

**Commission on Strategic Development  
Hong Kong's Role in the Development of the Mainland**

(Translation)

**I. Purpose**

This paper discusses changes in Hong Kong's role and economic relationship with the Mainland since the implementation of its reform and opening up policy, and explores Hong Kong's future role in the medium and long term development of the Mainland.

**II. Introduction**

2. Hong Kong has been inextricably involved in the development of the Mainland ever since its reform and opening up. Over the years, the Mainland has not only made great strides in socio-economic development and accomplished continuous growth in its overall national strength, but also gained an ever-growing international influence. Hong Kong needs to, under the "One Country, Two Systems" principle, better understand and support the Mainland's overall development, and capitalise on its own strengths to maintain its unique and important role in the course of the Mainland's development, so as to sustain its own long term growth. As the formulation of the National 12th Five-Year Plan (2011-2015) goes underway, it is now opportune for Hong Kong to examine its role in the medium to long term development of the Mainland.

**III. Hong Kong's Major Roles in the Early Stage of the Reform and Opening up of the Mainland**

3. In the early stage of the reform and opening up, Hong Kong's capital, technology, talent and experiences in market mechanism and management contributed significantly to the Mainland's sustained rapid economic growth. In particular, Hong Kong and the neighbouring Pearl River Delta (PRD) region complemented each other in their strengths and reinforced each other's development.

(i) Source of Capital

4. Grasping the opportunities brought about by the reform and opening up, Hong Kong took the lead in investing in the Mainland and became its biggest source of inward direct investment (Table 1). In addition, Hong

Kong helped promote the Mainland's processing and manufacturing industries, which boosted economic development through exports, and developed a "front shop, back plant" relationship with the PRD region, building the brand of "Made in PRD" internationally and establishing the region's reputation as the "Factory of the World". This has also laid a foundation for the vibrant growth of the Mainland's external trade. The successful relocation of Hong Kong's manufacturing sector across the boundary also brought about rapid development of the local port and logistics industry, making Hong Kong one of the world's busiest container ports, exporting PRD manufactured products all over the world.

(ii) Introduction of Market Economy

5. Hong Kong enterprises also introduced international management experience, international business networks and the concept of market economy into the Mainland to facilitate the establishment of a market mechanism there and the vibrant growth of its external trade, which turned out to be a most valuable experience in the course of the reform and opening up.

(iii) A Bridge for "Bringing in"

6. In the early stage of the reform and opening up, the Mainland only opened up the eastern coastal areas to incoming investors. Therefore, foreign enterprises used Hong Kong as a major springboard for investing in the China market<sup>1</sup>. Hong Kong managed to maintain its important status as such a springboard even though the scope of the reform and opening up eventually expanded to cover the rest of the Mainland. Meanwhile, the position of Hong Kong as an international trade and services centre was consolidated and upgraded.

(iv) Platform for Raising Capital outside the Mainland

7. Since the early 1990s, when Mainland enterprises started listing in Hong Kong directly, the city has become the most important capital raising centre outside the Mainland, and our position as an international financial centre has been strengthened. From 1993 to late 2009, the capital raised by Mainland enterprises through listing in Hong Kong amounted to HK\$2,498.9 billion.

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<sup>1</sup> The number of regional headquarters/offices established in Hong Kong by companies representing parent companies located outside Hong Kong (excluding Mainland companies) has been increasing continuously, totaling 1,359, 2,772 and 3,357 in 1993, 2000 and 2009 respectively. In 2009, about 83% (2,800) of these regional headquarters/offices were involved in business/operations in the Mainland, and about 61% (2,100) of them considered that their operations in Hong Kong were conducive to securing business opportunities in the Mainland.

#### **IV. Impact of Medium and Long Term Development of the Mainland on Hong Kong**

(i) Impact of Macro Changes in the International and Domestic Situations on the Development of the Mainland

8. After three decades of reform and opening up, the overall national strength of the Mainland continues to grow. Already the world's largest exporter, the Mainland is expected to rank second in the world this year in terms of gross domestic product (GDP). However, in terms of GDP per capita, China is still a developing country<sup>2</sup>.

9. Since the global financial crisis and deep recession in 2008, western and Asian countries have actively sought China's participation in global and regional economic and financial affairs, etc., hoping that China would provide new economic impetus. China has responded positively in keeping with its national strength. Despite that, there are some views in the western world that China has relied too much on exports to the consumer markets in Europe and the United States for sustaining its economic growth, suppressed the RMB exchange rate and stuck to backward and polluting production methods. Such criticisms have intensified trade friction between the two sides.

10. China has long recognised the need to shift from the expansive export-led growth model to a more comprehensive and sustainable mode of socio-economic development. As early as 2005, the 11th Five-Year Plan (2006-2010) already pointed to the direction of restructuring the economy and boosting domestic demand. In 2007, the Report to the 17th National Congress of the Communist Party of China (NCCPC) further stated that China would ensure the building of a moderately prosperous society in all respects by 2020, and outlined the direction for the country's future development. Key points of the landmark report include fully applying the Scientific Outlook on Development, emphasising independent innovation and adjustment to the mode of economic development, deepening financial restructuring, focusing on co-ordinated and balanced development, reforming the social security and medical protection systems and building a harmonious society by putting people first (Table 2).

11. Since the fundamental factors leading to the global financial crisis

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<sup>2</sup> China's GDP per capita in 2008 stood at US\$3,263 - a level pertaining to lower middle income countries according to the World Bank's classification. (World Development Indicators published by the World Bank, <http://ddp-ext.worldbank.org/ext/DDPQQ/member.do?method=getMembers&userid=1&queryId=135>, as at 29 March 2010).

and economic downturn in 2008 have essentially remained unchanged<sup>3</sup>, China has given priority to maintaining steady economic growth for the past two years. However, for the medium to long term, the financial crisis has highlighted the need for China to transform its mode of economic development<sup>4</sup>. It is expected that the 12th Five-Year Plan under formulation will adhere to the general direction set in the Report to the 17th NCCPC, although the pace of transformation of the mode of economic development and economic restructuring will be quickened in response to the latest international developments after the global financial crisis so as to improve people's livelihood, and realise steady faster economic development<sup>5</sup>.

(ii) References to Hong Kong's Development in Previous National Five-Year Plans

12. The Central Authorities have all along been concerned about the long term development of Hong Kong, as is reflected by repeatedly affirming Hong Kong's general direction of economic development in the Basic Law<sup>6</sup> and previous National Five-Year Plans. The basic tone is that Hong Kong's position as an international centre of finance, trade and shipping and a free port should be maintained, and the development of Hong Kong's financial, logistics, tourism, information and other service industries should be supported (Table 3). The Central Authorities have also on a number of occasions launched major initiatives<sup>7</sup> mutually beneficial to the Mainland and Hong Kong, taking into account the actual situations in both places, in support of the development of various industries in Hong Kong.

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<sup>3</sup> At a press conference for Chinese and foreign journalists on 14 March 2010 during the Third Session of the 11th National People's Congress, Premier Wen Jiabao specifically pointed out that major conflicts and problems relating to the world economy had not yet been fundamentally resolved. Many enterprises in China still relied on the Government's policy support for their business, which had yet to turn around. China had to prevent its economy from sinking into a "double-dip" recession.

<sup>4</sup> On 3 February 2010, CPC General Secretary Hu Jintao pointed out that the global financial crisis appeared to impact on the economic growth of China, but in substance impacted on China's mode of economic development. A comprehensive assessment of the international and domestic economic situations had revealed the urgent need for a change in the mode of economic development. The country should make extra efforts to accelerate the shifting of the mode of economic development and maintain steady and faster economic development. (People's Daily, 4 February 2010).

<sup>5</sup> At a meeting of the Central Politburo of the CPC on 22 February 2010, General Secretary Hu Jintao put forward the "four strivings", i.e. striving to improve macro-economic control and maintain steady and faster economic development; striving to accelerate the shifting of the mode of economic development and economic restructuring; striving to take forward reform and opening up and encourage independent innovation; and striving to improve people's livelihood and promote social harmony. He also emphasised the importance of properly handling the relationship between maintaining steady and faster economic development, economic restructuring and management of inflation expectations. His views were basically consistent with the key points of the Report to the 17th NCCPC. (People's Daily, 23 February 2010).

<sup>6</sup> Articles 109 and 114 of the Basic Law.

