

大珠三角商務委員會

The Greater Pearl River Delta
Business Council

**Study Report
in Response to
the Outline of the Plan for
the Reform and Development of
the Pearl River Delta**

**Ad Hoc Group on
the Outline of the Plan for
the Reform and Development of
the Pearl River Delta
Greater Pearl River Delta Business Council**

September 2009

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Greater Pearl River Delta Business Council
Ad Hoc Group on the Outline of the Plan for the
Reform and Development of the Pearl River Delta (the Outline)
Study Report

This report is essentially a collection of policy recommendations of the ad hoc group set up by the Greater Pearl River Delta Business Council in response to the Outline of the Plan for the Reform and Development of the Pearl River Delta (2008 to 2020) (the Outline). The report is divided into five parts. The first part covers the general background, explaining the purposes, principles and methodology of the report. The second part is on the macro-environment. It illustrates the objective needs for integration between Hong Kong (HK) and Guangdong (GD) under the current situation as incentives exist in both places for further cooperation. The third part sets out the key recommendations embodying the views of HK's business, professional and public sectors. These strategic recommendations are Outline-oriented and beneficial to both HK and GD without losing sight of nationwide opportunities. The fourth part deals with the follow-up mechanisms with proposals of short/mid-term and mid/long-term directions and measures for implementing the above recommendations. The fifth part is the conclusion that sums up the report and points the way forward. In addition, the report includes appendices that set out in full the 14 proposals made by different task-groups on different industries and livelihood issues.

I. Background

1.1 Purposes

1.1.1 Win-win Strategic Recommendations for Leveraging the Opportunities Arising from the Outline

Since the Third Plenary Session of the 11th Central Committee of the Chinese Communist Party held in 1978, China has embraced a policy of reform and opening up. To this end, the Pearl River Delta (PRD) has been serving as a testing field for exploring a new direction for the economic development of the nation and also as a positive role model showcasing the benefits of the policy. Three decades on, PRD is once again endowed with an opportunity by the Outline to test-run the concepts of "Scientific Development and Early and Pilot Implementation". HK and GD should seize this opportunity to contribute to the deepening of the nation's opening-up reform.

In the past 30 years, GD has undergone phenomenal changes. It has gradually caught up with or even surpassed the Four Asian Tigers in terms of economic aggregate, as its gross domestic product (GDP) overtook that of Singapore, HK and Taiwan in 1998,

2003 and 2007 respectively, while that of Korea is expected to be overtaken in five years' time. In view of this new situation, HK should work with GD under the principle of mutual win and benefit with a view to enhancing the capacity of innovation, promoting the restructuring and upgrading of traditional industries, and accelerating the building of a modern industrial system. With feet on the ground now and eyes on the future, both places should propel and optimize the overall development of PRD for the purpose of strengthening the global competitiveness of the nation.

Greater Pearl River Delta Business Council (GPRDBC) is a non-governmental organisation under the HK/GD Cooperation Joint Conference. Its main function is to collate the views of the business and professional sectors as well as people from different trades, and make recommendations to the governments of both places. GPRDBC has therefore compiled this report to respond to the Outline and put forward to the Central government strategic recommendations for promoting HK-GD cooperation and the sustainable developments of both places, hoping that they will be considered in the compilation of the 12th National Five-Year Plan.

1.1.2 Enhancing Community's Recognition of HK-GD Cooperation

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, the issue of HK-GD integration is all the more a pressing one. Despite the cultural and institutional differences between the two places and the hardship that may arise in the process of integration, GPRDBC is nevertheless hopeful that this report will serve to draw greater public attention in both places to the trend of HK-GD economic integration, and induce both communities to deliberate the future direction of economic development with long-term vision, broad-mindedness and practicality.

1.1.3 Enhancing HK-GD Cooperation and Competitiveness of PRD Region

After 30 years of economic integration between HK and GD, PRD has developed itself from a predominantly agricultural region into an important metropolitan area in the world. In the years ahead, the core objective of economic integration between HK and GD should be to develop a world-class PRD metropolis. According to a report published by the Bauhinia Foundation Research Centre in 2008 - "Creating a World-Class Pearl River Delta Metropolis - Accelerating Economic Integration between Guangdong and Hong Kong", it is estimated that on the basis of the current exchange rates, the GDP of the PRD Metropolis will exceed US\$2.7 trillion after 30 years by 2038, an amount comparable to that of the New York metropolitan area. By

then, the per capita GDP of the PRD Metropolis, on the basis of the current exchange rates, will also reach the level of the London metropolitan area of 2005, which is around US\$45,000¹. In this light, this report aims to put forward win-win recommendations that will induce in-depth cooperation and constructive competition within the PRD region and strengthen its overall regional competitiveness in the global economy.

1.2 Principles

1.2.1 Achieving Reciprocity and Multiple Wins

The report has proposed a fundamental principle of achieving mutual win for HK and GD in the spirit of reciprocity and equality. It means that any measure benefiting HK and GD should also bring commensurate benefits to other regions in order to widen the foundation of mutual benefit. From a holistic perspective, the effective implementation of the Outline will not only facilitate the future developments of HK and GD, it will also benefit the whole nation and strengthen the overall competitiveness of the cross-strait economic circle.

Advantages for GD in the New Phase of HK-GD Cooperation

HK is a highly internationalised city with well-developed information systems and professional services of international standards. With extensive international connections and networks, it is also a globally important hub of trade and finance as well as a popular place for multi-national enterprises to locate their Asia-Pacific headquarters. Having a sound legal system, well established business practices and good framework for intellectual property protection, HK is also well posed to provide international arbitration service to the Mainland for settling commercial disputes.

In this key period of GD's economic restructuring and upgrading, sharing HK's experience in the services industries and strengthening HK-GD cooperation in this area will provide GD with substantial technological expertise, concepts of modernised market economy, leading international experience in management and marketing, and international business standards and practices. Moreover,

¹ Bauhinia Foundation Research Centre, Executive Summary of "Creating a World-Class Pearl River Delta Metropolis - Accelerating Economic Integration between Guangdong and Hong Kong", October 2008, Pages 3 and 9.

it can enhance the labour productivity and global competitiveness of GD's manufacturing industries and expedite the upgrading of its industrial structure, providing momentum for GD's "double engines", namely its modern service industry and advanced manufacturing industry. By promoting sustainable economic development of the region and building up new competitive edges together, HK and GD can look forward to become the pioneers in a new round of reform and opening up of the nation.

Advantages for HK in the New Phase of HK-GD Cooperation

GD is a leading province in China's reform and opening up and the most marketised region of the country. It is not only China's important export and foreign investment base that attracts talents and funds from all over the country, but also a worldwide production powerhouse of light industrial products accommodating numerous industrial clusters capable of extending their production chains to midstream/ upstream high value-added production to serve the vast area of Pan Pearl River Delta.

Considering the resources and conditional constraints in HK, GD 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 consume 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.

Advantages for the Nation in the New Phase of HK-GD Cooperation

Since China's reform and opening up, HK and GD have been enterprising in their cooperative ventures, and their achievements in economic and social developments are spectacular. The two places are the front-runners and positive role models of the country in many aspects. At this juncture, our country 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 in piloting new developments while exploring a new direction for the country's future on the basis of their cooperative achievements of the past 30 years.

1.2.2 Implementing Sustainable Development and Emphasising Innovation and High Value-added

In this report, the principle of sustainable development is recommended for promoting closer HK-GD cooperation with emphasis upon innovation and high value-added. The aims are to enhance overall competitiveness and to build the GPRD region into a place with a pleasant environment, a sound regime and a strong pool of talents, that is, a harmonious society for better living.

1.2.3 The Fundamental Concepts of Scientific Development and Pilot Implementation

Currently when GD is working toward full implementation of concept of scientific development, the release of the Outline is indeed a rare and precious opportunity for deepening HK-GD cooperation. To leverage the opportunities of the “early and pilot implementation” arrangements, HK and GD should embrace an open attitude and think out of the box. Both should dare to think creatively in order to come up with ground-breaking and yet feasible recommendations that can take HK-GD cooperation to a new height.

Early this year, amid the onslaught of the global financial crisis, the Central Government and HK signed the Supplement VI to CEPA, under which a number of liberalisation measures were to be launched in GD for “early and pilot implementation”. They covered a number of areas including legal, convention and exhibition, public utility, telecommunication, banking, securities, maritime transport and rail transport. These measures were meant to assist the implementation of the Outline for encouraging economic developments of the whole region. It is hoped that the liberalisation measures that are successfully implemented under the “early and pilot implementation” arrangements will, in the long run, be extended to other regions beyond GD.

