the ones with greatest vitality and international competitiveness in the Mainland and the Asian-Pacific Region, and establishing a new world-class economic region with largest room for development and potential for growth.

(For the recommendations on positioning HK and GD as a modern services

base, please refer to the proposals of the four Sub-groups at Annex.)

5.4.3 Positioning Hong Kong and Guangdong as a Modern Economic Circulation Sphere and a Gateway for Asia to Access Global Markets

In accordance with the direction of the Framework Agreement on HK/GD Co-operation, both places should improve their networks of cross-boundary infrastructure and facilitate the flows of the key elements of people, goods, information and capital across the boundary. The two places should also reinforce their position as a modern economic circulation sphere operating in higher efficiency but lower costs as well as a hub of regional headquarters for enterprises. Not only can HK and GD provide the platform for foreign enterprises to invest in the Mainland market, they can also be the bridgehead for Mainland enterprises seeking to “go global” to establish their regional headquarters and promote their products to worldwide markets.

Details of Positioning HK and GD as a Modern Economic Circulation Sphere

Providing a Competitive Regional Business Environment by Facilitating the Flow of Information, People, Goods and Capital: HK and GD should lose no time in optimising the construction and connection of their hard infrastructure, and also the co-ordination of their soft infrastructure. Both places should seek to develop into passenger and freight transport hubs that are not only efficient and safe, but also open, convenient and cost-effective. The aim is to facilitate the smooth flow of key elements within the region and create a first-class regional business environment, further strengthening HK’s status as an international aviation hub and a shipping and logistics centre. To facilitate the formation of the HK-GD economic circulation sphere, we should:

- (1) ensure that the customs clearance procedures of the control points in HK and GD are more convenient than those of other Mainland cities;
- (2) ensure that the customs clearance procedures in the GPRD region for foreign goods entering or exiting the Mainland are more convenient than other entrepots in the Asian countries;
- (3) facilitate the connection of PRD airports with the national high speed railway and other transport infrastructure networks and develop air-railway inter-modal services in accordance with the Framework Agreement on HK/GD Co-operation;
- (4) explore the possibility of pioneering a unified electronic communication platform in order to implement a common customs clearance mechanism for “Two Customs, One Checkpoint”;
- (5) establish a training system for regional industries to nurture talents for the planned future development of the shipping and logistics industries in the region.

(For the recommendations on positioning HK and GD as a modern economic circulation sphere, please refer to the proposal by the Cross-boundary Passenger and Cargo Flow Sub-group at the Annex.)

5.4.4 Establishing a Nationally Pioneering Ecological and Environmental Protection Regime and Building a Quality Living Area in the PRD Region

In the last 30 years, the loosely regulated type of developments in the nation has imposed great pressure on the national environment and natural resources, which is harmful to sustainable development. During the period of the 12th Five-Year Plan, the acceleration of urbanisation will foster the development of environmental market and industry, and correspondingly increase the demand for sewage treatment facilities and refuse handling in the city.

Details of HK-GD Partnership in Building a Quality Living Area

(a) Endeavouring for Energy Saving and Emission Reduction and Developing a Low-Carbon Economy: HK has reached international standards in municipal refuse disposal, sewage treatment and noise pollution management. Thus, HK can use its technological and management strengths in these aspects and its experience in town planning to work with PRD cities to improve their environment, such as improving air quality. HK and GD can also work together to develop circular economy through complementarity and interaction. This will not only improve the environment and achieve sustainable development, but also open up new markets and create more job opportunities. By doing so, both places will act as a role model for other Mainland regions in developing a low carbon economy based on low energy consumption as well as low pollution and emissions.

(b) Developing Environmental Industry in the Dongjiang Headwaters Region of the Jiangxi Province so that the Upper and Lower Streams can Shoulder the Environmental Responsibility Together: Since the Dongjiang headwaters in the Jiangxi Province are very important to the people's livelihood in GPRD, we hope that these water resources can be appropriately protected. Nevertheless, to ensure such protection, local economic development may be affected. We therefore suggest the Central, HK and GD Governments to conduct studies and make proper arrangements to address the core of the problem. The aim is to encourage local developments while protecting water sources in the GPRD region from pollution.