<sup>7</sup> Most notable are the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA), the Individual Visit Scheme and the supportive measures for Hong Kong to serve as a testing ground for the country's financial reform.

13. The Outline of the Plan for the Reform and Development of the Pearl River Delta (2008-2020) (the Outline) promulgated by the National Development and Reform Commission in 2009 further incorporates Guangdong-Hong Kong co-operation into the national strategy, and indicates support to “the co-operation among Guangdong, Hong Kong and Macao in developing the service industry, and solidify the status of Hong Kong as an international center of finance, trade, shipping, logistics, and services with high added value”. In particular, the Outline states that, subject to consensus reached, Guangdong and Hong Kong may work together to implement the Plan, and provides for “early and pilot implementation” of relevant measures in the Guangdong Province, thereby creating ample room for co-operation between Guangdong and Hong Kong.

## **V. Changes in Economic Relationship between Hong Kong and the Mainland**

### **(i) Core Advantages of Hong Kong**

14. A major success factor of Hong Kong lies within its integration with the world market, in particular its close international economic, trade and non-governmental relations and its intimate knowledge of international business practices. At the same time, Hong Kong has been able to grasp the opportunities arising from the reform and opening up and successfully develop close and mutually beneficial economic and trade relations with the Mainland. In addition, Hong Kong has a sound judiciary and administration; a community that respect the core values of freedom, private ownership, civil rights, cultural diversity, etc.; a pool of bilingual professional talent; and first-class infrastructure by international standards. These have created the vital environment and systems underpinning its development. The principle of “One Country, Two Systems”, upheld by the Central Authorities and the HKSAR Government since re-unification, has also endowed Hong Kong with a unique advantage not found in other Mainland cities.

15. On the other hand, Hong Kong is facing a number of major challenges including inadequate diversification of its economic structure, high production costs, and a small local market. As the Mainland is continuously upgrading its industries, Hong Kong cannot afford to rest on its laurels.

16. To the global market, Hong Kong’s attractiveness and competitiveness mainly lie in its close link with the Mainland, the market with the greatest development potential in the world. As such, Hong Kong’s economic development should be geared towards a closer connection with the Mainland economy for further market expansion. To the Mainland, Hong

Kong's greatest advantage is its being internationalised and closely connected with the international market, thus capable of serving as a bridge for the Mainland to integrate into the world.

(ii) Changes in Economic Interaction between Hong Kong and the Mainland

(a) Phasing Out of Low Value-added Processing Industry

17. The Mainland has completed the early stage of industrial development. Given the changes in the international situation and its own development needs, the Mainland, in particular the PRD region, is now shifting from the export processing mode of economic development to one driven by industries characterised by high output value, high technology and independent innovation<sup>8</sup>. Many Hong Kong enterprises in the Mainland have undergone upgrading and restructuring. Those which are still engaged in low output value and low value-added export processing activities will need to upgrade their technology or enhance the value-added content of their activities, and develop new markets.

(b) Less Acute Demand from the Mainland for Hong Kong Capital

18. As Mainland enterprises grow bigger, China has already become an exporter of capital, and overseas investors are constantly seeking access to the Mainland market. Accordingly, the Mainland's demand for Hong Kong capital is less acute than before. Although the amount of Hong Kong investment in the Mainland has still been increasing considerably, its share in the total amount of foreign capital utilised has dropped from the peak of around 70% to about 40% (Table 1) in recent years.

(c) Strengthened Role as a Bridge for "Bringing in" and "Going Global"

19. As the country continues to move towards an open economy, Mainland enterprises have been speeding up their pace of "going global"<sup>9</sup> in

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<sup>8</sup> Before the global financial turmoil in 2008, the Central Authorities and the Guangdong Provincial Government had implemented a series of measures to facilitate the upgrading of export processing activities of the "three highs, one low" enterprises (high input, high energy consumption, high pollution and low efficiency) or their relocation to inland or mountain areas. Although implementation of the measures has since been slowed down in the face of the global economic downturn in 2008, the policy direction of the Mainland (especially Guangdong) in this aspect is very clear.

<sup>9</sup> The strategic thinking of "going global" was conceived in the latter half of the 1990s and formally put forward in the National 10th Five-Year Plan in 2001 for implementation. "Going global" is about encouraging enterprises with comparative strengths to invest overseas and expand their scope of international economic and technical co-operation, including launching offshore processing trade, going abroad for joint exploration of resources, engagement of robust enterprises in transnational operations, and materialising internationalised development, etc.

recent years in order to further explore the international market. From 2005 to 2009, the Mainland's direct investment overseas recorded an average annual growth rate of 51%. With its core advantages of being an international city and its proximity to the Mainland, Hong Kong has increasingly been used by Mainland enterprises as a window to the world market and an important bridge for "going global"<sup>10</sup>. In turn, many foreign investors and enterprises, recognising Hong Kong's close links with both the international and Mainland markets, have been using Hong Kong as an important bridge to the Mainland market in recent years<sup>11</sup>.

(d) Strengthened Role of Domestic Sales and Service Industries in the Mainland

20. Economic development in the Mainland has boosted demand for services. However, the share of the tertiary industry in China's GDP is noticeably lower than that in other economies (Figure 1). The 11th Five-Year Plan and the Report to the 17th NCCPC confirmed the policy direction of boosting domestic demand and vigorously developing the tertiary industry, especially a modern service sector.

21. Many Hong Kong enterprises and service providers have seized the opportunities arising from the economic restructuring in the Mainland and strived to open up the consumer market and develop their services there. The Central Authorities have been very supportive in allowing access to the Mainland market by Hong Kong services and products<sup>12</sup>. This development has transformed the simple "front shop, back plant" economic relationship between Hong Kong and the Mainland, especially the PRD region, into a new relationship characterised by interactive co-operation between Hong Kong's

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<sup>10</sup> A large number of Mainland enterprises have set up offices in Hong Kong in search of an international sales platform. They utilise Hong Kong's networks and information flow for procuring equipment and spare parts, making various types of direct investment overseas and conducting cross-border mergers and acquisitions. In terms of annual direct investment, the Mainland's investment in Hong Kong amounted to \$20.2 billion in 1998 and increased substantially to some \$179.7 billion in 2008. In terms of market capitalisation, the Mainland's overall direct investment in Hong Kong increased significantly from \$213.7 billion in 1998 to \$2,311.4 billion in 2008. Thus, the Mainland has become the biggest source of incoming direct investment for Hong Kong.

<sup>11</sup> See Note 1.

<sup>12</sup> After joining the World Trade Organization in 2001, China has been taking measures to gradually open up its services market. (Before 2001, subject to government approval, individual Hong Kong enterprises could enter the Mainland services market in the real estate, product distribution and hotel sectors. Other non-standard and expedient means of access included becoming associates of Mainland firms and registration through a Mainland resident.) The Central Authorities and the HKSAR Government signed the CEPA in 2003 and subsequently concluded six Supplements, covering 42 service areas and providing for more than 200 measures for liberalisation of trade in services and facilitation of trade and investment.

producer services sector<sup>13</sup> and the Mainland's manufacturing and services sectors, and the satisfaction of Mainland residents' needs for better quality of life by Hong Kong providers of consumer services. An increasing number of Hong Kong enterprises have been establishing sales networks in the service and consumer markets in the Mainland. Hong Kong service providers have gained entry to a large number of service areas, the most buoyant of which is producer services, which mainly include real estate, wholesale and retail, business services (such as legal, advertising, accounting and consulting services), transportation and logistics. From 2003 to 2008, for example, Hong Kong's export of services to the Mainland recorded an annual growth of 11.4% (Table 4), way above the average annual GDP growth of 6.3% for the same period.

(e) Changes in the Four Pillar Industries

Financial services

22. Hong Kong's position as an international financial centre is being elevated in tandem with the economic development of China. This is mutually beneficial<sup>14</sup>. The Central Authorities have repeatedly expressed support for consolidating Hong Kong's role as an international financial centre<sup>15</sup>. The share of financial services in our GDP increased from 6.4% in 1990 to 15.0% in 2008. Hong Kong has gradually developed into a major platform outside the Mainland for the world to capitalise on the China concept, the most important offshore financing centre for China, an offshore RMB business centre, an asset management centre and a testing ground for the country's financial reform (including the internationalisation of RMB). Looking forward, apart from

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<sup>13</sup> These include production-related services, such as trade services, professional services, creative design, marketing, brand building, financial services, logistics services.