1.3 Methodology

In early 2009, the State Council ratified after examination the Outline of the Plan for the Reform and Development of the Pearl River Delta (2008 to 2020) compiled under the auspices of the National Development and Reform Commission. The Outline signified indeed a new chapter for PRD’s reform and opening up, a new era for its economic development. To respond to the Outline with pragmatic recommendations, GPRDBC set up an ad hoc group in April 2009. Two sub-groups, namely the industries sub-group and livelihood sub-group, were formed under the ad hoc group to

conduct surveys and researches on 14 major aspects, covering 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 the upgrading and transformation of manufacturing industries, innovation technology, culture and creativity as well as testing and certification. For each aspect, GPRDBC Members of relevant fields had consulted different business and professional bodies, concerned government departments of HK and GD, academics and other stakeholders. The consultation results were then consolidated into task group reports² with specific strategic recommendations on each aspect. This report was compiled on the basis of the main ideas of the task group reports.

II. Macro-environment

2.1 HK-GD Integration – An Objective Need

2.1.1 HK-GD integration is the outcome of an irreversible trend. The global economic structure is changing, and regional economic cooperation has become a worldwide trend. See, for example, the establishment of the European Union and its development, the prospective establishment of the China-ASEAN Free Trade Zone in 2010, the closer relationship between HK and Taiwan, the rapid development of the Yangtze River Delta and coastal regions, and the strong progress of China's central and western regions. If HK, GD and Macao are counted as one single economy, it will be the fourth largest economy in Asia, after Japan, Korea and India, in terms of economic aggregate. So only through integration for stronger competitiveness can HK, GD and Macao stand a better chance of success in the face of increasingly keen regional competition.

2.1.2 There may be different views and opinions in society on the issue of HK-GD integration. Given the different political, economic, social and cultural backgrounds between HK and GD, discrepancies in mindset, behaviour and values are bound to exist between the two places. Meanwhile, the "front shop, back factory" cooperation between the manufacturing industries of HK and GD, prevalent in the past three decades, has been gradually transforming, providing a strong basis for further integration between the services industries of the two places. With mutual

² See the Appendices for the proposals of the 14 task groups.

understanding and acceptance, the cultural differences and discrepancies in other aspects between the two places can be gradually reconciled and bridged.

2.1.3 Being a highly international city, HK should actively assist the nation to implement the “go global” strategy by inviting Mainland, particularly GD, investors and enterprises to establish multi-national businesses in HK and benefit from HK’s international platform for accessing the world markets. This will help the nation foster a quantity of competitive enterprises and brand products, and enhance the national capability in playing the game of global resources allocation and industrial restructuring. This will also generate new demand in HK, expand its hinterland and create more job opportunities, maintaining HK’s long-term economic competitiveness.

2.2 The Outline as an Opportunity for Closer HK-GD Cooperation

In the section “Engaging in Closer Cooperation with Hong Kong and Macao” under the chapter “Creation of New Situation for Opening-up and Cooperation”³ of the Outline, it is mentioned that “the state will support the cooperation among Guangdong, Hong Kong and Macao in developing the service industry, and solidify the status of Hong Kong as an international centre of finance, trade, shipping, logistics, and services with high value-added”. Furthermore, substantial proposals are put forward under four headings, namely, “To Advance the Convergence of Major Infrastructures”, “To Strengthen Industrial Cooperation”, “To Jointly Build a High-quality Living Community” and “Innovate Cooperation”. Under the current global financial crisis, the Outline will be all the more instrumental to facilitating the strategic adjustments of the GPRD economy and enhancing the economic stamina and vibrancy of the region. It will also provide strong support for maintaining long-term regional stability and prosperity.

2.3 Exploring Government-Market Relations under the New Phase

HK is a free economy where the Government has for long years been upholding a policy of positive non-intervention and a principle of “Small Government, Big Market”. This is different from the Mainland’s economic system. Recently, the HKSAR Government has established a special Task Force on Economic Challenges (TFEC) to cope with the global financial tsunami. To set a new direction for the future

³ Pages 108-111 of the Outline of the Plan for the Reform and Development of the Pearl River Delta (December 2008) by the National Development and Reform Commission.

development of HK's economy, TFEC has identified six economic areas where HK enjoys clear advantages, namely "testing and certification", "medical services", "innovation and technology", "cultural and creative industries", "environmental industry" and "educational service". The current financial crisis has shown that market economy is not flawless, and people are beginning to rethink the relationship between government and market. Although HK-GD integration and HK's sustainable economic development are closely correlated, the two places are after two different economic regimes, so any proposals with cross-border implications must obtain the approval in principle from the Central Government and also the support and coordination of the HK and GD Governments in order to be effectively implemented. It is therefore of utmost importance to ensure that the HK and GD Governments can play, in the course of cooperation, a better role in economic developments with a view to leading the two places to remove any systemic barriers and accelerate the integration process for the creation of a bigger market.

2.4 The Close Relationship between People's Livelihood and Industries

All industrial developments are driven by people's needs with a purpose of improving people's life. So the HK and GD authorities should be far-sighted and comprehensive-minded in order to get a right understanding of people's needs and preferences, pre-empt future market changes, and lead industries to develop accordingly. For instance, the Mainland authority is gradually allowing individuals from nine GD cities to visit HK under a "multiple entry permit" arrangement. To benefit, HK should lose no time in working out facilitating measures that meet the needs and preferences of the GPRD residents in order to grasp the tremendous business opportunities ahead⁴. In so doing, more job opportunities will be created in HK and GD, and regional competitiveness will be strengthened through closer interactions between the high-end workers of both places.

2.5 New Round of HK-GD Economic Integration and Sustainable Growth Powered by Service Industries

Some thirty years ago, owing to rising costs, HK was challenged by competitors from other regions of the "Four Asian Tigers". At that difficult moment, China happened to launch its reform and opening-up policy. This policy change enabled HK and GD

⁴ As an example, 43 200 jobs have been created in HK between 2004 and 2008 owing to the services trade and Individual Visit Scheme under the CEPA arrangements.

to combine their complementary strengths through the “front shop, back factory” operation model and bring about thereafter thirty years of economic prosperity for both places. Looking forward, it is believed that in the next thirty years HK and GD will integrate predominantly in the area of services industries. In other words, the two economies will undergo a new round of economic integration that focuses on consolidation of services industries.

For HK-GD cooperation to progress from the “front shop, back factory” operation of the manufacturing industries towards integration of services industries, the key, as pointed out in the Outline, lies in the in-depth implementation of CEPA and proper measures for carrying out the “early and pilot implementation” arrangements. Take HK’s production-oriented services industries as an example. In entering the GD market, these industries have met with difficulties such as inadequate supporting policies and measures for CEPA’s liberalised areas and numerous internal administrative hurdles. HK and GD should solicit support from the Ministry of Commerce and other Ministries and Commissions under the Central Government for amending relevant regulations governing the implementation details and supporting policies for CEPA-related industries. Support from the Central Authorities should also be sought for stronger policy back-up with a view to realising better integration between HK’s producer services and other services and GD’s manufacturing industries.

III. Key Recommendations

This report will cover two major areas, namely industries and livelihood, and put forward 47 specific suggestions under seven headings. These headings are “Coordinating Hard and Soft Infrastructures and Facilitating the Four Flows”, “New Systems and Common Standards”, “Streamlining Procedures and Lowering Entry Threshold”, “Seeking Sustainable Development and Building a Quality Living Area”, “Integrating Social Service Resources and Facilitating Cross-border Living”, “Furthering Collaboration in Education and Technology and Improving Overall Workforce Quality”, and “Optimising Financial Infrastructure and Preventing Financial Risks”.

3.1 Coordinating Hard and Soft Infrastructures and Facilitating the Four Flows (Information, Human resources, Goods and Capital Flows)

To move forward in infrastructural modernisation, the Outline has recommended vigorous development of transport infrastructure with a view to building a coordinated and integrated transport system with sound networks, reasonable routing and high efficiency connecting HK, GD, Macao and the PRD areas. The aim is to develop

PRD into a passenger and logistics hub that is most open, convenient, efficient and secure in the Asia-Pacific region. This report is of the view that hard infrastructure development is important to facilitating the four flows, yet it is the coordination and complementation of soft infrastructure that hold the key to success.