(c) Jointly Formulating Emission Standards for Vehicles and Ships: The Outline of the Plan for the Reform and Development of the Pearl River Delta specifies that support will be provided to the HK, Macao and GD Governments to jointly formulate and implement clean energy policies with a view to achieving progressively the uniform use of vehicle fuel, marine fuel and emission standards and thus improving the air quality of PRD region. As such, the relevant authorities and industries of HK and GD should conduct joint studies and make reference to international standards in making a set of practical and feasible emission standards for ships and vehicles travelling in PRD to reduce the emission of air pollutants. The findings can provide reference for the nation in controlling vehicle and ship emissions in the long run.

(d) Optimising the Long-Term Planning and Studies on Public Welfare in PRD: Concerning cross-boundary co-ordination of healthcare insurance and public welfare services in PRD, HK and GD can consider establishing a research, planning and management framework with a view to conducting studies on the long-term policy on various regional co-operation matters. In addition, the immigration authorities of both places can also discuss matters concerning the co-ordination of immigration control measures on ambulance and rehabilitation vehicles of both sides, casualty escort and ambulance service, equipment standards of rehabilitation vehicles, and qualifications of relevant professionals, etc.

(For the recommendations on HK-GD co-operation in building a quality living area, please refer to the proposal by the Sustainable Development Sub-group.)

VI. Long-term Measures Reinforcing Hong Kong's Positioning

6.1 Optimising Human Resources: Improving the Standards of Human Resources Training and Education

Nurturing talents is the key to developing the tertiary industry and upgrading the industrial structure of the nation. In the long run, HK and the Mainland can become a talent-rich and competitive region by strengthening the co-operation between the two places and making joint efforts to develop human resources and enhance education standards.

Recently, there are new developments in the co-operation between the tertiary institutions of HK and GD. For example, the Hong Kong Polytechnic University, University of Hong Kong (HKU) and Chinese University of Hong Kong are actively exploring opportunities with different GD cities for establishing education institutions in the Mainland. HKU and the Shenzhen health authorities are planning to build a world-class teaching, research and curative hospital in Shenzhen with a view to strengthening exchanges between healthcare professionals of HK and Shenzhen, making joint efforts to enhance medical standards and achieving a “win-win” situation for both places. On one hand, HK can provide to the Mainland experiences relating to technology, human resources, management and facilities, etc. On the other hand, HK can leverage the strengths of the Mainland in terms of resources and etiology in order to expand the sphere of research and offer more clinical practising opportunities.

In addition, as mentioned in GPRDBC's Study Report in Response to the Outline of the Plan for the Reform and Development of the Pearl River Delta, we recommend that suitable platform or mechanism should be put in place to attract more students from the Mainland, in particular PRD, to study in HK. Mainland students graduating from HK's universities are well able to contribute to the future HK-Mainland co-operation and the development of the nation as they are familiar with the Mainland culture and also trained under HK's western education system.

6.2 Optimising Logistics Efficiency: Facilitating the Flows of Information, People, Goods and Capital, Improving Transport Infrastructure and Co-ordinating Software Infrastructure

The smooth flows of different elements are an important factor in building an economic zone. In analysis, it can be found that HK's economy has always been built around such flows: flows through the ports and airports, including the flow of visitors, in particular those from the Mainland; flows through the stock market and banking sector; flows of talents from the Mainland and the rest of the world; and information flows that promote HK into a management and co-ordination centre. Maintained a close correlation between its hard and soft infrastructure has always been one of HK's strengths. It ensures the smooth flow of essential elements and is also the bedrock for HK's robust economic growth and sustaining prosperity. In this light, the main emphasis of future developments should lie in accelerating HK-Mainland infrastructural integration, streamlining customs procedures and facilitating people and logistics flows. To achieve these goals, we recommend the following approaches:

(a) Improving Infrastructure Construction: HK should pursue full connection with GD's transport infrastructure, including speeding up major infrastructural projects such as the HK-Zhuhai-Macao Bridge, Guangzhou-Shenzhen-HK Express Rail Link and the HK-Shenzhen Western Express Line (formerly known as HK-Shenzhen Airport Rail Link) with a view to achieving transport integration in the PRD region. In so doing, a three-hour economic and living circle for people in the region and a sound and integrated regional system of marine, land and air transport will be created.

(b) Facilitating People Flow: The Mainland's "144-hour facilitation visa" policy has been extended to the entire GD Province. Consideration can be given to extending this policy further to the Pan-PRD region; relaxing the eligibility for application; and streamlining the application procedures. Recently, Japan and Korea have relaxed their visa requirements for tourists from the Mainland. In order not to fall behind, HK and the Mainland can consider further extending the multiple-entry Individual Visit Scheme implemented by the Mainland last year that allowed Shenzhen residents to visit HK individually to enhance tourist consumption.