<sup>14</sup> By leveraging Hong Kong's status and experience as an international financial market, China can raise the efficiency of domestic financial intermediation, and use Hong Kong as a hub for mobilising resources in the Asian time-zones to support China's participation in international financial development. Hong Kong can also play the role of a pioneer in experimenting with the internationalisation of RMB, and take on the task of developing RMB offshore services, asset trading, and clearing services.

<sup>15</sup> In the 2010 Report on the Work of the Government recently delivered, Premier Wen Jiabao reiterated support for Hong Kong's consolidation and elevation of its position as an international financial centre. Moreover, during his duty visit to Beijing at the end of December 2009, the Chief Executive raised with Premier Wen that we are particularly keen to see the State leveraging more Hong Kong's advantages as an international financial centre in the National 12th Five-year Plan. Responding positively to our suggestion, Premier Wen said that the Mainland would leverage Hong Kong's advantages as an international financial centre and support Hong Kong's consolidation and elevation of its position as an international financial centre. He also reiterated support for Hong Kong as a testing ground for China's financial reform. Premier Wen also highlighted four policy directions: implementing arrangements for promoting the use of RMB in Hong Kong as the currency for cross-boundary trade settlements and direct investment, expanding the issue of RMB bonds locally, as well as promoting the use of RMB in project financing; rolling out a number of new initiatives to increase the circulation of RMB; encouraging more Mainland enterprises to raise funds in Hong Kong through initial public offering (IPO); and strengthening cooperation and exchange between the Hong Kong and Shanghai stock exchanges to achieve synergy.

being one of our most competitive industries, the financial services sector will have the greatest potential to play a unique role in supporting the development of the country. In this respect, Hong Kong should take a multi-pronged approach to enhance the integrated development of its financial system and that of the Mainland (Table 5).

### Trade and Logistics and Shipping Industries

23. Hong Kong is an international trade centre. With the development of offshore trade, Hong Kong's competitive edge and functions as an intermediary in external trade have continued to extend into the Mainland. Offshore trade has gradually replaced the traditional re-export trade as a new area of economic growth for Hong Kong<sup>16</sup>. More and more Hong Kong trading enterprises are setting up and managing global supply chains which place orders with Mainland manufacturers and include their products into global sales systems and purchasing networks.

24. For the logistics industry, the PRD region and other coastal provinces in the Mainland have been vigorously developing port container terminals in recent years, intensifying competition in the logistics and port industries. In the meanwhile, Hong Kong's competitiveness in this regard is further dragged down by its higher port and land transportation costs<sup>17</sup>. It is thus necessary for our logistics and shipping industries to move towards high-end logistics and shipping services, and value-added logistics services such as inventory management and distribution, with a view to better serving the needs of the region's export trade.

25. As regards air transport, Hong Kong's international airport is one of the busiest international aviation hubs in the world, all along ranking high in terms of passenger and cargo throughput. It is also an important re-export centre and passenger hub connecting the Asia-Pacific region, including the

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<sup>16</sup> Currently, more than 90% of our exported commercial and trade services and other trade-related services pertain to offshore trade. In 2008, services related to offshore trade accounted for 28.4% of Hong Kong's total export of services. Despite the significant slackening of global trade flows towards the end of the year, our offshore trade continued to grow substantially in 2008, recording a total of 3,362.8 billion in terms of sales value of goods, up 26.5% over 2007. In comparison, the value of re-exports in 2008 was \$2,733.4 billion, up 6.0% over 2007.

<sup>17</sup> From 2004 to 2006, the average annual growth rates in port container throughput of Hong Kong, Guangdong, Shanghai, Zhejiang, Fujian and Guangxi were 3.48%, 18.98%, 22.14%, 31.82%, 20.1% and 29.37% respectively. Figures of Hong Kong and Shanghai from 2000 to 2009 were 1.7% and 18.1% respectively. Shanghai overtook Hong Kong to become the world's second busiest container port in 2007, and its throughput in 2009 stood at some 25 million TEUs, compared with Hong Kong's 21 million TEUs. (Professor ZHANG Junsen, Department of Economics, The Chinese University of Hong Kong, Report of the Study on "Hong Kong's Economy: Transformation, Competitiveness and Sustainability", 3 March 2009, p. 22; and compilation based on data from the Census and Statistics Department).

Mainland, and the rest of the world. Hong Kong still possesses a competitive edge in air passenger and freight services<sup>18</sup>, especially for high-value, time-sensitive products. However, with the Mainland gradually opening up its aviation industry and the commencement of direct flights across the Taiwan Strait, the aviation sector of Hong Kong still faces challenges in its future development.

### Professional and Producer Services

26. As the Mainland has expedited the development of its service industries, our producer and professional services sectors have made greater efforts to further expand into the Mainland market. However, there are many differences in the institutional and market systems between Hong Kong and the Mainland. The two places should make better use of CEPA and the important platform provided under the policy of “early and pilot implementation” in Guangdong as highlighted in the Outline to further lower the entry threshold of the Mainland services market, implement trade and investment facilitation measures, and relax restrictions on mutual recognition of professional qualifications and on registering for practice and setting up business in the Mainland. This is crucial in expanding the scope for Hong Kong’s trade-related services to develop in the Mainland, supporting the rapid development of the country’s services sector, raising the standards of the services sectors of both places and enhancing their partnership in “going global” together.

### Tourism and Related Consumer Services

27. With the improvement in the living standards of Mainland residents and the implementation of the Individual Visit Scheme (IVS), Hong Kong has gradually developed into a centre of tourism and related consumer services favoured by Mainland residents who seek to enhance their quality of life. Our retail market has also made our city the most popular shopping place among Mainland visitors. The Mainland tourist market has become the most important area of growth for Hong Kong’s tourism industry<sup>19</sup>.

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<sup>18</sup> In 2009, Hong Kong’s international airport ranked fourth and first in the world in terms of international passenger and cargo throughput respectively. Given its prime location, high efficiency, extensive international flight network and frequent flights, our airport still enjoys a competitive edge in international air passenger and freight services.

<sup>19</sup> In July 2003, the IVS was launched under the framework of CEPA. At present, 49 Mainland cities are covered by the IVS, which provides strong support for the tourism and consumer markets in Hong Kong. According to the Hong Kong Tourism Board, visitor arrivals for 2008 totaled 29.506 million, an increase of 4.7% on the 28.17 million in 2007. Leading the growth among various market regions was the Mainland, from where arrivals reached 16.862 million, 8.9% more than 2007 and accounting for 57.1% of the 2008 total. Of these, 9.619 million, or 57.0%, arrived under the IVS, up 11.9% from 2007. Furthermore, according to a nationwide (including Macao and Taiwan) consumer experience survey conducted by SINA Finance in

28. Looking ahead, Hong Kong needs to continue to develop new tourist attractions, organise international events, promote exhibition and convention tourism and explore sources of overseas visitors to further upgrade its position as an international tourism centre. Equally important is the deepening of tourism co-operation with the Mainland, especially the Guangdong Province, and with Taiwan. Measures may include continuing discussion with the Central Authorities on the expansion of the scope of the IVS to cover other areas, identifying more pilot areas for promotion of the “12-month Hong Kong multiple-entry visas” for Mainland residents, strengthening co-operation on training and accreditation of tourism personnel between the Mainland and Hong Kong, further lowering the threshold for Hong Kong-owned travel agencies to enter the Mainland market, and joining efforts to promote multi-lateral tourism such as in the form of multi-destination tour covering Taiwan. Besides, Hong Kong should fully utilise its status and advantages as a regional cruise centre, and foster co-operation between Hong Kong and Mainland ports through such means as allowing foreign cruises with Mainland visitors on board to call on more than one Mainland ports on a pilot basis.

(f) Development Potential of Industries Where Hong Kong Enjoys Clear Advantages

29. Last year, the HKSAR Government proposed the development of six industries where Hong Kong enjoyed clear advantages<sup>20</sup>, which will be conducive to the further diversification of our service industries. These industries are all related to those Mainland industries whose development is being promoted, namely modern service industries, innovation and technology, and environmental industries. The successful introduction of the six industries to the Mainland market will not only bring enormous business opportunities to Hong Kong, but also help upgrade the level of the service industries in the Mainland. Residents and enterprises there can then enjoy services of higher quality. In the latest Report on the Work of the Government, Premier Wen Jiabao clearly pointed out that Hong Kong should develop industries with local advantages (especially the service industries) and foster new areas of economic growth<sup>21</sup>. We should explore in depth how to further develop such industries to better serve the PRD region and other places in the Mainland for mutual

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March this year, Hong Kong ranked first for all the individual assessment items such as hotel and shopping facilities, and offered the best consumer experience in the whole country.