3.1.1 Hard Infrastructure

According to GD's planning, a 2 000-kilometre intercity rail transport network featuring three circular and eight outbound routes will be built in PRD. The aim is to achieve by 2030 seamless rail connection between major cities and intercity railways, and also the "One-hour Living Circle" connecting all the cities and towns above county level. As an international gateway, HK should act swiftly to pursue full connection with GD's transport infrastructure, including its bridges, railways, highways, as well as aviation and shipping routes. Hence, we recognise the need for speeding up our major infrastructural projects, i.e. the HK-Zhuhai-Macao Bridge and Guangzhou-Shenzhen-HK Express Rail Link. Moreover, we should also seek to attain seamless connection in the HK-Shenzhen Western Express Line (formerly known as HK-Shenzhen Airport Rail Link)⁵. These hard infrastructure projects will facilitate the flow of essential elements, increase efficiency and reduce costs, adding momentum to HK-GD integration.

3.1.2 Complementary Soft Infrastructure

Improving the Regulatory System for Cross-border Vehicles – both HK and GD Governments should progressively relax the regulation on cross-border vehicles. Relevant measures should include the introduction of special one-time quotas on top of the existing quota system for cross-border private cars to facilitate travelling between the two places by private cars. It is recommended that this measure be first implemented at Shenzhen Bay Port on a pilot basis and "vehicle pass" holders should be required to enter and exit within a limited period (suggested reference to Singapore and Malaysia where a seven-day limit is imposed). The measure can be extended to the HK-Zhuhai-Macao Bridge after its completion.

⁵ For details of recommendations, please see the proposal by the task-group on transport at the Appendices.

Coordinating Port Resources in PRD – Despite the exuberant developments of container terminals in HK and GD in recent years, there are still proposals of constructing new terminals in quite a number of places. It is therefore recommended that both sides should strengthen the existing platform for collaboration and communication and give consideration to, inter alia, the establishment of a “Greater Pearl River Delta Port Collaboration Committee” with a view to coordinating port developments and optimising ports and their supporting facilities.

The Port Authority of New York and New Jersey in the US (the Port Authority) is a good example for reference. Despite the many difficulties encountered between its establishment and effective functioning, the Port Authority eventually succeeded in bringing about exemplary regional collaboration. HK and GD should make reference to this successful collaboration model. In particular, HK and GD should enhance communication in such areas as the planning and development of port clusters and coastline resources as well as professional division of work; sharing information resources, backup protection and technical resources; coordinating the planning of port container collection and distribution systems; developing river-sea and sea-land inter-modal transportation; and coordinating the construction of land ports and transshipment hubs.

Coordinating Airport and Airspace Resources in PRD – It is recommended that reference be made to the management of airports in London metropolitan area with consideration being given to forming a “Greater Pearl River Delta Airports Co-ordination Committee”. Up to now, the airports within PRD have been competing in a constructive manner, achieving complementarity and synergy. But there are issues that need to be urgently addressed and resolved: how to better coordinate the airports and airspace resources within the region and bring the five major airports in PRD, the national Civil Aviation Administration and relevant departments into collaboration with a view to a better use of airspace in PRD; how to organise the collaboration among the five airports and implement staggered developments more effectively; how to seize the opportunity of improving cross-strait relationship to facilitate HK-Taiwan aviation collaboration for furthering economic exchanges and relationship between the PRD metropolitan areas and Taiwan; and how to proceed with the

construction of a railway system connecting the five airports with a view to more efficient flow of factors of production among airports⁶.

At present, the PRD air transport market is still in a stage of rapid growth. Air transport demands at different levels have provided ample sources of passengers and freight for the airports to develop independently. Each airport has relatively abundant room for market development and operational adjustments. These circumstances may, for the time being, obscure the existence of certain problems and the severity of competition. If we defer coordination efforts until inter-airport conflicts and competitions have become critical, the coordination by then will be a kind of imposed collaboration at a much high cost.

Expediting Integration of Octopus Card and GD's Transport Card – It is recommended a “one-card-through” system be devised in GPRD region, a system which will equip HK's Octopus Card and GD's transport card with the function of settling in both HK dollars and Renminbi according to the place of use. This system will enable passengers to use the same stored-value card for connecting rides in different transport modes in both HK and PRD and thus enjoying greater interchange convenience.

Strengthening Postal Coordination Between HK and GD – It is recommended that the postal systems of HK and GD be further coordinated with a view to sharing of logistics information and the eventual formation of a unified information system for logistic management facilitating the collaboration of logistics industries of both places.

Expediting Integration of Cross-border Roaming Services – Despite the vibrant developments of telecom industries in HK and the Mainland, cross-border roaming charges are still relatively high. Nowadays, when roaming charges have been progressively lowered or even waived in some Mainland provinces and cities, particularly cities within PRD, HK and GD should take heed of the Outline's premise of achieving synergy between both places, and endeavour towards more collaboration and integration in accordance

⁶ As the airports in the GPRD region are operating under three different aviation systems of the Mainland, HK and Macao, coordinating developments of these airports will involve many complicated issues. As such, the relevant proposals need to be further studied with a view to seeking consensuses and breakthroughs under the existing mechanism.

with market principles. The aim is to achieve better synergy and more competitive charges for cross-border telecommunication with a view to strengthening the regional competitiveness of PRD. It is also recommended that the authorities of both places should work more closely with telecom operators to enable them to respond more appropriately to market needs⁷.

Procedures should be simplified for holders of HK driving licence to apply for Mainland driving licence⁸. A one-stop arrangement co-locating immigration and customs clearance facilities of both sides should be implemented. Cross-border helicopter services⁹ should also be promoted as a support for essential transport services. These measures will help to enhance the overall competitiveness of the region in the long run.

3.2 New Systems and Common Standards

The competitiveness of a country or region hinges on its modern services industries. While GD has already developed into a leading world-class manufacturing base, its upstream and downstream services industries have not been able to catch up with the development, a hurdle that prevents GD from enhancing its overall competitiveness in the global economy.

To address the problem, the Outline has put forward a target for services industries of GD and PRD region to account for 53% of the regional gross domestic product (GDP) by 2012, and up to 60% by 2020. At present, HK's services industries account for more than 95% of our GDP, and its professional services are very sophisticated and up to international standards. HK is thus well capable of using its experiences to improve the overall standards of services industries in HK and GD, and assist PRD to meet international standards.

⁷ The business community is concerned that the proposal may have revenues implications on telecom operators. It is recommended that the proposal should be explored in depth in a progressive manner under the principle of addressing market needs and in the direction of strengthening regional competitiveness.

⁸ According to current provisions of the laws of HK, Mainland visitors to HK holding a valid Mainland driving licence may drive in HK for a period not exceeding 12 months after entry into HK, without having to apply for/hold any HK driving licence. Conversely, HK driving licence holders must obtain a valid Mainland driving licence if they want to drive in the Mainland. HK drivers can apply to the Guangdong Public Security Bureau for direct issue of the Mainland driving licence for private car.

⁹ Currently, there are about 17 000 helicopter movements each year. For details of recommendations, please see the proposal by the task-group on transport at the Appendices.

To enhance integration of and industrial cooperation among HK, GD and Macao, the Outline proposes to deepen and solidly enforce the CEPA arrangements; formulate proper measures of “early and pilot implementation” for HK and Macao; and step up the implementation of mutual recognition of professional qualifications, including the insurance, law, accounting and healthcare service industries. The aim of these measures is to create a favourable environment for development of services industries. On the above basis, this report has put forward the following recommendations:

3.2.1 Mutual Liberalisation in Professional Areas

Mutual Recognition of Professional Qualifications in More Areas – It is recommended that mutual recognition of professional qualifications be implemented by adopting the existing practice applicable to the accounting and financial sectors where some of the papers under the professional qualification examinations are exempted and recognising the results of some other papers of the said examinations on a mutual basis. Mutual recognition of professional qualifications in other sectors should also be speeded up. For doctors, pharmacists and lawyers, the current situation is mainly one of HK’s professionals in these sectors seeking the Mainland’s recognition of their HK qualifications. They may sit for qualifying examinations of the Mainland, or even apply for direct recognition of their qualifications. Indeed, HK should also consider extending its recognition to cover the certificates of certain Mainland universities, allowing their graduates to sit for professional examinations in HK and exempting them from taking the examinations of certain subjects in order to provide a faster way for Mainland professionals to obtain qualification recognition in HK.

