

**Seminar on “Hong Kong’s Role in China’s ‘Go Abroad’ Policy”  
organised by the Central Policy Unit on 8 December 2011**

**Synopsis of Views**

**Introduction**

The Central Policy Unit (CPU) of the Government of the Hong Kong Special Administrative Region held a seminar entitled "Hong Kong's Role in China's 'Go Abroad' Policy" at the new Central Government Offices at Tamar on 8 December 2011. The seminar was supported by the China Centre for International Economic Exchanges (CCIEE).

2. The Chief Secretary for Administration, Mr Stephen Lam, delivered the opening remarks. Keynote speakers included the Chairman of the Board of Directors of China Development Bank and Executive Vice Chairman of the CCIEE, Mr Chen Yuan; Vice Chairman of the Standing Committee of Internal and Judicial Affairs of the National People's Congress, Mr Gu Shengzu; and Group Chairman of Li & Fung Group, Dr Victor Fung. Also delivering keynote speeches were Permanent Vice Chairman of the CCIEE, Mr Zheng Xinli; Chairman of CIC International (Hong Kong) Co Ltd, Professor Lawrence Lau; and Chairman of the Hong Kong China Chamber of Commerce, Mr Chan King-wai.

3. The seminar included two panel discussions, namely "China's 'Going Abroad': Investment and Currency" and "China's 'Going Abroad': Enterprise and Soft Power". The panels were chaired by Head of Economic Research Division, Economics and Strategic Planning Department of the Bank of China (Hong Kong), Mr Tse Kwok-leung; and Chief Economist of the Hong Kong Trade Development Council, Mr Edward Leung, respectively.

4. About 300 participants attended the conference, including guests from different sectors, experts, scholars, professionals, Hong Kong representatives of overseas institutions, and members from local and foreign chambers of commerce. Below is the synopsis on the views raised by the speakers and panel discussants on the four key areas discussed at the seminar.

**I. Why should China go abroad?**

5. The speakers analysed the reasons for China to "go abroad". First, China's foreign exchange reserve has reached US\$3.2 trillion, which is far greater than that required for ensuring monetary stability. Its value has also been eroded by the continued depreciation of the US dollar. China needs to find the way forward. Second, though China has a sizeable economy, it has to develop its economic strength by enhancing international competitiveness

and influence – it should move from passive participation in international affairs to assuming a more actively role in shaping international cooperation; from manufacturing products for overseas firms to developing its own goods; and from an export-led economy to one driven by investment, with further participation in global affairs. Third, China's medium to long-term development will be constrained by bottlenecks in resources and energy supply. By going abroad, China may use its foreign exchange reserves to secure resources and energy required for its long-term economic development.

6. In addition, going abroad will provide strong impetus for China's economic re-structuring. China can acquire strategic assets such as key equipment, technologies, research and development capability, product designs, human resources, and sales and marketing networks. Such assets will enhance Mainland enterprises' capabilities for innovation and international operation, help them tap into global markets, and aid their re-structuring and expansion. Going abroad also helps Mainland small and medium enterprises (SMEs), which face a host of problems such as the appreciation of the Renminbi (RMB), rising production costs, and labour and electricity shortages. For them, going abroad is a practicable option to help relieve cost pressure, make better use of their production capacity and manpower through overseas investment, open up export markets, reduce the pressure on overcapacity, and circumvent trade barriers.

7. With continual growth and the gradual establishment of brands in the global market, many Mainland enterprises are well-poised to go abroad. The timing is made more propitious as the economic downturn in both the US and Europe has led to a drop in asset prices, and investment from Mainland enterprises can help US and European firms tide over their difficulties. China's growth would thus benefit global economy, with the going abroad strategy achieving a win-win situation for all.

## **II. Mainland enterprises going abroad – overall situation, problems and way forward**

8. The speakers pointed out that since the “go abroad” strategy was broached under the National 10th Five-Year Plan, China had made remarkable achievements over the past decade, with its overseas investment witnessing an annual growth of nearly 50% for nine consecutive years. In 2010, China ranked as the fifth largest global investor, with net overseas investment reaching US\$68.8 billion.