<sup>20</sup> The six industries are: (1) testing and certification; (2) medical services; (3) innovation and technology; (4) cultural and creative industries; (5) environmental industries; and (6) education services. The Government’s strategy is to remove barriers to these industries and help them tap into new markets under the principle of “Big Market, Small Government”.

<sup>21</sup> Report on the Work of the Government delivered at the Third Session of the Eleventh National People’s Congress on 5 March 2010 by Wen Jiabao, Premier of the State Council.

benefits<sup>22</sup>.

(g) Greater Need for Closer Regional Economic Co-operation

30. From the perspective of regional economic development, the economies of Hong Kong and Guangdong, especially the PRD region, are gradually integrating. To us, Guangdong is a market with great potential and our immediate hinterland<sup>23</sup>. Co-operation between the two places is crucial to the enhancement of the overall competitiveness of both places.

31. The Guangdong-Hong Kong economic relationship has shifted from a “front shop, back plant” model to a partnership driven by “enhancing the secondary industry and developing the tertiary industry” of Guangdong. In upgrading its industrial structure, Guangdong needs well-established industrial, commercial and professional services of higher standards. Hong Kong’s services sector has a competitive edge in this respect and is still highly complementary to that of Guangdong. This is reflected in Guangdong’s import of services from Hong Kong from 2004 to 2008 in the three main areas of tourism, financial services and transport services, which registered remarkable average annual growth rates of 64.9%, 62.4% and 21.5% respectively (Table 6). However, Hong Kong’s services sector is still facing challenges when entering the Guangdong market because “the big doors are open, but the small doors are not yet open”<sup>24</sup>. This will be one of the critical factors determining the success or failure of our in-depth co-operation with Guangdong (especially the PRD region) in service industries.

32. The Outline indicates clearly that the PRD region should conduct in-depth co-operation with Hong Kong and Macao in modern service industries

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<sup>22</sup> This issues was discussed by the Commission on Strategic Development in June 2009 (Paper Ref: CSD/2/2009).

<sup>23</sup> Guangdong is an enormous potential market because it is the leading province in the Mainland in terms of size of economy and foreign trade volume, is forging ahead with industrial restructuring to shift the focus to service industries and other higher-value industries, and has a population of 90 million.

<sup>24</sup> CEPA opened the “door” for the Hong Kong business community to enter the services market in the Mainland. Apart from lowering the market entry thresholds for various service industries, CEPA also provides Hong Kong business enterprises with preferential treatment in various service areas which is more favourable than that available to foreign enterprises. However, in making use of the CEPA benefits in entering the Mainland market, Hong Kong business enterprises are still required to comply with the rules and regulations of the Mainland in making applications for setting up business, registering for practice or operating a business. As reflected by views and comments gathered from the business enterprises by different bureaux and departments of the HKSAR Government, in certain service industries “the big doors are open, but the small doors are not yet open” in the implementation of the liberalisation measures. Examples of such problems include delay in the promulgation of rules and regulations as well as implementation details; insufficient knowledge of the new measures among local officials on the Mainland; differences in the systems and regulatory regimes governing professional services between the two places; cumbersome and time-consuming application procedures.

including the financial services sector. This provides an opportunity for enhancing and optimising the industrial structure of Guangdong through all-round co-operation with Hong Kong. The Framework Agreement on Hong Kong/Guangdong Co-operation (Framework Agreement) just signed by Government leaders of both places on 7 April this year is useful for translating the Outline's macro policies into concrete measures conducive to the development of both places. Another important development is Shenzhen-Hong Kong co-operation, which will enhance the overall competitiveness of the Shenzhen-Hong Kong metropolis. The two places can make use of the Qianhai area in Shenzhen to encourage the development of modern service industries by adopting innovative industry management systems and regulations, so as to boost the services sectors of both Shenzhen and Hong Kong.

## **VI. Contemplating Hong Kong's Role in the Future Development of the Mainland**

33. In the three decades or so since the beginning of the reform and opening up of the Mainland, Hong Kong's economic relationship with the Mainland has evolved with the latter's continuous economic development. Yet the general principle of mutual benefits and common development (Table 7) has remained unchanged. Given the changes in the macro environment within and outside the country, the role that Hong Kong may perform in the future development of the Mainland are discussed in the following paragraphs for Members' reference:

- (i) As a world city, Hong Kong plays multiple roles, including being an international financial centre, a modern services centre, an international trade centre, an international shipping centre, and a premier tourist and shopping destination. By leveraging the Mainland, our global outlook and the advantages of our own systems, Hong Kong will continue stepping up its bridging role for Mainland enterprises to "go global". It will continue to provide an important and convenient platform and window for Mainland enterprises to link up with the world market, to invest and explore business opportunities overseas, and to undertake mergers and acquisitions. It will also continue to serve as a key springboard for foreign enterprises to invest in the Mainland.
- (ii) Having regard to Hong Kong's status as the most internationalised global financial centre of the country, the Central Authorities have time and again confirmed Hong Kong's role as an important testing ground for the Mainland's financial reform and pledged support for Hong Kong to consolidate and elevate its position as an

international financial centre. In this connection, it is essential for Hong Kong to support the Mainland's financial reform policies by improving its own financial infrastructure for the internationalisation of the RMB, to develop a broad range of RMB products to meet the needs of foreign investors and capital markets, and to keep improving its RMB financial and risk management services so as to contribute to the country's financial security.

Hong Kong should continue to take active steps to develop RMB settlement and investment services in Asia. Efforts should include promoting Hong Kong as the RMB trade settlement centre in Asia, developing RMB-denominated financial products, attracting enterprises in Asia to raise capital in Hong Kong, and exploring the feasibility of developing Hong Kong into Asia's RMB bond centre<sup>25</sup>. Furthermore, Hong Kong should make greater use of its long years of experience in international financial affairs and its good connections to actively support the Mainland, East Asian regional, and international financial institutions in providing professional advice on financial services and co-operation, as well as on financial order and supervision, thus showcasing Hong Kong's status and influence as an international financial centre.

In addition, Hong Kong is well-equipped to develop into an asset and wealth management centre for Mainland enterprises and residents, who are increasingly affluent and have a growing demand for wealth management.

- (iii) Hong Kong has developed into a modern services centre which underpins its operations as an international centre of financial, trade and shipping services and is an important integrated platform in the Asia-Pacific region. Our service industries, which are highly internationalised and governed by sound systems, can actively complement and facilitate the Mainland's process of "enhancing the secondary industry and speeding up the development of the tertiary industry". Hong Kong and the

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<sup>25</sup> RMB business was introduced to the banks of Hong Kong in 2004. Since then, its scope has gradually expanded from personal business to trade settlement. Hong Kong has become the only place outside the Mainland to develop an RMB bond market and the most sophisticated and efficient RMB clearing platform outside the Mainland to offer RMB clearing service for other regions. Since the launch of RMB trade settlement service in July 2009, overseas banks (e.g. those of ASEAN countries) have been able to settle trade transactions in RMB through the clearing platform in Hong Kong. The HKMA and the RMB clearing bank of Hong Kong have recently visited a number of places in Southeast Asia together to promote Hong Kong's RMB clearing platform. With the support of the Mainland and an international outlook, Hong Kong strives to develop into a regional RMB clearing centre so as to further consolidate its status as an international financial centre.

Mainland should continue to strengthen their co-operation, deepen the liberalisation measures under CEPA and expand their scope, so that Hong Kong's modern services can reach further into the Mainland. In addition, Hong Kong and Guangdong should leverage the provision in the Outline and in CEPA for "early and pilot implementation" of relevant policies in Guangdong to solve the problem of "big doors open, but small doors not yet open" in the province.