Establishing a Joint Professional Examination Scheme and Waiving the Nationality and Residence Requirements on a Mutual Basis for accountants – It is recommended that a joint professional examination scheme be established by the Institutes of CPAs in PRD and HK. Based on the HK Institute of Certified Public Accountants Qualification Programme, the institutes of both sides may set examination papers for subjects like Accounting, Auditing and Financial Management in both Chinese and English to eliminate the language barrier. However, attention must be paid to the differences in tax and business laws between the two jurisdictions, and reasonable adjustments should be made accordingly to the examination papers of Tax Law and Economic Law.

At present, only those with right of residence in HK can practise as accountants in HK. Likewise, the existing provisions in the Mainland have stipulated that only Chinese nationals are permitted to practise as accountants in the Mainland. It means practitioners in either one jurisdiction cannot practise in the other even if they have passed the professional examinations of the other jurisdiction. To further the cooperation and exchanges between the accounting professionals of HK and PRD, it is recommended that the practising requirements of nationality and residence be waived in HK and PRD on an “early and pilot implementation” basis with a view to aligning the accounting industry in China with international standards¹⁰.

Allowing HK Law Firms’ Representative Offices in GD to Employ Mainland Practising Lawyers – As a measure of “early and pilot implementation” in GD, it is recommended that the representative offices of HK law firms in GD should be allowed to employ Mainland practising lawyers for provision of Mainland legal services. At present, a large number of HK enterprises are operating in GD, and the HK people doing business, working or temporarily residing in GD are also numerous. However, representative offices of HK law firms established in the Mainland (including those established in GD) cannot cater for the needs of these enterprises or individuals as they are prohibited from providing Mainland legal services to them.

In addition, it is recommended that reference be made to Article 8 of the Lawyers Law of the People's Republic of China with a view to allowing HK lawyers with not less than 15 years’ practising experience to acquire, by way of specific examinations and assessments, the Mainland legal profession qualifications and to practise in the Mainland. Also, HK practising lawyers should be allowed to act, in the capacity of citizens, as agents in civil litigation cases in the Mainland¹¹.

The lawyers in HK are conversant with international precedents and practices, particularly in the areas of financial investment, international trade, intellectual property and commercial contract, where their services are of international standards. Better still, HK lawyers share the same language and culture with the Mainlanders. They are well capable of using their experience to help

¹⁰ For details of recommendations, please see the proposal by the task-group on accountancy at the Appendices.

¹¹ For details of recommendations, please see the proposal by the task-group on legal services at the Appendices.

Mainland clients handle international and foreign-related proceedings or disputes.

Mutual Recognition of Testing and Certification Reports – To develop the PRD region into a nationwide testing and certification centre, it is recommended that the HK and GD Governments should put in place mutual recognition mechanisms and information sharing systems in testing and certification services to the effect that test reports issued by accredited testing and certification agencies of the China National Accreditation Service for Conformity Assessment or HK Accreditation Service will be recognised by the commodities or import/export regulatory authorities of the two places¹².

The proposal will improve overall efficiency of commodities import and export and reduce administrative costs. Furthermore, it will also be useful in familiarising Mainland authorities with international practices in product testing and certification standards with a view to faster alignment with international standards.

Raising the Status of HK's Research and Development Institutions – At present, HK enterprises are regarded as offshore entities and prohibited under Mainland law from participating in the Mainland's major R&D projects or national standard-setting organisations. As HK has many universities and a solid R&D foundation, we should play a more active role in our country's science and technology developments. It is recommended that we should pursue with the Mainland authorities for the HK Applied Science and Technology Research Institute and the Science Park to become the leading and major R&D institutions of the country. The aim is to enable them to participate in national standard-setting and national R&D projects, and attract Mainland institutions to forge cooperation with them. At the same time, both Mainland and HKSAR Governments should roll out more positive and innovative policies to facilitate establishment of R&D centres in HK by Mainland's technology enterprises¹³.

¹² For details of recommendations, please see the proposal by the task-group on testing and certification at the Appendices.

¹³ For details of recommendations, please see the proposal by the task-group on innovation and technology at the Appendices.

3.2.2 Networking HK and PRD Customs Systems

Expediting the Formation of a Joint Customs Information System¹⁴ – To streamline import and export procedures in PRD, it is recommended that studies be conducted on setting up a Single Window database to reduce repeated approval processes and requirements for certifying documents. The said database may also ensure that any procedural hurdles and complicated formalities affecting Mainland's import and export via HK can be kept to the minimum. A successful formation and operation of such a joint customs information platform can also serve as a model for establishing an international platform of trade and customs information¹⁵.

3.3 Streamlining Procedures and Lowering Entry Threshold

For PRD to assume a leading and demonstrative role for the country in upgrading economic structure and opening up new horizons for cooperation, the Outline encourages the processing trade to extend its industrial chain by assisting a number of large and competitive processing enterprises engaged in OEM/ODM production to upgrade their operation. The target is for these enterprises to develop their own brand products, strengthen their design, R&D and brand marketing capabilities, and scale up their businesses in domestic sale.

The Outline also mentions that priority should be given to the development of modern services industries and the headquarter economy should also be vigorously developed. The purpose is to encourage large enterprises, both local and foreign, as well as influential intermediary services organisations to establish their headquarters or branches in PRD. Given HK's strong foundation in services industries, HK and GD should lower their market entry thresholds and streamline relevant approval procedures

¹⁴ This recommendation involves complicated issues concerning the differences in laws, policies and operational practices between the two places. The relevant policy bureaux and customs authorities should therefore scrutinise the feasibility of the proposal. Regarding cargo clearance, in view of the Road Cargo System to be launched by HK's customs by early 2010 as well as the progressive enforcement of the "Administrative Measures on the Manifest for Cross Border Transportation by the Customs of the People's Republic of China" by Mainland's customs since last year, the customs authorities of HK and GD were engaged in dialogues early this year on a unified format of electronic manifest and cooperation in data transmission. On a pragmatic basis, both sides have discussed ways for networking HK's Road Cargo System with Mainland's electronic manifest system with a long-term target of achieving greater convenience for the freight industry through a system allowing submission of one electronic manifest for customs declaration at both sides.

¹⁵ For details of recommendations, please see the proposal by the task-group on logistics and maritime at the Appendices.

for services industries and enterprises providing supporting services with a view to enlarging market hinterland for both sides and facilitating industrial exchanges.

3.3.1 Shortening Approval Time and Streamlining procedures

Exemption of Re-examination for Product Certification – It is recommended that GD’s commodity inspection authority should give endorsement to a series of safety and quality certifications granted by some HK enterprises that are widely recognised internationally. Goods with such certifications will thus be exempted from re-examination. Under the proposed arrangement, the commodity and hygiene inspection authorities are only required to verify the authenticity of the certificates and documents for issuing sale licences. This will streamline relevant formalities as much as possible, reduce the licence application costs for enterprises and shorten application time. It is also recommended that the application procedures for sale licence should be streamlined and relevant requirements lowered. For example, the authorities may consider introducing a GD province-wide licence which will be valid in the 21 cities of the province.

Helping Export Processing Enterprises Tap the Domestic Market – Previously, export processing enterprises intending to transform into “foreign-invested enterprises”¹⁶, which can operate business of domestic sale, needed to go through very complicated and time-consuming formalities. At present, individual cities have introduced effective measures, including provision of “all-in-one” services, to speed up the processing time. It is hoped that more similar measures can be provided.

After the financial tsunami, Shenzhen and Dongguan have organised a number of trade fairs to promote business transformation from foreign trade to domestic sales. The two places also implemented a trial practice of “taxation after sale”¹⁷, which was widely welcomed by enterprises and brought immense business opportunities to both cities. It is recommended that trade fairs for promoting transformation from foreign trade to domestic sales should be

¹⁶ Short title for the three types of enterprises with foreign investment, namely Chinese-foreign equity joint venture, Chinese-foreign co-operative joint venture and wholly foreign owned enterprise.

¹⁷ At present, only network-supervised enterprises, Class A enterprises and Class A-guaranteed enterprises with good export reputation are entitled to the “taxation after sale” treatment.

organised in the whole GD province. Also, GD should allow submission of one declaration for multiple domestic sales that take place within a period of time. This will enable more enterprises to flexibly plan and manage their sales of products in response to market demands¹⁸. In addition, on the basis of past successes of domestic trade fairs, it is recommended that HK and major cities of the Mainland should set up long-term wholesale and sales centres where local SMEs can operate at reasonable costs. This will help HK's SMEs tap into the Mainland domestic market.