The economic and trade relations between HK and the Mainland are busy nowadays. However, those who have to travel to the Mainland frequently for work are facing the problem of double taxation by both places as they have stayed in the Mainland and HK for more than 183 and 60 days respectively. Governments of both places can consider revising the relevant requirements to promote mutual economic prosperity.

(c) Facilitating Vehicle Flow: The authorities of both places should implement in detail "the trial scheme on one-off ad hoc quotas for private cars". Both sides should also look into the co-ordination on matters like insurance, driving skill adaptation, vehicle emission standards, etc.

To effectively enhance cross-boundary commercial and travel activities between HK and GPRD, relevant government departments should also consider the granting of special movement permit that allows left-hand drive vehicles to be driven in HK.

(d) Facilitating Logistics Flow: Consideration should be given to mutual recognition of the annual examination results of cross-boundary vehicles and relaxation of restrictions on HK trucks with valid licenses travelling in the Mainland etc., which will lower administrative costs and increase competitiveness of the transport sector.

The authorities concerned should also consider introducing HK's professional barge management and services into GD and other parts of the Mainland to enhance the logistics efficiency of both places.

(e) Streamlining Customs Procedures: Consideration should be given to the feasibility of launching a centralised electronic communication platform in the Mainland for implementing "Two Customs, One Checkpoint". HK and GD should also consider shortening customs clearance time by, for example, extending the existing "cross-boundary express clearance" system to other regions, increasing the number of control points offering 24-hour boundary crossing, and implementing "co-location" arrangement in other control points etc.

6.3 Leveraging Geographical Advantages: Strengthening Co-operation with PRD in Guangdong

By seizing the opportunities arising from the CEPA, the Outline of the Plan for the Reform and Development of the Pearl River Delta and the Framework Agreement on HK/GD Co-operation, HK and GD can seek to serve as a testing field for the "early and pilot implementation" of various new policies that aim to promote the integration of domestic and foreign trade²⁷; lower the entry threshold for service industries; and implement mutual recognition of professional qualifications. This will facilitate the national development of service industries and also achieve a win-win scenario for the two places.

Considering HK's local resources and conditional constraints, the Mainland, especially PRD, can provide HK's industries with a vast hinterland for development and market expansion. By improving our infrastructures and relaxing, among others, visa restrictions, HK can attract more enterprises and people from the Mainland to invest and spend money in HK. We can also attract more overseas enterprises to use HK as a springboard for accessing the Mainland market. This will reinforce HK's status as a headquarter economy and create substantial demand to boost employment.

To leverage the opportunities of the "early and pilot implementation" arrangements under the Outline of the Plan for the Reform and Development of the Pearl River Delta and put forward pragmatic recommendations in this connection, the GPRDBC conducted a number of studies, discussions and consultations on two major domains (industries and livelihood) for nearly six months in 2009. The final recommendation report was published in end September 2009.

Under the preconditions of reciprocity and mutual wins for HK and GD and revolving around the two domains of industries and livelihood, the study report puts forward 47 specific policy recommendations under seven headings, summarising the views from

²⁷ In encouraging Mainland enterprises to switch from export to domestic sales, the Central Authorities can designate PRD region in GD as a trial ground and use the HK-GD "early and pilot implementation" arrangements as a way to refine the existing policy initiatives for facilitating transition from export to domestic sales. After such initiatives are well tried and tested, they can be extended to other provinces and then nationwide. HK enterprises have a relative strength in commercial wholesale and retail business, and understand well the consumer behaviour and culture in the Mainland. Therefore, they can share with Mainland enterprises their experience in wholesale and distribution and provide input in enhancing product quality, improving business cost structure and introducing supply chain management.

representatives of HK's business sectors. The recommendations cover a total of 14 aspects, including healthcare services; environmental protection; education; transportation; social services; professional services (legal, finance, accounting, maritime and logistics, insurance); small and medium enterprises' entry into the Mainland domestic market and upgrading/transformation of manufacturing industries; innovation technology; culture and creativity; as well as testing and certification.