- (iv) As an international aviation and shipping centre and a regional logistics hub, Hong Kong can serve as a major hub for passenger and cargo transport to and from the Mainland and the rest of the world. In drawing up plans for country-wide shipping and road transport networks, the Central Authorities should take into consideration Hong Kong's function as a hub so that Hong Kong enterprises can contribute more to the development of the Mainland. Looking ahead, the port of Hong Kong will handle an increasing volume of international transshipment business<sup>26</sup>. Moreover, Hong Kong is one of the Asian cities better placed to develop into a centre of shipping services. It is desirable for Hong Kong to develop high-end ancillary shipping services<sup>27</sup>, which will help satisfy the need of the country's burgeoning shipping industry and fleet. On aviation, Hong Kong must continue to expand its civil aviation arrangements with its partners, enhance the capacity of its airport to meet demand, and continue to co-operate with the aviation authorities of the Mainland and Macao to solve the air traffic congestion problem in the PRD region, so as to maintain its position as a major hub connecting the Mainland with the rest of the world. Besides, with its international network and the rule of law, Hong Kong has the potential to become an inventory management and distribution centre<sup>28</sup> (especially for high-end goods such as pharmaceutical products and wine), which will be conducive to the development of the relevant Mainland markets

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<sup>26</sup> As a free port, Hong Kong enjoys the advantage of convenient customs clearance. Other factors such as efficient port management, frequent schedule and rational networks etc. are also conducive to the development of international transshipment business.

<sup>27</sup> High-end ancillary shipping services include ship operations and management agency services, ship inspection, ship finance, marine insurance, maritime arbitration, maritime insurance, ship registration, international shipping exchange, maritime study and consulting, ship ownership and ship management. Hong Kong's port services enjoy the advantages of being internationalised and supported by sound financial clearance, insurance and contract law systems that are aligned with international practices and monitored under high transparency.

<sup>28</sup> The business of an inventory management and distribution centre goes beyond warehousing to include various value-added logistics services such as cargo inspection, labelling, ancillary and final assembly and cargo tracking.

(such as the wine market in Southern China).

- (v) Hong Kong is keen on developing into a regional education hub and is committed to promoting the development of education services. It is globally renowned for its professional and vocational training and higher education<sup>29</sup>. It has the necessary qualities to contribute more to the cause of reinvigorating China (the PRD region in particular) through science and education, and strengthening the nation through human resource development<sup>30</sup>. The Central Authorities may further encourage the tertiary institutions in the Mainland and Hong Kong to provide joint education programmes, and further relax the requirements for Mainland students to attend courses (e.g. non-local courses and senior secondary courses) in Hong Kong. For scientific research personnel, the Central Authorities may consider supporting the participation by Hong Kong research bodies in state-level research projects.
  
- (vi) The national policy of co-ordinated regional development in recent years is in tandem with the emergence of a Guangdong-Hong Kong-Macao regional economy. The Governments of Hong Kong and Guangdong have been very active in taking forward the co-operation strategy set out in the Outline with a view to upgrading the Greater PRD region, making it the most dynamic and

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<sup>29</sup> In a posting of rankings of universities in Asia in 2009, the University of Hong Kong, the Chinese University of Hong Kong and the Hong Kong University of Science and Technology came first, second and fourth respectively. (QS Quacquarelli Symonds, <http://www.topuniversities.com/university-rankings/asian-university-rankings>).

<sup>30</sup> In recent years, the number of Mainland students studying in local tertiary institutions surged from 150 annually in the three school years from 1999/2000 to 2001/02, to over 8,400 in the 2009/10 school year. University Grants Committee-funded institutions have student exchange programmes with nearly 140 higher education institutions in the Mainland. Mainland students are also allowed to pursue studies in locally-accredited full-time programmes at sub-degree level or above in Hong Kong. In July 2004, Hong Kong and the Ministry of Education signed a Memorandum of Understanding on mutual recognition of academic degrees at Bachelor level or above for admission purpose. Since the 2008/09 school year, the non-local student admission quota for publicly-funded programmes at the sub-degree, degree and taught post-graduate levels has been increased to 20% of the approved student number targets for these programmes. For the 10% non-local student admission quota for self-financing programmes at the sub-degree and degree levels, the programme-specific quota has been replaced by a quota applicable at the institution level. Local higher education institutions with degree-awarding powers are also allowed to admit non-local students for short-term studies, without any quota restriction.

The Outline also states that the prestigious universities of Hong Kong and Macao will be encouraged to establish co-operative institutions of higher education in the Pearl River Delta; the authority for undertaking co-operative education between Guangdong and overseas organisations will be expanded; and by 2020, Guangzhou, Shenzhen, and Zhuhai will establish co-operative higher education institutions with 3 to 5 famous foreign universities. Furthermore, the Governments of Hong Kong and Shenzhen are considering the proposal of developing the Lok Ma Chau Loop with higher education as the leading land use, complemented with high-tech research and development as well as cultural and creative industries facilities.

internationally competitive city cluster in the Asia-Pacific region. The Framework Agreement translates the Outline's macro policies into concrete measures conducive to the development of both places, and seeks to incorporate related initiatives into the National 12th Five-Year Plan. Furthermore, the two sides are working on a regional co-operation plan on Quality Living Area. The plan will aim to improve the living environment in the Greater PRD region by laying down measures in the areas of environmental protection and conservation, low-carbon development, spatial organisation, personnel exchange, transportation, and social and cultural development. Hong Kong can contribute by bringing in advanced technology, transferring management experience and systems, and facilitating scientific research activities for the environmental and innovation industries. Combining the strengths of the Greater PRD region in the manufacturing trade, Hong Kong can also incorporate environmental elements into the economies and industrial structures of the two places. Another regional co-operation plan, on Infrastructure Construction, is also to be implemented to examine how to rationalise the infrastructures linking the three places to further facilitate the flow of people, goods and other key elements and promote more effective development among the places. Furthermore, the Governments of Guangdong, Hong Kong and Macao have completed the Planning Study on the Co-ordinated Development of the Greater Pearl River Delta Townships and are now proceeding with the advance work of the Study on the Action Plan for the Bay Area of the Pearl River Estuary<sup>31</sup>.

Through implementing the Framework Agreement, and with Hong Kong and Shenzhen exploring ways to effectively promote the development of service industries in Qianhai, Hong Kong's modern service industries, including education and training services, innovation and technology and other services within the six industries where Hong Kong enjoys clear advantages, will be able to access the Guangdong market more easily. In addition, the

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<sup>31</sup> The Planning Study on the Co-ordinated Development of the Greater Pearl River Delta Townships was completed last year. The Study made a number of recommendations on spatial development strategy; co-operation actions in cross-boundary transportation; cross-boundary co-operative development; ecological/environmental protection and co-ordination mechanisms. It provides useful reference to the three Governments in formulating regional co-operation policies. As for the Study on the Action Plan for the Bay Area of the Pearl River Estuary, which is based on the aforesaid study, it aims to examine feasible options to facilitate co-ordinated development of the Bay Area with a view to making it a sustainable and liveable area and developing the Greater Pearl River Delta into the most dynamic and internationally competitive city-region in the Asia-Pacific region.

development of service industries in Guangdong and Hong Kong and the transformation and upgrading of Guangdong's manufacturing industry will be facilitated. The living environment of and transport links between the two places will be greatly improved, thereby facilitating the co-ordinated development of Hong Kong and the PRD region.

- (vii) Hong Kong's world-class systems, regimes and management skills in the economic, administrative, social and other areas have all along been of important reference value to the Mainland. Hong Kong may continue to provide precious experience for reference by the Mainland in planning its modernisation efforts and designing new systems.
- (viii) Since the re-unification, Hong Kong has been co-operating closely with Taiwan in shipping, economic affairs, trade and tourism. This has been an important factor in promoting the relations among the Mainland, Taiwan and Hong Kong, and in maintaining Hong Kong's long term prosperity and stability. In the light of the latest positive developments in cross-Strait relations, Hong Kong can, on the basis of the high degree of autonomy provided under the Basic Law and the "One Country, Two Systems" principle, and in accordance with the "Qian's Seven Principles", leverage its unique advantages and deploy all relevant resources to promote and further Hong Kong-Taiwan co-operation on economic, cultural, education and social development, etc., through adopting new approaches, identifying new areas of co-operation, and accumulating new experience. It will be able to demonstrate the successful implementation of "One Country, Two Systems" and make greater contribution to the development of good relations among the three places<sup>32</sup>.
- (ix) Hong Kong has established strong economic, trade, professional and cultural ties with countries around the world, especially in East Asia. Under "One Country, Two Systems" and the Basic Law, Hong Kong is authorised to conduct relevant external affairs on its own. Such autonomy is unseen in other places in the Mainland.