The global financial tsunami has exposed the structural problem of China's economy: its over-reliance on export. In accordance with the country's main direction and policy requirement of "expanding domestic demand and adjusting economic structure", we should open up and optimise domestic sales channels, and streamline administrative procedures requiring multi-departmental approval. This will help balance the country's economic structure, stimulate consumption and lessen export reliance, leading the country's economy to steady and fairly rapid development.

Requesting Equal Treatment for HK Designers in the Mainland – It is proposed that resources should be deployed and venues provided for the establishment of a cooperation platform for promoting exchange of ideas between HK and GD. Besides, procedures should also be streamlined and a mechanism put in place to facilitate service provision by HK designers for national and private enterprises in the Mainland. For example, HK designers can be permitted to bid for and participate in some of the Mainland projects.¹⁹

Shortening Processing Time for Setting Up Law Firms' Representative Offices – The processing time for HK law firms to set up representative offices in the Mainland should be shortened from nine months to six months.

Exempting Duplicate Submission of Documents for Customs Clearance – Although ASEAN countries have signed trade agreements with China, production of documents such as certificates of origin is still required for

¹⁸ For details of recommendations, please see the proposal by the task-group at the Appendices on SMEs' entry into Mainland domestic market and Upgrading and Restructuring of Manufacturing Industries.

¹⁹ For details of recommendations, please see the proposal by the task-group on culture and creativity at the Appendices.

ASEAN goods shipped to HK for transshipment to the Mainland. This requirement incurs additional costs²⁰. It is therefore recommended that the relevant department should exempt duplicate submission of shipping documents for customs clearance.

3.3.2 Lowering the Threshold for Entering HK Market

Facilitating Business Establishment by Mainland Companies in HK –

Further streamlining of procedures, such as those of foreign exchange control, is recommended to assist more GD companies to set up business in HK. On one hand, this can expand market hinterland for both sides, facilitating exchange and cooperation. On the other hand, HK can provide experiences in legal and other management aspects to ameliorate the overall business environment.

Facilitating the Intake of Outstanding Mainland Graduates to Work in HK –

It is recommended that consideration be given to streamlining procedures to make it easier for outstanding Mainland graduates of certain disciplines lacking in HK to come to work in HK. This will achieve professional complementarity with the universities of HK.

Relaxing the Restrictions for Mainland Talents to Work in HK –

At present, HK has put in place admission and immigration policies for quality talents and professionals. However, enterprises are required to go through certain procedures before they can employ people from overseas countries or the Mainland, and it is difficult to fasten the processing of applications by foreigners and Mainlanders for approval for working in HK. In this connection, HK should consider relaxing the policy on admission of talents to enhance the mobility of skilled workers between both places. Consideration for “early and pilot implementation” of this proposal in GD is recommended.

²⁰ As HK is not a member of the ASEAN Free Trade Zone, if shippers are to enjoy the preferential import tariff rate under relevant ASEAN agreements for transshipment of ASEAN goods to the Mainland via HK, they are required under the Consignment Rule to produce a certificate of no further processing and a certificate of origin to the Mainland customs. The certificate of no further processing has to be applied from the China Inspection Company Limited in the Mainland.

3.3.3 Lowering the Threshold for Entering Mainland Market

Assisting Development of Tertiary Industries in GD – In accordance with the spirit of CEPA Supplementary Agreement VI, it is recommended that HK permanent residents with Chinese citizenship investing in tertiary industries in GD should be entitled to the same treatment as that for GD enterprises in more aspects. For instance, law and accounting firms as well as insurance and medical institutions intending to set up businesses in the Mainland should be subject to the same requirements in capital investment and other aspects as their Mainland counterparts.

Lowering the Capital Asset Requirements for Insurance Companies – It is recommended that the total asset requirement for HK insurance companies entering GD insurance market should be suitably lowered so that these companies can provide insurance services in GD²¹.

Relaxing the Restrictions on Setting up Accounting Firms in Partnership – It is recommended that HK accounting firms and CPAs should be allowed to open accounting firms in partnership in the Mainland. Existing laws in the Mainland provide that the laws and regulations governing partnership enterprises in the Mainland are only applicable to domestic partnership enterprises. HK accounting firms and CPAs are not allowed to set up accounting firms in partnership in the Mainland.

Relaxing the Restrictions on Setting up Medical Institutions – It is recommended that HK investors should be allowed to set up wholly-owned hospitals and medical institutions in GD. In addition, the HK Government should encourage local medical institutions to cooperate with the Mainland by, inter alia, setting up joint medical faculties and teaching hospitals with a view to improving the academic standards, expertise and management of the medical fields of both places²².

²¹ At present, under the framework of CEPA, corporations formed by HK insurance companies through integration or strategic merger are eligible to apply to the China Insurance Regulatory Commission for authorization only if their total assets amount to US\$5 billion or above. For details of recommendations, please see the submission by the task-group on insurance at the Appendices.

²² For details of recommendations, please see the proposal by the task-group on healthcare services at the Appendices.

Relaxing the Restrictions on Entering Cultural and Creative Industries –

As the cultural and creative industries involve a certain degree of sensitivity, the foreign companies, including HK companies, are now denied entry to industries in the Mainland such as publishing, TV/film production and internet services. Given its unique cultural background and clear advantages in respect of international marketing and intellectual property protection, HK is well-positioned to promote the fine traditions of GD and the nation in a bid to enhance the soft power of Chinese culture. Being geographical near, GD is well familiar with the cultural products of HK. Therefore, it is recommended that pilot measures should be taken in GD to relax market entry for products of HK cultural and creative industries. If the measures turn out to be fruitful, similar relaxation should be extended nationwide.

Reviewing and Reducing Salary Tax – A review is recommended to streamline the salary tax arrangements of the two places in order to facilitate the interflow of workers. At present, HK and the Mainland have different tax regimes. HK has a maximum salary tax rate of 17% comparing with the Mainland's 45% and tax allowance in the Mainland is lower than that in HK. Therefore, for the same amount of salary, the salary tax payable will be much higher in the Mainland than in HK. Moreover, HK residents who work in the Mainland for a period exceeding an aggregate of 183 days are chargeable to the income tax of the Mainland. As a consequence, many HK residents have to travel between the two places frequently in order to reduce the tax burden, a situation not favourable to economic exchanges.

3.4 Seeking Sustainable Development and Building a Quality Living Area

30 years on since the introduction of the reform and opening-up policy, GD has attained spectacular achievements in economic development. Nevertheless, its economic structure has been over-reliant on the manufacturing sectors, and such an economic growth model has put enormous pressure on its environment, posing also a threat to sustainable development. In 2007, the energy consumption for each unit of GDP in GD is 2.2 times higher than the world average level, and respectively 2.3, 6.2 and 3.2 times higher than the United States, Japan and Britain.

In view of the above, the Outline has dwelt at length on building a quality living area. With reference to cross-border environmental protection, the Outline specifies that support will be provided to the HK and GD Governments to jointly formulate and implement clean energy policies with a view to achieving progressively the uniform

use of vehicle fuel and emission standards that are higher than the national standard and thus improving the air quality of PRD. This report suggests that efforts in this direction should start with abandoning the use of poor-quality oil for power generation. In the long run, consideration should be given to developing uniform environmental protection standards for the purpose of sustainable development. In addition, it is recommended that GD and HK should play to their strengths while cooperating in areas like development of electric vehicles and products recycling in order to promote environmental protection industries on reciprocal basis.

Abandoning the Use of Poor-quality Oil for Power Generation – At present, the use of poor-quality oil for power generation in the PRD is a problem that needs to be addressed urgently. The authorities concerned have to step up regulatory measures. Regarding environmental protection in HK and GD, “green energy” should be the foremost and core initiative for introducing new thinking to the power generation industry. Specific measures may include: firstly, legislation against the use of poor-quality oil for power generation; and secondly, incentives to encourage the production and use of clean energy. The authorities concerned should also formulate and implement appropriate legislative measures to more effectively control and reduce emissions.

Uniform Environmental Protection Standards in the Long Run – Air pollution is a cross-border problem. In the long run, we should consider developing uniform environmental protection standards, establishing a HK-GD-Macao joint regional mechanism to prevent and tackle pollution, and examining the feasibility of establishing an environmental monitoring mechanism covering the three places. In addition, HK and GD can jointly develop the national standards of environmental-friendly construction materials and serve as the exemplary regions for piloting these standards. When mature and refined, these standards can be extended to other provinces. This recommendation meets the requirements of energy conservation and environmental protection and is conducive to realising the national policy of sustainable development²³.