9. However, the speakers considered that despite its significant overseas investment, China's going out strategy was still at the initial stage. This is manifested by the meagre 3% rate of return on China's overseas investment, far behind the 20% achieved by foreign investors in China. Investment projects are of a small-scale and limited to few sectors. Also, state enterprises have greater strength and capability to invest overseas, while other

firms in particular private ones are weaker. Currently much of China's foreign investment is in Hong Kong, hence not yet really "gone abroad". Lastly, Mainland enterprises "going abroad" often regard low production costs as their competitive edge and do not draw up long-term development strategies.

10. The speakers summarised the hurdles faced by Mainland enterprises in going abroad. These include the lack of experience in overseas investment, inadequate understanding of the foreign investment environment, and worsened by limited capability in amalgamating different cultures; difficulties in financing, especially for private SMEs; and the lack of experience in deal making. Moreover, under the shadow of allegations such as "neo-colonialism" and "China threat", many countries are wary of investment from Mainland enterprises, in particular state enterprises.

11. The "go abroad" strategy under the National 12th Five-Year Plan will bring this key initiative to a new stage in the next few years. The total amount of China's overseas investment will continue to increase and probably reach the same level as foreign investment in China in a few years' time. In terms of geographical distribution, Mainland enterprises will diversify their investment from developing countries or a single country to global and regional markets. As regards target sectors, investment will be shifted from the traditional sectors such as energy, resources, infrastructure and processing trade to high-end sectors such as services, research and development and emerging industries. Overseas investment will also gather pace in the financial sector. The approaches of going abroad will diversify and include mergers and acquisitions, equity investment, equity swaps and investment funds. The types of enterprises going abroad will also be more varied, with private enterprises and other types of firms also taking part alongside state enterprises. Private enterprises may even become the mainstay of the going abroad endeavour.

### **III. Hong Kong's strengths may make up for the inadequacy of Mainland enterprises**

12. All speakers agreed that Hong Kong enjoys a number of unique strengths which may make up for the inadequacy of Mainland enterprises and help them go abroad. First, Hong Kong benefits from "One Country, Two Systems". As a Special Administrative Region of China, Hong Kong is part of the country yet runs a separate economic system. Given Hong Kong's system is different from that of the Mainland, risk exposure may be managed and this would be beneficial to the economic stability of the country.

13. As an international financial centre, Hong Kong boasts a well-developed banking system, a sound payment and settlement system, a mature and stable market economy, and a convenient financing platform. Hong Kong has also developed into an offshore RMB business centre with the greatest concentration of transactions, the highest circulation

volume, and the most advanced market development. For Mainland enterprises planning to go abroad, Hong Kong may serve as a financing platform, an equity management centre and an asset management base. It may also support the “going abroad” of RMB.

14. On the business environment, Hong Kong is a place where East meets West and a hub linking northern and southern Asia. Its unique historical and cultural background makes it conversant with Western culture and languages. It has a global market network. Hong Kong is also the world’s freest economy with free and unfettered flow of information. Its legal system that upholds the rule of law is globally recognised, with a rich pool of legal professionals possessing international experience and knowledge of international legal practices. In addition, Hong Kong has excellent infrastructure, a well-developed logistics industry, sound systems, a simple tax regime, and well-established professional and business services. Hong Kong is therefore well-poised to serve as an offshore base and a business hub for Mainland enterprises going abroad. Hong Kong can provide Mainland enterprises with comprehensive services covering such areas as information and market intelligence, legal services, financing and trading. It can help them move up the value chain through research and development, brand building, cultural development and innovation, formulation of standards, and sale and marketing. Hong Kong can also assist Mainland enterprises in enhancing their corporate governance and honing soft skills needed for international operations.

15. In the past decade, two-thirds of the Mainland’s outward direct investments were made in or through Hong Kong. This shows that Hong Kong has been the platform of choice for Mainland enterprises to reach the global market. Nevertheless, the speakers pointed out that many places including Shanghai and London were striving to establish themselves as a springboard for these enterprises to go abroad. Hong Kong should keep up and further enhance its strengths.

#### **IV. Hong Kong should make better use of its strengths and comprehensive services to serve as a base for Mainland enterprises to go abroad**

16. The speakers remarked that “going abroad” would be a major national development strategy during the 12th Five-Year Plan period. Hong Kong should adjust its development direction to capitalise on its unique strengths, with a view to playing a strategic role in the Mainland’s “go abroad” policy.