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<sup>32</sup> The Chief Executive set out a number of strategies to facilitate the development of Hong Kong-Taiwan relations in his 2009-10 Policy Address. The Hong Kong-Taiwan Economic and Cultural Co-operation and Promotion Council was formally established by the Chief Executive on 1 April 2010, with the aims of grasping opportunities arising from closer relations across the Straits, promoting Hong Kong's interest and long term development, and enhancing exchanges between Hong Kong and Taiwan. At the corporate level, the Hong Kong-Taiwan Business Co-operation Committee has also been established on April 1 to foster exchanges on trade, investment and tourism between Hong Kong and Taiwan.

Furthermore, the Central Authorities have always been rendering strong support for Hong Kong to participate in international events. As Asia's world city, Hong Kong should strengthen economic, trade, social and cultural co-operation with East Asian countries taking account of China's strategy of enhancing its "soft powers" in the region, and help promote regional co-operation in East Asia<sup>33</sup>.

## **VII. Issues for Discussion**

34. The 12th Five-Year Plan is being formulated. The consensus in Hong Kong is to actively participate in the formulation of the Plan so as to contribute more to the Mainland's development and facilitate Hong Kong's own development. In the long term, with its peaceful rise, the Mainland will have a greater role to play in the global arena. Hong Kong should consider how best to position itself to serve the country. Members are invited to express their views and make recommendations on the following issues:

- (i) During the period of the 12th Five-Year Plan (2011-2015), in what areas can Hong Kong play a greater role in the Mainland's development? How should we better support the country's development while promoting our own?
- (ii) In the latest Report on the Work of the Government, Premier Wen Jiabao pledged support for the first time for Hong Kong to develop industries with clear advantages and foster new areas of economic growth. In what ways would these industries match with the Mainland's needs and require its support?
- (iii) How should Hong Kong position itself during the period of the 12th Five-Year Plan?
- (iv) In what other areas can Hong Kong play a significant role in the Mainland's development in the long term?

**Secretariat to the Commission on Strategic Development  
April 2010**

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<sup>33</sup> This issue was discussed by the Commission on Strategic Development in December 2009 (Paper Ref: CSD/3/2009).

**(Table 1)**  
**Hong Kong's Direct Investment in the Mainland (1990-2008)**

Year	Number of Investment Projects		Amount of Hong Kong Capital Actually Utilised		
	Number	Share in the National Total (%)	Amount (US\$100 m)	Share in the National Total (%)	Average Amount of Capital Per Investment Project (US\$ m)
1990	4751	65.32	18.8	53.91	0.4
1991	8502	65.51	24.1	55.09	0.28
1992	30781	63.12	75.1	68.2	0.24
1993	49134	58.89	172.7	62.78	0.35
1994	24622	51.78	196.7	58.24	0.8
1995	17186	46.43	200.6	53.47	1.17
1996	10397	42.34	206.8	49.56	1.99
1997	8405	40.02	206.3	45.59	2.45
1998	7805	39.42	185.1	40.71	2.37
1999	5902	34.89	163.6	40.58	2.77
2000	7199	32.21	155	38.07	2.15
2001	8008	30.64	167.1	35.66	2.09
2002	10845	31.74	178.6	33.86	1.65
2003	13633	33.19	177	33.08	1.3
2004	14719	33.71	189.9	31.08	1.29
2005	14831	33.71	179.5	24.72	1.21
2006	15496	37.36	202.3	32.11	1.31
2007	16208	42.8	277	37.1	1.71
2008	12857	45.7	410.4	44.4	3.19
<b>1990-2008 Total</b>	<b>281281</b>	<b>44.08</b>	<b>3386.6</b>	<b>39.93</b>	<b>1.20</b>

Source: Figures for 2000-2008 derived from *Statistical Information on Hong Kong's Investment in the Mainland (2000-2008)* published by the Department of Taiwan, Hong Kong and Macao Affairs, Ministry of Commerce (website: <http://tga.mofcom.gov.cn/aarticle/jingmaotongji/jingjxx/as/200903/20090306071942.html?310325?1280238159=2399032354>, as at 29 March 2010). Figures for 1990-1999 derived from the *Hong Kong's Investment in the Mainland (1990-2005)* published by the Department of Taiwan, Hong Kong and Macao Affairs, Ministry of Commerce (website: <http://tga.mofcom.gov.cn/aarticle/jingmaotongji/jingjxx/as/200604/20060401997009.html?389211?2605638223=2399032354>, as at 29 March 2010).

**(Table 2)**  
**Extracts from Sections related to Scientific Outlook on Development, Economic Development and Building a Harmonious Society in the Report to the 17th National Congress of the Communist Party of China**

<b>Section</b>	<b>Content</b>
III. Thoroughly Applying the Scientific Outlook on Development	The Scientific Outlook on Development takes development as its essence, putting people first as its core, comprehensive, balanced and sustainable development as its basic requirement, and overall consideration as its fundamental approach.
	We must strive for scientific development by putting people first and making it comprehensive, balanced and sustainable.
	It is through development that we will increase the material wealth of society and constantly improve people's lives, and it is again through development that we will guarantee social equity and justice and constantly promote social harmony.
V. Promoting Sound and Rapid Development of the National Economy	1. Enhance China's capacity for independent innovation and make China an innovative country ... make breakthroughs in key technologies vital to our economic and social development ... . We will implement the strategy for intellectual property rights.
	2. Accelerate transformation of the mode of economic development and promote upgrading of the industrial structure ... pursue the policy of boosting domestic demand, particularly consumer demand, and propel three transitions in the mode of economic growth: the transition from relying mainly on investment and export to relying on a well co-ordinated combination of consumption, investment and export .... We will develop the modern service industry and raise the level of the service sector and its share in the economy.
	3. Balance urban and rural development and build a new socialist countryside.
	4. Improve energy, resources, ecological and environmental conservation and enhance China's capacity for sustainable development.
	5. Promote balanced development among regions and improve the pattern of land development.... We will strengthen land planning, improve policies for regional development and adjust the geographical distribution of economic operations in accordance with the requirement to form development priority zones.
	6. Improve the basic economic system and the modern market system.

Section	Content
	<p>7. Deepen fiscal, taxation and financial restructuring and improve macroeconomic regulation.... We will improve the RMB exchange rate regime and gradually make the RMB convertible under capital accounts.</p>
	<p>8. Expand opening up in scope and depth and improve our open economy. Adhering to the basic state policy of opening up, we will better integrate our “bring in” and “go global” strategies.</p>
<p>VIII. Accelerating Social Development with the Focus on Improving People's Livelihood</p>	<p>More importance must therefore be attached to social development on the basis of economic growth to ensure and improve people's livelihood, carry out social restructuring, expand public services, improve social management and promote social equity and justice. We must do our best to ensure that all our people enjoy their rights to education, employment, medical and old-age care, and housing, so as to build a harmonious society.</p>

**(Table 3)**  
**References to the Development of Hong Kong**  
**in the National 9th, 10th and 11th Five-Year Plans**

	<b>Chapter</b>	<b>Contents relating to Hong Kong</b>
9th Five-Year Plan	Chapter 6 – Promoting Balanced Economic Development among Regions (1) Direction for balanced economic development among regions	<ul style="list-style-type: none"> <li>● To take advantage of its proximity to Hong Kong, Macao and Taiwan, high degree of liberalisation and scale economies, the region, centred on the PRD and south-eastern Fujian, should further promote foreign-currency generating agriculture, capital-and-technology-intensive foreign enterprises and high value-added, foreign-currency generating industries to form a highly developed, externally-oriented economic zone.</li> </ul>
	Chapter 11 – Advancing the Great Cause of Peaceful National Reunification	<ul style="list-style-type: none"> <li>● Ensure that Hong Kong and Macao participate in international bilateral and multilateral economic activities. Maintain the position of Hong Kong as an international financial, trade and shipping centre.</li> <li>● Hong Kong, Macao and the Mainland should make better efforts to pursue mutual economic development for the mutual benefit of the three places. This is conducive to further promoting the stability and prosperity of Hong Kong and Macao and the socialist modernisation of the Mainland.</li> </ul>
10th Five-Year Plan	Chapter 10 – Plan Implementation Section 26 – Innovating the Implementation Mechanism and Ensuring the Attainment of Objectives Set out in the Plan	<ul style="list-style-type: none"> <li>● Consolidate and strengthen the role of Hong Kong as an international financial, trade and shipping centre. Strengthen the Mainland’s economic co-operation and interflow with Hong Kong, Macao and Taiwan.</li> </ul>