Becoming the Pilot Area of Specialised Environmental Technologies – HK has competitive advantages in areas like intellectual property protection, standardisation, solicitation of international orders, software design, project management, marketing

²³ For details of recommendations, please see the proposal by the task-group on environmental protection at the Appendices.

and brand building whereas GD's competitive strengths lie in research and development, production, logistics and procurement, and system support. The two places can combine their advantages to develop large-scale, corporatised and technology-oriented environmental industries and build a quality living environment together in the region. It is recommended that HK and PRD should seek to become the pilot areas for developing major specialised technologies such as those for electric vehicles²⁴, new environmental and energy-efficient technologies. The aim is to assist the development of environmental industries and promote these emerging industries to the international market.

Establishing a HK-GD Products Recycling Platform – the Mainland has recently implemented a policy of subsidising the replacement of old vehicles and household electrical appliances for new ones²⁵, and GD is one of the nine pilot provinces/cities launching relevant measures for replacing old household electrical appliances. Vehicles and household electrical appliances generate enormous quantity of recyclable materials such as iron and steel, nonferrous metal, plastics and rubber. The said measures can accelerate and ameliorate the mechanisms for collecting, dismantling and treating vehicles and household electrical appliances for recycling, enabling full and effective use of these resources and facilitating the development of recycling economy. However, the present electronics recycling operators in the Mainland are small in scale though numerous in number. From an industrial perspective, their level of modernisation is rather low and their efficiency and technical standards vary from good to bad. What is particularly noteworthy is that refuse incineration in the dismantling process, if done improperly, will easily cause secondary pollution to the air, underground water and soil. Therefore, it is recommended that the HK and GD Governments should explore the setting up of a mechanism for electronic products recycling and processing to foster technical cooperation in respect of electronics recycling between relevant enterprises of the two places with a view to forming a complete recycling and processing industry chain.

²⁴ In April 2009, the HK Government established the Steering Committee on the Promotion of Electric Vehicles. Its duty is to examine and make recommendations on the issues concerning the use of electric vehicles in HK from the perspectives of economic development, town planning, industry, technology, environmental protection and transport.

²⁵ The policy aims to replace high energy-consuming products with energy-conserving products with a view to enhancing the national efficiency in energy and resources utilisation.

3.5 Integrating Social Service Resources and Facilitating Cross-border Living

The Outline has its focus on improvement of people's livelihood and proposes vigorous development of various social undertakings to ensure universal education, employment, healthcare, pension, and housing. The objective is for PRD to become the exemplary region of the country for developing high-quality social undertakings, to facilitate overall personal development, and to develop a harmonious and progressive society where people live happily and healthily.

The Outline also encourages cooperation on education, healthcare, social security, culture, emergency management and intellectual property protection, providing conveniences to people from HK and Macao to work and live in the Mainland. This report is of the view that social service agencies and charitable organisations of HK and GD should be encouraged to form partnership in order to further cooperate in services provision²⁶ and experience sharing. The HK and GD Governments may start with education and elderly welfare by relaxing relevant restrictions to facilitate cross-border travel and living for people of the two places with a view to building a harmonious society.

3.5.1 Integrating Resources of Social and Charitable Services

HK-GD Cooperation in Provision of Social Services – With rich experiences in social service development, HK should be more proactive in participating in the social services in GD and their development. HK should further its cooperation with GD for the benefit of the people. HK social service agencies hope that the Mainland authorities can: (1) provide sufficient enabling

²⁶ (a) In June 2007, the Mainland and HK signed the CEPA Supplementary Agreement IV under which HK service suppliers are allowed to operate elderly service agencies on a pilot basis in GD in the form of a wholly-owned private non-enterprise entity. The measure came into effective in January 2008. For implementing this liberalising measure, HK's Labour and Welfare Bureau and GD's Department of Civil Affairs have respectively published guidelines on how to apply for a Certificate of HK Service Supplier in HK and how to apply for approval for operating an elderly service agency in GD. Details have been uploaded to the websites of HK's Trade and Industry Department and GD's Department of Civil Affairs for reference.

(b) In July 2008, the Mainland and HK signed the CEPA Supplementary Agreement V under which HK service suppliers are allowed to provide welfare services for people with disabilities on a pilot basis in GD in the form of a wholly-owned private non-enterprise entity. The measure came into effective in January 2009. For implementing this liberalising measure, HK's Labour and Welfare Bureau has published a guideline on application for Certificate of HK Service Supplier to assist HK agencies to apply for the said certificate from the Trade and Industry Department of HKSAR Government as a documentary proof of services provision for people with disabilities for the purpose of applying to GD's Department of Civil Affairs for approval of operating a service agency in GD.

conditions for HK social service agencies to provide services in the Mainland²⁷; (2) issue clear guidelines that facilitate partnership with Mainland counterparts in service provision²⁸; and (3) allow HK agencies to provide training and other support to Mainland counterparts and assist them to foster social service professionals in the Mainland²⁹.

Promoting HK's Experience in Charitable Services – HK's charity sector has been operating with full vigour. A number of charitable organisations have been providing the middle and lower income groups with different social services on a long-term basis, making enormous contributions to the society. It is recommended that consideration should be given to introducing into GD for pilot implementation the management mode and operation concepts of charitable organisations in HK, such as the HK Jockey Club, Tung Wah Group of Hospitals, Po Leung Kuk and Caritas-HK, with a view to gradually introducing them to the other provinces of the country.

3.5.2 Facilitating Life for Mainlanders Living in HK

Reviewing the Feasibility of Bridging the Retirement Protection Schemes of HK and Mainland – The retirement protection systems of the two places are different. Some of the mainlanders³⁰ who have worked or resided in HK are not eligible for the Mainland's social security after they return to the Mainland. It is recommended that the authorities concerned should review the feasibility of bridging the Mandatory Provident Fund of HK and the social welfare system of GD.

Considering the Possibility of Schools for Mainland Children – it is recommended that schools using the Mainland's curriculum, academic structure and examination system be established in HK for children of Mainland

²⁷ For service agencies operating in the Mainland as private non-enterprise entities, their remaining assets in the event of closure will have to be state-owned. This is a deterrent to HK social service agencies which are willing to invest in service provision in the Mainland because it will be difficult for them to account for such losses to the donors in HK.

²⁸ HK social service agencies have run into many operational problems when working with Mainland partners, especially those on capital control, finance and remittance. Quite a number of HK agencies are troubled by delayed payments from the Mainland for buying services due to remittance problems.

²⁹ For details of recommendations, please see the proposal by the task-group on social services at the Appendices.

³⁰ In 2008, around 37 000 talented workers/professionals from all over the world were granted approval to work or reside in HK, among which 9 500 were from the Mainland.

professionals to study in HK. This will provide the Mainland professionals working in HK and their family members with a friendlier living environment and supporting benefits³¹.

3.5.3 Facilitating Life for HK People in the Mainland

Reviewing the Scope of Social Welfare for Elderly – The enjoyment of HK’s social benefits in GD is subject to certain constraints. It is recommended that due attention should be given to potential legal problems in this regard and those relating to “cross-border enjoyment of welfare”. While feasible proposals should be considered, a review should be conducted with a view to relaxing the constraints. The HK Government launched the Portable Comprehensive Social Security Assistance (PCSSA) Scheme in April 1997, allowing elderly CSSA recipients to continue to receive the payments after they had resided on the other side of HK’s border. Eligibility criteria of this Scheme was relaxed in August 2005, allowing elders who had been on CSSA for not less than one year to have an option to reside in GD or Fujian and continue to receive the CSSA payments. This Scheme was also renamed Portable CSSA in GD and Fujian at the same time. Elders receiving assistance under this Scheme will receive a monthly standard payment and an annual long-term supplement but will not be given any special grant or other assistance such as rent allowance, mobility allowance and medical cover.

Besides, since 1 October 2005, the period of absence from HK for recipients of old age allowance has been extended from a maximum of 180 days a year to 240 days a year so as to allow elders to reside for a longer period of time outside HK. The payment of old age allowance will not be affected if the recipient has not been away from HK for a period of more than 240 days and has resided in HK for not less than 90 days in the payment year. The HK Government is currently conducting a review on the permissible limit of absence from HK for recipients of old age allowance. The review will cover various areas which need to be taken into account and the far-reaching impact caused by a change of policy, such as the resources required, sustainability of relaxing the policy etc.. Notwithstanding the lower cost of living in the Mainland comparing with HK, some of the elders may not enjoy in the

³¹ This recommendation involves Mainland policy and requires policy coordination and provision of complementary facilities on the part of HK Government. Members of the sector will communicate with the Government on this subject to examine the feasibility of the recommendation.