When drawing up the Framework Agreement on HK/GD Co-operation, the HK and GD Governments have referred to some of these recommendations. At present, with a view to regional integration and development, HK and GD are formulating two regional co-operation plans: "Building a Quality Living Area" and "Infrastructure Construction". We believe that the specific measures covering different domains as proposed in the study report above are of referential value to different sectors of HK and GD.²⁸ (See Annexes: Schedule 6)

6.4 Emphasis on Improving People's Livelihood and Building a Quality Living Area

All policy measures should take account of people's livelihood. Hence, the Outline of the Plan for the Reform and Development of the Pearl River Delta has provided that universal education, employment, healthcare, pension and housing should be ensured in order to develop a harmonious and progressive society where people can live happily. In this connection, HK and the Mainland should foster co-operation in education, healthcare, social security, culture, emergency management and intellectual property protection. The authorities may start with issues like cross-border schooling and elderly welfare. They can relax relevant restrictions to facilitate cross-border travel and living for people of the two places with a view to building a quality living area.

6.5 Enhancing Communications within Society in order to Find a Direction for Sustainable Economic Development

The relevant government bureaux and departments should strengthen bonding and communication with different sectors and members of the community to facilitate better public understanding of the concepts of various policies and their implementation. This in turn can facilitate the implementation of the relevant recommendations. By so doing, we can enhance community-wide recognition of the policies concerned and the people's awareness of the trend of HK-GD economic integration. This way, the community will be able to jointly explore the direction of future economic development with innovative concepts, longer-term vision and broader-mindset. With a new situation before us, all community sectors should have a rethink on government-market relations to ensure that the Government can play a better role in economic development.

²⁸ The full report is available at <http://www.cmab.gov.hk/en/issues/council.htm>.

VII. Conclusion

In the face of new changes in the economic landscapes in the Mainland and abroad, HK should fully leverage its existing strengths and combine forces with the adjacent PRD Region in GD under the premise of “One Country, Two Systems” in order to play a more proactive and enterprising role in deepening the national reform and promoting its economic development. Under the principle of “reciprocity and mutual wins”, we hope that the Central Authorities will consider the following points and give a clear indication of HK’s role and positioning in the economic development of the nation when drawing up the 12th Five-Year Plan Outline:

1. Consolidating and enhancing HK’s position as an international financial centre, a trade centre, and a shipping (sea and air freight) and logistics centre; actively exploring HK’s development into an offshore RMB centre; supporting and promoting the development of HK’s services industry, especially the six priority industries (i.e. testing and certification services, medical services, innovation and technology, cultural and creative industries, environmental industries and education services); and proactively identifying new engines of economic growth.
2. Supporting HK and GD to make use of the “early and pilot implementation” arrangements in innovative domains, and continue to serve as a testing field for and a pioneer in deepening the national reform under the principle of reciprocity and mutual wins with a view to becoming a positive role model for the whole nation.
3. Giving full consideration to the Outline of the Plan for the Reform and Development of the Pearl River Delta and the Framework Agreement on HK/GD Co-operation, and elaborating on the topic of regional development with highlights on the positions and functions of HK and GD in the 12th Five-Year Plan Outline; further implementing and deepening CEPA, leveraging the strengths of HK’s services industry, and promoting integration between the services industries of HK and GD with a view to facilitating PRD’s development towards a higher-added-value economy, building jointly a world-class metropolis with a better quality living environment, and co-ordinating the pioneering development and reform of HK and GD with the development of the central and western regions of the nation.
4. Moving towards seamless connections of the flows of people, vehicles and goods; improving the network of cross-boundary infrastructure; and reinforcing the position of HK and GD as a modern economic circulation sphere, a gateway for Asia to access global markets as well as a hub of regional headquarters for multi-national enterprises.
5. On follow-up actions, we consider that:
 - (a) The government departments concerned may formulate implementation and execution plans in accordance with the parts relating to HK in the 12th Five-Year Plan Outline.
 - (b) Efforts should be made to persuade the Central Authorities to take full account of HK’s role and position when formulating major specific plans under the 12th Five Year Plan in the future, so that HK can participate in the plans and work coordinately as appropriate.
 - (c) HK should start during the 12th Five-Year Plan period to conduct preliminary preparations and studies for the 13th Five-Year Plan in order to garner more

participation, support and recognition from all walks of society.

- (d) With regard to the obstacles in the system hampering the development of individual service industries, the Governments and industries concerned of HK and GD should make recommendations to and solicit support from the Central Authorities, and then put forward concrete remedial and implementation measures so that the development of the services industry can be taken forward through gradual improvement of the relevant national laws and regulations and a genuine enforcement of CEPA's implementation details and supporting policies for liberalising various industries.

<End>