	<b>Chapter</b>	<b>Contents relating to Hong Kong</b>
11th Five-Year Plan	Chapter 14 – Establishing and Improving the Implementation Mechanism of the Plan Section 48 – Improving the Management System of the Plan	<ul style="list-style-type: none"> <li>● Strengthen and promote the interflow and co-operation between the Mainland and Hong Kong in areas such as trade, economics, technology, education, culture, public health and sports. Facilitate the implementation of arrangements for the Mainland’s closer economic partnership with Hong Kong and Macao, and strengthen their co-operation in areas such as infrastructure construction, industrial development, resource utilisation and environmental protection.</li> <li>● Support Hong Kong in the development of its service trades such as those in the areas of finance, logistics, tourism and information. Maintain the role of Hong Kong as an international financial, trade and shipping centre.</li> </ul>

Source: The 9th Five-Year Plan for National Economic and Social Development of the People’s Republic of China and the Outline of the Long Term Target for the Year 2010, the Outline of the 10th Five-Year Plan for National Economic and Social Development of the People’s Republic of China, and the Outline of the 11th Five-Year Plan for National Economic and Social Development of the People’s Republic of China.

**(Table 4)**  
**Hong Kong's Exports of Services to the Mainland (US\$100 million)**

Major service sectors/ Service sectors	2003	2004	2005	2006	2007	2008	Annual growth rate (%)
<b>1. Transportation services</b>	<b>23.54</b>	<b>27.54</b>	<b>32.48</b>	<b>32.91</b>	<b>42.19</b>	<b>42.61</b>	<b>12.6%</b>
<i>Sea transport</i>	9.35	11.12	12.76	12.37	18.45	18.84	15.0%
<i>Air transport</i>	7.58	9.86	12.94	13.49	16.60	16.09	16.3%
<i>Cargo forwarding</i>	1.19	1.43	1.52	1.51	1.74	2.24	13.4%
<b>2. Travel services</b>	<b>44.27</b>	<b>51.73</b>	<b>57.01</b>	<b>64.51</b>	<b>79.99</b>	<b>93.62</b>	<b>16.2%</b>
<b>3. Insurance services</b>	<b>0.85</b>	<b>0.60</b>	<b>0.69</b>	<b>1.08</b>	<b>1.27</b>	<b>1.48</b>	<b>11.7%</b>
<b>4. Financial services</b>	<b>0.99</b>	<b>1.13</b>	<b>1.26</b>	<b>2.75</b>	<b>3.48</b>	<b>3.85</b>	<b>31.1%</b>
<b>5. Merchenting and other trade-related services</b>	<b>47.42</b>	<b>53.71</b>	<b>57.44</b>	<b>60.00</b>	<b>64.57</b>	<b>66.41</b>	<b>7.0%</b>
<i>Merchanting</i>	43.27	49.60	53.57	56.51	60.79	61.87	7.4%
<i>Merchandising</i>	3.52	3.06	2.80	2.69	2.98	3.65	0.7%
<b>6. Other services</b>	<b>14.05</b>	<b>15.02</b>	<b>15.16</b>	<b>14.41</b>	<b>15.50</b>	<b>17.06</b>	<b>4.0%</b>
<i>Communications</i>	2.03	2.27	2.23	1.69	1.69	1.55	-5.3%
<i>Computer and information services</i>	0.51	0.73	0.87	0.94	0.72	1.90	30.2%
<i>Royalties and licence fees</i>	0.31	0.36	0.60	0.79	0.99	0.93	24.2%
<i>Personal, cultural and recreational services</i>	0.43	0.35	0.22	0.19	0.21	0.34	-4.6%
<i>Architectural, engineering and other technical services</i>	0.49	0.68	0.76	0.81	0.80	1.79	29.3%
<i>Legal services</i>	0.28	0.34	0.34	0.39	0.51	0.53	13.4%
<i>Accounting, auditing, book- keeping and tax consulting services</i>	0.89	0.83	0.91	0.91	0.91	0.59	-8.0%
<i>Business and management consultancy and public relations services</i>	1.83	1.91	2.06	2.10	2.35	2.76	8.6%
<i>Advertising, market research and public opinion polling services</i>	1.96	2.73	2.84	2.55	2.85	3.06	9.4%
<b>Value of total exports of services:</b>	<b>131.13</b>	<b>149.73</b>	<b>164.03</b>	<b>175.65</b>	<b>207.00</b>	<b>225.03</b>	<b>11.4%</b>
<b>Gross Domestic Product of Hong Kong:</b>	<b>1,586</b>	<b>1,659</b>	<b>1,778</b>	<b>1,899</b>	<b>2,071</b>	<b>2,151</b>	<b>6.3%</b>

Note: Average annual GDP growth is calculated at current market prices.

Values of exports of services are calculated at the exchange rate of US\$1 to HK\$7.8.

**(Table 5)**  
**Some Proposals on Enhancing the Integrated Development of  
the Financial Systems of Hong Kong and the Mainland**

1. Use Hong Kong as a testing platform for promoting the use and circulation of RMB outside the Mainland in line with the national policy through:
  - establishing our position as the country's offshore RMB business centre to provide intermediary and clearing services for RMB transactions outside the Mainland;
  - gradually enabling the orderly flows of RMB funds into and out of the Mainland through Hong Kong in a more flexible and diversified manner;
  - supporting further promotion of the diversified development of RMB business of Hong Kong banks. Apart from the existing personal RMB business, the trading of RMB bonds and RMB trade settlement service, more new RMB financial products and services, such as RMB loans and various wealth management products, should be introduced. Non-bank financial institutions should be further encouraged to provide various RMB financial services; and
  - further facilitating the development of Hong Kong's RMB bond market, introducing more types of Mainland bond issuers (including the continued issue of RMB sovereign bonds in Hong Kong) and expanding the issuance size of bonds and investor base of our RMB bond market.
2. Promote co-operation and exchange between the financial markets (such as the stock, bullion and commodity trading markets) of the two places regarding their products, funds, participants and financial infrastructure, so as to achieve synergy. While complementing the development of Mainland cities (e.g. Shanghai) into international financial centres aligned with the world market, Hong Kong should continue to further consolidate its own position as an international financial centre and a testing platform for the financial development of China.
3. Further enhance Hong Kong's financial co-operation with the Mainland (including regional co-operation, for example, with the Pan-PRD region and Shanghai) through different co-operation frameworks between the two places, such as CEPA, Hong Kong/Guangdong co-operation agreements and Hong Kong/Shanghai co-operation agreements.

**(Table 6)**  
**Guangdong's Imports in its Cross-border Trade**  
**in Services with Hong Kong in 2004-2008 (US\$100 million)**

Service sectors	2004	2005	2006	2007	2008	Annual growth rate (%)
Transportation services	11.44	14.59	15.62	20.89	24.93	21.5%
<i>Sea transport</i>	7.46	9.71	10.14	14.61	17.41	23.6%
<i>Air transport</i>	1.94	2.64	3	3.83	4.9	26.1%
<i>Commissions and agency fees for transportation services</i>	-	-	-	0.03	0.05	389.4%
Travel	0.87	1.26	2.48	7.46	6.42	64.9%
Insurance	0.57	0.81	0.95	1.25	1.18	19.7%
Financial services	0.04	0.03	0.05	0.09	0.29	62.4%
Re-export trade and trade commission	1.15	1.13	1.41	1.97	3.25	29.7%
Communications services	0.08	0.18	0.18	0.36	0.43	53.9%
Computer and information services	0.14	0.24	0.29	0.78	0.65	47.4%
Royalties and License Fees	0.42	0.44	0.92	1.16	1.49	37.3%
Sporting, cultural and recreational services	0.13	0.09	0.12	0.18	0.2	10.7%
Construction, installation and contract labour services	0.37	0.54	0.37	0.41	1.16	33.3%
<i>Construction, installation services</i>	0.37	0.54	0.36	0.27	1.09	31.3%
<i>Contract labour</i>			0.02	0.14	0.06	91.2%
Technical services			0.01	0.28	0.73	844.2%
Legal, accounting, management consultancy and public relations services	1.65	2.19	2.64	4.07	7.88	47.9%
Advertising, exhibition and market research services	0.88	0.96	1.16	1.4	1.47	13.8%
<b>Sub-total:</b>	<b>17.73</b>	<b>20.07</b>	<b>26.02</b>	<b>38.4</b>	<b>48.39</b>	<b>28.5%</b>
<b>Trade in services between Guangdong and Hong Kong:</b>	<b>18.71</b>	<b>23.61</b>	<b>27.36</b>	<b>43.42</b>	<b>50.74</b>	<b>28.3%</b>