17. Hong Kong should forge closer economic ties and seek greater economic integration with the Mainland to promote its services for Mainland enterprises. Specific measures may include furthering the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) to achieve full liberalisation of trade in services between Hong Kong and the

Mainland; promoting financial co-operation with the Mainland to provide effective and efficient financial services for enterprises and to tide over impacts of fluctuations in the global financial markets; expediting Hong Kong's development into an offshore RMB centre by expanding the scope of businesses, e.g. more RMB-denominated shares and bonds, and joining hands with Mainland financial firms to go abroad. The speakers also contemplated that RMB deposits in Hong Kong, which currently stands at RMB 600 billion, should be invested overseas instead of flowing back to the Mainland. In addition, Hong Kong should seek the support of the Central People's Government and local governments to streamline the procedures for the transfer of Mainland enterprises' capital and personnel to Hong Kong. Hong Kong should also seek the support of the Mainland to designate it as a testing ground for new facilitation measures and policies to help Mainland enterprises go abroad. The pilot measures and policies may be implemented in other parts of the country after full implementation in Hong Kong.

18. Hong Kong should sign free trade agreements and double taxation avoidance agreements with neighbouring countries and regions as early as possible and participate in international and regional economic co-operation to consolidate and expand its influence within the regional economic organisations.

19. Hong Kong should enhance its study on the problems and difficulties encountered by Mainland enterprises in going abroad and identify solutions. It should compile case studies of Hong Kong enterprises that have successfully gone abroad (e.g. Li & Fung Group and Hutchison Whampoa) for reference by Mainland enterprises. In addition, Hong Kong should explore different approaches through which Mainland and Hong Kong enterprises can jointly go abroad, such as listing of Mainland enterprises in Hong Kong followed by mergers and acquisitions in overseas markets through Hong Kong; opening of subsidiaries of Mainland enterprises in Hong Kong to raise capital and go abroad; and pursuing joint investment projects by enterprises from the two places, joint bidding, joint contracting of projects, or joint ventures. Hong Kong enterprises may also take the lead to open up going out opportunities for Mainland enterprises to reduce political and non-economic risks.

20. All speakers suggested that to promote Hong Kong as a platform for Mainland enterprises to go abroad, the Hong Kong Government should play a facilitating and steering role. For example, it should enhance communication and liaison with relevant Mainland authorities; strengthen co-ordination on major issues; devise mechanisms, legislation, policies and arrangements in line with the "go abroad" strategy; establish an integrated service platform linking up the Government, market intermediaries and enterprises to provide comprehensive guidance for enterprises going abroad; and set up a risk alert system to help enterprises gone abroad cope with global risks. Many speakers suggested that the Hong Kong Government should consider setting up a dedicated or statutory body (e.g. an office or a

committee) to oversee the administration and use of resources, co-ordinate the work of parties concerned, and liaise with various sectors to achieve synergy.

21. The speakers also considered that intermediary bodies such as chambers of commerce and trade associations should also play an important role. They can enhance communication and exchange between Hong Kong and Mainland enterprises, as well as between enterprises and the governments, to overcome differences in culture and practices between the two places.

22. Hong Kong should enrich its talent pool at the same time. Aside from providing training for services that are relevant to "go abroad", it should also enhance training of professionals and attract talents in specific fields to keep the fees of Hong Kong's services reasonable and attractive to Mainland enterprises. In addition, as Mainland enterprises go further in their go abroad strategy, Hong Kong people should broaden their horizon and embrace the challenge of opening up new markets, including those in less developed areas, together with Mainland enterprises.

23. The speakers also suggested that Hong Kong should press ahead with infrastructure projects, build new convention and exhibition venues, expand the airport, and increase the supply of commercial sites. It should enhance the overall competitiveness of its services, consolidate its existing strengths, and promote the development of new growth areas to open up new opportunities for co-operation with Mainland enterprises. Hong Kong should also increase funding for scientific research and attract Mainland enterprises to set up research and development institutions here, thereby making use of Hong Kong's robust intellectual property rights protection regime to facilitate the "going abroad" of Mainland's technologies.

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