Mainland the same standards of living, welfare protection and retirement life that they could have enjoyed in HK. It is recommended that the Governments of the two places should strengthen their communication on the above concerns and conduct further studies on the elders' modes of living and consumption in the two places for formulation of future policy direction.

Assisting Children of HK Residents Receiving Education across the Border

– Since the 1980s, it has been increasingly common for HK people to travel across the border. Cross-border living and marriages have also grown exponentially. Some children born out of such marriages have, for various reasons, been arranged to live in Shenzhen but study in HK. Such cross-border schooling has given rise to a slew of transport and social problems³². As a short term measure, it is recommended that more “students e-channels” should be set up at boundary control points and more cross-border school bus services provided in order to meet the needs of an increasing number of cross-border students and to shorten the time required for going through customs. Furthermore, assistance should be provided so that more private schools using HK curriculum can be set up in GD, particularly in Shenzhen first, a measure which will allow HK students to be eligible for the HK Secondary School Places Allocation and continue their secondary education in HK. Measures should also be taken to better assist HK children arriving from PRD to better adapt to the HK education system. In parallel, consideration should be given by HK Government to opening in places like Shenzhen subsidised schools or classes for HK children using HK curriculum and examination system, so that HK children living there can benefit from relevant education subsidies like travelling allowance and textbook assistance. The feasibility of implementing an education voucher scheme for these children should also be considered³³.

³² Socially speaking, the culture, social environment and ideology confronting cross-border students living in the Mainland are different from HK. Learning and psychological barriers and stress may arise during the course of adaptation. Transport wise, the cross-border travelling fees are expensive and commuting time is long, students may encounter risks while travelling across the border, including exploitation by criminals.

³³ There are views that apart from considerations such as land and sources of students, the implementation of this recommendation will involve other rather complicated issues (such as monitoring of service quality). It will touch upon the concept of “portability of social welfare” (i.e. people living outside the HKSAR will also be entitled to various welfare benefits such as free education, housing, healthcare and comprehensive social security), which is quite controversial and may incur a huge fiscal burden on the HKSAR Government in the long run. Detailed assessments in collaboration with relevant government departments are therefore necessary upon the principle of public benefit.

Assisting in Bettering Healthcare Services for HK People in PRD – It is recommended HK and GD should strengthen the interface and cooperation between the healthcare systems of the two places such that HK residents living or working in PRD can have easier access to healthcare services that tie in with the HK healthcare system.

3.6 Furthering Collaboration in Education and Technology and Improving Overall Workforce Quality

The Outline is supportive of advancing the development of higher education with new ideas and mechanisms. Support will be given for renowned universities of HK and Macao to establish cooperative institutions of higher education in PRD, and restriction will be relaxed to allow cooperation education with overseas organisations in educational enterprises. The Outline also encourages multi-directional, multidisciplinary and multiform cooperation on intellectual introduction and talent cultivation with a view to optimising the workforce structure. The target is for cities such as Guangzhou, Shenzhen, and Zhuhai to establish tertiary education institutions through cooperation with three to five reputable foreign universities, and to build one to two nationally top-ranked universities that meet advanced international standards by 2020.

HK's tertiary institutions are among the top ranking universities of the world. They can strengthen cooperation with PRD to build a regional education hub, a move that will elevate the overall education level of PRD and contribute to the long-term development of the region. This report puts forward the following recommendations:

3.6.1 Education Cooperation

Allowing Independent Institutes Established by HK's Training Institutions – To achieve sustainable development, the key lies in manpower development and improvement of professional skills. Particularly important is the introduction of advanced professional training and international certification programmes. It is recommended that universities, professional bodies and training institutes in HK with international standings should be allowed to establish institutions independently in PRD. This will enable the PRD to become a meeting place of international and professional expertise.

Enhancing Collaboration in Vocational Education and Training – It is recommended that GD and HK should jointly develop pre-employment and

on-the-job training services to foster technical skilled workers that meet to market demands. At present, HK and PRD differ significantly in the areas of vocational training, skills certification mechanism, management and training content. It is recommended that a regional vocational training system featuring compatible vocational training mechanisms, mutual recognition of certificates and sharing of teaching expertise should be established. The aim is to develop PRD into a centre place of training and certification³⁴. With its experiences in vocational education and training system, HK can provide the Mainland with the modes and standards for course planning and management. It can also develop and organise professional and vocational training programmes for both places with a view to training more technical skilled workers for the country³⁵.

Promoting Innovative Cooperation in Education between HK and GD –

Under the “Cooperation Agreement for Implementing the Decision of the Standing Committee of the National People’s Congress on Developing the New School District of the University of Macau in Hengqin Island” signed between GD and Macao SAR in July 2009, the University of Macau will develop in Hengqin Island of Zhuhai a new school district which will be 20 times as large as the existing campus. The Macao Government will acquire the land use right concerned by way of a lease and will have the right of direct administration of the new school district in Hengqin Island.

Recently, HK and Shenzhen have reached a preliminary agreement on development of the Lok Ma Chau Loop as a higher-education-oriented area with hi-tech research and development facilities and creative industries. The area will focus on human resources development for Southern China and enhance the competitiveness of PRD. In view of the innovative mode of cooperation between GD and Macao in developing Hengqin Island, other places in PRD may likewise consider further innovative cooperation in education with

³⁴ Given the differences between HK and GD in the mechanisms for pre-employment and on-the-job training, new concepts and attitudes are necessary for in-depth discussions with the two Governments on the complicated issues involved for improving the overall level of skill of the workforce.

³⁵ For details of recommendations on education and training services, please see the proposal by the task-group on education at the Appendices.

the HKSAR Government and HK's professional bodies with a view to developing PRD into the national base for nurturing talents.

Attracting More Mainland Students to Study in HK – It is recommended 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, well familiar with the Mainland culture and also trained under HK's western education system, are well able to contribute to the future Mainland-HK cooperation and the development of the country.

3.6.2 Technological Collaboration

Using HK's International Experience to Capitalise on PRD's Strengths in R&D – HK is rich in R&D personnel who have operational experience in enterprises in the Silicon Valley of the United States. They possess advanced technological knowledge and skills and are familiar with how international capital works. These talents can assist PRD enterprises to fully leverage international resources through introduction of advanced technology, skilled workforce and international capital. This will not only help enterprises to expand and upgrade production to cater for the huge domestic market, but will also facilitate the development of hi-tech industries with high-added-value, strengthening the innovation capability of the country for developing into an innovative country. In long run, these talented people can also help promote PRD's technological achievements to overseas markets.

It is also noteworthy that the tertiary institutions and some research institutes in HK are owners of large quantity of R&D achievements with independent intellectual rights, but we lack the production capability to translate such achievements into tangible products. In this connection, GD possesses a relatively strong industrial foundation. So HK can take the opportunity of GD's economic upgrading and restructuring to obtain stronger industrial support from GD to carry out hi-tech projects with market potential. It is recommended that the HK and GD Governments should initiate negotiations between HK's R&D institutes and GD's production bases. The aim is for GD to set up production bases in its major production cities and invite HK's tertiary institutions and R&D institutes to station at the bases for providing GD with R&D results that can be turned into products.

At present, GD is at a key stage of its economic upgrading and restructuring. It is recommended that the HK Government should assist HK enterprises to scale up their hi-tech projects in GD. Areas worth paying attention include organic light-emitting diode, new materials, opto-electronics and photovoltaic industries. This will help HK enterprises to grasp the opportunity of GD's industrial upgrading policy to enlarge their hi-tech operations.

3.7 Optimising Financial Infrastructure and Preventing Financial Risks

HK has a sound financial infrastructure and advanced gross settlement systems, which provide a safe and efficient trading platform of major international currencies. What is more, HK has been doing well in riding out global financial crisis, accumulating much experience in market risk management and monetary regulation. Under the precondition of ensuring national financial security, HK and PRD can seek to serve as a testing ground for the Mainland in its gradual liberalisation of the capital account and RMB internationalisation. When such liberalisation measures are mature, they can be extended to other provinces and then nationwide. Indeed, HK and GD are allowed under the Outline to pursue financial reform and innovation on the basis of pilot implementation and establish a comprehensive pilot area for these purposes. This report has the following recommendations with respect to financial services:

Providing More Variety in Financial Services – Under the premises of pilot implementation in GD and containing risks within controllable range, active negotiation between the HK and GD Governments is recommended for relaxing existing restrictions on provision of financial services by HK banks in the Mainland. In particular, HK banks should be given the same treatment as their Mainland counterparts in establishing businesses. For example, the Mainland branches of HK banks should be allowed to underwrite RMB bonds and investment funds, broker onshore and offshore investment products and provide wealth management services covering HK investment products in GD ³⁶.