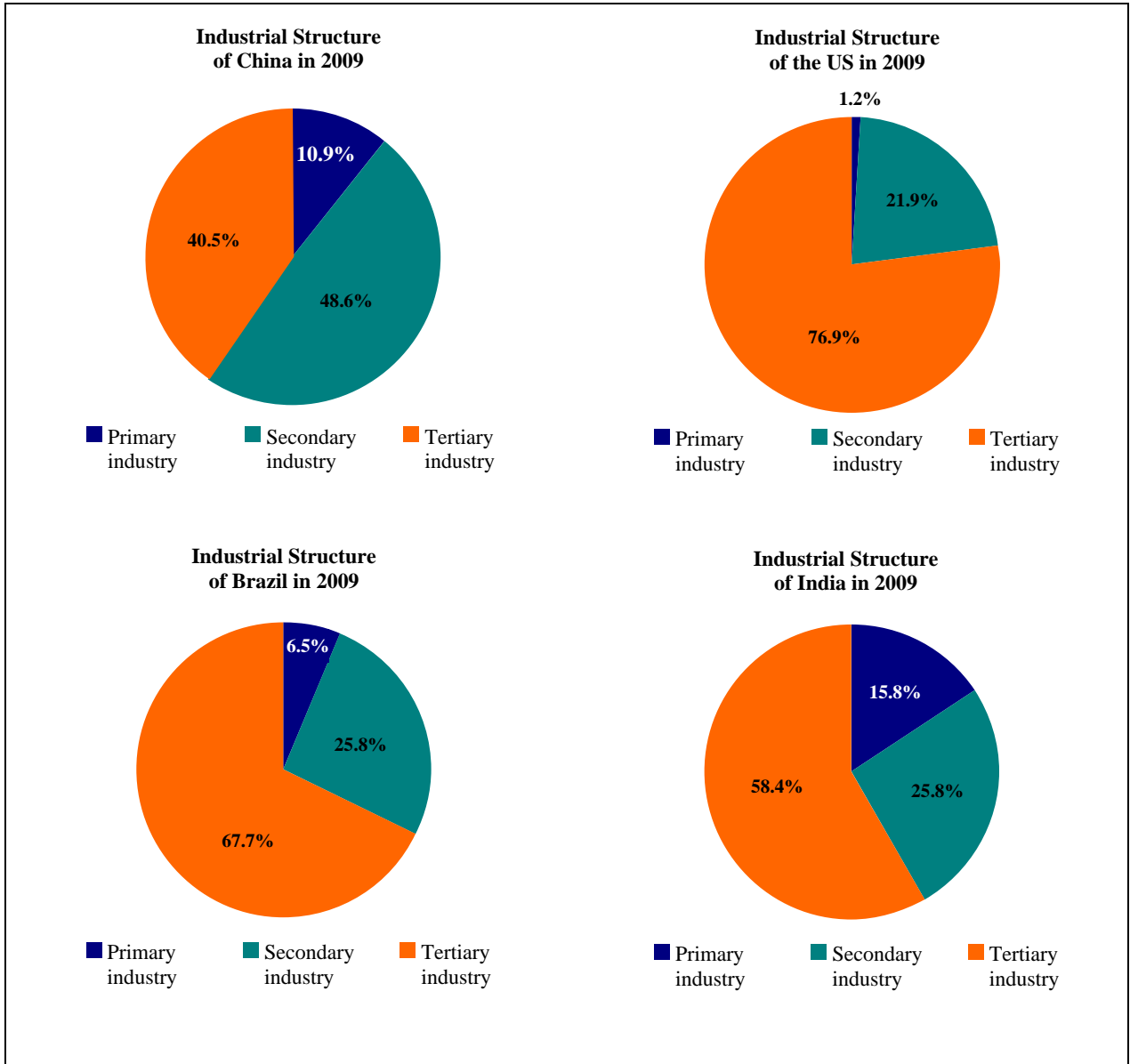
Source: State Administration of Foreign Exchange Guangdong Branch, quoted in the report of *Study on the Implementation of CEPA in Guangdong and the Policies on Co-operation on Service Industries between Guangdong and Hong Kong* by Professor FENG Xiaoyun (August 2009).

**(Table 7)**  
**Changes in Economic Relationship between  
Hong Kong and the Mainland Since Reform and Opening-up**

<b>Early Stage of Reform and Opening-up (1980s – 1990s)</b>	<b>Recent Developments in Reform and Opening-up (Late 1990s – To date)</b>
<ul style="list-style-type: none"> <li>● Hong Kong brought in capital, technology, talent, experience in market economy and management into China.</li> </ul>	<ul style="list-style-type: none"> <li>● China has started to export capital and goods, etc. to the world, and its role in international economic activities has gradually changed from a passive one to an active one. Its demand for Hong Kong capital has become less acute.</li> </ul>
<ul style="list-style-type: none"> <li>● Hong Kong enterprises in the Mainland were mainly engaged in export processing trade to support the Mainland’s early industrialisation efforts, serving to bring in foreign exchange and accumulate capital for the country.</li> </ul>	<ul style="list-style-type: none"> <li>● Facing the challenge of being phased out, Hong Kong enterprises engaged in export processing need to upgrade and transform themselves, and explore the Mainland domestic market.</li> </ul>
<ul style="list-style-type: none"> <li>● Being a free port, Hong Kong served as a major re-export trade and container port for China.</li> </ul>	<ul style="list-style-type: none"> <li>● As China has reduced its dependence on Hong Kong as a container port, Hong Kong moved towards the provision of transshipment services, high-end ancillary shipping services and inventory management and distribution services for the Mainland.</li> <li>● Hong Kong is still an international aviation, logistics and shipping centre.</li> </ul>
<ul style="list-style-type: none"> <li>● Hong Kong served as a major bridge for China to “bring in ” foreign investment.</li> </ul>	<ul style="list-style-type: none"> <li>● Hong Kong has strengthened its role as a bridge for Mainland enterprises to “go global” and for the Mainland to “bring in” foreign investment.</li> </ul>
<ul style="list-style-type: none"> <li>● Hong Kong acted as an intermediary between China and the international market, and kept China in pace with the global market.</li> </ul>	<ul style="list-style-type: none"> <li>● Hong Kong’s role has expanded to become China’s intermediary in the global market, having a better understanding of the market, enterprises and government of China than others. It has been providing sophisticated commercial, trade and related services for the Mainland, further enhancing its functions as an international trade and modern services centre.</li> <li>● Hong Kong’s role has expanded to provide China with offshore capital market services and to serve as a testing</li> </ul>

	<p>ground for national financial reform and as China's global financial centre outside the Mainland.</p> <ul style="list-style-type: none"> <li>● Hong Kong has become a premier tourist and shopping destination for Mainland visitors.</li> </ul>
<ul style="list-style-type: none"> <li>● Hong Kong had a “front shop, back plant” relationship with Guangdong.</li> </ul>	<ul style="list-style-type: none"> <li>● Hong Kong engages in regional cooperation with the PRD region, and more broadly, with the entire Guangdong Province, in areas including the upgrading of industries, development of modern service industries, alignment of major transport infrastructures and building of a quality living area.</li> </ul>

**(Figure 1)**  
**Comparison of the Industrial Structures of**  
**China and other Countries**



Note: The GDP per capita of China, the US, Brazil and India in 2008 were US\$3,263, US\$46,716, US\$8,400 and US\$1,068 respectively. (World Development Indicators published by the World Bank, <http://ddp-ext.worldbank.org/ext/DDPQQ/member.do?method=getMembers&userid=1&queryId=135>, as at 29 March 2010).

Data relating to industrial structures extracted from “The World Factbook” website of the US Central Intelligence Agency (<https://www.cia.gov/library/publications/the-world-factbook/fields/2012.html>, as at 29 March 2010), some of which being projections.