Facilitating Flow of RMB Capital between HK and GD – At present, Mainland subsidiaries of HK banks are generally short of RMB deposits for business

³⁶ According to the Mainland laws, wholly-owned foreign banks and Sino-foreign joint venture banks can only deal with transactions of government bonds, financial bonds and other non-equity marketable securities in foreign exchange. But the Mainland commercial banks can issue financial bonds and act as agents to issue, cash and underwrite government bonds. Mainland laws also stipulate that commercial banks providing wealth management services are not allowed to sell overseas funds or any investment products prohibited by the law when marketing their financial products.

development. It is therefore recommended that their subsidiaries in GD should be allowed to borrow the RMB deposits taken by their mother banks in HK, or even issue RMB bonds directly in the province. This will ease their funding pressure considerably and also facilitate business development in the Mainland and the diversification of RMB business.

Facilitating Remittance by HK Residents – According to Mainland laws, only persons with HK identity cards can remit RMB to Mainland bank accounts through the clearing bank of HK subject to a daily remittance limit of RMB80,000 per person. In view of the vibrant economic and social activities between HK and GD, better flow of capital can bring convenience to enterprises and the public. It is recommended that progressive relaxation of this restriction should be introduced in GD on a pilot basis, allowing HK residents and enterprises to remit larger amounts of RMB to any bank accounts in GD.

Relaxing Restriction on Bank Shareholdings – According to Mainland laws, no foreign financial institution is allowed to have a shareholding exceeding 20% in any Mainland-invested financial institution. Banks of HK, well experienced in banking management, can help Mainland banks meet international standards. It is therefore recommended that pilot measures be introduced in GD to relax the ceiling for HK banks' shareholding in GD banks and allow more participation by HK banks in the Mainland banks' management³⁷.

Preventing Financial Risks Together – It is recommended that the financial regulatory authorities in HK and the Mainland should jointly discuss and formulate measures for preventing systematic financial risks with a view to improving the system and means for financial regulation and optimising the overall mechanism for financial supervision. In addition, it is also recommended that HK should fully leverage its strengths in financial software and hardware infrastructure by serving as the “buffer zone” or “testing ground” for the Mainland in the process of its financial market opening, financial products innovation and RMB internationalisation. Also, HK should become the gateway for Mainland investors, fund raisers and financial institutions to “go global” in an orderly way.

³⁷ For details of recommendations on the financial sector, please see the proposal by the task-group on finance at the Appendices.

IV. Follow-up Mechanism

4.1 Short to Medium Term

In March this year, the HK and GD Governments initiated the signing of a Framework Agreement on HK/GD Cooperation to set out the direction for substantive and deeper cooperation in the areas of infrastructure, industrial collaboration, environmental protection and education. Both Governments also agreed to jointly devise regional cooperation plans on the subjects of “Building a Quality Living Area” and “Infrastructure Construction”. On the basis of the above, the two Governments can jointly submit concrete proposals to the Central Authorities with a view to elevating HK-GD cooperation to the level of national strategy and having those proposals incorporated into the National 12th Five-year Plan.

4.2 Medium to Long Term

4.2.1 Improving Legal Regulation and Protection

To promote the development of the services industries, it is recommended that the Governments and industries of the two places should make recommendations to the Central Authorities for gradually improving the relevant laws and regulations to remove any institutional obstacles to the development of services industries. There is also a need to provide better protection for professionals in the Mainland. For instance, medical practitioners in HK can take out professional liability insurance so that they can count on the insurance companies to handle mediation matters and share compensation risks in the event of medical incidents or disputes. In the Mainland, such insurance is not available, which is indeed a disincentive to the development of professional services industries.

4.2.2 Establishing Counterpart Organisations of Professional/Trade Associations in HK and GD

In HK, professional sectors, including healthcare, legal, architecture, surveying and accounting, are subject to self-regulation by respective professional/trade associations with credibility to ensure compliance with code of professional conduct. In the Mainland, these sectors are administered directly by relevant government departments. To evolve from direct government administration to indirect administration, the key lies in the development of professional/trade

associations in the Mainland and the delegation of part of the relevant administrative power by the Government to these associations. In this connection, it is recommended that professional/trade associations of GD and HK should establish counterpart organisations to achieve uniformity in services standards and accreditation of qualifications with the ultimate objectives of establishing an integrated services market in GD and HK, upgrading services standards, and enlarging market scale.

4.2.3 Establishing an Innovative Cooperation Mechanism

It is recommended that the directive mechanism of the Central Government should be further refined to coordinate and rationalise the work of different ministries and commissions with implications to HK-GD cooperation with a view to facilitating the integration of GD, HK and Macao and implementing the proposals of the Outline.

4.2.4 Establishing More Flexible Communication Channels

Prior to the reunification of HK with China, the Central Government has issued a directive document specifying that contacts between officials of Mainland provinces and HK should be coordinated by the HK and Macao Affairs Office³⁸ (HKMAO). Indeed, HKMAO has played a positive role in building a bridge for effective communication and cooperation between HK and GD in the 12 years since reunification. However, in view of the significant changes in the political, economic and social aspects in Mainland and HK, it is recommended that the existing communication mechanism should be reviewed. In this connection, pilot measures should be launched in GD to enable HK and GD officials to communicate more flexibly and effectively to the effect that it will be as convenient for GD officials to make duty visit to HK as they do within the Mainland.

³⁸ The functions of HKMAO include supervising and managing the affairs relating to official visits among the Mainland, HK and Macao, and working with relevant departments and places to promote exchanges and collaborations with HK and Macao in areas such as economy, technology and culture.

4.2.5 Strengthening and Deepening the Liaison with Different Levels of Administrations in the Mainland

To facilitate regional cooperation, close connection has been maintained between the HK Government and the provincial governments in the Mainland. Formal cooperation mechanisms include Pan Pearl River Delta Regional Cooperation Framework Agreement, HK/Guangdong Cooperation Joint Conference, HK/Shenzhen Cooperation Meeting, HK/Beijing Economic and Trade Cooperation Conference and HK/Shanghai Economic and Trade Cooperation Conference etc. In response to the publication of the Outline, it is recommended that the HK Government should strengthen and deepen the contact and communication with GD and its major cities on the basis of actual situations and needs. Moreover, the HK Government should fasten its pace in training officials or personnel who are familiar with the operations within PRD with a view to facilitating exchanges and sharing of information, experience and knowledge between the Government and the public. This will also be a measure for fostering talents.

4.2.6 Strengthening Government-Industries Communication to Facilitate Implementation of the Outline

At present, communication channels exist at various levels between the HK Government and the industries. To enhance public understanding of and support for the implementation of the Outline and the recommendations of this report, it is proposed that regular communication between relevant bureaux/departments of the HK Government and the industries should be strengthened to enable the industries to be updated on the Government's schedule and progress on implementing the recommendations of this report. This will help the Government understand the dilemmas and difficulties encountered by the industries in the course of implementation and facilitate the effective implementation of the recommendations. In addition, extra communication channels can be established on the basis of the existing mechanism in light of individual circumstances and needs with a view to implementing feasible recommendations pragmatically.

4.2.7 Strengthening Communication with All Community Sectors for Stronger Public Recognition of HK-GD Cooperation

It is recommended that the HK Government should work with relevant non-government organisations to strengthen communication with all community sectors in order to promote the policy proposals aimed at improving people's livelihood, enhance public recognition of HK-GD collaboration, attract more public attention to the trend of economic integration of the two places, and jointly explore the direction of the HK-GD economic development with a longer-term vision and broader mindset.

V. Conclusion

The Outline brings the opportunity of furthering HK-GD cooperation under the pilot implementation arrangements. It looks for a new direction in our country's future economic reform and development, its economic upgrading and transformation, as well as enhancement of overall competitiveness. GD and HK should adopt an open and active approach to overcome any cultural and systemic differences, gather strengths to turn recommendations into concrete actions and bring HK-GD cooperation to a new height. We are confident that the genuine cooperation between the two places under the principle of reciprocity will generate new contributions for the country.

Appendices

Full proposals from the 14 task groups can be found in the following Appendices:

Appendix I: Proposals from the sub-group on Industries

Appendix II: Proposals from the sub-group on Livelihood